Reviews

Ross D. Eckert, *The enclosure of ocean resources: Economics and the Law of the Sea.* Standard: Hoover Institution Press, Standard University. xvi + 390 pages. $ 16.95.

In recent years there has been a beginning of recognition that the traditional research agendas and content of courses offered in international economics and in public economics and collective choice have failed to consider sufficiently important areas of intersection. While international economic research has tended to focus primarily on international trade, investment, and monetary issues, the public choice and public economics agenda has tended to focus almost exclusively on domestic issues. Today there is growing (although to my mind still insufficient) interest in both the public choice and political economy aspects of the traditional areas of international trade and monetary policy, and on the whole of economic issues which have fallen outside of the traditional concerns of international economists (for a recent survey see Willett, 1979). These new issues involve questions of international externalities and public goods, the establishment of property rights, and procedures for formal and informal international decision making. Advances in technology have contributed to increasingly severe problems of international pollution and the over-exploitation of many of the living resources of the sea. It has likewise brought the prospects of mineral mining from the deep ocean floors, the actuality of oil and gas production from offshore areas beyond the traditional limits of national jurisdiction, and the need to reconsider questions of national versus international rights concerning both scientific research and freedom of military movement through international straits and in coastal waters.

A large number of these issues have come together in the largest (in terms of countries and delegates) and one of the longest international negotiations in history, the Law of the Sea negotiations which have been in process for over a decade under the auspices of the United Nations. These negotiations have been characterized not only by what seems likely to be irreconcilable differences between the industrial and developing countries, but also by widely divergent views of where U.S. interests lie. These divergent perceptions of U.S. interests have reflected both normative judgments concerning the relative importance of diplomatic, national security, and economic gains and losses, and positive judgments about both the extent to which treaty developments would influence actual behavior and the nature of economic considerations.

In the early years of the negotiations there was little input of informed economic analysis into the U.S. policy process. The development of the initial U.S. positions was a clear illustration of the dangers of ignoring public choice analysis and assuming that nations always act to maximize aggregate economic efficiency. Indeed these negotiations are a gold mine of illustrations for public choice analysis (or in the language of many political scientists, the

Public Choice 37:377-388 (1981) 0048-5829/81/0372-0377 $01.80.

behavior of bureaucratic politics). The immense complexity of the issues involved imposed tremendous costs of entry into the policy debate. The original U.S. positions were formed almost entirely by the State and Defense Departments on foreign policy defense grounds. Business interests as reflected in the Commerce and Interior Departments began to make some progress in introducing economic considerations (albeit those of their particular industries rather than the economy as a whole), but it was not until the historical accident in 1973 of the development of interest by an economist with political clout, Secretary of the Treasury George Shultz, that a systematic economic analysis of U.S. positions was forced.

Despite numerous deliberate attempts of the non-economist participants to muddle issues and raise the cost of obtaining relevant information, this economic review forced by Secretary Shultz (in which the present reviewer was heavily involved while serving as Deputy Assistant Secretary of the Treasury for International Research) lead to some rather striking conclusions. Not only had economic interests been given relatively little weight, but serious arguments could be made that they had been completely misconceived. Because of arguments by false analogy and a failure to understand economic, (especially, property rights and externality) theory, U.S. negotiations had assumed that failure to conclude a comprehensive international treaty on law of the sea issues would lead to economic chaos as well as failure to preserve freedom of passage for U.S. naval vessels through straits. While Defense and State officials were undoubtedly more concerned about the adverse foreign policy consequences of this projected economic chaos than the damage to economic efficiency, the widespread belief that the failure to achieve a treaty would lead to chaos increased the propensity to advocate increasing great negotiating consessions on all counts. While unsuccessful in ultimately changing the direction of U.S. policy, (the bureaucrats at Defense and State had much greater staying power than the economists at Treasury), I believe that the resulting analysis of law of the sea considerations had substantial intellectual if not practical benefits.

