

BOOK REVIEWS

Jagdish Bhagwati, *Essays in International Economic Theory*, edited by Robert C. Feenstra (The MIT Press, Cambridge, MA, 1983) Vol. 1: *The Theory of Commercial Policy*, pp. xvi + 628, \$45.00; Vol. 2: *International Factor Mobility*, pp. xiv + 562, \$45.00.

These two volumes contain, according to the author's preface, 'a selection' of Jagdish Bhagwati's 'major writings in the theory of international trade'. The collection does not include everything Bhagwati has ever written, but it is much more than a 'greatest hits' album, including a number of short notes, an occasional book review, and even two papers that were not previously published but were evidently not written specially for inclusion here. Thus, the work invites comparison with other publications of 'collected works', such as Samuelson's, and one cannot review the collection without also reviewing the life's work, to date, of the man who wrote it.

The volumes provide ample evidence of the impressive contribution that Bhagwati has made to trade theory. He has been extraordinarily productive. He has published many articles that proved to be seminal, as well as many others that generalized and integrated diverse strands of the literature that he and others had pioneered. His written record, as produced here, can hardly fail to impress his readers.

In his career, Bhagwati has shown great will, endurance and success in exploring the implications of existing trade models and in extending the structure of trade theory. These extensions have typically not altered the direction of trade theory's development, but have added to momentum in the directions that were already evolving. His most distinctive contribution has been one of emphasis: whereas others make heroic assumptions in order to prove theorems about what *will* happen, Bhagwati tends to work mostly within the context of others' assumptions to identify the unexpected and paradoxical outcomes that *may* happen.

In the remainder of this review, I will first describe the contents of the volumes in terms of when and where they were originally published and with whom they were written. Then I will discuss a number of Bhagwati's major contributions to trade theory as they are represented here. I will conclude with my assessment of the entire collection as a publication in its own right.

The two volumes include 70 papers, selected by Robert Feenstra as editor, and organized by topic. They are reproduced exactly as they were previously published, though a number of them are followed by brief notes and errata

provided by the editor. The papers extend in time from the June 1958 *Economic Journal* publication of Bhagwati's note on immiserizing growth to a paper with Srinivasan in this Journal in May 1983. Something of the momentum of Bhagwati's career can be inferred from the fact that 53 of these 70 papers were published in the last half of that 26-year period.

Credit for Bhagwati's success, and for this collection generally, is shared by his many coauthors. Of the 70 papers, more than half – 39 – have one or more coauthors. Of these, almost half again – 19 – are coauthored with T.N. Srinivasan, in a collaboration that first appeared in print in 1969 and has continued ever since. Among the twelve other coauthors represented here, three of them – Richard Brecher, Earl Grinols, and Koichi Hamada – each share authorship of three of the papers. I do not discern any tendency for the coauthored papers to be any better or worse, on average, than the others, but it is clear that Bhagwati excels at collaborative efforts.

Most of the papers first appeared in the top journals, including eight in the *JPE*, seven in the *EJ*, five in the *AER* and three in the *QJE*. Eight also appeared in the *JIE*, which is fewer than one might have expected given that he founded this Journal and edited it over the period. Ten of the papers appeared first in a variety of edited volumes, seven of which were edited in part by Bhagwati himself. Twelve of the papers had been previously reprinted in his 1969 volume, *Trade, Tariffs and Growth*, while six of them were included in his 1981 *International Trade: Selected Readings*. On the whole, considering Bhagwati's ample opportunities as an editor to bypass the process of peer review, the fraction of his work that has appeared in the best journals of the profession is admirable.

I turn now to a discussion of the major contributions to trade theory that appear in these volumes. As the discussion proceeds, I will identify, by chapter number, those of the papers which I think have the most to offer.

A number of recurring themes run through a good portion of this work and serve to identify the distinctive contribution that Bhagwati has made. All of these themes have to do with distortions in a trading economy – which usually mean departures from the assumptions of perfect competition and/or *laissez faire*. Distortions have been a particular concern of Bhagwati due to his interest in developing countries. The themes include, first, the paradoxical welfare effects that may arise when distortions are present; second, the characterization of optimal policy when there are distortions; and finally, a variety of particular phenomena that Bhagwati has been able to shed light on with his focus on distortions. Not all of Bhagwati's work falls into one of these categories, but much of the best of it does. Surely the greatest impact that he has had on the thinking of trade theorists today has come from his careful attention to the roles that distortions can play in an open economy.

