

Book Reviews

John D. Donahue
Editor

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Stuart E. Eizenstat

Shrewd Sanctions: Statecraft and State Sponsors of Terrorism, by Meghan L. O'Sullivan. Washington, DC: Brookings Institution, 2003, 336 pp., \$19.95 paper.

Since the end of the Cold War, the use of economic sanctions has greatly increased as a key foreign policy tool to achieve United States national security objectives. This trend is likely to accelerate in this age of terrorism, supported by shadowy terrorist groups like al-Qaeda, Hamas, and Hezbollah, and often state sponsors of terrorism, like Iran.

Yet their employment has become the source of internal struggles in the United States between the business community, which is concerned that economic sanctions needlessly deprive U.S. companies of business with targeted countries; human rights groups who often decry the impact on the citizens of the regimes who are the subject of sanctions; and the U.S. government, which sees sanctions as an essential policy tool. Economic sanctions have also become a cause for division between the United States and our closest allies, particularly in Europe.

Economic sanctions have dogged my career in government. I have seen them from every perspective. As President Jimmy Carter's chief domestic advisor, I was involved in freezing Iranian assets following the taking of our U.S. Embassy hostages, and later, with the sanctions against the Soviet Union for its invasion of Afghanistan, including the grain embargo and the Olympic boycott. While the Iranian actions helped lubricate the deal that led to the release of the American hostages, the Soviet sanctions hurt the United States as much, if not more, than the Soviet Union.

During the Clinton Administration, I became the "sanctions-meister," due to the extensive time I spent negotiating with the European Union over the secondary economic sanctions against European companies investing in illegally expropriated property in Cuba, under the Helms-Burton Act, and in Iran, under the Iran-Libya Sanctions Act, and dealing with Congress on the Religious Persecution Act. I also tried to establish guidelines for economic sanctions legislation that balanced congress-

sional interests against those of the President of the United States, and encouraged the Administration to intervene in the U.S. Supreme Court case, *Crosby v. National Foreign Trade Council*, and advocate that it strike down the Massachusetts state economic sanctions against companies investing in Burma, as a violation of the President's foreign policy powers.

In dealing with these complex and often unsatisfying economic sanctions issues, I wish my colleagues and I had had the advantage of reading Meghan L. O'Sullivan's trenchant and important book, *Shrewd Sanctions: Statecraft and State Sponsors of Terrorism*—and I hope that the Bush Administration will take its useful lessons to heart. *Shrewd Sanctions* establishes a framework within which to judge whether sanctions will be a benefit or a bust. Ms. O'Sullivan takes four case studies, involving Iran, Iraq, Libya, and Sudan, and meticulously examines what effect U.S. and, at times, United Nations sanctions had in achieving the desired results, and the actual effect of the sanctions on a variety of economic indicators of the target country. Overall, she finds that economic sanctions are “neither a panacea nor a placebo.”

She insightfully notes that policymakers must take a hard look at the objective sought by the sanctions—regime change, containment of the targeted regime, or modifying the regime's behavior—and tailor them accordingly. What may work for one goal would not for the others. I believe Ms. O'Sullivan makes a distinction with little difference between containment and modifying behavior, in terms of the types of sanctions that will be effective. But the effort to force the U.S. government to look at the goals they hope to achieve is crucial. While she joins the general view that multilateral economic sanctions imposed by the United Nations are more effective than unilateral sanctions imposed only by the U.S. government, she takes a hard look at unilateral sanctions, and finds that “there is an appropriate role, though more of a supporting one, for unilateral sanctions in U.S. foreign policy” (p. 303).

Shrewd Sanctions takes the view that the “failures and shortcomings of sanctions” come generally not because the tools are “intrinsically weak, but more as the result of the flawed ways in which sanctions are commonly employed” (p. 284). Ms. O'Sullivan believes that sanctions must be coupled with other policy tools to be effective.

My experience has led me to look at sanctions through a questioning eye. We use economic sanctions as a foreign policy tool more often, against more countries, and for more varied reasons than any country or combination of countries in the world. There is a great need to rationalize a sanctions policy that often seems out of control.

As Ms. O'Sullivan suggests, economic sanctions that are properly designed, implemented, and applied as part of a coherent strategy are a valuable tool for enforcing international norms and protecting U.S. national interests. The problem, as she notes, is that these preconditions to success are rarely met. Sanctions are a blunt instrument, with costs not only to the target country, but to the United States itself. Used inappropriately, they can impede the attainment of our objectives and come at a significant cost to U.S. policy objectives. Indeed, sanctions are often imposed as a reflexive reaction to events, and then are maintained in splendid isolation from developments, often for decades, and are not combined with other diplomatic tools to provide incentives for their removal upon changes in conduct they are intended to achieve. Unilateral U.S. sanctions against Cuba are a perfect example.

First, we should use traditional weapons of diplomacy to obtain our foreign policy objectives, before resorting to sanctions at all. Multiple steps should be taken, from traditional diplomatic negotiations, to symbolic acts—like withdrawing our ambassador for consultations, reducing the size of our embassy staff, denying visas to targeted individuals, or entering into security arrangements with neighboring nations. A policy of refusing to extend a benefit, rather than imposing punitive

sanctions, can also be used. Examples of this include failing to support World Bank or IMF initiatives, withholding bilateral U.S. aid, or withholding most-favored nation trading status—as the 1974 Jackson–Vanik Amendment did—to encourage the USSR to permit free emigration of Jews.

Second, as Ms. O’Sullivan concludes, multilateral sanctions supported by the United Nations, or, at least a large body of nations, though often difficult to achieve, are ultimately the most successful. Before resorting to unilateral sanctions, an effort should be made to rally the world community, through the UN, to support economic sanctions against the nation we wish to target. Multilateral sanctions are more difficult for the target country to avoid by shifting trade and procurement to other countries. They also impose fewer costs on U.S. agriculture and business interests, since the playing field is leveled for their competitors abroad, who must also abide by the sanctions regime. Multilateral sanctions were effective in helping to end the apartheid government in South Africa—a regime change—containing Sadaam Hussein’s activities in Iraq, and in helping to bring Serbia to the bargaining table in Dayton. *Shrewd Sanctions* makes a convincing case that the Muammer Gadaffi regime’s decision in Libya to curtail support for terrorism and hand over two people for trial for the Pan Am 103 bombing was the result of UN sanctions.

Third, where efforts at multilateral sanctions fail, or to further support them, unilateral U.S. economic sanctions have a role under carefully controlled circumstances. In a globalized world economy, where the United States has a monopoly on few products, the ability of unilateral sanctions to have a real effect on a target country—whether for regime change, containment, or change in conduct—is necessarily limited. At the same time, unilateral sanctions impose costs by denying markets to U.S. companies that others will exploit. When we in the Carter Administration imposed a grain embargo on the Soviet Union following their invasion of Afghanistan, the policy had only limited effect on the target, but hurt our own farmers in the process. Rather than suffer under the embargo, the USSR made up much of the loss through countries, including Argentina, that were only too happy to find a new market. If anything convinced the Soviets to leave Afghanistan years later, it was not the grain embargo, which President Ronald Reagan promptly discarded, but U.S. military assistance to the *mujahideen* fighters (who later became the Taliban!).

Unilateral sanctions come in different forms and provide different lessons. First are those economic sanctions taken by the President of the United States under the International Emergency Economic Powers Act (IEEPA) (50 U.S.C. §§ 1701-1706), when there is an “unusual or extraordinary threat” against the United States. The first Executive Order issued under the Act was President Carter’s Executive Order 12170, which froze all Iranian assets in the United States following the taking of hostages from the American Embassy. This action became pivotal to the release of the hostages. President Clinton used this authority to freeze the assets of the Taliban in Afghanistan, and President George W. Bush has used IEEPA and Patriot Act authority to freeze the funds of terrorist organizations like al-Qaeda, and Iraqi funds, which will be used to reconstruct a post-Sadaam Iraq. This year the President also blocked the property of persons undermining democratic processes or institutions in Zimbabwe.

