renewals of the MFA tended in a more protective direction. Up until the most recent renegotiation in 1986, the restrictive effect of the MFA has been partially offset by upgrading of the import bundle. It is important to keep in mind that the definition of upgrading in the book is fairly loose and its measurement vague. Upgrading is taken to mean any movement towards items with higher unit values, ranging from a shift from textiles to finished apparel as well as a shift from lower to higher stages of processing within each sector. Strictly speaking, upgrading in the theoretical literature is shown to occur within the quota-constrained category, as relative prices within the category change due to the quota in favor of the relatively more expensive items, and not simply as the consequence of rising unit values in the data.

The final chapters of the book attempt to quantify the costs and benefits of U.S. protection of textiles and apparel and simulate the impact under alternative policy regimes. The underlying model treats the domestic good as an imperfect substitute for imports. Results of the welfare effects depend crucially on estimates of the tariff-equivalents of quotas, elasticities of supply, demand and cross-elasticities of demand. There is a wealth of "authors' estimates" and simplifying assumptions used. While the general conclusions regarding the costliness of protection of the industry are probably robust, I think the actual numbers generated are subject to so many qualifications that the usefulness to policy makers is diminished.

I would have preferred a less ambitious but better specified and more rigorous approach to the empirical estimation undertaken. For instance, the phenomenon of upgrading has been emphasized at various points in the book and yet in analyzing the welfare effect it is not taken into account. In part, this is due to the poor measure of upgrading used. A more precise empirical measure of quality is essential to more correctly determine the effective price rise, the extent of substitution away from imports and consumer welfare loss with quotas.

The proposed adjustment scheme is one of gradual liberalization with the conversion of quotas into "tariff rate quotas" (an additional tariff imposed when imports exceed a specific volume) in the initial phase followed by the gradual reduction or elimination of tariff protection. Any revenue generated by quotas would be channeled to a program of adjustment assistance aimed at retraining and relocating displaced workers. The proposal has many positive aspects. In particular by phasing out special protection and aiding displaced workers rather than firms, the industry would gradually be downsized and investments in a declining industry discouraged. However, the focus on helping displaced workers and not firms certainly does nothing to reduce the political pressure for protection from the inframarginal firms, among whom the greatest resistance to change is organized. It is often the interest of these firms that dominate the political process leading to changes in trade policy. Nevertheless, Cline's adjustment scheme is closely argued and well focused.

The key contribution of this book probably lies in the information and analysis of the distinctions underlying the textile and apparel sector. This information should be an important input for those interested in the political economy underlying the differential protection granted to each of the two sectors. The scheme for adjustment proposed by Cline is important and worth considering. The most controversial part of the book lies in the quantification of the effects and projections of the protection granted. Many of the implications drawn from the empirical results are subject to important qualifications and there is a need for caution and careful analysis before the results can be applied.

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610 INDUSTRIAL ORGANIZATION AND PUBLIC POLICY

Manufacturing matters: The myth of the post-industrial economy. By STEPHEN S. COHEN AND JOHN ZYSMAN. Council on Foreign Relations Book series. NY: Basic Books, 1987. Pp. xiv, 297. $19.95. ISBN 0-465-04384-4. *JEL 87-1139*

Messrs. Cohen and Zysman are political scientists. They are the resident gurus at BRIE (Berkeley Roundtable on International Economy). While they doubtless enjoy imported French cheese, especially with the Zinfandel from the local vineyards, they get the goose pimples watching movies on their Japanese VCRs. They are worried sick by America's alleged deindustrialization. This book is their effort to say why and to startle a complacement nation into an active policy to defend its industries.

Economists will want to look at the book since it has become the bible of the manufacturing lobby and is also a favorite of the Congressmen who gave us the retrograde U.S. Trade Bill of 1988. But I should warn them that they will find the book exceptionally irritating. The reason is that the authors display throughout an unmitigated scorn for, and an ignorance of, what economists and their craft have to say about the matter at hand. It has been aptly said that familiarity breeds contempt but contempt does not breed familiarity. The unfortunate result is that the authors occasionally engage in unjustified critiques that detract from their case and will distract the reader.

In particular, trade theorists, whose works are not cited but who are nonetheless systematically berated, will not be amused to find their writings and views misstated. E.g., the authors argue that "The Heckscher-Ohlin theory assumes . . . given factor endowments in each country" (p. 276), when every graduate student has read Findlay's classic (1970 *Journal of Political Economy*) article on endogenizing the growth of capital and successful extension of the theory to the long run. On the normative side, the authors evidently have not read the work of Samuelson, Smith, Srinivasan, Dixit and others on the gains from trade in an intertemporal setting, and continue to argue as if the theory of commercial policy is wholly static and inappropriate.

These lapses do not help. But the reader should be patient, for Cohen and Zysman have a thesis that is serious. Essentially, they contend that (1) America's manufactures are in jeopardy; (2) manufactures matter for prosperity; and, therefore, (3) active governmental intervention, including "strategic" trade policy, is necessary. I am afraid, however, that I am not persuaded by their arguments.