The author of the the book under review, Ross Eckert, was one of those who as a consultant for Treasury, along with Ryan Amacher, Ken Clarkson, Ronald Coase, Dennis Logue, David Johnson, Robert Tollison and Richard Sweeney, made major contributions to revaluating the economics of ocean resources (see for example Amacher and Sweeney, 1976; and the papers by Eckert, Clarkson, and Sweeney, Tollison and Willett in *The Journal of Law and Economics*, April 1974). Thus I must admit a bias in favor of Eckert's approach to the analysis of Law of the Sea issues. But beyond agreeing with the basic approach, I must truthfully say that this book is one of the very best examples of applied economic analysis that I have read in recent years. Written in clear prose understandable to non-economists, the masterful organization of vast amounts of information in a concise and insightful manner makes it of considerable interest to economists as well, and puts it about as far as one can get to the opposite pole from the internal policy memos of the U.S. Law of the Sea Delegation which after a hundred pages of incomprehensive words and figures would conclude with the famous three options for the President: choose ridiculous option I, choose ridiculous option III, or choose option II, giving maximum discretion to your faithful negotiators to do whatever they want (other than options I and III, of course) in these hopelessly complicated negotations which nobody but they can understand.

Outsiders to the Law of the Sea negotiations owe a substantial debt to Professor Eckert both for his particular insights and for greatly lowering the costs of becoming informed about this important set of issues. Eckert's book presents a broad ranging analysis of the Law of the Sea negotiations that challenges the major tenet of the originators of the negotiations that international regulation was necessary for the efficient and equitable use of ocean resources and that widening claims of national jurisdiction would promote chaotic conditions contributing to economic inefficiencies and political conflict. Drawing on economic theory and historical analysis of previous enclosure movements on land, Professor Eckert shows how greater national management of ocean resources off of national coast lines combined with competiton could lead to economically desirable results in many instances and that beliefs in the needs for international regulation to avoid severe inefficiencies were in most instances greatly overstated. When the high decision making and enforcement costs of international agreements are taken into account, then a substantial expansion of national jurisdiction could establish property rights and create incentives for efficient economic exploitation which would be superior in many areas to both the outcomes of cumbersome attempts at full international regulation or the over-exploitation which would occur from technological advances and increasing ocean use in the face of continued policies of laissez-faire beyond narrow areas of national jurisdiction. He also shows how competition among areas of national jurisdiction would limit the scope for inequitable and inefficient monopolistic exploitation and creation of trade impeding divergencies in rules and regulations in each national jurisdiction. Thus while being careful to avoid overly simplistic generalizations that expansion of national jurisdiction would optimally solve all ocean problems, he argues that substantial expansions of national jurisdiction could be an important beneficial component of the overall solution to the efficient and equitable management of ocean resources, and that many of the fears expressed by those seeking a parety international solution appear to be considerably exaggerated in the light of careful economic and historical analysis.

While clearly writing from an economic perspective, he does so with care and insight and sensitivity to the limits of pure economic reasoning and the relevance of non-economic objectives. His brand of economics stresses the importance of being aware of actual situations in applying economic analysis and of carefully analyzing such factors as information, transactions, and enforcement costs and how they are influenced by technology, market structure, etc. in evaluating the performance of private economic activity and different options for public policy. He does not make the mistake (made too frequently by some economists) of assuming a priori that the peanut market is just like the Treasury bill market, is just like the oil market, etc. Thus he appropriately felt the need for a careful individual study of each of the different functional economic areas which have been a central part of ocean resource issues.

The amount of diverse knowledge which had to be assimilated in this process is staggering. Ocean transport, navigation regulation and the transit of straits, offshore oil and gas production; fisheries management; deep sea minerals; and scientific research on the oceans: each required a separate detailed 'industry study' and needed to be evaluated in terms of both operational efficiency and environmental management. In addition to the resulting demands for knowledge of various types of specialized economic theory and biological, geological, technological, and industry structure information, Professor Eckert also drew heavily on legal and policy history to evaluate past efforts at national and international regulation in each of these areas and drew conclusions for future efforts. All of this was done in a clear concise manner which fitted specific items of information into a coherent framework and which did not shy away from presenting evidence which at times conflicted with or required modifications in his primary hypotheses. Where technical or scientific knowledge was in dispute Professor Eckert is careful to point this out.

