

Book Reviews



Riot police stand guard in front of the Icelandic Parliament in October 2010 during protests against the government's handling of the country's financial crisis. Getty Images.

Iceland in the *Kreppa*: Leveraging, Corruption, and the Power of Finance

Meltdown Iceland: Lessons on the World Financial Crisis from a Small Bankrupt Nation. Roger Boyes. New York: Bloomsbury, 2009. 256 pp. \$25.00 (cloth).

Nordics in Global Crisis: Vulnerability and Resilience. Thorvaldur Gylfason, Bengt Holmström, Sixten Korkman, Hans Tson Söderström, and Vesa Vihriälä, eds. Helsinki: The Research Institute of the Finnish Economy (ETLA), 2010. Online at: [http://www.etla.fi/files/2427_nordics_in_global_crisis_\(kannet\).pdf](http://www.etla.fi/files/2427_nordics_in_global_crisis_(kannet).pdf)

Frozen Assets: How I Lived Iceland's Boom and Bust. Armann Thorvaldsson. New York: Wiley, 2009. 276 pp. \$27.95 (cloth).

Kreppa is Icelandic for a crisis—a catastrophic crisis. In October 2008, Iceland's prime minister went on national television and announced that

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Iceland's three big banks were effectively bankrupt. Icelandic banks' domestic and foreign liabilities amounted to roughly 9 or 10 times Iceland's precrisis GDP of about €9 billion, of which half was short-term foreign debt. Against this, the central bank had reserves amounting to roughly 10% of that short-term foreign debt. (For connoisseurs of financial crises: South Korea had reserves equaling about half its short-term debt in 1997.) Notionally, Iceland's banks had some substantial foreign assets that might offset their foreign liabilities. As it turned out, cross-share holdings and self-dealing by the banks meant that their offshore assets were grossly inflated and actually had little real value to arm's-length investors. From a public policy point of view, this was deeply problematic. Much of the foreign debt was structured as deposits covered by Iceland's deposit insurance scheme. Iceland's 320,000 people thus found themselves responsible for the deposits of over 400,000 foreign individuals and entities, including £51 million from Oxford and Cambridge Universities. *Kreppa* indeed.

The books here capture different aspects of the crisis. Armann Thorvaldsson's *Frozen Assets* is at worst a self-exculpating voyage through the rise and fall of the investment and later commercial bank Kaupthing, where he was an analyst, a principal, and the eventual CEO of the British subsidiary. At best it is an accounting of the life of an anosognosist—someone who is too ignorant to know what he does not know (as in Donald Rumsfeld's classic statement about "unknown unknowns"). Warren Buffett once noted that you do not know who is swimming naked until the financial tide goes out. By this he meant that a favorable economic environment would seem to validate all manner of investment strategies, legitimate or crooked, reasonable or crazy. When boom turned to bust, though, firms pursuing robust strategies would survive while those that were too highly leveraged or overinvested sunk.

If Thorvaldsson's account is credible, then all three Icelandic banks not only were swimming naked as they sought to become credible players in global financial markets but also did not realize they needed bathing suits. Thorvaldsson writes with pride at how Kaupthing came late to deals where they knew less than everyone else, worked very, very hard to catch up, and then bid more than the competition in order to win the deal. This worked well in a rising market awash in borrowable funds but failed totally when liquidity began evaporating in 2007–2008. Thorvaldsson argues that Kaupthing could have survived with a bit of forbearance from the Icelandic and British authorities, and that it was not in as bad a shape as its Icelandic cousins, Glitnir and Landsbanki.

This is simply wishful thinking. Iceland's banks had already gone through a mini-crisis in 2006. In a dry run for the crisis of 2008, prescient U.S. money markets called in short-term loans to the banks because the banks' bloated balance sheets rested on overvalued domestic housing and stocks markets. Icelandic banks responded by using very high interest rates to attract a flood—around €10 billion—of retail European deposits

into Internet accounts. Thorvaldsson casts these extraordinarily high rates and flows as Kaupthing bravely shaking up stodgy European markets, but it was in fact an act of desperation. Worse, the Icelandic banks, particularly Landsbankí, in many cases took foreign deposits through branches rather than subsidiaries. From Landsbankí's point of view the main benefit of branching was regulatory arbitrage; it continued to be supervised by Iceland's lax and compliant Financial Supervisory Agency. But branching also meant that tiny Iceland's deposit insurance scheme was on the hook for any bank failure rather than the much larger insurance schemes in the major sources for deposits, Britain and the Netherlands. Beyond the explicitly insured deposits were the implicitly insured ones, for the British and Dutch states were not amused by the subsidiaries' losses and have sought compensation from Iceland.

What about the other side of the balance sheet? Collectively, Glitnir, Landsbanki, and Kaupthing funneled Icelandic and then foreign savings into dubious investments controlled by bank insiders. All three banks lent money to their staff to buy bank shares with those shares as collateral for the loan. One-third of the banks' capital base was self-financed equity, roughly double the norm. This bootstrapping helped prop up the banks' capital, but in a totally unsustainable way—no outsider was willing to pay the same price for the bank shares. In the worse case, as much as 75% of Glitnir's lending in 2007 was placed with companies controlled by various insiders. Thorvaldsson's total unwillingness to take any blame for the catastrophe mirrors in miniature the massive arrogance of the American bankers who testified before Congress in 2009. The public administration lesson from *Frozen Assets* is fairly simple and clear: The financial sector cannot be trusted to self-regulate.

