
The editors of *Competition and Cooperation* begin their introduction by saying that they intended the book to be a description of insights from Nobel Prize winning economists, as well as economic and political science scholars, about the influence of the Nobelists on the social sciences. Indeed, the book originated from workshops held between 1997 and 1998, beginning at the annual American Political Science Association meetings, in which scholars were invited to write commentaries on the contributions of six economic Nobelists: Kenneth Arrow, Herbert Simon, James Buchanan, Gary Becker, Douglass North, and Reinhard Selten. The resulting papers, including responses by the Nobelists, were collected and published as *Competition and Cooperation*. This book is more than a discussion of how economic ideas have shaped the political science profession, however. Rather, it is scholarship in its own right and contributes solidly to the economic and political science professions.

The book begins with a brief overview by the editors, who claim that a common theme of the contributions is ‘a chafing dissatisfaction with the standard neoclassical paradigm of economic analysis, particularly as a foundation for positive analysis’ (p. xv). The editors also argue for the need for substantially more empirical work in political economy. With the exception of this introduction and final two chapters, each chapter is organized in the same manner. Chapters are named after the Nobelist on whom the chapter is based. Each chapter begins with a brief biographical sketch of the Nobelist, followed by two commentaries and summary remarks by the Nobelist. The book is nicely organized in that one does not have to read, in order, each chapter to understand subsequent chapters.

The chapter on Arrow (Nobel Prize in 1972) focuses on his work on voting cycles and general welfare theory. Norman Frohlich and Joe Oppenheimer discuss the problem of aggregating individual preferences, and they suggest that insight can be gained by recognizing how perceptions affect preference formation and decision making. Norman Schofield describes the three great ‘anti-equilibrium’ discoveries of social mathematics, all of which build from Brouwer’s fixed-point theorem. These include
the Gödel-Turing theorem that logic systems containing valid propositions cannot be determined within the system, Arrow’s impossibility theorem, and the discovery of chaos in subsystems of stable (i.e., predictable) systems. His discourse focuses on the possibility ‘that some aspects of the political economic world may be chaotic without implying that the entire human universe is’ (p. 35), and it concludes with a discussion of the implication this has on political science.

The chapter on Simon (Nobel Prize in 1978) builds on his work on decision-making within organizations. Robert Goodin, for instance, links Simon’s work on bounded rationality to research on control theory and new institutional economics. He concludes that, although there are attempts to ‘dethrone’ rationality by some scholars, ‘rationality of some means-ends sort’ remains the basis for models of decision-making (p. 78). In his commentary on Goodin’s essay, Simon expresses his doubt that political scientists accept the concept of bounded rationality as canon, however. In fact, Bryan Jones presents a counter-argument to Goodin by claiming that ‘there is no sound reason that rationality axioms have . . . dominated formal approaches to political theory’ (p. 107).

The chapter on Buchanan (Nobel Prize in 1986) builds on his work on political decision making. Vincent Ostrom discusses Buchanan’s work on constitutions, while Thomas Schwartz explores Buchanan’s contributions to political science, but as an extension of contractarianism. In his summary remarks, Buchanan explains how he came to recognize the ‘endogeneity of the choice alternatives that are presented to the collectivity’ and how the choice alternatives are dependent on alternative ‘rules for reaching collective decisions’ (p. 152; emphasis in original).

The chapter on Becker (Nobel Prize in 1992) extends his work on the application of economic analysis to traditionally non-economic topics. Ronald Rogowski’s essay is particularly interesting, not because of his description of how political science has benefited from Becker’s work, but because of his criticism of political scientists for not having learned what they ‘should have learned from Becker’ (p. 159; emphasis in original). Rogowski argues that political science would be advanced considerably by taking seriously Becker’s work on discrimination, pressure groups, and human capital theory. Russell Hardin elaborates on the role of social capital theory in political science, particularly with respect to the relationship between preference formation and the evolution of utility theory.

The chapter on North (Nobel Prize in 1993) follows his research on transaction costs in political-economic institutions and how these affect economic development over time. Barbara Geddes presents an argument based on North’s ideas that ‘political leaders are most likely to provide public goods (and other policies) conducive to economic development when they expect doing so to contribute to their own political survival’ (p. 204). She then provides evidence from developing countries that political leaders will be more likely to promote policies of privatization if their political party has an interest in doing so. Robert Keohane applies North’s ideas to the study of global political economy, and he suggests that problems of monitoring and enforcing contractual agreements that take place across international regimes present fertile terri-
tory for research, particularly with respect to the role of ideas and ideology. In his response, North describes the problems that arise in overcoming transaction costs within political economic systems.

The chapter on Selten (Nobel Prize in 1994) builds on his work on noncooperative game theory. Kenneth Shepsle describes how the extensive form game and subgame perfection 'provide a theoretical orientation and analytical methodology for the new institutionalism' developing within the social sciences, which is not surprising given that noncooperative game theory, 'though elaborated most extensively in economics and evolutionary biology, is fundamentally about politics' (p. 269). Laitin applies Selten's contributions to both theory and empirical evidence, which he calls 'dualist methodology', to the problems of cultural shifts occurring within the former Soviet republics.

Overall, *Competition and Cooperation* is more than an evolutionary narrative of ideas in political economy, which the Nobelists and editors trace in the final two chapters of the book. It is an excellent collection of scholarship. Of particular value are the many questions raised by the contributors reflecting what they believe to be important but unanswered research problems in political economy. Thus, the book is a must-read for doctoral students who seek to develop ideas for dissertation research that would advance the fields of economics and political science.

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In this interesting book Amiel and Cowell bring together results from an ongoing research project on inequality and poverty comparisons. Their approach to the issue is unique; they explore perceptions of inequality and poverty by well-designed questionnaire studies. The results stimulate second thoughts on the main axioms underlying the standard approach to inequality measurement based on the Lorenz curve. To give a flavour of the results: Comparing income distributions $A = (2, 5, 9, 20, 30)$ and $B = (2, 6, 8, 20, 30)$, only 37% of respondents think that $A$ is more unequal than $B$. In other words a strong majority rejects Dalton's transfer principle which requires a decrease in inequality when a person transfers income to a poorer person (and the latter still remains poorer). Support for the transfer principle is even lower (31%) if it is phrased in verbal terms. However, Dalton's transfer principle is a key axiom of the Lorenz curve approach to inequality measurement.

The structure of the book is straightforward: Chapter 2 reviews the standard approach to inequality comparisons in the literature. Chapter 3 explains the research
methodology, the design of questionnaires, and the selection of samples. Chapters 4–7 present and discuss the findings: the perceptions of income inequality and inequality of social welfare, the perceived effect of growth on inequality, and the perception of poverty. Chapter 8 takes 'a cross-cultural perspective' by comparing results across countries and across academic disciplines. The conclusion gives a concise overview of results and sketches a line for future research.

Amiel, Cowell and collaborators in various countries have asked students to make inequality comparisons for numerical and verbal examples. Students had not taken courses on welfare economics or social policy. The questions (well documented in an Appendix) have been designed to investigate the support for the basic principles of inequality comparisons: anonymity, the population principle, the transfer principle and decomposability. Similarly common axioms in poverty measurement have been examined. The support for each of the principles is far from unanimous. The anonymity principle receives the best support, but still 28% (17%) of respondents do not support it in a verbal (numerical) questionnaire. Striking as they are, should these findings affect the researcher’s choice of tools for analysis of inequality and poverty? If people’s inequality judgements are inconsistent with the theory, should we change our theory? Amiel and Cowell raise this troublesome question in the introduction but they are careful to jump to conclusions and their answers are vague. Therefore, I would like to suggest my own answer and by doing so I want to put Amiel and Cowell’s work in perspective.

In the philosophy of science C. G. Hempel has introduced the distinction between the context of discovery and the context of justification. The distinction is relevant for the case at hand. Amiel and Cowell’s study is confined to the context of discovery. The authors do not discuss the issue of justification. Questionnaires are heuristics, but not proof, nor refutation. In general questionnaires may be a suitable instrument for the search of new theories. The lack of support of a theory by the ‘general public’ may stimulate research efforts to establish alternatives, but it does not offer any grounds to reject the theory. Amiel and Cowell’s findings, the lack of support for basic axioms of the Lorenz curve approach to inequality measurement, will stimulate research into alternative conceptions of inequality. However, whether or not the standard inequality theory is appropriate cannot be judged by any questionnaire study. The Lorenz curve approach will have its prominent place in inequality analysis until there is a more appropriate and consistent alternative.

‘Inequality’ is a vague concept. It is therefore not surprising that people think about and conceptualise it in different ways. The economist’s task is then to develop a consistent conceptual framework (or theory). The axiomatic approach adopted by economists in the area of inequality analysis (summarised by Amiel and Cowell in Chapter 2) removes the conceptual vagueness and allows to prove consistency. However, there is no single ‘true’ concept of inequality. Amiel and Cowell explore (in Chapter 6) a range of different inequality concepts that have been introduced by Kolm (1976a and b) and termed ‘intermediate inequality’ by Bossert and Pfingsten (1990). In this area the questionnaire heuristics can be productive in identifying the empiri-
cally relevant concepts of inequality. But the axiomatic approach generates concepts out of vague ideas.

Questionnaire studies and experiments are becoming more and more important in all areas of economics. In inequality analysis Amiel and Cowell have taken the lead to establish this line of research. Their results provide food for thought for the coming years.

REFERENCES


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Until the burst of the Japanese bubble economy in December 1989, Japan’s economic performance had been regarded as outstanding and exemplary. The high international competitiveness of the Japanese manufacturing industry, huge net capital exports, and the large size of Japanese (city) banks stimulated the interest of both Japanese and Western scholars. Most of them explained the extraordinary performance of the Japanese economy with the Japanese model of corporate governance (micro level) and a sophisticated economic policy (macro level).

While books like Chalmers Johnson’s MITI and the Japanese Miracle were still best sellers at the beginning of the 1990s, the Japanese bubble had already collapsed. During the 1990s the Japanese stock market lost more than 70 percent of its value. Japanese banks found themselves trapped with an overwhelming amount of bad loans. Keynesian economic policy proved unable to bring the country back on the path of a sustained recovery.

With this background of gloomy economic prospects the volume edited by Masahiko Aoki (Stanford University) and Gary Saxonhouse (University of Michigan) addresses the contemporary problems of finance, governance, and competitiveness in Japan. The contributions go back to a conference held in March 1997 at the Center of Economic Policy Research at Stanford University in the honour of Hugh Patrick, Robert D. Calkins Professor of International Business at Columbia University.
The volume contains contributions from Patrick’s past and present colleagues, students, and fellow specialists on the Japanese economy. Since Patrick ‘has been at the centre of the development and transformation of Japanese economic studies in the United States’ (p. 1), it is not surprising that outstanding specialists on the Japanese economy, such as Yoshio Suzuki, Masahiko Aoki, Juro Teranishi, David Weinstein, Fumio Hayashi, Koichi Hamada, Mark Ramseyer and Gary Saxonhouse have made contributions.

Two main issues are addressed: In part I corporate governance and the evolution of Japan’s financial system and in part II government, the legal system, and the structure and operation of the Japanese economy.

In part I it is analysed how the Japanese financial system has changed during the 1990s. While relational financing by the main bank to keiretsu enterprises was identified as pivotal for success during the catch-up process of the Japanese economy, in the 1990s the financial sector has been regarded as the main culprit of economic decline. It became obvious that in contrast to the export industry, financial institutions have failed to adapt to globalisation. Not surprisingly, most authors now reject the formerly very popular conjecture that Japanese type corporate governance brings particular benefits to Japanese banks.

As Aoki and Dinç suggest, the slow deregulation of domestic financial markets has not kept pace with the internationalisation of capital markets. While the opening of financial markets made the corporate sector rely more and more on bond financing, the Japanese banking sector has failed to realign its business activities. The authors conclude that the role of main banks will decline further because deregulation, and thus restructuring, are slow. In order to survive Japanese banks need to become a new class of venture capitalists who provide specialised managerial, organisational, and technological advice.

