BOEKBESPREKINGEN - REVIEWS

Abraham Hirsch and Neil de Marchi, *Milton Friedman, Economics in Theory and Practice,* Harvester Wheatsheaf, Hempstead, 1990. Pp. VIII+ 325. $ 49.95

Has not everything there is to say been said on Milton Friedman's work in economics? His Monetarism is taught to students, his (and Anna Schwartz's) *Monetary History of the U.S.* is the subject of a continuing debate, his Permanent Income Hypothesis has perhaps been the most frequently tested hypothesis in economics and his Methodological Essay has been the most discussed essay in economic methodology. Of course, most aspects of his work are controversial, but is his work not known to all proponents and opponents (and does not almost every economist belong to one of those two categories) so that a new book on Friedman's methodology and his positive economics is superfluous? This is the challenge Hirsch and de Marchi are confronted with and the present reviewer has to admit that they meet this challenge: the authors give many fresh insights and new perspectives on how both Friedman's positive economics and his essay on economic methodology might be interpreted.

What makes the book unlike other works on Friedman is that it combines a discussion of his methodology with his positive economics and that it confronts the two with each other. The book consists of three parts. Part 1 is mainly on the famous 1953 essay *Methodology of Positive Economics.* It traces positions defended in the essay to earlier writings on positive economics. To clarify Friedman's methodological position, its pragmatic foundations are illustrated by comparing Friedman and the pragmatic philosopher Dewey. Another way by which Friedman's unorthodox methodology is clarified in this first part is by emphasizing the differences with John Stuart Mill's *Logic.* Part 2 discusses Friedman's contributions to positive economics, notably his attack on the at that time prevailing Keynesian economics and his Monetarism. The focus in this part is on the question whether his positive economics is consistent with the methodological tenets outlined in the 1953 essay. Two questions arise frequently in this part. Firstly, according to Friedman's methodology a good theory is a theory that makes good predictions. So, one might expect that in his positive economics Friedman is also mainly interested in the predictive aspects of science. The obvious question then is what predictions did Friedman actually make and are these predictions (if any) corroborated. Secondly, Friedman is also very active as a political economist and one can ask oneself to what extent his positive economics (or, for that matter, his methodology) is framed by his political views. These two questions are considered as 'recalcitrant loose ends' (p. 4) and discussed in part 3 of the book.

Much of the debate on Friedman's methodology centres around the following famous phrase: 'Truly important and significant hypotheses will be found to have 'assumptions' that are wildly inaccurate descriptive representations of reality, and, in general the more significant the theory the more unrealistic assumptions (in this sense)' (quoted on p. 73). As noted by others as well, there are many ways assumptions can be (un)realistic. The advantage of Hirsch and de Marchi's approach is that they are able to

relate the discussion on the realism of assumptions to Friedman's own positive economics. For Friedman, positive economics means careful empirical work to see what there is to explain. Unlike Mitchell, however, with whom he collaborated at the NBER, he also felt the need to go beyond the data in order to explain what the data showed. Friedman is fully aware of the fact that correlations can give a very misleading picture of reality. In 'reality' there are many mechanisms at work and it is only if we go beyond the data that we can try to establish them. On the other hand, Friedman rejects the at that time prevailing idea that we have direct access (through introspection) to the truth of some fundamental laws. It is against this spectrum of ideas that we have to discuss Friedman's methodological position, according to Hirsch and de Marchi. As in theorizing, we have to abstract from certain features of the world and we cannot know in advance whether a particular departure from descriptive realism is acceptable or not; the only relevant criterion is to see whether or not the implications of certain hypotheses are in line with our data.

This is often taken as the view that the only criterion that matters in economics is that predictions are confirmed. It is thus interesting to see whether Friedman has made certain predictions and if so, whether they are confirmed. It is at this point that I have doubts about the treatment of Hirsch and de Marchi. Friedman's predictions are discussed in a separate chapter and it is shown that these predictions often take the form of the following example: 'the most likely pattern for the year [ahead, 1970] is a mild recession' (quoted on p. 253). This means that a *ceteris paribus* clause is involved in Friedman's predictions. It is fair to say that Friedman tries to spell out some of the conditions that have to be constant in order for his prediction to become true, but (and this is essential) it is never possible to undo the *ceteris paribus* clause completely. In other words, Friedman never has to give up his preferred hypotheses.

Unconditional predictive adequacy might be too much to ask for in economics. There are always certain unforeseen factors that cause deviations between the actual and the predicted outcome. Friedman is well aware of this and in this sense his attitude towards methodology is very similar to Mill's tendency laws. In an earlier chapter, Hirsch and de Marchi have attempted to show, however, how radically Friedman's methodological position differs from Mill's. Accordingly, they are unable to pick up the similarities between their positions on this point.

The book is a good example of the more modest tendency that is developing in economic methodology. The normative position (telling economists how they should practice their discipline) is largely abandoned in favour of a descriptive position in which the implicit methodological attitudes of working economists are made explicit. The combination of history of economic thought and methodology that can be found in this book is a characteristic of this new development. The book is honest (see the introduction to the book for a statement how the authors have struggled with their material) and probably controversial (as a few remarks outlined above show). The controversial nature of the book can also be seen in a more positive light, however, namely as a signal of an adequate representation of the controversial material they are discussing. The authors do not put a label on Friedman and the reader who is looking for the final (!) interpretation of Friedman's work will probably be disappointed. Instead, different aspects of Friedman are put to the fore. This is, however, also one of the drawbacks of the book: the many details that are provided sometimes obscure the arguments the authors are making.

Maarten Janssen

Cristopher Bliss and Jorge Braga De Macedo (eds.), *Unity with Diversity in the European Economy: The Community's Southern Frontier*, Cambridge University Press, Cambridge, *etc.*, 1990. Pp. 368. $59.50

This volume contains the papers and proceedings of a conference on 'Economic Integration in the Enlarged European Community' held at Delphi, Greece, on 26–27 October 1989. The conference concluded a research project organized under the auspices of the Centre for Economic Policy Research. Integration encompasses all the problems related to adding and integrating new members as well as the implementation of the single market reforms. The running theme of the book concerns the dialectic between territorial enlargement *versus* the deepening of the integration process, which characterizes the history of the European Community. The present volume deals with this issue from the perspective of the countries that constitute the Community's Southern Frontier (Greece, Portugal and Spain, the NICs (Newly Integrating Countries) of the EC, p. 1). Generally, the relevance of the issues dealt with extends beyond the countries under survey and applies to the benefits and transition problems of joining the European Community in countries with a diverging standard of living.

