Book Reviews

The Balance of Payments: Free Versus Fixed Exchange Rates

By Milton Friedman and Robert V. Roosa, American Enterprise Institute for Public Policy Research, Washington, D.C. 193 pages. 1967. $4.50.

THE RECENT UPHEAVALS in the international monetary sphere--the British devaluation, heavy speculation in the gold markets, and the apparently substantial rise in the U.S. balance-of-payments deficit which led to the President's hardened balance-of-payments program on January 1, 1968--have served to focus attention on what many feel to be the inadequacies of present international monetary arrangements and to cause a look around for possible alternative arrangements. The most frequently heard alternative to the present system of fixed exchange rates is a switch to floating or flexible exchange rates without the underpinning of gold. The most ardent and eloquent exponent of this latter arrangement is Milton Friedman of the University of Chicago. The book reviewed here appeared just before the above-listed series of events started. Its timeliness will no doubt guarantee it a wide and deserved audience, particularly since it also contains the views of a well-known spokesman for the present system, Robert V. Roosa, former Under Secretary of Treasury for Monetary Affairs, who presently is a partner in Brown Brothers, Harriman and Company in New York.

The book is a record of a debate between Roosa and Friedman held in May 1966 at the George Washington University, sponsored by the American Enterprise Institute for Public Policy Research. The format of the debate, in which each participant gave a lengthy lecture espousing his viewpoint, then rebutted the other's statements before engaging in both direct exchanges and in exchanges with an audience composed of experts in their field, led to a book which laymen will find quite useful. It is not deeply theoretical, although the case for flexible exchange rates must be made for the most part in theoretical terms since the actual use of flexible exchange rates has not been widespread. The debate format assured that the problems of each system and the differences between them were adequately illuminated and explored.

The shortcomings of the present system--such as the failure of reserves to grow as fast as trade (the liquidity problem), and the reluctance of deficit and surplus nations to enact their proper roles (domestic deflation for the deficit nations and expansion and thus ultimately inflation for surplus nations)--are well enough known so that the system makes a ready target. Roosa did not contend that the present system did not need improving, in fact he flatly stated that the liquidity problem was a potentially fatal flaw if not corrected. Nevertheless, he still felt it was preferable to a flexible rate system.

A good case for floating exchange rates is made by Friedman, but it too has many potential flaws which are well discussed. The most appealing aspect of the system Friedman advocates is that internal domestic policies could be determined solely on the basis of domestic needs without reference to the effects the policies may have on the balance of payments. There will be no effects under a system of floating exchange rates because the market is always cleared and there is no surplus or deficit. The flaws may be grouped under the categories of operational and theoretical. Roosa places great stress on the strictly operational problems that would arise under a flexible rate system. He questions how forward markets would operate, or even how the multiplicity of combinations of spot rates would be dealt with, but problems such as these have been surmounted in the past and with today's information-retrieval machines and communications systems it should be possible to overcome them.

A major theoretical flaw is the effect on exchange rates due to large capital movements. Changes in the rates due to purely current trade items most likely would occur gradually and in small increments, but capital movements, particularly speculative movements, could result in tremendous changes in the rate over a very short time and this would severely disrupt trade.

While the problems of both systems were adequately isolated and explored in considerable depth, they were not convincingly disposed of by the proponent of either system. The reader comes away with a feeling that Friedman has not made a convincing case, particularly as concerns the effects of capital flows, and that therefore by default the fixed rate system remains the choice of the two, due, as Friedman cynically puts it, to the preference for the status quo. Still, an exchange rate system in which a change in the rate occurs only once every 15 to 20 years for any given major currency is more acceptable than the unknown effects of one where the changes may, potentially, be daily.

George R. Kruer

The Economics of Irrigation

By Colin Clark. Pergamon Press Inc., New York. 116 pages. 1967. $6.

