

Trade Wars and the Silver Screen

Reviewed by Neil Hrab

BLOCKBUSTERS AND TRADE WARS: POPULAR CULTURE IN A GLOBALIZED WORLD

By Peter S. Grant and Chris Wood

454 pp., Vancouver, B.C.: Douglas & McIntyre, 2004

OPEN PAGES, POLITICAL Web sites, and call-in radio shows were abuzz last spring with rants against the “outsourcing” of “U.S. jobs.” Most of those critiques were based on the notion that outsourcing is a one-way street: U.S. jobs go from Boise to Bombay, and American workers get nothing in return. But that view is inaccurate. As the *Financial Times* pointed out, the world economy offers lucrative opportunities for “in-sourcing” by other countries into the United States.

Consider the worldwide demand for the products of America’s “copyright” industries — e.g., computer software, music/sound recordings, and motion pictures — that account for a combined \$90 billion in annual exports. Consumers abroad are outsourcing their demand to U.S. companies and creating work for Americans. Outsourcing, from this perspective, goes both ways.

Unfortunately, many foreign governments fear that outsourcing entertainment to America weakens their national identity and cohesion. About 60 of those governments have formed an organization called the International Network on Cultural Policy (INCP). The organization’s goal is to help governments implement policies that will encourage consumers to buy more locally produced culture, and

less culture from America.

In their new book *Blockbusters and Trade Wars*, communications lawyer Peter S. Grant and journalist/writer Chris Wood — both Canadians — provide a detailed and sympathetic look into cultural protectionists’ arguments. (Canada is perhaps INCP’s strongest backer after France.) Grant and Wood acknowledge that globalization has produced “an unparalleled expansion in the distribution of books, television programs, and other cultural products worldwide.” They note that “on its face, this would seem to augur well for cultural diversity. There are seemingly more ideas, more pluralistic expression.” However, the authors see “disturbing signs” that the “concentration of media is growing apace around the world,” producing a dwindling group of mainly American corporate “gatekeepers” — a trend that will “reduce choice rather than expand it.” They worry in particular that this concentration will reduce opportunities for “local cultural expression.”

The bulk of *Blockbusters* consists of case studies of governments using political means “to sustain or develop a broad range of popular cultural products, without undermining freedom of expression.” What forms should those policies take? Here is a partial list: supporting public broadcasting, making reasonable scheduling or expenditure requirements of private broadcasters and other gatekeepers, supporting the creation of popular works in underrepresented genres through subsidies or tax incentives, and limiting foreign ownership in certain sectors. If that list seems like clumsy statism, that is because it is.

One sentence from the book lays bare the zero-sum mentality driving the anti-outsourcing backlash both in America and abroad. “A Canadian estimate,” the authors write, “is that exhibition fees for Hollywood movies take some C\$200 million a year out of [Canada].” This implies that an outflow of money from Canada to the United States represents a loss for Canada — a simplis-

tic and short-sighted view.

The fact is that, overall, cultural trade between the United States and Canada produces mutual benefits. Yes, it is true that Canadians watch a lot of American movies — U.S. feature films annually take 85 percent of Canadian box office receipts. But there is more to the issue than the overwhelming popularity of American films. American studios produce — or outsource, to use that fashionable term — dozens of films in Canada each year, creating many jobs for

Canadians. Canada’s federal government reports that “total foreign location shooting in Canada” contributes as much as \$1.2 billion (U.S.) annually to the Canadian economy. Again, outsourcing is a two-way street. *Blockbusters* briefly touches on this outsourcing to Canada, but prefers to see it as a triumph of interven-

tionist Canadian “government policy” — not an example of mutual gains through a (relatively) free trade framework.

The policy wonk in me enjoyed reading *Blockbusters* — it is well-written and filled with detail, research, and nuance. Still, I feel that the authors could have dealt more extensively with those who support a laissez faire view of culture, such as Tyler Cowen of George Mason University or Nick Gillespie of *Reason* magazine. *Blockbusters* pays the two pundits’ arguments unduly short shrift.

But that is a minor quibble. One of my main concerns with *Blockbusters* is that it is too wonkish. The book could have been better organized had Grant and Wood presented the more technical sections on topics such as international trade law and various national tax policies as appendices. The same goes for the sections comparing different countries’ multi-layered cultural policies. Judicious use of appendices and footnotes would have allowed the authors to present their central thesis on globalization and culture more clearly and coherently, and to incorporate their trove of comparative research without



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disrupting the flow of their argument.

Grant and Wood, avowed believers in the idea that “the free flow of ideas across borders” enriches cultural diversity, have written a book that representatives of those cultural protectionist governments will read with gusto.