An important element in the discussion on enlargement, integration or unification of the Community is the issue of convergence *versus* divergence. It is emphasized that unification will to some extent be accompagnied by divergent patterns in other areas besides convergence. Regime convergence will not always lead to uniformity of local situations. Many local market effects may remain beside uniform Community regulations. Traditional trade theory predicts the convergence of standards of living together with increased specialization of production. Scale economies and imperfect competition may, however, blur that result. These are the issues dealt with in more detail in the following chapters. The theoretical papers address structural interventions (Bliss, chapter 2), trade and financial liberalization (Krugman and Venables, chapter 3 and Branson, chapter 5) and the design of macroeconomic policy (Krugman, chapter 6). A comprehensive case study of the European car market (Smith, chapter 4) and a short note on the implications of soft budget constraints in the peripheral countries by Rodrik (chapter 10) complements the more theoretical part of this book. The country studies deal with the present state of the economies as well as the implications of further integration. In this review, I will confine myself to the more theoretical chapters.

In chapter 2 Bliss discusses the use of intervention funds to compensate for the adverse effects on peripheral countries of radical economic reforms, such as the creation of a common market. He illustrates that the twin-concepts of identification and addressing may provide some theoretical support in dealing with this problem. Identification refers to the groups to be assisted, addressing to the choice of the mechanism which renders the assistance. The two concepts are related because a process of self-selection is operational. Self-selection means that the choice of the assistance mechanism in itself sometimes identifies the group to be assisted. In this way intervention funds may be misdirected. According to Bliss, the supply of funds should carefully distinguish between assistance for the unfortunate and aid for development. In general, a precise description of the objectives of the structural funds is required. In this respect, Emerson argues in his comment on Bliss that the supply of funds should particularly stimulate the development of infrastructure in these regions, which should enable them to compete within the EC as soon as possible.

The third chapter by Krugman and Venables deals with the effects of reducing trade barriers between countries with different market size and wage level. In standard models of international trade the size of the domestic market does not affect the (favourable) outcome of reducing trade barriers. This result changes when imperfect competition and increasing returns to scale are introduced. By means of simulations, Krugman and Venables show that it is rather ambiguous whether a reduction of trade barries will benefit the peripheral countries. However, this conclusion only concerns the issue of the location of economic activities. In general, welfare does increase in all countries due to the increased competition among sellers in the home markets.

The paper by A. Smith (chapter 4) discusses the benefits of a single market by means of a structural model of the European car market. Although the results of this approach are generally very sensitive to the assumptions underlying the specification of the model, Smith presents some tentative results concerning the welfare implications of a uniform voluntary export restriction (VER) in the Community in comparison with the current practice of a different set of national VER's.

In a thought-provoking contribution, the implications of the integration of domestic capital markets in the EC are considered by Branson (chapter 5). Standard theory predicts that monetary policy will be ineffective in Europe after 1992 when restrictions on cross-country capital flows have been removed. However, this basic picture changes drastically if the structure of domestic capital markets is taken into account. Careful examination of these markets reveals the presence of financial intermediaries who supply financial funds to local agents who generally do not have access to international capital markets. In these local markets, these intermediaries have monopoly power given their superior ability to monitor the strength of local firms. The range of domestic and international interest rates in the world capital market just suffices to make the screening activity of the local lender worthwhile. This institutional structure of domestic capital re-establishes the scope for monetary policy, albeit through alternative regulations such as credit ceilings and the local deposit rate to be paid by the intermediary. In this way the costs of credit to small borrowers can be affected independently of the level of the international rate of interest. In this context, Branson also points at a possible disadvantage of abrupt financial liberalization. The abovementioned asymmetry in financial markets inevitably weakens the financial stability of local banks since they generally will have a larger share of more risky (local) firms in their portfolio. As a result these banks may not be able to sustain competition after the liberalization of domestic capital markets, which may give rise to bankruptcies and even the deterioration of the local financial infrastructure in these (particularly peripheral) countries. In chapter 7 Vinals illustrates that something of the kind has taken place in Spain.

The alleged ineffectiveness of monetary policy in integrated financial markets together with the absence of a unified fiscal system in the EC, which may mitigate the adverse effects of transitory productivity and preference shocks, imply that the burden of income stabilization has to fall on factor mobility, *i.e.* migration. Branson points at the interdependencies between a stabilizing fiscal policy and factor mobility. 'Anything that stabilizes income increases factor mobility, thereby making it easier to stabilize income' (Branson p. 127). In this respect, the observation that the EC lacks a fiscal system at the Community level, which allows reallocation of resources in response to transitory real shocks, can be considered as a potential threat to the stability of real incomes within the community and thereby as a potential threat to the process of further integration.

Chapter 6 consists of a note by Krugman on the existence of a macroeconomic policy

dilemma following upon entry to the EMS-ERM. Before entering the EMS-ERM a country has to decide upon the desired level of the exchange rate. Since the costs of correcting an initially undervalued exchange rate are far less than those of an overvalued exchange rate, countries generally prefer a rather low initial level of their exchange rate. On the other hand, financial markets do not, in general, have a preference for a too low rate, with the result that this initial low level cannot be sustained. In order to hold down the exchange rate, an inflationary monetary policy has to be chosen, whereas the purpose of setting a low initial level of the exchange rate was explicitly aimed at low levels of inflation. This is known as the macroeconomic policy dilemma. Krugman shows in a standard M-F model that a mix of fiscal and monetary policy may provide a solution to this dilemma. However, such a policy mix may not always be feasible as is illustrated in the case of Spain. Furthermore, Krugman's analysis neglects the impact of exchange rate expectations as is argued by Caspar in a comment on Krugman's short note.

The three case studies reveal striking similarities between the countries under discussion, particularly with respect to the size of the public sector and the interrelatedness of the public and the private sector. It is pointed out that 'soft-budgetism' is a striking feature of all three economies of the Southern Frontier. Rodrik illustrates that private behaviour in the face of easy access to additional government funds (soft budgets) will considerably differ from behaviour under hard budget constraints. In general, the performance of the economy as a whole will be affected with the burden of adjustment falling on the relatively weak sectors. The effects of integration on this situation are ambiguous. On the one hand, the discipline of the EC market may make it easier to withstand soft-budgetism, on the other hand, the supply of EC adjustment funds may further reinforce the interrelatedness between private and public sectors.

