Book Reviews

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Editor

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Martha Derthick

Statehouse and Greenhouse: The Emerging Politics of American Climate Change Policy, by Barry G. Rabe, Washington, DC: Brookings Institution Press, 2004, 240 pp., $47.95 hardcover, $19.95 paperback.

Regulation in the States, Paul Teske, Brookings Institution Press, Washington, DC, 2004, 272 pp., $52.95 hardcover, $22.95 paperback.

From James Madison to Henry Jones Ford, Grant McConnell, and the contemporary social scientists who habitually posit the paradigm of a race-to-the-bottom, students of American politics have not been flattering to the state governments of the United States. Most often, those governments have been portrayed as the refuge of demagogues, oligarchs, and plutocrats. These two richly informed books from the Brookings Institution Press appear to herald a more benign view.

The books differ widely in subject matter and method. Rabe focuses on policies toward climate change, whereas Teske aspires to a comprehensive study of regulation by the states. Rabe has studied a "representative sample" of 12 states, and drawn on site visits, more than 100 interviews, and documents. Teske has incorporated all 50 states into a rigorous design and used quantitative techniques of correlation, supplemented in several cases by pooled time-series, cross-sectional models. His nine cases—telecommunications, electricity, insurance solvency, savings and loan solvency, hospital certificates-of-need, attorneys, medical doctors, clean air plans, and groundwater protection—are divided into four clusters according to the rationale for regulation in each. Rabe's book, written in a fluid, graceful style, is a brisk read. With its scrupulous attention to rigor and quantitative methods, Teske's is slower going. But they end up, very roughly, at a similar destination, with convincing evidence that the policies state governments produce are entitled to respect.

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Rabe in particular tells us that state governments deserve more attention than they have been getting from journalists, scholars, and environmentalists. While the federal government has been paralyzed in regard to climate change policy since the early 1990s, states have been making surprising progress. That no one was looking may be part of the explanation for this. Nor have state governments always invited attention to what they were doing. Rabe suggests that some leaders have followed a "stealth strategy": They pursue climate change policies without calling them by that name, but with an awareness of their likely impact. He distinguishes stealth states from "opportunistic" states, which frame their climate change policies as responses to economic development opportunities, and "prime time" states, which frankly proclaim that they are responding to an environmental threat. And then there are hostile states, such as Michigan, whose legislature has banned agency actions to reduce greenhouse gases, and indifferent states, such as Louisiana, which are passive and disengaged.

Thus, the picture that Rabe paints is mixed, yet progress is impressive. He reports that new legislation and executive orders intended to reduce greenhouse gases have been approved in more than a third of the states since the beginning of 2000. The new programs include formal carbon dioxide caps on particular industries, statewide goals for greenhouse gas reductions, formal agreements with industries to reduce carbon dioxide emissions, mandates to generate specified levels of electricity from sources that generate no greenhouse gases, mandatory reporting of carbon dioxide emissions, voluntary registries for industries seeking credit for reductions in future regulatory regimes, de facto "carbon taxes" on utility bills that create pools of funds for energy efficiency, methane recapture from landfills, and sequestration of carbon from changed practices in agriculture and forestry.

If the record overall is surprising, there are surprises, too, in the identity of the leading states. Rabe devotes a whole chapter to New Jersey, whose government he credits with being the only one in North America to embrace both the Rio Declaration on Environment and Development (1992) and the Kyoto Protocol (1997) and to take formal steps to ensure implementation. Conscious of a threat from rising sea levels, New Jersey made a formal pledge in 1998 to achieve reductions by 2005 that would put it on track to reach Kyoto-level emissions by the end of the current decade.

A core element of New Jersey's action plan are "covenants of sustainability," an idea borrowed from the Netherlands, which has been its partner in climate control. The covenants are pledges to reduce emissions by specified percentages by specified dates. They have been signed by Johnson & Johnson, the pharmaceutical giant in New Brunswick; the Public Service Enterprise Group, which is the state's largest electric utility; all 55 of the state's colleges and universities; a number of public school districts; a consortium representing more than 6,000 religious congregations; and even some of the major departments of the state government.

Another leader has been Texas, a stealth state. Following enactment in 1999 of the Texas Public Utility Regulatory Act, which required utilities to increase their reliance on renewable energy sources but made no reference to greenhouse gases or carbon dioxide, the state has experienced a large increase in wind power. Texas anticipates that at least three percent of its electricity will be generated from renewable sources by 2009, and Rabe says that at the present rate of growth, the state is likely to exceed that goal. In a state the size of Texas, whose greenhouse gas emissions far surpass those of other states, the three percent represents a sizeable volume of emissions.

Still another surprising leader is New Hampshire, credited by Rabe with being a prime-time state. Following a decade or more of incremental policy development, in 2002 New Hampshire applied a statutory cap to carbon dioxide and other pollutants. The Clean Power Act had bipartisan support within the legislature and requires that the state's three existing fossil-fuel power plants stabilize their carbon dioxide emissions at 1990 levels, which is approximately three percent below the levels of 1999. To achieve the mandated reductions, the plants must either reduce their generation, increase fuel efficiency, or purchase emission credits from plants outside the state that have achieved reductions.

Rabe has a threefold explanation for the states' successes. The inability of the federal government to act has created "policy room." States increasingly perceive ways to reconcile environmental protection with economic development. And entrepreneurial opportunities are abundant in policymaking systems that are relatively informal. In case after case, Rabe identifies agency experts in climate change who detected opportunities and acted with sharply focused commitment.

It is arguably disappointing that his "representative sample" did not include the ever-leading case of California, but with no small sleight of hand Rabe manages to cover California at the end of the chapter otherwise devoted to New Jersey. There he describes California's controversial enactment in 2002 of a law designed to reduce the emission of greenhouse gases from cars, sport-utility vehicles, and light trucks, an initiative that vehicle manufacturers have challenged with a lawsuit. The Bush Administration has joined the manufacturers in claiming that California is usurping the federal government's authority to set vehicle emission standards. Rabe contrasts the storm surrounding California's action with the mostly consensual politics that characterize his cases of progress.