American policymakers who plan on contesting this blatant protectionism will be well advised to read *Blockbusters and Trade Wars* also. By doing so, they can familiarize themselves with the protectionists’ views in advance of what promises to be an explosive debate. **R**

Visions of ‘Ecodemics’

Reviewed by *Angela Logomasini*

SIX MODERN PLAGUES AND HOW WE ARE CAUSING THEM

By *Mark Jerome Walters*

206 pages; Washington, D.C.: Shearwater Books, 2003

IN *SIX MODERN PLAGUES*, VETERINARIAN and journalist Mark Jerome Walters, like many modern-day greens, deems humankind the source of many of the world’s problems. He claims that because of humanity’s attempts to promote such alleged evils as “efficiency and profit,” “the financial gain of the few,” and “progress,” we are now suffering from diseases on an unprecedented scale. Modern technologies and free trade are supposedly responsible for six plagues (and probably many more), including mad cow disease, drug resistant and food-borne illnesses, AIDS, Lyme disease, the West Nile Virus, and SARS.

Walters fails to note much of anything that humans have done to actively control disease. In his view, diseases were reduced during the twentieth century because we reached an “equilibrium” in which “societies developed immunity” and because societies had merely “adjusted their ways of life to control them.” But because of humankind’s greed, those gains were limited and temporary, and we have recently entered a new age of great ecological destruction. “So closely are many epidemics linked to ecological change that they might rightfully be called ‘ecodemics,’” Walters exclaims.

He is right that human actions, particularly human interactions, spread dis-

ease. In the 2001 book *Mosquito*, Harvard’s infectious disease expert Andrew Spielman and co-author Michael D’Antonio detail the ravages of infectious diseases that have occurred throughout history as humankind expanded trade and engaged in military conquest. Unlike Walters, those authors also describe the commendable efforts of individuals who labored to discover the causes of the sicknesses and develop cures. They understand the mistakes and challenges presented by commerce, but they also recognize the realities of this world: We cannot quarantine nations. Instead, Spielman and D’Antonio provide some valuable, practical advice for control methods in the modern world.

In stark contrast, Walters focuses on condemning human action (home building, trade, hunting, etc.) and technology, while offering a false solution. His cure prescribes preservation of “ecosystems,” “greater social equity,” and involves “protecting and restoring ecological wholeness upon which our health depends.” He never fully explains what this romantic vision involves, but this “solution” would require dramatic changes—demanding that we transition to a world of small, isolated communities with little trade and far fewer people. In addition, he appears ready to dispense with certain technologies such as the use of antibiotics in farm animals.

Walters not only ignores the fact that his solution is unattainable, he also ignores the fact that the freedoms and technologies he is willing to sacrifice are the best meas-

ures for reducing disease. Thanks to free trade and resulting economic growth, the average lifespan is now longer than at any time in history, food is more plentiful, and many diseases have been brought under control. Some diseases, like small pox, have even been eradicated (although an act of terrorism could reintroduce small pox). In their book, Spielman and D’Antonio note that modern living has also helped reduce insect-transmitted disease by limiting human exposure. They note that disease incidence declined as “improvement in the local economy provided better housing,

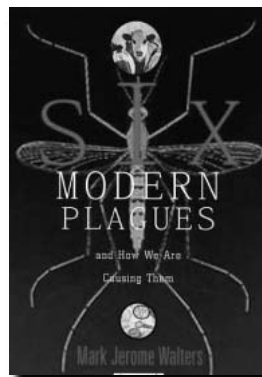
roads, and utilities services such as water supplies, sewers, and electricity.” The world needs more development—not a “more natural” or primitive lifestyle.

Many of the world’s poor suffer because they lack items commonly found in the “sprawling” neighborhoods that Walters dubs “shortsighted efforts to

make the world more hospitable for humans.” For example, people in many poor countries do not have mosquito-proof housing with screened windows—leaving hundreds of millions of people exposed to malaria-carrying mosquitoes that cause millions of cases of illnesses and death every year.

Six Plagues is also misleading because it ignores basic facts when detailing specific diseases and potential causes. The reader is misled into believing that certain technologies are easily dispensable. Consider the chapter on antibiotic use in farm animals. According to Walters, farmers use antibiotics because “in the short term, it’s cheaper to keep animals drugged than to keep them clean. Animals fed a steady diet of antibiotics with their grain also grow a little faster, thereby making the producers extra money.” But farmers’ incentive to make “extra money” has proved anything but disastrous. Modern farming practices enable farmers to produce more plentiful, healthier food at a lower cost to consumers, while producing less environmentally dangerous waste.

