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# BOOK REVIEWS

***Book Review Editors***:

Leslie Dunn and Robert Dunn

*Department of Economics and Business, Washington & Jefferson College, USA*

*ldunn@washjeff.edu rdunn@washjeff.edu*

**Josef Konvitz. 2016. *Cities and Crisis*. Manchester University Press: Manchester, UK. ISBN: 9780719099649, 260 pp., $40.00 (paperback).**

Reviewed by *Mouhcine Guettabi*, University of Alaska, Anchorage

The introduction details the challenges faced by western societies by highlighting the differences between how the United States and Europe have handled infrastructure deficits and the role of cities in forming policy. The most important points presented in this section, which the author tackles well later in the book, are that crises are the new normal, the new economy is comprised of an industry of innovation and an industry of security, and that cities are fundamental to growth and our future but have been largely missing from the policy conversation.

The first part of the book focuses on the reasons behind the most recent economic decline, the role of cities, and how it is imperative to think about policy in a space conscious way. The author does a commendable job establishing that metros are the engines of growth that generate a sizeable portion of developed countries' GDP and that the importance of urban areas is only going to become more pronounced in the future. From there, he discusses the underinvestment in cities and its profound consequences going forward. The central question seems to be how states can become better at absorbing the shocks facing them and come up with systems that are nimble enough to foresee changes and cope with them. He also makes the important observation that while the tools available to policymakers are unlikely to change, the context within which they are used should and will change. He argues that the space blindness of decision makers is an inefficient way of grappling with tomorrow's unique challenges.

As the share of the world's population moving from rural to urban areas continues to grow and cities become increasingly crowded, the recognition of the importance of space becomes even greater. This is juxtaposed with the increased distress experienced in urban areas such as the fact that local residents have difficulty obtaining educational and vocational schooling as a result of poor preparation and fewer linkages in their communities.

Going forward, policymakers need a better overall agenda to promote house ownership in increasingly crowded cities without mitigating mobility and affecting labor market decisions. While the state of infrastructure is in dire need of updating, determining the causal effect of its


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quality on innovation and development is difficult, which makes policymakers apprehensive when making long-term investments with uncertain returns. This is troubling given that estimates of how much it would cost to renovate some of the world's largest cities are gross underestimates as they incorrectly assume yesterday's needs will be tomorrow's. The infrastructure challenge has many dimensions but one of the more concerning ones is the spatial separation between jobs and poor areas as most jobs migrate towards more affluent communities, even the low skill ones (Partridge and Rickman, 2003).

A poignant and insightful point is the argument that the growing role of the service sector has changed the landscape of where firms locate, how communities should think about incentivizing businesses, and the general structure of the regional economy. The implications of these changes have far ranging ramifications. For example, Karabarbounis and Neiman (2014) hypothesize that one likely explanation for the decline in the share of labor income is due to changes in industrial composition. Manufacturing, they explain, tends to use a higher labor share than services, so it seems natural that with a change in the composition of industry shifting from manufacturing to services, the labor share will decrease.

This decline in the labor share of income coupled with the author's point that the location of the basic sector has changed and is more likely to occur outside the city in the periphery has significant ramifications for development strategies around the world. This section could have benefited from citations on what the empirical literature says about these changes.

The second part of the book addresses resilience and preparedness in a world where the new economies are those of innovation and security. The first economy (innovation) thrives in a world of few barriers and trade regulations while the second one (security) forces countries into a potentially larger role for government to control flow of resources from one place to the next. Cities of the future will have a difficult task of balancing these needs while still being livable and competitive.

The third and last part of the book provides reminders about how most of the world's important adjustments arose from crises. The author argues that the current state of the world, as challenging as it is, may be the adversity necessary to result in policymakers addressing the challenges explained in the earlier chapters. In particular, cities should think about tomorrow's paradigm as one which allows the public to cope with uncertainty stemming from multiple directions.

In general, the book is a thorough exploration of how cities can survive and thrive in a world where the economic, demographic, and security forces are presenting challenges that nations can only deal with properly if they have space conscious and city centric strategies. It brings a pragmatic and interdisciplinary approach to these questions. Chapters 5 and 7 are real standouts as they lay out questions that we are going to be grappling with for a long time and provide sound observations for politicians and developers alike.

