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Book Review — Digitized Version

[Book Review of] Audretsch, David B.: The market and the state: government policy towards business in Europe, Japan and the United States: New York, Harvester Wheatsheaf, 1989

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LITERATUR – LITERATURE

REZENSIONEN – BOOK REVIEWS

Audretsch, David B., The Market and the State. Government Policy Towards Business in Europe, Japan and the United States. New York, London, Toronto, Sydney, Tokyo 1989, Harvester Wheatsheaf. XIV, 325 pp.

The lack of a consistent strategic trade policy (STP) in the US is the Leitmotiv of Audretsch's well-written book which summarises several research projects on different forms of government intervention in the economy carried out at the Wissenschaftszentrum in Berlin. The overall aim of the study is to highlight one of the reasons for the widely discussed decline in productivity experienced by the US in the last two decades. According to the author, the US suffers from a relative disadvantage in public policy. While important competitors in international trade, such as Japan and Europe, seem to benefit from national public policies oriented towards enhancing the international competitiveness of their firms, public policy in the US generally fits into an inward-looking framework, which pays virtually no attention at all to issues in global competitiveness. Another related finding is that public policy in the US seems to reflect a hostile attitude of policymakers and bureaucrats towards business. In contrast, in Japan and Europe the state is perceived to closely cooperate with firms.

These far-reaching conclusions are arrived at by studying and comparing internationally the impact on global competition of three public policies: (*i*) antitrust or competition policy, (*ii*) direct regulation and deregulation, and (*iii*) trade policy. The countries/regions studied are the US, Europe (European Community, Germany, the UK, France) and Japan. The theoretical framework which is used draws heavily on recent research on imperfect competition in international trade (for example, by B. J. Spencer and P. R. Krugman) as well as on industrial policy (for example, by G. M. Grossmann and E. Bardach). The reader familiar with this literature will recall that these economists favour protectionism in the presence of similar policies in foreign countries as a way to restore, maintain or capture the global competitive advantage of a domestic industry.

Parts II to IV, the core of the book, are very well researched and reveal a series of hitherto unnoticed aspects of antitrust policy and regulation which, combined with trade policy instruments, could be classified under the heading of strategic trade policy, even if they were not always originally designed for this purpose. Of particular interest is the interpretation of antitrust/competition policy and regulation/deregulation as expressions of industrial policy with an impact on trade flows. Whilst Western Europe and Japan are found to have been enjoying a set of consistent policies, the results for the US show that while antitrust policy and deregulation in this country have been taking international competition into account, US trade policy was generally subject to other (inward-looking) objectives, thereby diminishing the overall impact of the first two policy instruments on global competitiveness of US products and services.

The weakness of the book is to be seen in the attempt to derive the need of a STP for the US from this excellent review and analysis of government intervention in the leading economies. Also, the author's claim that this need might have something to do

with the so-called crisis of macroeconomics and the public policies implemented during the 1980s in the US is as farfetched as his other claims that what prevails throughout the economy is imperfect competition and that comparative advantage is irrelevant. To accept the first claim is tantamount to associate the critique of Keynesian demand-management policies with a call for more government intervention in the economy, which does not make sense. The crisis of Keynesian economics is a crisis of the view that government intervention in the economy is always beneficial.

As far as imperfect competition is concerned, Schumpeter once said that excluding it from economic analysis is like trying to read Shakespeare's Hamlet after deleting the Danish prince from the play. However, to exclude the Danish prince would be one thing, to delete the rest of the characters in that play, another one, not less destructive than the first one. The latter is what would happen in the event of assuming away perfect competition from most markets. What is still more important is that imperfect competition not always constitutes a natural phenomenon. Rather, imperfect competition itself seems to be more often than not a child of protectionist policies, which tend to lower the degree of competition and thus to artificially create monopolies by restricting market forces in a number of markets. Finally, if imperfect competition has to be accepted as a fact of life in some industries, it still remains to be seen if STP constitutes the best public policy for them.

Therefore, returning to Audretsch's argument, why should the US need a STP, that is, more protection, in order to be able to cope with existing protection in other countries, if market distortions due to protection (both in the US and in other countries) could be successfully dealt with by implementing a world-wide liberalisation strategy along the lines of the GATT rules? In a STP scenario with actions taken by some countries and reactions following from all the others, the already high mountains of protectionist measures would continue to grow until widespread beggar-thy-neighbour policies eventually bring about the next great depression. In a survey recently published by the OECD, J. D. Richardson found overwhelming empirical evidence supporting free trade as the first best option, even in the face of imperfect competition. Richardson does not report any trade-offs between comparative advantage and imperfect competition.

In sum, not the policy advice, but rather the excellently researched comparative study of government intervention in the market process in the form of antitrust and trade policies and regulation in the US, Europe and Japan is what makes this book valuable for students and makers of public policy.

Federico Foders

Baldwin, Robert E., Carl B. Hamilton, André Sapir (Eds.), Issues in US-EC Trade Relations. Chicago, London 1988. The University of Chicago Press. XII, 397 pp.

This book, published in 1988 (reviewing lag), reporting the proceedings of a conference in 1986 (publication lag), might be suspected of being dated; that suspicion would be wrong. In spite of a seemingly topical title, this edited work addresses issues which will likely hold public and professional attention for some time to come, even if in slightly less accentuated forms. The reason for the expected durability of most of the contributions is that before plunging into policy analysis, they make the theory pretty explicit. Thus, marginal changes in policy focus would not tend to obviate the input. A Uruguay Round agreement would change specific problems, reduce acrimony, but probably not change the issues. The collection of papers is wide ranging, encompassing