In the second, and shorter, part of the book Professor Eckert turns to the more directly public choice questions of the decision making issues in the international negotiations and in the formulation of U.S. positions. It is no discredit to the author that while continuing the careful and insightful scholarship of the first part of the book, his analysis only begins to stratch the surface of the scope for public choice analysis of these negotiations. For example, little analysis is given of how the few developing countries who were land-based producers of the minerals which will be mined from the sea were able to secure the support of the large number of net mineral importing developing countries for restricture proposals on deep sea mining which would raise the future costs of the imports. Presumably bureaucratic interests in North-South ideological confrontations dominated concern about aggregate national economic interests. Likewise issue linkages have played an important role in the negotiations which warrants much more analysis (on public choice analysis of issue linkages see Tollison and Willett, 1979). Eckert's analysis does, however, given numerous illustrations of the power of public choice analysis as a framework for practical analysis, as for example, the importance of divergent bureaucratic interests, and of transaction costs, and agenda setting in determining outcomes. His discussion should serve as a spur for further analysis.

The only sin of omission I would charge is that he adopts the rather widespread, but in my judgment excessively narrow, view that collective choice theory is, '... essentially a theory of voting' (p. 262). In my view at least equally important are the insights from public choice analysis on non-voting and the disparities in effectiveness with which various groups have incentives to recognize their interests and the influence to implement them through the political process. Indeed, one of the most interesting aspects of the study of U.S. policy formulation in this area is the very marginal role which Congress, much less the voting public has played. But then this can easily be explained in terms of broader aspects of public choice analysis.

To conclude, Professor Eckert's excellent book is must reading for anyone interested in the Law of the Sea negotiations. It is also highly recommended for anyone seeking exampling of high quality applied economics and of the scope for applying public choice analysis to international issues.

Thomas D. Willett
Claremont Graduate School
and
Claremont Men's College

REFERENCES

Amacher, R., and Sweeney, R. J. (Eds.) (1976). *The Law of the Sea: U.S. interests and alternatives.* Washington, D.C.: American Enterprise Institute.

Clarkson, K. W. (1974). International law, U.S. seabeds policy, and ocean resource development. *Journal of Law and Economics*, April.

Eckert, R. D. (1974). Exploitation of deep Ocean minerals. *Journal of Law and Economics*, April.

Sweeney, R., Tollison, R. D., and Willett, D. (1974). Externalities, common pool problems, and the efficient exploitation of ocean resources. *Journal of Law and Economics*, April.

Tollison, R. D., and Willett, T. D. (1979). An economic theory of mutually advantageous issue linkages in international negotiations. *International Organization*, Autumn.

Willett, T. D. (1979). Some aspects of the public choice approach to international economic relations. Claremont Working Papers, presented at the Conference on New Political Economy Approaches to International Integration, Florence, Italy, June 1979, forthcoming in conference volume edited by Pierre Salmon.

Clifford S. Russel and Norman K. Nicholson, *Public choice and rural development.* The Johns Hopkins University Press, 1981. x + 299 pages.

The collection of essays presented in *Public Choice and Rural Development* will be heartwarming to Public Choice economists. It represents one of the first significant attempts to apply the central message of the discipline, that 'economic man' dominates attempts at collective action as well as private action, to a real world setting. In the introductory chapter Clifford Russell demonstrates that rural development in Lesser Developed Countries (LDC's) is problematic in that development projects such as dams, irrigation systems, and the like constitute public or quasi-public goods. Once this crucial linkage is forged, public choice theory proves to be an analytically useful tool in the discussion of problems and proposed solutions vis-à-vis development in LDC's.

Chapters 1-4 introduce the reader to the world of public choice, and the manner in which it relates to rural development. Two strands of thought are prominent. First, private market provision of public goods will be necessarily inefficient. Second, and more importantly, the invocation of a public authority as a means of securing public goods must be done under the same *homo economicus* assumption of individual rationality as exists in the analysis of the private market. Design of an *institutional* framework which minimizes costly free-riding, while guaranteeing more efficient provision of public goods, becomes a paramount consideration.

The following four chapters contain applications of public choice theory to specific aspects of rural development. Thomson examines firewood protection (security of property rights) as a factor in development; Freeman and Lowdermilk discuss irrigation investment and maintenance; provision of agricultural extension services to Indian villages is considered by Guttman; and the failure of Peruvian cooperative land tenure is analyzed by Petras and Haven.

Chapters 9 and 10 reiterate the basic interdependence between local economies and emergent political institutions, underscoring the importance of utilizing public choice theory as an aid in discussing the problems of rural development.