This use of sanctions has minimal cost to the United States and provides significant leverage against target countries and organizations. Similarly, various laws empower a president to sanction companies or entities which contribute to the proliferation of weapons of mass destruction—for example, the Iran–Iraq Arms Non-Proliferation Act of 1992 (Pub. L. 102-484, §§ 1601-08, 106), the Nuclear Proliferation Prevention Act of 1994 (22 U.S.C. § 3201 et seq.), and the Iran Nonproliferation Act of 2000 (Pub L. 106-178). A recent example was the imposition of sanctions against China North

Industries Corporation (a Chinese state-owned enterprise which exported sensitive missile technology to Iran) depriving them of the ability to export products valued at more than \$200 million over the next 2 years to the United States. This targets the actual offender without causing the collateral damage that direct sanctions against the government of China would have at a time when we need their assistance to deal with the North Korean nuclear crisis. Nor does it unduly hurt the innocent citizens of China or diminish the U.S. private sector engagement with China.

At the opposite end of the spectrum are sanctions initiated by Congress. Often driven by domestic political pressures, and without the flexibility needed to make sanctions effective, they can be counterproductive. An example is the Glenn Amendment (Section 102(b)(2) of the Arms Export Control Act, 22 U.S.C. § 2751 et seq.), which requires a broad array of economic punishment to countries which ignite a nuclear device. It was employed against India and then Pakistan in 1998, following each country's misguided decision to "go nuclear." I saw personally that this caused a great deal of collateral damage to our economic relationships with both countries, to U.S. business interests, and gave us little flexibility. It could not change conduct, since the nuclear test was already out of the box.

Even more egregious examples are the Cuban Liberty and Democratic Solidarity (LIBERTAD) Act of 1996 (also known as the Helms–Burton Act, 22 U.S.C. §§ 6021–6091 (1996), and the Iran–Libya Sanctions Act of 1996 [ILSA] [Pub. L. 104-172, 110 Stat. 1541]). These are what Ms. O'Sullivan calls "secondary sanctions," and what their opponents dubbed "extraterritorial sanctions." They do not directly target the offending countries we seek to influence—Cuba, Iran, and Libya—but impose sanctions against companies from third countries, generally European, which invest in those three countries. These two laws embroiled me in bitter and emotional negotiations from 1996 to 1998 with the European Union, which not only strongly opposed the sanctions against their companies, but passed its own law forbidding European companies from cooperating with any investigation by the United States. These laws did far more damage to our relationship with Europe than they brought benefits to the United States.

We were saved only because both Acts had one saving grace that should be a staple in any unilateral sanctions laws: presidential waiver authority. I used this authority to negotiate a way out of our dilemma and remain faithful to the statutory goals of the two laws. The European Union made concessions to the United States on a tougher stand on human rights against Fidel Castro's Cuba and a more rigorous review of dual use products exported to Iran and Libya, in return for President Clinton's agreement to waive sanctions.

Notwithstanding the palpable lack of success of each sanction Act, ILSA was reauthorized for 5 years at the beginning of the Bush Administration, and Helms–Burton remains on the books, unenforced. Indeed, these types of unilateral sanctions breed a lack of implementation. Today, several European companies with suspect investments have been "investigated" under these laws by the State Department for years, because to actually impose sanctions would gravely injure our transatlantic relations. Similarly, and almost comically, one member of Congress most vociferous in urging us to enforce Helms–Burton sanctions against companies investing in Cuba, led the congressional effort to exempt Sudan from unilateral U.S. sanctions on selling its profitable gum Arabic products in the United States, because a key company in his district needed it—and succeeded!

Before Congress passes any additional unilateral legislation, it should put them through the filter of a strict cost-benefit analysis, and permit a broad presidential waiver authority.

In the pantheon of bad sanctions laws, the most extreme and counterproductive are those imposed by states and localities, who try to make foreign policy by barring state or local contracts or take other measures against companies at home and abroad who engage in offending conduct. One example with which I dealt directly was the Massachusetts law dealing with companies who invest in Burma. While the goal was laudable, this interfered with the President's own ability to shape foreign policy toward the brutal military dictatorship of the country. I used to joke that in trying to convince the lead sponsor in the Massachusetts legislature not to pass the law, I had to negotiate with the foreign minister of Massachusetts. In the end the U.S. Supreme Court struck down the law as unconstitutional. Similarly, in the 2003 case, *American Insurance Association v. Garamendi*, the U.S. Supreme Court struck down a California law threatening sanctions against foreign insurance companies that failed to publish World War II era policyholders as contrary to the foreign policy actions of the President. During the negotiations, I led on Holocaust restitution for World War II victims. I found state and local economic sanctions by officials threatening to withdraw billions of dollars of pension funds from Swiss banks and German slave labor employers. I vigorously opposed them as interfering with the President's foreign policy powers. But they undeniably helped me facilitate the multibillion settlements we achieved with Swiss, German, Austrian, and French companies and their governments.

In the end, sanctions are not a strategy themselves but a means to an end, which must be combined with other policy tools, especially the need for some dialogue with the countries being sanctioned so they understand clearly what is expected of them to avoid the sanctions. There is no substitute for the painstaking work needed to build a broad multinational coalition of countries to back sanctions. The dramatic, recent breakthrough with Libya in agreeing to give up its program to develop weapons of mass destruction can be directly linked to the combination of UN and U.S. sanctions against Libya. There are, indeed, "shrewd sanctions," as Meghan L. O'Sullivan brilliantly exposes in her important book, but there are dumb ones as well, and the U.S. government seems to specialize in the latter more than the former.

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F.M. Scherer

Economics as Religion: From Samuelson to Chicago and Beyond, by Robert H. Nelson. Pennsylvania State University Press, University Park, 2001, 378 pp., \$35 cloth, \$19.95 paper.

This book offers some useful thoughts on the role ideology plays in economic analysis. The author exhibits great erudition in his survey of economic "schools." However, by illogically forcing his central thesis—that economists are, and should be, proselytizers of variously defined "religions"—Nelson undermines his argument and even his credibility. He also violates the first and eighth Mosaic commandments. And he misinterprets the way economic analysis grows cumulatively through the contributions of countless economists, some of them long forgotten.

Let me begin by summarizing the most valid part of Nelson's argument. It is true that the conclusions economists draw often depend upon the acceptance of certain factual premises, goals, or ideological beliefs, and that denial of those foundations may require rejection of the conclusions. Recognizing this is of special importance for government decisionmakers, who should be careful to extract from their eco-

nomic advisors a clear statement of core assumptions and the sensitivity of conclusions to them. Nelson apparently embarked on the research that led to this book because of his experience as a member of the Interior Department's staff.

He goes on to characterize, mainly by describing how certain "schools" of economic thought emerged and examining the views of their leaders, some of the assumptions about which he advises wariness. The principal protagonists are John Maynard Keynes and his disciple Paul Samuelson, the "Chicago school," beginning with Frank Knight and reaching a peak with Milton Friedman, and various institutional, behavioral, and environmental schools.

The belief systems of which Nelson is most critical hinge upon three main propositions. First, economic progress—i.e., the growth of real income per capita—is a primary goal of any economy, whose ultimate attainment is analogous to escaping from original sin. This he accepts, but only hesitantly, since progress is accompanied by "psychic" costs. Second, competitive market processes based upon individual actors' self-aggrandizement tend to maximize the efficiency with which material resources are used, and therefore contribute to achievement of economic progress and higher incomes per capita. Nelson repeatedly caricatures economists' emphasis on market efficiency as a quest for "heaven on earth." He blames this preoccupation, among other things, on economists' belief that market mechanisms can be analyzed with the same mathematical tools as Isaac Newton fruitfully applied to the physical world. Little is said about the substantial contributions of empirical econometrics, the field's other mathematical branch. But third, the "invisible hand" of market processes often goes astray—leading at the macroeconomic level to recession, unemployment, and lost output, and at the microeconomic level to the distortions of monopoly, environmental imbalance, and inequitable income distribution. From these propositions follows the progressive action message accepted by Keynes, Samuelson, and members of their school: an important task of economists is to identify governmental policy measures that will correct such aberrations and actively to advocate pro-efficiency, pro-growth, and pro-equity interventions.

Opposed to these views are several antitheses. One is a stress, attributed most prominently to Frank Knight, on laissez-faire and libertarianism for their own sakes. These, Nelson believes, are preferable to governmental meddling in market processes, which, if based on faulty assumptions or weak evidence, can make matters worse rather than better. For him, the main problem in attaining a just and prosperous society is to get the basic institutions right. In this, his heroes are the new economic institutionalists, such as recent Nobel laureate Douglas North and the new behavioral economists (Nobel Prize winners in 2001) who reject the assumption, upon which much of microeconomic theory is premised, that individual consumers rationally maximize their individual satisfaction and, among other things, make sensible choices under uncertainty.

