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goals (presented in the introduction) are worthwhile, and chapter 1 reports many interesting stylized facts that deserve further analysis. This includes the lack of variance in weekly hours of work, the low level of cyclical variation in hours of work, and the weak relationship between cyclical variation in vacancy and unemployment rates. Chapter 1 also offers interesting facts about Okun's law and the Phillips curve, facts based on time series of macroeconomic data.

Prachowny could also have done more with some of his useful insights, such as the insight that workers experience tradeoffs between leisure and goods induced by the ability of firms to force them to chose between a fixed number of hours of work or no work at all. It is this assumption about fixed hours that leads Prachowny to conclude that increases in nonwage income do not necessarily increase the reservation wage (see Figure 3–5, which contains a confusing error on the vertical axis) and that an individual supply will be vertical at the fixed number of hours determined by employers (Figure 3–6). However, Prachowny recognizes elsewhere that firms will be most influenced by their dealings with marginal workers who are willing to work exactly the fixed number of hours. This marginal worker's reservation wage is expected to rise with income, if leisure and goods are normal. Also, the marginal worker's supply of overtime hours is expected to lead to an upward-sloping individual supply of hours of work, as opposed to the vertical supply of Figure 3–6.

One can only wonder why the author failed at reaching his lofty goals. The author's lack of familiarity with studies of labor markets, which are mostly of a microeconomic nature, probably played a role. This lack of familiarity is evident from the limited number of stylized microeconomic facts reported in chapter 1. All the stylized facts reported are based on macro-level time series, except for reported findings on choice of hours of work. An effective integration of labor market analysis into macroeconomics may well find its inspiration in other microeconomic labor-related findings, including income and wealth effects on hours of work, effects of gender and marital status on hours of work, and distinctions between the determinants of hours of work and of labor force participation.

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Creating Resilient Financial Regimes in Asia: Challenges and Policy Options. Edited by Priya Basu. Oxford and New York: Oxford University Press, 1998. Pp. xvi, 162. $32.00. ISBN 0–19–590440–0.

There is something devilishly entertaining about reading a collection of papers from an April 1996 conference on "Creating Resilient Financial Regimes in Asia." The very high-level attendees at this conference surely long for the day when the major concern was mobilizing capital for massive infrastructure projects that would ignite the next stage of economic growth. Today, of course, the major concern is preventing the further deterioration and spread of the severe crisis that began in 1997. Albeit unfair, it is impossible to read this book without reflecting on the dramatic events that soon followed the conference. Not surprisingly, the book offers little serious warning of the calamitous events that have caused much suffering in Asia and fear around the globe. While there is the requisite bow to the need for stronger supervision and regulation, the gist of the discussion is of an optimistic future, where financial systems become more market oriented and competitive, and where Asia continues to prosper.

The book opens with an excellent survey of past financial sector reforms in Asia. Priya Basu reviews experiences with bank privatization, prudential supervision, legal and tax reforms, accounting systems, and information disclosure requirements. The paper recognizes a critical problem: "The banking systems of many economies in Asia have been characterized by the absence of adequate prudential oversight" (p. 13). Moreover, oversight has generally taken the form of governments controlling and managing markets and participants. Thus, official supervision becomes the only form of supervision, and few incentives exist for private sector monitoring of banks.

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In chapter 2, Paul Dickie provides a generic discussion about creating resilient financial systems in Asia. He offers several insights. First, authorities should consider reducing government intervention in the banking sector. This would intensify market forces and thereby improve capital allocation. Second, build the legal and regulatory infrastructure for nonbanks and markets. This will provide competition for banks, which will boost financial services. Third, while opening to international capital flows allows economies to benefit from foreign capital, opening also intensifies the risk of rapid capital outflows. Fourth, "while the optimal order would liberalize interest rates and the domestic banking sector prior to opening the capital account, actual experience in Asia demonstrates that it is possible to violate this order of reform with very responsive and adaptable policy adjustments" (p. 32). The prime example used to justify this exception to the rule is Indonesia. Finally, Dickie argues that governments need to improve supervision and regulation.

The next three chapters review financial sector reforms in China, Indonesia, and New Zealand. As outlined by Li Ruogu, China is a story of reducing central control. From 1949 to 1979, the People's Bank of China (PBC) was the only bank in China. Then China formed a two-tier system, where central banking was maintained in the PBC and commercial banking was conducted in specialized institutions. During the 1980s and the early 1990s, China established new domestic banks, and nonbank financial intermediaries flourished by providing credit to nonstate sector enterprises. Li Ruogu clearly notes that privatization and less government control in the future will further the development of China's financial sector.

Soedradjad Djiwandono reviews financial sector reforms in Indonesia since 1966, especially the PAKTO deregulation in the late 1980s. While recognizing the mistake of liberalizing before creating adequate supervision, the paper views financial deregulation as successful since Indonesia grew at almost 7 percent per annum during the late 1980s and early 1990s.

In New Zealand, authorities conducted a full review of how to boost incentives in the banking sector. They worried that official bank supervision was very expensive, ran the risk of consolidating information in the hands of a few bureaucrats, and reduced incentives for bank directors to monitor bank operations. Thus, New Zealand adopted a market approach to prudential supervision and regulation. The key features of this framework focus on public disclosure of information and forcing bank directors to assume responsibility for disclosed information and an internal control system, such that directors face severe criminal and civil penalties. Donald Brash notes that the new system focuses on increasing the incentives for prudent behavior through private market mechanisms.

Finally, Morris Goldstein presents a comprehensive paper on "Presumptive Indicators of Vulnerability to Financial Crises in Emerging Economies." He lists seven deadly sins: (i) rising international interest rates, (ii) the growing mismatch between the maturity on liabilities and assets, (iii) large current account deficits used to finance consumption, (iv) a highly overvalued exchange rate, (v) an unwillingness to raise domestic rates to stem capital outflows, (vi) an unsustainable boom in bank lending, (vii) and high susceptibility to contagion, from small country size, regional ties, weak policies, etc. The paper looks backward at Mexico, with little discussion of Asia in 1996.

This book is a useful snapshot of prevailing wisdom on financial sector fragility in Asia in 1996. Besides representing a humbling reminder of how difficult it is to asses financial sector weakness, the papers focus our attention on incentives. Policymakers need to be relentless in ensuring that the owners, directors, and managers of banks have proper incentives and that market participants have the ability to help create those proper incentives.

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Trade and Income Distribution. By William R. Cline. Washington, D.C.: Institute for International Economics, 1997. Pp. xiii, 305. ISBN 0–88132–216–4. *JEL 98–0522*

Wage inequality in the United States has increased dramatically since 1980, with the