In a 1999 report on antibiotic resistance, the National Research Council (NRC) notes that before modern breeding practices, it took far more time and feed to pro-




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duce less food. In 1928, it took 112 days and 22 kg of feed to produce a chicken weighing 1.7 kg. By 1990, farmers could produce a larger bird (2 kg in size) in less than half the time (42 days) using less than one-fifth (4 kg) of the feed. The average hen laid 93 eggs per year in 1930, 174 eggs annually by 1950, and 252 eggs a year by 1993. The NRC provides similarly impressive statistics for other animals.

The need for less feed means less land is planted to feed animals, reducing farm-related runoff problems and making more land available for wildlife. Lower production costs and more production mean that more people can eat at a lower cost. And reduced feed intake means reduced animal waste, which reduces the environmental impacts of such waste. In addition, the NRC report concludes that antibiotics produce healthier animals, which translates into healthier meat for human consumption. The council also concludes that antibiotics use is beneficial, that the risks have not been fully verified, and that the extent of the problem of antibiotic resistance remains unclear.

Walters does not mention any of

those issues, but dismisses the entire NRC report because one member on the committee had served as a consultant for the agribusiness industry. As a result, he misses opportunities to provide constructive advice. He could have advocated reforming the drug approval process (as the NRC does) to ensure new antibiotics become available. Or he could have addressed the fact (as the NRC does) that potential overuse of antibiotics on humans is a more serious problem, and it could be addressed through greater educational efforts. He also could have noted that something as simple as improved food handling — better washing of produce and the cooking of meat and eggs to the appropriate temperature — could greatly reduce food-borne illnesses.

As Spielman and D'Antonio imply in the title of their chapter “Living with Mosquitoes,” we may not be able to eradicate all our problems, but we can employ realistic measures to minimize risks. Walters would rather imagine a better world, but his prescriptions would certainly make things worse. 

cost. The editors also contributed forewords to three chapters they did not write. Robert L. Bradley Jr. authored a shortened version of his history of electric power regulation; Joseph P. Tomain explores the prospects of electricity regulation; Jim Rossi treats the obligation to serve under deregulation, and Andrew P. Morriss discusses how economics get misinterpreted in the legal system.

A LOOK INSIDE The introduction prefaces its overview of the book with the observations that the changes in the 1990s were “re-regulation rather than deregulation” (their emphasis), that the belief that electric power is a natural monopoly is invalid, and that the monopoly was government-created.

In his three chapters, Grossman presents and employs the relevant economics. The cumulative effect is a useful introduction to the theory germane to appraising arguments about electricity regulation. He uses simple graphical tools that should be accessible to those who remember their introductory economics.

To reinforce the criticism of natural-monopoly arguments, Grossman presents a review of theory that is titled “Is Anything Naturally a Monopoly?” The review covers much ground — traditional textbook analyses, the contestable market approach of Baumol, Panzer, and Willig, the application of Coase’s classic 1937 article on the extent of the firm, the relevance to electric power, and the history of the concept. While Grossman dutifully cites

Richard Posner’s *Natural Monopoly and Its Regulation*, he neglects Posner’s observation that another characteristic of natural monopoly is the ability to discriminate. Posner adds that this allows the monopolist to price efficiently and increase its monopoly profits. Thus, natural monopoly is a problem of creating transfers of

income; Posner believes those transfers are small and not clearly undesirable.

Grossman’s chapter on the regulatory situation, however, is problematic. The principal defect is the oversimplified discussion of optimal pricing. The first difficulty is a too-hasty treatment of cost allo-

Towards Libertarian Electricity

Reviewed by Richard L. Gordon

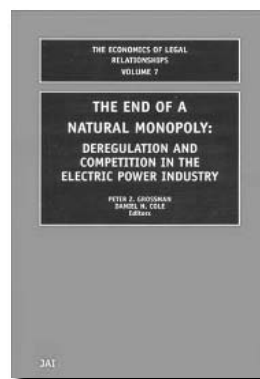
THE END OF A NATURAL MONOPOLY: REGULATION AND COMPETITION IN THE ELECTRIC POWER INDUSTRY

Edited by Peter Z. Grossman and Daniel H. Cole
256 pp; New York, N.Y.: Taylor & Francis, Inc.

For at least four decades, much of the discussion of public utilities was written for anthologies. The vast majority of those anthologies concentrated on improving the performance of public utility commissions; very rarely did the editors go beyond those discussions to include papers question-

ing the very rationale for utility commissions’ existence.

Peter Grossman and Daniel Cole’s new book *The End of Monopoly* fills that void by offering a useful collection of challenges. The book contains 10 papers, six of which were written or co-written by the two editors. Grossman and Cole coauthored the introduction; Grossman, an economist, also contributed papers on the underlying economics, the history of regulation, and a concluding chapter reviewing prospects. Cole, an attorney, authored a chapter on “The ‘Regulatory Contract,’” and coauthored a chapter on stranded benefits and



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cation. The worst simplification is to talk about the “difficulties” of allocating costs; in fact, cost allocation is economic nonsense. The correct economic argument is that market conditions determine the optimum contribution of different users and uses to recovery of costs common to all consumers. Posner’s discriminating monopolist would ring out as much profit as possible from each sale. A regulator determined to remove excess profits by allocating to customers the benefits of profit reduction has literally infinite choices.