COLIN CLARK is something of a pioneer. In 1932, as a Lecturer in Statistics at Cambridge University, he published "The National Income, 1924-1931." It was delayed because figures from the "Census of Production for 1924 have just now become available." (Does this sound familiar?) Clark put together his estimates of national income from various and sundry sources, with an ingenious use of factors, ratios, indices, and so on. "After estimating the total of the National Income this book proceeds to an analysis of how it is produced, distributed and spent." He described his work as "a statistical framework which should be capable of holding together a good deal of hitherto disjointed information." He asked the reader to "be indulgent to one who has had to work through this large mass of material largely single-handed." The book as well as his Cambridge title soon marked Colin Clark as a builder of statistical estimates.

In succeeding years, Clark's researches and writings included the economic position of Britain, its investment in fixed capital (he met the problem of new construction versus repair and maintenance), and a lecture, "Australian Economic Progress Against a World Background," given in Adelaide, August 1938. A year later appeared his critique of Russian statistics, his purpose being "to collate and test...by internal consistency and by comparison of statistics of the external world. . . . analysis of changes during the last thirty years in what is generally described as real income per head in that country."

In 1942, he published "The Economics of 1960," as Director of the Queensland Bureau of Industry and Financial Advisor to the Treasury (Australia). He predicted that "the U.S.A. will become a substantial importing country" and he cited the downward trend of farm exports as a percentage of total U.S. farm production. He could be pardoned for not anticipating (in 1942) the impact technology would have on U.S. production, permitting ever larger exports of farm products.

"The Economics of Irrigation," recently published, is a descriptive and comparative analysis of irrigation economies. The materials in the 156 cited references ranging from research reports to magazine and newspaper articles (London Times), were of uneven quality and with little semblance of similarity. Five articles in this journal were cited. He painstakingly classified, sorted, and reassembled the facts and materials according to economic returns to irrigation water, water costs per cubic meter, charges for water, and potential water sources.

Clark says, in the preface, the "book is addressed to all those who may have any responsibility for spending money on irrigation, whether for small schemes or large, whether private or public, whether in arid or in humid climates and . . . those who help to form political and business opinion." No one can object to such a grand aim.

"All measures in this book are made in metric units. Costs are measured in American cents of 1964 purchasing power per cubic metre [of water]. All costs of other countries, or other periods, are converted into cents of 1964 purchasing power by coefficients of the purchasing power of money (which are not the same as the official exchange rates)." Returns to water are computed in kilograms of wheat (world price).

Table 11 shows gross and net returns to irrigation for 62 crops or trials in 12 countries stretching from India to the United States. However, on account of missing data in his sources, in only 34 items is the product converted to kilograms of wheat; in 36 cases quantity of water is specified (in 14 it is approximated); and in 13 cases only, is net marginal return computed. The chapter on economic returns to irrigation suffers because Clark found it necessary to improvise data or values "from experience in other low-income countries."

Comparative costs and returns among countries may be useful to the governments of developing countries. However, it would seem the more important question is the best allocation of public investment among the various alternatives within the same country.

Clark delights in taking issue with the accepted conception that water requirements differ with the kind of crop. He reasons that most of the water that plants use is for transpiration to keep the plant's temperature within tolerable limits. Thus under similar soil and weather conditions "there should be no differences between the water requirements of different crops per day of growing season. . . a heavy crop also requires no more than a light crop." He seems to contradict himself where he refers on page 15 to "the economic disadvantage of rice's high water requirements".

Actually water requirements do vary with the vegetative mass, e.g., a 2-ton cutting versus a 1-ton cutting of alfalfa. And an acre of it irrigated over a period of 7 to 8 months requires more water per season than cotton irrigated for its season of 3 1/2 months (Southern California). So the choice of crops does matter, despite Clark's assertion to the contrary in both his introduction and summary. Actually, he makes no use of this point in his analysis--it is a gratis contribution.

Most American readers will not easily read "1.5 c/m^3" as 1.5 U.S. cents per cubic meter, for example, nor will they convert this easily into dollars per acre-foot (about 1,233.5 cubic meters). And yet the narrative is engagingly written, well worth what ever time it holds the reader's interest. Besides a reader will find such gems as: In costing net product in West Pakistan, a man's labor is valued at 400 rupees a year, and a pair of bullocks at 1,600 rupees a year.

