developed, their evolution into the "functional finance" of Abba Lerner, and their diminishing influence as predicted by Ludwig von Mises. Chapters 3 and 4 present a wide range of views on the subject of deficit spending with essays by no less than four Nobel Laureates (Friedman, Hayek, Tobin, and Buchanan) whose views are all quite distinct. With the exception noted earlier, I found these chapters to be a comprehensive and balanced treatment of the principal issues surrounding the significance, causes, and consequences of deficit spending.

Chapters 5 through 7 round out the collection with a focus on political and institutional reform. Most of these essays take the position that deficit spending is symptomatic of a larger problem of a government that lacks the structure required for self-discipline and self-restraint. Without substantive reforms, government spending and taxation will continue to rise, and economic growth that is founded on personal initiative will stagnate. These essays discuss the effectiveness and the feasibility of various reforms, including constitutional amendments to balance the budget and limit the growth of taxation, legislative reforms mandating "supermajorities" for enactment of spending and taxing bills, and measures that would impose greater control over the budget process. These are all important issues that deserve the attention of our elected representatives in Congress. In sum, I would recommend this book as a useful collection of essays that deserves the attention of those of us who are being "represented."

Milton H. Marquis
Florida State University

The New Protectionist Threat to World Welfare
Dominick Salvatore, ed.
New York: North-Holland/Elsevier Science Publishing Co.,
1987, xvi + 581 pp.

I did not like this book and quickly regretted having agreed to spend the time necessary to review it. It is a mixed bag, though, and some of the articles in it are worth reading, as I'll explain.

Writings on the "real" (as opposed to monetary) side of international economics generally fall into either of two categories: (1) exercises in high-powered price theory and (2) a blend of economics with political and institutional description and self-conscious, moralizing internationalism. Most of this book falls into the second category.

As its title should have warned me, the book is full of complaints. Countries are backsliding from the noble ideals of the GATT and the diplomats who negotiated tariff cuts under its auspices. Protectionists are resorting more and more to sneaky measures such as import quotas, "voluntary" export restraints imposed on foreign suppliers, orderly marketing arrangements, and miscellaneous disguised restraints on imports. It is desirable, urgent, imperative—whatever—that governments abandon their wicked ways and adopt liberal trade regimes; such trade barriers as do remain should be nondiscriminatory and "transparent" (i.e., forthright, undisguised).

So what else is new? I agree with the sentiments expressed by so many of Salvatore's authors. I too am no nasty protectionist; I too am on the side of the angels. But reassuring each other on this point quickly becomes tedious, tedious, tedious. By now, after over 200 years, economists should be accustomed to seeing their free-trade advice scorned.

With few and partial exceptions, Salvatore's authors do not invoke the lessons of public-choice theory. Of course governments, especially democratic governments, keep handing out protection and other conspicuous favors to vocal minorities, diffusing the greater total costs inconspicuously over the general population. Any hope, it seems to me, must rest not on the sort of piecemeal preaching found in this book but on cultivation of a constitutional attitude and perhaps adoption of a constitutional amendment restraining the economic powers of government. Perhaps the public can be persuaded of a general principle, like freedom of speech or governmental restraint in economic affairs, when the argument is conducted on the level of principle, even though, otherwise, interventions in innumerable individual cases would seem like plain common sense.

When politicians, journalists, and the stray economist recommend further extension of government economic activity—as under an "industrial policy"—we skeptics should call for a look at the record. How well have governments performed in trade policy, farm policy, synfuels and other energy policies, tax policy, and so forth? Do you interventionists really want to extend the scope for that sort of performance? Or if you do think that governments can perform a constructive role in "targeting" on certain industries by favoring them with protection, subsidies, cheap credit, guaranteed markets, and so forth, precisely how do you propose to change the environment of information and incentives affecting policymakers so as to obtain better results than in the past?

Asking such questions does not convey any assertion that the unhampered market operates so perfectly that no interventions could conceivably make any improvement. So-called imperfections do exist in the real world, and it is a routine exercise for any even half-way competent economist to think up interventions that would bring improvements in abstractly conceived cases. But what do such abstract possibilities imply for policy in the real world, in which government decisionmakers are not omniscient and omnipotent and thoroughly public-spirited and do operate with inappropriate incentives and fragmented responsibilities?

Around the middle of the book, barely in time to keep me from dismissing it with a curt, scathing review, the articles by Richard Cooper, Paul Krugman, and Mordechai Kreinin do begin to touch on such questions. Cooper emphasizes something that ought to be obvious but apparently often escapes politicians and other noneconomists, namely, general economic interdependence. "Discrimination in favor of certain firms or industries automatically involves discrimination against firms and industries that are not specially favored. If subsidies or tax breaks or below-market credits are given to favored firms, others have to make up the difference by paying more taxes or more for credit than would be true in the absence of the discriminatory measures. And the currency will appreciate to the extent that exports are stimulated, thus putting others at a disadvantage with respect to foreign competition" (p. 249). "U.S. actions should not be motivated by arguments that rest on the fallacy of composition—that is, that the action would generate employment or improve the overall trade balance. Except in the short run, employment and the overall trade balance are determined by the macroeconomic conditions of each economy, not by particular trade policies" (p. 258). (This point seems to have escaped Darryl McLeod and Dominick Salvatore in their article on employment effects of barriers to North-South trade. They grind out conclusions from abstract models of economies constrained by deficiencies of demand or of capital, suffering from savings gaps or foreign-exchange gaps, and exhibiting Keynesian multipliers in operation—all without duly distinguishing between *patterns* of economic activity and *levels* of activity or idleness and without being explicit about assumptions concerning wage and price stickiness.)

