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BOOK REVIEWS

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Diane Coyle. (2016) GDP: *A Brief but Affectionate History (Revised and Expanded Edition).* Princeton University Press: Princeton, NJ, USA. ISBN: 9780691169859, 184 pp., $13.95 (paperback).

Reviewed by *Alexandre R. Scarcioffolo*, West Virginia University

This book presents the history of the concept of Gross Domestic Product (GDP) and how this concept has changed over the years. GDP is not a measure of welfare but a measure of output, which can be quite difficult to estimate or even to compare across countries. The author presents diverse thoughtful questions in order to expand the discussion of how to improve the measurement of GDP and also how to overcome the main estimation difficulties. This book is, therefore, appropriate for anyone curious about the dynamics of GDP and how a concept that has been in use for an extended period still faces challenges.

Chapter 1 details the genesis and the historical evolution of GDP, as well as the hurdles and discussion among scholars to define the best way to estimate national income. The idea of measuring an entire economy dates back to England in 1665. The British scientist, William Petty, estimated income, expenditure, population, and other resources for England and Wales to assess the resources for financing the Second Anglo-Dutch war (1664-1667) through taxes. As with many other inventions, GDP was developed to enhance understanding and facilitate the country's position to win the war. During the eighteenth century, several scholars attempted to measure national accounts for different countries. However, due to the lack of definition and standardization, the estimations were unique to each scholar. Following Adam Smith, national income only accounted for production of physical commodities, agriculture and industry. Later, Colin Clark estimated national income and expenditure on a quarterly basis for the U.K., providing different categories for different types of production and adjusting the values for inflation. Simon Kuznets produced estimates of national income for the U.S, showing that the American national income decreased between 1929 to 1932. The segregation of government spending was a subject of discussion among scholars due to the increased involvement of government in the economy by that time. Based on Keynes's argument in How to Pay for the War, published in 1940, Richard Stone and James Meade developed what became the first modern set of national accounts and GDP.

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Chapters 2 and 3 cover the Golden Age of economic growth (1945-1975) and the stagflation period after the 1970s. The destruction and rebuilding of several European countries due to World War II led to increased GDP growth. Since output, income, and expenditure declined sharply after the end of the war, any small increase in absolute value on these accounts had a steadily positive effect. Besides the impact on GDP due to reconstruction, labor and capital also improved, affecting the workforce and improving technology. Subsequently, after World War II, the Cold War came, which increased governmental expense in different sectors. A problem that arose during the Golden Age was the inability to accurately compare GDP across countries due to fixed exchange rates and the lack of an international currency market. To account for this problem, "purchasing power parity" (PPP) was created. Even after the introduction of PPP, there are still many critics of comparing GDP across countries due to poorly designed surveys to calculate the PPP, as well as subjective weights used to compute PPP.

During the 1970s, western countries started to experience slow economic growth with high inflation (stagflation). The main challenges that worsened the economic situation were: the oil crises (1973 and 1975), high spending on the Cold War and Vietnamese War and environmental movements spurred by the Club of Rome's report, "The Limit to Growth." Another possible factor that affected countries' GDP was the move toward independence for many colonies, which resulted in millions of dollars of aid payments. The 1970s economic experience impacted the belief in the Phillips curve (negative relationship between inflation and unemployment) and Keynesian theory. Since GDP does not measure welfare, Mahbud Ul Haq, a Pakistani economist employed at the World Bank, and later at the United Nations, introduced an index to measure poverty and welfare - the Human Development Index (HDI).

Chapter 4 examines how countries changed the political-economic paradigm after the 1970s. The most common example came in the U.S. and U.K. with the Reagan-Thatcher revolution. During this period diverse innovations like computers and telecommunications were introduced, affecting the level of output and its rate of growth. Productivity in the U.S. increased from an annual average of 1.38 percent (1972-1996) to 2.46 percent (1996-2004), hence, the new technologies sharply impacted the economy. However, GDP does not measure innovation well because it does not accurately capture declines in price or improvements in quality of products, and could therefore underestimate the real growth of the economy. The introduction of computers aggravated this problem, as new technologies have increased quality while decreasing prices. To better take these factors into consideration, the U.S. introduced "hedonic" price indexes to calculate the true price of the underlying benefit to the user and began to consider the purchase of software as an investment rather than an intermediate good.

