# BOOK REVIEWS

## *Multinational Firms in the World Economy*

Giorgio Barba Navaretti and Anthony J. Venables
(Princeton, NJ, Princeton University Press, 2004), xiii+325 pages

In this book, Giorgio Barba Navaretti and Tony Venables, together with a team of contributors, address some of the main questions on transnational corporations' (TNCs) activities and behaviours. The book seeks to provide a comprehensive assessment of motivations and consequences of TNCs' action in an increasingly interdependent world economy.

The eleven chapters of the book follow a clear logical order, which goes from a presentation of stylized facts and key questions in the easily readable introductory chapters (chapters one and two), to an elegant formalization of the main theoretical hypotheses on the determinants and effects of foreign direct investment (FDI) (chapters three and four), followed by a transaction costs-based conceptual and analytical framework (chapter five). The review of the empirical evidence and the hypothesis testing are carried out from both the "host" and "home" country perspectives throughout the following four chapters (chapters six to nine), leading the authors to draw consistently policy implications (chapter ten) and main conclusions (chapter eleven).

The organization of the book is admirably coherent and lucid. Chapter one provides a clear statement of facts about TNCs' activity and trends, as well as of some critical issues at the centre of the discussion in both academic and practitioner circles. A non-technical presentation of the focus of the book is given in chapter two, in which determinants of multinationality and locational choices, effects on both home and host economies, and a costs-benefits balance are discussed by taking into account the type of investment (horizontal versus vertical FDI) and relating motivations to both firm-specific and country-specific features. These two non-technical chapters should be highly recommended to anyone interested in having a clear and concise picture of FDI in current times. The overview of the key questions, main concepts and most visible trends could be greatly useful also to introduce undergraduate students to such issues. The analysis of the outcomes of the trade-off between costs and benefits of market-seeking, or horizontal, FDI (HFDI) is the focus of chapter three. It sets the hypotheses on HFDI determinants – firm and country characteristics affecting the choice of a firm to go transnational – and effects in a partial equilibrium framework. The theory of production fragmentation – cost-minimizing or vertical FDI (VFDI) – is the subject of chapter four. The trade effects of both HFDI and VFDI are also addressed here. Chapter five is devoted to extending the conceptual discussion to the choice between internalization or outsourcing on the basis of the dichotomy market-hierarchies underlying transaction costs approaches. The explanation of internationalization modes (own subsidiaries versus arm's-length agreements) is conducted in the light of different market failures, each one giving rise to different types of trade-offs.

The empirical investigation is preceded by a theoretical and conceptual framework provided in chapters three to five. The hypotheses on the determinants of foreign investment (both of HFDI and VFDI) are empirically tested in chapter six. Consistent with the theoretical construction, the review concentrates on firm/industry-specific determinants and country-specific motivations, placing special emphasis on heterogeneity and sources of increasing returns in the case of the former, and considering trade and transport costs, taxation, production costs and factor endowments, and market size among country-specific motives. The review goes beyond the formal modelling of chapters three and four by addressing fundamental processes, such as regional economic integration (e.g. European Union, North American Free Trade Agreement) and spatial agglomeration phenomena. Notably, in connection with the latter, the role of technological sourcing is particularly stressed as an important determinant of TNCs' activity.

The effects of FDI on product markets, factor markets and spillovers, and on the overall economy equilibrium, are empirically tested in the following three chapters. The main issues addressed in chapter seven, on the basis of micro-oriented empirical evidence (at firm and industry level) from the host economy viewpoint, are two: how and to what extent foreign TNCs are different from (and, specifically, whether they are more productive and more technically efficient than) local firms; and the impact of TNCs on domestic firms through a variety of channels (market transaction, pecuniary and technological externalities, pro-competitive effects). The review of host-country effects also offers interesting insights on the methodological problems encountered in empirical analyses of FDI impact (e.g. cross-section versus panel data, sample selection, counterfactual, conditional comparisons). Chapter eight reports the results of a detailed case-study from a host economy perspective. The Irish experience is here reviewed, giving a particular emphasis to the wide range of policy tools that have been used to attract FDI. Evidence on the same questions as those addressed in chapter seven is provided in chapter nine, but from the home economy perspective: the impact of outward FDI on home production, employment, skills and wages, technology upgrading, and productivity. The main conclusion emerging from the empirical review provided in these three chapters is broadly positive both for active (outward) and passive (inward) TNCs' activities, although no direct causal relationship between foreign ownership and performance could be established.

