Book Reviews

Charles E. Walker and Mark A. Bloomfield, eds., *Intellectual Property Rights and Capital Formation in the Next Decade*, New York: University Press, 1988, ISBN 0-8191-6884.

Intellectual Property Rights and Capital Formation is a collection of papers presented at a symposium in 1987. The papers are authored by persons from academia, Congress, think tanks, corporations, the media, and foreign governments who have expertise in intellectual property rights and foreign trade policy. The book is broken into five parts with Parts I, III and V having only one chapter but consisting of a paper and multiple discussants. Parts II and IV have seven and six chapters, respectively, each with a single author.

If the structure of the book seems uneven, so is the content. In fact, this reader was disappointed by the small amount of text that was devoted to the content implied by the title. The title identifies what is one of the most frequently asked questions by scholars exploring a rationale for strong intellectual property regimes in both developed and underdeveloped countries. Have intellectual property rights encouraged or discouraged capital formation as anticipated. However little theoretical discussion of this topic appears, and even less empirical evidence is presented.

The best paper was that of Edwin Mansfield who succinctly summarized his past research on the importance of intellectual property rights in research and development and technological change. Robert Banko's discussion of Mansfield lays out for the reader a series of issues that dominate both the domestic and international discussion of intellectual property rights. For instance, the notion of monopoly rights violating short run static efficiencies but facilitating dynamic efficiency or technological innovation. He also notes the increasing importance of technological production in today's competitive world and the importance of information and information control on the list of crucial resources for firms and nations. New forms of intellectual property have challenged the adequacy of the existing legal rights in the United States and abroad.

John B. Shoven raises an interesting point when he introduces the legal liability issue in contemporary United States litigation. Shoven concludes that, "My opinion is that the U.S. legal system is particularly anti-innovation which accounts for part of the difficulty that we have in being competitive in today's worldwide marketplace." This is an intriguing notion in that it is not the absence of property rights but what obligations those rights impose on firms in the face of other laws born of government regulation of the market. Further empirical research on this topic seems warranted.

Parts II and III may warrant a skimming by those readers generally familiar with the literature on intellectual property rights. Most of the chapters are "primers" and may serve as a good introduction to views of intellectual property rights from different countries. Part III entitled "Capital Formation, Competitiveness, and Intellectual Property," suggested it contained the mother lode of this volume. However, the only chapter is by Clayton Yeutter and is entitled "Negotiation Intellectual Property Rights Protection." Although well written on this topic, it clearly does not address the implied topic of this part of the book.

Some of the industry papers in Part IV, particularly Edwin Tocker's chapter on the chemical industry, do give some anecdotal information on the correlation between the presence and absence of intellectual property protection and investment decisions by the private sector. One does get a glimpse here and there of this relationship among these industry papers but not in sufficient dosage to really expand the reader's knowledge enough to generalize from the cases. Part V discusses the Uruguay round of the GATT negotiations and is somewhat dated.

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To this reviewer, Part I, Edwin Mansfield's paper, in particular, and part IV, the industry papers are the guts of the book. The cases reported did provide some micro information to expand on the more widely known macro aspects of the intellectual property discussion. Generally, the other chapters suffer from an apparent attempt to reflect the views of the governments or the organizations with whom the authors are associated rather than an analysis of the topic by a detached observer. This is not uniformly true since Timothy J. Richards' chapter on reconciling divergent views on intellectual property rights among countries summarizes his research published in an interesting volume entitled *Intellectual Property Rights: Global Consensus, Global Conflict?*

I believe the editors could have helped to overcome some of the shortcomings of this volume by providing an introduction to the issues addressed in the book. Secondly, they should have written a chapter at the end, drawing together some of the points made in these diverse papers to demonstrate what the volume is contributing to the literature on intellectual property rights and capital formation. It never hurts to reemphasize what may be the obvious. Finally, this volume will be competing with a number of newer books which address some of the same issues but in greater depth, particularly in the international context.

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David Granick, *Chinese State Enterprises: A Regional Property Rights Analysis*, Chicago and London: The University of Chicago Press, 1990, ISBN 0-226-30588-0.

David Granick argues that China is unique among centrally planned socialist economies. Granick was consultant to the World Bank during 1982 to 1985 on a project in which the Chinese Academy of Social Sciences and the World Bank studied nineteen large and medium sized (2000 or more employees each) state owned industrial enterprises as well as a county administration in charge of a number of individual enterprises. Granick employs this study as the basis of his analysis. He maintains that China differs from other centrally planned economies because of the multiple-level supervision that exists over each individual enterprise; the frequent over-fulfillment of production plans; the widespread availability of allocated inputs and outputs outside the state administered system; the existence of multiple prices for the same product in a single region; the nature of Communist bureaucratic control over appointments to enterprises; and the form of labour allocation and wage determination used. Most of these features are attributed to the peculiar nature of property rights in an enterprise, in that many levels of government simultaneously hold and exercise these rights. This situation is encapsulated in the phrase "too many mothers-in-law".

Granick employs a principal-agent framework to explain these unique characteristics. The Chinese state enterprises are the agents with multiple principals exercising control over them. Several principals hold property rights in the same enterprise. Granick defines these property rights in terms of the principal's authority to appoint managers, set output and profit targets, and allocate output. Such property rights were originally acquired through investment in the fixed capital of the enterprise although, in some cases, tradition may also have played a role. The author attempts to explain several special characteristics of Chinese state enterprises in terms of the exercise of differentiated property rights by the multiple principals.

This thesis is illustrated by reference to the pattern of planning in China. Chinese national planning does not play the major coordinating role in the economy that it did in the former Soviet Union. A much smaller proportion of intermediate products is centrally allocated and only a share of the output of Chinese enterprises is designated for distribution to other entities. As a result only a fraction of output is supported by the allocation of materials. Thus, this portion of enterprise plans tends to be over-fulfilled.

Granick demonstrates that if the same administrative body that sets physical output targets also determines value and profit plans, over-fulfillment is likely to be much more frequent than if rival