BOOK REVIEW

Inequalising Trade?: A Study of Traditional North/South Specialisation in the Context of Terms of Trade Concepts by John Spraos, Oxford, Clarendon Press, 1983, ix+169 pp.

In the discussion of the New International Economic Order (NIEO), the primary commodity problem is considered to be the most crucial for the South. The main features of the proposal submitted to UN forums for solving the commodity problems may be summarized as follows: (i) The widening economic disparity between the North and South results from the existing world economic structure and to eliminate the imbalance, the NIEO should be established. (ii) In the field of trade, it is proposed to stabilize (or enhance) commodity export prices through organizing producers associations, establishing commodity agreements, and securing funds for buffer stock operations. (iii) In addition, the North is requested to adjust its industrial structure so as to accommodate the diversification and expansion of manufactured exports in the South.

Proposals of this sort on the subject of the commodity problem are not at all new. In papers independently written in 1950 by Raúl Prebisch and Hans Singer, they argued (reflecting the dissatisfaction of the South) that the traditional free trade system would not promote the growth of the South, and that the disparity between the North and South would widen. Many scholars have participated, and are still participating, in the discussion, some for and some against the Prebisch-Singer hypothesis. This hypothesis is, in short, that under the traditional pattern of trade and specialization, the terms of trade of commodities are deteriorating and countries specializing in commodity production cannot gain the momentum for growth from trade.

Taking up this old but ongoing topic, John Spraos presents a well-scrutinized history of these discussions and, with his own new contributions, recommends policies for solving the problem along similar lines as those of the UNCTAD and the Prebisch-Singer hypothesis.

"The starting point [of the book] is that developing countries have been intensely dissatisfied with the traditional pattern of trade and specialisation which they inherited from the colonial period" (p. 1). This dissatisfaction has been conceptualized as the theory of a long-run deteriorating trend in the terms of trade and of unequal exchange. The author takes up the former for his review and analysis.

In Chapter II, Prebisch's hypothesis of the deteriorating terms of trade (here, the net barter terms of trade, NBTT) is reviewed. After pointing out that Prebisch's original model does not ensure market clearance, the author formulates a more generalized model and shows that we cannot unambiguously determine the direction of change in the terms of trade, though he believes there is a high plausibility for the terms of trade to deteriorate based on his observations on the possible values of some key parameters.

Thus the next question is to empirically test the hypothesis, which is the theme of Chapter III. Prebisch himself provided some empirical verification of his hypothesis. But it was criticized by many in various aspects, including adequacy of the data for testing, data reliability, etc. The author statistically tested the hypothesis with new price data over various periods and concluded that, though "the evidence points to the deteriorating trend in the relative price of primary products" over the Prebisch's period (1876–1938), "the tendency for the NBTT to deteriorate...is open to doubt when...the record up to the 1970s is taken into account" (p. 69).

The real question for Prebisch, however, is not the direction in which the NBTT moves, but in the relative changes in welfare for the South. There the author rightly points out "if a terms of trade change is exogenous, it would normally be possible to identify it with a gain/loss of welfare,...If a change is endogenous, its welfare significance is not obvious" (p. 6).

Thus in Chapter IV, the author explores which terms of trade are the best indicators of relative changes of welfare, or of the incremental (in-)equalization of the South. The double factorial terms of trade (DFTT) have been considered to be the ones under full employment and complete specialization, but the author argues that if the commodity sector absorbs the labor without cost to the economy (as in the case of Lewis' unlimited supply of labor), an increase in employment should be counted on. As such an indicator, the author suggests the employment-corrected double factorial terms of trade (ECDFTT) which incorporates changes in prices, productivity, and employment.

In Chapter V, the potential of the ECDFTT to deteriorate is investigated in his comparative static model, and the author concludes that though the incremental inequalization cannot be derived unambiguously, unusual hypotheses on parameters are not needed to yield a moderate presumption of inequalization.

Following this theoretical investigation, the author empirically tests the changes in the ECDFTT and concludes that "*viewing jointly the evidence...the conclusion must be that the ECDFTT for the entire commodity-producing sector of developing countries were effectively deteriorating over the period of the data* [1960–74 and 1960–77]" (p. 113).

The conclusions of this book are summarized in Chapter VIII: (i) Under the traditional pattern of trade, the South faces incremental inequalization, which is empirically as well as theoretically verified, and (ii) to halt this inequalized development, it is necessary to enhance commodity prices through participation in bilateral commodity agreements by both the exporting and importing countries in the short run; and in the long run, to diversify the economic structure, particularly with increases in food and manufactures production.

The first part of the book, especially Chapters II and III, is quite a good survey of the existing literature on the topic and will be valuable for a long time as a reference for scholars interested in this field of North-South relations. As the author repeatedly emphasizes, discussion on this topic so far has been centered around the NBTT without much emphasis on its impact on welfare. In this sense, his ECDFTT may be considered a step forward in measuring what is of real concern to the South.

Another contribution of the book is that it has shown that, given the necessity of cartelization, bilateral agreement between the South and the North is preferable to unilateral agreement only by the South. The logic behind this is similar to that behind the proposition that a voluntary export restriction is less costly for the exporter than the import control imposed by the importer.

In spite of these merits of the book, this reviewer is not fully satisfied with the latter part of the book, especially with the feasibility and effectiveness of cartelization. First, the author's list of the sufficient conditions for the technical feasibility of commodity cartelization (p. 131) lacks one important condition. By enhancing the commodity price, the global demand for the commodity falls, and, without market intervention, the supply will increase. Thus the production should be curtailed through some kind of government intervention in each producing country.

Two questions arise in this regard: Is it politically and economically feasible for a country to transfer resources, e.g., labor and land among others, which have been used for commodity production purposes, and if so, do the political and economic costs not exceed the benefits of the cartel?

Taking into account the fact that the governments of commodity producing countries could not do so under the long-run depressed price of the commodity, the intuitive answers to these two questions are negative.

Second, the effectiveness of cartelization depends on whether it can eliminate the expansion of supply from outsiders and the development of new substitutes for cartelized commodities, which in turn depends on "the cartel being able to raise market supplies to Q_0 [the pre-cartel production level] at short notice" (p. 133), or on the "low cost of deterrence strategy against outsiders" (p. 134). The concept of idle capacity may be applicable to manufactures and mineral products, but is it applicable to agricultural crops? Once the trees are cut down, it takes some time to harvest again.

Third, can the assumption of price-inelastic global demand be maintained in a situation where consumers know the price will be kept higher for some time to come? The author's suggestion of the synchronized cartelization of coffee, cocoa, and tea would not resolve the situation but aggravate it.

To support cartelization as a means to increase the welfare of the South, we need further detailed studies on these issues. (Takashi Nohara)