Rabe closes by contrasting the states' accomplishments with the outright incapacity of the U.S. federal government, which under President George W. Bush repudiated the Kyoto Protocol, and the exceedingly limited progress of the Protocol's remaining signatories. Yet he acknowledges that the states' progress in adopting fresh policy measures has only begun to be tested by implementation, and that continued progress will face important obstacles, among which he cites the unevenness of the states' own performance, the resistance of business interests to a patchwork quilt of standards, the nation's lack of an integrated system for the transmission of electricity (which stands in the way of interstate transmission of electricity generated by wind power), and constitutionally grounded conflict between the federal government and the states. Though his is a heartening story, with varied and fascinating successes to recount, it does not end on a particularly optimistic note.

After establishing the importance of state regulation, Teske posits rival theories of influence over it: the "rent-seeking or capture approach" versus "an autonomous role for government actors." A chapter on measurement and methodology explains how he designed his quantitative studies, which employ from five to 20 independent variables, though most fall in a range of five to ten, with a median of eight. These eight typically include two interest group measures, two electoral institutional measures, two bureaucratic agency measures, and two broader contextual measures. An example of an outcome measure is (for clean air) the speed with which states secured federal approval of their implementation plans. For occupational licensing of lawyers, Teske measured barriers to entry such as licensing fees. The range of such fees is very wide—from a low of $50 to a high of $1,200! He also asked whether a lawyer is required to take continuing legal education, and for how many hours a year. Lawyers generally do not favor such requirements, which reduce their billable hours. His measurement data were drawn mostly from the 1990s.

Teske summarizes his findings as follows:

> . . . it appears that capture is much less of a concern than many have feared. Instead, a range of interest groups participates in most state regulatory processes, leaving political and bureaucratic actors space to make some important decisions based on their own ideologies and analyses of problems. Some industry groups in some states do capture their regulators, but this is not the overwhelming pattern. Specifically, state legislatures and regulatory agencies are generally the most important influences over regulatory policy, operating in directions that correspond to theoretical expectations, such as Democratic legislatures being more pro-regulation or pro-consumer. (p. 3)

The sole exception to this finding was in occupational regulation, which did exhibit capture by the dominant (that is, the regulated) interest. Thus, Teske concludes that "most regulation of attorneys has more to do with the power, wealth, and the concentration of attorneys in a given state than it does with protecting the public interest" (pp. 149–150), though his conclusions about the licensure of doctors are considerably more ambiguous.

Different as these two books are, they are similar in providing very little support either for capture theories or races to the bottom. They have in common also that they are not "quick hits." Research evolved over a considerable period of time.

Teske has been publishing on state regulation since the beginning of the 1990s, and this book compiles and synthesizes work that he carried out over the course of several years with the help of Ph.D. candidates in political science at SUNY-Stony Brook. Each of the case chapters has a graduate student coauthor. Teske is currently a professor at the University of Colorado Graduate School of Public Affairs.

Rabe began his book with interviews in 1998 and 1999 that were part of a pilot study, and began making presentations on the subject at that time. Indeed, he tells us that he was told then by a distinguished environmental economist that there was no point in proceeding because "no state government would unilaterally take steps to reduce greenhouse gases without clear marching orders and incentives from federal authorities and international regimes" (p. xvi). Rabe was not deterred, but he was delayed by agreeing to serve for 18 months as the interim dean of the School of Natural Resources and Environment at the University of Michigan, and was not able to return to the project until the beginning of 2002. He is today a professor of public policy in that school, as well as in the Gerald R. Ford School of Public Policy, and director of the University of Michigan's Program in the Environment.

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Contemporary U.S. Tax Policy, by C. Eugene Steuerle, Washington, DC: The Urban Institute Press: 2004, 322 pp., $24 paperback.

MORE TAX DECADENCE

U.S. tax policy comes out of Washington, and so does this book. Its author, Gene Steuerle, served at the U.S. Treasury for many years and now is a senior fellow at

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the Urban Institute, which is also the book's publisher. *Contemporary U.S. Tax Policy* follows the course, the politics, and the rationale of U.S. federal tax policy, with an emphasis on developments since Ronald Reagan's election in 1980. The 1981–1990 period witnessed several dramatic U.S. tax changes that significantly impacted the economy and the political landscape of Washington, so much so that Dr. Steuerle christened it *The Tax Decade* in an earlier volume (Urban Institute, 1994). *Contemporary U.S. Tax Policy* builds on the analysis—and, frankly, a fair bit of the text—of *The Tax Decade*, taking the story up to early 2004. And what a story it is.

Contemporary U.S. Tax Policy is less a tale than it is a saga. Federal tax policy every year confronts new opportunities, new challenges, and new dangers, some the product of changes in the economic environment, and others of its own making. The economy's strength ebbs and flows, at times flooding federal coffers with revenue and putting the Congressional tax-writing committees in the position of Santa Claus doling out goodies, while at other times dashing hopes and forcing the committees to scale back plans and make the best of difficult circumstances. There are frequent wars: Republicans fight Democrats; Congress fights the White House; executive departments fight each other; and everyone fights the IRS. Readers who already know the end of the story anxiously turn pages to find out what plan or subterfuge—or, on occasion, enlightened statesmanship—this year's Congressional heroes will use to solve the problems left by last year's. This ship never reaches its destination, never gets to the new world, and never gets home; its crew cannot vanquish all the demons, since the demons reside within themselves, and the formulation and adoption of perfect tax policy would require that people be much more perfect than they are.

The imperfect people responsible for the nation's tax policy have, at times, decided that they want to encourage investment; at other times, that they want to curb abuses; they have decided episodically that tax revenue must rise or must fall as a fraction of GDP; they have pet projects, many of them, often overlapping, and sometimes mutually contradictory. It is this process that gave us the smorgasbord of federal tax subsidies for higher education (the Hope credit, penalty-free early IRA withdrawals for tuition payments, state-sponsored prepaid tuition plans, education saving accounts, the lifetime learning credit, and student loan interest deductibility), just one per customer, of course. This process gave us an individual Alternative Minimum Tax to sit on top of the so-called "regular" tax, thereby doubling the complexity of the system, producing perverse incentives, and requiring repeal some time in the next decade to prevent 44 million families from throwing tantrums. This process has given us tax policies that phase in over time, tax policies that phase out, and some that do both: most notable is the estate tax, now scheduled to disappear at the end of 2009, only to return, like the scary creature in a cheap sequel, at much higher rates in 2011.