Warren R. Bailey

Farmers and a Hungry World

By the National Farm Institute. Iowa State University Press, Ames. 136 pages. 1967. $3.50.

IN A YEAR of increasing concern over the problem of world food supplies, The National Farm Institute of Des Moines, Iowa, chose as the theme of its 29th conference the role of American agriculture in a hungry world. It invited as participants in its discussions Lawrence W. Witt, Michigan State University; Thomas C. M. Robinson, Food and Agriculture Organization; John F. Timmons, Iowa State University; J. Burke Knapp, International Bank for Reconstruction and Development; Alvin Hamilton, Member of the Canadian House of Commons and formerly Canadian Minister of Agriculture; Gavin Jones, Population Council of New York City; Edward W. Pierce, Peavey Company; D. Gale Johnson, University of Chicago; John A. Schnittker, Under Secretary of Agriculture; and four farmers from Iowa and North Carolina. This book presents their addresses and the highlights of their discussions.

These men agree that the farmers of the United States cannot feed the world, and that, consequently, American technical assistance in agriculture should concentrate on helping the farmers of developing countries increase their productivity. They also agree that trade is preferable to aid. However, Gale Johnson notes that our export subsidies and import quotas, especially those regulating trade in peanuts, sugar, and manufactured dairy products, are hindering economic development abroad.

The participants are also agreed that multilateral aid is preferable to bilateral. Thomas C. M. Robinson speaks favorably of the World Food Program, which was initiated in 1961-62 by FAO and the General Assembly of the United Nations to use food as development capital as well as for emergency relief. As of December

31, 1964, 70 nations had pledged an equivalent of $94 million to the support of this multilateral effort. J. Burke Knapp describes the successes of the World Bank in increasing agricultural production in Malaysia, Thailand, Kenya, Uruguay, and India. He points out that in Malaysia the introduction of double-cropping and other agronomic practices has nearly tripled the production of rice.

Gavin W. Jones presents the demographic aspect of the food problem. He expects "no major relief from the pressure of increasing population on the food supply in the next 15 years," but after that he believes that effective birth control efforts will substantially reduce population growth.

In short, this little book provides a quick introduction to current thinking concerning the world food problem.

Robert G. Dunbar

French and EEC Grain Policies and Their Price Effects, 1920-1970

By Helen C. Farnsworth and Karen J. Friedmann. Food Research Institute Studies, vol. VII, No. 1. Stanford University, Stanford, Calif. 158 pp. 1967. $2.50.

THE HISTORY of our agriculture seems to be written on the margin of our history as a whole . . . [In] the usually brief chapter devoted to agricultural policy . . . the documentation becomes less precise, less relevant; the total plan breaks up into a series of disparate remarks; care for exact analysis gives way to approximations, to descriptions loaded with detail and indifferent to what is essential." This was the complaint of the French historian-demographer, Louis Chevalier, in 1947.

Now, 20 years later, two American economists have placed the history of French agriculture on the center of the page. Unlike the "marginal" attempts to which Chevalier refers, Farnsworth and Friedmann present a scholarly, well-documented study on French agricultural policy; a study which though "loaded with detail" is not merely descriptive but also perceptive and analytical. The consequences of policies made are traced through to their price effects. Thus, the reader is given the historical perspective necessary for understanding the French grain economy: past, present, and future.

And these authors are aware of what is essential: Grain policy is the essence of the Common Agricultural Policy of the EEC. Because France is the leading grain producer and exporter in the Community, the voice which spoke for French agriculture was an important one in the negotiations which resulted in uniform import or threshold prices and in a Common Market for grains. After a 5-year transitional period, this unified and harmonized agricultural policy for grains became effective on July 1, 1967, with only a few transitional provisions remaining in force, primarily those for lower feed grain prices in Italy.

"The French government has long played a highly important though varying role in the pricing of French grains," the authors explain. "This role was significantly but not greatly modified under the transitional grain regulation of the European Economic Community during 1962-66 and will be further and more substantially altered after the unification of the community grain market on July 1, 1967."