The immediate application of choice theory to development problems does not and should not be expected to yield positive answers. For now anyway, we must be content with identification of structural defects in proposed development plans. This failure to come up with new solutions is not a knock on either the authors or the subdiscipline as a whole; the identification of infeasible proposals is of positive benefit to developmentalists. *Public Choice and Rural Development* constitutes a solid building block upon which to expand not only our knowledge of public choice and economic development, but also our knowledge of applied public choice in general.

D. N. Laband
Virginia Polytechnic Institute
and State University

Morris Silver, *Affluence, altruism, and atrophy: The decline of welfare states.* New York University Press, 1980. 248 pages.

The basic theme of *Affluence, Altruism, and Atrophy* is 'that dystopia will be the more likely outcome of economic abundance and the search for the "finer things."' Drawing upon secondary sources of evidence, Morris Silver attempts to show a link between affluence and altruism, where altruism takes the form of welfare programs, environmental policies, and industrial regulations. Silver argues that altruism has a high income elasticity of demand, and he theoretically supports his contention with social biological concepts (i.e., the notion of 'altruistic genes') and indifference curve analysis. Silver further asserts that altruistic activities will be channeled through the state in terms of 'political altruism.' To support this assertion he cites historical examples (e.g., Britain and Sweden) and appeals to the publicness nature (i.e., nonrivalry and nonexcludability aspects) of altruism. This latter aspect of altruism is indicative of free-riding behavior signaling market failure and the 'possible' need for government allocation of altruism. Finally, the author argues that political altruism will reallocate resources to less productive (nonproductive?) activities causing a decline in the state's well-being.

The book is organized into three parts. In Part I, Silver presents his basic hypothesis linking affluence with altruism, and altruism with atrophy. The theoretical justification for his hypothesis is presented in Part I. Part II presents three historical examples or case studies including the Roman Empire, Sung China, and classical Athens. The remaining part of the book prophesies a continual decline of the U.S. economy based upon recent U.S. trends concerning altruistic behavior and the experiences of Britain and Sweden in this century.

Is this book just another prophecy of doom – a most fashionable activity among economists? In many ways, the book is just that. The theoretical and 'empirical' evidence is not convincing or scholarly in a rigorous sense. Perhaps the evidence is suggestive of a trend toward atrophy based upon altruistic behavior, but other factors such as declining energy supplies, worldwide inflation, social alienation, increasing military expenditures may instead be the root cause of our atrophy. Unfortunately, the author does not defend his thesis by demonstrating how *other possible causes do not explain* the U.S. economy's atrophy as well as altruism does. Some 'hard' statistics should have been provided to support the author's thesis, but none were provided.

Much of the book is well-written and makes for interesting reading. The book is thought provoking and the author has collected many interesting examples of wasteful altruistic activities. However, a reader may well feel that the examples have been selectively chosen. Is there even one successful altruistic program? One would never think so from reading this book. Chapter 11, which asks whether the U.S. will decline, does not share the high standard of exposition characterizing the rest of the book. This chapter rambles and is very speculative and unconvincing in its argumentation.

In summary, if a reader wants to take comfort in yet another prophecy of doom, this book will serve nicely.

Todd Sandler
University of Wyoming

James T. Bennett and Manuel H. Johnson, *The political economy of federal growth: 1959-1978*. College Station, Texas: Center for Education and Research in Free Enterprise, 1980. 151 pages.

The growing number of books, monographs, and articles about the growth in government coupled with the fact that this interesting and well-written volume is published by a university makes this lean work easy to overlook. That would be a serious loss to scholars and laymen interested in obtaining a firmer grasp on this rather amorphous subject.

At today's prices this slender volume may not be worth its weight in gold, but it is the most concise yet complete review and integration of the most recent and best theoretical and empirical literature in the field. Moreover, Professors Bennett and Johnson contribute their own valuable analysis and insights which serve to illuminate several murky areas. They have also brought a vast array of statistics up to date.

The Political Economy of Federal Growth: 1959-1978 begins with a provocative Preface by Paul Craig Roberts, the newly appointed Assistant Secretary of the Treasury for Economic Policy, and a terse but incisive Foreword by Gordon Tullock, Virginia Polytechnic Institute's University Distinguished Professor. The authors follow these contributions with a short introductory chapter in which they indicate the objectives they plan to achieve and a brief outline and overview of the book.