**References**

Partridge Mark D. and Dan S. Rickman. (2003) "The Waxing and Waning of US Regional Economies: The Chicken-Egg of Jobs Versus People," *Journal of Urban Economics*, 53, 76–97.

Karabarbounis, Loukas, and Brent Neiman. (2014) "The Global Decline of the Labor Share," *The Quarterly Journal of Economics*, 129, 61–103.

**Bruce Katz and Jennifer Bradley. 2014. *The Metropolitan Revolution: How Cities and Metros are Fixing Our Broken Politics and Fragile Economy*. Brookings Institution Press: Washington, DC, USA. ISBN: 9780815726593, 288 pp., $22.99 (paperback).**

Reviewed by *Candon Johnson*, West Virginia University

This book examines how cities and metropolitan areas can aid in fixing the problems faced in the economy today and is a convincing, well-written argument that the federal government cannot, and should not, be relied upon to fix issues within these economies. Metropolitan economies each face a unique set of problems that must be approached differently. With these different issues, metropolitan areas are best equipped to handle these problems because a large portion of the United States population resides within cities. The book provides a basis for the metropolitan revolution in that cities are the most important part of having a sustainable, thriving economy. Katz and Bradley provide case studies to illustrate when metropolitan areas have approached issues facing them in different, unique ways. These case studies are laid out in part one of the book. Part two provides a call to action for metropolitan leaders and a toolkit for leaders to be a part of this metropolitan revolution.

The case studies examined include New York City, Denver, Cleveland, and Houston. In the New York City case, leaders focused on the importance of strong technology-based industries, such as those industries in Silicon Valley. New York City approached this by investing in education using an applied science initiative to develop new engineering campuses to help anchor the technology sector of their economy. In Denver, multiple votes that evolved the relationship between cities and suburbs are discussed. These votes included transferring land from one county in Denver's jurisdiction to build an airport and citizens voting to tax themselves to support fine arts, sports stadiums, and a large transit system. Cleveland focused on networking. The city's businesses began collaborating instead of relying on a single hero to revitalize the economy with a single agenda. In Houston, the case study focuses on a nonprofit organization called Neighborhood Centers Inc. that operates at the metropolitan level. These centers assisted the immigrant population with integrating into the Houston area, offered courses on subjects in English, and other social services. This community-based approach differs from a top-down approach to development. These case studies illustrate how a metropolitan area can approach their unique issues when the federal government alone would most likely be less effective. Their examples include focusing on expanding a specific industry, evolving the relationship between suburban areas and center cities, building networks between businesses and local leaders, and assimilating a certain portion of the population in a bottom-up approach to development.

The second part of the book discusses tools that can be used in the future by metropolitan areas. The first tool discussed is innovation districts. These districts are areas that cluster institutions and firms with the goal of making collaboration easier. From here a network of global trading cities is discussed, arguing that trade by metropolitan areas is more often undertaken between businesses as opposed to countries. Because international trade is often more profitable, Katz and Bradley stress that metropolitan economies need to be able to compete in the global economy. They state that many U.S. metropolitan areas engage in economic isolationism but becoming more ingrained in the global network will make higher growth possible. They argue that federal, state, and metropolitan areas should be coequal economic sovereigns because metropolitan area health is as crucial to the nation as the state and federal governments. Each sovereign must recognize the importance of each other. They present, as an example, the investment in technology based education in New York City that would not have been possible without federal research dollars. This idea seems somewhat novel as a sovereign is an independent entity that has the ability to self-govern while metropolitan areas are typically constrained by both federal and state governments. The final chapter on realizing the revolution provides five actionable steps: build your network, set your vision, find your game changer, bankroll the revolution, and sustain the gain. These five steps are intuitive for the reader. For a revolution to take place, collaboration, ideas, and financial support are all necessary.

This book provides a compelling argument as to why a metropolitan revolution is imperative to economic success. It provides policy makers and metropolitan leaders with a roadmap for the future of cities. Overall, Katz and Bradley produce a well-written, well discussed manual for decision makers to follow in the future. The four case studies provide strong examples of how different problems can be approached within the metropolitan areas. However, the primary criticism of the book is that the examples only show success stories. Examples of failures by metropolitan areas would be appreciated in the book. The authors could use these failed attempts for a chapter to explain where these areas went wrong in handling their issues, and what different approaches could have been implemented to make the outcome successful.