An understanding of the role the French Government plays is all the more important now that a new dimension--the EEC--has been added in the past decade.

The complexities of the Common Agricultural Policy (CAP) can be considered simple in comparison with the rigidities of French agricultural policy in the past, and one should remember that French agricultural policy comprises only one of six national agricultural programs which have been compromised and coordinated to create an agricultural policy which is EEC-wide. Not only did the French Government play an important role in the negotiations which led to CAP's creation, but by taking advantage of special provisions of the CAP grain program, the French Government retains elements of its earlier pre-CAP role.

For example, EEC negotiations permit the continued operation of the Office National Interprofessionel des Cereales (ONIC), the semi-official French price support agency, and ONIC is permitted to continue its old "Type B" price support (or intervention) program. Under that program, ONIC may strengthen the market by buying grains from growers at prices higher than the regular EEC support or intervention price and it may withhold supplies from the market. This policy resembles that of U.S. fruit and vegetable marketing orders and agreements, as the authors point out.

In this connection, a crucial difference between the basic EEC price support or intervention method and that of the Commodity Credit Corporation in the United States must be pointed out: In the EEC, price "intervention" constitutes an irreversible sale. By contrast, the U.S. farmer can obtain a price-support loan, i.e., get cash when needed, without selling his crop. He can, if he wishes and if the price situation makes this desirable, pay off the price-support loan, reassume title to his crop, and sell it in the free market for his own account.

The authors illustrate the impact of the Common Agricultural Policy not only in France but in other nations. For example, they observe that the levy-paid c.i.f. price of representative North American, and particularly Canadian, wheat has been higher than the threshold price plus the EEC-established quality differential for such wheat. Thus, the price of North American wheat in EEC markets has been raised even above the high and irreducible price level inherent in the Common Agricultural Policy with its variable levies. The only consolation for North American sellers and EEC buyers is that some price concessions are possible under these circumstances without forcing up the variable levy at the same time. If the predetermined fixed regulatory differentials for quality wheat were in line with actual market price differentials, any price concession offered by a seller would tend to result in a lower standardized c.i.f. price quotation and thus in a levy increase.

The study under review seems somewhat less complete and less well coordinated than the authors' earlier publication on the German Grain Economy. A principal reason for this is the authors' failure, at the outset, to refer to the senior author's separate earlier study on French grain production, which answers most of the questions that come to the reader's mind as he works his way through the study. The German study has a less obvious division between policies and prices; the dichotomous arrangement of the French study into a first part, French Grain Policies and Programs, and a second part, Influences of Government Intervention on French Grain Price, seems awkward, too sharp and neither necessary nor helpful. This arrangement forces the reader to trace the chronology of events a second time and to deal with many of the policy-price interrelations a second time. Because of this, the absence of an index is particularly regrettable.

The "Summary View of 1920-1970," at the end of the study, mentions the authors' expectation that wheat producers' prices will average almost 15 percent higher in 1967/68 than in 1964-67; they will rise 7 percent for small producers and almost 20 percent for many of the larger producers. Barley producers are also expected to obtain a price increase of about 20 percent. However, the seemingly crucial observation, "In view of France's large agricultural resources and past developments, these planned prices seem certain to stimulate production of both grain and livestock products, with wheat and barley apparently favored most by the new price-cost structure," remains buried in the body of the study and, amazingly, is not mentioned in the Summary View.

A major analytical conclusion of the authors is that "improved estimates of national margins of support offer a much more promising basis for comparison of the protective effects of widely differing national grain programs than does any measure now in common use." From an analytical standpoint, a similar view has recently also been stated by R. Dardis and E. W. Learn in "Measures of the Degree and Cost of Economic Protection of Agriculture in Selected Countries," U.S. Department of Agriculture, Technical Bulletin No. 1384, November 1967.