Bennett and Johnson begin their research with a review and critique of previous attempts to measure the growth of the federal government over the past 100 years. These statistical studies have claimed almost sole attention of investigators and show, rather suprisingly in light of current talk of tax revolts and spending caps, that the growth rate of the variables employed to illustrate changes in the public sector have slowed in recent years.

The results of the authors' meticulous investigations are at odds with this conclusion, and they discover fundamental flaws in the myriad statistical analyses that have been published. Tax figures, for example, are biased because the central government has resorted increasingly to deficits in order to cover the shortfall in revenues. The federal debt soared by $ 315 billion during the 1970's – a sum nearly equal to all deficits recorded in the nation's entire previous history. Deficits have been financed by the printing of money by federal government officials and have led to a strong and pervasive inflation. They have also been financed by the sale of government bonds, many of which as the authors note, have been purchased by foreign central banks.

Perhaps the most treacherous problem area associated with measurement of change in the federal sector involves figures on employment. Aggregate data reveal that there was very little growth in total federal employment over the two decades investigated by Bennett and Johnson. Their careful examination of disaggregated statistics indicate, however, several remarkable trends.

In Chapter III they show important qualitative shifts of employment within the federal government. Higher paying white-collar employment increased by more than 44 per cent between 1959 and 1978 while the number of blue-collar federal employees declined by approximately 25 per cent. This dramatic shift changed the ratio of blue-collar to total federal civilian employees from one in three in 1959 to less than one in five by 1978. Moreover, General Schedule (GS) or white collar-employees in all three branches of government manifested negative percentage changes in lower GS grades but relatively large positive gains in grades GS-13 to GS-18.

Bennett and Johnson point out that the employment of contractors and consultants has been even more dramatic than the changes in the composition of the federal work force. Nearly 90 per cent of the Department of Energy's over $ 10 billion budget is, for example, devoted to research done by contractors and consultants, none of whom are counted as government employees. While there are apparently no reliable aggregate data on the total number of such indirect employees, available evidence indicates that outlays for grants and contracts with indirect employees totaled about $ 150 billion in 1978 and more than doubled over the previous eight years.

The authors argue convincingly that even after properly adjusting employment and financial figures upward, these measures would still underestimate the impact of federal government activity on the economy. Their point is that enormous costs are federally imposed on the private sector as well as state, municipal, and other local governments. Estimates of the impact of federal regulation on the costs to the private sector alone reached $ 66 billion or $ 307 per capita in 1976 and exceeded $ 100 billion by 1979.

Bennett and Johnson examine other interesting but murky areas in which federal programs require increased use of resources by the private sector. It is clear as they note, however, that more painstaking research needs to be done before the full impact of central government activities on others can be fully measured and evaluated.

Chapter IV is an interesting and instructive account of several of the prominent theories of government growth. These explanations include those of A. Wagner, Baumol, Peacock and Wiseman, Borcherding, Abramovitz and

Eliasberg, Director, Nordhaus, Tullock, Buchanan and R. Wagner, Hochman and Rogers, Meltzer and Richard, Pelzman and others as well as critiques by Spann, Orzechowski, Musgrave, Pryor, Goffman, Kelley, R. Wagner and Weber, Demsetz, Amacher, Boyes, Deaton, and Tollison and many others. This chapter is the most concise survey and summary on theories of the growth in government to be found in the literature.

The fifth chapter is entitled, 'Bureaucrats, Politicians, and Voters: The Ingredients of Government Growth.' As the title suggests Bennett and Johnson delve into the relationships that exist between and among these three groups. They note that the self-interests of each of these groups can and do conflict, and they cite seminal work on these interrelationships by Roberts, Fiorina and Noll as well as a critique by McFadden. Bush and Denzau's research on the voting power and behavior of government employees is integrated into the discussion.

The authors carefully compare the different incentives that exist in the private and public sectors and draw from this analysis implications with respect to alternative types of behavior by owners, managers, and other employees. They also review several fascinating studies which highlight the differences in economic performance between private and political organizations.