I agree that classical economic theory has its problems and that newer dissenting views have been valuable. I disagree strongly, however, on two additional premises.

For one, Nelson sees the world of economic analysis in either/or terms, when in fact, its growth has been integrative and cumulative. Richard Nixon said, "We are all Keynesians," and he was right. One cannot teach a meaningful course on macroeconomics without giving prominent attention to Keynes and the economists who expanded upon his system. In his anti-recession policies, George W. Bush appears to agree, although I doubt that Keynes would have approved the details. But although he may not have said it, it would have been equally appropriate for Bill Clinton (who reappointed Alan Greenspan as Federal Reserve chair) to say, "We are

all Friedmanites.” Good economic analysis takes the best contributions from each school and integrates them into accepted theory. No single school has a monopoly on truth. It is most assuredly not true (p. 219) that “very little has been left standing of neoclassic economics—including the core ideas presented by Samuelson in [his 1948 text] *Economics*.”

Second, and central to Nelson’s thesis, is the notion that by accepting certain ideological foundations, economists are in effect practicing a “religion.” “The Jewish and Christian bibles foretell one outcome of history,” he asserts (p. 23). “If economics foresees another, it is in effect offering a competing religious vision. The prophecies of economics would then be a substitute for the traditional messages of the Bible.” It is an abuse of semantic license to equate ideology or core beliefs with religion—even though some economists of times gone by adorned their prose with deistic flourishes. “Render to Caesar the things that are Caesar’s” remains wise counsel.

Given his (unsubstantiated) argument that proper religious beliefs foster the honesty and trust needed to solve problems cooperatively (e.g., in northern Italy, as contrasted to southern Italy), Nelson goes on to argue that economists should view their field as a religion and preach the true faith (i.e., the propositions favored by Nelson) as if they were doing God’s own work. For example, he asserts (p. 263; see also pp. xv, 260, 262, 267, and 270), “The processes of economic development may, in short, require proselytizing and religious conversion (leading to the creation of new forms of social capital) as much as increased investment in physical and human capital. Economists may have to be priests as much as engineers.” He fails to recognize the derivative need to burn at the stake those who get it wrong.

Still more objectionable are the personal innuendos Nelson advances (e.g., p. 54), “Although Jewish by birth, [Paul Samuelson] has not been known to be an active practitioner of the Jewish religion. His religion has been an economic Progressivism that has sought to use government to promote economic progress....” And (p. 165), “In the end it is easy to see [Milton] Friedman as a follower in the Jewish messianic tradition, offering a new message of salvation for the world.” About making allusions to fellow scholars’ religiosity, I would say to Nelson what Joseph Wharton is reported to have replied when a Quaker meeting brother questioned his new investments in armor plate production: “That is none of thy damned business.”

Nelson’s exposition is organized primarily by focusing sequentially on various contending schools of economic thought and their beliefs about how the economy does, and should, function. He seems widely read in the history of economic thought, but his coverage is selective—whether by choice or inadvertence, I cannot say. Thus, he chastises Adam Smith for asserting that the workings of the market are, and should be, based on the pursuit of individual self-interest. But he fails to note that Adam Smith wrote two great books, not just one. And in *The Theory of Moral Sentiments* (1759), Smith argued that individuals keep their choices within socially tolerable bounds through introspection (Smith calls it “sympathy”) over whether their behavior might be perceived as improper by fellow citizens. Nelson credits Chicago’s George Stigler with originating the view that public regulation is often captured for the private interest of the regulated party, ignoring similar views anticipating “public choice” skeptics, for example, by the Wharton School’s Edmund James in the first (1886) *Publications of the American Economic Association* and Princeton political scientist Marver Bernstein (1955). He attributes to Milton Friedman (in *Capitalism and Freedom*, 1962) the notion that the airline, railroad, trucking, and other transportation industries should be deregulated. Actually, serious deregulation proposals emerged during 1959 in that haven of theological error, Cambridge, from economists

John Meyer, M. J. Peck, John Stenason, and Charles Zwick. He seems unaware that Oliver Williamson's work on corporate organization was preceded in pioneering books by Adolf Berle and Gardiner Means (1932) and Richard Cyert and James March (1963), among many others. About all he proves in his review of doctrinal developments is that fame in economics goes to the person who publishes when the market is receptive or merchandises his product best. As George Stigler wrote in the third edition of his *Theory of Price* (1966, p. 77), after identifying a tendency for economic theorems to be named for someone other than the person who conceived them, "If we should ever encounter a case where a theory is named for the correct man, it will be noted." I recall no such notes.

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Sallyanne Payton

The Company Doctor, by Elaine Draper. New York: Russell Sage Foundation, 2003. 396 pp., \$39.95 cloth.

This book is about doctors who work for companies—not for hospitals and managed care companies that themselves furnish medical services, but rather for general-purpose corporations that employ doctors principally to obtain their views on medical matters relevant to management concerns. The company doctors studied by Professor Draper may screen applicants for employment, review the health status and functional assignments of employees, evaluate workers' compensation claims, conduct drug-testing programs, assess workplace and environmental hazards arising from the company's activities, and work with management and lawyers to ward off liabilities and deflect claims or enforcement actions against the company. These doctors are the company's employees and agents. Their job is to protect the company's interests, not the interests of the workers, the regulators, the persons who might be injured by the company's activities, or others who might benefit from knowing what the company doctor knows or thinks. Although company doctors do some diagnosing and communicating with employees about

medical matters, those activities occur generally in the context of the doctors' performance of their managerial functions. Company doctors do not practice much clinical medicine.

Company doctors must be distinguished from doctors who furnish clinical services through medical organizations or health plans. All corporate medicine is not the same. Clinicians, even when serving as employees on salary or contract to medical organizations, have ordinary professional duties toward their patients, enforceable by legal liability; and the most frequently proposed deterrent to management interference in the practice of medicine is to hold medical corporations and managers to the same professional standards that apply to the clinicians. The nature of the argument between clinicians and managed care organizations is reflected in the statutory patients' bill of rights enacted in many states and under consideration by the United States Congress. Medical organizations use of patients' medical information is covered by comprehensive federal privacy regulations issued under the Health Insurance Portability and Accountability Act of (HIPAA).

Professor Draper's company doctors, by contrast, do not have important clinical physician-patient relationships with the employees. Their problems with management center on the handling of employee medical information acquired outside standard physician-patient relationships, such as in the conduct of workers' compensation examinations. In interviews with Professor Draper, company doctors admit that they and the managers view the employees as the adversaries of the company and use medical information against them. Company doctors say that they give employees' medical records to management; convey to employees false or misleading information about the causes of their health problems; encourage them to believe that their health problems result from their individual behaviors such as smoking rather than from the conditions under which they work; discourage them from filing valid workers' compensation claims; and in other ways use their authority as physicians to deflect workers' attention from the possibility of pursuing their rights against the company. Professor Draper tells us that company doctors participate willingly in genetic and drug testing to build up company medical departments even though they know that the results of the tests are only loosely related to job performance. Even workplace wellness programs are used to develop information to be used against the employees. Professor Draper's portrait of the company doctors—drawn, it must be emphasized, with direct quotations from interviews with them—includes their routine violation of medical ethical standards and complicity with management to undermine workers' legitimate interests.

Something other than the villainy of individual doctors must account for this pattern of behavior, and, not surprisingly, the explanation is to be found in the structure of the economy of occupational medicine. Company doctors are at-will employees who must satisfy management of their loyalty and discretion or risk losing their jobs. Professor Draper does not engage in economic analysis, being more intent on reporting the shocking facts, but from her interview material it is easy enough to construct the market structure in which the company doctors are working. Barriers to entry into the market for in-house medical personnel are relatively low: insofar as the job of the on-site medical person is to take care of minor occupational injuries and refer more serious ones to other doctors and hospitals, the work can be done by occupational health nurses. Many of the management tasks for which companies seek advice from company doctors require sophisticated medical or scientific knowledge or must be performed by a licensed physician; but not many companies have enough work of this type to justify hiring a full-time staff doctor. There is, consequently, a market for con-

tract shops that employ medical personnel to do occupational and environmental medicine, which means that in-house physicians even in fairly large organizations must live with the spectre of outsourcing. Professor Draper points out that medical contractors are if anything more compliant vis-à-vis management than are in-house physician employees, since they have less dense relationships with the companies.

