In part V, Western European integration through a single monetary policy and coordination of national budgetary policies is examined. Chouraqui reviews the OECD's work on monetary policy coordination and the diminishing role of monetary aggregates in that process. Rey reviews the events in stage one of the evolution towards EMU. Hagen analyzes fiscal arrangements in a monetary union by using US evidence. He focuses on two issues: (a) the extent of redistribution through fiscal transfers and (b) whether they absorb shocks to the US economy efficiently. On both these points, he produces evidence which may comfort the European economies moving to monetary unification without an elaborate system of federal transfers and monetary rules. Wolfson and Reszat address the need for fiscal coordination. Reszat outlines the prospects for monetary integration and fiscal policy cooperation on the basis of game theoretic concepts. She seems sceptical about the usefulness of new rules governing national policies especially in periods of frequent and unpredictable shocks. There exists a vast literature on policy games but this is not touched upon here.

There are three serious shortcomings of the papers: (a) very few are model based and they very rarely contribute new formulations of problems or new analytical models; (b) econometric and quantitative studies, based on real world data, are almost entirely absent (the one exception being Koskela and Viren's paper), and (c) although game theory has become very popular in the economics literature and EMU, financial coordination, and capital flows appear to be very fertile areas of research for its application, the whole book has only one paper on such a theme.

Despite these defects, the editors have brought various contributors from different parts of Europe together and provided a forum for discussion and exchange of ideas which resulted in useful summaries and reports. Monetary union is less likely in the current climate, but it will be hard to rule out completely in the next decade. The creation of the single European market and Economic and Monetary Union, if the latter ever happens, will change in a profound way the economic landscape of Europe. Monetary union would mean a loss of control over market rates of interest as any form of market integration implies a loss of control of instruments. What really affects economic activity is not so much interest rates but institutions, the availability of credit, and the terms on which it is available. Governments can affect these, even with monetary integration.

A. Parikh, Norwich, UK

Magat, W. A., and Viscusi, W. K.: *Informational Approaches to Regulation*. XV, 371 pp. MIT Press, Cambridge, MA London, 1992. Hardcover US$ 32.50.

Regulatory responses to health and safety risks range from product bans, technological standards which modify design, hazard warnings which provide risk information, to blessing current market activity as practically optimal. This book is written for people concerned with public policy toward risky products and interested in the least often treated of these options, the information alternative. Economics, statistics, marketing, and psychology are drawn upon to provide a scientific basis for assessment and design of hazard warning programs. The book is both positive in discovering how people respond to information and normative in offering guidelines for effective design of information policies. Scholars will appreciate the theory and econometrics, innovative experimental designs, careful citation to related work, and that the more technical parts have met journal standards. Policymakers and practitioners will appreciate the clear, nontechnical manner in which the most important ideas are presented and the inclusion of test labels and survey instruments – 77 pages worth.

Magat and Viscusi advocate efficiency as well as effectiveness for informational, hazard-warning programs. Not only should the program convey relevant, accurate information to the consumer, but the benefits should be greater than its costs. The program goal should be what they call informed choice, not simply altered choice. They see little that is attractive about propaganda campaigns which depend on consumers adopting a safety advocate's values. The basic idea is that consumers will have incentive to act in their own and society's best interest if an information gap exists and the hazard warning program fills it. The benefits are reduced risks of accidents and illness. For the program to be worthwhile, the value of these reductions must be greater than monetary costs of labeling, any increases in preventive expenditures of time and money, and any disutility experienced with precautions. When individual net benefits are positive behavior and risks will change. This information gap, informed choice, net benefit approach to informational regulation pervades the book. It is particularly evident in the first seven, closely-related chapters which deal with the authors' chemical product labeling research, the assessment of some current policy in Chap. 9, and the policy recommendations in Chap. 10.

Chapter 1 sketches the information gap, informed choice, net benefit approach to informational regulation. Chapter 2 gives the methodology for experimental, consumer surveys used to estimate how consumers value health risks and determine how to design an informational program. Some detail here allows us to taste the flavor of this research. People were interviewed in shopping malls and by telephone about their knowledge and values of two household products, toilet bowl cleaner and insect spray. Open-ended, unstructured, memory recall questioning was used to mitigate any demand effect of people saying what they thought the interviewer wanted to hear. Nine labels similar to a label on a leading brand's product were shown to determine the degree to which risk and precaution information on labels induces users to take precautions, adding information can reduce response due to clutter, increasing print size induces more response, and increasing the percentage of the label devoted to risk and precautions information leads to more precautionary response. Through direct questioning consumers were asked how much more they would pay, in contingent markets, for similar products with specified lower risks of inhalation, skin and child poisonings. Contingent valuation success is enhanced by the fact that people are familiar with the household products because they use them frequently.