The expansion of GDP in diverse countries during the mid-2000s, especially in Brazil, Russia, India, and China (BRIC), is covered in Chapter 5. GDP growth was related to technology-driven increases in productivity in a more globalized world. Development of financial markets also impacted the growth of GDP during this period. The financial crisis of 2008 raised questions about how the financial sector should be counted in GDP, and accurately measuring the financial sector is a difficult problem. For instance, the U.K.'s real GDP doubled between 1980 and 2008, whereas the value added of the financial sector tripled. Another issue is whether to account for the informal economy, which on one hand

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creates value but on the other is quite complicated to track accurately.

Chapter 6 concludes Coyle's thoughts about GDP. GDP is a statistic to measure mass production, and while it falls short in measuring intangible benefits, it still has great value. There are three main issues that we should think about with respect to improving the measurement of GDP. First, due to a more complex economy, in which new products and services are available through evolving trade mechanisms, the traditional method of recording trade fails to reflect the true value of the outcome. Secondly, the value of information and intangibles goods like social media or improved web search capabilities should be accounted for in GDP. Finally, sustainability questions should be addressed, such as considering spending on research and development as investment rather than cost and balancing investment in new assets with the depreciation of existing assets.

Therefore, Coyle's work presents an extraordinary analysis of the evolution of an abstract concept that is easily explained in textbooks but utterly difficult to measure in real life. This work is important for those who want to have a broader understanding of the main roadblocks of estimating GDP and its statistics. Additionally, the author presents insightful discussion of the main question that surrounds the concept of GDP. Regional scientists who focus on growth and economic development would benefit from this book.

Ilya Somin. (2016) *Democracy and Political Ignorance: Why Smaller Government is Smarter.* Stanford University Press: Stanford, CA, USA. ISBN: 9780804799317, 312 pp., $27.95 (paperback).

Reviewed by *Daniel Bonneau*, West Virginia University

Ilya Somin's *Democracy and Political Ignorance: Why Smaller Government is Smarter*, offers a deep consideration of the shortcomings of American Democracy explained through the lens of high levels of voter ignorance. The book leaves no question in the readers' mind that voters are largely uninformed about political topics, ranging from the political affiliation of a candidate to the ignorance of recent legislation. Beyond identifying the issue in the beginning chapters of the book, Somin considers alternative solutions that may increase the level of voter knowledge in a society, or reduce the impact of voter ignorance.

The book opens with a chapter detailing the extent of voter ignorance using surveys from elections held throughout 2004-2014. While the reading of the first chapter may seem repetitive and dull, the information conveyed is astounding and motivates the discussion that follows. For example, in a Bloomberg National News survey conducted the week prior to the 2010 election, over 61 percent of respondents could not identify that the economy had grown throughout the year, with another 60 percent unable to identify Harry Reid as the Senate Majority Leader. While this information may not be critical to evaluate all issues, it displays a general ignorance about the political questions voters are being asked to consider. With the inability to identify key political players, it is hard to assume that voters are justly holding these individuals responsible for their wrongdoings and not blaming them for things out of their control.

Chapter 2 begins to discuss the question of "Do Voters Know Enough?" Explaining that, even though voters may be ignorant on most issues, it does not necessarily mean that they are incapable of evaluating certain policies correctly and voting in their true best

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interest. Here, Somin offers a critique of a central component of retrospective voting: if constituents are unsatisfied with the actions of their representative they can and will vote them out of office. Somin uses the responses to the question of whether the economy grew during 2010 as evidence to refute the claim that voters have enough information to make this system effective. Alternatively, he discusses other forms of democratic representation, such as Burkean Trusteeships. Briefly, a Burkean Trusteeship is a system where voters choose representatives who are superior in virtue and critical decision making, leaving all policy decisions directly to these elected representatives. This system does not burden voters with holding extensive knowledge about policy, rather they simply need to be informed about who the representatives are and the qualifications they hold. Somin critiques the Burkean Trusteeship by identifying that voter knowledge still may not be able to reach the threshold required, showing that 38 percent of survey respondents were unable to identify newly appointed Speaker of the House John Boehner in 2010.

