respect to a change in any of the explanatory variables, will depend on the *value* of that country's vector of explanatory variables, which in general will not be the same across countries. Thus, the *same* change in an explanatory variable will lead to a different change in the probability of protection in different countries. Thus, one country could be more or less protective than another.

One of the more serious drawbacks of the model is that it does not allow for growth. For example, the same change in import penetration that comes about in one case because imports grew faster than a *growing* domestic output and in another because imports substituted for *declining* domestic output will not attract the same protective pressure. Unless one believed that the relative stagnation of the recent past will continue into the future, projections of possible future protection may be seriously misleading. Fortunately, the projections do not point to any great increase in the incidence of protection.

The policy conclusions emerging from the study are almost banal and confirm conventional wisdom: developing countries should diversify such exports by avoiding rapid expansion of exports of sensitive products that already are heavily protected or likely to attract protection in the future; political influence rather than economic logic dominates decision-making on protection; improved adjustment assistance to firms and workers facing import competition will facilitate more open trade; although too rapid an expansion of LDC exports will elicit a strong protectionist response, this upper bound on expansion is high enough for it to be a mistake for policy-makers in developing countries to turn back to inward looking policies, etc. One could have come to these conclusions from the trends discussed in the first chapter without the help of the logit model and the projection of the second and third chapters!

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C. Fred Bergsten and William R. Cline, The United States–Japan Economic Problem (Institute for International Economics, 1985) pp. x + 164, $10.

The view that unfair Japanese trade practices are responsible for the current, large economic imbalance between Japan and the United States has enormous currency in official Washington, D.C. As C. Fred Bergsten and William Cline argue in their timely and important study, there is precious little substance to this commonplace analysis.

Bergsten and Cline correctly point out that the 1985 U.S. current account deficit in international transactions of $125 billion and the 1985 Japan current account surplus of $54 billion are primarily macroeconomic phenomena. These financial imbalances reflect imbalances between aggregate investment and aggregate savings by Japanese and American households, corporations and governments. Specifically, extraordinary Japanese household savings and extraordinary American government dissaving very neatly determine that Japan as a whole will produce more than it spends and the United States as a whole will spend more than it produces. Unless it is imagined that unfair Japanese trade practices influence these aggregate relationships, the ending of such alleged practices will cause a substantial diminution in neither the Japanese global current account surplus nor the American global current account deficit. This outlook is central to understanding the impact of any particular pattern of protection. Trade barriers of the type the Japanese are alleged to maintain do not affect the global current account balance, but they are likely to affect the regional and the good and services structure of the current account. To Bergsten and Cline's great credit, they clearly demonstrate that in the mid-1980s the United States has a large bilateral current account deficit not only with Japan but with most major industrialized nations. And while the U.S. bilateral account deficit with Japan is the largest in absolute terms, as a percentage of total bilateral transactions, it is one of the smallest. Moreover, the rate of increase in the U.S. bilateral deficit with Japan between 1980–81 and 1984–85 is in no way exceptional when compared with the U.S. experience with its other major trading partners.

While it is difficult to find general evidence suggesting that unfair Japanese trade practices are affecting the regional structure of either U.S. or Japanese trade, it is a different matter when the commodity structure of trade is examined. Alone among advanced industrialized economies, Japan's imports as a percentage of nominal GNP have not risen over the last thirty years. Again, alone among other advanced industrialized economies, Japan's imports of manufactured goods as a percentage of nominal GNP have not risen in thirty years. Japanese imports of manufactured goods remain stuck at a uniquely low 2.8 percent of nominal percent of GNP.

As compelling as such evidence of peculiar behavior might be, Bergsten and Cline show that it is difficult to connect Japan's distinctive trade structure with distinctively unfair Japanese trading practices. Indeed, much of the thrust of Japan's overt trade policy appears to be pushing in the opposite direction. Japan's tariff and tangible non-tariff barriers concentrate almost exclusively on protecting Japanese agriculture at the clear expense of Japanese manufacturing. Indeed, to the extent that most U.S. import protection is concentrated on manufacturing, U.S. and Japanese patterns of protection reinforce one another. Though Bergsten and Cline do not say it explicitly, the main effective thrust of both countries' overt trade policies are to help Japanese agriculture, hurt American agriculture, help American manufacturing and finally to hurt Japanese manufacturing.

Bergsten and Cline wisely note that many in Washington and elsewhere feel the traditional measures of overt protection do not really address whether the Japanese market is open or closed. It is at a somewhat less tangible level that American concern is now directed. The American trade policy community worries about (1) the alleged lack of transparency in the Japanese government's application of certification, testing and procurement procedures; (2) the Japanese government's regulatory environment, both statutory and informal, which works to maintain Japan's distinctive but illiberal way of conducting its economic affairs and which allegedly makes it difficult for unwanted foreign goods to penetrate the Japanese market; and (3) related to (2), the still more subtle understandings among Japanese firms which prevent market access for foreign products.

As Bergsten and Cline emphasize, it is difficult to evaluate the impact on Japan's trade structure of these intangible trade barriers. There are a great many anecdotes about informal, extra-statutory interference with foreign access to the Japanese market. While carefully reviewing this evidence, Bergsten and Cline recognize that the tales of unfair Japanese trade practices reported on the floor of Congress in Washington, D.C. or even in the American Embassy in Tokyo are hardly random drawings from the universe of foreign experience in Japan. Indeed, there is every reason to believe that most of these anecdotes are non-randomly selected from one tail of what may be an entirely normal distribution.

