

BOOK REVIEWS

***America's Ailing Cities: Fiscal Health and the Design of Urban Policy.* By Helen F. Ladd and John Yinger. Baltimore: Johns Hopkins University Press, 1989. xiii + 323 pp.**

Reviewed by Robert Kirk, Economics, Indiana University-Purdue University at Indianapolis

Ladd and Yinger, two well-published scholars in urban economics and public finance, measure the fiscal health of 86 major central cities in the U.S. over the period 1972-1982. The cities range in size from New York and Chicago to Troy, New York and Passaic, New Jersey. Their major findings include: (1) Fiscal health is worse in larger cities than in smaller ones; (2) State fiscal institutions and intergovernmental grants raise the fiscal health of the average central city; (3) States recognize fiscally disadvantaged cities by allocating more assistance to them; (4) Between 1972 and 1982, state assistance offset approximately one-half of the decline in city fiscal health caused by economic and social trends; and (5) In 1982, federal grants contributed almost as much as state assistance did to city fiscal health.

What policy recommendations arise from the analysis? The first priority should be assistance for the poor who are located disproportionately in central cities. Ladd and Yinger argue that income redistribution should be a responsibility of higher levels of government--state and federal. They recognize some of the problems in designing a federal aid program in a federal system, for example:

. . . distributing federal aid to cities inversely with their actual fiscal health would have the undesirable consequence of rewarding states that are not generous to their cities.

They propose to aid those cities that have been affected negatively by national economic and social trends that arise outside local and state control and are identified by indicators such as resident income and the poverty rate. Although there has not been a national recession since 1982, there have been regional ones during the 1980s. Given the Ladd-Yinger policy prescription, the challenge would be to design policy instruments that are capable of focusing narrowly on the cities of those regions and timing the assistance so that it is not counterproductive.

Ladd and Yinger make the case for more state assistance too. The recommended forms are to allow cities to impose an earnings tax on commuters and for the states to assume certain functions currently financed by cities. One candidate is welfare. Massachusetts is cited as an example of a state that has compensated cities with low revenue-

raising capacity and high public service costs. Given Massachusetts' recent fiscal problems, one wonders if these grants are vulnerable to state-level fiscal health problems.

The Ladd-Yinger policy recommendations are not particularly new. During the 1980s, the states have moved, in some instances, in the directions that Ladd and Yinger suggest--giving more flexibility to cities to raise revenues (to replace lost federal revenue-sharing dollars via an earnings tax, for example) and increasing the state share in funding certain city functions. Ladd and Yinger have not given sufficient attention to the alternative revenue sources developed by cities. For example, user fees have become an increasingly important way to finance services where the beneficiary is clearly identified.

The major contribution of the book is the methodology used to measure fiscal health. Two-thirds of the pages are devoted to the development of the methodology and discussion of the results. As a consequence, the appendices are important sources of assumptions and formulas. Ladd and Yinger differentiate their methodology from others who have measured fiscal stress by focusing on structural causes "which consist of broad economic, social, and fiscal trends that are outside a city's control." Because the study period begins in 1972 (a year of expansion) and ends in 1982 (the trough in the 1980-1982 recession), one wonders how sensitive the measures of central city fiscal health are to the particular period of time analyzed.

The book represents a major empirical effort in designing measures of fiscal health and testing hypotheses related to urban public finance and fiscal federalism. It certainly will be cited in future work dealing with the fiscal health of our cities. The policy recommendations are stated forcefully and should stimulate lively debate in the 1990s.

***Plant Closings and Worker Displacement: The Regional Issues.* By Marie Howland. W.E. Upjohn Institute for Employment Research, Kalamazoo, 1988. 164 pages. ISBN 0-88099-063-5**

Reviewed by LaVonne A. Straub, Department of Economics, Western Illinois University.

As the name reveals, this book presents results of an extensive study of the dynamics of structural economic change that results from the closing of manufacturing plants and worker displacement. The work is an important contribution, as a number of proposals and policy changes have emerged in response to a shift in the U.S. economy from manufacturing dominance. Numerous important questions surround structural shifts; direct employment assistance programs and protective trade legislation are representative of proposals made on the basis of plant closing impacts. As the author points out, who should bear most of the burden of a plant loss is a sensitive social question that has been resolved differently in other industrialized countries. Recently passed federal legislation requiring that employees and the community receive advance notification of a closing indicates widespread concern over the consequences when a plant ceases or reduces production.