Aoki and Dinç’s assumption that the main bank’s monitoring made lending less risky in the catch-up phase is verified by Brian Hall and David Weinstein. Their empirical investigation contradicts the notion that the relationship between firms and banks brings significant benefits to keiretsu firms. They find that in the 1980s bond interest rates were about the same for firms with and without main bank ties. This implies that main bank monitoring does not lower risk. Neither do their results support the argument that firms with main bank ties perform better after the onset of financial crises, since enterprises with main bank ties seem to receive as much loan assistance as others.

Jenny Corbett analyses the response of Japanese banks to the crisis of the 1990s from an international perspective. She ascertains that in the 1990s banking crises were not a unique Japanese experience. Similar experiences were made in the US, the UK, Australia and Scandinavia, where there were comparable impacts on profits, scale of non-performing loans or credit crunch following the crisis. In contrast to the other countries however, efforts of banks to cope with the outcome of the crisis were particularly slow in Japan.

As Corbett does not further scrutinise the question of why the restructuring of the banking sector in response to the crisis was so slow, a chapter on the 1990s economic
policy would have been desirable. This would have shed light on the question of whether expansive fiscal and monetary policy have played a role in preventing the banks from clearing their balance sheets more consequently. Instead in part II, broader issues like the legal system and administrative guidance as well as very specific topics such as high-technology policy are discussed. Although all contributions are of great interest, there are few commonalities and the editors seem to have struggled to find a common headline.

Koichi Hamada explains why the rate of litigation is so low in Japan. He rejects the conjecture that the small number of lawyers and the high costs of litigation make Japanese refrain from law suits. Hamada moreover suggests that the Japanese government’s tendency to devote few resources to the court system might mirror the Japanese habit to resolve conflicts informally.

Another thoroughly discussed topic of the Japanese economy has been ‘administrative guidance’, which has been regarded as an important tool to ‘guide’ enterprises in accordance to public interests. According to Mark Ramseyer the reassessment of administrative guidance is necessary, because ‘much of what we read about administrative guidance is wrong’ (p. 199). Ramseyer tries to prove that administrative guidance is nothing particular Japanese, but can be explained by the principal-agent approach. Since the ruling LDP had the majority in the parliament for most of the last five decades, it is rational that political leaders delegate power to bureaucrats and judges who would uphold their choices.

Areas where administrative guidance is said to have had strong influence are industrial and high technology policy. Until the end of 1980s MITI’s industrial policy was regarded as pivotal for the success of high technologies. During the economic slump of the 1990s this notion lost popularity, however. Gary Saxonhouse stays abreast of these changes by finding evidence for the optoelectronics industry that the Japanese government was not a major source of support for the development of new technologies.

The concluding essay of Hugh Patrick about the Development of Studies of the Japanese Economy in the United States should be obligatory to all students of the Japanese economy. It gives a very comprehensive and informative survey about past and current research. Patrick also reminds us that the Japanese economy doesn’t work as differently as commonly alleged: ‘The Japanese are just as rational, competitive, and out to maximise their self-interest as Americans, so ‘culture’ (whatever that means) (is not) a very good explanation’ (p. 275).

In light of this statement, Aoki and Saxonhouse’s volume is an important step in adapting the research on the Japanese economy to the new circumstances. For this purpose the editors have collected a large number of empirically and theoretically well founded articles. The book is highly insightful and of interest to scholars of Japanese studies, international economics and financial economics.

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The dramatic aging of the population in the next five decades will pose major challenges for the retirement arrangements in the industrialized countries around the world. This book is part of a steadily growing literature on pension issues. It presents pension schemes of six different countries (Germany, Netherlands, Switzerland, United Kingdom, United States, and Chile). The contributions are discussed by domestic authors. All writers are directly involved in research activities in their countries and/or deal professionally with social security in an official institution.

The book consists of seven parts. The introduction chapter explains the basic structure of the analysis for each country. This specification makes it easier to compare the different old-age pension schemes. Then even though four of the six selected countries are from Western Europe none of the presented pension systems is alike. Every analysis contains four elements: A historically oriented introduction, an overview of the respective system, a discussion of how well the current pension system can meet the challenges of the future, and a summary of the most important reform proposals.

With the introduction of chancellor Bismarck’s social laws in the 1880ies Germany was the first nation which adopted social legislation. The other five countries discussed followed between 1911 (Netherlands) and 1935 (USA). During the 1960s and 70s the social systems were massively broadened. The enormous dimension of social expenditures in slower growing economies became generally recognized in the 1980s and 90s. Surprisingly, the least developed nation, Chile, undertook the most fundamental reform in old-age security. The introduction of a widely individualized and privatized pension system in 1981 put the small Latin American nation in a precursor role not only for its region. But also the other countries studied made – less fundamental – reform attempts. In the last years the discussion grew more intensive as not only researchers but also a broad part of the (younger) population have started to realize the consequences of the demographic change.

All observed countries have a so-called three pillar scheme. The first pillar is a public scheme, mandatory, and serves at least for securing a minimum standard of living. It is financed on a pay-as-you-go basis and the form of contract is defined benefit. The second pillar is also mandatory, coordinated with the first pillar, earnings-related, and it is provided by public, individual or employer-related institutions. It is often funded and consists of defined benefit or defined contribution plans. The third pillar is described by its voluntary character and the fully-funded financing of the defined contribution plans. As already mentioned the heterogeneity between the countries is enormous. Whereas the first pillar in Chile has only a complementary character, the retirement insurance in Germany dominates the other pillars completely. Another example is the difference in the size of redistribution between high and low income earners. The low level of redistribution in insurance-oriented designs of the first pillar with a close link between contributions and benefits (e.g., Germany) contrasts heavily with Beveridge’s oriented systems (e.g., Great Britain).
As a consequence of the variety of pension designs the reform priorities differ also widely. Though all pay-as-you-go pillars of the retirement systems get hit by the demographic change, this development causes the main problems in countries like Germany or United States where the first pillar plays the most important role in providing old-age security. Sooner or later massive reductions of benefits and/or new taxes are unavoidable if the current systems are left unchanged. Fundamental reform proposals recommend a move towards a more funded system for avoiding the negative distortions of new taxes. One possibility for all countries to reduce the demographic burden is to eliminate the incentives for leaving the labor market prematurely. Firms often use early retirement schemes to get rid of their old workers. Public systems offer various channels to leave the labor market through disability insurance, unemployment programs, and generous early retirement rules which are not actuarially fair.

Other weaknesses of the presented pension schemes reflect more design problems (e.g., lack of transparency and ability to deal with a more and more individualized society, or portability rules which restrict labor mobility).

The editors point out in the preface already that the book does not provide a universally optimal solution to the pension problems caused by demographic change. The countries are simply too different. After all Börsch-Supan concludes prudently that only a smart diversification in a mixed system can minimize the residual risks.

The selection of countries assures a pollinating variety and opens the reader’s horizon. The book is written in a widely non-technical language, contains many figures and tables and a short glossary. These features make it attractive not only for experts interested in an overview of different pension designs but also for all interested persons including politicians or students. It helps them understand the challenges of pension schemes and perhaps find sustainable solutions in the next few years.

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It is probably fair to say that few people have desperately been waiting for yet another text book on Industrial Organization (IO). Cabral thus carefully points out in the preface to this volume what he perceives as the book’s main differences to well-established IO texts: it is driven by issues rather than methodology, and it is up-to-date, both in the choice of topics and the choice of examples illustrating the general arguments.
And in fact, it is a safe bet that many students will like the way Cabral makes his readers familiar with the central concepts of IO, using illustrative examples and recent real-world case studies instead of mathematics wherever possible. At the same time, instructors can be assured that Cabral does not compromise with quality: even though his text is a comparatively easy and entertaining read, it is concisely written and provides students with sufficient know-how to qualify the discussion in the public press.

Part I is the introduction to this book and contains a quick refresher course in basic microeconomics, a very brief introduction to the theory of the firm, as well as the basics in game theory. Many students will find it especially rewarding to read the chapter on basic microeconomics, since it is hard to find a better summary of the main issues. Meanwhile, the treatment of the theory of the firm appears to be overly short. Given the book’s focus on recent IO issues, one might have expected a somewhat more detailed discussion of the determinants of a firm’s boundaries. The basics of game theory, in turn, are nicely explained and will whet students’ appetite for more.

Part II is still introductory in nature and discusses the cases of monopoly and regulation as well as perfect competition. Nevertheless, instructors will find it worthwhile to request their students to read the respective chapters, in particular the easily digestible parts on essential facilities and access prices that are not typically included in introductory textbooks.

Part III outlines the basics of the theory of oligopolistic competition. Cabral first introduces the work horses of IO theory, the Bertrand and the Cournot model, using a number of instructive graphs and a few supplementing algebraic arguments. He then launches into a fairly extensive analysis of overt and tacit collusion. The last chapter on the relation of market structure and market power is particularly interesting. It points out the need to consider firms’ behavior to understand market performance and contrasts the structure-conduct-performance paradigm with the New Empirical IO in this respect.

Part IV deals with further issues of oligopolistic competition, in particular non-price competition. It starts out, however, with a discussion of various forms of price discrimination, including an intriguing section on versioning. The next chapter provides a short survey on the standard issues of vertical relations, such as double marginalization, investment externalities and foreclosure. Two chapters on product differentiation and advertising that make heavy use of examples complete this part.

Part V discusses the endogenous determinants of a given industry’s structure. It starts with the most obvious candidates, namely technology and demand conditions. Cabral nicely summarizes the main results on the subtle relations between market size, entry costs (both exogenous and endogenous) and market structure. He then moves on to consider how entry and exit decisions (and thus market structure (may be affected by strategic interactions between firms. The key issues treated here are entry deterrence and predation. As a particular form of entry and exit, he considers the effects of horizontal mergers on merging and nonmerging firms as well as consumers.

Part VI contains two chapters that focus on technology-intensive industries. The first deals with research and development (R&D). It points out the trade-off between
static and dynamic efficiency in technology-driven industries and then proceeds to analyze the dynamics of R&D competition as well as the optimal design of patents and copyrights. Ironically, the last chapter of this book on networks and standards is probably ‘least standard’ compared with other IO textbooks. It presents a superb introduction into the economics of networks, beginning with an explanation of terms such as critical mass and path dependence. Two further sections on excess inertia (or momentum, respectively) and compatibility choices highlight the specific characteristics of industries with network characteristics. Any student interested in the workings of the ‘New Economy’ will find this chapter appealing.

The book is supplemented by a website that provides additional examples, advanced mathematical sections, teaching instructions and some IO links. Students will be unhappy that the solutions to end-of-chapter exercises have been removed from the site and are now available only on instructors’ request. However, this appears to be a minor disadvantage, just like the fact that reading the book’s numerous endnotes proves to be fairly impractical. Overall, Cabral has produced a formidable volume that may well become the standard textbook for courses both in IO and managerial economics at the undergraduate level.

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In the large literature on EMU this book certainly merits a special place. In essence, it provides a more or less contemporaneous history of the negotiations of the Maastricht Treaty. The authors are both political scientists and professors in European studies at the University of Bradford. They were also advisors for the BBC documentary on the making of monetary union in Europe. Core material for this book were nearly three hundred interviews with senior policy-makers and witnesses, giving the book an insider’s view of the negotiations on EMU. The book then reads like a kind of a detective, wherein the authors give a detailed reconstruction of the negotiations leading to the Maastricht Treaty. They explicitly state that it is not their objective to analyse more structural factors, as they already did this in earlier publications.

