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General Equilibrium Theory and International Trade

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The last chapter, quite appropriately, deals with the dynamics of federalism. Though there are clearly very strong forces making for increased fiscal centralization and though widespread trends of that sort did exist during the first half of the present century, Oates argues that strong counter forces also exist; he presents evidence that a reverse movement toward greater decentralization occurred in a number of countries between 1950 and 1965. It may be, in other words, that the Nixon Administration's attempt to bolster the responsibilities and capabilities of state and local governments in this country is simply part of a much broader fiscal trend already under way elsewhere.

Quite apart from its own intrinsic merits, *Fiscal federalism* provides a well-documented guide to the theoretical economic literature on that topic, and given the considerable technical difficulty of much of that literature, the lucid summary of its major features and conclusions presented here is most welcome.

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400 International Economics

410 INTERNATIONAL TRADE THEORY

General equilibrium theory and international trade. By TAKASHI NEGISHI. Studies in Mathematical and Manageral Economics, Vol. 13. New York: American Elsevier; London and Amsterdam: North-Holland Publishing Company, 1972. Pp. viii, 284. $20.00.

This volume of Takashi Negishi's excellent essays in the theory of international trade underlines two major phenomena in this field: i) the displacement of the Marshallian partial-equilibrium tools of analysis (now to be found only in the old-fashioned textbooks) by the general-equilibrium analysis of Mill, Marshall and Edgeworth which culminated in the major work of Meade and others; and ii) the emergence of a creative and ingenious school of Japanese international trade theorists in the last decade (of which Negishi is one of the more eminent members) which has virtually shifted the center of gravity in trade-theoretic research from England and North America to east of Suez.

Negishi's essays show a remarkable range of interests and there is much in this volume for nearly every kind of trade theorist to enjoy and profit from. His entry into economic theory was marked by his fundamental work on stability; his interest in the more esoteric questions of existence of an equilibrium, recurring in many areas of inquiry (such as his analysis of free trade in Chapter 2, of external economies in Chapter 5, and of monopolistic competition in Chapter 7), reflects this fact. At the same time, the elegance and simplicity of Negishi's treatment of the issues of existence and stability make him almost readable by trade theorists who normally keep away from the Arrow-Hahn world.

For the more traditionally-minded trade theorists, there is also a rich menu here. My favorite items are the paper on domestic distortions and second-best policies (Chapter 11) and on customs unions (Chapter 12). In the former, Negishi (and Kemp) caught out an error of some importance in the original Bhagwati-Ramaswami analysis which had asserted that, in the presence of domestic distortions, a welfare-improving tariff (or trade subsidy) may not exist. This has, in turn, led to more work on the *ranking* of alternative second-best policies in the presence of distortions by Ramaswami, Srinivasan, and the reviewer. Negishi's analysis of customs unions extends the formal analysis of customs unions to the investigation of the optimality of a customs union, in the presence of monopoly power in trade, both from the viewpoint of the customs union and the "world." However, it must be admitted that this analysis is limited by the assumption that the "partner" and "outside" countries do not trade with each other, which makes many of the results intuitively accessible.

The volume contains a number of other contributions, including Negishi's well-known paper on the analysis of devaluation in the *International Economic Review* and a neat analysis of international capital movements (Chapter 9) which departs from the conventional Jones-Kemp type of treatment which regards capital flows as amounting to shifts of factors of production to a framework where they are essen-

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tially transfers of purchasing power and are not necessarily tantamount to accumulation and decumulation of capital in the capital-gaining and the capital-losing country respectively.

In nearly each instance, Negishi has taken the opportunity to revise and embellish the journal version of his work, so that it will be invaluable to have this volume on one's desk whether one is researching in the field of the theory of international trade or teaching an advanced course in it.

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500 Administration; Business Finance; Marketing; Accounting

Take-overs: Their relevance to the stock market and the theory of the firm. By AJIT SINGH. University of Cambridge, Department of Applied Economics, Monographs, No. 19. New York and London: Cambridge University Press, 1971. Pp. x, 174. $12.50.

The prediction of profitability and other studies of company behaviour. By GEOFFREY WHITTINGTON. University of Cambridge, Department of Applied Economics, Occasional Paper, No. 22. New York and London: Cambridge University Press, 1971. Pp. ix, 253. $13.00, cloth; $7.50, paper.

Both of these books extend the earlier joint publications of the authors on U.K. Quoted Companies. As the titles suggest, they deal with important and topical subjects, and promise to be of considerable interest to a wide audience. Economists are likely to be interested in the evidence which is provided by Singh and Whittington on the nature of stock market discipline. The main questions in this context are whether the take-over mechanism and the market's response to the firm's attempt in raising new capital in the market, encourage efficiency of the firm, or more specifically, to use Leibenstein's term, X-efficiency. Both books arose out of Ph.D. theses presented by Whittington at Cambridge and by Singh at Berkeley. Both books are also fairly clearly set out, regularly stating their main results. The only major difficulty in using either work arises from the absence of an index in Whittington's book.

Whittington's work really consists of two short books which are brought together with a co-ordinating section. Part I deals with his major theme, the prediction of profitability. Part II deals with the problem of company liquidity, trade credit, and monetary policy; in particular, Whittington investigates whether the government's attempts to control money supply might be frustrated by changes in trade credit. The sort of problem he considers is whether more liquid companies give relatively more net trade credit in "squeeze" years. Thus it is not surprising that Part I and Part II tend to form two discrete parcels.

Whittington's study is based, except for data on a very small number of non-quoted companies, upon data provided in the published accounts of United Kingdom quoted companies engaged in manufacturing and distribution for the period 1948 to 1960. The data and variables employed, together with some of the problems involved in using accounting data are discussed in Chapter 1 and its appendix.

Chapter 2 provides an introduction to the problem of the prediction of profitabilities and concentrates on a more detailed discussion of the main variables employed in later chapters. For example, size is measured in terms of net assets. Profitability is the *"Pre-tax Rate of Return on Net Assets."* The Companies' own figures for depreciation are employed.

Chapter 3 studies the relationship between size and profitability. The simplest study of this relationship takes the form of regressing profitability on the logarithm of opening size across companies in each of twenty-one industries. This revealed that there was, with one possible exception, no systematic tendency for large firms to be either more or less profitable than smaller firms. Because of limitations of such a simple measure, for example, its reliance on the linear relationships between size and profitability, other measures are made, for example, how the mean and standard deviations of profit rates vary between different size classes of firms. The Welch-Aspin test is used to determine whether differences in average profitability were significant. Again, with the possible exception of metal manufacturing no general

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