Book Reviews

D. W. Carlton and J. M. Perloff, *Modern Industrial Organization*, Scott Foreman & Co., 1990, ISBN 0673-18062-X.

D. A. Hay and D. J. Morris, *Industrial Economics and Organization*, 2 ed., Oxford University Press, 1991, ISBN 0198-77223-8.

F. M. Scherer and D. Ross, *Industrial Market Structure and Economic Performance*, 3rd ed., Houghton Mifflin, 1990, ISBN 0395-35714-4.

These leading new (or revised) textbooks under review all provide extensive coverage of applied IO suitable for undergraduates. The newest entry by Carlton and Perloff (CP) is an outstanding textbook, offering a rare combination of breadth, depth and user-friendliness. The book provides masterful, nontechnical accounts of the main theoretical ideas of the literature, including costly information, game theoretic models and contestable markets. Empirical evidence is concisely summarized, and "case-study" applications of theory to policy and business problems complement the usual descriptive material. There is a useful chapter on externalities not covered by the other authors. The book offers a series of superb mathematical appendices and provides simplified and understandable models of monopolistic competition, markets with imperfect information and other important topics that are invaluable to students. Finally, exercises, problems and solutions add considerable value for teachers and students.

The section on mergers is weak compared to the treatment in the other two books under review. In my opinion, CP are too optimistic about the benefits to be expected from mergers. There is also considerably less on the determination of firm growth than is contained in the other texts under review.

Hay and Morris (HM) have also produced a very fine, solid text with an extensive and useful chapter on corporate finance, a topic not included by either of the other competitors. However, their book is much less user-friendly than CP for several reasons. No exercises are provided, and mathematical developments are scattered throughout the text, and are, in some cases, less complete. The most serious drawback is the general style of exposition. Instead of summarizing the current view (or views) on a particular issue and providing references to the main contributors, HM adopt a more "historical" approach. The findings of successive contributors are described in some detail. This means that largely out-dated work is given too much space, and beginners will be confused by the succession of claims and counter-claims.

The Scherer and Ross (SR) text I rank at the bottom of the list. I was disappointed in their atheoretical, indeed, antiquated approach. Most of the important theoretical advances, including some predating Scherer's second edition (such as Akerlof's market for lemons) are, at best, given a minor mention in the daunting proliferation of footnotes. There is no exposition in the text or in the appendices of many important, recent developments. This omission seriously reduces the relevance of the text. Their approach is largely descriptive and historical, and much less satisfactory then the juxtaposition of clear, theoretical exposition with case studies of applications and the summaries of empirical evidence of CP. Lack of exercises is an additional weakness, and most readers will be better served by either of the newer and, in most respects, superior expositions.

Finally, it must be mentioned that all three texts omit several important developments and topics, and in this omission, they reflect the prevailing situation in which academic IO has largely failed to incorporate some of the most pressing, current, policy concerns of industrial economies. Thus, there is little on industrial relations, or the internal organization of the firm and incentives for productivity. These questions are of much greater importance for international competitiveness and welfare that details of "market structure" that still claim so much unnecessary attention.

Evidence that chief executive compensation in United States corporations is mainly determined by size rather than performance (Baker, Jensen and Murphy, 1988) with its implications for "excessive growth and diversification" is generally neglected, (although HM do discuss managerial theories at some length). Recent developments in inter-firm co-operation such as "flexible networking" (Howard, 1990), the increasing importance of small business or the productivity gains associated with profit sharing and team production (Blinder, 1990) are completely ignored though, arguably of far greater significance for current policy than many of the traditional preoccupations of IO economists (Dertouzos, Lester and Solow, 1989).

Substantial growth in small firm shares and employment in many countries, in recent years, has been documented by Loveman and Sengenburger (1991) but is not discussed at all. At a time when even the traditional definitions and boundaries of "firms" are subject to modification and critical scrutiny, industrial organization, as defined by the texts under review, misses some of the most significant current developments, as does Williamson's "markets and hierarchies" dichotomy (1975). Recent research surveyed by Howard (1990) and others shows that small business can transcend their "boundaries" through flexible cooperative agreements with competitors or larger, "parent" corporations as in Japanese subcontracting. Economies of scale in marketing, R&D or specialization can thus be attained without losing the flexibility and motivational advantages of small scale organization in the bureaucratic jungle. The single firm or entrepreneur was always dependent on an elaborate infrastructure for optimal performance as experience in Eastern Europe is graphically redemonstrating; but these concepts are increasingly called into question by the nonmarket interactions which are facilitated or even required by modern technology and communications.

Interestingly, the United States and the United Kingdom are home to most of the traditional IO research and textbooks, which neglect all these developments. They are also the countries where flexible networking is the least developed of all and where policy is dominated by the ideology of pure "market competition" as *the* solution to most social and economic problems. These are the very same countries where competitiveness and productivity have declined most dramatically, relative to Japan, continental Europe and other places. As Best (1990) has shown, exclusive reliance on market transactions and mergers to achieve alleged economies of scale has contributed to the relative decline of U.K. and U.S. manufacturing. Burdened with less ideological baggage, policy makers in Japan, Germany, Italy and elsewhere could encourage their (larger) small-business sectors to develop viable modes of cooperation and often achieve world market leadership. This is supported by cooperative industrial relations and superior systems of vocational training and infrastructure investment. Just as the excessive division of labor inhibits Japanese-style cooperation and flexible teamwork on the shop floor (FitzRoy and Acs, forthcoming), so perhaps does excessive, academic specialization impede a flexible response to new, practical realities.

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