Tullock sees public choice as a subject in which there was a burst of interest from the 1950s to the 1970s, but which has now "died out" (p. 39). The cause of death was the set of unremittingly negative conclusions that issued from the analysis of the Condorcet and Arrow paradoxes. This conception of democracy as inherently inconsistent is unpalatable to most scholars, and does not square with the observation that democratic decision making generally does not result in choice cycles. Tullock suggests that the gap between theory and observation can be closed if we recognize that there is much more to democratic decision making than majority voting.

To begin with, there are rules of order, and various frictions that restrict the number of votes that are taken in assemblies and committees. Tullock hints at a model of collective decision making in which there is a constraint on the rate at which proposals are voted on. Proposals can be made at any time, but are stacked in a queue. When a proposal reaches the front of the queue, there is a simple vote: for or against. In this kind of model, Condorcet cycles do not fatally disable collective decision making. Interestingly, too, this model is consistent with less-than-majority voting rules (for example: a proposal passes if it receives at least 40 percent of the votes). This is significant for Tullock, who is keen to defend the claim famously made in *The Calculus of Consent*, that simple majority voting is just one point on a spectrum of possible voting rules.

For Tullock, the central mechanism of public choice is not voting according to preferences, but logrolling—the trading of votes on one issue for votes on another. Logrolling, he claims, "is dominant in all democratic societies" (p. 139), although it takes different forms in different political systems. Where party discipline is weak, as in the U.S., there are straightforward exchanges of votes between elected representatives, and (a useful term I had not heard before) the mechanism of the "soup kitchen" through which various apparently irrelevant small items are added to a bill so as to attract the votes of wavering representatives. Where party discipline is strong and the electoral system produces one-party governments, as in the U.K., logrolling takes place within the governing party. Where party discipline is combined with proportional representation, as in Israel, there is logrolling when coalitions are formed. Constraints on the rate at which votes can be taken induce a further kind of logrolling, when the proposers of a bill or referendum proposition negotiate about just what that bill or proposition should contain.

This leads to a picture of politics that is much more *economic* than the picture presented in most public choice theory. What public choice theory took from economics was the formal apparatus of rational choice, and what it looked for—and failed to find—in politics was the collective analogue of the standard assumptions of individual rationality. Tullock urges us to see politics as a particular kind of market. In evaluating political mechanisms, we should look not for logical coherence but for efficiency. Like other markets, the political market leads to "efficiency within the constraints of the system" (p. 139). This gives us a standpoint from which we can consider proposals for improving the efficiency of the system.

Unfortunately, the style in which Tullock presents his argument is unlikely to persuade public choice scholars to adopt his agenda. The informality, disjointedness, and occasional repetitiveness of the text—not to mention unusually poor copy editing—make it easy to overlook the significance of what is being said. But public choice theorists might do well to reflect on what has been lost by not following up the central insight of *The Calculus of Consent*: that politics is a market.

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E Macroeconomics and Monetary Economics

Geography and Ownership as Bases for Economic Accounting. Edited by Robert E. Baldwin, Robert E. Lipsey, and J. David Richardson. NBER Studies in Income and Wealth, vol. 59. Chicago and London: University of Chicago Press, 1998. Pp. x, 346. $48.00. ISBN 0–226–03572–7. *JEL 99–0075*

Ask an economist to estimate the net sales of the United States to foreigners and he will likely quote the annual U.S. trade balance with the rest of the world. This typical answer is simple, but may also be simplistic. Upon further thought, it becomes apparent that the activity of multinational corporations (MNCs) muddies this picture, because MNCs trade within the firm across national borders and sell to foreigners from plants located in the foreign country. In fact, to get a measure of sales by U.S. entities to foreign entities, where the designations of "U.S." or "foreign" depend on ownership, not geography, requires a careful accounting exercise. Surprisingly, these issues have been often neglected, as evidenced by the impossibility of deriving accurate ownership based accounts from most countries' collected statistics. The obvious questions are twofold: *How different do world economic transactions look from an ownership perspective?* and *How important is this difference for economic and policy analysis?*

This NBER conference volume, edited by Robert E. Baldwin, Robert E. Lipsey, and J. David Richardson, is a collection of ten papers that gives a detailed answer to the first question and a glimpse at the second one. The heart of the book is the first two chapters, where coauthors Robert E. Baldwin and Fukunari Kimura provide meticulous and credible calculations of ownership-based accounts of international transactions for the United States and Japan given available data. The chapters mainly detail net sales and value added on an ownership basis, both at the aggregate level and for broad manufacturing sectors, with some relevant comparisons to analogous geography-based measures. There are many intriguing results presented, which often require careful interpretation. For example, in 1992 the United States ran a trade balance of merchandise and services of –\$39.7 billion, but the net sales of Americans to foreigners based on ownership was \$46.3 billion (table 1.1 of chapter 1). The authors see the net sales figure as an alternative (possibly better) way to measure competitiveness of countries, yet the discussion by Guy Stevens suggests reasons to doubt that either measure gives an accurate picture.

