

in the system. It is therefore gratifying that Horlick describes the ACWL as ‘a remarkable success’ and concludes that there is ‘every reason . . . to further support and expand activities of this organization, including by pushing the United States and the EU to become Members’ (page 375).

Given the range of the articles in this book, both in time and subject matter, it would have been helpful to have Horlick’s own view of the material, in the form of a concluding article reviewing how time has treated the topics and ideas contained in his articles. The closest thing to such an article is a piece entitled ‘Nonconclusions’, which was actually a summary of a different book, edited by Horlick and others, in which it first appeared. Although focusing less on trade remedies than the current book, this article nevertheless provides a concise summary of the ideas expressed by Horlick in this collection.

To conclude, I would recommend this collection to any reader seeking a solid grounding in the historical background and key issues arising in the WTO over the years with respect to the subjects covered in the book, especially with respect to anti-dumping and subsidies.

NIALL MEAGHER, *Advisory Centre on WTO Law (ACWL), Geneva*

doi:10.1017/S1474745614000172

International Trade and Unemployment: On the Redistribution of Trade Gains When Firms Matter

by Marco de Pinto

Berlin, Heidelberg: Physica-Verlag (Springer), 2012

Unemployment has become an important political issue in most countries. Public opinion regards a high unemployment rate as a proof of government failure, and political success is largely dependent on the results that policy-makers achieve in the fight against unemployment.

Trade policy is a significant variable in that equation. International trade and investments link national economies, and such links are considered to be beneficial for the most part. However, they also result in an interdependence that, at times, has harmful effects. One such possible harmful effect is an increased rate of unemployment resulting from trade liberalization. The issue of trade and employment is thus of direct concern to trade negotiators, who – besides the objectives related to market access and trade-inducing domestic policies – also have to care about domestic employment, wages of the home-country workers and social standards (Hoekman and Kostecki, 2009).

Although an extensive economic literature addresses the link between foreign trade and unemployment, we fall short of fully understanding the nature of that relationship. In the case of perfect competition in labor and product markets, the impact of trade liberalization is relatively well known in economic theory. There is also an emerging consensus in the empirical literature that trade liberalization implies a reduction in low-skilled jobs in the high-income countries, an increase in income inequality within the high-income country, and a decrease in income inequality between high-income and low-income countries (Dicken, 2011).

However, the existing empirical body of knowledge falls short of fully understanding these links in the case of firm and worker heterogeneity, active trade unions, unemployment benefits, and various types of redistribution schemes for trade gains within the trading nation.

The main contribution of the volume by Dr Marco de Pinto, who currently is a lecturer in Economics at the Trier University in Germany, is to offer a theoretical explanation of various empirical results already available in numerous economic studies. The book is essentially a text of the author's doctoral dissertation finalized in 2012 at the Faculty of Economics and Management of the University of Kassel in Germany, with Chapter 2 being written jointly with the thesis supervisor Professor Jochen Michaelis and also published elsewhere in its improved form (de Pinto, 2014).

The volume focuses on dealing with the following three questions:

1. What is the impact of trade liberalization on the labor market with active trade unions (once one accounts for firm and worker heterogeneity)?
2. What are the effects of a redistribution policy when unemployment benefits are paid to the unemployed who have lost their jobs due to trade liberalization?
3. What is the optimal scheme for redistributing trade gains if policy-makers take into account the impact on income distribution?

The publication is composed of four chapters. The first one provides an overview of the link between trade and employment. The second deals with international trade and unemployment focusing on the worker-selection effect (i.e. the changing needs for high-skilled workers in the selection process). Chapter 3 offers a positive analysis of unemployment benefits as an example of a scheme for redistributing trade gains. Finally, Chapter 4 discusses an optimal scheme for redistributing trade gains that follows from the preceding analysis.

Using the well-known Melitz (2003) model, de Pinto shows in Chapter 2 that trade liberalization leads to an increase in minimum skill requirements of employees and thus results in long-term unemployment of low-skilled workers. For workers with higher skills, trade liberalization is beneficial both in terms of additional employment opportunities and increased income since their wages tend to grow due to trade liberalization. However, the overall impact of liberalized trade on employment is rather ambiguous. For example, if import-competing industries extensively rely on low-skilled workers while export industries require higher-skilled but a lesser number of workers, the aggregate employment level is likely to decrease with trade liberalization.

The study shows that trade liberalization is not necessarily a Pareto-improvement, that is, nobody can be made better off without making somebody else worse off. This is because trade liberalization creates winners (high-skilled workers) and losers (low-skilled workers). To compensate the losers, governmental authorities are (rightly) assumed to introduce unemployment benefits. These benefits can be financed from three sources: taxes on wages, payroll or corporate profits. De Pinto shows, assuming unionized labor markets and heterogeneous workers (in terms of their skills) that there is a threshold level of unemployment benefits where all trade gains are eliminated. In other words, de Pinto demonstrates that unemployment resulting from trade liberalization may trigger disbursement of unemployment benefits in such large amounts that any trade gains from liberalization are effectively eliminated. He demonstrates that this

threshold differs between various types of taxes and shows that there is a clear-cut ranking in terms of welfare effects, depending on which of the three types of funding of unemployment benefits mentioned above is chosen.

This book is a quality publication, and the author should be congratulated for his useful theoretical research and his talented analysis. Nevertheless, given the rather narrow focus of his study and its technical nature, one can wonder whether a series of specialized articles, rather than a book form, may have been a more appropriate form for the dissemination of this research. While mathematical modeling of trade issues has its uses, one should also admit its limitations. As noted by Professor Wassily Leontief – one of the pioneers of econometrics and the 1973 Nobel Prize winner – ‘uncritical enthusiasm for mathematical formulations tends often to conceal the ephemeral content of the argument’ (Leontief, 1977). In that sense, the volume is likely to provide limited guidelines for the practitioners of trade policy-making.

Three of the four chapters are clearly written as self-contained academic papers, and no adjustments were made to coordinate the various parts in order to provide the necessary consistency. The reader will also miss a list of abbreviations and an index – an unfortunate omission, since numerous abbreviations and technical concepts are used in the text. Nevertheless, the bibliography included in the volume provides a useful listing of the recent studies on trade and unemployment. In sum, the volume of Dr de Pinto provides a useful reading for theoretical economists interested in trade issues and labor markets.

MICHEL KOSTECKI, *The Enterprise Institute, Université de Neuchâtel, Switzerland*

References

- Dicken, Peter (2011), *Global Shift: Mapping the Changing Contours of the World Economy*, Thousand Oaks, London, New Delhi: Sage Publications.
- Hoekman, B. and L. Kostecki (2009), *The Political Economy of the World Trading System*, Oxford: Oxford University Press.
- Leontief, W. (1977), *Essays in Economics: Theories, Facts and Policies*, New York: M.E. Sharp.
- Melitz, M. J. (2003), ‘The Impact of Trade on Intra-industry Reallocations and aggregate Industry Productivity’, *Econometrica*, 71(6): 1695–1725.
- De Pinto, Marco (2014), ‘International Trade and Unemployment – the Worker-selection Effect’, *Review of International Economics*, January 2014, <http://ideas.repec.org/p/mar/magkse/201127.html>.

doi:10.1017/S1474745614000184

Regulation of Foreign Investment: Challenges to International Harmonization

edited by Zdenek Drabek and Petros C. Mavroidis
World Scientific Publishing Company, 2013

Drabek and Mavroidis have compiled an edition that is at once descriptive and prescriptive, addressing the current state of regulation of foreign investment, the ability