

Foders, Federico

Book Review — Digitized Version

[Book Review of] Progress in natural resource economics,
Anthony Scott (ed.), Oxford, Clarendon Press, 1985

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Pechman, Joseph A. (Ed.), *World Tax Reform: A Progress Report*. Washington 1988. The Brookings Institution. X, 294 pp.

In the early eighties tax policy became a dominant economic topic in developed countries. Since then a number of countries' tax systems have changed dramatically, with other countries following suit and adapting their rules of taxation while still others plan to follow in the reform process. These reforms were the theme of a conference held at the Brookings Institution in November 1987.

The eleven papers presented are the subject of this book. For each country a description is given of the development of the specific tax systems, their main defects, and the most important aspects of the reforms. For some countries the process of reform and the political difficulties involved are also presented. The structure of the papers is similar. Useful information concerning the tax systems is given, allowing for comparisons of both the systems themselves and their recent specific changes, e.g., taxation of capital income or capital gains or integration of income and corporate income taxation.

Because the papers were written by government experts of the specific countries, the descriptions are very good. The assessment of specific items of the tax system, however, or of the changes decided upon sometimes is biased in favour of the official government view. Potential disincentive effects are especially often judged to be small while distributional aspects are stressed.

The most brilliant paper is contributed by Ian Byatt from the U.K. It includes a very clear assessment of the incentive effects of the British tax system; e.g., the problems resulting from the poverty and unemployment traps. The author was in a favourable position because of the courageous tax changes that occurred in his country during the last decade. Other fundamental changes such as the abolition of domestic and non-domestic rates and the introduction of a poll tax will only become effective in 1989 and 1990.

Since the conference at the end of 1987 world tax reform has continued. In 1988, Austria adopted substantial reform measures while the Japanese parliament decided upon a fundamental change and Italy introduced a new income tax tariff. As a consequence, the book in some respects is already outdated and needs revision. Nevertheless, the main ideas underlying the tax changes described are still valid: lower tax rates, broader tax bases, and reduction (though small) of the overall tax burden as instruments for achieving efficiency.

Alfred Boss

Scott, Anthony (Ed.), with the assistance of John Helliwell, Tracy Lewis, and Philip Neher, *Progress in Natural Resource Economics. Essays in Resource Analysis by Members of the Programme in Natural Resource Economics at the University of British Columbia*. Oxford 1985. Clarendon Press. VII, 440 pp.

Johansson, Per-Olov, Karl-Gustaf Löfgren, *The Economics of Forestry and Natural Resources*. Oxford, New York 1985. Basil Blackwell. XIII, 292 pp.

The Club of Rome has been warning the world since 1968 that economic progress is subject to a limited supply of natural resources. Twenty years later evidence supporting such a pessimism is, however, still missing. What went wrong? It seems that if the Club had taken the economics of natural resources more seriously at the moment of forecasting future growth, it would have had the chance to discover that not physical resource

availability but rather economic laws govern growth and international resource markets. Today economics is facing a much closer challenge than in 1968, due to the fact that resource use and environmental problems definitely reached the status of central issues in public policy.

The prospects for resource economics to receive more attention this time are not bad. Economists do have something to say on resources and the environment as two recent books, one edited by Anthony Scott (University of British Columbia) and another written jointly by Per-Olov Johansson and Karl-Gustaf Löfgren (Swedish University of Agricultural Sciences), demonstrate. However, a warning should be in order: the spirit of the Club of Rome is still alive, even among economists.

The volume edited by Scott is intended as a survey of the state of the art of the economic analysis of renewable and non-renewable resources. The articles, reporting work done by members of the University of British Columbia's Programme in Natural Resource Economics and presented at a conference, cover macroeconomic (Part II) and microeconomic (Parts III-V) as well as institutional aspects (Part VI). They are preceded by the editor's account of the development of this field of economic thought (Part I). In addition, each one of the core parts is introduced by the assistant editors, which manage quite well to set the theoretical and policy stages for the following essays and comments. The volume closes with a list of contributors and author and subject indices. Unfortunately, it also includes an impressive though unnecessary list of 86 working papers related to the research programme.

After a detailed presentation of the MACE (MACro and Energy) model of the Canadian economy by John F. Helliwell et al. (68 pages) six theoretical chapters follow, which focus on dynamic and static fishery models (Chs. 3 and 5), social rules for resource allocation (Ch. 4), and dynamic extensions of Hotelling's analysis of exhaustible resources with capital, taxes and cartels (Chs. 6–8). The three empirical chapters of the book deal with natural gas exploration decisions (Ch. 9), the supply price of uranium (Ch. 10) and the role of reproducible capital in mining projects (Ch. 11).