In my opinion, this book contains a lot of interesting material. It clearly illustrates the many difficulties that have to be faced in the process of economic integration. In the transition period there may be large asymmetries in the burden of adjustment. Furthermore, the degree of indeterminacy in the likely outcome will probably be very large.

Hans van Ees

W.L.M. Adriaansen and J.T.M. van der Linden (eds.), *Post-Keynesian Thought in Perspective*, Wolters-Noordhoff, Groningen, 1991. Pp. 156.

A really full-fledged neo-classical economist probably never wonders (at least not during office hours) whether or not his theory is part of a consistent paradigm (as a matter of fact, it is probably not even useful to think in terms like 'paradigm' if, as a really full-fledged neo-classical, he or she believes there is only one feasible approach to economic problems). Neither will he or she worry about the question whether or not specific theories ought to be connected through one general organizing principle (as a matter of fact, neo-classical theory is almost defined in terms of such a principle). Nor will he or she have sleepless nights pondering whether the emphasis should be shifted from modelling macrodynamics to constructing the microeconomic foundation of theory (as a matter of fact, neo-classical macroeconomics is implied in microeconomics).

In short, the choice for a neo-classical commitment promises a happy-go-lucky life to the average economist. How worrisome, on the contrary, is the work of practitioners in the post-Keynesian tradition. After its birth (logically somewhere between Keynes' *Treatise on Money* and *The General Theory*) and even after winning one of the fiercest controversies in the history of economic thought (regarding the theory of capital) some decades ago, post-Keynesian theory is still very much preoccupied in discussing foundations and methodological topics. In evaluating their theory at large, post-Keynesians sometimes seem to be blinded by the strong elements of neo-classical theory, notably the methodological 'unity' mentioned above. Often, sadly and with a bit of bitterness, the corresponding homogeneity of neo-classical theory is contrasted with the colourful pallet of bits and pieces of post-Keynesian analysis. Some believe this specific backwardness of post-Keynesian theory to be historical: time and further research will bring post-Keynesian theory on the same level as neo-classical economics. Others, however, interpret the backwardness as following logically from the post-Keynesian approach to economics: emphasizing the necessity of descriptive realism of theory makes it unavoidable. (A third group of course denies it, see Reynolds 1989.)

The desired homogeneity of theory, the consistency of the paradigm and the need for microeconomic foundation are important topics in *Post-Keynesian Thought in Perspective*, the publication of papers presented at the tenth annual conference of the Dutch-Belgian 'Association of Post-Keynesian Studies.' The theme reflected in the title is dealt with on a general level in section I. In sections II and III the topic is particularized to investment theory and income distribution, respectively. All sections include papers and discussions.

Section I opens with a short paper by Luigi Pasinetti on Keynes' break with tradition. The central theses are not very spectacular, neither from an analytical point of view nor from the point of view of the history of economic thought. He interprets the 'Keynesian Revolution' as the step from the Marshallian 'pure exchange' model to the 'production paradigm' as elaborated by the classical economists (according to Pasinetti, a step taken in the period of spring and summer 1932). Here, the roots of post-Keynesian theory are to be found, and Pasinetti emphasizes the enormous amount of work implied by the step from one paradigm to another: the construction of a coherent production model (that was only sketchily developed) as the foundation of economic theory on the one hand and the development on this basis of a new superstructure of economic reasoning on the other. In the light of these immense tasks he is not surprised by the still prevailing heterogeneity in post-Keynesian analysis. Thus, backwardness is considered to be historic: 'Post-Keynesianism is a grand exciting research project, most of which is still to be carried out' (p. 27).

The tasks ahead are listed more concretely in Malcolm Sawyers' assessment of the state of the art. Focusing on 'unresolved issues' he goes into macroeconomic considerations (concluding that post-Keynesian economics is best suited to analyse the interaction between the demand side and the supply side), into human behaviour and expectations (stressing the importance of distinguishing between behaviour characterized by slowly changing habits and innovative behaviour) and into the role of organizations and institutions (stressing the need to analyse the interrelationship between individuals and organizations). But the essence of his story remains within the realm of methodology again: there is no cohesion in the various approaches in post-Keynesian thought and there is a need for seriously establishing post-Keynesian microeconomics. It is also this very topic that sets the floor for the discussants, though in an almost post-Keynesian

way, *i.e.* from completely different angles and leading to completely different conclusions. For Casper van Ewijk the question of homogeneity of theory is more or less irrelevant. In any case he considers it certainly less important than making substantial progress on long-term dynamics, once rightly the heart of post-Keynesian thought, but neglected since the beginning of the seventies, amongst other things because of the unjust shift of emphasis to microeconomic foundations. Andries Nentjes considers the struggle for homogeneity and a uniform organizing principle to be idle in view of the heterogeneous historic influences on the theories listed as post-Keynesian. And finally, Jan Kregel ascertains that integration has already been accomplished (or *could* very easily be accomplished, Kregel is not really clear about that) by a meaningful integration of monetary and real analysis along the lines set out by Keynes. Thus, on a general level, uncertainty obviously abides in post-Keynesian thought, with the evident heterogeneity of present day analysis as the only real certainty.

Sections II and III lead the discussion to specific topics, the choice of which is nowhere accounted for or explained. Michel van Hecke's analysis of the investment function leads to a plea for a taxonomic approach to do justice to the fact that not only business enterprises but also households, governmental bodies and governmental enterprises invest. According to Van Hecke, availability of finance acts as a constraint, not as a determinant of investment. And, in line with the post-Keynesian approach, he characterizes the investment process as a time-consuming process with rational and irrational foundations. In the discussion of Hecke's paper, Jan Kregel emphasizes the post-Keynesian distinction between the overall constraint of finance and the division between internal and external resources as separate determinants of investments behaviour. The growing importance of political aspects in the investment process is emphasized by Wim de Ridder.

Finally, in a rather confusing treatment of positive and normative elements in the development of income distribution, Warren Samuels and Timothy Kelsey insist that a positive theory of income distribution is impossible. The distribution of income, they maintain, is a result of the entire social fabric that is terribly difficult to disentangle. It is not totally clear how their statement about the complexity of the factors determining income distribution relates to their assertion that income distribution is a normative matter because the economy is normative. Moreover, and seemingly contradicting this statement, the paper ends with a programmatic call for detailed studies of the factors and forces which actually govern the distribution of income. In the discussion of the paper, Samuels and Kelsey's claim that income distribution is a normative subject is contested to different degrees and from different angles. In Joop Odink's opinion, income distribution is open to positive analysis and he accuses the authors to have inadequately addressed the question what income distribution is about. Joe Brenner and Jan Reijnders share the view that income distribution theory is one of the factors influencing income distribution itself. However, in their view, the Samuels and Kelsey approach lacks a positive analysis of the dynamics of the process of social and economic interaction that influences the distribution of income.

