

whether or not the manipulation of monetary policy to ease the impacts of trade shocks is a sensible economic policy or not. He simply notes that trade shocks have differential regional effects on unemployment and that this can cause opposition to the efficiency brought on by homogeneous monetary policies.

William Dickens' chapter takes the opposite approach to those discussed above. Rather than focusing on the impact of the EC on labor in Europe, he focuses on its impact on labor in the U.S. Because the issue is so complicated, he is forced to use short summaries of some complicated analyses. The results are predictable: the EC is unlikely to have major impacts on labor in the U.S. However, there are likely to be pockets of major impact. Telecommunications, electronics, and agriculture are prime examples.

The book also includes an excellent description of German labor market institutions by David Soskice and Ronald Schettkat and an analysis of the role of the EC in the fostering of capitalist economies in Eastern Europe written by Jasminka Sohinger and Daniel Rubinfeld. The amazing complexity of changes in policy and the interweaving of the impacts of various institutions is brought home very well by this volume. It will be extremely valuable to persons outside the labor field for this reason.

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K Law and Economics

Bargaining with the state. By RICHARD A. EPSTEIN. Princeton and Chichester: Princeton University Press, 1993. Pp. xvi, 322. \$35.00. ISBN 0-691-04273-X. JEL 94-0810

In his 1985 book, *Takings*, Richard Epstein argued that the Fifth Amendment's "Takings Clause" should be employed by judges to strike down most of the regulations and transfer programs of the modern welfare state. In *Bargaining with the State*, Epstein argues that the Takings Clause is not enough to promote the libertarian ideals of the minimal state and competitive markets. Even if the "takings risk" of legislation were controlled,

the government would still be left with a monopoly position with respect to law enforcement and provision of public goods. Epstein fears that the government could use its position as a bargainer to extract economic surplus from its citizens and distort free-market outcomes. Such "bargaining risks" are compounded in the modern welfare state, with its pervasive regulations and vast expenditures.

To deal with bargaining risks, Epstein deploys the doctrine of "unconstitutional conditions." The doctrine is easy to illustrate but hard to pin down. Government may not condition employment in ordinary government jobs on agreements by prospective employees not to criticize the President. The Constitutional right of free speech cannot be bargained away. This is true even though the government has no obligation to provide any jobs. A court that strikes down such a restriction is said to be invoking the doctrine of unconstitutional conditions.

Economists might object that the foregoing rule causes inefficiency, because it restricts gains from trade. Prospective employees might prefer the bundle political-silence-and-a-job to the bundle free-speech-but-no-job. Epstein, an editor of the *Journal of Law and Economics*, knows this. He would thus invoke the unconstitutional-conditions doctrine only to limit bargains in which the state has monopoly power or in which there are important third-party effects not accounted for in the bargain. Both conditions would seem to apply here. Forcing the state to choose a corner solution—unconditional employment or no employment—increases the well-being of society at large.

Where bargaining parties lack the state's monopoly on coercion and where third-party effects are minimal, Epstein submits that the unconstitutional-conditions doctrine should not apply. A private firm can condition employment on agreements not to criticize its CEO, because competitive pressures in the labor market will reduce the incidence of unreasonable conditions. Employees who do not like such terms can go elsewhere, and if the terms are onerous, firms will end up having to pay excessive wages to attract workers. Likewise, the government, when it hires in competition with firms, can impose business-

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.