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BOOK REVIEW

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Rebecca Perlman, Regulating Risk: How Private Information Shapes Global Safety Standards

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Rebecca Perlman's *Regulating Risk* tells a fascinating, sophisticated, and counterintuitive analytical story about firm lobbying, safety standards, and regulatory trade barriers. In 2007, Argentina complained that wealthier countries' regulations on how much pesticide residue could be on agricultural exports amounted to a discriminatory regulatory trade barriers that harmed users of older, cheaper pesticides in developing countries whose farmers could not afford newer, more expensive alternatives. These kinds of complaints before the World Trade Organization (WTO) (at least prior to the dispute settlement mechanism being scuttled by the Trump/Biden administrations) were quite common; agricultural chemical standards are some of the most frequently contested at the WTO. Are these trade barriers simply the result of legitimate national regulatory differences or are they a form of disguised protectionism? Where, politically, are these regulatory differences coming from? That is the central question of Rebecca Perlman's new book *Regulating Risk*, and the answer to that question speaks to the subtitle of the book '*How Private Information Shapes Global Safety Standards*'.

Perlman argues that these differences emerge from innovative firms' choices over whether and when to provide relevant scientific information that regulators depend on. She contends that innovation-oriented firms strategically withhold or reveal information in order to leverage regulatory standards in such a way that they reduce the market access of older, less profitable goods that are made and sold by generic-producing rivals or that they themselves produce but that take market share from their newer, more profitable products. In addition to answering the central research question, Perlman's book demonstrates a few other important points: that regulators sometimes face enormous information asymmetries, that who has the most relevant scientific information and what their incentives are matters a lot, and that, perhaps contra to our expectations, international regulatory institutions reinforce and legitimize these differences rather than mitigate them.

Chapter 2 establishes the first part of the analytic story, namely that information asymmetries are common and acute. In many industries, producers have a lot more information than the regulators and the regulators thus rely on the producers to do their jobs. It highlights that these information asymmetries mean that firms have the opportunity to strategically provide or strategically withhold that information. It looks, in particular, at the aerospace, direct-to-consumer products, pharmaceuticals, and industrial chemicals sectors. The aerospace case is helpful for understanding what information asymmetries look like in extreme cases, but the direct-to-consumer products case does a nice job of showing that information asymmetries do not exist only in the most complex industries such as aerospace. The pharmaceuticals case demonstrates how firms can strategically time their information provision in pursuit of favorable regulatory outcomes. The industrial chemicals sections show that some product characteristics are important for these dynamics as well; it can be much harder to establish a causal chain of harm in industrial chemicals than in pharmaceuticals. Then it goes on to explain why, due mostly to resource constraints, international regulatory institutions, such as International Standards Organization and the Codex Alimentarius, face an equal or even greater set of informational asymmetries and so do not, and cannot, operate in ways that are fundamentally different than their national-level counterparts.

Chapter 3 lays out the argument and main hypotheses of the book.

- Hypothesis 1) innovative firms are incentivized not just to seek out lenient regulations on their most profitable products (intuitive), they are also incentivized to seek tougher regulations on their less profitable products to get them off of the market so that demand shifts to the more profitable ones (far less intuitive). At times, these incentives will lead them to actively reveal information about the second class of products that encourage regulators to adopt those tougher standards. Note that it is the informational asymmetries that allow them to do this.
- Hypothesis 2) Precautionary regulations, in which a lack of data is considered sufficient to keep a product off market, will actually be supported by some innovative firms for the strategic reasons covered in Hypothesis 1.
- Hypothesis 3) Once those precautionary rules are in place, the regulations will systematically get tougher on older, less profitable, less expensive generic goods and will do so for reasons that are orthogonal to the public interest.

The chapter explains how this process produces regulatory trade barriers by creating stricter standards for older, cheaper products used by developing country businesses and by negatively affecting developing country firms who use those products as inputs.

Chapter 4 tests Hypothesis 1 by looking at the pharmaceutical and agrochemicals industries. Perlman finds that, since 2000, of the approximately 200 cases in which the Federal Drug Administration received a request to determine whether a drug discontinuation was due to efficacy or safety, there were nine instances in which pharmaceutical companies behaved in the manner in which her theory predicts (and received the regulatory outcome they were looking for in three of those cases). As the author concedes, this shows that though there are strong incentives for firms to seek out favorable regulatory decisions, there are a number of factors (potential reputational damage for example) that dissuade them from being too overt in their pursuit of these or limit their ability to get regulators to make the decision they would like. In the agrochemicals industry where information asymmetries are greater and causal chains harder to establish however, Perlman finds greater use of these timing strategies and presents quantitative evidence showing that even when other factors are taken into account, there is a strong correlation between pesticide age and how firms petition in these cases. Firms do therefore, on average, lobby for more stringent regulations on older pesticides. The chapter ends with several well-explained examples of companies lobbying in accordance with what the book's theory expects.

Chapter 5 tests Hypotheses 2 and 3 by looking at the history of US pesticide rules. It first explains how other actors such as activists, government officials, and consumer safety advocates may often want to increase regulatory standards for their own reasons. Businesses, therefore, seeking higher standards on some subset of products can certainly find political allies even if the coalition partners' motivations for these regulations differs. This is what Baptist-Bootlegger coalitions are after all. It then shows that these Bootlegger firms indeed act like Bootleggers, lobbying in favor of a regulatory regime that *just so happens* to exclude rival products from the market. Finally, in support of Hypothesis 3, it shows how institutional changes that moved the United States to a more precautionary model did in fact make regulatory standards on older pesticides stricter relative to newer, more profitable pesticides (the outcome that innovative firms wanted). As in Chapter 4, Perlman presents quantitative evidence showing that, even after controlling for other relevant variables, there is a strong relationship between pesticide age and the probability

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that tolerance levels on it were made stricter or that its access to the market was revoked altogether. Chapter 6 looks at the international level and Codex in particular. It shows that the international system mirrors the dynamics seen at the domestic level.

Perlman's book is excellent in telling the analytic story of the subtitle of the work *How Private Information Shapes Global Safety Standards* and it does a nice job of explaining where trade barriers, such as the Argentina case she opens the book with, came from. One is left wondering though what overall share of regulatory trade barriers (or some subset of them) that her story is explaining and how much of any particular barrier is her story explaining? This is the book's central shortcoming; it does not engage with rival explanations as directly as the reader might want it to. Still, this critique notwithstanding, the book analyzes an important, underexplored political dynamic in international commerce and explains that dynamic better than any other work in the extant trade scholarship. It is a clear contribution to the field and a book that gives trade scholars much to think about.

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