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International Trade and Finance

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The six "imperatives" of the program include reliance on fiscal policy as the balancing factor in economic management, with the president given the authority to increase or decrease taxes, within specified limits, for economic policy reasons, plus the use of "direct wage and price control" in areas where strong corporations and strong unions have the power to affect prices directly and to create an inflationary spiral. Monetary policy would take a back seat; apparently it would not be used. Just what that would mean for the Federal Reserve rediscount rate, open-market operations, and reserve requirements is not explained. The reader would have been helped in understanding and evaluating the program if it had been explained more fully, with reference to pertinent experience in countries like Canada, Great Britain, and Sweden.

Galbraith has written a most useful and instructive book, full of challenging ideas and new perspectives. Monetary history has needed such a critical review, and economic policy makers can surely benefit from some reflection on the lessons of historical experience.

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400 International Economics

[TINBERGEN, JAN] *International trade and finance: Essays in honour of Jan Tinbergen.* Edited by WILLY SELLEKAERTS. White Plains, N.Y.: International Arts and Sciences Press, 1974. Pp. viii, 292. $20.00.

Professor Tinbergen must hold a record in the number of *Festschriften* that have been written for him. His students and colleagues have reprinted his essays, as an interesting variation on the usual form of felicitation; and a volume of essays was presented by Bos in 1969. Now, Willy Sellekaerts has produced three volumes towards the same end! In a world of increasing output and diminishing time to read it, it is doubtful whether this Wicksellian phenomenon of exploding *Festschriften* for a single scientist should be applauded, regarded with amusement, or deplored! Does not the law of diminishing marginal utility apply to *Festschriften* as well?

The present volume, the first in the trilogy edited by Sellekaerts, is addressed to twelve topics in international trade and finance, though the second volume on development and planning also contains papers that would qualify for inclusion in the first volume. The volume contains contributions that are principally in the area of pure theory, less so in monetary theory, and there is one paper on the econometrics of foreign trade (by Thorbecke and Field on a 10-region model of world trade). The range of topics is too wide to be covered in a brief review, so that it would be best to draw the reader's attention to the few papers that specially attracted this reviewer.

Beginning with pure theory, there are two papers that ought to be put onto reading lists right away. One is by Paul Samuelson, who returns to his favorite subject of factor price equalization. He considers, with greater efficacy than his predecessors, the question: since factor price equalization in the 2-by-2 model can be destroyed when sufficiently different factor endowment ratios between the trading countries make complete specialization mandatory, can the factor price-equalization theorem ever be rescued by increasing indefinitely the number of goods in the system? In short, does the increase in the number of goods with strongly differing factor intensities do for one pretty much what alternatively sufficient closeness in factor endowments does? Samuelson, by imposing admittedly strong and artificial restrictions on technology and demand, manages to show that the answer can well be made in the affirmative and, besides, can be affirmed in an essential sense even when the number of factors is augmented simultaneously.

The other paper of interest is by Jaroslav Vanek and Trent Bertrand on the theory of effective protection. The paper is an early analysis of the proposition that ranking activities by their effective rates of protection serve to indicate the direction of resource pulls *vis-à-vis* the free trade situation. The paper uses Vanek's model of interindustrial flows, but is confined to fixed coefficients; moreover, the rigorous analysis is addressed to the 3-good, 2-primary-factors model, which leads to a basic indeterminacy in production for a small country thus accounting for some of the results adverse to effective protection theory that are detailed in the paper. The paper might have been more interesting if the authors had tried to raise the question: does effective protection theory work better than nominal protection theory in predicting resource pull effects? The later work of Michael Bruno, Bhagwati-Srinivasan, Yasuo Uekawa, *etc.* has been addressed to illuminating this contrast. Vanek and Bertrand also show, as Augustine H.-H. Tan has done independently, that uniform effective protection for a small country will be optimal if one has a noneconomic objective of raising value-added *in toto* in the protected industries. Of course, this comes from the fact that all nominal tariffs will have to be uniform; and Adolf L. Vandendorpe has later shown that, if there were monopoly power in trade, the optimality of such uniformity in tariff rates would disappear.

Another paper in the volume, which also should have seen the light of the day sooner and has been overtaken by many independent developments of the subject, is the nice paper by Anne Krueger. She develops a simple model of balance of payments that incorporates the role of money and of nontradeable goods within the confines of one framework. Of course, nontradeables were the critical component of the earlier theoretical work on payments theory by the Australians (W. E. G. Salter, Trevor Swan, W. M. Corden, and principally Ivor F. Pearce) and then by Carlos F. Díaz-Alejandro; and the monetarist approach was developed in a seminal paper by Frank Hahn, later developed by Murray Kemp, and has subsequently become a central part of recent Chicago tradition. There is little doubt that these developments are important and have enriched balance-of-payments theory considerably. One might add, however, that while the incorporation of nontradeables or "home" goods is an important departure from models that use only tradeables, a yet more important innovation would be to allow for nontradeables that can become traded at changing exchange rates: much as in the Ricardian model. In fact, much empirical evidence shows that the major effect of realistic exchange rates on export performance comes in the category of "minor exports," *i.e.*, through the creation of new exports of goods hitherto not traded. Indeed, few goods are *nontradeables* as distinct from *non-traded.*

There are other good papers in the volume: a piece by Peter B. Kenen on the assignment problem under alternative exchange rate regimes; a most useful essay by Randall Hinshaw on elasticity pessimism; a characteristically stimulating piece by Charles Kindleberger where he considers empirical possibilities of integration occurring between economies *via* activities in third markets and *via* external factors (*e.g.*, foreign workers travelling between Germany and France for work); and another characteristically useful review paper by Richard E. Caves on the economics of reciprocity, pleasant but not breaking new, interesting ground. All in all, the volume is a fair compliment to Tinbergen.

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420 TRADE RELATIONS; COMMERCIAL POLICY; INTERNATIONAL ECONOMIC INTEGRATION

East-West economic co-operation: Problems and solutions. By ALBERT MASNATA. Translated from the French by JOHN CUTHBERT-BROWN. Farnborough, Hants., England: Heath, Saxon House; Lexington, Mass.: Heath, Lexington Books, 1974. Pp. ix, 144. $10.00.

This short book surveys a wide range of East-West economic issues, mainly in a pan-European perspective. The author, Albert Masnata, was formerly Director of the Swiss Trade Promotion Centre and is now associated with the GATT Trade Centre in Geneva. Masnata begins by providing historical perspective on current East-West economic problems. This is followed by a discussion of the commodity composition and geographical pattern of East-West trade, and of various institutional features and commercial policy problems. Masnata concludes with a discussion of "possible solutions for an extension of economic cooperation" and some observations on present and possible future developments in this area. Throughout, Masnata is an ardent advocate of the belief that if there exists the will, then a way can be found to surmount ideological differences and expand mutually beneficial economic relations between the two parts of Europe.