There are also two essays on institutional aspects in this volume, representing new directions of research in resource economics. Regrettably enough, the institutionally oriented articles seem to have been chosen applying low-performance criteria; neither can be considered to reflect the state of the art. A point in case is the essay by Ernst R. Berndt advocating an "energy theory of value". It is based on the incorrect hypothesis, also found in the Club of Rome's analysis of the alleged limits to growth, that physical resource supply dominates resource scarcity in money, i.e., economic terms. The still outstanding contribution of economics to the analysis of resource and environmental problems is the valuation of resources in an operational way which can be useful for public policy. Energy units, used as a numéraire, are an ill-suited tool for this task. Money prices are the key to resource allocation in a market economy, not physical numéraires.

The book by Per-Olov Johansson and Karl-Gustaf Löfgren concentrates on forestry economics. Essentially it is an advanced level textbook incorporating the existing theoretical and empirical literature. After a brief introduction to capital theory and the fundamentals of renewable and non-renewable resources, the authors present the standard issue in forestry economics since Martin Faustmann's seminal article published in 1849, the optimal rotation period. Then they go on to explore the wood market, drawing on the Swedish experience. Finally, the book touches upon welfare aspects and uncertainty. This book can be highly recommended to readers interested in an up-to-date analysis of forestry. Forestry economics has applications to a wide range of issues, including recent proposals to link debt relief to developing countries to sound

forest management programmes in those countries, inspired by widespread fears about the adverse impact of forest mismanagement on the world's climate.

Federico Foders

United Nations Industrial Development Organization, Industry and Development, Global Report 1988/89. Wien 1988. UNIDO. 256 pp. Statistical Annex 107 pp.

I. Introduction

With this *Global Report 1988/89* UNIDO hopes to contribute to a better co-ordination in international economic policy-making and to offer meaningful solutions for world-wide economic problems through the provision of extensive and current information based on proper research and analysis. The Report is divided into four chapters. In Chapter I the UNIDO global economy forecasts for the years 1988/89 and 1989–1992 are presented. Chapter II assesses the prospects for 1988 on a regional basis. The problems of structural change and industrial growth are addressed in Chapter III. Chapter IV examines the structures of and the outlook for nine specific industrial branches. A statistical annex, containing the latest available information from the UNIDO data bank for 161 countries, concludes the Report.

This review focuses upon Chapters I, II, and III which comprise the major thrust of the Report's analysis. All in all, the Report is a very useful and profound source of information on world industrial developments. Whether or not the Report can actually contribute to a meaningful solution of the present world-wide economic problems, is a debatable question.

II. Perspectives for the Global Economy

With regard to the economic projections for 1988 and 1989 UNIDO foresees strong performances for the United States, Japan, Western Europe, and, as a consequence, for the world as a whole. In retrospect, the UNIDO projections for 1988 came fairly close to reality. Similarly, the 1989 UNIDO forecasts may have appeared rather optimistic when the Report was released. Yet, in mid-1989 it is very likely that the actual growth rates will come very close to the estimates.

Whereas previous Global Reports were confined to look only one or two years into the economic future, the *Global Report 1988/89* extends the forecast period up to 1992 in order to incorporate the consequences of a looming global economic recession. Such a recession, if it were to come, would probably be triggered off by a pending economic slow-down in the United States and the "vagaries of short-term macro-economic adjustment policies" (p. 3) in major developed countries. The Report is careful enough not to predict the time and extent of such a recession. It also stresses that "most (which?) of the fundamentals of the U.S. economy seem quite sound" (p. 9).

The optimistic scenario (U.S. GNP growth about 3.3 per cent) is said to be endangered by various factors. The first danger is the public "hypersensitivity" about inflation in the United States, Europe, and now even in Japan. A second danger is seen in the "fascination of the public by the month-to-month behaviour of the U.S. trade statistics" (p. 10). UNIDO does not foresee this deficit to improve drastically by 1992. Rather, the restoration of the purchasing power of developing countries is recognized as a prerequisite for an expansion of U.S. exports. A third danger lies in the demands made on the United States to cut its twin deficits speedily and drastically, inevitably generating a recession in the United States.