Delving into Chapter 3, the discussion transitions into why voters fail to acquire enough information to make truly informed decisions, and why the information they do acquire may not be used in a way that is typically expected. Given the infinitesimally small probability a vote cast is decisive, Somin explains that acquiring knowledge about politics is far too costly. Beyond this, if a single person fails to acquire enough political knowledge to make an informed vote it may not come at their detriment. The ability to free-ride off the possibly higher levels of knowledge throughout the electorate also disincentivizes individual voters to become well-informed on many of the issues. According to polls cited, about 88 percent of individuals were unable to locate Afghanistan on a map in 2006, despite the longstanding engagement of US forces within the country. Furthering this argument, Somin cites economist Bryan Caplan's *The Myth of the Rational Voter* in a discussion of why individuals may be "rationally irrational." This rational irrationality may lead voters to acquire some information for their own psychic benefit, which will outweigh the cost of them using the information incorrectly. While it may appear that they are irrational from an outside perspective, these voters are maximizing their private happiness by acting more like a political "fan."

The two-party system we have in this country is supposed to be a low-information mechanism that allows voters to make informed decisions by the virtue of certain qualities that are prevalent through all candidates within a party. However, for this to be effective, voters would need to have knowledge of where these parties are positioned on issues. For example, in a 2000 poll, only 40 percent of respondents could correctly identify that candidate Al Gore supported higher levels of government assistance to blacks than did candidate George Bush. With only a superficial understanding of the positions of the parties, voters may still be ill-equipped to take on the responsibility of voting in these elections. This information problem increases as ballots become removed from national elections. Local government officials may have vastly different opinions than the party they are affiliated with on a national scale. Armed with this knowledge, it is plausible that voters intending to vote for one set of principles may be voting for an entirely different set at the local level, where levels of information acquisition may be even lower.

This leads to Somin give a lengthy discussion into the benefits of foot voting over ballot box voting, with the substance of the argument reminiscent of Tiebout (1956). Foot voting differs from ballot box voting in that voters would physically move from one locality

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to another where their interest is better represented. Tiebout's idea can clearly be seen throughout this section, in that policies that would incentivize residential mobility between localities, thereby increasing voter knowledge, may lead to a more efficient allocation of government funding. This idea has been attacked heavily by dissidents of the foot voting policy, and the federalism that is necessary to facilitate it. The common claim that it leads to a "race to the bottom" is refuted under the premise that many factors go into one's decision to make the move. For example, possible migrants may not only value quality housing and job opportunities, but may also carefully consider the environment of the state or locality they move to. This will create an incentive for policy makers and business people to consider these effects as well as the obvious ones that could cause people to move. People care about many issues, appealing to these individually may lead to an influx of migrants, but these migrants may be far too like one another, while differing on nearly all issues with the current electorate. However, Somin explains why these effects are often overblown, using the relatively economically free state of New Hampshire with its heavy number of migrants from liberal Massachusetts. Somin describes that these voters may not have the community connections necessary to bring about the desire to participate in voting on local policy. Alternatively, for the migrants' effects to be substantial, their numbers must be large relative to the initial voting base. With these migrations happening on relatively small scales, it is unlikely they will be able to cause a substantial shift in state policy.

Identifying the problem of voter knowledge is important, and it is the topic this book is most devoted to. However, it closes with possible suggestions of how to increase voter knowledge. Understanding that an increase in the educational levels of the general population has done little to improve knowledge in the voting booth, Somin discusses other alternatives. Some of the more controversial proposals are also the most interesting; restricting who can vote (or distributing the number of votes disproportionally) and paying individuals to become more knowledgeable.