As noted before, a post-Keynesian commitment is far from a guarantee for a light-hearted working life of economists. Time and again it urges them to go back to foundations, to take position, and to justify methodologically the position taken. *Post-Keynesian Thought in Perspective* is a typical post-Keynesian book. It is very much about foundations and methodology. The only common ground is the rejection (though in varying degrees) of neo-classical theory and the cry from deep down that there is a lot

of work to be done. No solutions are reached. There does not seem to be a clear connection between the three parts of the book, and there is a host of conflicting views on the state of post-Keynesian theory and on the most suitable directions of research. But it is also fun to read and it contains many noticeable statements about the way to practice relevant economics.

Rob de Klerk

REFERENCES

Reynolds, P.J., *Political Economy: A Synthesis of Kaleckian and Keynesian Economics*, Sussex, 1987.

K. Holden, D.A. Peel and J.L. Thompson, *Economic Forecasting: An Introduction*, Cambridge University Press, Cambridge, *etc.*, 1991. Pp. IX + 213. $16.95

This book contains an introduction to some past and recent developments in the methods used in forecasting economic variables. It is divided in two parts, the first part discusses the techniques and the second deals with several applications. Chapter 1 offers a review of forecasting and evaluation methods and provides an introduction to the following chapters. The second, and largest, chapter treats time-series methods in some detail. The authors discuss the Box-Jenkins approach to time-series modelling, vector autoregressive models and cointegration among other things. Chapter 3 focuses on several methods for, and problems of, the combination of forecasts. Furthermore, it includes a rather lengthy review of the Makridakis forecasting competition. Chapter 4 is the first chapter of the applications part of the book, and it highlights some techniques and empirical results for microeconomic forecasting. The next chapter similarly treats forecasting with macroeconomic models, and surveys recent issues in forecasting such as the decomposition of macroeconomic forecast errors. The sixth chapter deals with the interesting topic of forecasting asset market prices. Chapter 7 concludes this volume by discussing the difficult matter of choosing between several techniques.

Personally, I found this book a pleasure to read. The authors lucidly deal with many interesting topics, and they display a large knowledge of the field. There are, however, some critical comments I would like to make. The first is that it is somewhat unclear whether the target audience of the book, *i.e.* undergraduate and postgraduate students of economics, is effectively reached. This is because the authors consider many topics, though often not to a sufficient extent, to have practical use or guide theoretical understanding. The discussion of nonlinear time-series modelling, which is a topic of rapidly growing interest, covers only about two pages. They also suggest testing for the constancy of the mean of a time series, but they do not advise the reader what to do when this null hypothesis is rejected. On the other hand, they deal with the Makridakis forecasting competition in large detail. They summarize several of the methods used, though some forecasting methods are only mentioned briefly. Hence, in my opinion, it would have been much more insightful to consider a large and detailed example,

preferably a running one, in which many of the methods would have been used and empirically evaluated.

Secondly, although the authors present a plethora of technical aspects of forecasting, there are still some issues missing. Since these are very important in many practical fields, their lack is seriously felt. For example, there is only a very brief discussion on the treatment of seasonality and on the major problems one encounters when testing for nonstationarity. Furthermore, the often applied Lagrange multiplier tests for the presence of residual autocorrelation and of nonlinear patterns are omitted.

Taking these comments together, my conclusion is that teachers who wish to use this book should bring their own additional notes. Further, they should be well acquainted with the literature on forecasting economic time series. However, for the applied practicioner and for the interested economist, this book presents a pleasantly written and concise introduction to the field.

Philip Hans Franses

Heinz König (ed.), *Economics of Wage Determination*, Studies in Contemporary Economics, Springer-Verlag, Berlin, Heidelberg, *etc.*, 1990. Pp. 373. DM 79,—

The present volume consists of fourteen papers on labour market theory, particularly wage determination and the relationship to unemployment problems. With one exception, all papers were presented during a seminar at the University of Mannheim on October 5th–7th, 1987. The proceedings of the discussions are also included in the book. In this review I will discuss only briefly the many interesting topics of this book.

In his paper on 'U.S. inflation, Labor's Share, and the Natural Rate of Unemployment,' Gordon concludes that U.S. data on wage growth and inflation do not reveal any evidence of mark-up pricing. There is a dichotomy between wage growth and inflation, such that the rate of inflation in this reduced-form type of model mimics an autoregressive process. This observation would imply that the usefulness of the Phillips curve in stabilization theory becomes ambiguous. Only the distribution of income between wages and profits is affected by innovations in the growth of labour costs but there no longer appears to be any evidence of a feedback relationship between wage growth and inflation. Although this result is interesting and needs further research it has to be borne in mind that it is derived in a reduced-form model, as is correctly observed by Gahlen in his comment on Gorden. In order to provide more definite conclusions of the formation of wages and prices these problems ought to be addressed in a structural model.

The two papers on Japan analyse the typical characteristics of wage determination and labour market performance in this country. Tachibanaki and Taki emphasize the importance of job tenure in the explanation of wage growth, whereas Fitzroy and Hart focus on the impact of cyclical variables on wage growth. It is shown that shocks are accommodated rather smoothly, particularly by work-sharing policies and flexible wage and bonus adjustments, notwithstanding the fact that job tenure of regular employees is high and that wages increase more rapidly with seniority in Japan than in other countries. A related paper by Fitzroy (chapter 4) studies the relevance of a generalized efficiency wage/contract model for the explanation of unemployment in West Germany. It

is concluded that neither this model nor models that allow for work-sharing contribute much to this explanation. In West Germany the rigid institutional organization of the labour market is believed to do better in this respect.

Following research in the U.S. (*e.g.* Krueger and Summers, 1987) the papers by Hübler and Gerlach, and Gahlen and Licht, respectively, consider the explanation of inter-industry wage differentials in West Germany. Although these papers provide some evidence as to the relevance of efficiency wage theories in West Germany, they also illustrate the impossibility to discriminate empirically between efficiency wage models and competing models of (sectoral) wage determination. The book itself provides a good example of this last observation. Hübler and Gerlach interpret their results as being favourable to the efficiency wage hypothesis and in contradiction with the explanation of wage differentials resulting from compensating differentials. However, the study by Woittiez and Kapteyn, also included in this volume, suggests that wage differentials to a large extent can be attributed to qualitative differences in jobs. Furthermore, the result obtained from their neo-classical model of job choice, labour supply and wages reveals that evidence against the relevance of compensating wage differentials may be due to the (self-)selection of individuals into jobs. Therefore, the results have to be interpreted with care.