Many of Professor Draper's informants compare their situation unfavorably with that of company counsel, whom they observe to have more power and less conflict about their roles. The situation of lawyers is probably more complex than the physicians realize; but it is true that lawyers may, consistent with their professional self-definition, have an organization for a client, whether they are in-house or outside counsel. Physicians, however, cannot have organizations as patients: the physician-patient relationship is with a human being. Physicians experience professional dissonance, therefore, when on account of their employment or contract with a company they are made into adversaries of the real human beings that they have been trained to think of as their special responsibility. Many of Professor Draper's physician informants report extreme role conflict and discomfort.

Like in-house counsel, however, company doctors prosper in their relationship with their employers only if they are regarded as trustworthy team players. They therefore must decide for themselves, in their circumstances, how much to abide by ordinary professional standards and how much to concede to company interests. Professor Draper's informants report that compliance and capitulation are common, not just with respect to employee medical information but on the wide range of matters in which loyalty to the organization prevails over other considerations.

The question is how to think about company doctors' historic hesitation to adopt what private practitioners might regard as ordinary professional standards for patient information confidentiality. It helps to recall that professional ethical norms were developed in the first instance by private practitioners, who viewed them as on the whole advantageous because they contributed to the reputation of the profession for trustworthiness. Where patients are the payers, professionals must keep their confidence or lose their business. If the business comes from a third-party payer or an employer, however, professionals keep the business by satisfying the payer or employer. The facts of economic life help explain why the company doctors' professional association, the American College of Occupational and Environmental Medicine, did not even have a code of ethics regarding the protection of employee information until 1999 (!), and Professor Draper's informants do not appear to fear enforcement.

Starch for the backbone of weak professional groups generally must come from outside, from regulation, liability standards, or the policies of monopsonistic purchasers such as Medicare. A strategy of individual physician resistance does not seem to be viable: in a recent case brought against the *New York Times* by a company doctor who stood up to management on the basis of advice about her ethical responsibilities and shortly thereafter saw her job outsourced, the New York Court of Appeals has decided that a physician who works as an at-will employee for a non-medical organization has no protection against retaliatory discharge.

Particularly in light of the adverse decision in the *New York Times* case, Professor Draper's prodigiously documented account of how the in-house medical function actually works calls for the development of an enforceable solution to the problems she identifies. Those who care about the issues raised in Professor Draper's startling study should take note that external threat can turn an in-house staff professional from a cost center into a "boundary person" who is worth the price of the threats

averted. The question is how to convert the company doctor's legitimate ethical concerns into demands made on the company by powerful outsiders, thereby allowing company doctors to demonstrate their loyalty by helping their companies comply. It should not be thought, however, despite the ease of responding with outrage to the material in this book, that the issues are actually so easily understood or that the appropriate balance of interests will be easily identified. With the increasing trend toward the corporate use of individual medical information, however, it is time to look closely at this situation as a matter of public policy.

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Privatization and Public-Private Partnerships, by E.S. Savas. New York: Chatham House Publishers, 2000, 368 pp., \$37.95 paper.

The Tools of Government: A Guide to the New Governance, edited by L.M. Salamon. Oxford: Oxford University Press, 2002, 669 pp. \$45.00 cloth.

Two books catalogue a diverse array of institutional arrangements now in play as government administrators attempt to deliver the results demanded by unremittingly ambitious publics. Both works establish that around the world competing experiments are under way that weave together public, private, and nonprofit sectors in numerous ways. Once codified, these experiments constitute a comparative literature on "public instruments and governmental tools" through which public value is created.

THE WASHINGTON CONSENSUS

The 2000 E. S. Savas study, *Privatization and Public-Private Partnerships*, is a 12-chapter paean to what other authors (Hutton, 2003; Stiglitz, 2002) have described as the Washington Consensus, which extols market over governmental service delivery. Thus, Savas asserts (p. 3): "Tectonic shifts are underway throughout the world The trend is unmistakably away from government and toward the other institutions—in a word privatization." In fact, Savas argues that privatization takes many forms, all of which can be grouped under the rubric of "public-private partnerships," broadly defined to include (p. 4): "...any arrangement between a government and the private sector in which partially or traditionally public activities are performed by the private sector." Savas presents nine basic alternatives (chapter 4) for achieving advantageous results in terms of effectiveness, efficiency, and equity—the Big Three Es (pp. 93–100). (The connections among service arrangers, financiers, producers, and consumers are shown in Table 1. Options are sorted from more public to more privatized arrangements.)

The argument rhetorically juxtaposes the idea of an inefficient unitary and monolithic entity—the government and the bureaucracy from which emanates "government service"—with infinitely varied and nuanced privatized service delivery alternatives. Which instrumental arrangement is best? The Savas logic is clear: As compared with collective instruments, privatized solutions capture efficiencies by relating the individual benefits to the public costs incurred without sacrificing either effectiveness or equity. Thus, administrative arrangements that maximize pri-

Table 1. Public instruments coverage by Savas and Salamon (Salamon's authors and pages).

	Savas	Salamon
A. Government Tools (Traditional Public Sector)		
1. Regulation: Strategic applications of rules and regulations to economic and social behavior		
• <i>Economic regulation</i> : control of entry and exit of firms, prices, or outputs (Salamon, 117–155)		√
• <i>Social regulation</i> : control of effects of economic activity on the health, welfare or social well-being of citizens, including unfunded mandates (May, 156–185)		√
2. Direct Service Provision: Government employees spend public funds to produce public goods and services (Leman, 48–79)	√	√
3. Grant: Producer subsidies of money, land or equipment (Beam and Conlan, 340–380)	√	√
4. Intergovernmental Agreement: Governmental use of other governmental services and capacities through treaties, alliances, partnerships, and fees	√	
5. Authorities and Corporations: Public capitalization of revenue earning service production (Stanton and Moe, 80–116)		√
6. Takings: Government commandeering of resources, including land (eminent domain), personnel (national service), and money (taxes).		
• <i>Reverse takings</i> : loopholes created in the form of tax expenditures (Howard, 410–444)		√
• <i>Corrective taxes</i> , charges, and tradable permits (Cordes, 255–281)		√
7. Resource Management: Government management of resource stocks and sales, including:		
• <i>Knowledge management</i> —information (Weiss, 217–254)		√
• <i>Tort liability</i> —law (Schuck, 466–489)		√
• <i>Government vending</i> —consumer arranges services	√	
B. Market-Based Instruments (Traditional Private Sector)		
1. Contract: Business engagement for the acquisition and provision of goods and services	√	
• <i>Procurement contracting</i> by government (Kelman, 282–318)		√
• <i>Purchase of Service (POS)</i> contracting on behalf of nongovernmental recipients (DeHoog and Salamon, 319–339)		√
2. Franchise: Monopoly concession privileges	√	
3. Grant: Producer subsidy to private and nonprofit organizations	√	
4. Voucher: Consumer subsidy	√	
5. Government-Sponsored Enterprise (GSE): Authorization and start-up financing of private and nonprofit enterprises producing public services (Stanton and Moe, 80–116)		√
6. Insurance: Risk pools paid by premiums (Feldman, 186–216)		√
7. Loans and Loan Guarantees: Direct loans or loans supported by guarantees against default (Stanton, 381–409)		√
C. Laissez-Faire Instruments (Voluntary Sector)		
1. Cash Transfers: Income support (Salamon, 4–5)		√
2. Private Markets: Free market supply of public services	√	
3. Voluntary Service: Organized charitable, nonprofit, and voluntary service	√	
4. Self-Service: Citizens arrange, finance and produce services	√	
5. Benign Neglect: Studied non-intervention in self-correcting problem situations	N.A.	N.A.

vate businesses' and voluntary associations' participation achieve responsiveness to local preferences that purely collective arrangements, dominated by *the* government and *the* bureaucracy, can never achieve.

