Trade Liberalization and a Regional Economy, by R. Shearer, J. H. Young & G. R. Munro. Toronto: University of Toronto Press 1971. vi, 203 pp. $5.00.

Two items about the nature of British Columbia's economy have been reiterated throughout its one hundred years of membership in confederation. First, British Columbia's economy has been depicted as extraordinarily dependent upon its primary resource base for exports both to the rest of the country and outside of Canada. Moreover, given this primary export dependence and coupled with the tariff structure of Canada, it has been argued that the economic welfare of British Columbia has been reduced. The essays by R. Shearer, J. Young and G. Munro attempt to document through available data the first view and assess the second point. Their tactic on the second point is to measure the exclusive income gain to British Columbia of Canada entering a free trade area with the North Atlantic Community.

What is required for their ambitious research effort is first a detailed snapshot of British Columbia's economy (i.e. an input-output table) and next an analytical framework to assess required effects of a lowering of tariff barriers. The first requirement, a description of British Columbia's regional role in a wider economy is told well, especially given the paucity of regional data and the fact that the three authors choose to discuss separately at disparate points in the book the British Columbia economy in general (Shearer); its export industries (Young) and its import competing sector (Munro). These three essays are well integrated and the theme that British Columbia's economy is heavily dependent on its primary based industries (e.g. forestry and mining) is one again reaffirmed.

There are, of course, many important assumptions and analytical remarks made in this paradigm of the economy (e.g. exclusion of the service sector and no dramatic techical or taste changes) which both the sophisticated reader and the professional can perceive and perhaps feel uneasy about. And this raises the important question of what audience this book is directed to: interested laymen, undergraduate, or professional economist? This is a critical point not identified by the authors that leads to a serious difficulty in assessing the expected degree of theoretical sophistication and the importance of the book.

Focussing our attention on the industrial studies of British Columbia's economy Shearer's description provides an adequate basis for analyzing different trade policies regardless of the alternative assumptions or conditional predictions one could counter argue. The same, however, cannot be said about the theoretical construct used by Shearer to explain his descriptive work. In short, Shearer revises Scott's Staple Theory to explain British Columbia's economy by viewing its natural resources as basically immobile and capital and labour mobile. Thus the latter inputs historically received a high return and migrated heavily into the Province. This ignores the fact that the B.C. economy is dominated by strong labour unions that restrict employment but allow high productivity and high returns to a mobile but sometimes unemployed labour input. This situation does not reflect the true relative scarcity of a mobile labour resource.

Shearer expands this theoretical framework in his second essay to analyze the regional impact of free trade on a staple economy. Once again a variant of a well-known analytical tool, Customs Union Theory is used. Regional trade gains or diversion measures; i.e. B.C.'s forced purchasing from lower cost or higher cost sources respectively, are introduced and used to explain B.C.'s economic loss from belonging to a Custom's Union with the rest of Canada. This theoretical tool is quite appropriate. However, Shearer does not inform the reader of two well known problems. First, in order to define regional gains or losses one must have a common definition of a region. According to Shearer a region is an area endowed with some immobile resources. Thus, using this definition any area with some immobile resources can assess its gains or losses to belonging to the Canada Customs Union. Unfortunately, problems of defining an area's degree of resource immobility (must 50% or 1% of its resource be immobile?) and the possibility of making any resource mobile at some cost strips his regional viewpoint of its unique characteristic.

The second absent caveat to Shearer's argument is the Theory of the Second Best. It is well established in the literature that partial movements to a free trade position may not increase welfare (i.e. no net trade gains) if secondary distortions are encountered. Thus, Shearer's main theoretical model which is later amplified to assess British Columbia's position after free trade is questionable for important semantic and analytical reasons.