Finally, chapter ten draws the wider picture on both general and specific policies, highlighting the two-way relationship between policy and TNC activity, and supporting the increasing significance of incentives schemes already discussed in the case of Ireland. The huge obstacles to, as well as the pressing necessity for, an international/global level of governance of TNCs' activity are convincingly illustrated at the end of this chapter. The main conclusions, as the most promising directions for future research, are briefly identified in chapter eleven.

This book is a rich, complex and, at the same time, accessible contribution to the study of TNCs in the current age of economic globalization. It is written clearly, and it integrates important theoretical and empirical perspectives on both microeconomic and macroeconomic dimensions of TNC activities in a unified analytical construction.

In the past decades, there has been a dearth of comprehensive material on the determinants and the implications of TNCs' actions. This book assumes an important place in the literature as it bridges, in a coherent and systematic framework, formal modelling and econometric estimates, and also updates statistical trends and case studies. Indeed, the genesis of the book itself shows a rather original character, being the outcome of the joint work of a whole research team with different and complementary competencies, coordinated and integrated by the efforts of the two authors of the book. A thoughtful discussion of some of the most pressing issues in the current economic debate on TNC activities emerges from such a sapient combination of different research skills, levels of analysis and methodological tools.

A limitation of the book is that it underestimates the role of innovation and technology in TNC operations. This is a weakness of the transactions costs perspective itself, where hierarchies (particularly, but not exclusively, firm structures) are viewed and reduced to a consequence of changes in transaction costs, whereas dynamic factors such as learning, accumulation and knowledge creation are largely ignored. Corporate technological capabilities cannot be transferred through market-like exchanges, as they have to be internally learned, whether the process of learning is externally assisted or not (Cantwell, 1992). When narrowing the notion of technology to something akin to information and concentrating on the organization of the exchange of such information, there is a tendency to over-emphasise the issue of appropriability in markets (Winter, 1993), while discounting the relationship between innovation processes and production structures, as well as between transnationality and innovativeness.

Although the transaction costs view is here integrated with some resource-based aspects of the nature of the firm (see, for example, chapter five, 5.4), TNCs' innovative activity across countries and regions is not fully acknowledged. A major transformation brought about by globalization consists of an increasing cross-border interdependence and integration of all kinds of TNC operations, including those aimed at creating new knowledge and technology. Consequently, among scholars of TNCs and innovation, there has been a shift in attention away from the TNC as a mere vehicle of technology transfer towards the crucial role it plays as a creator of innovation and technological knowledge (among others, Pearce, 1989; Cantwell, 1989, 1992; Birkinshaw, 1996). It has been shown that higher degrees of transnationality are associated with a greater use of foreign sources of technology (e.g. Dunning and Wymbs, 1999; Ietto-Gillies, 2001). Firms pursue this aim by establishing integrated networks of affiliates, as a means of building a sustainable competitive advantage based much more on capabilities and dynamic improvements than on static efficiency criteria (e.g. Zanfei, 2000; Veugelers and Cassiman, 2004).

Therefore, while until recently the main question was "why do technologically advanced firms go transnational to exploit their advantages?", the critical issue has now become "why and how do TNCs create technology internationally through intra- and inter-firm networks"? Attempting to include the latter question would have made this volume much more complex and probably less coherent. Nonetheless, a more explicit acknowledgement of technological competence in the determinants of TNC strategy and locational choices would have strengthened the interpretation of empirical cases (including, for example, the case of Pirelli and the MIR technology). Furthermore, TNCs may act as intermediaries in the international cross-fertilization of localized knowledge clusters, providing a strong rationale for the global-local growing interdependence (as mentioned in chapter six).