Roger Boyes' *Meltdown Iceland* fleshes out the reasons why in a detailed and personality-driven account. Chapter 7 in *Nordics in Global Crisis: Vulnerability and Resilience* (Gylfason et al.) provides a more focused political-economy account for the collapse. Although one might be tempted to assimilate Iceland to its Scandinavian cousins and assume the levels of probity that have consistently won the other four the highest marks in global surveys of corruption, Iceland has a lot in common with other advanced yet developing economies like Korea and Thailand, as well as postcommunist Russia. Boyes' journalistic account avoids the useful Asian comparisons in laying bare the connections between the handful of politicians controlling the ruling Independence Party and the *chaebol*-like business groups dominating the Icelandic economy.

These close connections between politicians and the business groups created both the underlying and proximate conditions for Iceland's crisis. As in Korea, a few economically and politically powerful groups of firms dominated Iceland's economy. Roughly 30 people mattered in Iceland, starting with the 14 people who owned 40% of the shares in Eimskip, the dominant firm in Iceland's dominant "Octopus" business group (Boyes, 34–35). The Octopus controlled Iceland's major shipping firm (Eimskip),

the only airline, the largest insurer, many fisheries, the petroleum sector, and the import of wood (critical on deforested Iceland). Given capital, currency, and lending controls before the 1990s, a group like this could not function without the explicit consent of the political actors controlling regulatory agencies. This was an open invitation to crony capitalism and Korean-style payoffs to politicians. After deregulation the Octopus could only grow by trading on its political influence.

Boyes shows how Iceland retraced the deregulation and privatization path OECD countries had walked earlier in the 1980s and 1990s, thus creating openings for new business groups while preserving the crony capitalism of the past. Starting in the late 1990s, the ruling Independence Party began deregulating the financial sector and privatizing all state banks except for the housing bank. Politicians blocked open auctions with foreign participation in favor of sales to insiders connected to the Independence Party and its coalition party, the Progressive Party. Each party was connected to a bank, each bank to a circle of firms; politicians sat on the boards of banks and firms. Each bank borrowed from the other banks to buy its own shares, thus pushing up its equity base and enabling it to lend more to its favored firms, and hire politicians' relatives. The rudimentary regulatory authorities in Iceland—who anyway lost much of their staff to positions at inflated salaries in the banks—faced constant political pressure to ignore massive self-dealing because all the political parties were implicated. Significantly, David Oddsson, the prime minister who oversaw liberalization and privatization, shifted directly into the directorship of the central bank in 2004, and then, after the crisis, became the chief editor of *Morgunbladid* (*Morgunblaðið*), one of the three Icelandic national newspapers. As Gylfason (158) puts it, this was like “making Richard Nixon editor of the *Washington Post* to ensure fair and balanced coverage of Watergate.”

As in 1990s Thailand, new banks and explosive growth brought with it debt-financed conflict over market shares among incumbent groups and newcomers. By the early 2000s, Iceland had three new business groups competing with the remnants of the Octopus. As in both Korea and Thailand, all groups used their control over a bank to fund a rapid, unsupervised, and ultimately unsustainable expansion of the group, breaking up existing monopolies and lowering profit margins in fish processing, food distribution, oil, air travel, and retail clothing. The aggressive overseas borrowing noted above arose as each group tried to fund overseas and domestic acquisitions without losing control over their empires. In this process self-dealing within business groups pumped up firms' equity base, enabling them to borrow yet more money to buy more assets and thus have more collateral to start borrowing anew. Yet the process of using borrowed money (and thus increasing interest payments) for investment at ever narrowing margins could not continue forever. In this context, the drying up of liquidity in late 2007 and 2008 created a context in which continual conflicts between central bank governor Oddsson and Jon Asegir Johannesson (the central entrepreneur behind the upstart Baugur

Group and Glitnir Bank) became the proximate cause for the collapse. Oddsson delayed central bank intervention, accelerating Glitnir's drift onto the rocks in October 2008 (Boyes, 160–163).

Thorvaldsson and Boyes each provide a cautionary moral tale. Thorvaldsson's autobiography is at best a primary source for academic work. It presents neither a reasoned nor particularly analytic (or indeed self-reflective) understanding of Iceland's crisis, let alone the more general global financial crisis. As noted above, Thorvaldsson makes a virtue of his and Kaupthing's anosognothia, their ignorance of their own ignorance. So chalk this book up as a data point for arguments suggesting that perfectly rational actors and firms are capable of massively stupid behavior (as well as herd behavior) in financial markets. Everyone in the world was leveraging up their balance sheets, so why should Kaupthing not do the same for itself? At the same time, Thorvaldsson can be read as a data point about arguments based on the pervasiveness of self-seeking actors with guile. Beyond a few mentions of the Octopus, Thorvaldsson never touches upon the intense connections among Iceland's banks, firms, and politicians and the absence of any arm's-length transactions that would generate valid market prices. Was this all opaque to someone living in a country with a population half the size of Wyoming's, most of them in Reykjavik, whose elites all hung out in the bar of the famous Hotel 101? The reasons for regulating financial firms, limiting their leverage, and policing their linkages to other firms are crystal clear here. Either bankers are too stupid to be trusted with other people's money or they are too cupid and disingenuous to be trusted at all.