The two descriptive essays by Young and Munro which follow Shearer's provide an interesting summary of B.C.'s export and secondary manufacturing sectors respectively. Young's study, although essential for a comprehensive analysis, is tangential in terms of the key issues of rationalization and employment after free trade, and will not be discussed in detail. Munro's essay, however, is a key component (i.e. about one half) of the book can be faulted on several points. He attempts to assess the efficiency of B.C.'s import competing industries vis à vis its U.S.

counterparts (northwestern region) to measure the effects of free trade. The standard argument of inefficiency is mounted against B.C.'s sectors; namely a lack of economies of scale in many industries. Armed with this information Munro then uses location theory and estimates of scale economies to conclude that only B.C. market oriented industries with little room for scale economies (e.g. bakeries, beverages, etc.) and relatively low wages will prosper after trade barriers against U.S. firms are removed.

Mainly through omission Munro's supply oriented arguments are misleading about the destiny of post free trade industries in B.C. and show only half the picture. It is clear from hindsight that the appreciated Canadian dollar (1971) alters Munro's estimates of low wages in B.C. under a fixed or undervalued exchange rate (seven per cent difference). This recognition of recent reality effectively removes wage differentials as an argument for the competitive advantage of B.C.'s labour intensive industries.

Turning to the demand side, Munro's prognosis of B.C. industry after free trade is even less tenable. Demand factors can and often do distort trading and comparative advantage arguments. Munro ignores these factors, especially the monopoly or oligopoly structure of many of the industries (e.g. paper products, beverage, etc.) in the import competing class. Thus, in a monopolized industry, it is ideal to set up national branch plants to discriminate between markets with different demand patterns regardless of the tariff structure. Munro's discussion of the competitiveness of the sugar industry (p. 138) is a glaring example of this phenomenon. He argues that the viability of this industry is due to supply side advantages. It's existence in B.C. may, however, be just as easily explained by the monopoly position as a buyer of raw materials as well as price setter locally.

Finally, Munro partially ignores the implication of the effective rate of protection on B.C.'s post-free trade economy. Possible loss of output value to B.C.'s secondary manufacturing industry after free trade is revealed not by the nominal values used by Munro but the effective rate of protection of B.C.'s industries. Munro's analysis uses the nominal tariffs reported (i.e. this takes no account of the tariff on industry's inputs as the effective rate does) and then draws his conclusions. As a postscript he appends estimates of effective tariff rates for all Canada and concludes that with the exception of the sash industry there is little variance between the nominal rates for B.C. and the effective tariff rates for Canada. However, it is possible that the effective tariff rates of protection for B.C. are different than the Canadian figures reported and hence Munro's nominal valuations are meaningless. The rationale for this suspicion is simple. B.C.'s resource base secondary industry would undoubtedly contain less value added but more intermediate inputs than Canada leaving the comparability of aggregate and regional data in doubt.

Regardless of the theoretical importance of the above arguments it is appropriate to question Munro's conclusion that only approximately $350 million dollars of secondary manufacturing output would be lost with free trade. This still means by his own admission that over 10,000 people or 28% of the 1961 employment level of this industrial group would be unemployed. What will the second order effects be on the service sector of this initial decline in output and unemployment? Munro excludes this analysis for reasons that are not obvious. Since the service sector represents over 60 per cent of B.C.'s labour force only small second order effects on the service industry would be required to vastly increase industrial unemployment after free trade. Moreover, what would happen to the employment and wage level of the secondary industry if oligopolistic firms dominate the post-trade B.C. economy? Theory tells us that lower wages will be paid and even more unemployment than the 10,000 estimated will result. This is a reasonable characterization of the Second Best argument at work in the Munro study and in the B.C. economy. An attempt to make a marginal change toward perfect competition (i.e. no tariffs) has reduced wage levels and any tendency for factor-price equalization. The last point must not be taken lightly since this equalization theory is the heart of the economist's argument for free trade.

The summary essay written by Shearer attempts to capture the regional gains from free trade by estimating the lower consumer and capital good prices, plus increased revenue from exports that result from free trade. Shearer finds the total gain to free trade in B.C. to be a 5.5 per cent increase in personal income or 185 million dollars. Of course, this estimate is a conditional prediction and is based upon a series of carefully stated assumptions and caveats. However, since important parts of the theoretical concepts (i.e. part of consumer surplus and payments to factors) could not be operationally measured it would seem that Shearer would have invoked the standard procedure of alternative estimates. This is especially true in light of the lengthy and often complex arguments he makes available for this task but does not use.