Chapter 3, with Joel Huber, presents an expected utility model with multiple risks and implied risk dollar tradeoffs and the results of the contingent valuation. Results show positive and significant valuation of risks and mostly diminishing marginal valuation of risk reduction. But, they also show a certainty premium for elimination of all risk and unwillingness to accept increases in risk from the current, reference risk. As in the area of traffic safety behavior, we find evidence of some rationality. Whether we consider the rationality glass to be partly full or partly empty is mostly a matter of taste. Chapter 4, with Anne Forrest, ventures into the relatively unexplored area of altruistic values. They estimate willingness to pay for risk reductions of others and find willingness within the home state, but 80% were unwilling to pay for anything elsewhere. Despite evidence of no "deep pocket" for altruism, they illustrate that even small amounts per person blown up by large populations yield substantial amounts. As interesting as this attempt is it is not yet clear about the conditions under which such altruistic values should be used in benefit–cost analysis. One argument is with pure altruism the value for others should be ignored if it distorts their consumption so that they consume too little of other desirables. It could be that if the payment is for a program which reduces the information gap for others and there is no reduction in potential private or public spending which would help the same people more, then this altruistic value might be appropriate without resorting to safety-focussed altruism. The fact that this issue is not addressed in this chapter simply shows its pioneering nature.

Chapters 5 and 6, with Joel Huber; demonstrate how product label content and format do determine, in part, what consumers recall about risks, precautions, and uses. Two of the prominent findings are that there is an opportunity cost to any new item of information on a label in that some which was recalled is lost and that at some point additional information does clutter the label so that recall actually declines. This information should be placed on a label for any regulator who wants to reprint lab study results on product labels and disseminated to all regulators in various agencies who independently want to require labels for their particular program without considering the cluttering externality across programs. Chapter 7 provides external validity in that precautionary intentions of the shopping mall study appear to be representative of the precautionary actions taken by respondents to a random sample telephone survey in the same area.

The purpose of Chap. 8, with Peter Bracato and John Payne, is to apply the lessons from chemical product labeling to the design of a format for presenting home energy audits to homeowners. While the gains are not reported as the discounted present value of total savings less the total costs, which is the best general criterion according to economic theory, reformatting using several shortcut criteria substantially improves the efficiency of investment decisions. Interestingly, in their experiment the savings comes from cheaper ways of achieving the same reductions in energy use. With complex investment decisions also, format matters.

Would-be readers who want to know what can be learned from this book should glance at the last two chapters (27 pp.). Chapter 9 applies what has been learned to an unabashed critique of California's required food cancer risk warnings. Magat and Viscusi's assessment is that overly cautious interpretation of laboratory evidence and strong language proposed for labels will lead consumers to put food cancer risks in the same general class as cigarette risks (which are orders of magnitude greater), alarmist precautionary reaction, and eventual consumer disregard. The last chapter suggests how to design an informational regulation which fills information gaps and passes a net benefit test. Any who sample based on the concluding chapters are likely to read the whole book.

G. C. Blomquist, Stockholm, Sweden

Bromley, D. W., and Segerson, K. (Eds.): *The Social Response to Environmental Risk. Policy Formulation in an Age of Uncertainty.* IX, 216 pp. Kluwer, Boston Dordrecht London, 1992. Hardcover Dfl 140.00.

Experts and laymen tend to disagree about the magnitude of risks. By and large, laymen tend to understate familiar risks and overstate the chance of rare occurrences. While it is tempting to suppose that experts measure risk "objectively," several contributions to this volume point to experts' limited understanding of the concerns of ordinary people. The result is overassurance about safety. This divergence between expert and popular risk perception can be costly. Arguably, the nuclear industry has invested too heavily in risk reduction. Perhaps less controversially, hazardous waste sites have been made too safe. Offsetting such judgements is the power of consumer sovereignty: if individuals *believe* the risk is $X$, then policy should respond to $X$ and not some expert view that the risk is really $\frac{1}{2}X$. Where the costs of dealing with $X$ are very high, incentives to secure co-operation can be tried: these are essentially co-operative side payments.

Most of the essays in this volume are thoughtful reflections on these issues of disparity in risk assessment and incentives to co-operate. Dan Bromley is concerned to refute the Coase theorem's claim that the status quo is irrelevant to optimal solutions. Bargaining between gainer and loser sanctions the existing institutional set-up, regardless of the fact that the externality may well emerge only *after* the institution has been established. The Coase theorem is therefore fundamentally flawed. Kerry Smith generalizes Viscusi's prospective reference theory whereby differences in probabilities (e.g., experts' and those of laymen) are brought explicitly into a decision-making model. Smith shows that the treatment of risk assessment disparities implies a valuation measure, and that policy on risk must include consumer sovereignty, mitigation insurance, and information. The essay by Howard Kunreuther and Douglas Easterling looks at incentives to accept the siting of a hazardous activity, a process whereby communities are induced to bid for such facilities rather than rejecting them out of hand. This sometimes works in practice (French nuclear power stations) and sometimes not (UK nuclear waste disposal sites).

This is a valuable collection of essays, although the editors offer no guide to the contents. There is an inconsistency between authors in defining risk –