Obviously, no sensible person, or even committee, would ever have designed such a system if starting from scratch. The system that we have is the product of decades of casual economic reasoning and cunning political infighting, so the history offered in *Contemporary U.S. Tax Policy* is not only interesting on its own terms but helps us understand why we have the system we do. The book's thesis is that U.S. tax policy has been characterized by distinct epochs, starting with economic growth and inflation in the 1960s and 1970s that produced almost automatic annual revenue growth that Congress was then able to distribute either as tax cuts or spending increases. The early 1980s saw enormous tax cuts that necessitated subsequent tax increases in order to maintain budget discipline. Budget pressures continued into the first half of the 1990s, forcing reluctant administrations to continue raising taxes, but the economic growth of the late 1990s relaxed the budgetary pressures and facilitated the Bush Administration's large tax cuts of 2001 and 2003.

More than anything else, the book calls for tax policies to be developed based on principles rather than the politics of the moment. Its paradigm is the Tax Reform Act of 1986, for which the mantra was that taxes should be applied at low rates to a broad base. President Reagan made it clear that he wanted a tax reform along those lines, and these instructions, together with bipartisan Congressional effort, produced a reform that was widely hailed as movement in the right direction. In retrospect, the Tax Reform Act of 1986 is probably not as unalloyed a triumph as it was thought to be at the time of its enactment, since a number of its compromise features have managed to compromise the subsequent performance of the economy. *Contemporary U.S. Tax Policy*, while calling attention to some of the shortcomings of the 1986 Act, is nonetheless a bit too generous in its overall assessment; but the general point—that the best legislation emanates from adherence to sound principles—is certainly correct.

The book's great strength lies in its evenhanded and comprehensive analysis of major developments. The discussion of tax policy in the 1980s is very solid and extremely useful, the book handles very well the interesting forces driving the politics behind the 1990 tax increase, and it offers the most thoughtful and balanced analysis of the 2001 tax reduction that you will find anywhere. The book appreciates the way in which Congress has made the job of the Internal Revenue Service difficult over the years, and its discussion of the impact of recent IRS restructuring should be required reading for those who want to do anything else to undermine IRS efforts to enforce the nation's tax laws.

Given the broad scope of the book's coverage, it is probably unfair to pick out specific areas to criticize, but the text is notably thin, and rather confusing, in discussing international developments and the changes in the taxation of foreign income. This is a pity, since these are often the least well understood parts of major tax legislation, and a more comprehensive treatment would have done readers a great service. The book's resolute impartiality certainly casts the 1997 tax bill in too favorable a light, since the Republican Congress and Democratic White House together did the country a disservice with an incredibly complex collection of tax half-measures in 1997, and everyone agrees that they did. One could excuse a reader for concluding that the Treasury's Office of Tax Analysis (OTA) is infallible on tax matters, since at several points the book notes that the problem with a piece of legislation was that someone other than OTA (including other parts of the Treasury Department) had too much influence on policy design, whereas OTA had the correct analysis or the proper solution. While OTA is a high-quality professional outfit, and has been for decades, this is rather too much. Finally, a search through the book's index for major policy figures referenced in the text, including Treasury Secretaries Summers and O'Neill, comes up empty; likewise, many topical areas are missing (fittingly, the index omits "indexing"), so that the book would benefit from a more comprehensive index.

Gene Steuerle is certainly one of the wisest and most evenhanded tax policy analysts you will find anywhere, an opinion shared by just about everyone, including the 17 blurb-providers whose opinions grace the front and back of the book. His sober judgments appear on every page, and while one need not necessarily agree with every one of Gene's interpretations of tax developments, they are reasoned and framed in a way that requires that they all be taken very seriously. Tax policy can be a rather contentious topic, in Washington and elsewhere, so there is a tendency to dismiss the reasoning of an analyst as reflecting the fact that the individual is either a "conservative" or a "liberal." Gene is neither—or perhaps he is both. Whatever he is, both conservatives and liberals will be chagrined by the book's criticism of some of their cherished legislative successes, and that is one of the book's fine features.

Potential readers who are unfamiliar with tax policy or with the author doubtless share a deep concern that the book will be unspeakably boring. After all, tax provisions are complex, confusing, and often arcane, and, while Congress gets worked up over them, it is almost impossible for nonspecialists to follow testimony or debates on the subject. Be not concerned: The book is not boring. The beauty of *Contemporary U.S. Tax Policy* is that it treats its subject in a light and interesting way, while also providing enough attention to detail to satisfy and inform the experts. The book is really quite gripping at points, and is an inspiring reminder of why tax policy is viewed as such a vital part of the enterprise by everyone who is anyone in government. If only they would take to heart the book's lessons, understand what they have done these many years, and reformulate the nation's tax policies based on sound principles! Ah, but that would require much more than we have come to expect, or even ask, of our elected representatives, and so the saga continues.

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Predictable Surprises: The Disasters You Should Have Seen Coming and How to Prevent Them, by Max Bazerman and Michael Watkins, Boston: Harvard Business School Press, 2004, 335 pp., $27.50 paperback.

Crises, catastrophes, and disasters have become media and political issues due to a series of recent major events in almost every world region. In general, such major phenomena are classified as incomprehensible and overwhelming, irrespective of their context and nature and unpredictable with respect to their occurrence. Consequently, many scientific and professional publications focus on the aftermath of such events, discussing rescue and emergency aspects, recovery, and resilience. Historically, a technical-analytical approach has been applied, dealing with notions such as self-reliance-ness, crash-worthiness, damage control, and medical support.

This book does not contribute to such an approach, but challenges the reader to follow a line of reasoning into prevention and understanding the nature of disasters beyond the conventional technical scope and behavioral of individual actors and operators. The book elaborates on a series of social phenomena that are pivotal in debates all across the world, such as public confidence in governmental agencies, public risk perception, foresee-ability of rare events, and sociotechnical systems design. In this respect, *Predictable Surprises* is a book with a generic value and a promising vision on how to foresee the unforeseeable. It focuses on causes rather than on effects and consequently offers tools for understanding and intervention at an organizational level in complex and dynamic systems.