Boyes' book, by contrast, is a useful ethnography of crony capitalism in a small country. As noted, he carefully traces how Iceland's late industrialization created the conditions for the rise of the new business groups, and documents the deals linking firms within each group and across groups. He skates up to the edge of Britain's stringent libel laws in suggesting connections between some of these business groups and Russian "business" groups by exploring allegations that Russian money was laundered through Iceland. He shows how Iceland's boom and bust replicated in miniature the causes, development, and trajectory of the much larger American boom and bust. And, crucially, he shows how willful ignorance of the risks entailed in the boom was enabled not just by politicians' complicity but also by tacit support from the large slice of the Icelandic population that also benefitted from the boom.

Gylfason et al. supply the numbers that back up Boyes's anecdotal survey of popular political support. While Iceland's income equality deteriorated to American levels during the boom, and while only a few people got grotesquely rich (Gylfason et al., 139, 155–156), many Icelanders used rising house prices and an appreciating currency to consume at levels well above Iceland's productive capacity. The prederegulation controls on mortgage finance meant that Icelandic houses were probably undervalued. Additionally, a 70% loan cap on first-time home buyers forced con-

siderable saving. Deregulation and privatization dramatically expanded the supply of capital and reduced down payments, causing housing prices to rise rapidly. Overall house prices rose 89% from early 2001 to late 2007, including an eye-popping 60% from 2003 to 2005 (OECD, 2006, 75; 2009, 25). Like Americans, Icelanders borrowed against their home equity to fund increased consumption. Icelanders similarly rushed to take advantage of falling interest rates when refinancing of mortgages and foreign currency loans became possible in 2004. Equity extraction helped drive household debt levels from 160% of disposable income in 1999 to 220 percent in 2004 while enabling household consumption to grow twice as fast as income 2003 to 2005 (OECD, 2006, 33, 62, 65, 76). By 2008, 20 percent of household debt was denominated in foreign currency, setting up some Icelandic households for a miniature version of their banks' solvency crisis (OECD, 2009: 13). Retrospectively, it looks like Iceland came late to the global party, drank too quickly, and hit the floor rather harder than larger economies. But during the party many Icelanders were undoubtedly willing to give the banks free rein because the results looked so good. Here too a cautionary lesson for governance of the economy: States probably need to restrain the range of products the financial sector can market to the masses. Foreign currency loans and equity extraction in Iceland, Ireland, and eastern Europe are the direct analogue of the subprime loans foisted on unwitting U.S. households.

Gylfason et al.'s *Nordics in Crisis* thus presents the most disciplined academic treatment of the Iceland crash, putting it in a larger historical and regional perspective, and connecting Iceland's crony capitalism to the larger global capital flows. Read the whole thing for the big picture, and chapter 7 for the smaller Icelandic picture. The other two books are for those with a more pressing interest in Iceland.

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The Oxford Handbook of Business and Government. David Coen, Wyn Grant, and Graham Wilson, eds. Oxford: Oxford University Press, 2010. 806 pp. \$150.00 (cloth).

The study of business and politics has a long pedigree in the field of political science, stretching all the way back to the very beginnings of the discipline in the nineteenth century. The industrial revolution placed "business" at the core of the economy, and political scientists have since asked the extent to which business shapes politics, is affected by politics and policymaking, and engages in various types of political activity. In

spite of the structural importance of business in the economy and the society, contemporary political scientists have devoted much more attention and resources to the study of other topics like political parties, voting behavior, legislatures, and social movements, to name but a few. Some political scientists even theorized that business was not interested in politics. In the wake of the revival of the study of business and politics spearheaded by scholars such as Charles Lindblom, Cathie Jo Martin, David Vogel, and Graham K. Wilson, among others, the field has tended to produce excellent if isolated studies of the role of business in politics and the ways in which business shapes political processes and outcomes in a variety of national settings.

The *Oxford Handbook of Business and Government*, edited by David Coen, Wyn Grant, and Graham Wilson, seeks to generate renewed interest in the subject matter and to help political scientists find their way through the stock of research undertaken by a variety of scholars over the last 50 years. The cohesive development of this subfield has, in many ways, been undermined by the multiplicity of theoretical perspectives that scholars have used. Different combinations of economic, legal, political, and sociological theorizing have guided empirical research in the field. Students of national politics, comparative politics, and international political economy have undertaken studies of business and politics, but little integration of theoretical perspectives and empirical results has been achieved to date.

Coen, Grant, and Wilson organized the 32 contributions to this volume under five rubrics, namely: Disciplinary Perspectives, Firm and State, Comparative Business Systems, Changing Market Governance, and Policy. In their introductory essay, they focus the attention on several key debates, including the structural power of business, the behavior of business as an interest group, the impact of business on policymaking, and the regulatory influence of the state. They go on to review theories of the firm and of business, from the micro to the macro levels of analysis, and encompassing institutional, political, and economic approaches. The other three chapters in Part I of the *Handbook* deal with economic theories of the firm, business and government, legal institutions and business, and the contributions of business scholars to the study of business and politics.