Paul Krugman examines "Targeted Industrial Policies: Theory and Evidence." He classifies criteria for selecting industries to be favored into two groups—"popular" ones advanced in arguments aimed at a large audience and "sophisticated" ones suggested by economic theory. Implementing two of the popular criteria would be "disastrously counterproductive," while the other two of the four that Krugman finds in circulation would be less obviously destructive, but not likely to be beneficial, either. Yet "when the time to choose industrial targets comes, it will be a break with all past experience if the criteria for selection are more sophisticated than these" (p. 276). The relatively sophisticated arguments invoke economies of scale and imperfect competition, externalities, and possibilities of correcting for the adverse effects of other government policies. (Some of these concepts enter into arguments for "strategic" trade policy, which is something of a buzz word nowadays; but those arguments strike me as providing nothing beyond new packaging for old and familiar abstract-theoretical arguments for protection.) Anyway, Krugman concludes that even the sophisticated case for industrial targeting "does not look very operational" (p. 281). After a historical review, he finds "no clear-cut cases of successful industrial targeting. Of the two most famous examples, Japanese targeting of steel probably reduced national income, while the returns are not yet in on Japan's targeting of semiconductors" (p. 295).

Michael Mussa also stresses the implications of general economic interdependence, including interdependence over time. He identifies the "misapprehension" that protectionist commercial policies can provide not only protection for particular domestic industries but also positive average protection for domestic industry. In addition to his article, four others in the book are more concerned with money and exchange rates than with the microeconomic aspects of protectionism.

At least a couple of articles in the book take cookbook econometrics seriously to the point of being laughable. Gershon Feder and Lily Uy run regressions in which the dependent variable is a measure of "country creditworthiness" not further explained than as being published every six months by *Institutional Investor* on the basis of a survey among bankers and financial institutions. The supposed explanatory variables include various ratios and other numbers and dummies. The authors use the coefficients that pop out of their computer to construct a model of a hypothetical economy and then run simulations that generate several tables of numbers.

The space of a review does not permit meaningful comment on every one of twenty-six articles. Each of the unmentioned authors is free to believe that his (not "his or hers," in the present case) is one of the exceptions I found to the dreariness of the book as a whole.

Leland B. Yeager
Auburn University

E X P A N D
YOUR PROFESSIONAL HORIZONS

Enjoy the many benefits of membership in the **National Association of Business Economists (NABE)**

Today, because of fluctuating business conditions, the business economist's world is rapidly changing. To stay on top, you need to keep abreast of current economic thought and comment, of data, trends and policies. You need access to the ideas and opinions of fellow professionals in the industry. Membership in the NABE can help you fine-tune your skills, and broaden your professional outlook.

The NABE serves the needs of economists at many levels: private industry, non-profit and trade organizations, consultants, government and university researchers. As a member, you receive the benefit of many services and activities including:

- *Business journal: Published four times yearly, the NABE's prestigious Business Economics* features outstanding articles on applied economics, plus solicited and contributed manuscripts and annual meeting papers.
- Newsletter: Distributed bi-monthly, the *NABE News* provides timely feature articles, news of local NABE chapters and roundtables, and reviews of seminars and meetings.
- Outlook Survey: Results of NABE's quarterly survey offers projections on macro economic variables--GNP, CPI, auto sales, housing starts, interest rates and others.
- Placement assistance: *Employment Opportunities*, a quarterly listing and also available continually on NABE's electronic bulletin board, is an excellent source of job openings. In addition, the Association's annual Membership Directory is an invaluable reference for employment purposes.
- Salary Survey: The NABE publishes a biennial Salary Survey, the only authoritative source of business economists' salaries.
- Annual Meetings: Each fall, through the NABE's forum, the business economic community focuses on the coming year's economic outlook, plus data, theory and important economic policy issues. A late winter Washington seminar examines the key economic policy issues for the coming year.

CLIP AND MAIL

☐ Yes. *I wish to become a member of the National Association of Business Economists.*

Check enclosed ($55) for regular individual membership. USA & Canada: $75 all other countries. Membership includes your subscription to *Business Economics. NABE News* and *Employment Opportunities.*

☐ ($30) Subscription to *Business Economics* only. USA & Canada: $45 all other countries.