Despite this lacuna, the book concludes with a number of sound recommendations for policy action and further research efforts. In particular, chapters ten and eleven call attention to a lack of TNC-oriented policy strategies (while plenty of SME-oriented tools are in place in advanced and developing economies). Such strategies would, presumably, target TNCs as a whole, and their interaction with local environments in the home and host locations. However, developing such policies would require an analysis of the nature, structure and dynamics of TNC (intra- and inter-firm) networks and local (often sub-national) institutions. Identifying measures of institutions and policies within innovation systems is a challenging task, still rather underdeveloped in the literature on TNCs.

Overall, the book should be recommended for any scholar's bookshelf for whom TNCs, economic integration and globalization are of interest. Particularly for postgraduate students working in this area, this work is a must reading and highly valuable as a teaching and reference aid. It is hoped that it will serve as a stimulus for further theoretical and conceptual systematization, as well as empirical investigation, of the various still insufficiently explored aspects of TNC activities worldwide.

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***Measuring Political Risk: Risks to Foreign Investment***

Charlotte H. Brink
(Aldershot, Ashgate, 2004), 200 pages

The significant increase in foreign direct investment (FDI) and the growth of transnational corporations' (TNCs) activities across countries have been one of the most visible signs of the increasing globalization of the world economy over the past couple of decades. Whereas most international investment takes place within developed countries and regions, such as the European Union and the United States, FDI flows to developing countries have increased enormously since 1990. Over the past decades, researchers have identified numerous determinants of foreign investment flows, including economic and political factors, that influence the level of FDI. Evidently, political risk is one of them, in particular in emerging market economies and developing countries.

Most TNCs do not invest in the poorest countries of the world, including most of sub-Saharan Africa, partly due to high uncertainty regarding political risk in many of these countries. This is unfortunate as FDI inflows may particularly benefit developing economies, since foreign investors are likely to introduce new technologies, augment the capital stock of the host country, increase competition within key sectors of the economy and benefit local workers through more and better-paid jobs. Hence, political risk analysis is of particular importance to developing countries, in order to shed new insights on how to measure and to deal effectively with political risk. This is exactly the main focus of the present book. It provides insights on the theory and measurement of political risk by developing a new model that goes far beyond other approaches that have been published in the previous literature.

The present book consists of seven chapters. Chapter one introduces the topic of the book and provides a first definition of the term political risk from the perspective of a TNC. In short, political risk is the probability that the action of stakeholders within the political system affects the return on investment of TNCs in that country. The chapter then precisely lays out the research problem (and main questions) to be addressed, and gives an overview of the research methodology used as well as of the structure of the book. The opening chapter does a good job in motivating the reader and provides valuable information on the most important concepts and methodologies. In the following, I will review each of the remaining six chapters and then conclude with an overall assessment of the book, that is, what I consider as its main contribution to the literature and its omissions.

The second chapter carefully provides more details on political risk and related concepts, such as country risk. This approach makes sense, as both terms are often used in a confusing way. In short, country risk relates to the inability of a country to repay its debt, whereas political risk is associated with a country's unwillingness to do so. In addition, chapter two sensibly differentiates between predicting, forecasting, forewarning and anticipating political risk, since most users of political risk models demand information on the likely impact of events to come. The book carefully describes the different concepts and specifies that any forecast has to be seen from the perspective of a probability that a country might pose a certain degree of political risk to foreign investors.

Chapter three compares political risk rating methodologies provided, for instance, by risk rating agencies such as BERI, International Country Risk Guide (ICRG), the Economist Intelligence Unit, Moody's Investors Services, Euromoney, or Standard and Poor's Ratings Group. The chapter reveals the somewhat embarrassing failure of existing risk rating agencies and methodologies to spot the Asian financial crisis in 1997. The present book argues convincingly that the Asian crisis, while predominantly a financial and economic crisis, was partly related to the political risk aspect. If different political systems had been in place and the reaction to the actual events had been different, the crisis would probably have been less severe. For the risk analysis systems used by political risk rating agencies, it is pointed out that most macro-type models did not send any warning signals for the severe crisis that followed. Therefore, the chapter underlines the need for a more careful methodology to measure political risk.