The next three chapters nicely complement the first two. The third paper by Robert E. Lipsey, Magnus Blomström, and Eric D. Ramstetter details what we know about internationalization of world production by MNCs. For many countries, the data show substantial presence of foreign firm activity in their own domestic production, as well as significant sales to foreign markets by their affiliates located abroad. The next two chapters in the book show the extreme cases of Hong Kong and Singapore, where the majority of the trade and investment flows are performed by foreign-owned affiliates located in those countries, making geographically-based data often less informative. In fact, by accounting for the substantial reexports through Hong Kong to and from China, K.C. Fung's paper goes a long way toward reconciling the difference between the United States' measurement of the U.S.–China bilateral trade balance and Chinese figures.

After this intriguing first half detailing the substantial discrepancies, the reader is ready for papers and analyses showing when and how ownership-based measures matter for understanding international economic transactions and policy formation. Failure to answer this in persuasive fashion is a concern, because one stated goal of the book is to convince policymakers that better data on these issues is a priority. Unfortunately, the second half of the book contains papers that treat this issue tangentially by addressing more standard topics on multinational firms, such as differences between foreign and domestic plants, the effect of tax rules on sourcing income, and the effect of U.S. states' tax and incentive competition for MNCs. While these chapters are done well, they often don't further the case that ownership-based measures of accounting are needed to address issues that go beyond MNC analysis.

However, there seems to be a number of important issues in international economics where accounting for MNC activity may make a substantial difference. First, there has been a recent wave of testing traditional trade theory models of comparative advantage, often displaying poor support for such theory. Traditional trade theory assumes comparative advantage is based in geography-specific characteristics (endowment or country-specific technology differences), whereas

MNC theory maintains comparative/competitive advantage may also derive from ownership based, firm specific assets. How do results vary when we net out intrafirm transactions from trade flows used to test these traditional trade theories? Second, political economy studies often examine the effect of import penetration on trade protection. How do results vary when we net out imports from affiliates in calculating import penetration and model the presence of foreign-owned affiliates in the domestic industry? More examination of these types of issues would make the book stronger.

In summary, this book should be read by anyone who analyzes or interprets international or macroeconomic data. It does an excellent job in accounting for MNC activity and showing how it often creates significant differences between geography- and ownership-based measures of international activity. These exercises are very intriguing, but the book does less well at taking the next step of addressing why and when we should be concerned about these differences. In fairness, this may be too large of a step to ask of a conference volume, particularly given the available data. In the end, the book gives an intriguing ownership-based look at international transactions and enough glimpses of when and how ownership-based measures matter to suggest many future avenues of research—a very worthy contribution.

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Working for Full Employment. Edited by John Philpott. London and New York: Routledge, 1997. Pp. xix, 239. $22.99, paper. ISBN 0–415–14347–0, cloth; 0–415–14348–9, pbk.
JEL 98–0503

This collection of essays grew out of a conference marking the fiftieth anniversary of the British government's white paper *Employment Policy* and the publication of Sir William Beveridge's *Full Employment in a Free Society*. The aims of the conference were to challenge the conventional wisdoms that mass unemployment is inevitable, that the answer to Britain's unemployment problem lies in labor market deregulation, and that the more "flexible" British labor market delivers better performance and lower unemployment than its equivalents in Continental Europe.

The volume is edited by John Philpott, a vociferous advocate of interventionist employment policies, and contains contributions by economists and social scientists—all of whom see their work as extending beyond ivory tower pontification. The consequence is a volume that engages, is replete with worldly interpretations of policy issues, and offers practical guidance to those who seek to mitigate the scourge of unemployment. By the same token, the reader is unlikely to agree with everything that is said. Indeed, the contributors differ markedly among themselves, the most common factor uniting them being a center-left perspective. While the free-market approach is seen to be problematic, all of the authors accept that markets work to some extent but need a bit of institutional help in places.

Following a combative foreword by the General Secretary of the British Trades Union Congress, Philpott offers a characteristically hard hitting overview of the main issues. He argues for a "middle way" between deregulation and high regulation, the hallmark of which is "adaptability." This is seen to be exemplified by the policy initiatives of Robert Reich and the Hawke–Keating Australian Labor government. It does not augur well for this approach, though, that these are no longer developing policy initiatives of any sort. Andrew Britton's keynote address cautions that such a scheme will not be easy or without cost to implement in an economy that differs markedly from that of Beveridge's time and in which many markets are so unregulated.

A major theme concerns the causes of the rise in unemployment in the late twentieth century. Christine Greenhalgh and Mary Gregory adopt a local explanation, citing Britain's failure to sustain an internationally competitive manufacturing sector. More globally, Christopher Freeman sees the growth of information and communication technology as a central cause, especially in relation to the growth of unemployment among unskilled workers. Richard Freeman pours cold water on the globalization hypothesis, which states