like conditions not to disclose internal agency proceedings.

The success of the unconstitutional-conditions doctrine in Epstein's mind depends on whether its corner-solution choices will push the government to choose more efficient outcomes. This is an empirical question. An example of the doctrine at work was Nollan v. California Coastal Commission, 483 U.S. 825 (1987). The Commission had required Nollan to give it rights to his beach in exchange for suspending its regulation and letting him build a bigger house. The U.S. Supreme Court struck down the deal on grounds similar to those of unconstitutional conditions. The Commission could regulate rebuilding in order to preserve views of the ocean, but it could not use its monopoly as a regulator to take property without just compensation. Justice Scalia used the term "extortion" to describe the deal.

Epstein approves of *Nollan* partly because he thinks that the unreasonable building regulation would disappear if it were no longer a bargaining chip. Unfortunately, he is wrong. Several California land-use lawyers have assured me that the Commission has continued to prevent even modest expansions of beachfront homes. Because the range of bargaining after *Nollan* is confined, it is possible that most beachfront homeowners are worse off.

Despite this particular disagreement, I find Epstein's exploration of the constitutional limits of bargaining to be enlightening. Its insights may be useful to economists interested in a broad range of public issues. They include corporate chartering, tax exporting, employment discrimination, interstate commerce, and state-federal relations. Noneconomic issues are also illuminated. The application of his theory to the perplexing cases that weigh freedom of religious observance against freedom from religious compulsion is especially impressive.

Epstein does not use formal game theory. His common-sense approach is generally sound, but it avoids one question that formal theory might have confronted. The arbiters of Epstein's bargaining problems are assumed to be the Justices of the United States Supreme Court. Game theorists since Thomas Schelling (1960) believe, however, that it is questionable to solve games by resort to irreversible commitments enforced by implacable arbiters. Such devices are regarded as unrealistic and inelegant, like a novel that resolves its plot with a deus ex machina.

Bargaining with the State itself demonstrates the point. In discussing cases in which the unconstitutional-conditions doctrine was applied, Epstein will praise a Justice for getting it right. But within a few pages, the same Justice will often be criticized for botching the doctrine in another case. The vacillation illustrates how difficult it is to view the Court as an unwavering arbiter of legislative misconduct. Maybe the Justices will do better after they (more likely, their clerks) read Epstein's impressive book, but one doubts that the improvement will be large.

The reason Epstein does not want to consider other solutions to bargaining hazards is that they involve politics. To him, politics is always the problem, never the solution. That assumption has been productive for many Public-Choice scholars, but it has induced an uncritical acceptance of the primacy of judicial review. Epstein occasionally notes that a bad Court decision was subsequently rectified by Congress, but he seldom makes anything of it. A more balanced view of the benefits and costs of political processes and judicial review might have produced a more convincing book.

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L Industrial Organization

Privatization, public ownership and regulation of natural monopoly. By CHRISTOPHER D. FOSTER. Cambridge and Oxford: Blackwell, 1992. Pp. ix, 458. $69.95. ISBN 0-631-18486-4. *JEL 93-1456*

First year students in microeconomics learn that, faced with the cost structure of natural monopoly, market forces alone cannot be relied upon to ensure efficient resource allocations. Instead, the natural monopoly must be either publicly regulated or nationalized. Furthermore, most basic textbooks point out that, historically, Great Britain and other European countries followed a nationalization strategy while the United States preferred to regulate natural monopolies. Theoretically, very few economists have challenged the logic of this standard argument. Even Milton Friedman, despite his stated preference for private monopoly over the alternatives of either nationalization or regulation, accepts the logic of the natural monopoly argument (see Friedman 1962, p. 28). Harold Demsetz's (1968) argument for "competition for the field," Israel Kirzner's (1973) articulation of an entrepreneurial process view of competition, and the more recent development by William Baumol of the theory of contestable markets (see, e.g., Baumol, Panzar, and Willig 1982) represent cogent challenges to the received wisdom concerning market structure and government policy. Historically, the political movement for privatization in Great Britain under the Thatcher government, and the deregulation of certain sectors of the United States economy begun under the Carter administration (e.g., airlines) and carried further with Reagan raised these theoretical issues to the forefront of public discussion. Moreover, the collapse of communist governments throughout Eastern and Central Europe and the former Soviet Union, as well as the general malaise of public enterprise performance in the Third World, has put the issue of denationalization and deregulation to the forefront of applied political economy worldwide.

C. D. Foster addresses both the theory and history of government response to natural monopoly. His book is divided into 3 sections: historical development (Chs. 1–4), policy issues (Chs. 5–9), and conclusions (Chs. 10–12). One purpose of the book is to suggest that privatization does not represent the only remedy for the economic ills of poorly managed nationalized firms. In fact, given the cost structure of some industries (i.e., natural monopolies), privatization is not desired. Reformed management of the public enterprise would do better. Moreover, even in those cases where reformed management would not do the trick, the expected efficiency gains of privatization will be lost unless it is coupled with enlightened regulation.

