deviation of these leads and finally setting up a scoring system, so that each indicator has a numerical ranking. This scoring system, which could have been more fully discussed, involves a weighted sum of six scores designed to take account of the economic significance of the indicator as well as those features of the historical series which are important in identifying the turning points and in forecasting those in the target variable. A weight of 15% is given to economic significance, 25% and 30% respectively go to conformity and stability (which measure how closely the target and indicator move together), 15% goes to the smoothness of the indicator (the smoother a series, the easier it is to identify a turning point) and finally 15% is given to ‘currency’ measuring the rapidity with which the series becomes available. These weights are somewhat arbitrary as Mr O’Dea himself stresses.

With this scoring system indicators can not only be ranked but also combined into a composite indicator by using the respective scores to form a weighted average of the individual indicators.

In the case of industrial production highest scoring leading indicators are: (1) a Financial Times index of dividends yields, (2) an index of wholesale prices of basic materials only for non-food industries, and (3) the Financial Times index of thirty shares. These are followed by the Confederation of British Industries Survey measures of manufacturing investment and “optimism balance”. Apart from the very surprising success of the wholesale price index these conclusions are rather disappointing, in that the use of the erratic stock market statistics will undoubtedly prove difficult, while the usefulness of the CBI survey needs no emphasis.

Mr O’Dea has industriously carried out his task without embroiling himself in the methodological issues, nor can we pursue these at length here save only to note our scepticism about the indicator analysis being any more successful than the econometric models, in that it suffers from the same basic drawback of instability as well as having an uncertain methodological pedigree. Whether it will prove a useful complement time alone will tell, though any success will have to be attributed as much to the practitioner as the method.

C. R. BIRCHENHALL


In this work, Max Corden has drawn together his and many other contributions to the theory of trade and welfare. In an essential way, therefore, this volume can be regarded as an attempt to update Meade’s celebrated treatise, Trade and Welfare; and this description is doubly appropriate as Corden is a distinguished member of the small band of international trade theorists who went through the London School of Economics when James Meade taught there.

This book ranges over a vast number of topics, including cost-benefit analysis; it is therefore not narrowly focused on the traditional questions of commercial
policy. It is also written with Corden’s customary lucidity and simplicity of exposition. As always, Corden uses only geometrical techniques and literary arguments, so that the essential arguments based on the simpler models are more readily accessible to the technically unsophisticated reader. At the same time, the analysis is usually tight and well-aimed and, for a careful reader, the structure of the problem at hand is often clearly enough defined for the reader himself to read the relevant, advanced literature with a firmer base. One more feature of the book is that Corden frequently attempts to link up his analysis to policy prescriptions, so that the book should be of use even to policymakers who have little interest in analysis as such but are keener to find out how to translate the results of conventional trade-theoretic analysis into useful policies.

In a work of this scope, there are inevitably numerous details with which a reviewer will quarrel. Thus, for example, Corden uses the phrase “conservative” social welfare function (pp. 107–12) to “explain” the presumed unwillingness of policymakers to reduce the income of any group. This benign view of policymakers will not convince the many empirical economists who have recently been worrying about the impoverishment of the poor in the less developed countries thanks to the policies of their planners. It will also puzzle those whose view of the political process allows realistically for a few oligarchic groups to carry disproportionate weight with their government. Of course, the notion that a welfare-improving policy should not actually hurt anyone goes back to Little’s celebrated objection to the compensation principle. To regard this, however, as “conservative” is misleading: one is more likely to consider this view as politically “liberal”. Some of the other phrasemaking is also not very persuasive: e.g. there is an unnecessary distinction drawn between “divergence” and “distortion”; the phrase “made-to-measure” tariff is used to describe the phenomenon so much better described as “automatic” protection in the developmental literature on trade policy; and so on. Finally, while Corden’s arguments are almost always careful and guarded, there are rare lapses as when he argues that the first-best policy if the government can “look ahead” better in a clay model is to “spread better information” (p. 314). How can one guarantee that the information will be accepted?

The real problem with the volume lies perhaps in the conflicts that presumably arise from the volume being aimed at both policymakers in the less developed countries and at international trade economists. In consequence, it might fail to satisfy either set of readers. There are obvious examples of this, as in the somewhat surprising omission of an explicit and full-length discussion of the two-gap literature and issues that the less developed countries surely attach much significance to and, from a theorist’s viewpoint, in the simultaneous neglect of the formal work of Chenery, McKinnon and Findlay, among others, on this topic. An equally appropriate example, involving a subject that is discussed in the book, relates to the analysis of foreign investment in Chapter 12.