The authors take a clear position, elaborating on their experiences as consultants in a number of U.S.-based cases—in particular, aviation security and auditor independence. Every now and then, they expand their scope to developments and topics in other world regions or domains such as in Europe regarding the Brent Spar disposal or overfishing on a global scale in the maritime fishing industry. By doing so

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they challenge others to document similar experiences and notions gained in other world regions and other domains, contributing to a more general applicability of their insights and approach. Such additional insights might also compensate for the U.S.-specific context in the analysis of their cases, particularly at the political level. The specific role of lobbying and funding during elections provides the non-American reader with a detailed description of corruptive influences in a democratic system. In Europe, for example, the role and nature of special interest groups is quite different. The environmental movement, antiglobalist groups, and the role of national parliaments add a different dimension to the political climate and decisionmaking processes in policymaking and corporate strategy development. In this respect, *Predictable Surprises* may serve as a benchmark for other books in this area.

The approach Bazerman and Watkins have chosen bears similarities to the investigation process as developed in the transportation sector, applying forensic sciences and other diagnostic tools. In this sector, organizations like the National Transportation Safety Board have a mission to search for causes and implementing change at a systems level, irrespective of blame and accountability. Such an investigation process identifies threats, assesses barriers, establishes the roots of failure mechanisms, and focuses on prevention. Recommendations based on such investigations frequently advocate the dissemination of best practices and offer suggestions for sustainable change of the systems and processes under scrutiny.

The book implicitly advocates the principle of precaution, which recently has gained interest again in coping with disasters of a nontechnical nature in agriculture and the public health industry. Precaution in preventing failure consists of two phases in dealing with disaster: First, control—by taking precautionary measures, and then, understanding—by investigating the failure mechanisms at a systems level. Applying such a precaution principle proves to be a strong formula: The authors do not restrict themselves to a case-study and, consequently, descriptive inventory of causes and their immediate remedies, but are able to expand their problem-solving capability to a more fundamental approach by elaborating on the origins of failure, organizational root causes, and political constraints. In this respect the book contains a scientific challenge as well: The authors elaborate on typologies of organizational failure, investigating causes, organizing fact-finding missions, identifying explanatory variables, and developing control and management strategies to remedy deficiencies at a systems level.

Throughout the text, the role of leaders is highlighted. In addition to the importance of fixing system deficiencies, the impact of individual leadership in crises and disaster is emphasized. The authors emphasize—apart from criminal intent—the irrelevance of allocating blame to individual behavior. None of the leaders under scrutiny was worse than the others; they all were subject to egocentrism, groupthink, and tunnel vision mechanisms, inclined to self-serving biases, or simply lacked the courage to stand up for their convictions or opinions. They may suffer from errors of omission to act rather than errors of commission, blindly obeying mechanisms for avoiding the recognition of emerging threats.

The book is structured in three parts. Part 1 describes prototypes of predictable surprises, focusing on two major case studies: September 11 and the collapse of Enron and the failure of auditor independence. Rather than providing a most comprehensive case description, the authors provide evidence that each event was, in fact, predictable and avoidable. Part 2 identifies the causes of inaction in dealing with failures by clarifying cognitive roots, organizational roots, and political roots. The authors clarify the reasons why leaders fail to prevent predictable surprises, providing a prescriptive structure by identifying and combining aspects of strong leaders, and responsive and resilient organizations. In Part 3, predictable surprises are discussed from a preventive point of view, dealing with conceptual notions of recognition, prioritization, and mobilization. The authors offer a framework for identifying predictable surprises at the organizational level. The book concludes with a number of future predictable surprises such as global warming, exploding financial costs in medical care and retirement, economical developments in the European Union, and aging of the population and vague contracts between corporate partners.

Throughout the book a consequent scheme is maintained covering the basic questions stated in the beginning dealing with characteristics of predictable surprises:

- the problem did exist and did not solve itself; it worsened and grew over time
- it represented direct costs, but offered delayed benefits
- it provided certainty over costs now, but was uncertain over larger costs avoided in the future
- preparedness for disaster failed due to maintaining a status quo
- vocal minorities and special-interest groups had private benefits for inaction

In identifying roots for inaction at a cognitive, organizational, and political level, a consequent structure is dealing with identification of threats and failures, barriers of inaction, sources for their existence, and design principles and tactics to enhance the performance of the system at an organizational level as well as the level of individual leadership.

The final part explores the level of organizational failure at a national and even international level, indicating the political constraints for a successful intervention.

In conclusion, *Predictable Surprises* is a well-structured and documented book, exploring mechanisms of organizational failure at a sociotechnical systems level. It strikes a balance between exploring new concepts and approaches with providing practical suggestions for systems change and improvements, based on theoretical notions. It provides the reader with tools and ideas for dealing with disaster from a perspective of prevention. In practice, applications focus on influencing the behavior of governmental agencies, industries, and major corporations as the dominant players at a sectoral level in society.

The authors' approach bears similarities with investigation methodologies already widely applied in investigating technological failure, suggesting a generic validity of this analytical tool at a sociotechnical level.

Finally, the book may serve as a benchmark for investigating phenomena with disastrous potential in other world regions, adding region-specific constraints and exploring new scientific challenges.

Predictable Surprises is highly recommended reading.

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Eugene B. McGregor Jr.

Why Smart Executives Fail, and What You Can Learn from Their Mistakes, by Sydney Finkelstein, New York: Portfolio, 2004, 319 pp., $17.79 paperback.

State-Building: Governance and World Order in the 21st Century, by Francis Fukuyama, Ithaca, NY: Cornell University Press, 2004, 137 pp., $14.28 hardcover.

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The Art of the State: Culture, Rhetoric, and Public Management, by Christopher Hood, London: Oxford University, 2000, 261 pp., $36.08 paperback.

