

*Readings in International Economics* edited by Richard E. Caves and Harry G. Johnson. Richard D. Irwin Inc., Homewood Illinois.

Here is yet another invaluable volume in the series of Republished Articles on Economics prepared under the aegis of the American Economic Association. It supplements its predecessor the *Readings in the Theory of International Trade*, published under the editorship of Howard S. Ellis and Lloyd Metzler in 1949. The differences in the two volumes both in emphasis and composition are symptomatic of the changes that have occurred in the general field of International Economics since 1949. The intervening years (1949-68) have witnessed lot of work done in the areas not fully explored at the time when the predecessor volume of *Readings* was published. The present volume eminently succeeds in providing the most "representative" contributions in the field of international economics during 1949-68. These contributions have been divided into seven sections:

- i) The Theory of Comparative Advantage;
- ii) International Factor Movements;
- iii) Trade Policy and Welfare;
- iv) Trade, Growth and Development;
- v) Balance of Payments and Exchange Stability;
- vi) International Payments and National Income;
- vii) Empirical Investigations of International Trade and Payments.

These seven sections correspond to the most "representative" areas in the general field of international economics. The editors of the present volume must be congratulated for encompassing the entire field of international economics within 604 pages.

The theory of comparative advantage was subjected to an extensive examination during the 1949-68 interregnum. The seminal Heckscher contribution ("Foreign Trade and the Distribution of Income"), included in the predecessor *Readings*, attempted to explain the nature of comparative advantage by reference to the relative endowments of primary factors of production possessed by different countries. Since then, thanks mainly to the contributions by Harry Johnson and Paul A. Samuelson, the original Heckscher-Ohlin analysis has been extended and the two-country, two-goods and two-factor Heckscher-Ohlin model of comparative advantage has been "closed" by covering all the functional relations needed to make it determinant. The editors of the present volume have done a good job by including in the first section on the Theory of Comparative Advantage both these three contributions plus four other seminal contributions by Romney Robinson, Lloyd Metzler, T.M. Rybczynski and Peter Kennen, particularly because all these classical contributions were becoming rather inaccessible. The present reviewer, however, laments the non-inclusion of Jone's classic contribution ("Factor Proportions and the Heckscher-Ohlin Theorem", *RES*, 1956/57), which has been noted for the excellence of analysis and the clarity of exposition.

The original Heckscher-Ohlin model had also attempted to establish a relationship between trade and factor movements and raised the controversial issue whether international trade achieves a *complete* or only a partial equalization of relative and absolute factor returns and different countries. Heckscher had shown that for the fixed-proportion case the equalization of factor returns will be complete. However, it was left for Samuelson to prove by establishing a unique relationship between relative factor and commodity price that even when account is taken of factor substitutions the equalization of relative and absolute returns will be complete. The other basic contributions by Harry G. Johnson and G.D.A. MacDougall, and the contribution by Rober A. Mundell ("International Trade and Factor Mobility") have succeeded in integrating the research on international factor movement with other aspects of international economics. All these pioneering contributions have been included in the second section on International Factor Movements.

The other area of international economics which has occupied the attention of economists in the last two decades is the problem of examining with the help of tools of welfare economics the optimality of alternative trade policies designed to optimize the "gains from trade". Also, the "theory of the second best" has been extensively applied in international trade theory. Again the present volume includes the most representative contributions in the field—i.e., the

pieces by Haberler, Bhagwati and Baldwin. Also included are the classical contribution by A.P. Lerner ("The Symmetry between Import and Export Taxes") and the piece by Marcus Fleming ("On Making the Best of Balance-of-Payments Restrictions on Imports"), both of which were becoming rather inaccessible.