Subsequently, two papers of a more theoretical nature follow. Schlicht argues that the assumption of worker's utility maximization with only income and effort as arguments, neglects the importance of the way in which income is received in this decision problem. Furthermore, the approach is inconsistent with non-utility taking by firms, *e.g.* labour turnover, discipline, self-selection and moral effects. Wolfstetter discusses (implicit) contract theory and focuses on the well-known arbitrary explanations of involuntary unemployment in the context of this approach. The next paper by Franz and Schäfer-Jäckel deals with the impact of unanticipated nominal and real disturbances on wage formation in a multi-sector model of the economy. In the context of this model, where the overall nominal wage rate is determined by contract, they derive sector-specific optimal reactions to unanticipated nominal and real shocks, based on sector-specific price indexation. These results are compared with the results obtained from a reference model, with an auction (labour) market, where the overall money wage rate is determined after a disturbance has hit the economy. Furthermore, it is illustrated that output indexation of the money wage rate may protect workers against sector-specific output shocks by smoothing wage income in the presence of these shocks. Some preliminary results for West Germany tend to support the theoretical conclusion derived in the paper. The next three papers, including the study by Woittiez and Kapteyn mentioned above, direct their attention toward the determinants of labour supply. Zimmerman discusses the, for models of job choice, somewhat discomforting observation that compensating wage differentials do not always exist for differences in job quality. He indicates that the separation of work quality, job satisfaction and work characteristics may provide a useful extension of the analysis of the impacts of job characteristics on wages. Blundell focuses on the supply of labour by married women by extending the convential modelling of labour supply with search-theoretic elements. Thus a framework is developed which allows for the direct influence of macroeconomic fluctuations on labour supply decisions, *i.e.* labour force participation. In particular, the relationship between fluctuations in participation rates and the prevalence of discouraged worker effects are accounted for. Some evidence is presented that official unemployment rates underestimate potential labour supply. Hujer, Löwenbein and

Schneider deal with the different elements that determine the duration of unemployment for an individual and the effect of unemployment on current and future incomes. In the former context the relation between different unemployment compensation schemes in West Germany and the period of unemployment are specifically analysed. Finally, the study by Bover, Muellbauer and Murphy is concerned with aspects of labour mobility. Particularly, the interaction between the housing market and the labour market is addressed. It is argued that the imperfections in the U.K. housing market may restrict labour mobility, which may affect the responsiveness of wages to high rates of unemployment as well as account for some part of the mismatch between jobs and people. Taking these elements together suggests that changes in unemployment and in sectoral mismatch are more important for wage pressure than unemployment levels which contradicts the by now standard Layard-Nickell approach to this problem and is more in accordance with a hysteresis-type explanation of unemployment.

Taken together, all the papers cover a great deal of modern labour market research, although in my opinion, the primary focus on microeconomic principles sometimes neglects the more institutional characteristics of the labour market, such as, the impact of unions. Nevertheless, all papers do represent thorough economic research. For economists who are interested in applied labour market research and who do not mind the considerable number of misprints, this volume is worth reading.

Hans van Ees

M. Carlberg, *Fiscal Policy: Cyclical Budget Balance versus Fatal Crowding Out*, Volkswirtschaftliche Schriften, Heft 104, Duncker und Humblot, 1990. Pp. 165. DM 78,—

The effectiveness of fiscal policy is one of the central issues in the debate between Keynesians, Monetarists, Neo-Ricardians *etc.* The question whether fiscal policy is capable of affecting short-run and/or long-run output tends to divide their thoughts. The study by Carlberg first deals with this point, and then examines the effects of cyclical fluctuations in the economy on the optimal path for fiscal policy.

These questions are dealt with using an IS-LM model for a closed, stationary economy, with a perfectly elastic supply in the short run. Within this familiar framework, government is fully capable of restoring equilibrium in the short run when the economy is faced with *e.g.* an investment shock. In the long run, stable outcomes are obtained if government debt remains constant. Otherwise, the capital stock will grow infinitely, or there will be complete, fatal crowding out. Both an overlapping generations model without bequests and an augmented multiplier-accelerator model are used to support these long-term outcomes.

The analysis is then extended (chapter 5) by introducing a cyclical adjustment pattern in employment and output after an investment shock. The cyclical pattern results from expected sales, the driving force of investments, assumed to coincide with last periods output. Without fiscal policy, the economy returns to its initial, full-employment equilibrium. In the case of active fiscal policy, full-employment output is shown to prevail in each period. Incorporating passive fiscal policy in the model, with taxes operating as automatic stabilisers, an intermediate result is obtained. Output fluctuates less, and the budget deficit more, the harder government tries to stabilize the economy.

When the oscillations are explosive, however, only active fiscal policy is shown to induce stable results.

Introducing interest payments on government debt (chapter 6) alters these conclusions. Passive and active fiscal policies to stabilize the economy no longer lead to optimal results. Past (cyclical) deficits add to interest payments that again add to debt, leading to a crowding out of private investment. In the long run, full employment can prevail only if taxes are raised enough to compensate for the interest payments, or if government tries to keep the budget balanced in every single period. This last policy, however, has the consequence of increasing the cyclical variations in output and employment.

Finally, chapter 7 presents a few extensions of the analysis. Firstly, the need is emphasized to stabilize output at the average level of output on the business cycle, not at its peak level. Otherwise, debt will accumulate, at the expense of private capital stock. Furthermore, it is shown that monetary policy can be successful in stabilising the economy as well. Finally, economic growth is taken into consideration. Optimal fiscal policy in this case is shown to depend on the saving rate. A high saving rate should partly be absorbed by government through running budget deficits, thus preventing private overinvestment.

Reviewing this study, it can be argued that the exposition of the model and its results are very clear, both mathematically and verbally. A drawback of this study is, however, that no comparisons with the outcomes of other studies in this area are made, though numerous examples are available. Furthermore, more space might have been devoted to the extensions in chapter 7, as the analysis in the preceding chapters will be familiar for those acquainted with the IS-LM framework. The book therefore seems best suited for students who want to learn more about the applications of an IS-LM model.