Foster is aware that alternative arguments to economic efficiency were put forward in favor of privatization. He understands that scholars such as James Buchanan (in the U.S.) and Stephen Littlechild (in the U.K.) advanced broader political economy arguments for privatization, arguments that were as much political and philosophical as strictly economic. However, Foster does not really appreciate these arguments and instead limits his analysis to an examination of the efficiency properties of competitive markets and how privatization achieves the efficiency results dictated by the model of perfect competition. Theoretically, this is a major weakness because it leads Foster to deal inadequately with various types of alternative economic critiques of natural monopoly theory. As mentioned above, scholars such as Demsetz, Kirzner, and Baumol, along with many other contemporary theorists, have challenged the traditional natural monopoly theory and the policy prescriptions that have followed by developing a more dynamic understanding of market competition—one which puts much more emphasis on conditions of entry rather than industrial concentration. Foster knows of the existence of the arguments of the "new" learning in industrial organization of the 1970s and 1980s (as evidenced by his references), but he largely ignores this literature. Questions concerning the informational difficulties of government control, such as those raised by F. A. Hayek or Israel Kirzner, are not addressed in the book, despite a chapter devoted to information acquisition and utilization (see Ch. 7). The confused treatment of the informational and incentive issues involved in public enterprises and in regulation reaches a high point in Foster's chapter on whether ownership matters, where he basically concludes that there are no general principles that can be derived concerning property relations and economic performance (see Ch. 10). If the experience in Eastern and Central Europe and the former Soviet Union has taught us anything, it is, as

János Kornai has so cogently demonstrated, that ownership and coordinating mechanisms are interconnected. In addition, while Foster acknowledges the public choice critique of regulation (see, e.g., Chs. 8 and 11), he tends to discount the logical and empirical conclusions of the Chicago or Virginia studies of regulatory capture (see pp. 388–89). This leads him to propose that a regulatory check list be followed to ensure independence—a list which argues for the necessity of a large degree of regulatory discretion—which of course is the very thing which in public choice analysis affords regulatory abuse (p. 413). Thus, the basic paradox of the regulatory state—a government strong enough to enact positive regulation is also strong enough to abuse that power. Foster's list simply does not even begin to grapple with the complexities of this issue.

Foster's theoretical myopia with regard to efficiency (as defined in the traditional structure-conduct-performance paradigm) colors his historical interpretation of events. Despite these criticisms, there is much of value in this book that scholars who have an interest in industrial regulation will benefit from. Moreover, the interpretation offered and the policies proposed should stimulate debate. One final note of caution is in order. The book is dense and not an easy read. This is not entirely the author's fault. The publisher decided to print it in a small print size. This is better than a recent trend in some university presses to print long books in columns to save pages, but it does tax the reader.

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Prices, quality and trust: Inter-firm relations in Britain and Japan. By MARI SAKO. Cambridge Studies in Management, vol. 18. Cambridge, New York and Oakleigh, Australia: Cambridge University Press, 1992. Pp. xiii, 270. $49.95. ISBN 0–521–41386–9. *JEL 93–1006*

The uncommon preference shown by Japanese producers for fostering long-term cooperative relations with their suppliers has come to be regarded as a key factor in their competitive performance. Yet there is a paucity of good internationally comparative studies providing empirical support for the claim of Japanese distinctiveness, much less offering a convincing explanation for it. This comparative study of buyer-supplier relations in the British and Japanese electronics industry makes a valuable contribution to the literature, both in terms of documentation and interpretation.

One of the most imaginative and fruitful arguments developed in this book is that establishing trust between buyers and suppliers has organizational efficiency enhancing effects. A higher level of trust in Japan, the author suggests, underlies the Japanese superiority in terms of timely delivery of high quality components at reasonable price. This idea is developed in Part 1 of the book where the author spells out a framework for analyzing buyer-supplier relations based on two ideal-type patterns: Arm's-length Contractual Relation (ACR) and Obligational Contractual Relation (OCR). The guiding principle of ACR is independence. Firms adopting this approach show a preference for short-term commitments limited to the length of a single contract and a tendency to rely on detailed written agreements in which as many contingencies as possible are specified in advance. Mutual dependency is the rule for companies choosing the OCR pattern, which involves a commitment to long-term trading, the use of oral rather than written agreements and case-by-case resolution of contingencies. The two patterns, the author advises, should be thought of as the ends of a continuum, with Japanese practice situated closer to the OCR end as compared with typical British practice.