At the core of the book are four national case studies, on France, Germany, Italy and the United Kingdom. Dyson and Featherstone analyse these countries according to a broadly similar framework. They start with an overview of the political and intel-
lectual traditions in the country in question, like for instance the Republican tradition in France or ordo-liberalism in Germany. Then they move to the legacy of the policymakers of the 1960s and 1970s, like Pompidou, Giscard and Barre in France or Schmidt and Schiller in Germany. Next they focus on the 1980s and the agenda-setting on EMU, with the French challenging the D-Mark, while the German aim was to focus EMU negotiations on the German model. They conclude with a detailed analysis of the strategy pursued during the intergovernmental conference which culminated in the Maastricht Treaty. The analysis is pursued at a double level: domestic politics and the European level. The authors show very clearly how the EMU strategies were an attempt to reconcile domestic and European interests. There is further, besides the introduction and the conclusion, a chapter on negotiating theory and one on Delors. Throughout the book the authors emphasize, rightly, the Franco-German relationship and the political leadership of Kohl and Mitterrand as ‘the vital animating and organizing force behind the EMU negotiations’ (p. 757).

On the whole this is a remarkable account of the negotiations on EMU. However, given the scope of the topic, one is bound to have some remarks. In my view, there are some problems with focussing the analysis on four countries, even if they are the four biggest. I certainly agree that the Franco-German relationship was crucial. The ‘awkward’ partner debate, on the contrary, receives, in my opinion, rather too much attention, just as the Italian case. Also, focussing on four countries, the book underplays that EMU was a multilateral achievement. The ‘small’ countries played a role, at the moment certainly as significant as Italy. In that sense, the volume does not fully capture the richness and complexity of the EMU negotiations.

Sometimes one also feels that the authors are not economists. So, when discussing ordo-liberal ideas, they state: ‘The central role was accorded . . . to the functional logic of market forces in ensuring a consistency and co-ordination of economic and monetary-policy behaviour’ (p. 262), which rather overstates the role of market forces. Sometimes one can also feel a certain scepticism for ‘sound money’ ideas (political science terminology for what economists mostly describe as stability-oriented policies). And, even if the authors repeatedly stress the importance of ‘sound money’ ideas, I still have the impression that they underestimate its importance.

At moments, one sees that the views of the authors are, not unnaturally, coloured by the persons they interviewed. They have certainly done an excellent job, with nearly three hundred interviews. However, in most institutions, they interviewed mainly persons in the European departments, as these were responsible for EMU negotiations. This can give a bias to their overall view of the institution, as the book, rather inevitably, is coloured by the perceptions in these European departments (see, e.g., the view on the Bundesbank, p. 436).

The authors stress that, in this book, they analyse the EMU negotiations, while in other publications they analysed the more structural factors leading to EMU. Nevertheless, one should be aware that, by only reading this book, one gets a more contingent view on the EMU process, seeing it mainly as the work of persons, and neglecting structural tendencies, like the growing integration of Europe’s economies.
All in all however, this book is a tour de force, and not only for its length. Moreover, it is well written. It will certainly become a classic on the negotiations leading to the Maastricht Treaty.

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This book is about the economics of European monetary integration, with a particular view to the United Kingdom and its possible EMU membership. It brings together a number of papers, published in the 1990s, in which Eltis explores several key issues for Britain if it entered the euro area. Offering a detailed account of the recovery in Britain’s economic performance over the past decade or so, the author argues that the British economy may become again one of the most prosperous places of the world, provided that it does not join EMU and abandon the pound. In particular, Eltis shows that in the 1990s workers’ living standards have risen by approximately 30 per cent in the United Kingdom, while they have stagnated in continental Europe. Over the same period Britain has attracted huge investments from leading multinational companies, thus transforming the production sector as well as export performance. In addition, both the structure of the domestic financial sector, with its very competitive banking system, and the spending pattern of British households make the UK economy more interest-sensitive than any other country within the European Union. Getting the interest rate right matters therefore far more in Britain than in the euro area as it now stands. Were the United Kingdom to join EMU, the ‘one size fits all’ monetary policy of the European Central Bank (ECB) would thus be most likely to go against, rather than favour, the real needs of the British economy.

The papers are organised into four parts, which correspond to the three components of the book’s title plus an appendix drawing on the history of economic facts.

Part one concerns the United Kingdom. The crucial question addressed here by the author focuses on the mediocre past of Britain’s economic performance and the actual chances for growing prosperity if it sticks to an independent monetary policy. Chapter I deals with the fiscal policies implemented in the 1970s, geared at enhancing the private sector’s growth, in terms of both wages and profits. These policies contributed to improving the socio-economic relations within the British industry, so that in the 1980s a co-operative scheme between workers and managers began to shape Britain’s economic performance. This analysis is forged ahead in chapter 2, where Eltis shows
that wages and profits have been growing side by side for almost fifteen years (1979–1996). Now, when one considers the empirical evidence on continental Europe, France and Germany in particular, one can notice that over the last two decades the British standard of living has been rising more rapidly than in the rest of the EU (where it has sometimes declined). Therefore, the aim of chapter 3 is to assess how much remains to be done in order to close the British performance gap, while chapter 4 investigates the direct investment in the UK economy from leading multinational companies.

In part two the focus is on Europe. Here the author investigates the difficulties that the leading EU economies have experienced over the past ten years, with a particular emphasis on unemployment in continental Europe. In chapter 5, Eltis argues that the European Commission lacks the will to propose a plan of reform that can really boost employment in Europe’s private sectors. According to the author, this could occur in three different ways. ‘First, Europe requires labour market reforms to reverse the continual rise in structural unemployment which has become far higher than in the United States and Japan. Second, Europe requires a reversal of its escalating public expenditure and therefore in European tax levels which are now far above those in the United States and Japan. Third, the declining international competitiveness of European industry and commerce needs to be reversed’ (p. 123). Next, there is a chapter on the information technology revolution and the impact this might have on European employment if IT investment were to be promoted by ad hoc policies. Then follows a chapter on the lessons which Britain and Europe can draw from the success of Germany’s monetary policy in keeping measured inflation low over the last thirty years.

Part three deals with EMU. It points out what the weaknesses in its implementation are, and how EMU is likely to affect the British economy upon joining it. Chapter 8 concerns international speculation on financial markets and the risk this may represent for an infant currency such as the euro. Then follows a chapter especially concerned with Britain’s entry into EMU. Taking stock of the different economic and financial structure of the UK economy with respect to continental Europe, Eltis notes that the single monetary policy of the ECB will create instability and destroy employment in Britain. This is so because the British economy ‘is and will remain far more sensitive to interest rate fluctuations than the economies of continental Europe. In addition, the United Kingdom will often require different interest rates’ (p. 184).

The book concludes in part four with three chapters where the experience of earlier historical periods is analysed in order to draw some lessons for today’s economic policy makers. In chapter 10, Eltis explores the establishment of a sound currency in 1695 and in 1711, when the pound sterling was fixed at £ 3.17 to an ounce of gold until 1931: ‘a price index that Sir Henry Phelps Brown has constructed, based on six commodities, rose by just 29 per cent in the 220 years from 1711 to 1931, so the average annual inflation rate in these two centuries on the gold standard averaged just 0.1 per cent per annum’ (p. 231). Next there is a chapter on Britain’s public finance in the eighteenth and nineteenth centuries, where the author analyses government debt and deficits at that time, compares them with present-day figures, and draws some conclusions with respect to economic growth and government spending. Finally, the last
chapter is concerned with finding similarities between the creation of free markets in Louis XVI’s France (1774–1776) and in today’s Russia. With the attempts at reform in both countries, markets were freed and prices rose sharply. In both countries, the large number of merchants and traders required to exploit freer markets was absent. In both countries, a bureaucracy with corrupt elements apparently threw much of the movement and trading of food and consumer goods into the hands of the semi-criminal: the large number of middlemen and small trading companies that efficient wholesale and retail distribution requires had not emerged. In both cases, there were inefficient bureaucracies with vested interests in the prevention of any reforms that undermined their privileges and their raison-d’être (p. 268).

All in all, this book is clearly written and has the merit to direct attention to those macroeconomic issues that will be of paramount importance for any advanced market economy – for the ‘pre-ins’ countries as well as for Switzerland – which has to assess, and trade off, the costs and benefits of joining the euro area in a not too distant future.

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Um das Urteil gleich vorwegzunehmen: Bei dem Lehrbuch von Endres handelt es sich um eine gelungene Einführung in die neoklassisch orientierte Umweltökonomik. Unter Verzicht auf Algebra werden in verbaler und graphischer Analyse die ökonomische Sichtweise auf Umweltprobleme sowie die Wirkungen von umweltpolitischen Instrumenten schrittweise und gut verständlich vermittelt. Das Lehrbuch ist schlüssig in vier aufeinander aufbauende Abschnitte gegliedert, in deren zwölf Kapiteln zahlreiche Hinweise auf weiterführende Literatur gegeben werden.


Während die Inhalte der ersten Abschnitte im Wesentlichen zum üblichen Repertoire klassischer Lehrbücher der Umweltökonomik gehören, trifft dies auf den neu aufgenommenen vierten Abschnitt noch nicht zu. Behandelt wird zunächst in einer Erweiterung des Einschadstoffmodells die Möglichkeit des Interagierens mehrerer Schadstoffe in den Umweltmedien, wobei es sich angeboten hätte, explizit auch

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The main thesis and message of this meticulously written and innovative collection of essays is that arts and culture are amenable to rigorous economic analysis. This book exemplifies this view carefully by proposing a set-up that maximizes the desires of the people or governments that are constrained by income, time available or social institutions. This framework is the so-called rational choice model, cherished by neo-classical economists and especially exploited by Chicago economist Gary Becker to analyse all sorts of economic behaviour and social phenomenae. Cultural economics is a prominent sub-discipline in this mainstream of economic thinking as the author of this book is a prominent European scholar in this field.

Not surprisingly the economics of arts and culture is multifaceted and the variety of topics dealt with witninesses this. Rather than presenting a survey, Frey focuses on case studies of a great variety of topics.
Museums and performing arts are one group, in which the emphasis is on explaining storage behaviour, the functioning of superstarmuseums, special art exhibitions and cultural festivals in a world of monopolistic competition. Monopolistic competition is perhaps one of the key elements in understanding the existence of the great multiplicity of museums. These museums vary from superstarmuseums, via the important other temples of art and tiny museums of local origin to special exhibitions and all sorts of music festivals. The analysis the author offers is interesting, but could perhaps be improved by emphasizing the monopolistic competition element more deeply. Moreover, one may wish to learn here a little bit more about the impact of Baumol’s disease on the cost structure of performing arts in Switzerland (see Fase and Winder 1999 for the Netherlands).

Public support of the arts is the second topic dealt with in this book. Of particular interest is Frey’s empirical investigation of the link between democracy and public support for art promotion. It is a common understanding among art experts that arts and promoting creativity is a matter for the elite. However, the empirical results based on Swiss data for referenda, do not support this elitist hypothesis. On the contrary, they show that voters themselves when asked in 1967 to purchase two Picasso paintings by the canton of Basle-City were much in favor, although many art lovers feared a rejection of the proposal. As an additional result of this positive outcome of this democratic process Picasso donated two of his paintings – ‘Venus and L’amour’ and ‘Le couple’ – to the people of Basle. Another interesting result discerned in this book is the analysis of the artist’s motivation for creativity and its policy implications. In this framework Frey proposes the crowding theory, linking what psychologists call the intrinsic and economists the extrinsic motivation. This leads to the conclusion that public cultural policy should aim at incentives compatible, i.e., promoting the conditions for a creative environment rather than direct financial support.

Art investment and evaluation is the third broad group of issues examined. The survey of returns on art investment is mainly an empirical reporting of the main literature findings but also considers the statistical intricacies of measuring prices of paintings and other art objects. Often the rates of return on paintings are below those on financial assets, confirming the well known perception that art purchases by individuals cover both investment and consumption. Fascinating is the chapter on evaluating cultural property which discusses several evaluation techniques (impact studies, willingness-to-pay approach, and valuation surveys). All approaches are useful but have also serious disadvantages. Perhaps they are not appropriate to guide political decision making. The final chapter is on art fakes which is not only a negative activity but has in the author’s view the beneficial aspect of putting forward the recognition of artistic creators.