The other important area in the field of international economics that has been extensively explored during the 1949-68 interregnum is the relationship between trade and economic growth. The original contributions by Harry Johnson and Jagdish Bhagwati have been included in fourth section on Trade, Growth and Development. Also, Myint's contribution ("The Classical Theory and International Trade in the Under-developed Areas"), which examined the classical trade theory by incorporating assumptions thought to be specifically appropriate to the economy of the underdeveloped countries has been rightly included. However, the exclusion of the classical piece by Raul Prebisch ("Commercial Policy in Under-developed Countries", *AER*, May 1959), appears to be a bit odd, because it has made a tremendous impact on the discussions of the problems of trade and development in Latin America and Asia, as is evidenced by even a cursory perusal of the proceedings of the first UNCTAD. If space was the problem, then perhaps Singer's article ("The Distribution of Gains between Investing and Borrowing Countries") could have been dropped in favour of Prebisch's article.

Yet another important area in international economics concerns balance of payments and exchange flexibility. The controversy in this area, captured by the editors within the confines of the fifth section on Balance of Payments and Exchange Stability, has mainly centred on the exploration of the effects of devaluation on income and the balance of trade. The elasticity approach, perfected by Fritz Machlup and John Robinson, had dominated economic thinking on the subject when the *Readings on International Trade* was published in 1949. However, the article by Sydney Alexander (*I.M.F. Staff Papers*, April 1952) added a new dimension to economic thinking by emphasizing the income effects of devaluation, the so-called absorption approach. Later on, the seminal contributions by Arnold C. Herberger, Harry Johnson and S.C. Tsiang, all included in the fifth section of the present volume, had successfully attempted to incorporate the classical elasticity approach and the "new" absorption approach into a general theory of the balance of payments. However, one is struck by the exclusion from the present volume of Fritz Machlup's excellent article ("Relative Prices and Aggregate Spending in the Analysis of Devaluation", *AER*, June 1955). The present reviewer finds himself unable to agree with the explanation given by the editors in the preface to the present volume. They argue that his article had to be excluded because it simply "carried the controversy forward instead of settling it". This, however, is not persuasive enough as most readers of Machlup's article would testify.

The other important issue on which international-trade theorists have spent their time since 1947 is the issue of attaining consistency between international and domestic policy and employing available policy instruments to attain multiple objectives. The articles by Hicks, Swan, Metzler and Mundell, which constituted seminal contributions on the subject have all been included in the sixth section on International Payments and National Income. This is particularly welcome since most of these articles have become quite hard to come by. Again, the present reviewer laments the exclusion of Corden's excellent piece ("The Geometric Representation of Policies to Attain Internal and External Balance", *RES*, 1960-1961). If a choice had to be made then Swan's contribution could have been dropped in favour of Corden's piece.

The present volume also differs from its predecessors published in 1949 in that the former includes quantitative empirical work done in international economics. The classical works by Leontief, Orcutt and MacDougall were pioneering attempts to make quantitative contributions in the field of international trade. All these have been included in the seventh section of the present volume. Also included is Balassa's excellent article ("Tariff Protection in Industrial Countries: An Evaluation", *J.P.E.*, December 1965), in which an attempt has been made to calculate the "true" incidence of nominal tariffs.

On the whole, the present volume is an excellent collection of articles which will prove of lasting interest. It covers the entire field of international economics with great tact and reflects the mature judgment of the editors of the present volume. However, one laments that the editors have chosen, rather unwisely, to exclude the debate on International Monetary Reform and on the alternative ways in which the international payments equilibrium could be restored. The present reviewer feels that it would have been appropriate to have a separate section on "International Payments Equilibrium" and to include the classical contributions by Triffin, Machlup and Peter Kennen. Also Milton Friedman's piece ("The Case for Flexible Exchange Rates"), included by the editors in the fifth section, would have been appropriate in this section. In spite of the opinion of the editors, the present reviewer strongly feels that, when the dust of controversy has settled over the issue, this debate will have left valuable contributions on alternative monetary adjustment mechanism which will be worth preserving for posterity "in an archive that aspires to lasting interest".