In the fourth chapter, various factors that determine political risk are presented. More specifically, the political, economic and social risk factors that are used in the design of the subsequent model are extensively discussed. This approach is reasonable, since a careful explanation of the different indicators (and their interactions) is essential to grasp the complex issue of political risk and to convince the reader that the model adopted is a useful extension of previous attempts to measure political risk across countries. Overall, 103 measurable risk factors and their 411 risk factor indicators are presented. Furthermore, qualitative measures are incorporated in the analysis, which is more difficult to measure in comparison to quantitative indicators. Importantly, the factors chosen originate not only from political events and financial economic statistics, but also from the socio-cultural characteristics of each country. By focussing on such an exhaustive list of indicators, this approach ensures a thorough analysis of political risk, in particular in comparison to previous attempts in political risk analysis.

Following the presentation of the various factors, chapter five specifies the model for political risk analysis. It provides the scoring guidelines, weights and calculations that are behind the model for political risk analysis. Since the model itself is relatively simple in its structure, the chapter in effect explains the weights and aggregation procedures for the different indicators. It is pointed out in this chapter that the weights themselves are rather arbitrarily chosen, which leaves the reader somewhat unconvinced about the particular figures assigned. Nonetheless, any quantitative analysis of political risk involves the challenges of both aggregation and weighting and it is unclear how other approaches would look like. Crucially, it is explicitly stated that the weights may vary depending on the investor and the industry concerned.

Chapter six introduces political risk management, that is, how TNCs can effectively deal with political risk after having identified potential risk to their operations abroad. By identifying the most important aspects of political risk, a certain structure is given to the complexities of the decision of the management. While most TNCs use political risk insurance offered by, for instance, the Multilateral Investment Guarantee Agency (MIGA) or national insurance corporations, to reduce or eliminate political risk, not all projects and countries can be covered by this type of insurance. Importantly, it is emphasized that any effective risk management means that foreign investment in a region like sub-Saharan Africa would increase if TNCs improve their risk reduction management. This, in turn, would provide some of the poorest countries in the world with much needed additional capital. Finally, chapter seven concludes with a summary of the most important results and a discussion for further research in the field of political risk analysis.

Overall, this carefully written book is an important contribution to political risk analysis. In particular, the meticulous presentation of different risk factors and the explanation of the aggregation methodology provide a significant improvement of previous risk models. However, one part that seems to be missing is an application of the model. It has been pointed out in many different sections in the book that existing models of political risk analysis and services failed to give any early warning signals before the Asian financial crisis in the late 1990s. As an empirical economist focussing on trade and FDI in emerging market and developing countries, I would be very interested in an application of the model to the Asian crisis or any other major crisis in which political risk has played an important role.

Above all, I am curious as to whether the proposed model would give any signals or, more realistically, show that the probability of a crisis (in terms of increasing risk) increased in the first half of 1997, that is, shortly before the Asian crisis took place. But there are numerous other events, for example, the Mexican “tequila crisis” in 1994 or the currency and financial crisis in Argentina in 2001-2002, which were partly related to political risk too, for which the model would have been quite useful. Needless to say, since both global tensions and uncertainties are growing, the issue of political risk increases in significance. Hence, we do have a need for more research on the determinants of political risk.

Taken as a whole, the book makes a valuable contribution to the literature on political risk. In addition, it provides rather useful tools for research analysts and TNCs in analysing and managing risk in difficult and uncertain environments.

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*The Financial Economics of Privatization*

William L. Megginson
(Oxford, Oxford University Press, 2005), 522 pages

This new book by William Megginson aims to tell, in an interesting and well-founded manner, a story of how privatization policy rose from a rather radical notion of economic orthodoxy to a widely implemented process that, over the past 25 years, substantially changed the view on how we perceive the role of the government in business and in the economy as a whole. The author is well known to academics and analysts for his extensive published works on the topic, many of which were based on comprehensive empirical cross-country research.