In sum I believe this is a wonderful collection of essays, in spite of the fact that almost all of the eleven chapters have been published earlier (mostly in the Journal of Cultural Economics). The diversity of topics covered and the common neoclassical economic viewpoint cherished by the author as well as the policy recommendation embedded in the positive analysis add to the significance of this book. I enjoyed it and
believe it is worth reading by those interested in identifying the issues in cultural policy or those who desire to understand the market for art.

REFERENCE


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wie von Beiträgen zur ‘Rechtstatsachenforschung’ und verschiedenartiger ‘Hand-
lungsortorientierungen’, in die auch die Österreichische Sozialpartnerschaft und die ja-
panischen Arbeitsbeziehungen mit einbezogen werden. Der Band schließt wieder mit
einem zusammenfassenden Aufsatz über ‘Das Entwicklungspotential industrieller
Arbeitsbeziehungen im gesellschaftlichen Strukturwandel’ (1987).

Im Rahmen einer Besprechung kann auf die einzelnen Beiträge leider nicht syste-
matisch eingegangen werden. Gleichwohl belegen die hier versammelten Aufsätze die
Richtigkeit der im Prinzip über den ganzen Zeitraum unveränderten Grundeinstellung
des Autors zu der Problematik, die dieser selbst so beschreibt: ‘Die Entwicklung der
Arbeitsbeziehungen ist eng mit dem Demokratisierungsprozeß verbunden, der eine
Marktwirtschaft ‘sozial verträglich’ macht. Hierbei geht es um die Entwicklung und
Förderung von Partizipationspotentialen und die Bemühungen um einen Interessen-
ausgleich, der technische Effizienz, wirtschaftliche Rationalität und soziale Akzep-
tanz berücksichtigt’ (S. 7). So sieht Fürstenberg das Problemfeld geprägt durch die
Leitidee des ‘mündigen Wirtschaftsbürgers’, um dessen konkrete Ausformung in ei-
nem säkularen Lern- und Suchprozess gerungen werden muss.

Aber der Band ist keinesfalls nur von historischem Interesse; dies gilt nicht nur für
‘Dauerbrenner’ in diesem Bereich, wie die Mitbestimmung am Arbeitsplatz, der Fürs-
tenberg schon früh einen zentralen Stellenwert beimaß, sondern auch für einige der in
den allerletzten Jahren entstandenen Überlegungen des Autors zu notwendigen Wei-
terentwicklungen des Themenfeldes, so etwa in seinen ‘Thesen zur Geschichte und
Gegenwartslage der Mitbestimmung’ (1999) und in seiner Analyse der ‘Wandlungs-
prozesse der Interessenvertretung – Auf dem Wege zu einer neuen Unternehmenskul-
nicht alle wichtigen Denkstränge bis zur Gegenwart und Zukunft verfolgt werden; so
wäre es für die Leserschaft z. B. interessant zu erfahren, wie sich die von Fürstenberg
1959 beobachtete ‘soziale Dynamik der ‘Joint Consultation’ im Vereinigten König-
reich unter dem Einfluss tiefgreifender politischer Veränderungsprozesse auf nationa-
ler und internationaler Ebene entwickelt hat. Hier bedarf die dem Sammelband zu-
grunde liegende Kontinuitätsthese des Verfassers (die selbstverständlich Wandel und
Anpassung keineswegs ausschließt) auch einer weitergehenden Einschränkung und
Spezifizierung, denn in Ländern wie Großbritannien kommen doch auch eher Brüche
zum Ausdruck, als dies in Mitteleuropa – speziell in Deutschland, Österreich und der
Schweiz – der Fall ist. Schade auch, dass die interessanten französischen Arbeitsbe-
ziehungen praktisch gar nicht thematisiert werden.

Solche relativierenden Überlegungen verlieren aber stark an Gewicht, wenn man
sich klar macht, dass es sich hier nicht um ein Lehrbuch der industriellen Arbeitsbe-
ziehungen handelt, sondern um die Bilanz eines langen und noch keineswegs abge-
schlossenen Forscherlebens. Gerade in einer Zeit, in der die Mobilität des internatio-
nalen Kapitals das trügerische Bild des global village hervorbringt, in dem die ganze
wirtschaftliche und soziale Welt als eine Sequenz kommerzieller Hollywood-Filme
erscheinen mag, die es jetzt nur noch in Nationalsprachen zu synchronisieren gilt, ist
Fürstenbergs wiederholte Betonung der sozialkulturellen Aspekte von Arbeitsbezie-
The economics of institutions has become one of the liveliest areas in economics. Furubotn and Richter, and Kasper and Streit, four leading researchers in the field of New Institutional Economics (NIE), have written two interesting books, which give an impressive survey of the major theoretical contributions and useful applications of NIE since its beginnings in the 1960s.

Furubotn and Richter view the NIE as ‘an amalgam of transaction-cost economics, property-rights analysis, and contract theory’ (p. xiv). Oliver E. Williamson recently wrote in the *Journal of Economic Literature* that we are still very ignorant about institutions and there is a vast amount of unfinished work to do. However, the past quarter-century has witnessed enormous progress, ‘NIE is a boiling cauldron of ideas’ (Williamson 2000, p. 610). In their books, Furubotn and Richter, and Kasper and Streit demonstrate that this statement is indubitable. According to Williamson (2000), NIE has not progressed by advancing an overarching theory but by uncovering and explaining the microanalytic features.

The first five chapters of Furubotn and Richter order the literature on the NIE. They explain how the various theoretical strands fit into NIE. Chapter 1 deals with general issues. Chapter 2 introduces the concept of transaction costs, the important
discovery of Ronald Coase (*The nature of the firm* 1937), a revolution in economics and a distinguishing feature of the NIE. Transaction costs are quantitatively substantial. They amount to 50 to 60 percent of net national product in modern market economies, without setup costs of new institutions and organizations. Looking at the American economy, North (2000) argues that between 1870 and 1970 transaction costs increased from approximately 25 to 45 percent of GNP. The institutional framework provides the incentives or disincentives for efficient production and incentives to engage in activity.

‘Who owns what? This is a basic question, factually and morally, that has existed throughout human history, since the expulsion of Adam and Eve from paradise’ (p. 69). Therefore, chapter 3 deals with the absolute property rights, the ‘Ownership of Physical Objects’. Chapter 4 discusses the relative property rights, which ‘consist of a claim of a certain individual, the obligee, against one or more other individuals’ (p. 121). In chapter 3 the authors focus their attention on absolute property rights to physical objects. New classical economics takes ownership granted and therefore not subject to the analysis. But taking into account positive transaction costs, uncertainty and asymmetrical information rules, ownership of resources matters. Economic incentives are strongly affected by the ownership structure. The regime of private property can contribute to an efficient, non-wasteful use of scarce resources. Economic incentives are strongly affected by the ownership structure. The regime of private property can contribute to an efficient, non-wasteful use of scarce resources. Economic incentives are strongly affected by the ownership structure. The regime of private property can contribute to an efficient, non-wasteful use of scarce resources.

Chapter 5 deals with the contract theory and principle-agents issues. It begins with models treating the asymmetric information problem, the moral hazard and adverse selection issues. Then the authors discuss the imperfect foresight problem, the incomplete contract theory and the theory of self-enforcing agreement.

After general remarks of application possibilities in chapter 6, Furubotn and Richter systematically illustrate institutions as markets (chapter 7), firms (chapter 8) and the state (chapter 9). However, chapter 9 turns out to be a little on the short side compared to chapter 7 or 8, to live up to the dynamic and diversity research developed in this field over the past years. Finally, chapter 10 concludes with the authors’ reflections on primary problems and questions to be resolved in the future research program on NIE: ‘Important new concepts have been introduced into economics by the NIE, and what appears to be needed now is action to assess the current theoretical scene and consolidate basic findings’ (p. 482).

The book gives an impressive, broad and comprehensive survey of NIE. Furthermore, since each chapter ends with useful recommendations for further reading, the book helps deepen the matter. In particular, the final chapter gives very useful considerations of possible future developments, which help to understand the statement of

Whereas Furubotn and Richter have a strong theoretical focus, Kasper and Streit search the bridge between theoretical foundation (first six chapters) and applied aspects of institutional economics (chapters 7 to 14). ‘Why Institutions Matter’ (chapter 2) and ‘Human Behavior’ (chapter 3), without assuming perfect knowledge, are the authors’ starting points. They argue: ‘The elegant mental map of reality, the neoclassical model that one obtains, reduces the most essential questions of economics to a poor, overly abstract construct of the mind’ (p. 52). Chapter 4 analyses basic human values as freedom, justice, security, peace and prosperity. Chapter 5 and 6 are elementary chapters to understand the nature and role of individual institutions and the order they help create. In chapter 5 the authors discuss a wide range of institutions. Institutions can be defined as rules of conduct which make other people’s actions more predictable and thus give social interaction a certain structure. The authors distinguish between internal and external institutions. Internal institutions, as conventions, internalized rules, customs, and good manners, are an important part of our civilization. They are not the result of human design and enforced by an authority. ‘Internal institutions thus contain much of the distilled, tested wisdom of our forebears’ (p. 108). However, in complex societies they can not eliminate all acts of opportunism. Thus, external institutions and formal arrangements are instruments supplemented to enforce internal institutions. What is the function of institutions? The authors state that they serve to reduce coordination costs, to limit conflicts between individuals and to protect individual domains of freedom. In chapter 6, Kasper and Streit discuss two ways to order human action: hierarchically/planned and spontaneous/unplanned. The application part first analyses the foundations of the capitalist system (chapter 7) and competition, seen as a discovery process where property owners incur knowledge-search costs (chapter 8), looks at institutional arrangements in organizations (chapter 9) and treats extensively the topic of collective action and public policy (chapter 10). The authors point out that parties, lobby groups and bureaucratic interests, rarely mentioned in constitutions, should be taken into consideration when elaborating how political competition works. Then, chapter 11 opens the perspective and brings the international dimension into discussion. Chapter 12 ‘The Evolution of Institution’ illustrates that openness helps cure political sclerosis by forcing external institutions to adapt themselves. ‘Over time, openness delivers feedback into the evolution of internal and external institutions, stimulating ongoing institutional discoveries’ (p. 404). Finally, the last chapters deal with the transformation process of socialist economies and analyses how institutions can be reformed to reach greater freedom and prosperity.

Kasper and Streit’s book is carefully structured. Each chapter starts with a short overview accompanied by interesting citations, which help to attract the reader’s attention. Moreover, at the end of each chapter the authors have integrated further questions and a list of key concepts to get a deeper insight into the topics and to not lose the thread. Furthermore, they succeed to combine thoughts of important historic per-
sonalities and facts with modern topics. This makes the book more exciting to read. It would have been interesting and an enrichment if the authors had integrated the development of the European Union into the application part, too.

Both books offer a deep understanding of Institutional Economics and can be strongly recommended to economists inside and outside the academic world as well as to students looking for a review of New Institutional Economics. The books supplement themselves mutually, because they set different emphases. Whereas Furubotn and Richter is strongly influenced by the work of Williamson and Coase, Kasper and Streit’s volume is also stamped by Austrian economics. Generally, both books show that New Institutional Economics is also open to intellectual influences from a wide range of social sciences such as political science, law, sociology, history, anthropology, organization science, management and moral philosophy. This is why I would recommend both not only to economists but also to researchers and students of these other disciplines.

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The World Bank is an institution whose objective is the promotion, worldwide, of sustainable economic development and poverty reduction. It pursues these objectives through lending, through the production of research and economic analysis and through the provision of policy advice and technical assistance. The purpose of this book is to critically examine the rationale of the World Bank and to describe the policies that it currently carries out, in order to examine whether the current mix of activities best serves its objectives. To this purpose, the book is divided in two parts. Part one is concerned with the World Bank as an institution and focuses on its role as a fi
financial institution, poverty, research, and governance. Part two is concerned with the question of the effectiveness of World Bank assistance to borrowing countries. Almost twenty authors contribute to this volume.