**Charles S. Pearson. 2015. *On The Cusp: From Population Boom to Bust*. Oxford University Press: Oxford, UK and New York, NY, USA. ISBN: 9780190223915, 256 pp., $36.95 (hardcover).**

Reviewed by *Anudeep Gill*, Washington & Jefferson College

The nineteenth and twentieth centuries were characterized by an increase in the world population that occurred at a rapid and accelerating speed, with the population growth rate peaking in the 1960s. However, projections of the future indicate a reversal in population growth spurred by falling fertility rates, with predictions of rapid aging and a decline in the world population. Pearson's book is inspired by these demographic changes. He seeks to understand the implications of the future aging and decline in population by first summarizing the insights gained from the challenges posed by overpopulation in the past. This approach allows him to stress the tools developed in the past to study the interaction among demographic, economic, and environmental variables, while acknowledging the limits to our knowledge and the uncertainty regarding the future. After appraising both the positive and negative consequences of declining fertility and longevity for the future, Pearson ends on a modestly positive note with coping strategies for aging which emphasize labor market reforms or policy measures that raise the labor force participation and productivity of older individuals between 60 and 70 years old.

The narrative can be grouped into three sections. The first section, comprising the opening four chapters, summarizes descriptive features of the demographic changes and traces the development of models that study the interaction among demographic, economic, and environmental variables beginning from Malthus to modern new growth theory in economics. The views of Malthus take centerstage in this section. Pearson presents the core of Malthus's ideas and then describes their eclipse due to a lack of empirical support and depopulation fears. Despite this eclipse, Malthus's views remain relevant today, so the author goes on to explore the reasons behind the staying power of Malthus's ideas for both rich and developing countries. He notes the re-emergence of the notion of limits to growth posed by environmentalism and concerns for sustainability in the post-World War II period, which made Malthus relevant to rich countries. The period following World War II also had a dearth of economic models that could be used by developing countries undergoing rapid population increases to understand the link between population and economic growth. Pearson observes that in the absence of any other growth models, there was little choice for developing countries but to rely on Malthus for guidance. After highlighting the paucity of growth models, Pearson then follows the advances in the growth literature in the period following World War II, from the Harrod-Domar model to the Solow-Swan model, both of which imply a negative relation between population and economic growth, to the new growth theory which tends to suggest a positive role for population. The defining feature of the past is the development of models that attempt to understand how a growing population affects economic growth, but no consensus view emerged.

The middle section consisting of Chapters 5 and 6 equips the reader with the tools necessary to understand the demographic problems of the future as the world transitions from an era of rising population to one that is rapidly aging and facing a possible decline in population. Given the alarmist tone adopted by those concerned with rising and falling population, the notion of optimal population offers hope for policy makers. The discussion of the concept of optimal population, however, suggests that perhaps it is an elusive concept and our efforts may bear more fruit if spent on understanding the features of rising and falling population. Chapter 6 introduces key features of the demographic transition that shed light on the path leading to the upcoming aging crisis. Pearson also emphasizes the concepts of demographic bonus and changing age structure which can affect economic growth but had not been incorporated in the growth literature. He cautions the reader that most countries have not yet completed their demographic transition and there is great uncertainty regarding the future.

Understanding a future that includes the already underway decline in population growth and a prospective decline in world population is the focus of the last section of the book which consists of the final four chapters. Of the two, the author argues that a decline in population growth, which affects the age-structure and results in rapid aging of the world, is of greater concern than a decline in the population size. A positive view of the declining size and growth rate of world population is that it relieves stress from Malthusian constraints on growth such as food and climate change. Overshadowing this positive view, however, is the grimmer possibility of a challenge to economic growth that lurks behind the impending aging crisis. The relevant question for the future is how population stagnation (or decline) affects economic growth. Based on the evidence, Pearson concludes that the effect of declining population size on economic growth is ambiguous, but rapid aging has a negative impact on economic growth through a shrinking labor force and a possible decline in individual productivity. A related challenge posed by rapid aging of the population is the pressure on support-ratios which has the possibility of creating intergenerational conflict through a concern for fairness. An attempt is made by Pearson to define this conflict and its possible manifestation through fiscal pressure on the government in terms of funding retirement and long-term care. A novel approach is to include the possible net benefits of education in quantifying fairness by birth cohorts. Despite the economic and fiscal challenges looming in an aging world, Pearson maintains a modestly positive outlook for the future; a view that hinges on postponement of old-age through new life-expectancy adjusted measure of aging and coping strategies that boost labor force participation and productivity of older workers.