Three specific industries, with varying growth rates, are analyzed for the period covering the early 1970s to early 1980s: metalworking machinery, electronic components, and motor vehicles. The Dun and Bradstreet data file that was used allowed exploration of over 50,000 establishments, and numerous useful results are presented. The data allow sorting employment gains and losses that are due to several factors: start-ups, closings, expansions and contractions, or relocations. Regression analysis is used to isolate causes of job change and to determine their importance. Although there are many advantages from this comprehensive data set, it did tend to overestimate closings and worker job loss. Several methods were used by the author to estimate and account for this bias, such as validating with other data sets. This is one of several examples that indicate the care taken by this researcher in analyzing this important question and providing essential, empirical results, even when they are counter to popular belief.

In presenting a regional analysis of structural change behavior, the author uses a logit model for predicting the probability of a plant closing. Regional location is one of the independent influences, along with facility size, age, whether it is a branch or headquarters, and other factors. One finding is that there is little regional variation in rates of

closure, and the differences that do occur appear as somewhat higher rates in the Sun Belt economies than in the traditional Frost Belt. Rates of worker displacement are similar in all the regions, and employment growth variation is mainly due to differences in start-up rates and expansions.

The fifth chapter of the book, which analyzes reemployment success of displaced workers, is valuable from a policy perspective. The author uses 1984 *Current Population Survey* data to address three issues: 1) The extent of impact of local labor market growth on readjustment of displaced manufacturing workers, 2) Which demographic groups experience large financial losses following displacement, and 3) The impact of worker prenotification on reemployment success of displaced workers. Part of the findings show most blue collar workers and mature white collar workers suffer financial losses from displacement that are not offset by an expanding local market. The author also did not find evidence that prenotification yields a significant advantage for workers; however, only a small share of the sample had acted on the advanced information by leaving the job prior to closure.

The task of the author was to identify where plant closings are most likely to occur, the major causes of these closings, and conditions under which closure and worker displacement result in significant financial loss to the workers. The findings are informative and, in places, contradict the generally accepted doctrine--for example, she concludes that the effect of unionization on closure appears to be exaggerated. Conclusions on the influence of local taxes and wage concessions are valuable, although the scope of the study (three industries) needs to be kept in mind. The author closes the book by noting limitations and identifying areas that need to be targeted for further research.

This book is a useful tool for those planning economic development and adjustment strategies, for policy makers considering worker assistance programs, for the study of structural economic change, and for anyone doing research on regional employment patterns. That the author analyzes causes and consequences of plant closings in the three industries from a variety of angles is both interesting and useful. It does tend to make it difficult for the reader to keep track, however--a mild criticism, as there is not much else that can be done. After all, this is not a juicy murder mystery being tracked and presented. The author summarizes the material, thereby giving the reader a guide and making the book a handy reference for other research, for classroom use, and especially for policy and planning purposes.

***The Northern Question.* By Adrian Nicola Carello. Newark: University of Delaware Press, 1989. 213 pages.**

Reviewed by Hendrik van den Berg, Department of Economics, University of Nebraska-Lincoln.

The Northern Question by Adrian Nicola Carello examines the unbalanced regional economic development of Italy, seeking to explain the underdevelopment of the Mezzogiorno, the southern part of Italy. This topic is of obvious interest to regional scientists, but it is not clear that Carello's approach is useful to anyone seeking further economic insights into the regional imbalances that are so glaring in Italy. Carello is a political scientist, not an economist, which may explain the predominant role he accords politics in the regional development process. Unfortunately, economics is not just pushed into a secondary role, but economic development in Italy is described as nothing more than the result of political forces.

Carello argues that the political subordination of Italy vis-à-vis Germany and France, who have to deal with United States hegemony over Europe and the EEC, leads northern Italy in turn to subordinate the Mezzogiorno. It is this subordinate position in the international political hierarchy that causes the Mezzogiorno's underdevelopment. Carello does not present just another center/periphery analysis of regional inequality; we are told that "it is necessary to separate and thus to liberate history from ideology by repudiating the ideological foundations of Marxist and liberal intellectual traditions" (p. 27). It takes some reading, and rereading, to understand the author's terminology, but once understood, the message becomes clear: self-interest based on political power is the determining factor in the underdevelopment of the Mezzogiorno.