Part one starts with the idea of the World Bank as a ‘Knowledge Bank’ to provide a unifying framework which ties together the description of what it does and how it might further re-position itself. The idea of the ‘Knowledge Bank’ refers to a bundled organization which brings together lending, research and development assistance functions. It must be able to solve three global market failures in the development process: the rectification of government failure, the rectification of information failures and the provision of global public goods. It is argued that the World Bank has already partly become a ‘Knowledge Bank’. However, in order to become a true one, the World Bank would have to radically transform its priorities and its activities in the field. In particular, less energy would be devoted to analyzing loan proposals and outcomes, and far more energy would be devoted to giving advice about development strategies, and to providing help with their implementation.

Since the end of the Second World War, there have been radical shifts in the World Bank’s views about how poverty reduction might best be achieved. Both in-house and academic research promoted these views. The development of thinking was highly non-linear. It started with the ‘trickle-down’ view of economic development where government activism could start modernization that could achieve development which solves poverty. In contrast, in the sixties and seventies, the dominant view was that growth and inequality where inseparable. There was increased concern that rapid growth could have deleterious side effects. These were the McNamara years of ‘war on poverty’. The World Bank started to lend for social purposes. The results of this war were disappointing. A reaction set in against policies directly targeted towards poverty reduction in the 1980s. Primary attention came to be given to the removal of microeconomic and macroeconomic rigidities: the ‘adjustment decade’. Out of this era grew the years of the Washington consensus; the view that openness and liberalization would lead to growth. In the 1990s, awareness rose that poverty and inequality have an adverse effect on growth too. From this, more attention was being reserved for the provision of basic services, especially health and education.

Apart from the changing views on and direction of development policies, the World Bank depends on a number of political forces. It requires the ongoing (financial) support of its most powerful members, especially the United States as senior shareholder, while yet retaining its status as a technical and multilateral agency, which requires the support of all its members. Furthermore, the World Bank has to do with the comments of several NGOs. It has to steer a delicate course between extremely different stakeholder interests.

Part two of the book goes into the effectiveness of World Bank assistance. This especially centers on the debate about its supply-side oriented structural adjustment lending. Structural adjustment encompasses a large range of policy reforms aimed at improving resource allocation and increasing economic efficiency. They include trade reform, price reform, tax reform, financial reform, privatization, labor market re-
forms, and institution-building. Internal evaluations rate two-thirds of the adjustment programs as successful and one-third as unsuccessful. A study by Dollar and Svensson (1998), also cited in the book, found that regional location, World Bank conditionality, planning and supervision, did not have statistically significant impacts on the ratings. However, variables related to the political economy of the borrowing country significantly influenced the policy outcome.

It is being argued that aid will frequently be fungible since governments will generally undertake high-return projects even in the absence of assistance. This provides support for the view that donors should support good governments rather than fund good projects.

The twelfth and last chapter of the book goes into three current debates in aid policy. The first is about policy-based lending or ‘conditionality’. This has been criticized as both intrusive and ineffective. The second is on ‘aid dependency’. The criticism is that aid intrinsically undermines national capacities. The third debate is about the aid relationship as a potential instrument for regional or global coordination.

The authors in this volume basically adopt a sympathetic view of the World Bank’s purposes and activities. Both left-wing and right-wing criticists are not included. Nevertheless, the main issues of the book are dealt with very critically and never is the World Bank above any suspicion. It addresses the most important current issues regarding aid and the role of the World Bank in international economic development in a concise manner. It rightly goes into the worldwide dimensions of the World Bank’s role and activities. One weakness, however, is its incomplete treatment of achieving sustainable economic development. It treats sustainability as synonymous with continuous or ongoing development, rather than the notion of sustainable as put forward in the Brundtland-report (WCED 1987). Especially, in this respect, it neglects environmental issues and hazards of both the national and global economy. Nevertheless, it is a very welcome and useful book for all interested in the ways the World Bank wanders.

REFERENCES


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This book is a collection of papers by various social scientists (economists, sociologists, political scientists, and policy researchers), which aims to initiate a discussion about the tension between social science and research and the process of European integration. This tension arises from the opinion held by some social scientists that the European Union (EU) ‘took its impetus primarily from economic interests and related, legitimizing economic ideas; so far, it has supported primarily instrumental-technological research’ (p. 14). As a result, the book analyses whether the process of economic and political integration will also lead to a process of social integration in which an increase in economic wealth will be to the benefit of all citizens and will raise their quality of life, as well as creating a new European society and identity which can be reconciled with a preservation of traditional cultural identities. In the specific field of economics, two main areas are examined: Firstly, the conflict between the introduction of the fully integrated economic and monetary union and the future of the European welfare state is analysed. The contributing author comes to the conclusion that the creation of the European Monetary Union (EMU) will fundamentally change the framework for social, wage and tax policy in Europe. National systems will come under more pressure from international competition and there will no longer be the possibility to respond to this by way of changing the exchange rate. The author then argues that without corresponding regulation, market forces will lead to a process of social dumping. To counteract this, he suggests that national welfare states should be ‘Europeanised’, and proposes a model for the design of a European social policy. Secondly, the consequences of the institutional innovation of the EMU are investigated. The main findings are that it should be viewed more along the lines of a political rather than an economic project, with the contributor believing that the EMU was grounded on the hopes of politicians to avoid the costs of exchange rate fluctuations, to foster growth in Europe, as well as to ensure stability and peace in Europe. There is a distinct lack of serious research into this issue; above all, there needs to be a much stronger interdisciplinary approach, especially when the integration of very different countries in terms of the levels and patterns of development and cultural backgrounds is considered.

Further contributions are dominated less by economics, even though it is always lurking in the background, and include the role of the unions, the gender-specific inequalities engineered and maintained by the existing structure of welfare state institutions, poverty and social exclusion, spatial planning and social cohesion, democratic deficits (including constitutionalisation and democratisation as well as the deficits of confidence within individual nations), the need for policy networks to improve the understanding of EU politics, corruption and crime, the role of women between the labour market and family, the relationship between educational systems and labour markets, immigration, and finally the role of education of developing European identity.
The book is rounded off by the general issue of the organisation of science and research policy in the European Union.

Even from this cursory glance, it can be stated that the book’s main strength lies in the richness of topics dealt with. While not always being in agreement with the views put forward (an economist’s prerogative!), the papers are competent and present the arguments of the authors well. Each paper provides a very good overview of the ‘state of play’ of a specific area of European integration, which helps the reader get to grips with the various approaches taken. On top of this, the interdisciplinary approach works well, with all authors showing themselves to be adept and competent in bringing together different strands of thought from a variety of social sciences.

Nevertheless, the wealth of issues covered is a double-edged sword. While certainly being an interesting selection of papers, the implied restriction in length precludes dealing with specific issues in more detail, something that would surely appeal to some readers. To be fair, however, this book never claims to be the definitive edition of detailed research into European integration. Furthermore, the contributions to this volume vary in their focus on the whole subject of the EU. Some papers are very coherent in their approach, mixing theoretical analyses with relevant empirical data, and applying the results to European integration. Other papers, on the other hand, have only a very weak link to the EU as an institution; on occasions, it seems that European integration is mentioned solely as an afterthought, which can come as a disappointment to the reader. Finally, while maybe being pedantic, a further problem is the English that is used in some of the papers. Some contributions, it has to be said, exhibit poor English and make basic errors. Even though this is not a major problem, it can nevertheless become annoying to the reader.

On the whole, however, this is an interesting and thought-provoking book, providing a laboratory of new concepts and challenges to preconceived ideas. While not being a comprehensive and detailed volume, it is certainly broad. Therefore, if one wants a detailed account of a specific aspect of European integration and does not want to only scratch the surface of some areas without being able to dig deeper, it is best to look elsewhere. However, if one is interested in an interdisciplinary approach, a collection of new ideas, and an overview of research topics, this book can certainly be recommended.

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Monetary policy strategies are at the core of modern central banking. They determine how available information on economic performance affects the structure and actual implementation of monetary policy decisions. They also have a close connection to the external communication of the internal policy-making process. In a nutshell, they are instrumental in giving, and enhancing, consistency as well as credibility to monetary policy. This book explores the depth and breadth of these strategies in the European framework. It fruitfully integrates a political economy analysis of monetary policy targets with a detailed historical account of their evolution over the past quarter of a century, leaving aside technical aspects which are not germane to the understanding of alternative monetary policy strategies. Written from a policy-maker’s perspective, the book draws on the rich European monetary history of the post-Bretton Woods era in order to establish what lessons can (or should) be learnt for the European System of Central Banks, especially on the basis of the wide-ranging experiences of the member countries.

After a brief introduction (chapter 1), the book is divided into two parts. Part 1 addresses the conceptual and normative issues of monetary policy strategies. In particular, it explores in detail the different targeting options for monetary policy, assessing the benefits and drawbacks of each of them. Chapter 2 presents the crucial factors governing the choice of a monetary policy strategy from a theoretical point of view. A qualitative analysis is carried out, focusing on the nature of economic shocks, the structural characteristics of the economy, the prioritisation of macroeconomic objectives, and some political economy considerations (such as rules versus discretion arguments, credibility, accountability and transparency issues). Within this conceptual framework, chapter 3 reviews the trade-offs for a number of monetary policy strategies: money targeting, domestic credit targeting, interest rate targeting, exchange rate pegging, nominal income targeting, direct inflation targeting, and adoption of a combined approach. Houben assesses the benefits and drawbacks of each strategy, appraising elements such as the controllability of the alternative targets, their stabilising properties with respect to the ultimate objectives of monetary policy, and their role in promoting economic development.

Part 2 builds on the theoretical analysis carried out in the first part of the book to provide a fully-fledged review of the driving forces lying behind the monetary strategy choices of the 15 current EU member countries. Chapter 4 overviews the historical setting, moving from the Bretton Woods system (1946–71) to the European experience of the Common Margins Agreement (i.e., the ‘snake’) in the 1970s. Then follow three chapters on practical central banking over the period 1975–99. Within this time frame, the three main monetary policy strategies experimented by the different countries are analysed in depth, following a very detailed chronological order. Chapter 5 deals with the evolution of money targeting, a strategy first introduced in Germany.
back in 1975. As the author clearly explains, the money targeting approach is multi-
faceted and has a number of building blocks such as the choice of the targeted mon-
ey aggregate, the specification of the target (in terms of a point, range, or ceiling),
the time horizon and the frequency of revisions of the target, and the target communi-
cation to the public. In chapter 6, the evolution of exchange rate targeting is dissected
in two steps. First, the author considers the European Monetary System framework
and its overall evolution, which Houben divides into four stages with varying charac-
teristics. Then, for the 15 current EU member countries, Houben provides an account
of the gradual hardening of exchange rate targets from the 1980s on. Interestingly, he
also points out that, in spite of the various EMS crises (especially those in the 1990s),
seven out of the eleven EU countries that entered EMU on 1 January 1999 ‘did so on
the basis of nominal exchange rate targets that had been set twelve or more years ear-
ier’ (p. 195). Next, there is a chapter on the evolution of direct inflation targeting,
which has become the principal monetary policy strategy pursued by European central
banks since the 1990s. Again, the author presents the origins and spread of inflation
targeting in Europe, and then analyses the diversity of inflation targeting frameworks
in terms of the choice of the inflation measure, the specification of the target (a point,
range, or ceiling) and its time horizon. For each of these three different strategies, a
subsection indicates the lessons that can be learnt from the various, and heterogene-
ous, countries’ experiences. Finally, chapter 8 presents and explores the monetary pol-
icy strategy of the European Central Bank, in connection with the peculiar situation
at the start of EMU and with the relevant experiences of its member countries. The last
subsection of this chapter is devoted to a first appraisal of the Eurosystem’s strategy,
where Houben notes that this strategy constitutes a breed of its own. A number of im-
portant questions are raised by the author, leading him to hope in the end ‘that the Eu-
rosystem’s strategy remains broadly unchanged for quite a while, since the continuity
of monetary policy strategy runs at a premium and its value is only revealed in the me-
dium term’ (p. 295).

On the whole, Houben’s work deserves attention by both academics and monetary
policy makers, who will also find in the appendices a useful summary in tabular form
of the pre-announced monetary policy targets and outcomes of each of the 15 EU
countries, for the period 1975–98.