The first of these three themes showed up immediately in his 1958 note on immiserizing growth (Chapter 4). The principle is that, in the presence of

distortions, changes that would otherwise be beneficial may not be, and vice versa. In Chapter 4 the distortion is the country's failure to exploit its monopoly power in international trade by means of an optimal tariff, and the paradoxical result is that an increase in the country's productive capacity may then be harmful. This had been recognized before, but Bhagwati was able quite simply and elegantly to work out the precise conditions for it to occur. He was also able, in his later writings, to recognize that this result and one similar to it due to Harry Johnson were both examples of this same general principle. In some cases his attempts to generalize this result amounted to little more than further examples, but in his 1971 contribution to the Kindleberger festschrift (Chapter 2) he provided a precise statement of the principle and an indication of its broad applicability.

The same principle has reappeared in his later writings in a variety of guises. In 1978 he and Srinivasan (in Chapter 35) derived the appropriate shadow prices for project selection in a distorted economy and found that these shadow prices could be negative. The importance of the piece was the practical one of identifying appropriate project selection criteria and assessing the usefulness of various familiar planning indicators. But along the way, the paradox that shadow prices could be negative was seen to be closely related to immiserizing growth. Likewise, when Bhagwati set out to generalize the literature on rent seeking, lobbying, and related activities, his important paper categorizing these as Directly Unproductive Profit-Seeking (DUP) activities (Chapter 17) made the point that DUP activities could be paradoxically beneficial. This is an essential observation, since DUP activities by their nature occur in economies that are subject to distortions, and thus cannot be analyzed without them.

The second major theme in Bhagwati's writings is the characterization of optimal economic policies, again in the presence of distortions. This too is stated in Chapter 2, but it had been worked out earlier in a classic 1963 paper with Ramaswami (Chapter 14) and in a 1969 paper with Ramaswami and Srinivasan (Chapter 15). These ideas were extended by Bhagwati in various directions. In a 1973 paper with Bent Hansen (Chapter 41) they in a sense consider the problem in the context of alternative objective functions, and in doing so provide an elegant illustration of how much the pictures of trade theory can clarify a discussion. In another vein, Bhagwati and Srinivasan in 1976 (Chapter 30) examined optimal policy for a special but important kind of distortion: the uncertain prospect of market disruption.

I turn now to the specific topics that were pioneered in one or more papers by Bhagwati. Again, these topics have tended to ascribe importance to distortions.

His 1969 paper on the equivalence of tariffs and quotas (Chapter 12) was really about the nonequivalence of the two policies when there are distortions of competition. It stimulated many subsequent efforts to demonstrate

nonequivalence for a variety of other reasons. Given the growing importance of nontariff barriers in the world today, this literature, and Bhagwati's pioneering contribution to it, are becoming increasingly important.

In 1973 Bhagwati and Bent Hansen published a model of smuggling that appears here as Chapter 19. They showed that smuggling, if it incurs an extra resource cost, could be welfare worsening in spite of being a move toward freer trade. In a sense this is yet another example of the principle underlying immiserizing growth, but it is a separate proposition and they explained it ingeniously by drawing a comparison between smuggling and the phenomenon of trade diversion. This paper also became the foundation for a sizable literature on illegal trade.

In 1974 and 1976 Bhagwati collaborated with Koichi Hamada to produce two papers on the Brain Drain that appear here as Chapters 47 and 48. These papers are a considerable improvement on the literature that preceded them, since they build in a variety of features that specially characterize migration of skilled, educated labor, rather than treating a brain drain as like any other international movement of factors. The papers set out to make the point that a brain drain can be harmful to the countries of emigration, but they also show a variety of other interesting possibilities that can arise in the presence of distortions. The papers also lead to policy prescriptions: first that the brain drain itself be taxed and, in later papers, that countries should extend their income taxes beyond their borders.

Finally, Bhagwati worked with Richard Brecher to explore yet another phenomenon: the role of foreign ownership of factors. They wrote several papers on this together, the best of which was in the 1980 *JIE* and appears here as Chapter 53. The basic insight, that standard welfare propositions may be dramatically altered when some factors are foreign owned, is a simple one and was known before. But Bhagwati and Brecher succeed in identifying a simple and intuitive condition for getting paradoxical results, and this makes the paper of even more general applicability. The condition is that domestic factor owners be implicitly engaged in trade the pattern of which is the reverse of that of the economy as a whole. This condition can be used for evaluating the effects of trade on any group within the economy.

Bhagwati has one more important type of paper in these volumes that must be mentioned before completing this review. He has a special talent for clarifying the ideas of others. This was most evident in some of his earliest writings, the best example of which was his 1959 *EJ* article on the Stolper-Samuelson Theorem (Chapter 10). In this paper he did a marvelous job of cutting the theorem into several component parts, so that its essence could be understood independently of a number of complications that can arise.