"FAILURE AND THE ACCOUNTABILITY PUZZLE"

What do we now know about managerial success and failure? This review examines the lessons learned from failed states, failed bureaucracies, and failed businesses whose downfall stemmed in part from breakdowns in organizational accountability and control.

Fukuyama's Failed States

Francis Fukuyama examines the threat to the international order posed by the rise of failed nation-states between the fall of the Berlin Wall in 1989 and September 11, 2001 (Fukuyama, 2004, p. 93). His examples number at least 11—Afghanistan, Bosnia, Cambodia, Congo, East Timor, Haiti, Kosovo, Liberia, Rwanda, Sierra Leone, and Somalia—including states that either ceased to function or were captured by nonstate actors (for example, al-Qaida's takeover of Afghanistan). The list can easily grow as massive global pressures crush struggling countries in sub-Saharan Africa, Latin America, central Asia, and the Middle East, threatening internal order and security. Moreover, to the extent that failed states visit their internal failures in the form of human rights abuses, humanitarian disasters, massive waves of immigration, and armed attack on sovereign neighbors, the Westphalian system of international relations, based on the idea that ". . . sovereignty and therefore legitimacy is automatically conferred on the de facto power holder in a country" is undermined (pp. 92–93).

A nation's ability to aggregate and deploy legitimate territorial power is the heart of the Fukuyama finding that "stateness" has been eroding. State strength is cast as a two-dimensional array: the *scope* of state activities and the *strength*, or capacity, of the state to execute institutional missions. *Scope* is defined as a range of state activities ordered from minimal to activist functions (pp. 7–9), where the minimal set includes such matters as defense, law and order, property rights, macroeconomic management, and public health. The intermediate functions are associated with education, environmental management, the regulation of monopolies, and the capacity to deal with market failures for which education, insurance, financial regulation, and consumer protection are required. Finally, there are such activist state interventions as industrial policy, redistributions of wealth and income, fostering markets where none previously existed, and civic engagement.

Strength, by contrast, consists of the capacity to execute whatever functions are prescribed in the scope of state competencies. This means ". . . the ability to formulate and carry out policies and enact laws, to administrate efficiently and with a minimum of bureaucracy, to control graft, corruption, and bribery, to maintain a high level of transparency and accountability in government institutions; and, most important, to *enforce* laws" (p. 8). Strength is neither hollow government, nor is it work outsourced to networks and contractors. It is core capacity stored within state institutions.

The mapping of scope and strength along X and Y axes, respectively, reveals an infinite number of possible positions. Which location is best if the objective is to establish a healthy, growing, and efficient economy that creates jobs and a rising standard of living? Conceptually, there are four possibilities (p. 11):

- Quadrant I (upper left): The theoretical optimum where nation-states, such as the U.S., combine limited scope of state function with strong institutional effectives.
- Quadrant II (upper right): The competitive alternative to the U.S. position taken by many of the European states united in their determination to protect social entitlements and services.
- Quadrant III (lower left): The second-worst alternative where such countries as Sierra Leone are unable to provide even minimal law and order.
- Quadrant IV (lower right): The theoretical worst position where countries, such as Brazil and Turkey, place themselves at risk by taking on an ambitious range of activities none of which is performed well.

A two-dimensional schema reveals trends. One can chart, for example, New Zealand's move from quadrant IV status, with ballooning debt and a steady decline in the current account in the early 1980s, toward quadrant I by 1995 after a two-stage set of economic and governmental reforms. Similarly, the southwest movement of the old USSR from quadrant II in the early 1980s to quadrant III in 2000 (pp. 14–19) was the result of rapid privatization and the consequential market failures uncorrected by strong state institutions.

The Fukuyama thesis is that strength beats scope, for only strong government maintains an institutional capacity to implement and enforce policies based on political legitimacy. Moreover, it is indigenous institutional strength that explains the economic success of a long list of countries: early modern Europe; the United States after the American Revolution; Germany, Japan, and Turkey in the 19th century; Japan, South Korea, and Taiwan in the 1960s; Chile and New Zealand in the 1970s and 1980s (p. 35). Notwithstanding U.S. occupation of Germany, Japan, and South Korea, the record is clear that prior domestic demand created its own supply—in the first two cases because strong bureaucratic states antedated American intervention and in the last case because of internally generated effort by Koreans themselves (pp. 38–39), albeit aided by the forced tutelage of Japanese colonial rule from 1910 to 1945. In short, absent internal demand, strong states are rare events.

Externally induced demand—that is, reform brought about either by external aid agencies, donors, and lenders or by the direct exercise of political power by an outside occupying authority—yields a landscape littered with failure. The exceptions are notable and include several British colonies, such as India's civil service and the legal systems of Singapore and Hong Kong, as well as vestiges of Japanese occupation of Taiwan and Korea. By contrast, American interventions in Cuba, the Philippines, Haiti, the Dominican Republic, Mexico, Panama, Nicaragua, and South Vietnam all failed to produce strong state institutions (pp. 38–39), with only South Korea standing as a possible exception, as noted.

Still, if states are strong because they have sturdy institutions endowed with robust internal systems, what prevents application of public administration design principles to weak states? The answer is the "black hole of public administration" (Chapter 2), defined as the theoretical void caused by an inability to make general statements about the principal-agent problem by which decisionmaking authority and control are placed in the hands of public agents (pp. 67–76). Put differently, the black hole exists because public administration experts, especially outside experts, typically lack mastery of the social and cultural factors that create and harness national social capital. The accountability problem is not entirely mysterious, for it decomposes into two dimensions: product *specificity*, or the ability to know a service output and its effects and therefore the ability to monitor performance, and *transaction intensity*, or the volume of decisions and actions required of public institutions. The logical result is another two-dimensional array yielding four conceptual quadrants (pp. 56–58):

- Quadrant I is highly specific and low in transaction volume such as might be observed in the case of military campaigns—few in number, easily assessed.
- Quadrant II is high specificity and high transaction volume, such as might be found in the issuance of driver's licenses and automobile plates by the state bureau of motor vehicles.
- Quadrant III is low specificity and low volume and constitutes the least populated quadrant; an example is a foreign ministry in a period of relative calm.
- Quadrant IV is the high volume coupled with low specificity case typical of the educational, health and law enforcement issues confronting 21st century governments.