Part II on Firm and State deals with the macro aspects of business as an interest group and its interaction with the government, political parties, and the broader system of interest representation and neo-corporatism. Part III on Comparative Business Systems takes the reader through different cross-national patterns of business–government relationships, including the United States, the European Union, Latin America, Japan, and China. Part IV on Changing Market Governance focuses on the global level of analysis and deals with exceedingly complex and eminently interesting issues such as international regulation, the role of credit rating agencies, international standard setting, and civil (i.e., nonstate) regulation. Finally, Part V on Policy, the longest in the *Handbook*, offers a window into theoretical perspectives and empirical evidence in various areas,

including corporate governance, corporate social responsibility, worker training, social policy, public–private partnerships, small business policy, consumer policy, environmental policy, food safety, and trade and competition policy.

Taken together, the *Handbook* offers a comprehensive view of this fragmented subfield. It also helps identify areas on which future research ought to focus. First and foremost, a unified political theory of the firm is still lacking, one that recognizes the important differences in structural power and political behavior depending on size, industry, and national setting. A second promising area for future research should be the integration of different levels of analysis, from the micro aspects of business decision-making to the macro or even global dynamics in which business often finds itself as an actor or an interest group. Finally, the present economic and financial crisis offers myriad opportunities for research on business and politics. The origins of the crisis have frequently been associated with deregulation, often obtained through successful business lobbying. The crisis has also revealed cross-national differences in terms of the resilience of the financial system and the business sector, and the participation of business in policymaking to overcome the downturn.

In sum, the *Oxford Handbook of Business and Government* does a great job at identifying the key issues and debates in the field, and opens up new opportunities for future research, although it would have benefited from an introductory or concluding chapter putting together the different perspectives and empirical findings contained in the various chapters. Specialists and graduate students, however, will find it an excellent guide into a fragmented but enormously important area. It will also help political scientists in general understand some of the most striking and novel ways in which business has become an essential element of the political system.

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Governing Sustainability. W. Neil Adger and Andrew Jordan, eds. Cambridge: Cambridge University Press, 2009. 338 pp. \$94.99 (cloth), \$32.99 (paper).

Sustainability has supplanted globalization as the new big theme around which policy discourse revolves. Indeed, sustainability is a natural extension of the debates about globalization. After years of integrating economies, blending cultures, and dispersing governance practices, the next logical step is to ponder how we can sustain the gains globalization has won for us. And like globalization, sustainability too is a multidisciplinary big idea that reaches even far across a variety of academic disciplines. W. Neil Adger and Andrew Jordan's volume recognizes the profound scope of sustainability and provides the best outline to date of this emerging discourse. In this volume they collect a number of scholars to explore how questions of sustainability have come to shape research across the biologi-

cal, earth, and social sciences. Sustainability offers an anchor for interdisciplinary research and a new focus for many disciplinary modes of inquiry. The contributors recognize that the focus derives from a major concern in public policy; consequently, they are sensitive to and appreciative of the relationship between scientific knowledge and the practical lessons it offers to policymakers. Thus, the volume's specific focus is directed at the policies, practices, and institutions necessary to govern an age of sustainability.

The first challenge in outlining how to govern sustainability is to define the concept in a consistent way. Adger and Jordan follow the United Nations' Millenium Report, also known as the Brundtland Commission Report, which defined sustainability as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (8). The inspiration for this volume is the growing recognition that in the two decades since the Brundtland Commission published its report, things have gotten worse rather than better. This trend is disturbing to anyone concerned about sustainability. Adger and Jordan rightly suggest that it is not enough for scientists to identify shocking trends but that changes need to be made in the way societies are governed to allow scientific knowledge to percolate through the policy process. The editors also seem to recognize that waiting for shifts in public opinion to drive this change is not likely to deliver results. Modern societies, especially in the Western world, are highly reliant on their carbon economies and loath to make the simple sacrifices necessary to meet the conditions of sustainable development.

The contributors to the volume are what we might call "engaged scientists," or people with excellent scholarly credentials in a variety of sustainability related disciplines, who also are seriously engaged in pushing the policy debates that inspire (or often fail to inspire) serious government action. The quality of the group is quite high, but if one could offer one criticism, it would be that the group is overrepresented by scholars from the United Kingdom. Perspectives of scholars located in the developing world would have added breadth to the compelling suggestions, although possibly at the expense of introducing inconsistent advice.

One of the central themes identified in many of the chapters written by political scientists is the important distinction for sustainability between government and governance. Governance is a term that has gained in popularity because of a growing recognition that the activities of governments are not always guided by the textbook principles of institutional design and hierarchies of authority but that blends of public and private actors, connected in fluid networks rather than formal hierarchies, operate through a myriad of formal and informal institutions to set policy agendas, shape public opinion, and build coalitions of support. It is an image of policymaking akin to quantum mechanics in physics. There are multiple moving parts, and vast areas of uncertainty temper our claims to know the process in all its detail. This frame of reference is important for

sustainability because governing democratic societies requires skills in institution and coalition building that require subtlety and sensitivity, not just power. As the volume asserts, processes matter, and outcomes will follow if the actors remain true to a few simple goals.

One of the main challenges the book seeks to address is the need to move sustainability discourses beyond the realm of environmental policy. Although sustainability has its origins in discussions of climate change and environmental degradation, the contributors to the volume recognize that it applies in other policy fields, and many discuss how sustainability is or can be applied to capitalist political economies, efforts to enhance democratic participation, and social welfare. Despite this breadth, there are some policy areas not discussed in this book where scholars could draw inspiration from this volume. Public pensions, for example, have been known for years to be on a shaky, one could say unsustainable, financial footing. The volume also went to press before the meltdown of the global economy, and one can see echoes of sustainability themes in such areas as deficit reduction and regulation of financial institutions.