Grossman also slides over the metering-cost problems that hinder varying rates over time. He criticizes the declining block rates that utilities employ because such rates encourage consumption. This omits the familiar point that the stimulus is simply the increase of output to efficient levels possible when the monopolist can discriminate. (For a fuller view, see my “Don’t Restructure: Deregulate,” *Cato Journal*, Vol. 20, No. 3.) He then raises questions about the wisdom of increasing generation-unit size, the shift to nuclear power, and the problems of transmission-system failure. The chapter notes that falling prices explain why the regulatory system was unchallenged until the 1970s.

Grossman’s concluding chapter starts with the observation that opponents of deregulation draw on ruinous competition arguments, concerns about the ability to ensure sufficient capacity in a deregulated world, the price-manipulation opportunities produced by such capacity deficiencies, and reaction to California’s problems. He then outlines the changes in California, develops the basic economics, and applies them to the California situation. Grossman further develops the arguments against deregulation traced at the start of the chapter and shows their defects. This neatly explains why fears of deregulation are unfounded. He concludes with discussion of the prospects for deregulation. Grossman recognizes the barriers to undertaking reform, but believes (or at least hopes) that they can be overcome. While such optimism may be unwarranted, this concern is irrelevant to his case; whatever the prospects for attaining

a desirable reform, it will never occur if no one has the courage to present the argument. Political realists suggesting incremental reforms proved no more effective than proponents of the preferable, more radical proposals.

Cole’s chapter on the notion of the “regulatory contract” very nicely shows the drawback of reliance on the existence of a tacit “regulatory contract.” He takes the sensible position that the existence of a

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“contract” between utilities and regulators does not resolve issues of the legitimacy of different deregulatory steps. The implicit terms must be determined, and Cole indicates that the implicit rights of the utilities may not require protection from losses.

The chapter that Cole co-authors with Reed W. Cearley presents a fine survey of the stranded-cost debate that takes advantage of accumulated experience to defuse the issue. The authors recognize that divested plants often are sold for more than their book value; these are termed “stranded benefits.” They also realize that prices are unlikely to fall to the level of costs of combined-cycle gas-fired plants; more expensive coal-fired and nuclear capacity is needed to keep prices low.

The first chapter by the other contributors is Bradley’s condensation of his 1996 *Energy Law Journal* survey of the early history of electricity regulation. The condensation well summarizes the history and issues that deregulation involved. He emphasizes the role of the electric companies in inviting regulation. The discussion includes the creation and private-company purchase of municipal electric utilities. Bradley then contrasts the arguments made in favor of regulation to reality and concludes that regulation mainly protected utilities from competition.

Tomain provides a useful critical survey of the regulatory situation with stress on transmission. He begins with remarks on views about regulation and deregulatory efforts in other industries. This includes examination of the familiar, central issue of

the public choice challenge to public interest views of regulation. Public choice warns that political expediency may undermine the efficient results that public interest arguments expect to occur. Tomain argues that that expediency still provides benefits to customers so that both the choice and interest outlooks are relevant. He then turns to the evolution of electricity regulation since 1965, with stress on developments after the 1978 passage of the Public

Utility Regulatory Policies Act (PURPA) with its provisions encouraging utility purchases from non-utilities. This leads him to consideration of whether the independent regional transmission companies, which FERC is requiring,

should be profit-making or nonprofit.

The Morriss contribution deals with the problems of translating economic concepts into laws. Those problems include misunderstanding, infeasibility, and rejection. Morriss, trained as both an attorney and an economist, several times suggests that lawyers simply do not correctly comprehend the economics. He neatly indicates that a central problem is misunderstanding by lawyers of the economics of markets. At one point, he alludes to the difficulties of translating economic concepts into administratively feasible rules. However, much of his discussion deals with the tendency to stress redistribution of monopoly profits to various claimants. This is the closest that Morriss comes to indicating that much regulation arises before the economics are developed. The chapter sketches the evolution of regulation and of the economic commentary on it. He uses natural gas as well as electric power examples. This is followed by reflections on the conflicting forces at work and why they hinder permanent renunciation of regulation. The result is an interesting examination of the difficulties of producing and maintaining deregulation.

CONCLUSION The book is a more coherent, more market-oriented approach to electricity regulation than is usually produced. It applies its perspective to the developments of the last few years. Thus, it provides an interesting addition to the literature. **R**