The book begins with a brief history of the rise and fall of State ownership in order to enable the reader to understand better the actual economic rationale and need for privatization policy. In the starting chapter, "The scope of privatization", the author attempts to answer several crucial questions associated with the privatization process, such as why have so many countries adopted privatization programmes?; what are the costs and benefits of State versus public ownership, both in theory and in practice?; how do governments privatize State-owned enterprises (SOEs)?; how much privatization has actually occurred?; and most importantly, has privatization worked as an economic tool and accomplished its goals?.

The author surveys the role of State ownership as an economic model from ancient times to the late 1970s and attempts to explain what motivated governments to establish SOEs or to nationalize private businesses. Then, he turns to the discussion of the first privatization programmes – their intentions and outcomes. After the initial Chilean and the United Kingdom privatizations in the late 1970s, one could observe a truly phenomenal growth of privatization programmes and the reduction of State ownership throughout the world. The author explains that many governments have enthusiastically embraced privatization, mostly because they bring large revenues without having to increase taxes. The cumulative value of privatization proceeds is now estimated at more than $1.25 trillion, of which a large part has gone directly to the government, rather than to the SOEs themselves. Two thirds of the total proceeds originate from privatization of utilities, oil and gas companies and financial institutions.

In the second chapter of the book, the author attempts to answer the question of why governments actually privatize. He starts with a discussion of the theoretical arguments in favour and against State ownership of business enterprises. He suggests that the main rationale for privatization always arises from dissatisfaction with the actual performance of SOEs and a strong belief that private investors could significantly improve their performance. However, the question of whether private ownership of enterprises is inherently superior to public ownership has been at the centre of economic debate for many decades, even centuries, and still remains unresolved. A strong theoretical case could be made for public ownership in specific cases, such as natural monopolies producing essential goods or services, e.g. electricity generation, water distribution or sewerage services. Nevertheless, the empirical evidence surveyed in the book, which includes practically all the major published studies, challenges this argument, and the author strongly supports the view that private ownership is more efficient than State one. This is true even for natural monopolies, which now operate in more competitive markets than ever before. The empirical evidence is especially overwhelming when it comes to the operation of industrial firms. The author concludes that there is no realistic alternative to privatization as a means of improving the performance of SOEs.

The empirical evidence clearly indicates that the introduction of competition into monopolized State-owned industries increases the efficiency of the firm. However, introducing competition alone would not be sufficient; privatization is also needed. The surveyed empirical studies document well positive impacts on the efficiency of such firms that arises from privatization. Almost without exception, these studies suggest that, in order to effectuate the reforms of monopolized State-owned industries, the government should introduce competition, install an effective regulatory regime and sell off or reduce the State's holdings in them. Empirical evidence also shows that the benefits of reforms that are short of ownership change (i.e. privatization) are very hard to lock in. Measures designed to improve the performance of SOEs without privatization, such as corporatization or the introduction of management contracts, have been found to be less effective if they are not coupled with privatization. The author's thorough examination of the theoretical and practical arguments on the "privatization versus competition" debate is concluded with arguments in favour of tandem "privatization and competition" processes. Since there are complementarities and interfaces between competitive pressures and ownership structures in promoting better firm performance, these two processes could not be substitutes but complements.

The text of the third chapter focuses on the practical aspects and methods of the privatization process. The author touches upon several important questions related to the practical implementation of a privatization policy, such as commercialization and restructuring of SOEs prior to their sale; adopting privatization legislation; establishing a privatization agency and a related institutional framework; setting up accounting, financial and human resource systems; identifying key objectives and trade-offs of the privatization process; and selecting the method of privatization. As the author aptly put it, there is a long process of making industrial performance healthier through implementing the privatization policy:

> "*A government that has decided to launch the privatization programme is somewhat like a person who has decided to go on diet: the decision, while difficult in itself, marks only the beginning of what promises to be a long and painful process.*" (Megginson, 2005, p. 100).