The most difficult cases, and the starkest challenges to weak states straining to improve governmental performance, clearly lie in quadrant IV.

While Fukuyama does not solve the quadrant IV dilemma, he introduces at least three testable ideas. The first is a hypothesis contrasting two different ways of confronting the risks of international intervention in the global hot spots, such as the Balkans, Iraq, Somalia, and Afghanistan. One is the American approach that sees no higher source of democratic legitimacy than the sovereign democratic nation-state acting in its national self-interest. The other is the European view that acknowledges the interests and will of the larger international community (pp. 109–110). The latter view more readily embraces supranational vehicles as the basis for international interventions. The former logically sees coalitions of national interests and capabilities as the building blocks for international action. Which view forms the most effective basis for international intervention and subsequent state legitimacy is currently being tested.

The second testable idea is that, regardless of the merits of the first debate, ending the displacement of indigenous institutional capacity by outside donors (p. 41) appears an important ingredient of success in building stateness. This is because the well-intentioned efforts of international financial institutions (IFIs) and aid donors who want to provide needed public services—such as irrigation, education, and public health—has had an unintended consequence: Donors insinuate themselves into the production chain with the result that the indigenous bureaucracy learns the wrong skills, concentrating on liaison and coordination with foreign donors rather than taking possession of core operations. Even the current Bush administration's Millennium Challenge Account (MCA) poses a problem in the form of the donor patience that is required to allow local people time to acquire, learn, and run line operations without an early, overly stringent demand for visible results and the constant temptation ". . . to jump back into the micromanagement of reform" (p. 90).

The third test is posed in a three-page final chapter that sums up the counterintuitive point that it is state-building—that is, " . . . the creation of new government institutions and the strengthening of existing ones" (p. 1)—rather than state-destruction that is the current challenge confronting public policy and administration in an age of simultaneous marketization, rapid informatization, and thickening of global interactions:

> For the post-September 11 period, the chief issue for global politics will not be how to cut back on stateness but how to build it up. For individual societies and for the global

> community, the withering away of the state is not a prelude to utopia but to disaster. (p. 120)

The root hypothesis is clearly drawn: Strong states can compete and succeed whereas weak states cannot. A corollary is also indicated: Institutional failure cascades in different directions such that failed public bureaucracies and failed businesses can effectively undermine states. Thus, much rides on the effective functioning of public and private organizations.

Failed Public Bureaucracies

Christopher Hood uses the example of failed public bureaucracy and impressive historical and comparative scholarship to counter the popular notion that a consensus about "the design and operation of public services and the detailed work of executive government" (p. 3) has emerged as though a "millennial transformation" has replaced old-fashioned, rule-bound, and process-driven industrial public administration with a results-driven, cost-efficient bottom-line logics ballyhooed by the best business schools and an aspiring first-cousin, "new public management' (NPM). He does this by focusing on ". . . the characteristic ways in which different forms of organization can collapse and fail, and the . . . range of forms of control and regulation . . . in public management" (p. 21). More precisely, he seizes on grid-group cultural theory (pp. 7–12) as the basis for advancing his thesis that there is no single, modern, best-practice NPM standard. This is done by sorting public bureaucracies along a two-dimensional typology, where "grid" denotes the degree (that is, either high or low) to which people are ". . . circumscribed by conventions or rules, reducing the area of life that is open to individual negotiation" (p. 8) and "group" reveals the extent (that is, high or low) to which people are bound into a "collective body." The schematic result is four types of public organization *each of which* persists in space and time and can therefore be said to be "modern" (p. 9):

- High grid, low group: *Fatalist* organizations are typical of atomized societies locked in rigid routines where chance plays a central role in organizational design (p. 157). Thus, Hood argues that the garbage can notion (pp. 152–153) of randomness in the opening and closing of windows of opportunity for change through which alert entrepreneurs dart to achieve strategic matches of political environments, problems, and solutions is very much in keeping with the complex and dynamic systems typical of the current global era.
- High grid, high group: *Hierarchic* organizations are socially cohesive and rule-bound typical of military organization stereotypes with numerous precursors in the form of Confucian public management in classical China, the Cameralist traditions of the post-Reformation German princely states, English Fabianism, and American Progressivism. The hierarchic ethos still lives, secure in its ". . . faith in professional expertise dedicated to the collective good of society through an ethos of elite public service" (p. 97).
- Low grid, low group: *Individualistic* organizations comprised of atomized approaches stressing negotiation and bargaining typical of free market operations built on general theories of representative government and collective choice economics founded in eighteenth century utilitarianism. Current individualistic thinking focuses on the design of reward and incentive structures, managed competition in the provision of public services, and the creation of multiple use service delivery systems.

- Low grid, high group: *Egalitarian* systems with high participation in which every decision is "up for grabs" embrace maximum citizen participation in the development of self-management systems, based on processes of mutuality among participants, and maximum face-to-face accountability as ". . . just as important, if not more so, than the results of outcomes in a narrow sense" (p. 128).

Each grid-group combination is highly flexible and can be adapted to whole nations, agencies, and enterprises as well as parts of organizations. Yet each grid-group type has an Achilles' heel and hence a characteristic mode of failure (p. 28):

- Fatalist organizations fail due to inertia and passivity that creates an unwillingness to plan ahead or take drastic measures in extreme circumstances.
- Hierarchic organizations are vulnerable to dramatic collapse of ambitious projects due to misplaced trust in authority and expertise coupled with a high mobilization of capacity.
- Individualistic organizations weaken from a lack of cooperation or individual corruption due to the tendency to place individual interests before the collective need.
- Egalitarian systems court failure stemming either from the unwillingness to accept higher authority to break inevitable deadlocks or from a lack of collegiality.

A corollary of each failure scenario is that each system, although compatible with democratic public administration, requires a different control logic (Chapter 3):

- Fatalist organizations are controlled by chancism and the use of contrived randomness in both internal operations and external reviews.
- Hierarchic organizations are controlled by bossism, meaning internal controls using ladders of authority and external controls by outside review.
- Individualistic organizations are controlled through managed competition and rivalry that offer internal and external choices to organization controllers.
- Egalitarian systems are controlled through groupism, where collegial arrangements (for example, teams) control internal operations and communities of practice provide external control.

