

# Book Reviews\*

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## **Chronic Condition: Why Health Reform Fails**

By Sherry Glied, Cambridge, MA, Harvard University Press, 1997, pp. 288, \$45.00.

The author served a year as staff economist for the Council of Economic Advisers during the end of the Bush term and the beginning of the Clinton term. During the Clinton term, she was a member of the President's Health Reform Task Force, and advised Council Chair Laura Tyson on health economics. In this capacity, the author participated in the early development of the Clinton Administration's plan for health care reform, introduced in the 103rd Congress as H.R. 3600.

At the time she began her work on the Council, all signs seemed to indicate that America was ready for health system reform. A Pennsylvania political unknown, Harris Wofford, campaigned for the Senate on a platform of national health insurance; he won in a stunning upset. President Bush was prompted to propose measures of health system reform, and President Clinton made health system reform a major campaign issue. Polls showed that three-quarters of voters ranked health care as very important in a list of presidential campaign issues. Clinton's health care speech before a joint session of the 103rd Congress in September 1993 was applauded thunderously. The final Clinton plan addressed every issue underlying the broad interest in health system reform. Yet, the attempt to pass a health system reform bill flopped. In her book *Chronic Condition: Why Health Reform Fails*, Sherry Glied addresses the question, Why did health system reform fail?

Unfortunately, Glied gives short shrift to answering the question. While she alludes to what I believe is the correct answer – that views are so polarized on approaches to health care reform that compromise is impossible – she does not describe the political environment prevailing in the 103rd Congress that preordained failure of any health system reform. Rather, Glied describes at great length why the Clinton plan would not have worked if Congress had passed it.

Two competing ideological approaches to health system reform are presented. The first ideological camp is called the “medicalist,” which is based on the notions that health care is different from other goods

and services, that consumption should be based on “need” for services, and that consumption decisions should be made by medical professionals, such as physicians. The medicalist approach to system design relies heavily on government to allocate resources. An example of the medicalist approach is Medicare, where prices are controlled and serve only an accounting function.

The alternative ideology is called “marketist,” which is based on the belief that health care is no different than other goods and services. Consumers make the best decisions about the amount and value of health care to consume, and the market is the best way to allocate health care resources. The marketist approach to health care reform is exemplified by Enthoven's “managed competition” proposal.

A central flaw in the Clinton plan, according to Glied, is that it combined elements of these two incompatible approaches in a political compromise attempting to satisfy both sides of the debate but in a way that satisfied neither group. For example, the plan imposed global budgets on the framework of managed competition, negating the role of prices in determining quantities of services to be produced. (Glied observes that the Republicans in the 104th Congress made the same engineering goof in their Medicare reform plan by imposing a global budget-like mechanism to reduce spending automatically if budget targets were not met.)

Elaborate technical analyses of the two competing ideological approaches plus analysis of the Clinton Plan are used to develop the author's own contribution to the excess supply of health system reform proposals. Her main concern is that enactment of either ideological approach to reform will lead to inadequate funding of health care for the poor and uninsured. Therefore, she proposes taxing health care spending and redistributing the proceeds according to income to establish a source of funding for this group. Glied's logic is that such an approach mimics the historical, preinsurance era when physicians presumably based charges on patients' incomes, assessing higher prices on the rich to offset losses from providing free care to the indigent.

Why didn't we get health system legislation out of the 103rd Congress? The desire to legislate health system reform was dormant in Congress since the mid-1970s, when attempts to pass health system reform legislation last failed. A number of members have been waiting for time to ripen so they could come forth with their long-cherished proposals. This happened

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\*These book reviews have been obtained and edited by Gerald L. Musgrave, Economics America, Inc., Ann Arbor, MI, who is Book Review Editor of this journal.

when Clinton introduced HR 3600. The chairmen of the committees and subcommittees of jurisdiction immediately replaced the language of HR3600 with their own. A stalemate ensued even before deal-killer issues like coverage for abortion services could be entertained. Because powerful members of Congress would apparently prefer having no health system legislation if they can't have their own, and because of irreconcilable differences over issues such as abortion, we will not have major health system legislation for the foreseeable future, if ever. Had the basic question in the subtitle of the book been answered, the futility of yet another health care proposal would have been less obscure.

Glied's analyses of the competing views on health care reform and their economic strengths and weaknesses are interesting and competent. This is an informative book for those who want to learn about the facets of the current health system debate from an economic analyst's standpoint.