G.F.Th. Wolswijk

W. Keith Bryant *The Economic Organization of the Household*, Cambridge University Press, Cambridge, *etc.*, 1990. Pp. XVII + 286. $19.95

The Economic Organization of the Household enunciates in about 250 pages a pure microeconomic analysis of household choices with respect to all kinds of household activities. It is written as a textbook, the theory is explained clearly and illustrated by figures and (almost) real life examples. At the end of each chapter the theory is confronted with the results of research. The examples and the research quoted in the text both deal with the situation of households in the U.S.A., which is in many cases quite different from the situation in other countries.

The text contains some of the mathematical formulas that go with the models used. Most models are only specified for the choice between two alternatives. Extensions and more complicated models are in the appendices that go with each chapter. Students should have some knowledge of calculus.

It is the household, not the consumer that plays the leading role in this book. It can consist of only one person or of several persons. Its behaviour is supposed to be goal-directed, the goal being 'satisfaction', 'utility', or 'well-being'. The constraints that the household faces are several. Little attention is paid to legal and socio-economic constraints, a little more is paid to technical constraints, but most attention is paid to the

constrained resources of the household. The term 'economic organization' in the title of the book is based on the main characteristics of the analysis: there is supposed to be a utility function that the household wants to maximize, it can do so by making choices about the activities of household members, but the household is constrained by its resources and its environment.

In the first part of the book the neo-classical model for consumer behaviour is explained. It is rather traditional in the sense that it does not question the assumptions on which the model is based. For instance, how is the household utility function related to the utility function of the individuals belonging to the household? Are preferences fixed? Who makes the decisions? Do households have perfect knowledge about income and prices?

Chapter 1 contains an introduction. In chapter 2 a household maximizes utility by seeking the optimal combination of the goods it can buy; income and prices are fixed. Corner solutions and the possibility of partly concave indifference curves are also discussed. In the following chapter, demand analysis is extended. The effect of income and price changes on the household's optimal choice is discussed and illustrated by some nice examples. After the static analysis in these two chapters, a two-period consumption/saving model follows in chapter 4. The permanent income hypothesis and the life-cycle hypothesis are discussed and compared with each other.

The book becomes more interesting with chapter 5. The time constraint of the household is introduced in a work-leisure model. Work is not equivalent to 'earning money in the labour market,' work can also be done at home and it will result in 'home goods,' that are supposed to be perfect substitutes for market goods. In order to keep the model simple, the assumption is made that the production of home goods requires household labour only and that no money (or market good) input is used. It is a pity that by making this assumption, the technology of the household production process is over-simplified. The possibility of substitution between household labour and market goods in this process is excluded from the analysis. In this model, the value of time is the market wage rate of the individual, which sets bounds to the applicability of the model. However, the effect of a change in a household member's own and partner's wage rate and the influence of family composition on time allocation can be analyzed.

In chapter 6 a fourth way of spending time is introduced: investing in human capital. Household members can try to increase their market wage rate or productivity in household activities by investing in formal education, on-the-job training, experience, health or migration. The rate of return of such an investment is compared with the costs: time costs and money expenditures (tuition, books, *etc.*). Interesting examples show that human capital formation should get more attention in all kinds of analyses and real life situations, for instance, when a household falls apart.

The economics of fertility and of marriage and divorce are the subjects of the last two chapters of the book. These are the two most controversial subjects that economists can deal with when applying models. The economic approach to these subjects emphasizes only the rational aspects of decisions of individuals, the emotional side does not fit in the model. Keeping this restriction in mind, the economic model can be used to explain certain changes in the behaviour of households that are important enough for policy makers to bear in mind.

In this book the consumer role of the household is less emphasized than in most microeconomic text books. Recent research concerning the household has made it clear that the productive role of a household is at least as important as its role as consumer.

This book is more balanced in that respect. Some topics that one might have expected are lacking, for instance,
a. the game-theoretic approach to the decision process within a household,
b. the special role of consumer durables in the household production function,
c. how uncertainty influences household decisions,
d. how households gather information and how costly that is,
e. the influence that the social group may have on household preferences and perception of well-being.

Sophia R. Wunderink-van Veen

L.K. Mytelka (ed.), *Strategic Partnerships and the World Economy*; *States, Firms and International Competition*, Pinter Publishers, London, 1991. Pp. 256. £32.50

The increasing amount of interest for the relationship between the economy and technological change has resulted in the appearance of a great number of new theories on phenomena which are hard to explain from the viewpoint of neo-classical economic theory. The emphasis on the market as the sole mechanism for stimulating efficiency and dynamics is contradicted by the growing importance of a new mix of competition and cooperation. Cooperation not only encompasses a multitude of interfirm arrangements but also involves government-industry relations. Moreover, the role of government in a global economy appears to be open to re-evaluation. Not only are traditional national policy instruments such as Keynesian macroeconomics inappropriate in an open economy but, in addition, it is necessary for governments to assume new functions relating to the promotion of developments in complex technological areas and the creation of strategic alliances. The phenomenon of (international) cooperation therefore leads to questions such as: How can alliances be explained? How can stability within strategic partnerships be created? How should the effect of alliances be assessed? What is the function of government and what is the relevance of the nation-state within global trade?

This book edited by Mytelka deals with the above and related questions from various angles. Some of the contributions focus on strategic alliances in specific sectors (the aircraft and telecommunications industries), while others concentrate on alliances within and between the United States, Europe and Japan. The first contributions, by Chesnais, Mytelka, Michalet and Ciborra, are, however, devoted to theoretical considerations.

Chesnais points to the unsuitability of traditional oligopoly theories for explaining the behaviour of multinational corporations (MNCs). A new development in this area is that oligopolies now assume a variety of flexible forms and are at present a common occurrence in more sectors than has previously been the case. Furthermore, oligopolies are more related to the development of new technologies rather than to price arrangements.

Mytelka provides a definition of strategic partnerships. Strategic partnerships relate to the development of knowledge for future activities and are consequently not based on efficiency considerations (of the type referred to by Williamson). Mytelka also deals with the reasons for the increase in strategic partnerships since 1970 and provides the necessary statics on strategic alliances.

Michalet levels criticism at neo-classical trade theories in view of the fact that these theories focus on trade in goods whereas, within present global relations, it is the exchange of knowledge and management which actually reduces traditional trade flows. Furthermore, these theories imply the homogenization of nation-states, whereas MNCs are concentrated within three blocs: the USA, Europe and Japan. MNCs are not so much concerned with factor prices but, primarily, with the compatibility of supply structures and demand. Rather than limiting his argument to plead for free markets, Michalet points to the necessity for governments to create favourable national conditions, including provisions for related and supporting industries and services. Furthermore, re-regulation should be considered, given that the global financial system has proved itself incapable of self-regulation.