Savas covers many operational details of public-private partnerships. One of his insights is that particular arrangements display infinite variations on basic themes. For example, contracting turns out to be a highly flexible instrument that can be adapted to work situations of great uncertainty—such as research and development where the government absorbs all risks and costs—and also to situations of great certainty—such as with off-the-shelf commodities where vendors absorb all risks (chapter 7). Similarly, grants, franchises, and vouchers can be tailored to unique circumstances of time and place. Even the development of public infrastructure presents myriad ways public-private partnerships can be used to design, finance, build, and operate capital-intensive public facilities. Here lies the real strength of the argument: detailed accounts of the numerous ways public-private partnerships can be designed to improve the efficiencies of public service delivery, including the idea of managed competition that stages face-offs between alternatives.

Savas' argument creates its own puzzles. For example, one of his important insights is that it is the hidden stimulus of competition that induces the highest and best performance from public agencies and programs and not the inherent virtue of the private over the public sector (pp. 122–124). This means, in turn, that, rather than accept the premise that privatization is always superior, public policy might reasonably reverse direction and move up the public-private scale in Table 1. This is because the difference between the top and the bottom of Table 1 is that two different value-producing mechanisms are at work. At the top, collective agents acting in the public interest on behalf of a whole public produce public goods directly. At the bottom, collective goods are epiphenomena—byproducts or summations of individual deals, privately arranged. In what direction should policy move? Merely citing instances in which governmental services were so badly managed that replacement with privatized alternatives produced a high benefit is not a sufficient general argument. For example, Savas presents neither a theory of equity, beyond a few definitions and summary assertions (pp. 96–100), nor a discussion of market failure and therefore no discussion of the problems of monopolies, positive and negative externalities, asymmetric information, and inequities endemic to the 21st century. Moreover, he does not even acknowledge the possibility of enormous management challenges attached to a shift toward the tools and instruments at the bottom of Table 1.

What Savas presents, however, is still very useful. His main contribution consists of a rough, but ordered, scale by which public instruments might be ranked and compared. Curiously, it is precisely this instrumental diversity that undermines Savas' normative argument, for by decomposing government and public bureaucracy into its constituent operating parts, he exposes the myth of monotonic government as a mere rhetorical gambit, rather than an accurate depiction of reality.

POLICY INSTRUMENTS

The volume edited by Lester Salamon takes up the question of precisely what “governmental tools” are most appropriate to tackle “public problems.” The first section explains the “new governance” approach to public problem solving. The second consists of 15 case studies (14 chapters) that follow a standard triptych, including: the current codified knowledge about each tool, the design knowledge that matches tool to need, and the operating mechanics associated with best practice. (The tools are sorted in Table 1 using the Savas privatization scale.) A third section consists of

six cross-cutting chapters examining the special political and managerial problems that arise with “third-party government.”

The Salamon group demonstrates empirically that there is no longer (if there ever was) any such thing as *the* bureaucracy staffed by stereotypical civil servants spending budgeted funds to deliver public services directly to citizens. The operating reality of modern government—the new governance—is that there is instead (p. 3), “...a dense mosaic of policy tools, many of them placing public agencies in complex, interdependent relations with a host of third-party partners.” Each “tool of public action” (pp. 20–21) contains several components:

- A variety of activities, including cash disbursement, incentives, and protections (e.g., insurance) in addition to goods or service production as the work unit.
- A diverse array of delivery vehicles including, regulations, contracts, loans, grants, consumer subsidies, tax systems, and insurance policies as well as direct retail.
- A delivery system that includes such “third parties” as banks, hospitals, social service agencies, industrial corporations, and universities, some of which are deliberately created and sponsored by government.
- A set of rules that define the relationships among the activities, vehicles, and delivery system elements.

Each “tool” presents a bundle of performance characteristics of which four attributes are critical (pp. 24–37):

- Coerciveness: the forcible restriction of individual or group behavior.
- Directness: the extent to which resources are channeled through multiple entities before service production or provision occurs.
- Automaticity: the extent to which a tool uses existing mechanisms and incentives.
- Visibility: the extent to which operations are exposed in the normal public budgeting and policy review processes.

At the top of Table 1, for example, the level of coerciveness and directness is high, as is the level of visibility, whereas the level of automaticity varies depending on whether extant markets and institutions are used as the means of production. Further toward the bottom of the table, however, coercion declines as do directness and visibility, while automaticity rises because the execution of public work depends on established private and nonprofit markets, institutions and patterns of behavior.

Numerous inferences leap from this “new governance” depiction. It becomes possible, for example, to chart how the United States has since the 1960s embraced (p. 37) “... tools of public action that are the most difficult to manage and the hardest to keep focused on their public objectives.” Indeed, Salamon (p. 37) suggests that the nation is caught in a vicious downward spiral in which public pessimism about government performance leads to rejection of the instruments of direct public action in favor of highly complex instrumental arrangements. Indirect tools avoid obvious enlargement of the public sector and thus win political support, but they vastly complicate the job of public management, risking a “subversion of public purposes” and feeding a self-fulfilling prophecy that government cannot perform.

One might argue that the real story lies in the extent to which most countries have found it necessary to expand rather than shrink the boundaries of the public sector. Thus, the United States has developed instruments of economic regulation (chapter

4) and contracting (chapter 9) for more than 200 years in a historical sequence whereby private sector institutions developed in advance of public regulation and state-owned enterprises. During the national mobilizations of the Great Depression and World War II, however, new tools of direct government intervention (chapter 2) were created that included government corporations (chapter 3) and direct loans (chapter 12) as well as new federal services and agencies. During the 1950s and 1960s, the nation placed (chapter 9) universities and industry under contract to rescue a failing space program. Moreover, beginning in the 1950s and 1960s the federal government used categorical grants (chapter 11) to bribe local government and, ultimately, the states in the 1970s to tackle the problems of poverty, health, housing, public education, and infrastructure development.

Slow productivity growth of the 1970s presented policymakers with a new challenge: the problem-solving agenda was growing, but the fiscal resources with which to deal directly with public problems were not keeping pace. New instruments were created, including social regulation (chapter 5) through the use of mandates and new regulatory agencies—such as, the Consumer Product Safety Commission, the Environmental Protection Agency, the Food and Drug Administration, the National Traffic Safety Administration, and the Occupation Safety and Health Administration—were promulgated from the 1970s until the Unfunded Mandates Reform Act of 1995. Even this was not enough. Over the last three decades, the nation has turned to government corporations and government-sponsored enterprises (GSEs) as instruments of pension benefit guarantee, infrastructure, and economic development and to pump capital into mortgage markets and student loans (chapter 3). Other instruments were refined, including: government insurance (chapter 6) for pensions, bank deposits, crop disasters, and floods; loan guarantees (chapter 12) as a platform for providing credit to students, farmers, importers and exporters, home owners, small business, rural development agencies, and international assistance agencies; tax expenditures (chapter 13) targeting commerce and housing, health, income security, and general fiscal assistance; and vouchers (chapter 14) for nutrition, child care, rental housing, and post-secondary education.

The pace of instrumental invention has still not slowed. Current experimentation continues in at least four areas:

- Tort liability (chapter 15) as a form of mandatory third-party liability insurance substituting for permanent regulation or government subsidy.
- Purchase of service contracting (chapter 10), reinvigorated by the 1996 welfare reforms that reprogrammed direct welfare entitlements into such support services as child day care, job training, and transportation.
- Corrective taxes, charges, and tradable permits (chapter 8), where market incentives replace direct regulation of socially harmful behavior in areas such as garbage disposal, pollution emissions, gasoline consumption, and alcohol and tobacco consumption.
- Public information (chapter 7), where increasingly versatile direct and indirect information tools can, respectively, either inform citizens about what it is they must do, or compel others to divulge information on the basis of which private decisions can be made. The latter includes disclosure and labeling requirements that influence lending and saving behavior, nutrition decisions, toxic chemical management, energy use, and alcohol and tobacco consumption (pp. 224–225).

In short, the “new governance” story for the United States is perhaps best described as an experimental process by an ambitious public seeking solutions to problems.