Bennett and Johnson recognize the role of the concept of fiscal illusion which is so important in Buchanan and Wagner's explanation of the growth of government, but the driving force in their conception of how government grows is bureaucratic self-interest. Government programs can grow with consequent benefit to bureaucrats because of two main reasons. First, agencies with clients who have a large proportion of their wealth dependent on government action, e.g. exporters, importers, dairy farmers, coal producers, peanut farmers, shipbuilders, defense contractors, etc. exert strong pressures on relevant Congressional committees. Second, it is rational for members of Congress and voter-taxpayers to be ignorant of what bureaucrats do. If, for example, a member of the 1981 Congress would spend only one hour to scrutinize each $ 1,000,000 in the 1981-82 budget, and he worked 24 hours a day, 7 days a week, 52 weeks a year, he could not be ready to vote on the 1981-82 budget until about the middle of the year 2065. Similarly, if a taxpayer invested his time, skill, and money in searching out and exposing bureaucratic inefficiency, and was successful in forcing change on the resistant bureaucracy, that taxpayer's share of the saving would be small indeed since the gains from his or her actions would have to be divided among all taxpayers. There is then little or no incentive for any individual taxpayer to monitor and change bureaucratic spending. Both citizen-taxpayers and members of Congress are better off by being rationally ignorant. At the same time the powerful entrenched bureaucracy has a strong interest in the growth of government programs. Indeed, this unbalanced relationship with Congress and the public on one hand and the bureaucracy on the other has come to be the fundamental flaw in large, modern, representative governments.

Bennett and Johnson close their book with succinct and plausible recommendations regarding growth in the size and power of government. Several of their suggestions for change flow from the seminal work of Niskanen. Their advice is realistic and based on the premise that a change in the structure of incentives will cause individuals to change behavior. Moreover, when costs imposed on the private sector become absurdly high, countermeasures to bureaucratic programs can and are proposed in a relatively rich society.

The authors cite the work of Mac Avoy and Snow on airlines, Peltzman on autos and drugs, Graboski and Wardell on drugs, and Viscusi on occupational safety as research that has or may influence incentives and bureaucratic behavior by deregulating industry. Still, despite the growing number of states that are limiting taxes and spending, the dismal record of many federal regulatory activities, the evidence of fraud in all federal executive Departments which was revealed by the then Deputy Attorney General, and the obvious vested interest of the bureaucrats, one is moved to share the authors' view that restructuring incentives will be very difficult. The bureaucracy is not only strong and well entrenched, it also appears quite permanent.

This excellent book can be read profitably by economists, political scientists, lawyers, policy scientists, graduate and undergraduate students and intelligent laymen. Bennett and Johnson have surveyed and imaginatively organized and integrated a great deal of the pertinent literature on the growth in government. Their treatment is at once scholarly and interesting. I recommend it highly.

David G. Davies
Duke University

Terry L. Anderson and Peter J. Hill, *The birth of a transfer society.* Stanford, California: Hoover Institution Press, 1980. xvi + 144 pages.

Economic historians are just beginning to explore the structural aspects of economies that underlie performance and thereby both enrich the study of the economic past and provide economists with a better understanding of the evolving institutional framework which in their theory they take as given. The rise of the role of government has been the most dramatic structural change in all economies of the Western World in the twentieth century. How did it come about?

In this pioneering study Terry Anderson and Peter Hill explore the structural transformation of the American economy. They maintain that the major changes had already occurred by 1914 and accordingly they examine in detail the nineteenth and early twentieth century political and legal transformation that altered the rules of the game and made possible a transfer society. They carry the story up through the New Deal and provide some measures of the resources cost of transfers in modern America.

Anderson and Hill are not only interpreting the past; they also are making an explicit plea for a return to limited government and, to their credit, they recognize that neoclassical economists' efficiency criteria have implicit normative implications. They discuss some of these in the preface. They conclude their study with a call for a constitutional revolution.

Anderson and Hill have made an important contribution to our understanding of this structural transformation of the American economy. In particular, their examination of judicial decisions points up the importance of ideological shifts in judicial thinking as an underlying influence on this structural change.

Douglass C. North
University of Washington

ERRATA TO

Henry W. Chappell, Jr., Campaign contributions and voting on the cargo preference bill: A comparison of simultaneous models, Vol. 36, No. 2 (1981), pp. 301-312.

Page 304. Equation (6) should read:

$$W_{2i} = \begin{cases} y_{2i} & \text{if } y_{2i} > 0 \\ 0 & \text{if } y_{2i} \leqslant 0 \end{cases} \tag{6}$$