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The economics of institutions has become an expanding, deepening and lively research area. Important figures such as Nobel Laureates Kenneth Arrow, Friedrich Hayek, Herbert Simon, James Buchanan, Ronald Coase, Douglass North and others such as Armen Alchian, Oliver Williamson, Harold Demsetz have had a great influence in the research program ‘New Institutional Economics’ (NIE). This expression was coined by Oliver E. Williamson and is intended to differentiate the subject from the ‘old institutional economics’ connected to John Commons, Wesley Mitchell and others.

The book edited by Ménard includes twenty-seven contributions by thirty-seven scholars illustrating the different dimensions of the current research. It is based on a selection of contributions presented at the second annual conference of the International Society for New Institutional Economics. Part I starts with the foundations of NIE. Ronald Coase points out the importance of studying the economic system and stresses the relevance of the institutions that govern the performance of an economy. Douglass North discusses important future issues of the NIE. In his opinion, work has to be done on how choices get aggregated in political markets, how informal constraints work and evolve through time, what makes them work well or not, how we react to various kinds of ways of enforcement (formal rules and informal norms) and why changes are so difficult to explain. Masahiko Aoki discusses the mechanism of institutional evolution with the help of game theory.

Part II is a homage to Ronald Coase. Douglass North focuses on the implications of the work of Ronald Coase and why economies vary in terms of the quality of their performance. Lars Werin writes about Coase’s achievements and points out three theorems, the reciprocity theorem, the conclusion falling under the Coase theorem and the Coasean theorem on objects of contracts. Oliver Williamson illuminates the essence of Coase’s work: ‘(i) push the logic of zero transaction costs to the limit; (ii) study the world of positive transaction costs; (iii) . . . assess alternative feasible forms of organization in a comparative institutional way; and (iv) . . . study the microanalytics of contract’ (p. 50). Claude Ménard emphasizes that with the concepts of transaction costs and rational expectations Coase has provided two important concepts which have influenced past research and will influence future research generations. At the end of part II, there is a complete bibliography of Coase’s work.

Part III elaborates the sources of growth. Harold Demsetz traces the shifting emphasis from non-institutional to institutional considerations in the study of economic development. It discusses the difficulties that arise when explanations of development ignore non-institutional considerations and the beginning stage of economic progress. Philip Keefer and Mary Shirley bring cross-country and case-study evidence that countries scoring better on measures of the security of contract and property rights derive a much stronger growth effect from good macroeconomic policies than other
countries. Stanley Engerman, Stephen Haber and Kenneth Sokoloff show the role of factors endowment to model social relationships and institutions.

Part IV deals with the topics ‘Trust, Distrust and Corruption’. Margaret Levi argues that distrust raises the transaction costs of cooperation. Although trust can play a role in reducing transaction costs and offers a way from moving out of an equilibrium, it is not always the best solution. She points out the relevance of good defenses against untrustworthiness and thus of institutional arrangements to safeguard property rights, exchange and cooperation. Institutionalized distrust, influenced by a ‘healthy skepticism’ helps against exploitation while developing a basis for interpersonal trust. Jean Ensminger shows results in her work on experimental economics in less-developed societies. She finds evidence that members of a small-scale community (Orma) are not more generous, more trusting, or more likely to share than US participants. A recent cross-country experimental investigation in 15 small-scale societies on five continents found that group-level differences in economic organization and the degree of market integration explain a substantial portion of society behavioral variation (see Henrich et al. 2001). Lee Alston and Kyle Kauffman analyze why black renters paid more than white renters in the US South in the 1920s. They suggest that this was not discrimination but rather a payment for paternalistic services for which Whites had a lower demand. Joshua Charap and Christian Harm argue that elimination of corruption can lead to ‘anarchy rather than efficiency since it destabilizes predatory dictatorship and hastens the path towards internal revolt’ (p. 203).

Part V analyses enforcement issues. Yoram Barzel analyzes the forms of third-party enforcement which develop when self-enforcement is not enough to provide guarantees. Claude Ménard focuses on characteristics of enforcement procedures and their relationship to governance structures and points out the importance of institutional environment in writing, implementing and adjusting contracts. Jose Garibaldi-Fernández states that legal traditions, political institutions and administrative arrangements in enforcement institutions affect how people organize and interpret transactions. John Drobak illustrates how a cognitive perspective can be used to modify legal analysis.

Part VI shows a broad view of the organization of transactions across different arrangements. Alberto Fernández, Benito Arruñada and Manuel González examine the quasi-integration and hybrid arrangements in the less-than-truckload industry. Jean-Michael Glachant and Dominique Finon look at the electricity markets and examine the reforms in the European Union. Michael Cook and Constantine Illiopoulos investigate how cooperatives, which have developed a structure of property rights to overcome the problems of opportunism and underinvestment, emerged in the 1990s. Didier Chabaud differentiates between modes of work organization according to the strength of their hierarchical relationships.

The last part focuses on issues related to ‘Models and Measures’. Alexandra Benham and Lee Benham deal with the problem of empirical estimation of transaction costs. Stéphan Saussier analyzes the tradeoff between the ex-ante incentive function of contracts and the search for ex-post adaptability. Eric Brousseau and M’hand Fares
focus on the role of unverifiability and radical uncertainty in transaction cost theory. Finally, Pieter Ruys, René van den Brink and Radislav Semenov develop a model that incorporates a complex set of cultural values.

The collection of articles on the research program New Institutional Economics edited by Claude Ménard is a very good and valuable work. The book presents some fascinating applications of New Institutional Economics and offers a wide and interesting insight into the current research movements and ideas.

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Financial Market Drift deals with the issue of why the growth rate of financial assets historically exceeded the real growth rate of production. This phenomenon of ‘decoupling’ would seem to be especially relevant for the 1990s when irrational exuberance governed the world’s major stock markets and gave rise to an ever increasing valuation of financial assets. The authors use the so-called financial asset ratio to provide a numerical description of the decoupling of the financial sector from the real economy. This is the ratio of the aggregate value of financial assets to the real economy (an increase in the ratio implies stronger relative growth of financial assets vis-à-vis goods and services).

Statistical data, however, regarding the development of the German financial asset ratio typically were only available up till the mid 1980s missing the most interesting period of the advent of the New Economy. The study by Menkhoff and Tolksdorf usefully extends the available period of observation by a good decade as Financial Market Drift covers the years 1960 to 1996 inclusive. The financial asset ratio can be defined in a number of ways, depending amongst others on the sample of sectors to be included in the numerator and the specific measure of aggregate production deployed in measuring the denominator, as the literature reviewed in this study makes clear. Hence
Menkhoff and Tolksdorf provide six different measures for the German financial asset ratio as they make their calculation on a static basis and on a dynamic basis and calculate the ratio in per cent of GNP and real assets, both for the non-financial sector and for the aggregate of all sectors, respectively.

Irrespective of the precise definition deployed, the ratio in 1996 appears to have exceeded the level registered in the early 1980s (roughly by some 50 to 100 per cent) thus underlining that decoupling is a relevant empirical phenomenon of the post war economy. Based on a detailed inspection of the financial accounts, Menkhoff and Tolksdorf argue that decoupling is not so much a result of globalisation or financial disequilibria (such as asset price inflation or speculative bubbles) but rather a consequence of structural changes on the financial markets (including product innovation and financial deregulation).

The major strength of this book is the empirical content (in addition to the very useful description of more recent developments in Germany, Financial Market Drift discusses and analyses turnover at foreign exchange markets and traded volumes in US equity markets).

This book has one major weakness: the English is unusually cumbersome and this makes the theoretical discussion of the causes and consequences of decoupling as well as the policy implications of this phenomenon actually rather inaccessible (From the viewpoint of a robust decoupling hypothesis, the problem remains of the extent to which it is the high volumes that cause it (p. 78)). German readers may therefore wish to consult the original edition Finanzmärkte in der Krise (published in 1999 by Deutsche Sparkassen).

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This book examines how political institutions can enhance political stability. In particular, the role of political checks and balances is emphasized. This book will be of particular concern to those interested in applications of spatial voting models, constitutional economics, and theories of positive political economy in general.

Part I surveys the theoretical literature. The first chapter in this part (chapter 2) is concerned with spatial voting models. The literature tends to be very technical. However, the author makes the material surprisingly accessible. Indeed, it would be a good
introduction to the area for undergraduate students. The basic result is that, in multiple dimensions, majority rule equilibria are highly unlikely to exist. Chapters 3 and 4 show how institutional constraints can overcome this problem and provide stability.

The remaining parts of the book involve applying the concepts of part I to actual democratic institutions. Part II examines how features of the Swiss political system enhance stability. Specific features of interest include the fact that Switzerland is a federal state with a bicameral parliament and provisions for referenda. Chapter 5 examines legislative decisions and chapter 6 examines constitutional change. Chapter 7 briefly discusses the effects of uncertainty and interest groups. Part III deals with the European Union with a focus on the European parliament. Chapter 8 uses spatial models to analyse the impact of the European Parliament in general. Chapter 9 analyses its impact in the case of car emission standards. Part IV applies the concepts developed earlier to central banking. On theoretical grounds, chapter 10 determines that central banks are more likely to be independent in a country with a political system of strong checks and balances. Chapter 11 tests this result for OECD countries.

There are several noteworthy features of this book. One is the application of spatial voting models to actual institutions and events. It is a good example of applied research in a difficult area. In addition, unlike much of the current literature, this book is not limited to the American political system. Another noteworthy feature of the book is that it deals with multidimensional issues. Much of the existing literature limits itself to one-dimensional issues for simplicity. However, Moser manages to deal with multiple issues in a very understandable and tractable way.

Although the book is commendable, there are some problems. For example, it assumes that legislatures don't necessarily reflect the preferences of the median voter but the reason for this is never made clear. In addition, at times the author assumes that the median voter outcome is a favourable result. For instance, in chapter 7 he argues that interest groups play a beneficial role by turning down parliamentary proposals that deviate too much from the median voter's ideal point (p. 86–87). The median voter outcome may be a good normative objective but it is well known that in many cases (e.g., public goods) it may not be an efficient outcome.

Some objections could also be raised about his classifications of countries in chapter 11. Here the author tests chapter 10's conclusion that countries with a strong system of political checks and balances are more likely to have independent central banks. Countries are classified according to the strength of their political checks and balances. The criteria for political systems to have strong checks and balances is that at least two legislative bodies exist that are independent of each other, have different preferences and each has veto powers. One country whose membership in this group seems questionable is Canada. Its unelected upper house is appointed on the recommendation of the Prime Minister who is typically the leader of the party with the most seats in the lower house. For most of Canadian history, the majority of the upper house has been appointed by the same party that was in control of the lower house. When disagreements between the two houses arise, the Prime Minister has the power of expanding the upper house and appointing more members of his own party in order to
overcome a veto in the upper house. Thus, it is questionable whether the upper house is really independent of the lower house. Moreover, the author includes the United Kingdom in the group of countries with a weak system of checks and balances. One might think that the hereditary peers in the House of Lords would be more independent than their appointed Canadian equivalents.

Despite a few minor qualifications, this book is highly recommended to anyone interested in positive political economy. It is a refreshing supplement to the standard one-dimensional analyses of the American political system. The applications provide frameworks that would be applicable to studies of the political institutions of many other countries. Generally, it is well written and contains high quality research.

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Economists are sometimes accused of being too busy developing elegant formal theory to realize that there are real world phenomena deserving timely and adequate analysis. The authors contributing to this collective volume do certainly not need to fear this accusation. The book attempts to answer the following basic question: are policy makers taking appropriate steps to stimulate competition, or are they slowing the process of deregulation? Given the broad spectrum of U.S. network industries analyzed, readers will hardly expect uniform answers to these questions. And yet, the editors conclude that while policy makers have helped to increase the network industries’ efficiency during the last twenty years, they should now take further steps to free deregulated industries from residual regulation, in particular to limit the scope for regulatory capture.