Can Hood's framework go beyond pure rhetoric (Chapter 8) and apply ethos, pathos, and the master tropes of logos (that is, metaphor, synecdoche, metonymy, and irony) to produce practical answers about "what-to-do" (Chapter 10)? For example, if grid-group analysis could be focused on the accountability problem in public administration—the control of agents by principals, mentioned above—something of value might be offered the practitioner. On the surface, however, grid-group analysis suggests very little of practical value, for at first blush, Hood appears to promote only the usual accountability suspects: (1) Fatalist organizations rely on the creative use of spot inspections; (2) hierarchic organizations use formal oversight and chain of command mechanisms; (3) individualist organizations depend on adversarial arenas and competition; and (4) egalitarian organizations must maintain norms of collegial mutuality and coproduction (p. 50). Yet the real power of grid-group analysis is that each model has many blends and variations (pp. 233–240) such that there are six paired combinations and four three-way combinations with blended interactions that produce even more hybrids. The pairwise combinations alone include: randomized oversight (1 + 2), randomized competition (1 + 3), peer-group competition (3 + 4), peer-group review (2 + 4), demarchy (1 + 4), and quasimarkets (2 + 3). These initial pairings (p. 235) derive from Hood's main point: Public management is not stuck with a discredited list of blunt instruments through which to achieve bureaucratic accountability and control.

The Hood scheme will disappoint those seeking a more detailed blueprint for public action based on known cases, for the case list is short and the appraisal of each failure is sketchy. Case illustrations include (Chapter 2): the scandal in diagnosing cancerous bone tumors at Royal Orthopaedic Hospital in Birmingham, England; the meltdown of reactor no. 4 at the Chernobyl nuclear power plant in Ukraine; bribery and extortion on the Mexico City police force; front-line police abandonment during racial attacks in Hayerswerda in the former eastern sector of Germany; administrative self-indulgence at the European Bank for Reconstruction and Development; implementation shortcomings embedded in the U.S. War on Poverty's Community Action Program; and the poor emergency management response to the disastrous January 1995 earthquake in Kobe, Japan. If not detailed, each case is at least suggestive of the nightmarish consequences of public bureaucratic failure.

Failed Businesses

Anyone harboring notions that private sector management lessons are easily (and properly) transferred to the public sector should confront the stunning reversals revealed by Sydney Finkelstein as he investigates the disasters engineered by "smart" executives (and their boards and senior managers) in 39 U.S. companies and 12 foreign firms. The 51 cases expose destructions of corporate value that were "breathtakingly gigantic" in the way top executives took ". . . huge, world-renowned business operations and made them almost worthless" (p. 213). Thus, we learn the tragic results of four types of cases:

- New venture creations that died: General Magic and the case of the PDA, Motorola's Iridium, Samsung Motors (Samsung makes consumer electronics), and the case of Webvan.
- Failure to cope with innovation and change: Johnson and Johnson's stent business, Rubbermaid containers, and Motorola and cell phones.
- Failed mergers and acquisitions: Quaker Oats' acquisition of Snapple, Sony's 1989 acquisition of Columbia Pictures, and Saatchi and Saatchi.
- Strategy gone bad: An Wang and the death of a computer company, Japan's Snow Brand Milk management of tainted milk, and Boston Red Sox's resistance to racial integration.

The cases are not examples of novice executives and corporations suddenly foundering. They are, instead, careful descriptions of the power of corporate cultures and executive hubris to frustrate even simple due diligence, for the "great destroyers of value" are all people of "unusual intelligence and remarkable talent." The result is an enumeration of the possibilities for corporate disaster, including a culture of superiority, mistaken pictures of reality, information breakdowns, and illusions of preeminence (p. 274). Each syndrome provides its own insights and lessons, but the lesson in nearly every case is that it takes a lot of ruining to bring a major corporation to its knees—usually more than a single act of misfeasance (or malfeasance) inflicted by the lone executive. Thus, leaders and followers jointly created failed systems, such as "zombie organizations" (Chapter 7)—that is, delusional enterprises unable to decipher what the outside world was telling them.

Finkelstein avoids the classic trap that ensnares much of the leadership literature. Narrowly read, the title might imply that individuals single-handedly laid low whole corporations through habits of mind and character leading normally bright and capable executives toward brilliant pursuit of the wrong vision, reality avoidance, missed signals, and an exaggeration of latent flaws. A more thoughtful reading indicates that executives had help from whole systems of activity wedded to an accumulation of self-defeating attitudes, behaviors, and norms—no mystery at all, as Finkelstein points out: "Whether they were managers, employees, or senior executives, there were always people who knew when the bad stuff was happening. But no one told" (p. 276). In this way, Finkelstein maintains some balance between the "seven habits of spectacularly unsuccessful people"—meaning lone executives exercising single acts of individual leadership—and the institutional weight of interlocking systems consisting of compliant boards, dysfunctional corporate structures and cultures, and outmoded core business processes (pp. 43–45, 202–204).

Research results offer many lessons, beginning with a catalog (Part I) of the range of things that can go wrong during new start-ups, innovations, mergers and acquisitions, and just plain bad strategy. This is followed (Part II) by an assessment of the deep structure causes of failure, including the brilliant fulfillment of the wrong vision (Chapter 6), strategies for avoiding a confrontation with reality (Chapter 7), the failure to act on vital information (Chapter 8), and the "seven habits of spectacularly unsuccessful people" (Chapter 9). Each model exposes many sources of organizational failure, some of it directly applicable to current public sector concerns. For example, the failure to follow the clues and strong signals (Chapter 6) leading to the 9-11 plane hijackings and subsequent attacks on the World Trade Center and Pentagon (pp. 192–93) are not structurally unlike the inability of Coca-Cola employees to comprehend that a handful of complaints from Belgian school children could represent a serious threat (a batch of Coke was tainted) to Coke's brand value in Europe, and similar cases are found in the failure of customer requests for different product designs to signal to Johnson & Johnson, Levi Strauss, and Schwinn that mass customer defections were highly likely.