A nice feature of Pearson's book is its unifying structure which brings together key ideas from demography and economics to illuminate the demographic changes. The layout of each chapter allows the reader to become familiar with the underlying issues and concepts that dominate the discussion related to the specific topic, along with the consensus views. These views are presented with nontechnical language making the material accessible to the lay reader. The content and the presentation of the material also indicate an attempt to make it relatable to discussions in the media. The book could be of use to an undergraduate student or general reader. The text is intuitive and supplemented with graphs that clarify the exposition. Another feature of the book is the author's frequent reminders regarding uncertainty and speculation involved in making projections of the future demographic changes. Pearson also spends time explaining the difficulty in quantifying aging, optimal population, emissions changes (in studying effect of population growth on environment), well-being (other than per-capita income), and gains from increasing life-expectancy. Moreover, effort is made to provide empirical support for the arguments. These features make the book useful for an undergraduate student or lay reader interested in learning about the nuances regarding discussions of demographic change and its implications.

As the book is meant for an undergraduate or lay audience, I have a concern regarding the treatment of the material. There are a few topics, particularly those related to policy recommendations that are introduced but not covered in depth. For instance, the discussion on the politics of population versus affluence is framed but not carried out in a way that allows one to gain a foothold. The book covers a wide array of topics that are inter-related and that a student wishing to be an informed citizen would desire to understand, but at times the argument has gaps and one leaves with a summary of the analysis or an answer synthesized by the author but does not feel equipped to defend that answer. For instance, this applies to Chapter 9's discussion of fiscal challenges posed by retirement and health care.

Charles S. Pearson has written an intuitive and well-structured book which traces changes in population growth that resulted in the rapid rise in world population in the past to the projected decline in the future, along with their implications for economic growth and the environment. The book will introduce the general reader to key concepts and dominant issues related to the demographic change literature, the nontechnical language assists in gaining an understanding of the big picture, but at times the development of the argument is over-simplified and further discussion would have strengthened the analysis.

**Jeffrey A. Frieden. 2016. *Currency Politics: The Political Economy of Exchange Rate Policy.* Princeton University Press: Princeton, NJ, USA. ISBN: 9780691173849, 320 pp., $22.95 (paperback).**

Reviewed by *Shishir Shakya*, West Virginia University

This book presents historical case studies and statistical analyses of the international political economy of currencies and brings together history, political economy, econometrics, and monetary economics to illuminate why various interest groups favor strong or weak currencies and stable or flexible exchange rates as a response to domestic policies, international relations, and macroeconomic forces. The author provides statistical evidence from historical cases of the North American exchange rate policy (1865-1896), European monetary integration (1969-2001), and Latin American currency policies (1970-2010) to illustrate these responses.

In the first chapter, Frieden familiarizes readers with two currency policy choices that policy makers face: the exchange rate regimes — fixed, floating, or pegged to another currency — and price level tradeoffs. Regime choices depend upon the political choices of stability and flexibility that arise as a result of the impossible trinity between financial integration, exchange rate stability, and monetary independence.

The second policy choice of price level tradeoffs is based on appreciated or depreciated currency. In this scenario, policy makers choose a price level that is favorable to their constituents who are sensitive about their income and the substitution effect of currency price levels. For export-oriented producers and manufacturers, depreciated currencies are viewed as the best because it strengthens price competitiveness. Conversely, consumers support appreciated currency because it increases their purchasing power. While the first chapter lays out the basics of his exchange rate theory, in the remainder of the book, Frieden presents empirical evidence to support his hypothesis.

Chapters 2 and 3 focus on the cases of the North American exchange rate policy from 1865 until 1896. To finance the American Civil War that began in 1861, the United States switched from the gold standard to paper currency (greenbacks) in 1862. Once the War ended in 1865, policy makers acrimoniously debated whether to return to the gold standard or not. Frieden lays out the advantages and tradeoffs that policy makers and interest groups (e.g., tradeable goods producers, non-tradable goods producers, and bond holders) faced in deciding whether to remain with paper currency or to return to the gold standard.