Steven A. Morrison and Clifford Winston investigate the remaining role for government policy in the deregulated airline industry. They explore the policy implications of alleged imperfections in air transportation, such as the formation of hub-and-spoke systems, predatory pricing, mergers, customer service, and airport access. Their intriguing conclusion is that although poor service is arguably an important issue, the policy makers’ focus on carrier behavior is largely unwarranted. Drawing on a host of empirical studies, they reason that the airline industry’s main inefficiencies stem from government management of airport and airspace capacity. As a consequence, they advocate the privatization of airports and traffic control.
Curtis Grimm and Clifford Winston investigate deregulation in the railroad industry. They point out that it is the only U.S. industry that has ever been deregulated because of its poor financial performance under regulation. While deregulation has helped to resolve this problem, observers claim that it has been detrimental to (captive) shippers' welfare. The authors develop a theoretical framework of intra- and intermodal competition to estimate its effects on rates and service quality. They find that although competition does lower shippers' rates, it does not reduce service times. Also, captive shippers do pay higher rates, but the associated deadweight loss is estimated to be very small. They conclude that there is thus little justification for increasing competition on economic efficiency grounds. Nevertheless, they argue – not wholly convincingly – that the regulatory body (Surface Transport Board, STB) should be eliminated, rail rates should be completely deregulated, and shippers and railroads should be encouraged to agree to terms governing access that would resolve their differences.

Robert W. Crandall and Jerry A. Hausman analyze the effects of the 1996 Telecommunications Act on competition in the telecommunications industry. They point out that this legislation seeks to open local telecommunications markets, complete the earlier opening-process in long-distance services, and generally create an ‘innovation-friendly’ environment. They find, however, that four years after its enactment, competition in the local wireline access and exchange markets is only beginning. This failure is attributed to the regulator’s attempt to micromanage the liberalization process ‘in a manner that is quite unprecedented in the recent history of U.S. deregulation’ (p. 109). More specifically, they argue that detailed cost-based regulation of wholesale rates is not a satisfactory approach for stimulating competition. Instead, they advocate rate re-balancing undoing the regulatory-created barriers to entry built into the retail rate structure.

In the light of the recent turmoil in California, the extensive paper by Paul L. Joskow on deregulation in the electric power industry is probably of most immediate interest to the general reader. Joskow briefly reviews the industry’s special characteristics and the various efforts to reform the industry after the 1980s. Using the example of California, he carefully points out the difficulty of creating market institutions that govern competitive wholesale markets and notes that ‘additional design changes are needed to fix remaining problems’ (p. 183). As it happens, few observers would object to that conclusion. To put things in perspective, Joskow also reminds the reader that the long-run benefits from promoting competition in generation are potentially significant.

Of course, the book’s attempt to provide clear policy messages for diverse industries combined with its relative brevity is bound to provoke criticism. Theorists will stress that incorporation of the literature on foreclosure, productive efficiency and quality provision in deregulated industries may lead to a less optimistic view of what competition can accomplish in network industries. Others may worry about the fact that the exact meaning of deregulation remains fairly implicit. Still others will take issue with the generous number of references to the authors’ own works and the at
times tedious footnotes detailing the data, the industry configuration etc. Neverthe-
less, even those who do not subscribe to the policy conclusions should be able to agree
that this volume is one of the rare policy contributions which is both firmly grounded
on economic analysis and accessible to the general public. It will therefore add nicely
to the library of anyone interested in network industries.

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Peschutter, Gudrun (2000). Strategische Exportförderung durch ökologisches
Dumping. Berlin/Stuttgart/Wien: Paul Haupt. 220 S. DM 38.00. ISBN: 3-258-
06206-4.

Die Uruguay-Runde des GATT hat über sieben Jahre gedauert. Doch trotz so wesent-
licher Erfolge wie die Wiedereingliederung des Multifaserabkommens in das GATT,
die Tarifizierung des Agrarhandels und vor allem die Gründung der WTO (mit den drei
Säulen GATT, GATS und TRIPS), kann von einem wirklich liberalen Welthandel nicht
die Rede sein. Der ‘neue Protektionismus’ treibt immer neue Blüten. Die Staaten wer-
den immer einfallsreicher wenn es darum geht, das WTO-Abkommen zu umgehen.
Einzelne, noch unzureichend geregelte Bereiche werden dazu benutzt, um sie gegen
andere Länder ‘auszuspielen’. Gudrun Peschutter untersucht in ihrem Buch die längst
überfällige Frage, ob bzw. wie eine strategische Exportpolitik durch eine strategische
Umweltpolitik ersetzt werden kann. Die Interdependenzen dieser beiden Bereiche ha-
ben in der jüngeren Vergangenheit in Politik und Wirtschaft an Relevanz zugenom-
men. Ebenso die Schärfe, mit der über Umwelt und Handel diskutiert wird. Dies do-
kumentiert z. B. die auch an umweltpolitisch motivierten Protesten gescheiterte

Entscheidend ist die Frage, inwieweit umweltrelevante Bereiche in die WTO inte-
griert werden sollen. Es geht darum, auf welche Weise dies geschehen soll und kann,
denn letztendlich steht ein Problem im Mittelpunkt der Entscheidung: Wie können
jene Maßnahmen, die wirklich rein umweltpolitisch motiviert sind, eindeutig von je-
en getrennt werden, die durch ihren protektionistisch motivierten Einsatz ganz be-
stimmte Auswirkungen auf den Außenhandel haben sollen? Die Diskussion konzent-
riert sich hier auf das Stichwort ‘ökologisches Dumping’, wobei bereits an dieser
Stelle gesagt werden muß, daß eine klare Definition dieses Begriffs äußerst schwer
fällt. Peschutter subsumiert darunter jene Maßnahmen, die so ausgestaltet sind, daß
davon ausgegangen werden kann, ihre Einführung diene nur dem Zweck, der inländi-
schen Industrie wettbewerbspolitische Vorteile auf dem Weltmarkt zu verschaffen. Ein
Indiz dafür, wie schwierig eine solche Einschätzung ist, ist vielleicht, dass das Problem von Verhandlung zu Verhandlung verschoben wird. Auf dem Problem aufbauend entsteht die Frage, inwieweit die WTO die geeignete Institution ist, in deren Rahmen etwa Gegenmaßnahmen als Reaktion auf ’ökologisches Dumping’ ergriffen werden könnten. Mit anderen Worten: Soll die WTO legitimiert werden, in jenen Fällen, in denen Umwelt dumping vermutet wird, Ausnahmen für entsprechende Gegenmaßnahmen zuzulassen.


Theoretically, this book has been inspired by Kant’s writings on ‘perpetual peace’ as well as by 19th century British liberalism. The core of the book is a quantitative analysis of the effects of democracy, economic interdependence or trade and international organizations on the risk of war. If Kant and 19th century political economists were right, then peace among nations may be promoted by democratization, trade and the establishment of international organizations.

The outline of the quantitative research design looks like this: The dependent variable is the occurrence of militarized disputes between states. For each pair of states or dyad in each year, we either observe a dispute or we don’t, i.e., the dependent variable is a dichotomy. The cases of the analysis are dyads, or more exactly: dyad-years, because a dyad, like Britain and France, constitutes a hundred cases, if the period of observation is a century. The research question is: Which dyads suffer from a dispute, i.e., which ones experience a verbal threat of force, threats by troop movements, or even bloody wars?

Before considering independent variables, it makes sense to limit the analyses to those cases where disputes and war actually might occur. It is hard to imagine opportunities for war or willingness to go to war in dyads like Portugal-Finland, Mexico-China, or India-Brazil. Russett and Oneal focus their analysis on politically relevant dyads which are characterized either by territorial contiguity or inclusion of a great power in the dyad. In the 1885–1992 period analyzed in the book there are about 40,000 relevant dyads. Although only 22% of all dyads are ‘relevant’, this subset of relevant dyads contains about 87% of all disputes. Among relevant dyads disputes occur 24 times as frequently as among the irrelevant dyads which are neglected in this book.

The independent variables in the analyses reported in the book derive from three different theoretical traditions: political realism, Kantianism and 19th century British
political economy, and, ultimately, Huntington’s ‘clash of civilizations’. Essentially, political realism contributes control variables, such as the existence (or absence) of alliances and power ratios. Kantianism or political economy are represented by three independent variables: the degree of democracy in the less democratic member of the dyad, the degree of economic interdependence (dyadic trade / GDP) in the more trade dependent member of the dyad, and the number of common memberships in intergovernmental organizations. The method of analysis is logistic regression.

The most important results are: Allies are less frequently involved in disputes than other nations are. Preponderance of power pacifies interstate relations. The more democratic a dyad, the lower the risk of militarized disputes. The more trade dependent the members of the dyad, the lower the risk of disputes becomes. The trade and democratization effects are similar in order of magnitude, but the trade effect might be even stronger than the democratization effect. The more memberships in international organizations (IGOs) two states share, the lower their dispute risk becomes. This final or IGO effect is less robust and weaker than the democratization or trade effects. Russett and Oneal summarize the democratization, trade and IGO effects under the summary label of Kantian influences. Taken together they reduce the likelihood of a dispute by 71 percent (under certain specified conditions).

The ‘weak link’-approach to assess the degree of democratization or trade dependence of a dyad by reference to the less democratic or less trade dependent member permits to add additional democratization and trade variables to the equation. Thereby, it is demonstrated that – in contrast to earlier findings – democratization of a country always improves the prospects of peace. Previously, it was expected that the risk of war or disputes between autocracies and democracies was even higher than between two autocracies. By implication, the democratization of a nation surrounded by autocracies might increase rather than decrease the risk of war. Now, this concern may be discarded. Adding additional trade variables to the ‘weak link’-assessment of trade permits to demonstrate that greater economic openness of the members of the dyads reduces the risk of militarized disputes even where the direct trade in a dyad consisting of two open economies is comparatively unimportant. It looks as if not only direct material interests, but also something like a commercial spirit was conducive to peace.

According to Huntington’s ‘clash of civilizations’-perspective, the risk of militarized disputes should go up, if the members of a dyad belong to different civilizations. In bivariate analysis it looks as if belonging to different civilizations mattered. The better and more complete the controls for realist dispute determinants (like power ratios) and the Kantian pacifiers (democracy, trade, IGOs) become, the less Huntington’s perspective is corroborated. Another theoretical perspective which is refuted by the findings is dependency theory. Russett and Oneal (p. 147) report: ‘Economically important trade between large states and small states increases the prospects for peace just as it does for states of equal size’.

In evaluating the findings of the empirical investigations, robustness is a primary concern. The issue of robustness may be discussed from a variety of perspectives. The appendix on methodology convinces this reviewer that different statistical modeling
decisions do not affect the main conclusions of the book. There is a realist road to the avoidance of war, i.e., preponderance. But there also is a so-called Kantian road, i.e., democratization, free trade, and cooperation in intergovernmental organizations.

Of course, Russett and Oneal do not deliver a full or complete explanation of why some dyads suffer disputes and others don’t. Although even complete looking explanations which report close to hundred percent variance explained may be misspecified (for example, mistaking causes and effects), obviously incomplete analyses, as reported here, are even more likely to be afflicted with some kind of specification error. What might affect the risks of disputes or wars other than the variables analyzed here?

In this reviewer’s view, two kinds of effect have been neglected: first, peace through fear and, second, imperial peace. Both concepts may be most easily explained by reference to the Cold War. Between East and West fear of nuclear war may not only have prevented bloody fighting, but even lower level disputes. Within the Soviet bloc, dependence on the Soviet Union may have pacified relationships between Soviet client-states. Conceivably, there may have been some imperial peace effects even within the West. It is hard to predict how inclusion of this type of variables might affect results. Would so-called Kantian effects be weakened or strengthened?

Similarly, one might ask the question whether a redefinition of the dependent variable, i.e., a focus on war – rather than on mere militarized disputes which are about thirty times as frequent as war – might affect results. Because of some general familiarity with this type of literature, this reviewer would bet that changing the dependent variable has little effect on the core findings. But it would be better if there were less need for educated guesses which, after all, might be wrong.