In light of these difficulties, Bergsten and Cline prefer an indirect test of this evidence. Careful cross-country comparison of the ratio of total imports to GNP during the years between 1974 and 1984 suggest that Japan shows no special aberration of low imports that might be attributable to high but intangible protection, after taking account of country size, natural resource endowment and transportation costs. And although the share of manufactures in Japan's total imports is low, there are sound reasons of comparative advantage to expect this pattern. Moreover, Japan is the second largest market for U.S. exports of manufactures; U.S. manufactured exports to Japan compare favorably with those to Germany, even though Germany is generally considered to have a relatively unprotected market.

The Bergsten–Cline analysis of Japan's import–GNP ratio, while compelling, is unlikely to be the last word on this surprisingly under-researched topic. Hopefully, if additional research is done in this area by other scholars, the hypothesis testing will be in a form that can be derived from some sensible specification of production technology and demand. While providing no theoretical justification of their own, the Bergsten–Cline equation explaining cross-national differences in import–GNP ratios does come close to meeting this standard. The Bergsten–Cline equation with the import–GNP ratio as a function of the logarithms of national characteristics follows directly from a translog specification of the indirect trade utility function.

Unfortunately, this rationale does raise questions about whether Bergsten and Cline should have used GNP in place of capital and labor as an independent variable and whether they were correct in normalizing crude oil and arable land by population in their regression analysis.

The policy recommendations that follow from the Bergsten–Cline analysis are not surprising. Bergsten and Cline find it essential that the United States launch a comprehensive program to assure correction of an over-valued dollar which has led the United States to run bilateral deficits with virtually all its major trading partners. For such an exchange rate to have a permanent impact, however, requires more fundamental changes. Bergsten and Cline recommend that Congress make further strenuous efforts to cut the enormous U.S. government budget deficit at the same time that the Japanese government takes steps to stimulate both public and private investment. For example, Bergsten and Cline suggest Japan could stimulate spending on housing and other social infrastructure, which is recognized by most Japanese as woefully inadequate.

Bergsten and Cline are pragmatic enough to recognize that macroeconomic measures are not sufficient to resolve U.S.–Japanese economic conflict. While intangible Japanese trade barriers and practices may have relatively little effect either on Japanese trade structure or the bilateral U.S.–Japan trade deficit (Bergsten and Cline generously estimate trade diversion of some $5 billion to $8 billion), Bergsten and Cline stress that in order to preserve the legitimacy of an open trading system, it is essential for Japan to demonstrate that it recognizes the problems caused by remaining trade barriers and is determined to take action to eliminate them.

For their part, Bergsten and Cline urge the United States to end its embargo on exports of Alaskan oil. Surprisingly, it is entirely possible that the U.S. barrier on the export of this single product to Japan may have a quantitatively more significant impact on the U.S.–Japanese trade deficit than any of Japan's real or imagined barriers.

In the few months since *The United States–Japan Economic Problem* was published, a number of elements in the economic environment have changed markedly. Since the time that Bergsten and Cline advocated a 20 percent appreciation of the dollar with respect to the yen, the dollar has depreciated 30 percent. Interest rates, particularly on long-term financial assets in the United States, have declined markedly and the price of crude oil, still 35 percent of all Japanese imports in 1985, has collapsed. These developments almost certainly will result in a substantial decline in Japan's bilateral surplus with the United States and in a more important role for imported manufactures in the Japanese economy. The prospects for Japan's global current account surplus are less clear. Nonetheless, a marked decline in attractiveness of foreign financial assets and a lower price of imported oil may well work to stimulate, even in the likely absence of decisive Japanese government action, the domestically driven demand necessary to ameliorate the severe tensions in Japan's international economic relations.

Bergsten and Cline have written a magnificent review of U.S.–Japanese economic relations. This study is full of insight and sound policy advice. Economists and policy-makers of every stripe in both Japan and the United States can read this work with great benefit.

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David Greenway, ed., Current Issues in International Trade: Theory and Policy (Macmillan Publishers, London, 1985) pp. ix+242, £25.00 (cloth), £8.95 (paper).

Following a short but concise introduction by Max Corden, this book contains ten chapters, each surveying a specialized topic in the field of international trade theory or policy. The volume is designed to supplement undergraduate textbooks in international trade (but not finance).

Although one could argue with a couple of the topics selected for inclusion, and some of them have already been surveyed, the book encompasses the important issues in international trade. Some of the topics are at the forefront of contemporary research. The quality of presentation is invariably high; and for the most part it is sufficiently lucid to appeal to an advanced undergraduate reader. The editor clearly succeeded in enlisting the services of scholars highly qualified to deal with their respective topics. The reading list that accompanies each subject would be welcome by students who wish to immerse themselves in a particular topic. In sum, the composition of the book and its authors (designed by the editor in a hospital bed) is exceptionally good.

Chapters 2 (by Kierzkowski), 6 (Greenway), and the second part of 5 (Tharakan) deal with the theory, policy implications, and empirical testing of the theory of international trade in the presence of differentiated products and economies of scale. This is a frontier field in international trade, and the recent contributions of Krugman, Helpman and others are noted and explained. It is shown how intra-industry trade may develop under conditions different from those of the traditional factor endowment theory. Gains from trade now include benefits from increased varieties of products consumed, and declining production costs as the scale of operations expands. Trade restrictions entail a loss of these benefits. Exceptions to this rule under the Lancaster approach are also considered. Finally, there is some (though not comprehensive) coverage of oligopoly conditions where firms compete for their share in global economic profits; and the associated 'strategic' trade