national policies cannot be dealt with by official intervention in exchange markets or by official agreement to limit the range of currency fluctuation. What is required is the restoration of mechanisms for effective policy coordination among the major trading countries, as Williamson stresses. He writes that, under present arrangements, there is 'no coherent mechanism for monetary coordination, but relying instead on markets to reconcile the uncoordinated'. Yet coordination is vital because it constitutes a willingness of officials to accept on international grounds policies (constraints) they would not accept on domestic ones. The case for further monetary reform is the need to effect substantial changes in current international monetary arrangements, and the urgency for such an effort is surely the danger that perceived deficiencies in current arangements may otherwise be rectified by recourse to protection and further economic fragmentation of the world economy.

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Jagdish N. Bhagwati, ed., Import Competition and Response (The University of Chicago Press, Chicago, 1982) pp. ix+410, $32.50 (cloth), $17.50 (paper).

This book contains the results of the National Bureau of Economic Research Conference on Import Competition and Adjustment: Theory and Policy, which was held in May 1980. Following an introduction and overview by Bhagwati, the book is divided into three major sections, which deal respectively with various theoretical aspects of adjustment processes and policies, lobbying and related analytical issues in the political economy of protection, and descriptive and empirical analysis of adjustment experiences and policies.

Increased import competition and the need for adjustment are certainly issues of vital concern today. This is especially true in the advanced industrialized countries which have been experiencing prolonged underemployment often combined with persistent inflation. This combination of circumstances is addressed by Michael Bruno using a model of macrodisequilibrium with wage–price rigidity in alternative regimes which correspond to classical unemployment, Keynesian unemployment, and repressed inflation. He shows that the adjustment problem will vary, depending on the underlying macro regime, and that certain policies may result in the misallocation of resources when market imperfections exist. Adjustment assistance may therefore be justified in such instances, although, as Peter Neary points out in his comment, this raises the prior question of the origin and persistence of the imperfections. Bruno's analysis is

nonetheless highly relevant because macrodisequilibrium has an important bearing on the magnitude and time dimension of a nation's adjustment and the responses of particular interest groups. Indeed, it is somewhat surprising that macro considerations did not enter directly into most of the other conference papers which were cast primarily in a micro context.

Three additional theoretical papers deal with adjustment processes and policies, with the contributions by Peter Neary and Michael Mussa being especially noteworthy. Neary adapts the Heckscher–Ohlin (H–O) model with sector-specific capital to allow for wage stickiness and shows that the combination of these two sources of allocative inefficiency can result in cyclical adjustment paths involving phases of 'immiserizing reallocation' where real output may be falling. A case can therefore be made for a policy of dynamic adjustment assistance for both capital and labor to minimize the transition costs of moving to a new equilibrium position. Mussa analyzes the interaction of various government policies with the adjustment process, using a version of the H–O model in which the intersectoral movement of capital requires an input of the economy's available labor. He focuses on the factors influencing an economy's optimal adjustment path. In his analysis, he establishes the need to conceive of adjustment in terms of investment decisions, the conditions for private maximizing behavior to be socially optimal, and the choice of policies when there are distortions present in the adjustment process. He also analyzes the adjustment process in terms of tariff and related policies when there is monopoly power in trade, and briefly treats issues of income distribution. An important conclusion which emerges from Mussa's analysis is the crucial role of government policy in creating an environment in which the decision of private agents will result in socially optimal outcomes. Mussa thus succeeds in identifying the considerations of market distortions, the appropriate discount rate, and rational expectations that should govern the design and objectives of policy and especially the conditions when intervention to influence the process of adjustment may be justified.

Readers interested in the political economy of protection will find this book particularly rewarding and suggestive of new ideas. Bhagwati analyzes shifting comparative advantage, using a framework that distinguishes senescent from high technology industries and that makes allowance for policies dealing with international labor mobility and foreign direct investment. In the senescent industry case, he suggests that relaxation of immigration quotas will be favored by firms on profitability grounds and by government to increase consumer welfare, whereas labor will favor protection. The issues are more complex in the case of high technology industry, depending on whether the main decision parameters involve changing cost incentives to produce abroad, product diversification and market segmentation, or competitive pressures due to increased imports.