Prior to 1873, the U.S. had the bimetallic gold and silver standard. The enactment of the Coinage Act of 1873 abolished silver as legal tender (also known as the “crime of ‘73”) and was disadvantageous to farmers and miners because it raised interest rates causing them to carry heavy debt whereas depreciated currency would strengthen price competitiveness. Meanwhile, the falling farm and mining prices created the background for the global financial crisis in 1873. Frieden provides historical narratives of the role of the panic eruption of 1873 that led policy makers to choose the fixed exchange regime with the gold standard in 1879.

Chapter 3 shows, amidst an agricultural depression in 1888, manufacturers successfully lobbied for large trade protectionism and the export-oriented farm producers (who do not benefit from the trade protectionism) fiercely defended the silver standard. During that era, the U.S. was the largest global borrower and the international financial and commercial sector had a special interest in the U.S. continuing with the gold standard. Frieden’s narrative of the emergence of special interest groups to support and counter the U.S. choices of currency policy is impressive.

In both chapters, Frieden shows regression results estimated from socio-economic data, gathered from Congressional districts during 1860-1870, on the numerous votes in favor of or against gold standard bills. He shows statistical evidence that congressional representatives who represented non-export-oriented manufacturers supported the gold standard while congressional representatives who represented export-oriented farmers voted against the gold standard to support the depreciated silver standard.

In Chapter 4, Frieden discusses the process of the European monetary integration (1969-1999) and then provides econometric analysis to identify the distributional effect and political lineup relevant to framing the European exchange rate policy. He regresses several explanatory variables controlled with macroeconomic fundamentals on the general trend and volatility of the European exchange rates. He uses the annual rate of nominal depreciation to measure the general trend of the currency against the Deutsche Mark and the coefficient of variation of the monthly exchange rate to capture each year’s short-term volatility. He provides evidence that producers exposed to currency risk prefer a fixed currency while tradable producers prefer flexible currency. Later in this chapter, he discusses the 2000-2012 era of the Euro expansion crisis and the dilemma that financially integrated EU members faced — they either had to give up their monetary autonomy or allow their exchange rate to fluctuate against one another. Frieden's investigation of the domestic-price pass-through effects with EU experiences, however, is a cross-sectional analysis; temporal analysis could potentially augment a richer explanation to account for trend and volatility.

Chapters 5 and 6 explain the Latin American currency policy and its resulting crisis. Frieden provides a historical background from 1872-1970 to show the evolution of the middle-income class in Latin America. Then, he shows how the 1970s commodity boom, oil shocks, and foreign borrowing and the 1980s government budget deficit and inflation rates influenced the currency policy with the various interest groups and electoral factors. Next, he provides statistical evaluation of the sources to account for the regimes of exchange policies, and his results sync with the theory laid out in Chapter 1. Finally, unlike previous chapters, he shows graphical illustrations of electoral cycles supporting his findings that governments allow currency to appreciate in the run-up to elections and delay going off a currency peg. He implies that governments delaying depreciation for electoral purposes, even when the currency is unsustainable, has driven the currency crisis in Latin America. Chapter 6 explains the causes and effects of the Latin American currency crisis. Frieden writes that the causes of the crisis are: the middle-income Latin American constituents who support appreciated currency, the manufacturers exerting pressure for depreciation, and the government's incentive to borrow from abroad.

The author successfully tests his theory laid out in Chapter 1 using North American, European, and Latin American experiences. However, the currency politics remains unanswered for the emerging economies, under-developed countries and, obviously, for China. He tests the special interest theory, which is the well-established theory of public choice, but he creatively mixes this theory on currency politics with a historical narrative and econometric estimations. Based on the framework laid out in this book, regional studies on how the currency policies spillover onto regional economies and major trading economies would be of interest.

Even though written clearly, this book is a challenging read; it surprises readers with sudden enlightenment on profound concepts like the impossible trinity, substitution and income effects of currency, the Mundell-Fleming-Dornush Framework, the Dornush overshooting model, and the optimum currency area theory, among others. As the author relates these concepts to historical events, the reader is compelled to continue reading the book until its conclusion.

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