

natically oriented economist, and it is certainly required reading for those who are planning to be, or are already, involved in the growing field of LDC economic advising, as well as for anyone interested in trade and development topics.

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M.B. Connolly and A.K. Swoboda, eds., *International Trade and Money* (George Allen and Unwin, London, 1973) 264 pp.

This is a collection of 12 papers that were delivered at the research seminar in international economics at the Graduate Institute of International Studies in Geneva during 1970-71. It must have been a stimulating year because several of the papers contain rich insights into a variety of theoretical, behavioral, and policy issues.

The six papers that deal with international trade struck me on the whole as less interesting than those dealing with international monetary analysis. Robinson's lead paper is a critique of trade theory reminiscent of Williams' paper of nearly a half century ago, but with the added argument that the poor countries do not gain much from international trade and investment. Baldwin develops a geometrically elegant analysis of customs unions and preferences that goes beyond earlier efforts by Meade, Vanek, and Kemp, although it is not clear that his broadening of the conception of the utility possibilities frontier and permitting output to vary provide much assistance, as compared to Meade's cardinalist approach, in evaluating actual customs unions and preferences. Immiserizing growth adherents will enjoy Bhagwati's paradoxical demonstrations of how improved terms of trade and a tariff-induced capital inflow can reduce welfare when there is a labor-market distortion, keeping in mind of course that Bhagwati's world is characterized by inelastic foreign offer curves, domestic distortions, and nonoptimal tariffs. Tinbergen's paper surveys trends in income distribution in several Western countries, taking into account redistribution and variations in family size, and he extrapolates how long it might take for further reductions in inequality to be achieved. The question of the impact of trade on income distribution was unfortunately beyond the scope of his efforts.

The two most interesting trade papers are by Connolly, who analyzes the production and transfer of technology, and Horst, who analyzes a multinational firm's decision to produce, sell, and export (or import) in one country or another. While Connolly's formal results were apparently anticipated in earlier work by Johnson, the issues that Connolly poses are nonetheless important. He shows in particular that welfare in the technology-receiving country can be reduced or improved, depending upon whether there is complete or incomplete specialization in R and D and whether there is full appropriability and payment to the innovating country. Horst's model of multinational production and export-import behavior is quite neat, although the results are sensitive to alternative cost assumptions and differences in country size. His extension of the model to cover the decision on where to locate R and D is less convincing, however, inasmuch as many innovations may be society-specific, and demand conditions may differ as between countries.

The papers dealing with international monetary analysis cover a variety of topics. Basevi presents a rather ambitious model of the foreign exchange market that is designed to analyze official intervention. Some parts of the model do not appear to be properly accounted for, however, as, for example, the behavioral determinants of trade that give rise to foreign exchange market transactions; and some functions are incomplete, as in the case of the speculative function which should include the official exchange-rate intervention bounds. Also, since the model was developed with estimation in mind, it is encumbered with lags of unspecified length. Perhaps at some later date it could prove useful for analysis.

Brunner presents a comprehensive model of the money-supply process that permits analysis of the effects of changes in monetary policy and exchange rates. By clarifying particularly the distinction between nominal interest rates and the real return to capital, and thereby identifying the important relationships between the financial and real sectors, Brunner is able to determine the boundaries for different policies to be effective. One interesting analytical conclusion

reached questions the impotence often attributed to monetary policy in dealing with imported inflation and capital inflows. Now that exchange rates can float more readily than before and constraints upon monetary policy are lessened, it would be interesting to accordingly adapt the model to current exchange-market circumstances.

Cooper's paper is a fascinating survey of LDC experiences with devaluations. His emphasis is especially upon the contractionary influences of devaluation, variations in the timing of associated macropolicies, and the impact on the political longevity of government officials. An updating of his study to cover the period of managed floating might be worthwhile, especially to determine how various countries have adapted domestically and whether the exchange-rate process has become depoliticized.

L'Huillier's paper argues that deficit countries should bear the brunt of adjustment because of their unquenchable desire for excessive national expenditures. He ignores the villain of the piece, however, which is the pegged-rate system and the special role that the U.S. played in this system.

Johnson's influential paper on the monetary approach to balance-of-payments theory is one of the high points of the collection. He brings out clearly the kinship with the pre-Keynesian models in which monetary forces were of central importance in bringing about long-run, full employment equilibrium, and also stresses the presumed high elasticities of substitution between domestic and foreign goods as an important empirical assumption in distinguishing the monetary approach from the standard elasticities model. The monetary approach has unquestionably provided additional theoretical perspective on the long-run adjustment process, and it has reinforced the importance of countries being aware of the domestic monetary implications of their external policy actions. However, as long as wages and prices are rigid downward, the authorities will have much to contend with, and the standard model, with proper modification, will remain highly useful.

The concluding paper, by Swoboda and Dornbusch, incorporates a monetary sector and bond market into traditional two-country Keynesian model, and, using mainly graphical analysis, examines the equilibrium characteristics of the model and the comparative statics of various changes in monetary, fiscal, and switching policies, under varying conditions of capital mobility. Their analysis has a few obscurities. For example, in their simple model they do not have enough variables (the money stock should be included in the expenditure functions) and they present a rather cryptic treatment of the income velocities of circulation. In their model with capital mobility, the relationship between the trade balance and capital flows is not altogether clear in terms of how equilibrium is attained. Finally, the relationship between country size and the ability to conduct sterilization operations could stand further elaboration. These are, however, minor quibbles in an otherwise admirable exposition. One important conclusion worth mentioning is their demonstration that capital mobility does not affect the comparative static results of monetary disturbances, but rather speeds up the process of adjustment.

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D.R. Hodgman, *National Monetary Policies and International Monetary Cooperation* (Little, Brown, Boston, 1974) ix + 266 pp., \$12.95.

Most economists, at least in the English-speaking world, are regrettably ignorant of the monetary systems of the Continental European countries. This is at least in part because of the past lack of descriptive material that is at once reasonably comprehensive, analytical and concise. There is therefore good reason to welcome Hodgman's descriptions of the monetary systems of the six original members of the EEC plus the United Kingdom. His surveys are methodical, thorough, well-balanced, and, so far as I am competent to judge, accurate. My only quibble on the latter score concerns the impression given that the Banca d'Italia is in fact the tool of the Italian Treasury that it is supposed to be in law. These qualities make it all the more a pity that the style is not somewhat livelier, which would have made it possible to re-