Vigorous experimentation with indirect government is not peculiar to the United States. As the Arthur Ringling essay on the European experience (chapter 21) notes, instrumental choices (p. 598) "... are the result of political ideology, of different governance visions, or legal traditions, and have to fit in certain political-administrative settings." Thus, it has been possible for the European Union to harmonize the overt policies of the member countries, all the while permitting different styles of governance to coexist within a common policy framework. This means that a weak state model, such as the United Kingdom, can find common policy ground with a strong state approach of France or the neo-corporatist hybrids found in Germany, Belgium, and the Netherlands. Moreover, European experiments have found creative ways to infuse normally direct, top-down command and control instruments with numerous horizontal attributes such as, communication and public information, networking among consultative and advisory bodies and committees, public-private partnerships, and voluntary agreements and covenants binding between the government and its negotiating partners. In this manner has the European social model been developed and applied across a diverse continent.

SUMMARY

These two works outline a sophisticated calculus by which instrumental performance can be comparatively evaluated. The "new governance" calculus includes a political force field comprised of (Peters, chapter 19) interests, ideas, individuals, institutions, and the international environment. The precise interactions among the "five I's" are not at all obvious. In some instances, it is logical to make program costs visible and direct so that recipients can see how programs operate and feel bound to the government that provides such benefits (Smith and Ingram, p. 567). At other times, it makes sense to keep benefits and costs invisible and indirect, presenting enemies with a more elusive target (Peters, p. 560). Moreover, the tool mix creates different classes of citizenship as seen, for example, in the selection of direct and visible mandatory entitlements for the middle classes and indirect discretionary programs for women, children, and minorities (pp. 565, 568). Thus, tool choice is a non-technical calculation involving questions of civic governance, democracy, participation, and citizenship as well as the three E's.

Indirect government can pose an enormous accountability challenge (Posner, chapter 18) when influential third parties are lured into complex systems of public productivity (Posner, pp. 525–528). This raises the stakes for public managers who have moved away from simple cost accounting routines and toward such innovations (Lordan, chapter 17) as incentive contracting, reset pricing, firm-fixed-prices, and managed competition. The net effect is an enhanced role for public managers (Kettl, chapter 16) who must be increasingly assiduous in developing the requisite "enablement skills" associated with indirect governance. Thus, it is a wonderful irony that the United States has staked its future prospects for public accomplishment on a profession long dismissed as inconsequential.

Both books penetrate the recent historical record, setting the stage for future analyses of the challenges presented by massive industrial shifts mediated by hypercompetitive conditions and globalization's thickening bonds. This new discussion will center on the tools that will serve global civil society as well as the changes nations must consider in response to emerging global standards of public performance (Hutton, 2003; Stiglitz, 2002).

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Ross Gittell

The Information Economy and American Cities, by Matthew P. Drennan. Baltimore: Johns Hopkins Press, 2002, 176 pp., \$34.95.

State Enterprise Zone Programs: Have They Worked? by Alan H. Peters and Peter S. Fisher. Kalamazoo, MI: Upjohn Institute, 2002, 345 pp., \$52 cloth, \$22 paper.

During the middle to late 1990s many cities and their surrounding metropolitan areas emerged as centers of the so-called “New Economy,” benefiting from their density, size, and associated knowledge and business network spillovers in information and related industries. In the previous two decades (1970 to 1990) more of the central cities in the nation’s largest metropolitan areas lost population than gained it. This was reversed in the 1990s with two-thirds gaining population (Drennan, p. 80). Cities with the most significant turnarounds included New York City, Chicago, Atlanta, and Seattle.

There was also new hope for minority and improvised groups concentrated in cities. In the previous decades these groups’ economic status had declined and high-poverty neighborhoods in cities doubled. In the 1990s the number of people living in high-poverty neighborhoods declined by nearly one-quarter, or 2.5 million people (Jargowsky, 2003). This improvement included all racial and ethnic groups.

Economic circumstances in cities across the nation changed dramatically in 2001 (even before the events of September 11). Indicative of the boom-bust phenomenon was the experience in so-called “tech poles,” identified by the Milken Institute as having the strongest technology-based economies in the nation (DeVol, 1999). From early 2001 to early 2003, 21 of the top 25 tech poles experienced employment decline. San Jose (the home of Silicon Valley) had the second greatest employment decline of the 287 metropolitan areas in the nation—one of every six jobs was lost. San Francisco had the third greatest decline, losing one of every eight jobs and also losing population. New York City and Seattle both lost 5 percent of employment. And in 2000 the nation’s poverty rate rose for the first time since 1993.

After the economic roller coaster in America’s cities over the last decade what lessons have we learnt about the nation’s urban area economies and the economic prospects of their residents? Are cities and their lower-income residents any better off than they were before the economic boom and emergence of the New Economy and urban policies of the 1990s?

Two books—*The Information Economy and American Cities*, by Matthew P. Drennan, a professor in the Department of City and Regional Planning at Cornell University, and *State Enterprise Zone Programs: Have They Worked?* by Alan H. Peters and Peter S. Fisher, both professors of urban and regional planning at the University of Iowa—try to address these important issues. Both books include detailed quantitative analyses. Together they provide useful data and insights about urban

economies and urban policy. Yet the books leave readers with questions and policy concerns. This is especially true in the context of the current jobless economic recovery in the United States and “step-backs” from the economic progress for cities and low-income groups of the late 1990s.

Drennan, in *The Information Economy and American Cities*, argues that the information economy in general, and specialization in certain sub-sectors of the information economy in particular, offer a promising economic future for America's cities. Drennan's book is intended (at least in part) to defend the concentration of information economy activity in large cities, such as New York City, after the tragic events of September 11, 2001. (Professor Drennan had an office in New York while doing his research for the book at the New York Federal Reserve Bank.) With detailed quantitative analysis, Drennan documents how economic concentration in the information sector has been beneficial for large cities over the past quarter century and suggests that this can continue in the future. He uses a broad definition of the information economy that includes all traded services (i.e., services that may be significant sources of revenue from outside). The definition includes software, financial services, health care, education, and real estate.

Drennan concludes that some specializations help and some hurt. In the last third of the 20th century, specialization in the information sector helped, while specialization in goods production and distribution sectors hurt growth in U.S. cities (pp. 7–8). Drennan finds that large metropolitan areas that specialized in finance, software, and legal and communication services were the most economically successful at the end of the 20th century (p. 130).

Yet, recent experience raises serious questions about Drennan's findings. Information-based economies are not resilient against decline. The tech poles overall have performed similar to the U.S. average over the last 2 years: the poles with the highest information industry concentration have experienced the greatest employment decline (Gittell and Sohl, 2003). The information industry is subject to cycles that can be difficult for cities to manage (as city officials and budget makers in cities across the nation can attest).

Another major contention in *The Information Economy and America's Cities*—that the information economy has been beneficial to all socioeconomic groups in cities—is also not supported by recent experience. For example, in New York, black men made the smallest gains in job holding during the 1990s and experienced the biggest percentage drop after 2000. By 2002, the rate at which black men in New York were working had dropped sharply, returning to its mid-1990s level (Levitan, 2002).

Still, *The Information Economy and America's Cities* provides some useful policy recommendations. The most important policy is investment in human capital, including higher education, to ensure economic competitiveness. Another important policy is public investment in optical fiber to help all cities and all residents of cities benefit from the information economy. Drennan also highlights the value of metro-regional government to foster the growth of the information economy (along with his finding that urban economies work across metropolitan areas not in cities).

Drennan notes that specialization is not a static advantage (p. 130). However, he does not highlight in policy recommendations the need for dynamic planning and economic development policies for cities. History—including most recent history—suggests that the industries that are most advantageous for cities change over time. Economic planning and policies in cities and metropolitan areas must take into consideration industry and business cycles and changing economic dynamics. Perhaps the most important urban economic development lesson of the last quarter

century is the need for economic development practitioners to understand product life cycles and anticipate contingencies and their potential impacts on local economies. Another key lesson is that targeted policies will be required to ensure that the benefits of economic growth and the costs of economic downturns are equitably distributed—the private market, even with the emergence of the information economy, does not guarantee this.

In general, Drennan had bad timing. Much of his data are from the end of the period of economic prosperity in the late 1990s. Still, *The Information Economy and American Cities* is a worthy contribution to urban economics and urban policy. Drennan's book focuses on industry changes and urban economies, not public policy effects on urban economies. A policy question Drennan does not address is how particular public policies affect changes in the concentration of poverty.