The author emphasizes that each step of the privatization process has its challenges and hazards and is unavoidably prone to controversy. In this chapter, he elaborates on the three main privatization methods and their merits: direct sale, mass privatization through vouchers and public offerings (i.e. share issue privatizations). The author presents the evidence in favour of share issue privatizations. In his opinion, it is the most transparent and the least corruptible method of divesting SOEs. It could be undertaken in several stages or series, and there is evidence that such a method could bring the government larger revenue than direct sale.

The fourth chapter deals with the empirical evidence on the effectiveness of privatization in non-transition economies. It reviews 87 empirical case studies – single-industry and single-country studies as well as comparisons of pre-privatization and post-privatization performance studies – from all over the world. It is a particularly valuable contribution as most of the published works on the topic in the past fifteen years were dedicated only to the progress of post-socialist (i.e. transition) economies. Most of these studies point to improvements in the operating and financial performance of the privatized firms; they record a noticeably positive change in output, sales, efficiency, profitability, capital investment spending. However, the studies are not very conclusive when it comes to measuring the impact of privatization on employment in the privatized firms. Many studies document the significant employment declines in privatized firms, especially in the early post-privatization stages; however, the level depends on countries and specific industries. The general conclusion of the chapter is that the post-privatization performance improvements tend to be larger in developing non-transition economies, where firms have stronger efficiency gains, and also in regulated industries and firms that restructure their operations after privatizations, as well as in countries that provide better shareholder legislative protection.

The following chapter deals with the comprehensive empirical evidence on privatization programmes in 26 transition economies. Privatization policy has played a substantial role in transforming the centrally-planned economic systems of the post-socialist countries towards market based ones. Such a transition was a massive evolutionary process unprecedented in scope and in many other aspects and drew a huge academic interest and almost fascination with the process. At the beginning, the transition looked almost like an experiment, and therefore policy makers in these countries required a lot of expert guidance. The primary motivation for the privatization process in transition economies lay in the premise that the economic system based on private ownership greatly enhanced the operational efficiency of the companies. The aim of the privatization process in transition economies was thus not just a mere change of ownership, but rather the change of the incentive system and market for corporate governance that led to a changed attitude of the management towards the realization of business objectives of the company. Consequently, the main aim of privatization was actually increased efficiency and effectiveness of the company.

The author analyses the results of empirical studies on transition economies to examine the effectiveness of privatization in promoting enterprise restructuring and economic growth. The author cites over 70 academic studies that examine the impact of privatization policy on economic performance in transition economies at the micro- and macro-levels. The conclusion is that ownership change in transition economies yields economic gains only from "deep privatization", i.e. after key institutional and agency-related reforms have exceeded some threshold levels. The research also documents that the ownership structures that emerged from the various privatization schemes have different impacts upon the nature of governance and the market success and economic performance of divested companies. In general, firms that gained "real owners", such as financial institutions, foreign investor or local entrepreneurs, fared much better in efficiency terms than firms controlled by insiders, whose performance was comparatively poorer.

A large part of the book is devoted to examining the impact of privatization programmes on financial markets development and corporate finance practice, as well as on global finance. The author feels that this is a critical issue but inadequately addressed in the literature, and therefore dedicates his thorough attention to these issues in two chapters of the book.

His special focus is on measuring the impact of share issue privatization (SIP) programmes on financial and especially capital market development. The author states that, while it is very difficult to establish a direct and causal relationship between SIP programmes and stock market development, indirect evidence suggests that the impact has been very significant, especially for non-United States stock markets and for the participation of individual and institutional investors in those markets. Stock markets capitalization and trading volumes have significantly increased as a result of privatization programmes in the 1990s around the world, as privatized firms often account for sizable fractions of the total capitalization of national stock markets. This is the case not only in emerging market economies (China, Czech Republic, Hungary, Russia), but also in most advanced economies. The author also concludes that privatization deals have significantly improved stock market liquidity over the past ten years. Furthermore, the privatized companies are the most valuable companies in most of non-United States stock markets, and they usually represent four of the five largest firms.