Finally, there are some indications of instability of effects over time. Russett and Oneal (p. 113) report that ‘alliances made no statistically significant difference in the incidence of disputes over the full pre-World War II era. In these years, allies were likely to fight or threaten each other as they would have been had they not been allied’. Shouldn’t this finding have forced one into making different analyses for the multipolar pre-World War II period and the bipolar Cold War period? Conceivably, alliances in a multipolar world are what the term ‘alliance’ suggests. In the bipolar and nuclear world thereafter, an ‘alliance’ might have been something quite different, like the acceptance of a place in a superpower’s sphere of influence and of some limitation of minor power sovereignty. But this consideration would return us to the previously discussed questions about peace through fear and imperial peace.

This criticism is only a reminder that research on the effects of democracy, trade and intergovernmental organizations is not yet completed. It has to go on. But this book is by far the best and most interesting book ever written in the quantitative international politics tradition. Reading it is absolutely a ‘must’.

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Im Zentrum dieser Studie steht die institutionelle Gestaltung der Lohn- und Beschäftigungspolitik im integrierten europäischen Wirtschaftsraum. Ausgangspunkte sind dabei die hohen Raten der Arbeitslosigkeit insgesamt und der langfristig Arbeitslosen und der Gruppe mit geringen Qualifikationen, sowie das Fehlen einer realen Konvergenz der elf Teilnehmerstaaten, die auch für den Arbeitsmarkt gilt.

Konsequent an dem Ziel orientiert, eine neue institutionelle Gestaltung der europäischen Arbeitsmarktordnung abzuleiten, leitet die Verfasserin im ersten Kapitel die Anforderungen an die Lohn- und Beschäftigungspolitik auf nationaler Ebene ab. So dann wird im zweiten Kapitel ein theoretischer Rahmen für den Lohnfindungsprozess entwickelt, dem im dritten Kapitel eine Wirkungsanalyse unterschiedlich koordinierter Lohnpolitik folgt. Im Zentrum steht dabei immer der Zentralisierungsgrad der Lohnpolitik, und welcher nun den neuen Anforderungen genügt. Im Schlusskapitel unterbreitet Schürfeld dann konkrete Vorschläge für die Konzeption einer europäischen Arbeitsmarktordnung. Dabei berücksichtigt sie auch die Chancen solcher Reformen im politischen Prozess.


Folgt man der Logik des Aufbaus der Arbeit, dann steht im Zentrum der Argumentation die theoretische Analyse, und dieser soll im folgenden das Augenmerk gelten. Erstens, kann man die in der Preisgleichung verwandte Aufschlagskalkulation akzeptieren als Modell eines unvollkommenen Marktes, so ist das bei der Lohngleichung schon viel schwieriger. Zum einen sind die Gleichungen m. E. nicht sauber abgeleitet, auch die Argumentation ist nicht klar und eindeutig. Selbstverständlich kann man immer sagen, dass diese oder jene Annahme unerheblich ist. Ob dies aber gerade für die Hypothese gilt, dass die Unternehmen bei den Lohnverhandlungen keine Macht haben (S. 65), wenn auf S. 72 dann betont wird, dass der ‘Gewerkschaftsmacht eine Schlüsselrolle’ zukommt? Zweitens bedeutet die Einführung von mehreren oder gar vielen Gewerkschaften, das man nun ‘strategische Abhängigkeit’ zwischen ihnen berücksichtigen muss. Und folglich ist die Annahme, dass die Preise gegeben sind nicht mehr zu


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The field of cultural economics applies economic thinking to the arts and culture. Once considered a very unorthodox area in the economics profession, it now has become a respected research field with its own Association and Journal. Its an excellent example of how economics can be fruitfully exported to a topic outside the market mechanism – cultural affairs. David Throsby is one of the leading scholars in the field and has contributed many important articles on the topic in leading journals.

In his book *Economics and Culture*, Throsby employs a wide definition of culture. It embodies not only activities and products of the various activities ‘which have to do with the intellectual, oral and artistic aspects of human life’ (p. 4), but also culture understood as ‘a set of attitudes, beliefs, mores, customs, values and practices which are common to or shared by any group’ (p. 4). This leads to a very broad view on the relationship between economics and culture – without losing any of its depth. Correspondingly, the book covers a wide range of topics, some of which have already been published in the form of articles in top journals. The seven chapters present a theory of value, treat the notion of cultural capital and its sustainable development and analyse culture in economic development, topics of cultural heritage, the economics of creativity, cultural industry and cultural policy. In line with his previous work the book is most interesting, well written and gives a lot of new insights. To take just one example, consider the chapter about creativity. Interestingly enough, the creative process has been widely neglected by cultural economics. With few exceptions (see Frey 2000), economists until now did not analyse the origin of creativity and how it can be explained in rational terms. In his book, Throsby offers an economic analysis of creativity. He tests the rational explanation against the widely-held belief that creativity has to be an irrational process. The book presents stylized facts supporting the rational choice hypothesis without denying that there is something beyond rational reasoning.

A central idea of this book is to go further than just to apply orthodox economics to the arts. Throsby not only exports economics into culture but imports culture into economic theory. So throughout the whole book, Throsby incorporates his concept of cultural value and cultural capital into his analyses. According to the author, culture not only generates an economic value but also a cultural value, which is neglected in traditional economic analysis of the arts and culture and which does not necessarily go along with economic value. Cultural value represents, for example, the aesthetic, spiritual or authentic value of a ‘cultural good’. Social value is yet another characteristic of cultural value: ‘The work may convey a sense of connection with others, and it may contribute to a comprehension of the nature of the society in which we live and to a sense of identity and place’ (p. 29). Such values are different from the well-known positive external effects resulting from the public good characteristic of culture. Thus, Throsby goes far beyond the established concept and represents a new idea in the economic analysis of culture.
The introduction of this additional value, beside the economic value, changes our thinking about cultural economics—and economics in general—especially because this cultural value is not captured entirely by the individual willingness-to-pay for several reasons mentioned by the author. For example, individuals may not know enough about the cultural objects to form a reliable judgement of their own; or culture benefits the individual only as a member of a group. Therefore, the sum of individual willingness-to-pay may underestimate the cultural value. Although the author lists some methods of measurement, they all have considerable shortcomings and do not really help to incorporate cultural value. To illustrate the effect of the incorporation of cultural value, consider cultural policy. Cultural value plays a crucial role in cultural policy formation. Economists often neglect cultural value in their policy recommendation, which leads to wrong conclusions, mostly to culture, e.g., cultural heritage, getting too little support (chapter 5). But the incorporation is extremely difficult because of the already mentioned measurement problems of cultural value and cultural capital. This leads, as the author remarks himself, to opportunities for interest groups to influence the policy decisions. Thus, the incorporation of cultural value into cultural policy has to be accompanied by a politico-economic model of the decision process.

The whole discussion of cultural value and cultural capital faces similar problems to the discussion on natural value and natural capital in environmental economics. The elusive concept of cultural value is hard to incorporate into public policy without an idea of how to make the concept more concrete. It therefore would be helpful to fill the concept with empirical evidence and show what consequences would arise from the incorporation of cultural value beside the traditional economic value. It would be especially important to find good measurement methods for incorporating cultural value as well as the economic value into policy recommendation, be it in topics of economic development, cultural heritage or support for the arts.

Overall, the incorporation of cultural value into economic theory is extremely important and advances cultural economics in an interesting and inspiring way. As Throsby concludes, the idea of cultural value shifts the one-sided emphasis on efficiency to the important aspects of equity. Throsby’s book is therefore not only interesting for people who want to have a competent overview of topics in cultural economics, but also for specialists in the field who will get new ideas for fruitful lines of future application of economics to the cultural sector.

REFERENCE


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The editor of this conference volume must be praised for three reasons: First, he has chosen a timely subject, namely the consequences of globalization on employment; second, he has brought together an interesting group of authors who all stay very closely to the subject of the conference; and third, most of the papers are followed by a critical comment.

The book is organized in four different parts. In the first part (‘Globalization’), D. Citrin and S. Fischer ask whether globalization makes it more difficult to achieve the legitimate aims of economic policy. They argue that on the whole globalization leads to greater stability and higher incomes; safety nets or social policy can then be used to distribute these gains fairly. The next paper is by K. O’Rourke who explores the role of globalization in historical perspective. O’Rourke stresses that it was migration and even intercontinental migration which were much larger in the late 19th century than today, and which were mainly responsible for lowering the living standards in some European countries and the New World. However, this mass migration is absent today.

In the second part (‘Unemployment’) three papers analyze empirical and theoretical aspects of unemployment. R. Schettkat and M. Verhagen focus on the definition and measurement of unemployment under a comparative perspective. The main results show a rise in unemployment rates in the 1970s and 1980s, however, less pronounced in the USA and Japan. Countries with strong employment growth show a high employment elasticity of GDP growth. Furthermore, there seems to be – also except for the USA – a rise in the NAIRU. T. Beissinger and J. Möller present the first theoretical paper, comparing various competing theories of unemployment. Building on the structuralist framework, the authors address the debate between trade theorists and labor economists about the impact of globalization and/or biased technical change on (relative) employment and wages of unskilled labor. W. Vogt then presents an interesting two-sector model with endogeneously biased technical progress along Kennedy-Weizsäcker-Samuelson lines. One of his results shows that, when the elasticity of substitution between skilled and unskilled labor is high, skill-biased technical progress will increase, leading to a rising inequality of earnings.

In the third part (‘Globalization and Unemployment’) O. Landmann discusses the effects of globalization on unemployment along some widely held views, called ‘conventional wisdoms’. One of these conventional wisdoms claims that the shift of labor demand towards skilled labor has created a trade-off between wage inequality and unemployment. First, if labor markets are flexible (the US case) dominating demand shifts widen the wage differential between skilled and unskilled labor. However, with rigid relative wages (the European case) dominating demand shifts lead to unemployment of unskilled labor. However, Landmann points out that the correlation between measures of relative wage rigidity and unemployment rates of unskilled labor is somewhat fuzzy. Building also on a Heckscher-Ohlin framework he argues against the too
small trade effect and focusses more on the effects of non-neutral technical change. A. Belke and D. Gros deal with the unemployment effects of the European Monetary Union. They point out that intra-European exchange rate volatility had significant economic costs. Eliminating this variability will lead via demand effects, in particular, however, to a significant short run impact on profits and on investment and hence on employment when labor is a de facto semi-fixed factor of production. I.e., firms will not engage new labor if the variability of the exchange rate is high.

Last but not least, in the fourth part ('Globalization, Unemployment, and Economic policy') four papers deal with labor market policy, fiscal policy and stabilization policy. N. Berthold and R. Fehn discuss labor market policy in a global economy. They identify four reasons why globalization gives rise of unemployment: exit possibility of capital has widened as well as the possibilities for specialization, the technological menu is broadened, and the macroeconomic environment is less stable. From these factors they conclude that institutional setups are responsible for the varying responses of different countries. Hence the policy conclusions are clear and simple: reduce aggregate wage pressure, achieve greater flexibility in wage-setting, correct the incentive structure in unemployment insurance, help to increase that kind of human capital that is demanded by firms. In his ‘commentary paper’, J. Kromhardt points out that Berthold and Fehn interpret their model ‘partly in a misleading way’, and that ‘it is important to realize the arrow of causation’ (p. 297). Contrary to Berthold and Fehn he concludes that ‘the real wage rate was not the cause of the persistent high unemployment in Germany, but its effect’ (p. 304). Hence, also his policy conclusions are quite different. C. Fuest, B. Huber and F. Wöhlbier discuss the employment effects of various revenue-neutral reforms of the tax and transfer system. E.g., they show that a reduction of labor taxes financed by higher consumption taxes would increase employment. The book closes with a paper by the editor, H. Wagner, who analyzes the effects of globalization on inflation and some consequences for stabilization policy, e.g., the optimal degree of central bank independence.

Globalization and Unemployment is a great and almost inexhaustible theme. However, I recommend this book to everybody interested and working in this field because he/she gets very helpful reading and suggestions.

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