State Enterprise Zone Programs: Have They Worked? addresses the effect of state enterprise zone (EZ) programs on urban economies. The authors analyze 13 states (of 34 with programs in 1995) and 75 zones (of 2840), concentrating on the zones in the largest states (Rubin and Wilder, 1989). Their research focuses on manufacturing change in EZs and a small set of economic questions, including what are state and local EZ incentives, costs, benefits, and effect on the employment of inner-city residents. Their research is comprehensive. It includes detail on policies, formal economic modeling, and critical economic and policy analysis.

The findings in *State Enterprise Zone Programs: Have They Worked?* are strong and clear. State EZ programs have not worked. The authors find that the expectations of EZs have been far too great (p. 236). They recognize that their findings should not be a surprise, as the problems of most communities designated as zones are deep-rooted and difficult. The book's findings are also consistent with much of the econometric work that incentives, especially relatively modest incentives, have little effect (p. 13).

Peters and Fisher document that EZs' effect on employment growth is minimal and that EZ incentives often encourage the use of capital rather than labor. They identify that the potential for EZs to influence business decisions has been limited by the growth of non-targeted economic incentives by states. And they find that EZs do not alter the spatial functioning of urban labor markets. Residents with low levels of education have problems finding good employment with or without EZ programs in their neighborhood.

As far as policy recommendations, the authors indicate that more than just minor tax and other incentives are required. They estimate that the average incentive to businesses in EZs in their study states is the equivalent of a 1.6 to 7.1 percent cut in wages. The need for more significant financial incentives is especially true in the EZs located in older declining cities and in urban areas suffering from a confluence of problems that make business investment unlikely. But Peters and Fischer emphasize that high incentives come at high cost and not necessarily with net benefits. The authors suggest that instead of using EZs to address a wide range of problems, state policymakers focus limited resources on specific objectives, such as improving the employment prospects of the residents of inner cities or improving the manufacturing base in the city as a whole. The former would require, for example, better job placement services, transit options, or the provision of autos to inner city residents. In general, the authors suggest, a policy decision should be made to focus on place or people, and then the incentives appropriately focused.

Peters and Fisher are policy pragmatists. They do not anticipate the end of EZs programs. Instead they expect EZs to continue because their costs are hidden and they have potential for political benefits. The authors recommend that policy-

makers try to prevent the proliferation of EZs into areas that are not particularly disadvantaged.

There are many important findings and useful insights about enterprise zone programs in *State Enterprise Zone Programs: Have They Worked?* It is a valuable contribution to urban policy, and a “must read” for any public official considering initiating or continuing an EZ program.

Urban economic problems and concerns will be heightened with the delayed economic recovery of the early 2000s. The data and analysis presented in these two books can provide useful insights and policy guidance for cities. It will be important for scholars to update both of these works, particularly Drennan’s book. This can help policymakers better understand the workings of urban economies in the 21st century and help identify ways for cities and their residents to recover from the most recent economic downturn and to prosper as much as possible during future industry and business cycles.

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Helping Working Families: The Earned Income Tax Credit, by Saul D. Hoffman and Laurence S. Seidman. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2002, 245 pp., \$40 cloth, \$18 paper.

Reflecting the outpouring of research on the earned income tax credit (EITC) in the last 10 years, Hoffman and Seidman’s highly informative “primer” on the EITC is more than double the length of their original 1990 monograph on the same topic. But whereas the 1990 version introduced and explained a relatively small program that was correctly viewed as a minor component of anti-poverty efforts in the United States, the 2003 incarnation describes a full-blown program that is perhaps the primary component of these efforts.

To provide some perspective on the growth of the EITC, in 1990 it provided a subsidy of 14 percent on the first \$6810 of earnings, for a maximum credit of \$953 (in 1990 dollars). In 2001 (the most recent year covered by this book) the subsidy was 7.65 percent for families with no children, 34 percent for families with one child, and 40 percent for families with two or more children; maximum credits for these three types of families were \$364, \$2428, and \$4008. Moreover, according to table

1.3 of this book, over that period the number of recipient families grew from 12.5 million to 18.5 million, and the total amount of the credit grew from \$7.5 billion to \$30.7 billion. And in addition to the federal EITC, many states supplement income further with their own credit. Coupled with welfare reform and a strong economy, the TANF caseload fell to about one-ninth the number of households receiving the EITC (p. 4).

Helping Working Families covers an exhaustive list of the key empirical, theoretical, policy, and administrative questions regarding the EITC, including: who benefits from the EITC and how this has evolved over time with changes in program rules; the workings of the EITC and the predicted effects on labor supply, wages, and marriage; comparisons of the EITC with other anti-poverty programs; the efficiency of the EITC as a tax and transfer scheme; and compliance issues. Finally, the authors offer some proposals for reform of the EITC, although these are not fundamentally different from other reforms both proposed and enacted.

One point the book makes crystal clear is the need for data that provide a detailed look at family income and the earnings of workers in those families, and at the same time measures of actual EITC receipt. Most of the authors' empirical analysis of how the EITC works—the types of families who receive the EITC and the magnitude of the credits, the marriage penalties and bonuses created by the EITC, the effects of the EITC on poverty, etc.—are based on data from the Panel Study of Income Dynamics for which the authors compute the credit for which families should be eligible. Hoffman and Seidman present cogent reasons why collecting data on actual EITC receipt is difficult. For example, because for many families the EITC yields a reduction in taxes, respondents may be unable to accurately report the value of the EITC to them. But given that take-up is not 100 percent, and in the face of evidence (documented in research discussed in the book) that EITC claims often contain some errors, an attempt to assemble a data set with the actual EITC claimed and received by families would represent a major step forward. A natural path to this goal would combine information from tax returns (used in EITC compliance studies) with the types of data collected in the Census, CPS, or PSID, as was done in some data collection efforts in the 1970s, although there may also be other ways to reach this outcome.

The thoroughness of *Helping Working Families* helps establish two important areas in which research on the EITC is lacking. One is the question of whether the EITC reduces wages at the low end of the labor market. Given that the EITC, on net, increases labor supply (based on the literature reviewed in chapter 3), some wage reductions are predicted by a simple model of supply and demand. Indeed in the numerous cases in which I have discussed or debated the merits of the EITC relative to mandated wage floors, advocates of the latter invariably argue that although the EITC may do some good, it “subsidizes low-wage work.” Although Hoffman and Seidman's graphical analysis of this question oversimplifies by treating the labor market as if it consists of homogeneous labor, they do offer good reasons why we might expect any wage reductions engendered by the EITC to be relatively modest. First, they read the literature as showing that the strongest labor supply effects are the positive effects on the extensive margin for low-wage workers in the poorest families who are induced to enter the labor market because of the EITC, and the negative effects for secondary workers in the phase-out range. While the former effect appears to be larger, to the extent that these workers participate in the same labor market the wage effects are offsetting. Second, many low-wage workers are not eligible for the EITC—for example, teenagers and other secondary workers in higher-income families, and single adults with modest income that nonetheless

places them beyond eligibility for the EITC. But none of this disproves the argument that the EITC may push down wages of low-wage workers. And the fact that this is the one section of the book that can draw on no empirical evidence from studies of the effects of the EITC only serves to emphasize that this question calls out for serious study.

The second is the experience with state EITCs and the possibility of local EITCs. At the federal level, as Hoffman and Seidman note, the EITC is an important alternative to the minimum wage, and one they much prefer. As of 2001, 14 states and the District of Columbia had likewise adopted supplemental EITCs—often, but not always, higher-wage and higher-cost states that had periodically raised their minimum wage above the federal level. The efforts to help low-wage workers and low-income families in these states is motivated in part by the difficulties these workers and families face owing to the high cost of living in these states, just as the even higher cost of living in many large cities has spurred the spread of living wages. While some work indicates that state EITCs have been effective in reducing poverty, more work must be done to establish these effects, to ask whether state EITCs accomplish some of their other goals, such as enabling the less-skilled and less-advantaged to remain in high-cost areas, and to consider the possible implementation and effects of local versions of EITCs as alternatives to raising wage floors in urban areas.

Helping Working Families may not break new ground for researchers already engaged in studying the EITC, but the breadth of questions it covers makes it likely to fill in at least some gaps in their knowledge. For example, while well-versed in the effects of EITC on labor supply and the distribution of income, I found the chapter on compliance issues a useful entrée into this literature. And, three groups will likely find this book most informative (yet easily digestible): researchers in other fields in need of a thorough discussion of the theory, facts, and literature regarding the EITC; instructors in labor economics, public finance, or public policy looking for terrific applications of microeconomic theory to an important policy question; and policymakers seeking a discussion of the EITC at a sufficiently thorough level to give a full accounting of the issues.