PLEASE PRINT

Name ________________

Title ________________

Organization ________________

Street Address ________________

City ________ State ______ Zip ______

Mail to: **National Association of Business Economists**
28349 Chagrin Blvd. Cleveland, OH 44122-4589
Phone: 216/464-7986

JOURNAL OF LABOR RESEARCH

Selected Articles Forthcoming in Volume IX, 1988

The **Journal of Labor Research** is published quarterly by the Department of Economics of George Mason University. Subscriptions are on a calendar year basis and subscribers will receive all issues for the current year. Annual subscription rates are: individuals, $30.00; academic libraries, institutions, government agencies, and business firms, $65.00. Foreign subscribers add $5.00 to cover additional postage. All remittances should be made payable to **Journal of Labor Research**, Department of Economics, George Mason University, Fairfax, Virginia 22030.

Editorial correspondence and manuscripts should be sent to James T. Bennett, Editor, Journal of Labor Research, Department of Economics, George Mason University, Fairfax, VA 22030. Manuscripts should be submitted in triplicate with a 100 word abstract. A submission fee of $20.00 for nonsubscribers must accompany all manuscripts. Papers accepted for publication must conform to JLR style requirements; style sheet available on request.

JOURNAL OF MONEY, CREDIT, AND BANKING

RECENT DEVELOPMENTS IN MACROECONOMICS

Papers and comments from the conference sponsored by the Federal Reserve Bank of Cleveland, held in October 1987. Mailed to subscribers as a supplement to the August 1988 issue.

CONTENTS

The regular August 1988 issue contains articles by the following authors: Steven R. Beckman, Joshua N. Foreman, Walter Wasserfallen, W. Douglas McMillin, C. Richard Long, Mark L. Gardner, Ali F. Darrat, Paul R. Allen, William J. Wilhelm, and Michael Devereux.

Published quarterly by **Ohio State University Press**
1050 Carmack Road, Columbus, Ohio 43210-1002 (614) 292-6930

One-Year Subscriptions: $25 Individual $40 Library $19.50 Student

---

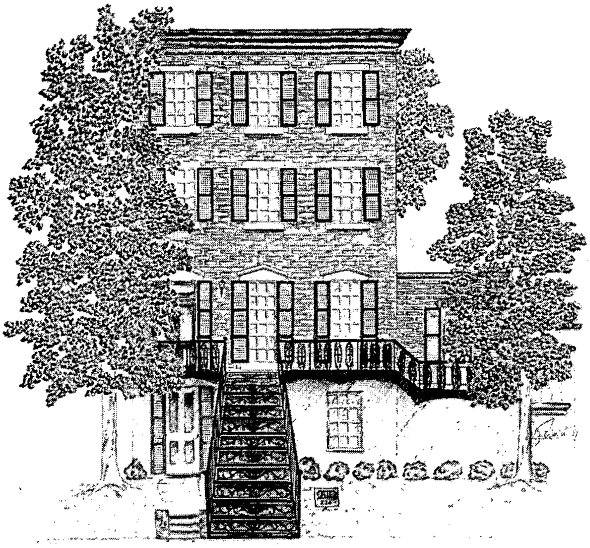
The Cato Institute

Founded in 1977, the Cato Institute is a nonpartisan public policy research foundation headquartered in Washington, D.C. The Institute is named for *Cato's Letters*, libertarian pamphlets that helped lay the philosophical foundation for the American Revolution.

The Cato Institute seeks to broaden the parameters of public policy debate to allow consideration of more options that are consistent with the traditional American principles of limited government, individual liberty, and peace. Toward that goal, the Institute strives to achieve a greater involvement of the intelligent, concerned lay public in questions of policy and the proper role of government.

The Cato Institute undertakes an extensive publications program dealing with the complete spectrum of policy issues. Books, monographs, and shorter studies are commissioned to examine the federal budget, Social Security, monetary policy, natural resource policy, military spending, regulation, NATO, international trade, and many other issues. Major policy conferences are held throughout the year, from which papers are published thrice yearly in the *Cato Journal*.

In order to maintain an independent posture, the Cato Institute accepts no government funding. Contributions are received from foundations, corporations, and individuals, and from the sale of publications. The Institute is a nonprofit, tax-exempt, educational foundation under Section 501(c)3 of the Internal Revenue Code.



The Watterston House
headquarters of the
Cato Institute

$7.00

FREEDOM AND CONSTITUTIONAL CHOICE

To be free to act as one chooses and at the same time to recognize the freedom of others to do likewise can only mean that all participate equally in setting the constraints upon individual action. For no one is free unless all abide by the rules of conduct which all can be brought to accept as appropriate constraints upon individual action. . . . To require of each individual that he takes no action which impairs the freedom of any other individual is to accept the moral principle that no individual should treat another simply as a means to an end. Each individual chooses the rules and principles for the guidance of his conduct, but he does so under the general principle that no rule of action will be adopted which could not be universally adopted by all individuals. . . . Hence, when we think of a free and rational individual we do not envisage an individual unconstrained by law but rather an individual who acts in accordance with rules of conduct he has chosen. . . . [These] ideas . . . were presented as implications of the concept of individual freedom at about the time this nation was formed; and the political structure of the U.S.A. reflects this conception of freedom and rationality.

—**Rutledge Vining**

Economics in the United States of America
(Paris: United Nations Educational,
Scientific and Cultural Organization,
1956, pp. 18–19).