Beginning with the proposal to restrict the franchise, or give extra votes to the more knowledgeable citizens, it could, in theory, act as a benefit to all members of society by allowing them to reduce what little commitment they would spend gathering political information. By placing the power to vote in the hands of the more-knowledgeable, policy may become more refined and low-knowledge voters would be incentivized to increase their voter knowledge to engage in the political process. However, this has obvious problems. Restricting voting has often been used to make minorities capitulate to the tyranny of the majority. This is evident in the Jim Crow Era with African Americans. Somin cites this and his lack of faith that racism has completely abstracted itself from modern America to suggest that this carries with it many issues. However, I do not particularly believe he gave this alternative enough consideration to call it a "serious threat." Much of the book was devoted to discussing the incentive problem with voter knowledge. While this solution surely would be politically infeasible, the test administered would be in an entirely different environment than that of the Jim Crow Era South, though Caplan (2013) has already elaborated on this point, coupling the test with the monetary incentive to increase their voting capital. While the arguments about which alternative system could be most efficient is a contentious one, high levels of voter ignorance may keep this conversation strictly theoretical.

Overall, this book provides ample support of how widespread the political ignorance

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is across voters in the United States. Detailing this point is extremely useful and Somin supports many of his claims with academic studies in economics and political science. While the book is dense with information, Somin is articulate in a way that does not preclude comprehension from non-academics. Spending the time to understand the issues the country faces when it comes to political ignorance may serve as the best solution to the problem, even though this book will reach only a fraction of future voters. This book confirms what many students of the subject already know, and will hopefully be alarming and cause self-reflection for those who are being introduced to the idea for the first time.

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Remi de Bercegol. (2017) *Small Towns and Decentralisation in India: Urban Local Bodies in the Making, Part of the Exploring Urban Change in South Asia Series.* Springer: India. ISBN: 9788132227625, 253 pp., $119.99 (hardcover).

Reviewed by *Robert Dunn*, Washington Jefferson College

In this book, the author takes on a unique and quite interesting subject by carefully studying four small, rural towns in Uttar Pradesh, India. The argument laid out in Chapter 1 is that research related to India has focused almost exclusively on large metropolitan areas or remote villages, with the numerous small towns in the country being overlooked. The impetus for the study is the move toward government decentralization that officially began with the 73$^{\text{rd}}$ and 74$^{\text{th}}$ amendments to the constitution of India in 1992. These amendments introduced local self-government and prescribed a number of changes, such as direct local elections, proportional representation of social, ethnic, and religious groups, and a reserved number of seats for women in local government. The author argues that the impacts of this move toward decentralization have not been studied for all levels of government, and the main goal of this work is to examine the relevance and sustainability of the reforms in Uttar Pradesh, a relatively poor state. The four towns, or municipalities, focused on are: Kushinagar, a tourist town that is primarily Buddhist, Chandauli, an administrative center that has experienced rapid population growth, Siddarthnagar, also an administrative center but in an economically depressed area, and Phulpur, an industrial town that is primarily Muslim.

The primary research method for the study is household surveys across 28 wards (sub-municipal political units) based on geographic location, economic activity, and social status. This results in 131 household surveys in total with additional information gathered from group questionnaires. These surveys are supplemented with interviews of elected officials, mayors, local government employees, officials from the district administrative technical

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agency, and department members from the Ministry of Urban Development. Additionally, the author compiles and analyzes fragmented financial data with the results presented in Chapter 5.

Chapter 2 provides details of the difficulties faced by the author in conducting the research, mainly the lack of official data and maps and an entrenched culture of corruption at the local government level. There is also additional motivation for the selection of this region for analysis including background on the history of Uttar Pradesh and its contribution to Indian politics. Detailed statistics of urban development in India provide valuable insights to readers not familiar with this progression, and there is a breakdown of different categories of urban population in Uttar Pradesh, which reveal a clear pattern of increasing growth of the largest cities in the state. Details on the lack of public services, primarily running water, sewage, and road infrastructure, within the region set the foundation for more nuanced examination of these services in later chapters. Finally, this chapter provides an insightful overview of each of the four towns chosen for study. These overviews include maps, economic, social, and demographic statistics, and identification of key features in each town. While the towns are located in the same general area geographically, this provides the reader with a sense of the aspects of each town that are unique. This is an interesting use of large-scale geographic similarities and more refined social and economic differences to highlight the impacts of the decentralization policy.