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Alasdair Roberts

The Coming Democracy: New Rules for Running a New World, by Ann Florini, Washington, DC: Island Press. 2003, 272 pp., \$25.

The crisis of contemporary governance, Ann Florini argues, lies in the mismatch between policy problems and traditional governing structures. Political authority is held by national governments, but problems are global in scope. How will the mismatch be handled? A new system of “world government” is improbable and unappealing. A more likely scenario, Florini says, is the emergence of new systems of global decision making in which transnational non-governmental organizations play a leading role in helping to resolve collective action problems. The argument has appeal—but is overstated.

The problems that interest Florini fall into three rough categories. The first consists of problems that arise from new globalized production systems that evade national regulations on environmental protection and working conditions. The sec-

ond category consists of transnational environmental problems, such as global warming, in which individual states have weak incentives to act appropriately in the absence of action by other states. The third category consists roughly of the problems of inequality and instability created by the new economic order, typified by liberalized trade and investment policies.

These are serious problems. But if there is danger, there is also hope. “New systems of global decision making” (p. 15) are emerging that could prove effective in solving many global problems. The engine of this new political order will be a growing number of transnational nongovernmental networks that exploit information and communication technologies to bind together activists in many countries. The emergence of these networks marks a fundamental transformation in the nature of social organizations, Florini says. These networks are creating social capital on a global scale, and encouraging a new “cosmopolitan identity” that allows individuals to transcend religious or national identities. Furthermore there seems to be solid evidence of the growing political power of this emergent “transnational civil society”—in deterring human rights abuses, promoting environmental consciousness, and improving corporate conduct.

The coming democracy is also expected to have a second distinctive feature—an emphasis on transparency as a tool for regulating conduct. In fact, Florini calls transparency “the most important concept for global democracy in the twenty-first century” (p. 16). If corporations are compelled to disclose information about their overseas production practices, consumer and investor pressure will lead to better behavior. If citizens receive better information about environmental hazards, they will campaign for clean-ups. If international financial institutions such as the World Trade Organization and International Monetary Fund become more open, the policies they produce will become fairer. And transparency will also become the remedy for one of the most serious problems confronting the new order: the doubtful legitimacy of unelected transnational non-governmental organizations. Greater openness will make such organizations more credible.

Florini is partly right—the emergence of “transnational civil society” is a politically important phenomenon. However, it overstates the case to say that we are moving toward a radically different system of governance. One of the most important limitations of Florini’s story is the failure to account adequately for the role of the dominant power—the United States—in defining the structure of world politics.

Florini acknowledges the many instances in which the United States has tripped up global efforts at problem solving. The Bush administration has repudiated the Kyoto Protocol, a 1997 agreement intended to regulate the emission of gases that cause global warming. The United States also refused to sign the 1997 Ottawa Treaty banning the production and use of landmines, and failed to ratify the 1989 Convention on the Rights of the Child, the 1992 Convention on Biological Diversity, the 1996 Comprehensive Test Ban Treaty, and the 1998 Rome Statute of the International Criminal Court.

Florini appears to take a fatalistic view of this sort of behavior. Obviously the United States will not act as a benevolent hegemon, and consequently people who care about global problems will have to follow some other path—such as action through an emerging system of transnational governance. This might be sound tactical advice for progressive activists. On the other hand, *The Coming Democracy* is not intended to be a primer for activists. It is intended to describe “new systems of global decision making” (p. 15), and from this point of view it clearly requires a better explanation of why the United States behaves as it does, and how American power interacts with the power of transnational civil society. For example, is it pos-

sible for transnational civil society to check or temper the exercise of power by the United States? Or is it more accurate to say that the power of transnational civil society has an interstitial quality—that it exists in the spaces where the hegemon has failed to act or has little interest in opposing action?

There is also a third interpretation: that transnational civil society is actually an agent through which the interests of the hegemon—or the group of leading industrial powers—are advanced. One of the reasons why many developing countries have resisted calls for greater openness in bodies such as the World Trade Organization is their fear that such reforms will work to the advantage of more affluent first world advocacy organizations. Florini acknowledges the problem but gives it short shrift. Essentially, Florini is reprising a classical pluralist argument about the organization of political power, but in the transnational sphere. What is missing is an adequate handling of important complaints about the limitations of the classical pluralist position.

Some of the countries that have resisted increased openness in the WTO are essentially arguing that transparency is not the unalloyed virtue that people in the advanced democracies imagine it to be. It is a matter of institutional design, whose effect on the allocation of political influence must be carefully gauged. This proposition could be applied elsewhere in Florini's book. Florini argues, for example, that

Consumers and investors have a right to know about the products they buy (including the processes by which those products are made) and about the companies they invest in. As economies cross borders, so do those rights (p. 167).

This seems straightforward but is actually a radical proposition. Even in advanced democracies, the consumer's right to know has typically related to dangers posed by the product itself, rather than the method of its production. The consumer's right to know is now being extended, and being given extraterritorial reach: it extends even to information about the labor and environmental practices of producers in other countries. How would we feel, however, if first world unions or advocacy groups began using that information as the foundation for consumer boycotts against producers, with the aim of ratcheting-up standards—and in the process undermining the comparative advantage of developing countries? This concern may be overestimated, and perhaps wholly unsound. Nevertheless it needs a more thorough consideration.

In some ways, *The Coming Democracy* may also understate the power of the United States. The case for the importance of the transnational sphere of politics rests on impotence of national governments. In critical domains, individual governments cannot make a difference by acting alone. For example:

Global-level environmental problems, such as climate change and ozone depletion, clearly require global collective action.... It does little good for some countries to control their emissions of greenhouse gases and ozone-depleting substances if others continue merrily pumping the stuff out (p. 193).

Of course, there is some truth to this statement. But it also understates the capacity of leading nations to exercise influence independently. In 2002, the United States accounted for 26 percent of total world consumption of oil, 26.3 percent of total world consumption of natural gas, and 24.7 percent of total world consumption of coal.¹ It is a technological powerhouse. Yet the U.S. government has been notori-

¹ The statistics are provided in the BP Statistical Review of World Energy 2003, available at: <<http://www.bp.com/centres/energy/>>.

ously lax in attempting to curb national consumption of fossil fuels. Of course, the United States alone cannot solve the problem of global warming—but it is also true that the problem of global warming is to a significant degree rooted in the complexities of domestic American politics.

There are other spheres in which the United States may exercise unusual influence. For example, Florini is right in suggesting that the economic instability caused by capital market liberalization is a problem of global scale—and that in this new order, countries can be blindsided by events they are incapable of controlling. (Brazil, for example, suffered a serious crisis following Russia's bond default in late 1998.) However, the roots of the problem can again be connected to the actions of individual states. Joseph Stiglitz has argued that the U.S. Treasury, prodded by the "special interests of Wall Street," played an critical role in pushing for capital market liberalization throughout the 1990s—a policy Stiglitz considers to have been reckless and which he has argued was "the single most important factor" contributing to the East Asian financial crisis of 1997 (Stiglitz, 2002, pp. 63–67, 98–104).² The IMF's recent emphasis on improved disclosure of corporate and government economic data—noted by Florini as another example of the power of transparency—might be regarded as a *post hoc* response to the problems caused by rapid liberalization, which incidentally does not challenge the core of the policy.

Florini is clearly right in suggesting that the structure of international politics is changing, and that an emerging transnational civil society will play a key role in a new international order. Nevertheless, international politics will continue to be more complex than *The End of Democracy* suggests. An accurate view of the emerging international order must still account for the constraints that great power politics impose on transnational civil societies. Similarly activists must recognize that the solution to global problems may still be rooted in national politics—and in particular in the domestic politics of the hegemon. The politics of transparency will be equally complicated. Florini is right in saying that the concept is in vogue as a remedy for a wide array of problems. However, we must remember that transparency itself can serve many purposes, both progressive and regressive—and it may not be clear which end is being served without close examination of the circumstances in which the concept is being applied.

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² Similar arguments have been made by Paul Blustein (2001).