Thus, for example, in the latter case, domestic labor might favor inward foreign investment while domestic firms would prefer relaxed immigration quotas or protection.

As an aside, Bhagwati is critical of the recent theories of trade in differentiated products based on economies of scale. He suggests instead a kind of 'biological' theory in which 'genetic' and 'environmental' factors interact to influence product specialization nationally, with trade then arising as tastes become diffused internationally. These ideas are pursued formally by Robert Feenstra in an appendix to Bhagwati's paper, with results that are intuitively more plausible than monopolisitic competition models in which the geographic origin of a product is indeterminate. The somewhat artificial character of these latter models is further evident in a paper by Paul Krugman on trade in differentiated products and accompanying comments by Kelvin Lancaster, Michael Mussa, and John Chipman.

The determination of tariff policy is addressed in two theoretical papers, one by Ronald Findlay and Stanislaw Wellisz and the other by Feenstra and Bhagwati. The former develop a model in which the tariff level, behavior of different interest groups, and associated welfare costs are determined endogenously, while the latter analyze optimal policy designed to reduce the amount of lobbying by means of a tariff which provides revenue that can be used to increase labor's real income when lump-sum taxation is not feasible. Finally, Robert Baldwin provides an excellent survey in which he analyzes the forces influencing the demand and supply of protection in political markets and the difficulties encountered in testing models of protection. While these papers are insightful and useful, they by no means exhaust the subject as the remarks of the commentators make clear. For example, in some circumstances factors of production may collude rather than be in conflict, group interests may cut across national boundaries, lobbying activities and the scope for alternative measures of trade policy may vary depending upon differences in political institutions and economic structure, and governments may differ in their objective functions and their ability and willingness to mediate among or resist pressure groups.

The book concludes with a fascinating account by Ronald Dore of the adjustment and decline of the textile industry during the 1970s in the Lancashire town of Blackburn in the United Kingdom, an analysis by J. David Richardson of the characteristics of recipients of trade-adjustment assistance in the U.S. in 1976 based upon survey data, and a case study by Eric Verreydt and Jean Waelbroeck of protection in the European Community against imports of manufactures from developing countries. These papers provide a rather sobering account of some of the realities of adjustment which cannot be reflected fully in abstract models. Thus, market forces will inexorably bring about change since assistance policies may be nonexistent or ineffective. Further, even when intervention exists, it has

proven extremely difficult to promote 'positive' adjustment by tagging workers whose problems are due to trade and to avoid 'negative' adjustment as firms and workers adapt their behavior to exploit existing programs of assistance in ways that maintain the status quo. Finally, there may be important benefits to be derived from providing better information on trade-policy options to voters and from greater resistance to protectionist pressures by national governments and by means of powers delegated to supranational institutions.

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David M.G. Newbery and Joseph E. Stiglitz, The Theory of Commodity Price Stabilization: A Study in the Economics of Risk (Clarendon Press, Oxford, 1981), pp. xvii + 462.

The stabilization of commodity prices has for several years been a major issue in international development. The United States, Britain and the Common Market have had schemes for selected agricultural commodities for a long time. However, only in the last few years have proposals been advanced for an *international* stabilization program. In 1976, a resolution of the fourth meeting of the United Nations Conference on Trade and Development in Nairobi called for an integrated program for commodities, setting up buffer stocks to stabilize the prices of ten 'core' commodities: sugar, coffee, cocoa, tea, cotton, jute, sisal, rubber, copper and tin. The proposal generated considerable interest, and provided the intellectual impetus for a number of studies, including this book. The book draws from the results of studies the authors undertook for the World Bank and the U.S. Agency for International Development.

The book contains seven parts. Following an introduction and discussion of the results of about 55 pages, dedicated to the policy analyst, Part II comes to grips with the fundamentals of supply and demand under risk. Part III develops these issues further in a more technical fashion. Part IV is concerned with assessing the costs and benefits of price stabilization, and Part V shows how the previous results must be modified when producers may change their production decisions, choice of technique, level of inputs, crop mix, etc.

It is a rather long book, consisting of 31 chapters and 452 pages, with a wealth of material presented in a succession of economic models of economies with risk. The overall conclusions are rather discouraging for schemes of commodity price stabilization via buffer stocks: in general 'it is