long postscript, a third the size of the main text. Here the author covers much of the same ground again, in an attempt to update the projections and references to events. A hardcover book is just not the right medium for an up-to-the-minute approach, and this chapter plus Appendix C with its vignettes of individual countries detract from the organization of the book.

These chapters all raise points for further disagreement on matters of substance. In addition, I am disturbed by Cline’s frequent invocation of the word psychology to account for behavior and recommend policy (pages 17–18, 185, 186, 188, 201, 264 are a partial indexation; the book’s own index contains no entry). Metaphor and psychology, both are words that only thinly screen the absence of a solid theoretical framework in this volume. Cline’s statements, that the debt is “manageable” and that voluntary lending to key debtors may reemerge in 1985–1986 (p. 103), stake out for him a particular position among commentators on the indebtedness of developing countries. It is ground claimed less by analysis, however, than by assertion.

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U.S. competitiveness in the world economy.

This book contains fourteen papers presented at a Harvard Business School colloquium in 1984. The central theme, strongly propounded by the editors and many, though not all of the papers, is that the U.S. economy is in serious danger of being undermined by competition from Japan and other East Asian countries.

Given the subject matter of the colloquium, the most striking feature of this volume is the background of the contributors. With the single exception of a paper on effects of the budget deficit by Benjamin Friedman, academic economists are completely absent. Eleven of the papers are authored or coauthored either by professors of management or by management consultants; one is by a lawyer/lobbyist (Alan Wolff); and one by a physicist/statesman of science (Harvey Brooks). This is no accident. The editors state forcefully their belief that academic economists are completely misguided in their views about trade policy, and that their perspective must be replaced with a new view drawn from the theories of business strategists. They also argue that their view about trade policy has already been adopted by the rapidly growing nations of East Asia, and is at the heart of the success of these nations.

The tone of the book is set by its two opening chapters, which amount to a single long essay by Bruce Scott. Scott shows that the U.S. has suffered an erosion of its once overwhelming technological leadership, and has done poorly both absolutely and relative to other countries at raising productivity. Academic economists would question, however, whether this represents a competitive problem per se; the fact of poor U.S. performance does not necessarily mean either that foreign competition is the cause of U.S. problems, or that the consequences of U.S. failings are exacerbated by the presence of faster growing competitors abroad. Scott attempts to forestall academic criticism in advance by structuring much of his argument as a running debate with the 1983 Economic Report of the President; one wishes that he had included a live economist in his colloquium rather than shadow-boxing with an absent opponent.

In any case, Scott’s policy conclusion is clearly derived from Boston Consulting Group-type theories of business strategy. To be competitive, he argues, nations must actively attempt to shift their portfolio of industries in the direction of those industries where dynamic gains from economies of scale and the learning curve are to be had. In a refreshingly direct statement, Scott takes on David Ricardo:

In short, the Portuguese should specialize in textiles, not wine, regardless of whether their costs are lower or higher than those prevailing in Britain at the time (p. 95).

Indeed, Scott views the dynamic gains from specialization in manufacturing as so great that he flatly states that possession of natural resources such as oil or agricultural land is actually a liability rather than an asset.

Scott’s chapters are followed by five industry
case studies. A study of microelectronics by William Finan and Annette LaMond provides a useful summary of technology and market structure but sheds little light on either the actual effects or the desirable role of government policy. The same may be said of a study of automobiles by Malcolm Salter, Alan Webber, and Davis Dyer. Michael Yoshino and Glenn Fong study the Defense Department’s Very High Speed Integrated Circuit program and give it high marks for administrative efficiency and effective collaboration between government and industry; they make no attempt, however, to carry out even an informal cost-benefit analysis. Joseph Bower studies petrochemicals, an industry where U.S. firms have coped fairly well despite intrusive foreign governments, but it is not clear whether the moral is that we should forswear industrial policy or that we should do it better. Stanley Nehmer and Mark Love study the Multi-Fiber Arrangement, and conclude rather startlingly that this much criticized system has not only been a good thing—preserving U.S. jobs and helping our trade balance—but should serve as a model for a future system of “managed trade.”

The remainder of the chapters address a variety of issues. Alan Wolff criticizes U.S. trade policy for its legalistic character and its failure to implement a coherent strategy. Harvey Brooks examines the comparative U.S. position in R&D, which remains strong, and concludes that U.S. problems stem from poor work organization and management practices rather than from a failure to keep up with the latest technology. Philip Wellons compares the U.S. and Japanese financial systems, offering the puzzling conclusion (impossible to justify in any model I can devise) that the monopsony power of Japanese banks lowers the cost of capital to Japanese firms. Benjamin Friedman’s more or less orthodox discussion of the deficit looks oddly out of place in this company. Two chapters by D. Quinn Mills and Malcolm Lovell argue that low-wage competition from abroad can be met only by remaking U.S. labor relations on a cooperative, Japanese-like model. Finally, George C. Lodge and William Crum offer policy proposals based essentially on Scott’s discussion.

Economists will find this an infuriating book. Sweeping conclusions are based on casual and often logically fallacious arguments, and evidence is used the way a drunk uses a lamp-post—for support, not illumination. Nonetheless, the book should not be dismissed: the school of thought it represents is already influential, and two more years of an overvalued dollar could easily bring its advocates into the corridors of power.

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JEL 85-0480

This book presents and uses two closely related computable general equilibrium models of the world economy. Both are oriented towards the exploration of trade policy issues. The earlier one, designed to analyse the Tokyo Round, is calibrated to data from 1973, and distinguishes four regions (the United States, the EEC, Japan, and the rest of the world), thirty-three sectors, and several income-distribution groups. The later one considers North-South trade issues. It refers to 1977, has seven regions (the above four plus OPEC, newly industrializing countries, and less developed countries) and six commodities, but no income-distribution dimension. Both models have two internally mobile and internationally immobile factors, and have fully specified production and social welfare functions. Bilateral international trade flows are modeled using Armington’s “products distinguished by place of production,” and tariffs, taxes, subsidies and transfers are handled explicitly. In equilibrium all industries make zero profits, consumers exhaust their income, and the government and foreign accounts balance. Alternative policy situations are explored by “counterfactual simulation”—solving the model for the base year but using an imagined, rather than the actual, policy stance.

Overall the book is excellently written. In describing the models John Whalley is precise and honest: the reasons for adopting particular strategies are explained, the data are described (and they have clearly been carefully collected), the parameter values justified, and,