of individuals, the pressures of strong lobbies (handicapped rights groups and the transit industry), the policies of other agencies (HEW's guidelines on implementing Section 504), the policy preferences of political leaders (notably Reagan's deregulatory and defederalization initiatives), and the refereeing of courts.

Katzmann's study butresses the picture of politics that has emerged from other political science studies in recent years. If the reader still has any notions of Congress being a deliberative body, they will be shattered here. Interest groups never made an appearance during the legislative phase of policy making on this issue. All the legislative initiatives were the products of a coalition of do-good congressmen and congressmen in search of an issue. Indeed, rather than interest groups producing legislation, it is fair to say that legislation produced interest groups: many disability coalitions came into being in order to fight for rights under the new statutes. The executive branch functioned not as a leader with one policy direction but as a collection of agencies frequently at odds with each other. The judiciary, often criticized for being "imperial," was a reluctant participant and, as Katzmann concludes, was "less attached to a rights-based approach to policy making than was either Congress or the bureaucracy." In short, fragmentation and response to short-term incentives characterized what is euphemistically called "the policy-making process."

Katzmann takes a stab at prescriptions for institutional reform, but one senses that he has little faith in either their effectiveness or their political feasibility. For example, he would render Congress a more competent deliberative body by eliminating overlapping committee jurisdictions, restricting tangential amendments, and calling on legislators to exercise more self-discipline in their use of committee reports and other low-visibility devices. But he knows as well as anyone the institutional pressures that multiply committees and force major legislative initiatives into seemingly trivial and hidden amendments.

Besides institutional failure, the other villain in Katzmann's tale of policy confusion is the "failure [of decision makers] to define the problem precisely and to choose between two different approaches—the rights-oriented full-accessibility conception and the transit-oriented effective mobility approach." These traditional remedies of professional policy analysis—precise problem definition and rational choice among mutually exclusive alternatives—come as a surprise after such a sophisticated political analysis of institutional behavior. It is not obvious who could have made a clear choice between the two approaches, and whether anybody could have made such a decision stick. Handicapped people experience the problem of transportation *both* as an inability to get where they want to go, and as segregation from able-bodied people. Any approach addressing only one of these problems would be doomed to future political attack. Similarly, transit operators and political officials are caught between demands for low taxes and demands for better, more extensive services. As Katzmann's study shows, all the incentives are for political leaders to *avoid* making a clear choice and, instead, to use ambiguity, symbols, mixed programs, and long-term deadlines to satisfy all the conflicting constituencies.

Ultimately, the controversy detailed in this book goes beyond the question of whether people with handicaps will ride regular public buses or customized vans. It is about how institutions such as transportation, education, housing, and employment can be tailored to suit individual differences without destroying their virtues as large-scale mass institutions. Katzmann implicitly raises the question of what kind of political institutions can provide reasonably satisfying and stable resolutions of these tensions. The question is worth asking, and his insights into how the dilemma is played out in a specific context will surely contribute to the larger search for answers.

Politics Without Apology

Who Profits: Winners, Losers, and Government Regulation, by Robert A. Leone (Basic Books, Inc., 1986), 248 pp.

Reviewed by W. Mark Crain

Robert Leone's book should be required reading for students and practitioners of business/government relations. He advocates that public and private managers practice "politics without

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WHAT SHOULD ECONOMISTS DO?

By James M. Buchanan
Preface by H. Geoffrey Brennan and Robert D. Tollison

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Professors Brennan and Tollison state in their preface, "As a founder of the burgeoning subdiscipline of public choice, as a moral and legal philosopher, as a welfare economist who has consistently... defended the primacy of the contractarian ethic, and as a public finance theorist..., Buchanan's work has had worldwide recognition..." As a measure of that recognition, Buchanan was awarded the 1986 Nobel Prize in Economics.

Dr. Buchanan is General Director of the Center for the Study of Public Choice and Harris University Professor at George Mason University. Among his other books are *The Limits of Liberty*, and, with Gordon Tullock, *The Calculus of Consent*.

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apology"—a position he thoughtfully develops with rich analysis. While the major themes may not be news to the seasoned participant in the regulatory and political processes, it is this sort of reader who is likely to appreciate Leone's grasp of the big picture, and the ease with which he illustrates the fundamental issues.

