Policy, Exchange Rates, and the International System
W. Max Corden
Chicago: University of Chicago Press, 1994, 332 pp.

W. Max Corden has produced a well-crafted analytical text that is an extensive revision of *Inflation, Exchange Rates, and the World Economy*. Aside from chapters 2, 3, and 11 the material is essentially new. The subject matter is divided into four general areas, each comprising one or several chapters. The introduction presents the reader with a set of properties that characterize the present international monetary system (i.e., what are the key issues, and what specific problems do they create for the system?). Chapters 2 through 6 essentially analyze the adjustment process in open macroeconomies. These chapters form the analytical core from which three general issues in international monetary economics are discussed: (1) the prospects for monetary cooperation in Europe [chaps. 7–9], (2) the quest for stability in the greater international monetary system [chaps. 10–13], and (3) the relationship between exchange rates and protectionism [chaps. 14–15]. The book concludes with a chapter in which Corden critically assesses various proposals for an international monetary regime, and ultimately goes on to give his own prognostication for the future.

The presentation of the subject matter within each general area appears as a kind of potpourri of the latest thinking on central issues regarding adjustment and its applications to policy: Corden's own analysis bears upon the conventional wisdom of adjustment, debunking some ideas while affirming others. The result is a collection of stimulating and important conclusions regarding how nations can and do adjust to both internal and external economic disturbances so as to achieve specific policy goals in both their macroeconomies and the greater international economy.

The book's title is quite appropriate in that the logical progression of Corden's arguments runs from the central role of exchange rates in the adjustment process to the opportunities and dangers that role presents for the international monetary and trading system and a smaller subsystem (Europe), and, finally, based on these opportunities and dangers, Corden considers the most useful policies national leaders can pursue in reforming international monetary relations. But even beyond this logic, there seems to be a pervasive theme that is not so boldly stated by Corden (most of whose arguments about the preferability of one exchange rate regime over another are hedged)—namely, the usefulness of flexible exchange rates. Although falling short of formally proclaiming himself a floater in this book, it is clear that his conclusions suggest that flexible exchange rates are better adapted to today's international political economy.

Europe does not appear to be an optimal currency area. Thus, adjustment costs under fixed rates or monetary union would likely be greater than they would under flexible rates. Although erratic exchange rates may reduce trade, fixed rates also work against liberalization because the loss of the exchange rate instrument tempts policymakers to substitute protection. Flexible rates can encourage liberalization since they can be used to provide short-term relief for the loss of sectoral or national competitiveness. Moreover, fixed rates would be difficult to institute in the greater international monetary system; the world as a whole is quite far from being an optimal currency area. Corden's own forecast is that the managed float is here to stay: the "nonsystem" will prevail.

Fundamental to Corden's leanings is a keen political savvy, which pervades the book: in today's world, limiting the use of exchange rates as a policy instrument imposes heavy political costs. Since macroeconomic policies are essentially targeted toward internal goals (employment and inflation performance win more elections than current accounts), policymakers will only grudgingly give up compensatory instruments.

Where does all this leave us for the future? Do we have to continue to live with erratic movements in currencies? Not if nations pursue Corden's lowest-common-denominator strategy: nations should strive to pursue stable and predictable macroeconomic policies, while using sterilized intervention cum monetary policies (i.e., limited intervention) to smooth out the short-term currency bumps. This solution to the problem of monetary cooperation not only reflects Corden's political savvy, it also reflects what is another pervasive theme of the book: that large-scale intervention in markets (i.e., strong multilateral management) is not necessary to reach desirable outcomes in the international monetary system.

This persuasion not only suggests that the present nonsystem of managed floating is not so purgatorial, but also that present outcomes in the international economy are not as destabilizing or conflictual as they appear. In this sense, we come to see the so-called major problems of the international economy (which Corden discusses in his introduction) in a different light. There is concern over the large Japanese current account surplus, yet the high rate of saving—which to a great extent drives the surplus—provides a supply of capital that keeps world interest rates lower than they would otherwise be. Americans see their trade imbalance with Japan as a problem, yet deficits are to a large extent the result of good things (e.g., high domestic investment). Moreover, international lending from Japan to the United States allows both countries to assume their preferred positions on the consumption-savings continuum (a Pareto-superior outcome to one where consumption and saving patterns deviated).

What about the gyrations of the dollar during the 1980s? Although the swings were big, most of the movements (outside of the speculative bubble of 1984–85) were in an equilibrating direction. Having maintained the dollar well outside of its purchasing power parity range would have been far worse. Is the high level of capital mobility in the international financial system destabilizing? Movements of exchange rates will often be in an equilibrating direction, and this is a good thing. In the long run, speculation is a better way of facilitating changes in exchange rates than intervention by policymakers. The former promises to be on average smoother and closer to true market values. Should nations be concerned that they are lagging behind other nations in real growth (e.g., are American industries and the economy threatened by faster Japanese growth)? Void of production biases, growth transmits positive outcomes to other nations in terms of both income and terms-of-trade effects. In sum, a careful scrutiny of the complex consequences of all these outcomes suggests that things are not as bad as common wisdom portrays.

Corden's book is far more than a textbook; his arguments take us well beyond the basics of the conventional theoretical building blocks of international economics. Corden's complex analysis of adjustment and its role in the central issues of international monetary relations ends up turning into his own unique treatise on the subject, a treatise that is constructed out of an agglomeration and synthesis of Corden's own past thinking on differing issues relating to adjustment. In this respect, Corden achieves an enviable goal: a book that is good for both the relative beginner (undergraduates with some grounding in international economics) and the experienced scholar. As the product of one of the godfathers of international economics, this book represents an offer you can't refuse.

Giulio M. Gallarotti
John Andrus Center for Public Affairs
Wesleyan University

No Turning Back: Dismantling the Fantasies of Environmental Thinking
Wallace Kaufman
New York: Basic Books, 1994, 212 pp.

Until a very few years ago the environmental movement was almost totally exempt from academic criticism. By mid-century many aspects of the American environment were truly in need of improvement, and environmentalists convinced the American people that theirs was a just cause opposed by rapacious business interests. Indeed, environmentalism became entwined with the collectivist desire for social control, which was popular with large segments of the media and academia. What Walter Williams has called "watermelon environmentalists" (green on the outside and red on the inside) are still very much a part of the more radical fringes of this movement. With the advent of government agencies and private organizations whose professed intent was to protect the less enlightened from environmental catastrophe, large numbers of people became "professional" environmentalists. As with any group of this kind, their first duty was the suppression of opposition. And what a job they did! Those who questioned their findings became "purveyors of junk science" or "dupes of industry," or worse. The media became very nearly closed to critics, and environmentalism became a kind of religion, whose mysteries were known only to the select cognoscenti.