Ciborra criticizes traditional theories which try to explain strategic alliances, such as the transaction cost theory, market power theories and incremental innovation theories (see, for example, Nelson and Winter). Williamson's transaction cost theory is based on static efficiency considerations. However, alliances should be evaluated not according to short-term achievement, but on their ability to stimulate developments. In the short run, alliances may even result in inefficiencies. Moreover, according to Williamson, a percentage of transaction costs is the result of measures aimed at tempering opportunistic behaviour. However, this behaviour represents the complete antithesis to alliances, since these alliances are based on trust relations. Ciborra evaluates the performance of alliances which 'failed', but the examples provided indicate that firms have learnt a great deal about technologies and markets and also that they have been able to adapt their internal structures to new environments.

Additional case material is presented by Momery within the context of the aircraft industry; the important influence which national governments have on multinational cooperative projects and with regard to attracting MNCs is indicated.

The subsequent contributions discuss the position of strategic alliances and related government policy in France (Delapierre and Zimmerman), Japan (Levy and Samuels), the USA (Alic) and the EC (Mytelka). Each contribution deals with the importance of a supportive environment for industries. Industries require the existence of a multitude of other related and supporting industries to obtain information and to acquire economies of scale and sufficient scope. Globalization should be based on a proper home base (*e.g.* 'springboard Europe'). In effect, this means that strategic alliances have to be developed. However, this cannot happen automatically and requires government intervention to foster these alliances and to create trust relations between industries, between government and industry and within government. However, as Alic demonstrates in the case of the USA, governments are not always sufficiently aware of what to do. In contrast to this, Mytelka shows in her positive evaluation of the ESPRIT programme, how effective governments can be in setting up alliances (the 'network multiplier'). However, she also warns of the dangers of creating market barriers.

This book covers a great deal of ground on the subject of strategic alliances. Each contribution highlights the difficulties of incorporating alliances between MNCs into traditional economic theories. Furthermore, the need for redefining government intervention is stressed, while the considerable limitations of the concept of the nation-state are also underlined. The book urges for more research into how alliances can be established and stabilized. In this context, comparative research is particularly required since alliances differ considerably from sector to sector and from country to country, as well as with respect to government support. Some attention is also given to the complex matter of evaluating the performance of alliances.

As a result of covering such a wide variety of topics, the book is somewhat restricted in terms of depth; particularly the link between governments and alliances deserves more careful consideration. What is the precise role of governments in relation to strategic alliances? Are governments in a position to foster strategic alliances? In this respect, it is rather unfortunate that no reference is made to public choice theory, as this would have pointed to the dangers of public intervention. Furthermore, many of the issues contained in this book have already been explored in other publications, *e.g.* in M.E. Porter (ed.), *Competition in Global Industries*, Cambridge, Mass., 1986 or in M. Sharp and P. Holmes (eds.), *Strategies for New Policies, Case Studies from Britain and France*, London, 1989.

However, this book successfully brings together developments in thinking on strategic alliances and points to the need for more theoretical and empirical work on this phenomenon.

Adriaan Schout

Paul Geroski, Richard J. Gilbert and Alexis Jacquemin, *Barriers to Entry and Strategic Competition*, Harwood Academic Publishers, London, 1990. Pp. 97. $34.—

The book *Barriers to Entry and Strategic Competition* is volume 41 of a series of surveys that appears under the title 'Fundamentals of Pure and Applied Economics.' This series aims to publish surveys that are a high-level presentation but accessible to anyone with a solid background in economics, whether engaged in business, government, international organizations, teaching, or research in related fields.' The book seems, by and large, to come up to the series expectations: it is a well-written, well-documented and accesible survey of a rapidly expanding literature in industrial organization that is both empirical and theoretical in nature, and which applies advanced (especially game-theoretic) techniques for the sake of understanding the functioning of competition in market economies. To be precise, the book reviews a subfield of industrial organization: the study of potential competition. This means that large parts of industrial organization are ignored, notably the overwhelming literature on actual competition. In comparison with two well-established textbooks on industrial organization the book steers a middle course between the dominantly technical approach of Tirole (1988) and the mainly verbal treatment of Scherer and Ross (1990).

The book's core argument is presented in five sections. Section II points out that the content of the definition of entry barriers is not self-evident. Broadly speaking, three definitions can be distinguished. The structural definition takes as the point of departure the structural market conditions that permit incumbent firms to earn above-normal profits. The cost definition emphasizes the cost advantage that incumbent firms can exploit relative to potential entrants. The normative definition supplements the cost argument by associating entry barriers with socially undesirable limitations to entry. The key point is that specific sources of entry limitations may be an entry barrier in terms of one definition, while being excluded from the set by another definition. The authors prefer a broad definition that resembles the structural profit perspective: 'an entry barrier exists if a firm earns a premium by virtue of its being established in the industry' (pp. 12–13).

Sections III, IV and V deal with the theoretical issues associated with the determinants of entry and exit conditions. The literature on three well-established categories of entry barriers is reviewed in section III: scale economies, absolute cost advantages and product differentiation. The key message of this literature is that the strategic dimension of entry deterrence cannot be ignored: what matters is the credibility of the entry threat and the entry-deterring strategies, which, in turn, crucially depend on the complex interplay of pre-entry market conditions and (threats of) post-entry competition. Section IV briefly summarizes the arguments on exit barriers and asset specificity. An important argument here is that exit barriers may operate as entry barriers as well, since specific assets signal the incumbent firms' commitment to stay in the market and defend their positions on the one hand, and because exit costs must be discounted as pre-entry in anticipation of the risk of post-entry failure on the other. Section V focuses on strategies of entry accommodation rather than complete entry deterrence. The argument is that, depending on market and firm characteristics, an incumbent firm may opt for the more profitable strategy of operating as a Stackelberg leader by allowing small-scale entry to occur in market niches.

Section VI reviews empirical models of entry. Broadly speaking, two empirical regularities emerge from the accumulation of studies on potential competition. Firstly, studies that measure the overall height of entry barriers by and large agree on the observation that profits increase with advertising outlays, productive capacity, minimum efficient scale, diversification, multiplant economies and economies of scope. These results reveal factors that may be important sources of entry barriers. Secondly, arguing on the basis of two-way causalities indicates that actual entry rates increase with above-normal profits. The gist of the results of dynamic studies of this sort is that the impact of actual entry is fairly small. Of course, many empirical studies add their own particular results to these overall patterns. For example, the effect of (expected) post-entry profits may dominate the impact of (actual) pre-entry profit levels.