The focus of Chapter 3 is the political implications of the decentralization changes as implemented at the local level. While there are now quotas for representation of traditionally underrepresented groups based on gender and caste, these are largely being circumvented in practice, and more traditional local elites, based primarily on economic status, are continuing to hold power. Another development are the inroads being made by regional political parties who have taken the opportunity presented by reorganization to have influence at a level that they had previously neglected. The decentralization movement has almost certainly led to more corruption at the local level, primarily through the increased, often unchecked, powers of local mayors. Several specific examples of unethical mayoral influence are presented from different towns.

More technical matters, such as roads, solid waste collection, sanitation, and water supply, are considered in Chapter 4. The challenge of providing these services in underdeveloped towns has generally been complicated further by the decentralization of decision making power and the inclusion of more voices. Often, the local governments do not possess the expertise or finances to meaningfully contribute to projects aimed at expanding access to basic services. Interestingly, these technical challenges with local services have limited the amount of corruption that was predicted to occur when increased local decision making was introduced. A more thorough examination of water supply service shows that expansion and improvement of services is halted by numerous technical challenges, such as lack of expertise and unreliable electricity supply. The result is widespread utilization of off-network hand pumps or privately drilled wells in place of public water provision.

The financial resources of municipal governments are examined in Chapter 5, and the difficulties in carrying out this analysis are numerous. There is a general lack of governmental accounting in the towns studied, so what financial resources are available and how they are spent cannot be fully assessed. It seems the decentralization reforms did not consider the

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unique situations in small towns so laws do not typically apply in a useful way. Similar to the technical services discussed above, there is a lack of financial and accounting skills at the local level and sufficient training is not available. All of this leads to inconsistent records that are, more often than not, still recorded on paper. The author is able to painstakingly reconstruct and reformat financial data for the municipalities relevant to the study and provide information that was previously unassembled and unavailable for analysis. It is clear that the vast majority of revenue in the study towns comes from unequally distributed external grants, which differs from municipalities in other parts of the country that have seen increasing internal revenue generation. In Uttar Pradesh, local taxation is typically insufficient, enforcement of existing tax regulations is lacking, and tax laws are subject to politician's views about how they will influence reelection possibilities. This chapter concludes with a detailed overview of spending in each municipality and a connection to the basic services discussed in Chapter 4. Chapter 6 concludes the study and synthesizes the main findings.

A core contribution of this book is the detail and depth that it provides about local responses to a major policy change in an important developing economy. A full picture of the situation in these towns is presented by the author and supplemented with primary source material such as photographs and reconstructed financial data. Of course, this particular focus can limit its applicability but I think that this book could be a useful addition to a wide range of courses, particularly in the economic development and state and local public finance areas of study. I see it as a valuable complement to work driven solely by statistical analysis, as it develops a fuller and more nuanced picture of political and economic interactions. While it is likely most appropriate for researchers and graduate level students, it is accessible to undergraduate students as well.

Leia Kebir, Oliver Crevoisier, Pedro Costa, and Veronique Peyrache-Gadeau, eds. (2017) *Sustainable Innovation and Regional Development: Rethinking Innovative Milieus.* Edward Elgar Publishing Cheltenham, UK and Northampton, MA, USA. ISBN: 9781784712204, 288 pp., $145.00 (hardcover).

Reviewed by *Arijit Ray*, West Virginia University

Environmental problems are a significant concern of our time. The two most discussed are global warming and climate change, although the list of environmental problems is much longer. Self-interested individuals producing and consuming are given responsibility. Consequentially, we and future generations face a trade-off between consumption levels and a healthy environment. The nature of the trade-off is large enough to incentivize innovation that will minimize problems while allowing us to satisfy our needs and luxuries. Environment friendly innovations are hard to find as there may be little motivation for producers to invest in research and development (R&D), and consumers may find it harder to accept because of elevated cost of adaptation. Therefore, governments may need to play a vital role in encouraging innovation towards sustainability.

How do we envision these innovations? How successful can we be in achieving them? These questions are considered in this edited volume. The book makes an effort to address whether Territorial Innovation Models, a set of dominant models for regional development

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since the 1980s, align with the innovative milieus approach, specifically at recent times when sustainable development is the focus of public policies. The book is divided into eleven chapters, each written by different scholars from various disciplines interested in territorial development. These scholars elaborate on innovation and sustainability in a variety of different contexts, from the photovoltaic industry in Western Switzerland, to forming industry-academia-government relationships in Japan.