Once again the remark voiced about the audience direction is apropos. At points the theory is directed to the level of the serious economics student and, given the later limited use of the theory in the form of alternation estimates, undoubtedly belongs in appendix form. Certainly the cash cost and lost revenue concepts used could have been explained more concisely and the interested reader referred to the appendix or original sources for the multitude of derivations. Other fundamental problems exist though. As Shearer imaginatively constructs the regional effects from the traditional economy wide analysis questions of aggregation errors arise. Why should the described regional supply curve be more or less elastic than the national ones (p. 181)? What if the demand curve for the marginal supplying region was flatter than the national curve? If these two plausible cases hold for instance certain regional effects would be absent (i.e. no regional production changes). Once again at a pivotable point the reader finds reasonable alternatives which are not assessed theoretically or reflected in later dollar estimates of B.C. gains in a free trade situation.

Since it is both rather unfair and naive to attack cautious conditional predictions the remarks concerning the accuracy of estimates will be limited to those of theoretical importance. Shearer's measurement of consumer price differentials is a good case in point since it highlights the ignored effects of non-competitive elements in the whole study. The consumer price differences between Seattle and Vancouver are used to assess the free trade gain to consumers but may reflect nothing more than quasi-monopolists discriminating in two different markets. This is especially true since the author states (p. 198) that prices of high volume retail outlets were used as indicators of differentials between the two countries. These stores may have been either owned or controlled by the same parent companies or non-competitive in other ways. Relaxation of tariffs will not reduce prices in this type of situation. This fact is well documented in instances within cities in the same country where chain stores charge vastly different prices with minimal transport costs. This points out the illusory gains which are difficult to realistically measure in a non-competitive and foreign dominated economy such as B.C.'s. Again the solution would have been a wide range of alternative estimates based on degrees of competitiveness leaving the choice of the appropriate value to the reader.

In sum, after the considerable imaginative effort and detailed rationalization of all the authors throughout the work the reader is left wanting a more elaborate statement of alternative estimates of the impact of trade on Canada's most dynamic western province. In the light of this remark, it is hoped that an updated effort will be forthcoming incorporating such contemporary issues as Japanese trade and the effects of Canadian and

U.S. currency revaluation on British Columbia. Certainly the efforts of Shearer, Young and Munro have set a protective and excellent setting for these tasks.

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Indian Families of the Northwest Coast: The Impact of Change, by Claudia Lewis. University of Chicago Press, 1970, 220 pp.

My first reaction on receiving Claudia Lewis' book was to cheer. Here at last was a study of a contemporary Salish community to recommend to students and the ever growing public which wants to understand Indians. While the book begins to meet the need for studies of Northwest Coast Indians outside the relatively well covered Kwakiutl area, my second thoughts were less positive.

The book is based upon research conducted for a doctoral dissertation nearly twenty years ago and is already dated. The addition of an epilogue after a return visit in 1968 doesn't succeed in bringing it up to date or in illuminating the changes which have taken place. The epilogue bogs down in anecdotal account. One has, at times, a feeling that publication was delayed too long.

More serious and irritating is the thin fiction of anonymity with which the author attempts to conceal the identity of the community being studied. As details are unveiled, the "Camas" Indians, ". . . a large band . . . on a reserve adjacent to one of the island's small prosperous municipalities, a few miles north of Victoria" become obviously identifiable to anyone with a superficial knowledge of British Columbia's geography and Indian settlements. Not only this, but families and individuals stand forth clearly, to those who know the community. The pseudonyms don't hide anything from those in the know and for students on the other side of the continent pseudonyms are at best irrelevant and likely to confuse. One will search bibliographies in vain for further data on the "Camas" unless, God forbid, that, too, becomes a catalogue heading.

The only justification for the use of this sort of concealment is that it may help the individuals described maintain a fiction of anonymity — to say to themselves that the readers will never know with certainty who is being talked about. But given the universal interest humans have in gossip — especially in small communities — it seems to me quite unlikely that those directly concerned will allow, let alone support, such anonymity