Privatization programmes have also enormously increased the number of shareholders around the world, thus helping the "democratization" of the capital markets. However, the author points out that the vast initial shareholding structures that are created as a result of SIP programmes tend not to be stable and decline by one-third within five years. The author also discusses how privatization programmes had an impact and actually promoted the development of effective corporate governance systems. The author concludes the chapter with some practical recommendations for governments contemplating share issue programmes aimed at attracting a large number of domestic investors. In order to yield economic and political dividends, effective legal protection and large liquid capital markets ought to be in place. An effective system of corporate governance should be developed for publicly traded companies, and a strict regulatory regime needs to be in place in order to protect first-time individual investors from the possible expropriation by corporate insiders. Empirical studied have shown that countries that have neglected investor protection usually have less developed stock and bond markets.

The following three chapters of the book examine privatization case studies and experiences throughout the world in specific industries, such as airlines, commercial banking, energy and telecommunications.

The final part of the book identifies lessons learned from the implementation of privatization policy over the past 25 years and what might be the future of this process. The author offers several straightforward messages after examining no fewer than 300 empirical studies on the privatization processes in 125 countries over the past 15 years. The first is that privatization improves a company's financial and operating performance, which was the starting premise behind the process. The second message is that the best outcome of the ownership change happens when it is combined with deregulation, introducing competition and other reforms at the micro-level and also in the business operating environment at the macro level. The author also emphasises that privatization works but it is no panacea, and therefore no unrealistic expectations should be raised. It creates easily identifiable winners and losers and, therefore, policy makers should not over-sell the benefits of the policy. One of the qualities of this book is that the author attempts to be a non-biased analyst who assesses the benefits of the policy in the realistic terms. He concludes: "*While real, these benefits are never large enough to solve a society's ills, and disappointment at privatisation's inability to transform lies at the root of much of today's popular dissatisfaction with the policy*" (Megginson, 2005, 390).

The third conclusion is that "efficiency maximization" is better than "revenue maximization", especially in the case of State-owned monopolies. Also, the author takes the stand that privatizing well is better than privatizing fast, which is also supported by the empirical evidence. A measured, slow but steady approach could enable the government to build on success and give time for financial markets to develop. Furthermore, the author is of the opinion that ownership matters, as it affects corporate governance incentives. The author also considers that the design of the privatization policy matters too, as it should maximize the transparency and legitimacy of the process. Furthermore, the author emphasises that governments should deliberately use privatization policy to develop financial and capital markets, because they promote economic growth. This includes adopting legal and institutional settings that protect private property rights as well as establishing an effective regulatory and supervisory regime.

At the end of the concluding chapter, the author lists unresolved issues in the privatization policy debate that need further research. The most important of those include the aggregate employment effects of privatization; income and wealth distribution effects; exemption from privatization; and the desirability of privatization in severely underdeveloped countries. The author also provides his views on the future of privatizations in several regions of the world. The most interesting is the author's identification of long-term mega trends in privatization policy worldwide for the next 20 years, such as the privatization of national oil-producing enterprises; public transport companies and non-transportation networks. The author expects a further blurring of the lines between what economic activities are considered inherently "public" and "private", and the role of privatization policy remains important in the future.

A unique contribution of this very topical book is that it attempts to put privatization and all the controversies associated with it into a wider economic perspective and, through detailed analyses, provides a measure of its effects and impacts, especially when it comes to the development of capital and financial markets, a largely neglected area. The diversity of the topics covered and the scope of the information collected and surveyed, in particularly when it comes to published empirical studies, are truly fascinating and really thorough. This makes for the book's enormous strength. At the same time, however, this approach has some weaknesses, too. While the author's ambition has produced quite a comprehensive result, it has inevitably forced him to over-simplify sometimes in order to make the text easily understandable for a wider audience. The plethora of the different, sometimes even controversial empirical evidence of the privatization process is very difficult to categorize precisely in "pro" and "contra" arguments, as many issues on the effects of privatization remain debatable.

The potential readership of this book should be rather wide, but given the scope of the analysis, it will be particularly beneficial for practitioners, such as international portfolio investors, accounting and legal consultants and other advisors who assist governments in selling SOEs. The book is also a valuable source of information for academics, professional economists, analysts and graduate students who are interested in privatization as an economic policy.

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