Jesse S. Hixson  
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### **Resisting Hostile Takeovers: The Case of Gillette**

By Rita Ricardo-Campbell, Westport, CT, Praeger Publishers, 1997, pp.272, hard cover \$65.00.

NABE Health Roundtable members know Rita Ricardo-Campbell as the "Dean" of health economists and a founding member of the roundtable. Gillette's stockholders know her as the first woman director, serving on the board for twelve years. This book is her personal account of the turbulent period, from 1986 to 1989, when Gillette was the target of several hostile takeover attempts.

*Resisting Hostile Takeovers* is an insider's firsthand narrative of a significant event in contemporary business history – Gillette's successful thwarting of takeovers via tender offer and proxy fight. But it is more. The book takes the reader into the Gillette boardroom and presents the human emotion and drama of corporate economic warfare. For the business economist, there is nothing like it in the literature. She approaches the issues from the same professional perspective as would our many of our members. Where else could you find reference to the famous Nobel Laureate George Stigler and the infamous corporate raider Ivan Boesky in the same paragraph? This book is fun for a business economist. On an intellectual level, we are given insight into the dilemmas the author faced when reconciling policy decisions driven by general economic theory versus choices that are mandated by specific business situations. Her

account of the decision to pay or not to pay greenmail is one her most interesting presentations.

The book begins by explaining why the author was chosen to be on the board. The answer is that she and the Gillette board chairman, Colman Mockler, were both on another board and he said, "Whenever Rita spoke at Simmons College board meetings, she had something to say, and this is not true for the other women on that college board." The author is well aware that her gender was a factor in her selection, and throughout the book she makes references to her perspective as a woman and how gender might influence one's decisions, perspectives, or interests. Her understanding is particularly insightful because Gillette's most profitable products are from the male-dominated razor blade business.

Another critical issue flowing from the profitability of the blade business is that it generated cash, allowing the acquisition of Oral-B toothbrushes, Braun electric shavers and coffee makers, plus Paper Mate pens, to name just a few. These product lines were successful, but other acquisitions were not. The author is explicit in detailing reasons why several diversification moves, including forays into software and beauty salons, were ill conceived and not successful. Other acquisitions were not ill conceived, but the results were less than expectations and were subsequently sold, e.g., S.T. Dupont, the luxury pen manufacturer.

The book is very broad in scope, including the important board decisions and a comprehensive chapter outlining the company's history. I was amazed to learn that the company's founder, King C. Gillette, was both a prescient entrepreneur who led the company to patent the first successful thin-blade safety razor, and he was also a crackpot amateur economist espousing a bizarre form of corporate-based utopian socialism. The text is rich in contextual detail and also presents how a corporation with over a thousand products and world-wide sales pushed to number 152 in the Fortune 500 list. This introduction and background leads us to the heart of the subject.

Gillette was the acquisition target of two of the period's notable raiders, Ronald Perelman and Coniston Partners. Perelman had recently taken control of Revlon. He and Coniston, called "Ivy League Buccaneers," had recently concluded "investments" in Storer Communications, Viacom and Allegis (United Airlines). Neither claimed bad management and neither proposed to manage the on-going operations of the company. They were raiders, pure and simple. Junk bonds were to be used to finance the takeover. Subsequently they would sell off parts of the company to pay for the deal. The objective was to produce a restructured company that would have a higher market value, greatly enriching the leverage buy-out organizers. The interests of the other shareholders, as well as other

stakeholders, including employees and suppliers, are very diverse, as the author clearly presents.

The book sorts out the diversity of interests that allowed Gillette to defeat the hostile takeovers. In the process, we learn that it was the lawyers who conducted the negotiations and that the board simply ratified most of the results. In the same legal vein, we learn that Massachusetts antitakeover legislation was signed on the front steps of Gillette's major plant, near its Boston headquarters. We also learn many of the legal intricacies influencing corporate directors during takeovers.

In the end, Warren Buffett entered the drama as a white knight. The company was restructured with a downsizing of 8 percent of its labor force, resulting in a more efficient and focused organization. While management was perpetuated, there was also change, but the leader of the fight, Chairman Mockler, did not live to enjoy the full fruits of the victory. He died unexpectedly of a heart attack less than a year before his scheduled retirement.

The greatest victory was probably enjoyed by the long-term shareholders whose stock price, after adjusting for stock splits, increased roughly nine times from the initial tender offer. The book allows the rest of us to share a part of the excitement, drama, and personal experiences of a fellow business economist who was an active participant in this interesting story.