As to future developments, the study concludes with unresolved contrasting expressions of hope and fear. First, there is a note of hope--"the expressed willingness of Community leaders to join with other countries in GATT agreements to bind and perhaps later reduce existing margins of support on major agricultural products is, we believe, one of the most constructive proposals yet made to bring realism and effectiveness to GATT negotiations relating to international trade in such products." But the final note is one of fear because of "the threat of further increases in EEC grain target prices." Unfortunately, already the latter rings truer: In late 1967, the EEC raised the feed grain price for 1968/69.

Ann Miller and Hans G. Hirsch

Growth and Structure in the Economy of Modern Italy

By George H. Hildebrand. Harvard University Press, Cambridge. 475 pages. 1965. $11.95.

ITALY'S ECONOMIC ACHIEVEMENTS of the past two decades have been widely discussed in literature that is informative but fragmentary. Now Hildebrand presents the background and the step-by-step development of Italy's economic "miracle" of 1947-61.

The author describes Italy's postwar economic background "...as a puzzle, a thing, of paradoxes and contradictions..." as a result of the two decades of Fascist rule, followed by the destruction of World War II. He traces the economic problems of credit, unemployment, wages, prices, and public finance chronologically, and praises the Italian Government's success in dealing with them. He also spells out the economic factors of the "boom" period and expresses them in terms of gross national product.

Hildebrand lists three major reasons for Italy's economic achievement: (1) The flexibility of Italy's monetary policy in meeting changing economic situations; (2) the effectiveness of Government fiscal policies, which controlled rampant inflation during several periods by credit control, tax measures, and the flexible money supplies; and (3) the success of Government intervention in stimulating economic growth in both the North and the South.

He emphasizes the dual character of the Italian economy, and the economic problem of the South. Since dualism signifies a markedly incomplete transformation to industrialism, the Italian Government intervened to narrow the economic gap between the North and the South. The establishment of the Southern Development Fund in 1950, with an appropriation of over $3.0 billion to cover the years from 1950 to 1965, was designed to achieve this end. The Fund's initial scope embraced land reform, land reclamation, and infrastructural measures. Priority was given to agriculture, followed by transportation and communication, water and sewage systems, and tourist facilities. The Fund was extended another fifteen years after it expired in 1965.

Hildebrand discusses at length the problems of the South, going back to the second century. He points out that the present dual system stems from the fact that, geographically, the South was destined to be culturally and politically distinct from the rest of Italy. He examines contrasting data for the North and the South on population growth, economic status of the population, and occupational categories. All of these show the noncohesiveness of Italy's society and the causes of its political unease. While Hildebrand describes the weakness of Italy's economic background, he maintains an optimistic attitude throughout. He points out that whenever there was a great economic crisis, there was always a strong political figure such as De Gasperi or Einandi to provide the necessary leadership.

Those interested in agricultural development will find that Hildebrand does not discuss the agricultural sector in detail, nor explore the role which the agricultural sector has played in Italy's economic growth. However, readers interested in the reasons for Italy's economic growth should find that this book is the most valuable reference to date.

Sheldon Tsu

Production Yearbook 1966

By Food and Agriculture Organization, Rome. Available from Columbia University Press, New York. 763 pages. $9.

THE TWENTIETH issue of this standard work contains data by countries on population, agricultural production, food supplies, prices, wages, and freight rates. It also includes, for the first time, a large number of estimates made by FAO on area and production of major crops and on livestock numbers and products, where no official or semiofficial figures were available from the countries themselves.

The Cotton Industry: An Essay in American Economic History. Part I. The Cotton Culture and the Cotton Trade

By M. B. Hammond. Reprinted by Johnson Reprint Corporation, New York and London. 382 pages. 1966. $12.50.

THIS CLASSIC STUDY of cotton from pre-colonial times to the 1890's was first published in 1897 as a publication of the American Economic Association, New Series, No. 1. It is now reprinted for the series called History of the American Economy: Studies and Materials for Study, edited by William N. Parker. The series will be made up of reprints of the important studies and source books relating to the growth of the American economic system. The present volume is of particular value to those interested in agriculture's part in economic development.

·U. S. GOVERNMENT PRINTING OFFICE : 1968 O - 298-263