From the viewpoint of the policymaker, the analysis of this chapter is masterly in the way the basic neoclassical doctrine is set out, starting from the basic MacDougall paper, through Jasay et al. to the later treatments of Kemp and
Jones. But there is nowhere any real discussion of questions such as: will foreign investment inhibit or stimulate domestic enterprise; will it stimulate or stiffle domestic efficiency; will it promote or discourage domestic R & D; will it distort the domestic salary structure by escalating skilled wages or will it narrow differentials by raising unskilled wages yet more? Economists, outside of the purely neoclassical school, have actively discussed these questions and are generally divided into the “benign impact” and the “malign impact” schools; but the policy-oriented reader will not get a flavour of these important aspects of the foreign investment debate from Corden’s analysis which focuses rather more on the somewhat arid Kemp–Jones type of literature to analyse the welfare interactions of tariffs with foreign capital flows. The policymaker will also miss the evaluation of the available empirical evidence, however slight, on these issues (e.g. Jorge Katz’s work on foreign investment in Argentina), which is surely relevant in arriving at a balanced view of the importance that one might attach to different possible effects.

On the other hand, for the serious trade theorist, who is interested only in formal analysis, the book may also fall short of full satisfaction. To take the example of foreign investment again, at its greatest complexity Corden’s analysis conveys the essence of the Jones–Kemp theory of optimal trade and capital flow tax-cum-subsidies but, in view of the absence of mathematical treatment of the issues, cannot convey with precision the formal structure of these taxes and subsidies. Nor is Corden’s treatment extended to the work by Bardhan, Kemp and Negishi on “long-term” advantage so that the theoretically-minded reader will find Corden’s treatment helpful but not nearly adequate. Again, the analysis of the welfare effect of foreign investment in the presence of given tariffs makes no reference to the obviously-relevant Johnson analysis of immiserising growth in the presence of a distortionary tariff and later extensions of it to the capital inflow problem. In fact, Corden fails to utilise the important insights from the theory of immiserising growth altogether. Thus, nowhere does he mention that it helps to illuminate the Haberler-type theorems on free trade being possibly inferior to autarky when domestic distortions are present, since free trade and autarky can be readily interpreted as post-growth and pre-growth situations. Nor does Corden’s treatment of the classic case where terms of trade loss may outweigh the primary gain from growth, utilise the now-familiar generalisation that growth may be immiserising in the context of any sub-optimal policy.

Being written with minimal reliance on technical intricacies and very little referencing to the theoretical literature (as one would find in a standard textbook), the book will therefore be less useful than it could have been to the students of trade theory.

Offsetting these shortcomings, Corden’s book covers an immense range of topics, even if slightly. Thus there is a brief excursion into the now-rapidly-growing analysis of smuggling; and there is an original attempt at working out the cost-of-revenue-collection implications of policy intervention. In particular, there is an examination of the much-discussed issue of explaining the tariff structure as against analysing its consequences; though, here again, there could
have been more systematic review of the important literature (as in India and Pakistan), on the actual criteria used by tariff bodies. The reader has indeed much in this volume to inform him. One may readily recommend the book to policy-makers, to students of development economics who seek a simple but rigorous translation of conventional trade theory into policy prescriptions, and certainly to undergraduate-level students of international economics.

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It is a difficult task to review a textbook, especially one as comprehensive and well written as Professor Atkinson's excellent survey of the facts and theories concerning economic inequalities of income and wealth. The difficulty is compounded when nearly all the criticisms are of the Oliver Twist type calling for more!

The author does not divide the book formally into parts: but the contents can be described as falling in three groups: first, the facts—the concepts, statistics, and distributions of income and wealth (chapters 2, 3, 4 and 7); second, the explanations attempted for these distributions (chapters 5, 6, 8 and 9); third, the ameliorating policies (chapters 10, 11 and 12). The book concludes with a useful and extensive bibliography and “Notes on sources and further reading” divided by chapters; reference is made to the bibliography throughout the text, so that the student can easily follow up points of interest. There are 36 carefully set-out tables and 24 diagrams (together with many smaller illustrative tables and diagrams interpolated unnumbered in the text) and, throughout his exposition, Professor Atkinson is most careful to bring in the facts as ascertained.

In the first four chapters the statistics of income distribution are presented in the usual form, supplemented by “Pen’s parade” of dwarfs and giants. The definition of “income”, and the complexities of its measurement, are well discussed, and the distributional concepts carefully explained. Sometimes, the more technical aspects are somewhat too briefly dealt with: it is particularly a matter for regret that more space was not devoted to the author’s own measure of inequality which allows explicitly for preferences concerning income redistribution. (Several other formulae, here and elsewhere, might also have been given more detailed, “textbook”, treatment, such as the random difference interpretation of the Gini coefficient, or the Mincer formula on compensation for training.) Chapter 7, on the concentration of wealth, is out of the ordinary, for it presents some of the author’s own new work with A. J. Harrison (to be published elsewhere) on wealth distribution in the United Kingdom, showing, for example, that in 1968 the top 5% of the adult population of Great Britain owned about 60% of the wealth, but that when State pension rights are