At a time when sustainability has become the new zeitgeist in policy discourse, *Governing Sustainability* will serve as one of the early and important contributions to the debate. It should be read by everyone studying any aspect of environmental policy, and it should be consulted for inspiration by scholars of pensions, immigration and demographics, and public finance.

ROBERT HENRY COX, *University of Oklahoma*

The Dragon's Gift: The Real Story of China in Africa. Deborah Brautigam. New York: Oxford University Press, 2009. 397 pp. \$29.95 (cloth).

China's rise as a donor and financier in Africa generally has been viewed by the continent's traditional donors as a startling and disturbing turn of events. In point of fact, as Deborah Brautigam's superb book *The Dragon's Gift* details, China's emergence has hardly been sudden. It has been long in gestation—and consistently different in its mode of engagement from the approach of Western donors.

Brautigam describes how Chinese engagement in Africa has evolved and what its emerging impacts for African manufacturing, agriculture, and governance are. The book is rich in vivid anecdotes. While written for a general audience, the depth of knowledge and insight that informs it (Brautigam's work for over three decades has focused on both China and Africa) also makes it indispensable for scholars focused on both China and on African development. A short review cannot do justice to its wealth of revealing detail. Here, I will highlight three central sets of propositions developed in the course of the narrative that I found especially illuminating.

First, China almost exclusively uses a project-oriented approach to aid, with some unusual features. For example, in 2007, China's Eximbank

agreed to provide a loan of \$6,000,000,000 to the Democratic Republic of Congo to finance a broad array of infrastructure projects, plus \$3,000,000,000 for mining operations—with the proceeds from the mines used to repay the initial loans. In the first decades of the post–World War II Western aid endeavor, project-oriented aid was the norm. But beginning in the 1980s this approach fell into disfavor. Frustrated with its limitations, donors shifted from a focus on investment to a focus on policies, and then to institution building. Paralleling this shift was a change in instrument—from “ring-fenced” self-standing projects to more fungible forms of aid (general budget support, at the limit), which went through government systems.

While China bucks this trend with its continuing exclusive focus on projects, this is less outside the norm than it might seem at first. For one thing, project aid remains a large part of the arsenal of Western donors; three-fourths of World Bank support to Africa, for example, continues to take the form of investment lending. For another, project-oriented *investment finance* is a norm, not a rare exception, in the global private market economy—and much of China’s engagement is on commercial terms. Finally, directing the proceeds of natural resource exports into offshore escrow accounts is a standard way of providing security for inward foreign investment. Paradoxically, China’s extensive use of the project model can be viewed as an implicit bet that the governance and policy reforms pushed by Africa’s domestic reformers and their Western allies these past three decades have been sufficiently deep, and are sufficiently irreversible, that this time around project finance can yield positive returns.

Second, the reasons why China currently chooses to engage in Africa on a project basis goes beyond a popularly perceived effort to lock in access to Africa’s natural resources:

- It reflects continuity with China’s long-standing approach to engagement in Africa. China’s engagement dates back to the 1960s. Even as its motivations changed, it stayed engaged—with aid progressively transforming into more commercialized collaboration.
- It parallels China’s earlier experience as a recipient of foreign investment—from Japan in particular, which initiated multiple infrastructure-for-natural-resources initiatives in China in the 1970s.
- It fits seamlessly with the “developmental state” approach of the Chinese authorities—including the proactive efforts of the Chinese state to go global. “Going global” is big business for China: In 2008, the Chinese exported more than \$50,000,000,000 worth of equipment, consumer goods, and machinery to Africa.

Third, criticisms that China is having a negative impact on African governance are overstated. To be sure, the book highlights China’s posi-

tion of “not interfering in other countries” internal affairs and “never attaching conditions” to its aid. It further describes in detail China’s large economic involvement in countries with very poor human rights records, including Sudan, Zimbabwe, Angola, and Equatorial Guinea. In assessing whether China is making corruption worse, Brautigam concludes “probably not worse, but definitely not better, either” (292). But she also asks: Against what standard is it appropriate to judge the impact of China on governance across Africa?

Against “best practice” standards China falls short. There is a growing recognition that governance challenges have a global dimension: that corruption has a bribe payer as well as a bribe recipient; that the injection of economic resources into countries where self-seeking tyrants act with impunity will do little or nothing for poverty reduction and risks fueling tyranny. In response, there have been a variety of initiatives that aim to foster global transparency and combat economic practices that contravene human rights and foster corruption. While China for the most part has not participated in these global initiatives, as Brautigam details they remain quite nascent—often honored in the breach by both Western governments and private companies.

A central thesis of Brautigam’s book is that a large part of the criticism directed against China in Africa is based on “aspirational” standards as to how aid *should* be delivered, how donors *should* assure a level playing field in their engagement in developing countries, and how private companies *should* conduct themselves in the international realm. Judged against these standards, China falls short—but the standards themselves do not reflect consistent practices for non-Chinese donors and investors, nor (in the case of modalities of aid transfer) have their worth unequivocally been demonstrated. Reading the book leaves me feeling quite optimistic that, in an interdependent world, China’s involvement could turn out to be a valuable asset for African countries—an important contributor to a twenty-first-century turnaround across the African continent.