"Who profits and who loses?" is the key question for understanding government intervention, Leone maintains. He suggests that there is an "iron law" which should form the basic building block for public policy analysis:

> While the process itself is complex, the outcome is not: every act of government, no matter what its broader merits or demerits for society at large, creates winners and losers within the competitive sector of the economy. These gains and losses, which accrue to both individuals and corporations, become the object of intense political attention; at the same time, they help shape the nation's international competitiveness, impart a direction to its research and development programs, and generally help shape the direction and pattern of growth of our economic institutions. This outcome is so predictable that it constitutes virtually an Iron Law of Public Policy.

The concept that public policy is driven by redistributional motives has a long history in economic and political thought. (This is not to imply that it is widely shared or popularly accepted.) The most important statements of this view are contained in the public choice literature under the rubric of "rent-seeking" or "interest group" theories of government. The rent-seeking message is mostly cynical: If some public policies are in the national interest, it is only happenstance—an unintentional result of self-interested competition among sophisticated pressure groups seeking their private interests through the political process.

Leone departs from many scholars of rent-seeking in that he maintains a degree of optimism and proposes a challenge to improve the process:

> Just as we find no need to apologize for the law of gravity, we have no need to apologize for the political and economic consequences of the Iron Law of Public Policy. Rather, our challenge is to construct economic and political institutions that deal with this reality forthrightly and exploit the political and economic forces unleashed for the broader benefit of society.

In other words, Leone has hope that in spite of the efforts of interest groups to use the state to arrange favorable wealth transfers, a positive-sum political economy is possible.

Leone's main contribution does not lie in these normative ruminations about government, however. It is his deft use of the iron law to guide us through a non-mathematical "model" of the process of government intervention that makes this work particularly noteworthy. The Leone model stresses two things: the private and public sectors are inherently interactive, and politics is a process. He describes an interactive process

"Who profits and who loses?" is the key question for understanding government intervention.

with government influencing business and business influencing government in a world in which people are reasonably well-informed political and economic agents. Public policies (e.g., stringent automobile pollution control laws) are viewed as having microeconomic impacts that influence the political process that generates such policies. Symmetrically, public policy decisions play a role in the formulation of private decisions (e.g. the Energy Policy and Conservation Act certainly influenced General Motors' decision to "down-size" its new cars).

The underlying model is thoroughly illustrated with case studies. Particularly useful are the illustrations of seemingly paradoxical situations. For example, we often see industrial and social interest groups on the same side of policy issues. As Leone explains, this is only paradoxical if one fails to recognize that regulations affect different firms in an industry differently. Generally, the price effects of a regulation are the same for each of the firms in an industry, but the cost—and hence profit—effects differ. Firms that experience an increase in costs that is smaller than the increase in price (i.e., "infra-marginal" firms) will profit. Firms that experience an increase in costs that is greater than the sustainable price increase (i.e., marginal firms) will lose. Leone summarizes this analysis:

> By virtue of differential cost impacts, all government actions create winners and losers in the competitive marketplace, whether or not the aggregate impact is beneficial or detrimental to an industry's interests.

Finally, there are several original hypotheses in the book, although Leone fails to develop them more than casually. For example, Leone posits that government intervention in business planning is more likely to occur in capacity decisions than in production cost decisions. He bases this argument on the fact that capacity decisions are made infrequently, and the assertion that capital is "the one input factor most subject to manipulation and control." One can assume, however, that the sophisticated private decision makers that Leone describes in his model have incentives to adopt political strategies to guard their capital investments. The strategic corporate decision maker can be expected to allocate his resources to protect the present value of the enterprise without regard to fixed or variable costs *per se*. Hence, Leone's claim that capacity decisions are more "feasible" candidates for regulatory intervention is not obviously defensible.

In the final analysis, the lack of development of certain hypotheses does not seriously detract from the book. Within the growing literature on public choice and political economy, *Who Profits: Winners, Losers, and Government Regulation* provides a secure bridge between theory and practice. It is an important milestone in this field because it demonstrates with confidence that the theoretician and the practitioner are not all that far apart in their understanding of regulation and business.

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Total distribution	4,791	3,547
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TOTAL	6,200	5,000

I certify that the above statements are correct and complete.
[signed] Brian F. Mannix, Managing Editor.