

whenever the government is in trouble with debt financing), the pressure for extracting resources from capital transaction is high, and *ceteris paribus* we expect a higher probability to observe capital controls. And more: an increase in inequality in wealth distribution should render capital controls more likely, because the political support for this measure is increasing.

I am obviously aware that these tests are not as easy as just mentioning them. However, if the political economy approach is to gain acceptance in a wider audience, it has to be convincing both on theoretical and empirical grounds. In the political economy line of research I see another substantial obstacle: the explanation of episodes of financial liberalization. Median voter models imply that capital controls are introduced or removed whenever there are changes in the distribution of the idiosyncratic characteristics in the population (be it income, financial wealth, or human capital). But all these changes take time, whereas we often observe sudden financial liberalization, often connected with other external events (like for example the completion of a common market in Europe by 1992). The only way to make these aspects mutually compatible is to either assume that people's preferences evolve or to introduce imperfect information about the economic structure. In both cases the task for political economists is very challenging.

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Bhagwati, J.: *The Wind of the Hundred Days – How Washington Mismanaged Globalization*. XXIII, 383 pp. MIT Press, Cambridge, Mass. 2000. Hardcover £20.50.

Jagdish Bhagwati is unquestionably one of the intellectual giants that have dominated the economic profession during the last fifty years. His contributions to international trade theory and policy have been invaluable, both to the academic community and to policy-makers. The reader is thus justified in having very high expectations. Unfortunately, in this case readers may be slightly disappointed. Despite its subtitle, *The Wind of the Hundred Days* has relatively little to do with the American approach to globalization during the Clinton administration, but instead much with the author praising and celebrating himself.

The book is a collection of 46 fairly heterogeneous papers. Many of them are reprints of short contributions to a variety of newspapers and magazines; others are taken from his articles published in scholarly

journals and volumes, guest lectures and conferences. The material has been organized in seven self-contained sections – dealing with financial crises, trade policy and WTO practices, human rights, investment, immigration, growth strategies, and poverty. Of course, some overlapping remains. Too many articles tend to repeat very similar arguments. However, non-specialists will surely find Bhagwati's arrangement useful, in that it helps organize the various issues in a comprehensible and articulate way.

Capital flows are the subject of the first section of the volume and one of the two main arguments against the Clintonian approach to globalization (the other being the fair-trade view). Bhagwati presents a lively attack against free capital mobility, which is accused of having provoked crises, rather than to have created opportunities for growth. In particular, he considers financial liberalization the disagreeable side of globalization, which in his view has also contributed powerfully to the birth of anti-globalization movements. Capital controls are thus advocated as a means to preserve stability, promote the good side of globalization (free trade), and prevent people from taking bad decisions.

Quite frankly, Bhagwati's arguments against free capital movements are not terribly convincing. Many would object that free capital movements are in fact the best instrument available in order to monitor and punish bad policies. This does not mean that policy-makers always behave properly when exposed to free financial flows. Indeed, in most cases they do not. However, free capital movements do prevent them from misbehaving for decades. While allegedly protecting investors from crashes and panics, one allows policy-makers to expand their discretionary power, not necessarily in the public interest. Bhagwati's reasoning insists on the fact that speculation is harmful because it alters reality by changing expectations. Still, it remains to be explained why a speculator should want to run the risk of losing money by changing reality. In fact, speculators always bet on fundamentals, or – better – on what they perceive to be the fundamentals.

The second section is much closer to the area where Prof. Bhagwati's academic leadership is indisputable. The analysis of the Asian miracle is focused, persuasive and described in very clear terms. Quite aptly, the emphasis is on the tremendous increase of private investment that characterized the so-called "Asian Tigers" over the period of time during which the "miracle" took place. In turn this was made possible by the outward-oriented strategies adopted by those economies, as well as by their relatively well-educated labor force. Surely, the curious reader may wonder why the miracle took place in those very countries, rather than in other parts of the world. And why other developing economies have found it relatively difficult to reproduce the achievements recorded by the Asian leaders.