Thus, faced by Robert Lawrence's compelling contention that the share of manufactures in U.S. value-added has remained steady in recent decades, the authors pour scorn on him and proceed to look for other evidence that would justify their fears. Thus, for instance, they ask the reader to eye-scan charts such as the one (Figure 5.3) on real wages in manufacturing which shows a post-OPEC halt, possibly even a decline—we are unable to determine which since the authors do not use statistical tests—and to accept assertions (again without statistical documentation and analysis) that "the price elasticity of imports has increased" (p. 67), suggesting increased competition. The latter argument will please offended economists as they proceed to read that "this shift in elasticity helps account for the failure of the dropping dollar to bring American trade back towards balance" (p. 68)! Manufacturing may indeed be in trouble in the U.S.; but the authors do not provide a plausible analysis as to how and why.

As for manufactures mattering, the Cohen-Zysman arguments are not more persuasive. The authors seem to believe in key sectors, recall historical episodes of growth around industries such as autos, produce French intellectuals in support of the view that we are now at such a juncture where semiconductors and hightech must be produced at home to retain economic prosperity, and cite Japan as an example of a state that has accepted such beliefs, acted on them and prospered. Economists will recognize this argument as implicitly one of externalities attached to manufactures (though the authors, like virtually every noneconomist, seem wrongly to consider linkages as necessarily implying externalities); they will also recognize that this is one of the hardest arguments to make empirically convincing.

In fact, the difficulties that Cohen and Zysman face here are familiar to economists since the deindustrialization thesis is by no means a novelty to them. Long before the local version offered by Cohen and Zysman, a British deindustrialization school had made waves. Led by Nicholas Kaldor, the great Cambridge economist, that school emerged in the same psychological climate as the one that has prevailed in the U.S. of the 1980s: one of a sense of diminishing greatness as an economic power. The British school assumed, citing the "Verdoorn Law," that manufactures were more progressive than services. Their prescriptions led in turn to Britain adopting for a time the Selective Employment Tax, differentially taxing employment in the service sector to propel people into the manufacturing sector. The case for "reindustrialization" by protection or promotion that was proposed in Britain was never convincing to most, though it should be emphasized that economists bravely tried with patience, a priori logic and econometrics to test its underlying premises. I am persuaded that, even if Cohen and Zysman had tried to emulate these economists, they would have failed equally: the issues are unusually intractable, and hypotheses and convictions in this gray area tend to remain just that.

As for policy intervention, I am glad to note that the authors are smart in rejecting trade protection to encourage "reindustrialization": Robert Reich has preceded them in this move to a sensible renunciation of protectionism. But they endorse "strategic" trade policy: a phrase that is now loosely used by many, experts and laymen alike, since it sounds like being clever or pursuing optimality and hence a policy that surely the "best and the brightest" can only embrace. As it happens, Cohen and Zysman mean by it simply monitoring and removing foreign interventions, trade or domestic, that give our rivals an artificial advantage in manufacturing production. As with classical infant-industry protection, especially in its Kemp-Bardhan version where technical change costlessly accrues from learning by doing, these interventions may give permanent advantage, ceteris paribus, even though the interventions themselves are transitory, and thereby reduce our level of invaluable manufacturing production. The main problem with this prescription, as embodied in the 1988 Trade Act, is that the U.S. would have itself decide whether foreign rivals enjoy such artificial advantages. Given the present "diminished giant" syndrome in the U.S., the tendency to see such "unfair" practices by our economically successful rivals is inevitable; and given our strength, our capacity to confront our politically weaker rivals with corresponding harassments and to coerce them into trade-distorting measures such as "voluntary import expansions" (VIEs), where they divert trade from others to the U.S., is considerable. But there is no comprehension of this and related threats to the postwar international trading regime to be found in the circles that feed on a steady diet of prescriptions for a "tough," a "strategic," trade policy. I have dealt with these issues at length in the 1987 Ohlin Lectures (Bhagwati 1988), while exploring further recent developments in the theory of commercial policy, and their bearing on the question of free trade, in the Harms Prize Lecture (Bhagwati 1989).

Warts and all, however, this book has the considerable merit of being relevant, possessing a clear thesis and an engaging style that the practitioners of our dismal science can no longer command and have almost forgotten to value. It is certainly worth your time, if not your money.

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Privatization: The key to better government. By E. S. SAVAS. Chatham House Series on Change in American Politics. Chatham, NJ: Chatham House, 1987. Pp. xi, 308. $25.00, cloth; $14.95, paper. ISBN 0–934540–58–6, pbk. *JEL 88–0516*

One of the more intriguing ideas that has been circulating in political and academic circles in the last two decades concerns the possibility that much of the activity traditionally provided by governments could efficaciously be given over to the private sector, a notion that has come to be termed "privatization." This book is an attempt by one of the more important scholars of the privatization movement to provide a comprehensive exploration of the potential benefits of the approach. The book is brimful with ideas, many of them worthy of serious consideration. It is an ambitious project: Savas covers virtually all services where privatization could be applied. The broad scope is both a strength and a weakness however. While the comprehensiveness is good, there is some sacrifice of depth. Also, Savas is a strong advocate for privatization of all kinds, which again is both a strength and a weakness. While it makes for a lively narrative, at the same time it weakens the author's credentials as an impartial scholar.