The story is not sustained solely by cases of failure, however, for one cannot prove the negative case. Thus, hints of success are introduced through references to Lou Gerstner's IBM, Dell, H-P, Cisco systems, and Southwest Airlines—all current notable successes, in contrast to the Consecos, Enrons, General Motors, Tycos, WorldComs, and others setting international standards for what not to do. The successes sometimes have public sector applications. For example, in examining the need for "stepped-up organizational learning," Finkelstein notes that the U.S. Air Force presents a possible way to absorb and apply the lessons of "worst practices" by holding a mandatory debriefing immediately after a mission is completed from which no one is exempt:

> No one outside of the team is allowed in the room, including higher level managers who are not already on the team. Debriefs are nameless and rankless. . . . To encourage open discussion, the leader typically starts off . . . by acknowledging his or her own mistakes in detail and then asks others to provide their own feedback on the leader's performance. (pp. 280–281)

Thus, through this simple practice, a learning culture is nurtured as standard procedure.

The Finkelstein research demonstrates two contrary lessons. The first is that accountability and transparency of core operations are central to the avoidance of private sector business blunders, for the absence of accountability is one of the first and surest signs that a breeding ground for corporate failure has been created. The second, more oblique lesson is that success is not the absence of failure. To be sure, learning why smart executives fail helps one avoid corporate tiger traps. The obverse is not success, however, for development of a theory of success would require a comparative analysis of *both* success and failures and empirical generalization about what was present in one set of cases and not in the other. Finkelstein sets the stage for such an analysis by providing hints that might enable the inquisitive scholar to piece together comparisons with the 51 cases illustrating what not to do.

Lightly explored, but acknowledged (Part I), were that business success in a highly competitive global environment poses its own special challenges that no amount of failure avoidance can overcome. For example, avoiding bad strategies in which bets are placed on the wrong profit model (for example, Snow Brand, Sony's acquisition of Columbia pictures, and the Boston Red Sox) or on global industrial standards that never materialize (for example, General Magic, Motorola's Iridium, Johnson & Johnson's stent, and Wang computers) is not the same as designing and executing winning value-added strategies. Thus, eliminating sources of spectacular failure is a hygiene requirement that can frustrate, but cannot, by itself, produce corporate success.

SUMMING UP

Institutional failure is not pretty in any arena, public or private. Yet, three cross-cutting themes emerge. The first is that all three works demonstrate the preventative power of accountability. Finkelstein uses comparative case analysis to show that modest amounts of common sense and due diligence can go a long way toward constraining corporate nonsense; accountability may not be rocket science but it is nevertheless amenable to some carefully researched rules of thumb. Hood, by contrast, presents a flexible theoretical framework for dealing with the seemingly intractable accountability problems that arise when there is no convergence on a single "modern" approach to public management; in the grid-group schema, accountability is nothing less than the "art of the state" and failure derives from an uncorrected mismatch between operating system design and the accountability system used to anticipate failure. Finally, Fukuyama concludes that while accountability is *the* essential condition of global post-industrial development, the manner in which it might be achieved is highly contextual and linked to the operational details of local cultures, structures, and values. Regardless of whether accountability is a science, art, or craft, respectively, accountability supplies the trip wire that signals the need for active problem-solving.

Second, the three works confirm the multidimensional complexity of accountability. None of the works considers fully how one might correct the failures that a lack of accountability helps us detect, yet each work provides important clues. Fukuyama peers into the public administration "black hole" in order to demonstrate the significance of product specificity and transaction volume as critical conditions requiring different accountability designs. He further demonstrates that accountability is largely achieved by insiders responding to internal demands for change rather than by well-meaning outsiders manipulating external instruments. Outsiders can assist, but cannot substitute their delivery systems and performance standards for fledgling nation-states that must create and execute their own designs.

By contrast, Hood provides a more artistic response—which is that a proper assessment of the precise failures that accountability must address suggests viable corrective designs. The recommendations in the last chapter are purely rhetorical and must be extrapolated and expanded to be at all useful. Yet the basic grid-group schema is useful in at least two respects. First, it is a proper challenge to convergence theory suggesting that a global standard of best managerial practice, such as NPM, has supplanted or should supplant traditional public administration. Second, there are, both in theory and in practice, myriad ways to identify and bracket failure through the design of appropriate accountability systems.

The Finkelstein research, absent paired comparisons of successes and failures, still suggests some case-based rules of thumb based on a generous, but accidental, sampling of observable failure. One set of rules (Part I) consists of how one might learn from the spectacular failures of others. A second set (Part II) identifies the common patterns of failure repeated many times across different companies and industries, including executive mind-set failures, zombie businesses living on misconstrued realities, mishandling of vital information, and leadership pathologies that only accelerate decline. A third set (Part III) consists of the early warning signs that a firm or agency is headed for trouble including unnecessary complexity, speeding out of control, distracted CEOs, excessive hype, and character problems of the sort that destroy trust (pp. 242–43). Early warning signs are followed by a concluding chapter on how one might strengthen a corporate or agency immune system against major collapse.

The third and last theme is that a diverse collection of work establishes not just the desirability, but the attainability of accountability. Part of the optimism derives from the enormous variety of accountability designs (perhaps an infinity) available to any modern government. This conclusion is most explicit in the Hood thesis, but it is also implicit in the Fukuyama and Finkelstein work as well, for Fukuyama enumerates the success of the Asian Tigers, India, and even the European Union (Chapter 3) as possible antidotes to the specter of failed states, while Finkelstein supplements his analysis of 51 failures with a long list of successful companies that might serve as corporate benchmarks. Optimism is further sustained by the finding that not every failure is forever. Strictly speaking, a failure is an episode—that is, a collapse, an organizational disaster, or a sequence of moves that does not work, costing a nation, agency, or firm resources and forgone opportunity. Yet except for organizational extinction, the field of play typically involves continuous action, and more than a few nations, agencies, and firms have been built on the detritus of earlier failure. Thus, the undaunted public strategist will constantly seek ways to pull value from the world of failure and confusion. After all, the Red Sox finally won the World Series.

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