Sustainable innovation is better achieved by incorporating a culture of communication between consumers and producers apart from the standard industrial inputs such as local knowledge and capital. Part I of the book, divided into five chapters, explains this point. Further, it shows how innovation development can expand through external relations, a process which is popularly known as anchoring milieu. Chapter 1 is a case study on the development of photovoltaic cells by a German company in Switzerland, while Chapter 2 looks at the issue of energy efficiency and extends it to older home reconstruction.

Chapter 3 discusses the case study of green construction in China, backed by Germany's experience in this sector over four decades, and exemplifies the process of anchoring milieu. Sustainable development also requires that lighting, energy, and waste management systems be monitored simultaneously so the city evolves as a unit. Keeping that in focus, PlanIT developed an Urban Operating System that collects real time information from all subsystems within a city, and is the focus of Chapter 4. The final chapter in this section considers the "water campus" project in Leeuwarden, which is an innovative milieu for a leading scientific institute for water technology, a business center, water based cluster organizations, demo-sites, and various water based financial instruments; and is a part of the drinking water research and business supply that is proliferating world-wide. The objective of such a project is to share the common fixed cost to develop local expertise in water-based technology, and become a global exporter of water-related infrastructure. In each chapter, the respective authors critically analyze the validity of the case study as a model of sustainable innovation and tease out the limitations in the market that may hinder innovations from spreading, thereby clearly communicating where societies stand in terms of development.

The three chapters in Part II address some common problems in a society, namely infrastructure congestion, noise pollution, and unauthorized use of city streets for graffiti. In Chapter 6, the focus is on the creative district of Bairro Alto, where public policy aims to redirect such activities rather than completely eliminate them. For example, a municipal program creates an open air Urban Art Gallery to move the artistic graffiti community to a common institutional space. However, other problems in the city such as nighttime noise, are far from being solved despite several steps by the city council. Chapter 7 elaborates the case study of rural urban collaboration in Rome in the context of setting up a local farmers' market in an abandoned bus stop, where urban consumers buy from rural producers, thereby reducing the environmental cost of food transportation. In this connection, the school meal program explains how such localization may help local farms to proliferate, being able to sell organically-grown vegetables. This also improves the quality of meals served in schools.

The final chapter in this section addresses sustainability in the tourism industry in the Alpine resorts. In particular, it explains how the local resort owners act as an innovative milieu. Climate change leads to lack of snow or a delay in snowfall which means a loss of their livelihood. Protecting the environment therefore becomes synonymous to protecting the

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community. Technological solutions such as better snow-making equipment and availability of high performance lifts have been instrumental in tourisms survival. However, this is not the end to resolving the vulnerabilities that surround the milieu. While the larger resorts in the area are concerned about environmental threats to the local aquatic ecosystem and conservation of energy, smaller resorts do not recognize problems immediately, and little regulatory control is possible over tourism activities. The authors of this chapter conclude that, given the dynamic nature of innovation in the Alpine resorts, an immediate analysis of their innovative capacity is not possible. The general theme of innovation in each case study involves convincing the major group of the society, such as the middle-class, of the project's effectiveness, thereby building up a reputation for the projects that are likely to mobilize the concept from a local idea to a global image.

The final part of the book is concerned with economic restructuring based on knowledge-driven sustainable innovation and regional competition, and the case studies presented serve as examples of institutional innovations. Unlike the local clustering of innovation milieu, these case studies show innovations over wider regions such as the use of electric vehicles in Northern Spain (Chapter 9) and the French Atlantic nautical industry (Chapter 10). Part III of the book concludes with the development of a regional innovation system comprised of academia, industry, and government in the Suwa region of Japan. This innovation system has recognized the importance of products related to life sciences innovation, such as home health care instruments and other medical care products, whose market extends beyond the national boundaries.

In short, this book is a compendium of interesting case studies on sustainable innovation that represent a new approach to business behavior. This approach incorporates cultural, political, and ethical values, and shared responsibility of the economic actors, particularly with respect to the environment. It is likely to be a thought-provoking text for a wide array of readers, whether it be academics or someone with a general interest in sustainability.

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