The book's major strength is that it offers an accessible survey of a subfield of research that applies, by and large, overly advanced methods of analysis. Moreover, while doing so, the contribution of both empirical and theoretical research is underlined. Its major weakness is that the argumentation is unbalanced in two ways. Firstly, the choice of topics is not self-evident: for instance, the role of a number of important issues (such as the techniques of game theory and the source of potential entrants) is underemphasized. Secondly, the degree of mathematical sophistication varies arbitrarily from one section to another: for example, the empirical part of the book contains considerably more technicalities than the theoretical sections. Nevertheless, for those readers looking for an accessible and compact review of the literature on potential competition, the book can be recommended.

Arjen van Witteloostuijn

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Scherer, F.M. and D. Ross (1990), *Industrial Market Structure and Economic Performance*, Boston.

Tirole, J. (1988), *The Theory of Industrial Organization*, Cambridge, MA.

David Granick, *Chinese State Enterprises*, The University of Chicago Press, Chicago and London, 1990. Pp. 347. $45.95

The main thesis of Granick's book is that China today is not simply one more centrally-planned socialist economy, but rather that it is unique. The areas of uniqueness are the following: (1) the multi-level supervision of enterprises; (2) loose and easily overfilled production plans, which offer little guidance to enterprise activities; (3) availability of allocated items outside the allocation system; (4) multiple prices for the same product for customers in a single region; (5) the nature of the nomenclature that controls the appointment of the directors and Communist Party secretaries within the enterprise; and (6) the allocation of labor and the determination of wages. Granick made an effort to show that these elements of uniqueness are not a product of the reforms in China in the late 1970s and early 1980s, but that these elements, different from the situation in the Soviet Union and Eastern Europe, can be explained by a single hypothesis of the property rights of regional governmental bodies relative to one another and to the national government.

The book is based upon a set of twenty case studies of industrial enterprises. From these enterprises annual quantitative data were collected for the periods 1975–1978 and 1979–1982. These data are used to analyse the impact of the reforms carried out in the urban areas under the leadership of Deng Xiaoping after December 1978. Comparing the reform years with the pre-reforms years, Granick both focusses on differences and continuities. The most important distinction between the two periods is that financial results were of substantially greater significance to the local authorities than that they had been before. Equally important, during 1980–1982, extra-budgetary finance increased sharply and steadily as a source of nonagricultural investment. As a consequence, regional autarchy became important, as interior regions attempted to capture the cash flow from their own markets which had earlier gone to Shanghai and other industrial areas. The principle continuity involves the property rights enjoyed by the regional levels of government. This thesis is supported by the multilevel supervision of individual enterprises in both periods, as well as by the ease with which annual enterprise plans could always be fulfilled.

According to Granick, this unique Chinese system of economic coordination is more efficient than the Soviet one, both from a static and a dynamic efficiency point of view. The Chinese enterprises suffer to a much lesser degree than Soviet enterprises from physical bottlenecks. The plans are much easier to fulfill; hence, Chinese planners receive much less distorted information than Soviet planners. Moreover, the quality of Chinese goods is better. From a dynamic efficiency point of view, the Chinese system can much more easily switch from a system of detailed planning to that of a market economy. Already before the 1970s genuinely national physical coordination of production had practically disappeared. Unlike the conservative Soviet bureaucrats, the Chinese bureaucrats on the provincial level were always in favor of economic reform. For them there were personal benefits that were potentially significant.

One may ask whether a set of case studies that essentially refers to a period prior to 1985 is of interest today. The main answer to this question is that the Chinese economy today is in a much better shape than the Soviet economy. From a study such as Granick's we may learn under which kind of conditions the transition from a planned economy to a market economy might be successful. Moreover, the years of the reform period covered have special advantages from an analytical standpoint. They permit us

to observe the effects of different sectoral market conditions within the observed period. 1980 in particular is a year in which consumer good industries boomed, while 1982 was a bad year for consumer good industries.

As such, Granick's study is very successful. It gives a lot of information and new insights. Less successful is his so-called axiomatic approach. In different chapters, especially chapter 2, Granick uses quasi-mathematical formulations and econometric evidence. This approach neither gives additional insights, nor proves his fundamental statements. This is not to say that a reader interested in the Chinese economy and its transition to a market economy cannot find some interesting chapters.

R. Knaack

E.J.J.E. van Leeuwen-Schut *et al.*, *Over ontgroening en vergrijzing: demografie en economisch draagvlak* (Demographic Shift and the Tax Base), Teldersstichting, The Hague, 1990. Pp. vi + 90.

This is a report by the Dutch liberal party research institute on the implications for economic and social policy-making of a rapidly ageing population. In The Netherlands, the Liberals usually position themselves slightly right of the Christian Democrats, who traditionally hold the political centre. The implications are crystal clear: demography or no demography, the report is unabashed in its plea for more individual responsibility and a slimmer public sector. Now that is a respectable position in its own right. What matters is how it is arrived at. In a technical sense, the report is pretty straightforward. It builds entirely on secondary (semi-) official source material, which is probably wise if one wants to avoid allegations of a partisan interpretation of the facts. The authors are only occasionally given to silliness, as in their proposal to privatise public old age pensions on the grounds that most people nowadays build up a private pension anyway, without realising that public pensions, as a rule, are built into private pension arrangements. There is no reference here – nor elsewhere – to the technical literature on social security wealth, and no effort is made to appraise the need to increase the rate of savings against the persistent Dutch balance of payments surplus.

Yet, the lack of sophistication in this report does not really bother me. The prime task of a political party in a democracy is to expand public debate beyond the (quasi)sophisticated in-crowd, and the research reports of the liberal party have made admirable contributions towards that objective in the past. What bothers me this time is the lack of daring, and the feeling of *déjà vu* it left me with. I agree that downward wage inflexibility is a serious problem in the labour market, especially towards the end of a career. I am also in favour of adult training programmes. But why such careful language in suggesting that there might be a link between participation in adult training and the 'right' to maintain one's salary? (p. 62). And why are the authors not more candid about the pros and cons of the entitlement of individual incomes to minors (p. 49)? As a social democrat, they have not embarrassed me once.

Dirk J. Wolfson