BRIAN LEVY, *World Bank*

The Political Economy of the Welfare State in Latin America: Globalization, Democracy, and Development. Alex Segura-Ubriego. New York: Cambridge University Press, 2007. 320 pp. \$85.00 (cloth).

The increased interest in the political economy of welfare states outside industrialized democracies has been a marked trend over the last decade. Among area studies, Alex Segura-Ubriego’s book is the first comprehensive and systematic effort to advance our knowledge of Latin American welfare systems. *The Political Economy of the Welfare State in Latin America* provides the reader with an impressive analysis which embracing different research strategies results in an ambitious piece of scholarship, one that undoubtedly constitutes a must-read book for all comparativists

interested in the topic of welfare state development. The book has three aims: first, to analyze the different paths or conditions through which some countries in Latin America became welfare states while others did not; second, to evaluate the impact of globalization and domestic politics on government's commitment to social spending; and third, to overcome some of the limitations of previous studies by offering a methodology that combines Qualitative Comparative Analysis (QCA), time-series cross-sectional analysis (TSCS), and in-depth case studies of Chile, Costa Rica, and Peru (3). This last objective corresponds to three clearly different but interrelated parts of the book.

In the first part Segura-Ubriego identifies two different paths or sets of conditions that led to the development of the welfare states in the region. Previously, he creates a welfare-effort index (composed of social spending figures and health and pension coverage) in order to distinguish welfare states from nonwelfare states. The results from the factor analysis yield 5 out of 14 countries above the average in the index, and consequently they are grouped as welfare states (Uruguay, Argentina, Chile, Costa Rica, and Brazil). Then, he builds on the main theoretical propositions about the welfare state in advanced democracies and defines the variables associated with the development of the welfare state in the region. According to the QCA he identifies two paths toward the development of the welfare state in the region, one with favorable economic conditions (i.e., relatively high economic development and low trade openness) combined with strong left-labor power (Argentina) or a long history of continuous democracy (Brazil), or both (Chile and Uruguay). The second path combines the absence of favorable economic conditions with a long history of continuous democracy and strong left-labor power (Costa Rica). One central finding in this chapter is that unlike European countries where the most important expansion of the welfare state occurred in small trade-dependent economies, Latin American welfare systems developed in the context of import substitution industrialization (ISI), protected from international trade.

In the second part, Segura-Ubriego presents the main hypotheses on the effects of globalization and domestic political factors on social spending in human capital (health and education) and social security. The TSCS data set is divided into welfare states and nonwelfare states and covers the period from 1973 to 2003. The empirical results are telling. Trade openness has a negative impact in aggregated social spending; however, the findings for the disaggregated data show that this impact operates through social security spending, and consistent with his theoretical expectations, the effect is greater for the group of welfare states. On the other hand, fiscal-constraint variables show strong explanatory power. Higher revenue is positively associated with social spending while fiscal adjustment and interest payments have a negative impact. The findings for the political variables are, first, that democracy does not affect all types of social spending equally; it is stronger among the group of welfare states

and operates over the long run. While democracy has a negative effect on social security as a percentage of total expenditures, it has a positive impact on human capital spending measured as a percentage of GDP. On the other hand, the effect of popularly based presidents is contrary to that of democracy; social security expenditures increase when presidents from parties that have close historical links with labor unions are in power.

In the third part of the book, Segura-Ubriego enriches the analyses with case studies of Chile, Costa Rica, and Peru. His central aim is to analyze the causal mechanism through which globalization and domestic political institutions affect social spending. On the one hand, fast and radical trade liberalization put an end to the ISI model of development, which in turn led in Chile and Peru to the growth of the informal sector reducing the population contributing to social security. This was different in Costa Rica where business groups managed to press the government to carry out the liberalization process in a gradual way and the government provided compensation policies for those most affected by trade liberalization. A second mechanism was the increasing concern of governments about economic competitiveness, one of the main components of the neoliberal platform.

On the other hand, the effect of democracy is further illustrated through the institutional arrangements of party system, voter turnout, and the number of veto points. Segura-Ubriego argues that in Costa Rica and Chile (after Pinochet) a longer history of democracy and more institutionalized party systems meant that parties had been competing for the median voter while this was not the case in Peru, where the political mechanisms to effectively channel citizens demands were lacking. Similarly, voter turnout in these countries were significantly higher than in Peru, meaning that the poor had been voting less than in Chile and Costa Rica. Finally, in contrast to Costa Rica, the concentration of power during the authoritarian periods under Pinochet and Fujimori made possible significant cutbacks in social spending. The case of Costa Rica illustrates how a highly developed welfare state generates enduring expectations among its citizens who come to regard social policies as a social right and in the face of welfare state retrenchment attempts, represent a strong force of opposition.

