America in the world economy: a strategy for the 1990s. By C. Fred Bergsten. Washington, DC: Institute for International Economics. 1988. 218pp. Index. $29.50; ISBN 0 88132 089 7. Pb.: $13.95; ISBN 0 88132 082 X.

After Reagan: confronting the changed world economy. By C. Michael Aho and Marc Levinson. New York: Council on Foreign Relations. 1988. 249pp. Index. Pb.: $11.95. ISBN 087609 041 2.

EVERY NEW American presidency attracts unsolicited advice from the dozens of policy institutes and professional think-tanks that populate the Washington–New York corridor. Most of that advice goes unread, and its value depreciates rapidly after the inauguration.

These two books are different. The reputations both of their authors and of the institutes from which they emanate guarantee that they were read by the Bush transition team, if not by the new president himself. (The record of the Bush administration so far suggests that the Aho/Levinson agenda has found greater favour than Bergsten's more ambitious one.) Both books address the fundamental issues and medium-term problems that the United States faces in the world economy of the 1990s. They are both wide-ranging in outlook, substantive in approach and written for the well-informed, internationally aware non-specialist.

Aho/Levinson and Bergsten agree on their diagnosis of the international economic situation and America's essential predicament. The world economy is rapidly integrating, the relative economic importance of the United States is shrinking and, meanwhile, its dependence upon the rest of the world is growing due to its long-running current account deficit and the savings/investment imbalance it reflects. Both authors are worried about the debt problems of developing countries and the declining credibility of the General Agreement on Tariffs and Trade (GATT) system in promoting freer trade and containing protectionism. Where they differ is in their assessments of the *seriousness* of these problems and thus the scale of the recommended presidential response.

Bergsten's book can be read as a comprehensive and unified statement of the key research findings and recommendations that the Institute of International Economics has produced over the last eight years under his direction. It is an admirably cohesive package, hinging on his analysis of the unsustainability of the US current account deficit, and encompassing imaginative proposals to manage exchange rates within target zones, to increase the funding available to the international financial institutions, to enlarge and extend the GATT round to 1992, to launch a new 'GATT for investment', and so on. Bergsten argues that the international economic problems facing the United States are so serious that the new president should 'maximize the effort on all fronts'. His grand strategy would be implemented through three omnibus legislative packages and the launch of a series of major international negotiations.

Because his strategy is so ambitious, the task Bergsten faces of persuading the reader is a difficult one. First, the macroeconomic rationale has grown more tenuous since it was first put forth in 1983. The US deficit looks increasingly sustainable as the years of economic growth roll on, inflation remains under control, exchange rates adjust dramatically but without provoking a 'hard landing' and the deficit continues to shrink—albeit slowly—in relation to the size of the US economy. Secondly, recent experience with exchange-rate management and policy-based lending to the less developed countries (LDCs) does not leave one sanguine about the feasibility of yet more ambitious proposals for target zones and conditional debt relief. The Plaza–Louvre process to manage exchange rates has all but broken down under the forces of shifting market sentiment and Group of Seven disagreements over policy coordination. The World Bank's decade of experience with structural- and sectoral-adjustment lending has shown that policy conditionality is no more a panacea for economic growth than is project lending. Thirdly, short of an economic crisis, it is hard to imagine the political will being generated in the United States to embark upon the major US-led international initiatives that are recommended. An alternative reading of the US political climate was provided at a recent Chatham House conference: that domestic issues such as crime, drugs and education are likely to engage this presidency more than international economics. And, finally, the interventionist approach towards fixing international problems with internationally negotiated solutions is not shared by all economists, let alone many heads of government.

The Aho/Levinson book covers essentially the same terrain, but is both more cautious and more surprising in some of its recommendations. On the LDC debt problem, it suggests principles for debt relief, rather than a specific plan, as well as a review by the administration of the mess that US bilateral aid policies have become. On trade and the Uruguay Round, it recommends a change in the US position on agriculture (as has since occurred), and contains a substantive analysis of how US adjustment should be managed in the sensitive sectors of steel, textiles and high technology. There is an interesting chapter on the problems of regulating international financial markets. The section on burden-sharing is a particularly clear contribution to an often murky debate, and the authors' recommendation against the linking of security and economic affairs in the conduct of foreign policy is a currently unfashionable one that needs to be heard more widely.

The main substantive point of difference between the two books concerns exchange rates. Aho and Levinson argue that stabilizing the dollar would impose costs on the US economy that would not be justified by the resulting benefits. Their reading of the Plaza–Louvre process is that it has demonstrated how politically difficult international economic cooperation is, even without announced targets and firm intervention commitments. Essentially they conclude that the restoration of US internal balance, both by 'bringing government spending into line with revenue and by increasing private savings to meet investment demand' is more important for the United States and the rest of the world than the 'difficult task of coordinating policies internationally to keep exchange rates stable'. Although one should not (and the authors do not) extend this conclusion to small European economies, it is a convincing one for America at the current political and economic juncture.

Both of these books are substantive and well-written contributions to the literature on international economic policy from a US perspective. The nuances of the arguments are better revealed by reading the two together; however, for the hurried reader who must choose, the distinction is more one of political persuasion than of economic coherence.

Chatham House DeAnne Julius