Lastly, I must mention his famous 1964 survey of trade theory, which was mandatory reading for students for many years. In 1969 he added an addendum for publication in his book of that year, and it is that version that

appears here as Chapter 59. The survey provides an excellent overview of trade theory as of the mid-1960s.

Bhagwati's concern with distortions in all but these last two papers suggests that he might also have pioneered the emerging literature on trade with imperfect competition. He certainly did examine some implications of imperfect competition, as in his paper on the equivalence of tariffs and quotas. And in some of his remarks, one can find traces of what others would later work out rigorously involving monopolistic competition. But the most he has done directly is to describe, in a tantalizing paper that appears as Chapter 57, some ideas for a novel 'biological' model of international direct investment. In it, oligopolistic firms find it best to specialize in only part of a product line and they buy into the expertise of firms abroad to complete their coverage of the product line. I say this is a tantalizing paper, since the model it describes is not worked out, and only a portion of it appears in an accompanying appendix by Feenstra, yet the ideas seem on the face of them to be very important and worthy of pursuit. I therefore include this paper as the last in my list of the significant contributions in these volumes.

Clearly, then, there are many important and useful papers here. I have identified by number the chapters that I feel have the most to offer, and these are the papers that I would have reprinted had I been the project's editor. The observant reader may notice that I have cited sixteen chapters, and, while this is an output of important papers that any of us should admire, it is far short of the 70 papers that actually make up the two volumes.

Now another reviewer would undoubtedly choose a somewhat different list of important papers than I have. To get independent evidence of how the papers are viewed by others, I tallied the appearances of Bhagwati's papers that occur in the nine graduate trade theory reading lists that are assembled in Edward Tower's 1985 *International Economics Reading Lists*, and I also tallied the citations to Bhagwati's papers (by other than himself) in the period 1981 through 1985 as reported in the *Social Science Citation Index*. Eleven of his papers appear on two or more of the nine reading lists, and sixteen papers have been cited an average of two or more times per year over that period (or since one year after publication, for recent articles). Four of the former and seven of the latter are not included in my selection of the fifteen best papers, suggesting that a number of other papers may well be worth reprinting. But even allowing for such differences of opinion, I would have preferred that the editor be more selective and produce just a single volume.

However, this does not mean that readers should hesitate to acquire both volumes for their collections. Based on the frequent references to so much of Bhagwati's work in both the trade literature and on trade reading lists, I have no doubt that I will go to these volumes often as a reference. In the

tally of appearances on trade reading lists mentioned above, Bhagwati had more appearances (55) than any other person. (For those who are interested, Ronald Jones was a close second with 51 and Samuelson third with 38.) Virtually all of these articles are included in this collection. Furthermore, this large number of appearances was achieved with a relatively large number of separate papers, only one of which appeared on more than four of the nine reading lists. This was Chapter 2, 'Generalized Theory of Distortions and Welfare', which was mentioned on seven of them. Fully 24 of the papers appear on at least one of these reading lists. Thus, the volumes should prove very useful.

Alan V. Deardorff
University of Michigan

William R. Cline, *Exports of Manufactures from Developing Countries* (Brookings Institution, Washington D.C., 1984) pp. xv + 229.

The empirical analysis of this book of four chapters and six appendices was completed in 1981 before the debt crisis, the fall in real oil prices, and the passing of the notorious trade bill by the U.S. House of Representatives. Yet the author is surely right in claiming in his preface that its findings, based as they are on potential trends in trade and protection through the 1990s, remain relevant despite the changes in the international economic climate. Indeed, some may even argue that these changes, far from being long-term changes of climate, are merely short-term effects of inclement weather!

The first chapter chronicles the trends in the 1970s in developing countries' exports of manufactures, broadly defined. It explodes popular myths in the industrialized West about import competition by pointing out that, except for some individual sectors (notable among them being wearing apparel, leather products and footwear), 'import penetration into industrial country markets has remained low' and 'protectionist pressures in sensitive industries cannot be uniformly related to high market penetration by developing countries'.

The second chapter provides a theoretical model of the determinants of protection (imposition of non-tariff barriers (NTBs)) and econometric estimates of its parameters. Since tariffs have been reduced to negligible levels in successive trade negotiations, it is appropriate to concentrate on NTBs. The prospects of protection in the 1990s in developed countries against efforts of manufactures from developing countries are assessed in the third chapter. The fourth chapter draws policy implications from the empirical analysis of the previous two. The behavioural foundation of the analytical framework on