Gerald L. Musgrave  
Economics America, Inc.

## **Macroeconomic Essentials for Media Interpretation**

*By Peter Kennedy, Cambridge, MA, MIT Press, 1997, pp.384, paperback, \$25.00.*

Peter Kennedy's new book, *Macroeconomic Essentials for Media Interpretation*, will interest both educators who teach business students as well as practicing business economists. The book is designed to be used as a text in introductory economics courses, with the objective of helping students better understand news stories about the economy. In many ways, the book is a departure from the traditional way beginning students are introduced to textbook economics.

In traditional introductions, economic theory and nomenclature are presented for their own intrinsic intellectual value; applications are afterthoughts. In Professor Kennedy's unique approach, news stories and media coverage of economic events become the focus. Over 500 brief one or two sentence "news clips" are used as illustrations and exercises to explain

a wide range of basic as well as sophisticated economics. Economic analysis, concepts and terminology are combined to explain the concepts covered in the macroeconomic news. The method results in a very practical approach, as well as a self-motivating approach to economic education. If the event is in the news, it is important by definition and thus important for the student to understand.

For the practicing business economist, the book is interesting because it reminds us of how much information is behind the economic news stories that befuddle the typical citizen. As business economists become more senior, less time is spent with other economists or those with economic training, and this book can be a refreshing update to remind us of the importance of effectively communicating with non-economists. It is second nature to us that interest rates and the price of bonds move in opposite directions. We never confuse the deficit with the debt. We all know that the demand for merchandise exports creates a concomitant demand for U.S. dollars and the demand for merchandise imports create a supply of U.S. dollars in foreign exchange markets. However, these are not obvious to others. This book can be useful to business economists who want a quick refresher on how to explain fundamental economic principles and current economic events to the lay public.

Obviously, when you are on TV or discussing an issue with a member of the board, you can't whip out your trusty supply and demand curves. The book recognizes that fact and relegates most graphical analysis to an appendix in the back of the book. In fact, a hallmark of the book is its attempt to eliminate most of the graphical and algebraic tools used in introductory courses. The book accomplished its objective, but it was not easy. I found myself frequently using S&D graphs as I read the text. The task might have been doubly difficult for Professor Kennedy, because we know him from his successful text, *A Guide to Econometrics*, now in its third edition. We know that he writes effectively in English, as well as in equations.

The book is solely about macroeconomics and begins with the definition of GDP and the differences between real versus nominal values. The level of discussion is relatively sophisticated. GNP is the value of output of U.S.-owned resources no matter where they are located in the world, contrasted with GDP as the value of output produced within the geographical boundaries of the United States whether produced by foreign or U.S.-owned resources. The chapter ends with a section called "GDP as Gross Deceptive Product," enumerating the many omissions and contradictions in the value as a measure of national well being. It also contains lucid explanations of national income determination on the demand side combined with an extensive section on aggregate supply. Fiscal and

monetary policy sections are extensive and clearly written. Political facets of economic policy are mentioned in the context of objectives such as full employment, price stability, the national debt, or income distribution. The final 22 percent of the book is devoted to international economics. Interestingly, this component is approximately the same size it has in our economy, with both imports and exports each representing roughly 11 percent. By the time the reader finishes the international sections, the differential impact of fiscal and monetary policy in an open economy with fixed vs. flexible exchange rates seems understandable.

Because the author holds a professorship at Simon Fraser University, there are frequent references to Canada and a small nation's economic situation. I found this to be refreshing and an added plus. Because both Keynesian and Monetarist views are presented, there will be enough material for any reader to praise and condemn. The specific news clips were well chosen. Some clips are timeless and others are trendy.

Additional sections contain introductions to relatively new issues that are not generally covered in first courses. A few of the special topics are: The Real Business Cycle, Endogenous Growth Theory, Ricardian Equivalence, Term Structure of Interest Rates, New Classical Economics vs. New Keynesians, and the Purchasing Power Parity Exchange Rate.

The business press is much more sophisticated in October of 1997 than it was just ten years ago when the 1987 stock market "crash" occurred. International economics is an ever-growing part of everyday life. Increased media sophistication plus the globalization of commerce means that the next generation will need to be better prepared to interpret news coverage of economic events. This book will go a long way in preparing future generations for a more complex economic world. It might also produce better broadcasters and journalists to cover it.

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