Segura-Ubriego's book represents a major contribution to our understanding of the development of the welfare state in the region. However, there are some shortcomings that deserve attention. First, even though the author clearly justifies the classification of Brazil as a welfare state, other studies diverge in this classification since Brazil ranks behind Costa Rica, Uruguay, Argentina, and Chile in terms of social spending as well as welfare outcomes indicators (Huber and Stephens 2010). More importantly, the classification of Brazil in terms of economic development is not very clear because it does not fit the data the author uses for this purpose. According to GDP per capita numbers for the period 1930–1999, Brazil falls under the group of countries with “low relative economic development” (Tables 2.2 and 2.3, pp. 33–34), but for the Boolean procedure it is codified as

a welfare state with high economic development (50). In Segura-Ubriego's analysis, Brazil represents a path toward the development of the welfare state that combined favorable economic conditions (i.e., economic development and low trade openness) with a relatively long history of democracy. However, in the description of the cases that follows the QCA, he notes that democracy did not play a key role in the construction and expansion of the welfare system, and in fact it was strongly associated with the authoritarian regime in the period 1930–1945 (63–64). A relevant implication of the problematic case of Brazil is that under the path marked by favorable economic conditions, left-labor power seems to have a stronger explanatory power than democracy. Although Segura-Ubriego makes a cautionary note on whether the path followed by this country has any empirical referents (52, footnote 55), an important point to highlight is that leaving aside the case of Brazil, left-labor power is present in all the remaining cases of the group, while a long history of democracy is not.

Another gap in Segura's account is the assumption under which the positive effect of democracy on human capital expenditures rests. He suggests that "low-income groups are likely to press governments for increases in spending . . . that reach and benefit them directly" (169). The theoretical point of departure is Meltzer and Richard's model, which drives the emphasis on the logic of the size of the constituency served in his explanation. However, the assumption that high inequality intensifies conflicts of redistribution between the rich and the poor has been recently challenged in Latin America (Cramer and Kaufman Forthcoming). Additionally, competing explanations have signaled other causal mechanisms linking democracy and social spending (e.g., the influence of pressure groups) and have found that while democracies in Latin America increase spending that favors large groups (i.e., education spending), it is not at the expenses of social security spending. Powerful organized groups have managed to maintain their benefits (Avelino and Hunter 2005). An important puzzle for future research is to analyze if low-income groups are actually pressing the government through the electoral arena for health and education policies. This question is better suited to be addressed at the micro level rather than through aggregate measures of voter turnout.

The Political Economy of the Welfare State in Latin America offers a theoretical bridge between studies focused on industrialized democracies and those centered on other regions of the world. It also constitutes a remarkable example on how to combine different methodologies to maximize explanatory leverage.

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Public Management Reform and Modernization: Trajectories of Administrative Change in Italy, France, Greece, Portugal, and Spain. Edoardo Ongaro. Cheltenham, UK and Northampton, MA: Edward Elgar, 2009. 316 pp. \$68.00 (cloth).

There is a large and prestigious body of literature written in English describing and seeking to explain and interpret the public management reform processes that have affected European countries. However, not all countries have been the subject of equally in-depth analysis. Fatally, Anglo-Saxon and north European countries have been most thoroughly investigated, probably because the English language is officially or more commonly used in these countries. However, this does not mean that there is a total lack of contributions, even authoritative works, focusing on the reform of public management in central and southern European countries (new public financial management, for example, has been the subject of thorough and in-depth analyses). Instead, what was lacking was a contribution providing a global analysis of the process of management reform in the public sector, based on a sound methodology and considering a set of several countries, including those less frequently investigated, as a unit of analysis rather than being limited to a single European country.

In this sense, the volume of Edoardo Ongaro, SDA Professor of Public Management and Policy at Bocconi University, Italy, represents an important development, filling a significant gap in the international literature and paving the way for interesting new prospects for comparative research.

Essentially, Ongaro sets himself two ambitious objectives in his research:

1. to define and describe the dynamics of public management reform and explain how and why they have taken place in five European countries, that is, Italy, France, Spain, Greece, and Portugal;
2. to consider these five countries as a cluster, so that the results of his research can favor the development of the comparative analysis of management reform processes among groups of countries (European and non-European).

Ongaro's selection of countries is therefore of fundamental importance to the purpose of his research. However, the fact that the countries selected in his book include those less frequently dealt with in the inter-

national literature (which is certainly the case with Greece and Portugal) does not, in itself, represent sufficient reason for their selection. On the contrary, it seems to be a significant consequence of what appears, to us, to be a sound methodological decision rather than the rationale behind the selection.

To define the focus of his work, Ongaro groups together the “Napoleonic states,” based on the assumption that their public administrations have common traits in terms of their administrative tradition; using the concept of administrative tradition given by Peters (2008), he identifies the specific and similar features that characterize the administrative tradition in the five countries.

It is worth noting that Ongaro uses these common traits in terms of administrative traditions both to select a “family of nations” on which to focus his study, and to distinguish this group from other clusters of countries.

To explain the dynamics of public management reform in the five countries selected, the author chooses to adopt an explanatory framework as a basis for his analysis of the trajectory of public management reform. This framework is first used to explain the case of Italy and is subsequently adapted to examine the cases of France, Spain, Portugal, and Greece, emphasizing similarities and dissimilarities in their respective reform trajectories and, finally, reaching general conclusions about the factors affecting the dynamics of public management reform within the cluster.

The book is divided into four parts: The first, and longest, includes chapters 2, 3, 4, and 5 and is devoted to public management reform in Italy.