This section also includes a part devoted to the Asian crises of the mid-nineties. The main explanation provided by the author is "panic," generated by speculators and magnified by free capital movements. As mentioned earlier, although this view might make potential regulators happy, other readers may not be totally persuaded. Panic certainly played a role. More important, however, is to understand why so many investors happened to put so much money in the wrong companies or in the wrong projects, and whether one can speak about a possible "Clintonian" contribution to bad investment. The issue is virtually ignored by the author.

Free trade, fair trade, wage-rate dynamics and regionalization are dealt with in the third and fourth parts of the volume. These papers address in a remarkably lucid way the lamentable confusion between the benefits of free trade on the one hand and the concerns about living standards and human rights in the poorest parts of the world, on the other. Bhagwati appropriately maintains that the gains from free trade are beyond doubt and that Washington was far too hesitant and ambiguous in this respect, to say the least. Furthermore, Bhagwati emphasizes that it would be a mistake to use trade as an instrument to force rogue governments to have more respect for human dignity and political rights. As a matter of fact, he believes that international political pressure – rather than economic blackmail – can be more effective. Perhaps. And maybe he is right in advocating new international agencies or new enhanced powers for the existing organizations. People's oppressed awareness about the cost of autocratic rule and economic autarky could have been another important factor worthy of extended investigation and comments.

Similarly, trade theory shows that it would be wrong to oppose free trade because of its alleged negative effects on income distribution. Wage-rate differentials following skills may increase due to trade liberalization. Bhagwati however reminds the learned reader that nobody necessarily suffers from a cut in the real wage rate. And that such a cut could actually be larger without free trade.

The last block of sections deals with a number of popular issues in international affairs. It serves mainly as a summary of the various points described in previous sections: the nature of anti-globalization movements, labour standards, immigration, foreign direct investment and growth.

In conclusion, this book contains many valuable and very well-written assertions about free-trade policies, its benefits, and the misinterpretations it has recently suffered from (the issues of fair trade and of regionalization are particularly well presented). Bhagwati's contribution to the understanding of the so-called anti-globalization movements is also clear and effective. The overall impression is that globalization has

not been mismanaged only. It has rather been misunderstood, or perhaps understood too well – by pressure groups. From this standpoint, Bhagwati's work is surely an eye-opener. The Clinton administration is accused of having forced financial liberalization and of having failed to provide convincing arguments in support of trade liberalization, sometimes because of political calculus, sometimes because of poor economics.

Unfortunately, the analysis of what the Clinton administration actually did occupies a relatively small number of pages. A few paragraphs about what the others have done would have been useful, too. Brussels would have been a prime candidate for investigation.

Moreover, these pages abound with repetitions, within and across the various sections. More careful editing could have made this thick volume at least a hundred pages shorter; that is, easier to read and perhaps a little less boastful. In its present form, it remains a very good reference for all those who would like to know more about applied international economics, to understand the main trade questions and fallacies of the modern world.

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Wolfstetter, E.: *Topics in Microeconomics: Industrial Organization, Auctions and Incentives, XVII*, 370 pp. Cambridge University Press, Cambridge UK, 1999. Softcover £15.95.

This book is a well-organized textbook to be used in microeconomics courses. It combines a large number of well-proportioned topics in the fields of industrial economics and economics of incomplete information. The book starts with an extensive analysis of monopoly, topics related to monopoly, bilateral monopoly and regulation of monopoly. This chapter is followed by the presentation of the major models of imperfect competition. Part II is devoted to topics considering risk and risk aversion. Part III focuses on decisions under incomplete information, a comprehensive analysis of different auctions and other mechanisms, and a short introduction to mechanism design. It gives an almost complete survey on the economics of incomplete information enriched and completed by selected topics on rank-order tournaments.

Each of the small topics is presented as a self-contained unit. This allows the reader to choose almost arbitrarily a suitable selection. What is outstanding is the concise and yet comprehensive presentation of the