Political forces worked against the Mezzogiorno from the time of Italian independence, according to Carello's historical interpretation of the events leading to the Mezzogiorno's underdevelopment. The northwestern part of Italy dominated Italy after unification in the 19th century because that region's elite "used its control of state apparatus to establish its predominance in the Italian economy by politically reorganizing the means of production on Italian territory and by employing the real income produced by the economy to its own advantage and benefit" (p. 34). The rise of fascism and the defeat in World War II upset this arrangement; following the war "the northwestern elite found itself atop a political order now lacking legitimacy and a stable institutional structure" (p. 37). The Left especially gained political influence and might have gained political control of Italy had not the United States used its "hegemony over Italy" to "give victory to the

northwestern elite," which it felt would be "more congenial to its tutelage than a regime dominated by the Left" (p. 38). But because the hegemony of the United States was tempered by the fact that "it could not control all the variables that would determine the future course of events in Italy" (pp. 38-39), the U.S. had to promote a delicate balance between giving too much political autonomy to the northwestern elite and allowing the Left to regain power. "The United States used its hegemony to attempt to manage the balanced development of the economic systems of the northwest and the center/northeast, and the Mezzogiorno's underdevelopment, by assigning Italy to a subsidiary role in the upper ranks of the international division of labor so that the northwestern elite might retain power yet remain under American tutelage" (p. 40). One cannot help but imagine the rulers of the United States gathered in a large boardroom carefully deciding the fate of the world by assigning roles to the various countries around the world!

Some interesting economic points are made, however, with respect to how the Mezzogiorno has been harmed by being a region within the EEC. Few will disagree with the assessment that the EEC's agricultural policy hurts the region, given that the Mezzogiorno probably has a comparative advantage in the production of many fruits, vegetables, and other agricultural products. Carello also points out that a large portion of the industrial investment, directed to the Mezzogiorno in response to the various government incentives, settled in the area just south of Rome rather than in the more southern provinces. He does not attempt to explain the economic reasons for this; it is apparently presented as further evidence of the political conspiracy. Also interesting is the point that West Germany has resisted using a European Currency (ECU) for fear of losing its seignorage derived from the mark's use in international trade. But before we attribute too much economic insight to Carello, we must point out that this latter comment is part of a chapter (six) on the international monetary system that defies most known theories of international finance (except perhaps mercantilism). Notable is Carello's definition of seignorage: "The difference between the ratio of the extrinsic and intrinsic values between these currencies, called seignorage, accrues to the United States and to West Germany at Italy's expense because Italy occupies a subaltern position compared to these countries in the international economy" (p. 73).

There are many other serious problems with Carello's presentation. The heavy use of supposedly technical terminology simply does not impress; rather, it confuses the reader to such an extent that many will be led to put the book down after the first few pages. The voluminous statistics presented are not always well-explained, often superfluous (e.g., several tables presenting the same information in Chapter 5), and

sometimes unresponsive of the arguments presented in the text. For example, Carello repeatedly refers to industry as "the most productive sector" of the economy, but his statistical tables (unnumbered tables in Chapter 3) clearly show this not to be the case in terms of output per employee. The large amount of data presented on government funding of projects and development aid for the Mezzogiorno is far from supportive of Carello's claim that the northern elites are out to exploit the south, but this does not prevent him from making that claim elsewhere throughout the book. There are also some careless passages in the book, such as: "For every person employed, 1.6 were unemployed in north-central Italy, against 2.2 in the Mezzogiorno" (p. 106). This is some unemployment rate!

The major shortcoming of the book is that it does not look at the world in a way with which most regional economists are familiar. No effort is made to justify analytically the particular view taken. Readers interested in finding an economic explanation for the discrepancy between northern and southern Italy likely will come away disappointed. Carello, of course, never pretends to offer economic explanations in the traditional sense; his view of the world is one of dominating, and dominated, political power groups where all economic outcomes can be explained as direct results of those political forces. We do not wish to imply that a new approach to a topic cannot be worthwhile and interesting if it does not follow conventional methodology and language. Carello, however, does not succeed in convincing this reviewer that his political view of the world is correct or even useful. Unless you already believe that his is the right way to look at regional economic development, it is doubtful that you will find Carello's book to be of help in clarifying the Italian regional problem.