The second part comprises chapters 6 and 7 and is devoted to a comparative analysis of all five countries. Italy is treated as a comparative case, which explains why the first part of the volume could constitute a volume in its own right. Ongaro devotes almost 170 pages to giving a “comprehensive account” of the dynamics of public management reform in Italy, providing a noteworthy contribution from the point of view of both the content and, above all, the methodology.

Chapter 1 constitutes the book’s long introduction, in which the main methodological choices are presented and justified.

Chapter 2 describes and explains the changes that took place in the Italian politico-administrative system in a broad interval of time from 1992 to 2008. The main events occurring in this period are correlated with the central governments and the laws for the managerial reform of public administration approved in the same interval. It is important to note that the public management reform trajectory is divided into five components (financial management, audit and performance, personnel, organization) so that the association between events, governments and reform legislation provides the reader with a highly comprehensive overall picture. At the end of chapter 2, each component is divided into subcomponents in order to define its “status” at the beginning (1992) and end (2008) of the period considered in the analysis.

Chapters 3 and 4 are dedicated to explaining the dynamics of each of the components (and relative subcomponents) of the reform trajectory, with reference to Italy and in abundant detail. Significantly, the most in-depth study concerns the “organization” component, to which the author dedicates the whole of chapter 4. Here the analysis is conducted on two levels: the macro level, focusing in particular on the processes of decentralization, specialization, and coordination, and the micro level, examining the organizational design of public sector organizations.

Chapter 5 defines an explanatory framework to explain public management reform in Italy, seeking to identify the reasons behind the adoption of certain decisions concerning the reform of public administration and attempting to explain why certain outcomes of the reform occurred or failed to. The framework used is highly detailed and based on the identification of features of the politico-administrative system as factors that influenced the trajectory of public management reform in Italy.

In short, chapter 2 illustrates the background to the reform (independent variables), chapters 3 and 4 define the contents of the reform through its multiple subcomponents (dependent variables), and chapter 5 combines the context and content in an attempt to explain how and why certain contents of the reform and their consequences, or lack thereof, can be explained in the light of the context in which the reform took place. Here the analysis is conducted in both temporal terms and a holistic manner using a process-based viewpoint to consider the cumulative effects of the reform rather than the individual elements. The perspective adopted in the complex analysis carried out in this chapter is a combination of the logic of appropriateness and the logic of consequences.

From chapter 6 onward, Ongaro’s analysis is comparative. This chapter begins with an analysis of the trajectories of public management reforms in France, Greece, Portugal, and Spain, followed by a presentation of the dynamics of the reforms in all five “Napoleonic countries” investigated, based on the explanatory framework used in chapter 5 and adapted for this purpose.

Chapter 7, the last in the book, deals with two subjects: the Napoleonic administrative tradition that characterizes the five countries, and the Neo-Weberian State (NWS) as a model of reform for the countries examined. The topic of tradition is clearly fundamental to the book. Thus, Ongaro returns to the subject dealt with in the introduction to justify his choice of research topic. Here the author’s purpose is to determine whether and how the Napoleonic administrative tradition changed in the five countries studied, following the evolutionary process generated by the reform of public management. At the end of a longitudinal analysis starting from the theoretical stances of Peters (2008) and Painter and Peters (2007, 2009), who are already cited extensively in the introduction, the author concludes that the main features of the administrative tradition have not undergone significant change. This clearly confirms, also for the purpose

of future research, the hypothesis on which the research is based, that is, that the five countries can be considered as a cluster. The last part of the volume is dedicated to the NWS, a model of reform of the public sector in continental Europe proposed by Pollitt and Bouckaert in a famous book published in 2004. Here Ongaro discusses whether the NWS could be alternative or complementary to other paradigms such as New Public Management or New Public Governance in relation to the five countries examined as a cluster. Ongaro does not seem to think so, for various reasons. In particular, he believes that the processes of management reform in the countries examined did not pave the way for the development of the NWS in these nations but that sedimentation and desedimentation processes are part of the path toward the NWS.

Considering Ongaro's volume as a whole, it represents an incisive response to a need felt by public management scholars for a methodologically sound interpretation of the processes of management reform that have affected public administrations in European countries dealt with only partially in the international literature. However, in our opinion, the most interesting aspect of Ongaro's research lies in the development of his thesis, taking the concept of Napoleonic countries as a cluster as his principal and constant point of reference.

The methodological choice of examining Italy (the author's country of origin) as a case for comparison implies that the process of reform is studied to a very different degree in the five countries. The case of Italy is dealt with in a highly in-depth and comprehensive manner, although more emphasis is placed on some components (organization) of the reform trajectory than others (financial management and audit). An analysis of the bibliography clearly demonstrates that the sources Ongaro draws upon to describe the processes of management reform in some of the countries studied (Spain, Greece, Portugal) are effectively limited; this obviously depends on the fact that the volume cites, almost exclusively, articles and books published in English and Italian.

This is an academic book undoubtedly written for experts and scholars in the field of public management. Because of the continual reference made to the research issues and the mixture of logics and approaches, the text does not always flow easily. However, the intelligent use of tables helps to summarize the key passages and provide an overview. Chapter 5 would also have benefited from the use of tables. In conclusion, the author seems to have successfully achieved the key objectives outlined in the introduction. I am therefore convinced that Ongaro's book makes a decisive contribution to expanding the range of options available to scholars of public management performing international comparisons of clusters of nations. Having contributed to developing the comparative analysis of public management reform is an unquestionably prestigious result.

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