

The SEC and Capital Market Regulation: The Politics of Expertise.



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cogent argument for removing the constraints that have often limited public involvement in technological choices.

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PRISCILLA L. SOUTHWELL

The SEC and Capital Market Regulation: The Politics of Expertise. By Anne M. Khademian. Pittsburgh: University of Pittsburgh Press, 1992. 278p. \$39.95.

The study of regulatory policy, like most fields in political science, is subject to intellectual trends. For decades, many scholars accepted the proposition that regulatory agencies were inept, rigid, and captured by the very interests they were charged to regulate. More recently, many policy analysts have embraced the political control thesis. Employing principal-agent models and the assumptions of rational choice theory, many now argue that the political control of regulatory agencies by Congress or the president is both effective and efficient. Khademian's *SEC and Capital Market Regulation* provides a detailed and lively examination of an agency that is driven by expertise and frustrates most simplistic notions of agency capture or political control. Instead of a moribund, captured regulatory commission, Khademian presents an agency that actively prosecutes violations of the securities laws with the support of an industry that consistently advocates vigorous enforcement. Of course, none of this should be a surprise. The Securities and Exchange Commission is unusual among regulatory agencies due to its long history of strong leadership, legal professionalism, and prosecutorial zeal. The real contribution of Khademian's book is to reveal that simple models of political control or congressional dominance simply do not suffice in describing the SEC's relationship to Congress. Khademian explains: "Congress defers to the expertise of the SEC because of the technical and uncertain nature of securities policy, the diversity of regulated interests, and Congress's dependence on the SEC to enforce the securities laws. The result is a balance between the respect for expertise, on the one hand, and the demand for accountability to elected officials, on the other, that gives the SEC and its political overseers mutual and reciprocal influence over the framework . . . for regulating securities" (p. 210). While Khademian devotes much of the book to an examination of the formal and informal institutions that have evolved to govern the relationship between Congress, the SEC, and industry actors, she carefully explores the symbiotic relationship between Congress and the SEC and how the regulatory framework integrates the interests of a variety of actors.

The SEC and Capital Market Regulation begins with an insightful introduction addressing the key features of the SEC and the securities industry. One of the central goals of the book is to illustrate the limitations of political control through an examination of the SEC and the institutions of securities regulation. This is carried out through the remaining chapters. Chapters 2-3 provide a brief history of the SEC and the legislation that created the prevailing model of regulating securities through the disclosure of information and progressively expanded the agency's jurisdiction. Chapter 4 examines the role of disclosure and enforcement in securities regulation, focusing on how the SEC's approach to regulation has been reinforced by the professional norms of the agency's legal staff while meeting the needs of Congress,

self-regulating organizations, and a heterogeneous industry. Chapters 5 and 6 explore the history of the SEC and securities regulation during the 1970s and 1980s. Chapter 6 is particularly interesting in its analysis of the Reagan administration's attempts to introduce deregulation and regulatory reform by violating established agency norms, enhancing the role of economic analysis in agency decisionmaking, and altering budgetary and enforcement priorities. Khademian explains how these attempts were frustrated by the SEC staff and Congress and how the new budgetary climate of the 1980s threatened Congress's relationship with the SEC. Chapter 7 analyzes the conflicts between Congress and the SEC over the Reagan administration's attempts to reduce the costs of complying with disclosure requirements through the introduction of electronic information transmission and parallel efforts to increase the role of economic analysis in policymaking. The book concludes with a discussion of the SEC as a regulatory agency and the various factors that could contribute to change in the future.

Given the overwhelming success of Khademian's book and her effective use of interviews with past and present participants from the SEC, Congress, and the industry, one is hesitant to identify areas that are lacking. However, I note two weaknesses. First, the author explicitly frames the study in reference to prevailing models of political control, which, she believes, underestimate the power of the bureaucracy and the importance of expertise, when she might have devoted greater effort to the task of revising the theory of political control in light of her rich case study. Second, a more developed examination of expertise and professionalization would have been desirable. The author carefully documents her thesis that the SEC's legal expertise provides the basis for its regulatory success and political independence. However, she might have included a theoretically grounded discussion of professionals, professionalization, and the problems that exist when experts are placed in an organizational context. The vast literature on this topic is unexplored. Moreover, although the author presents the professional norms and career incentives of the legal staff, she does not devote sufficient attention to the economists who have become more important in recent years. She addresses, in general terms, how economists view markets, their support for deregulation and regulatory reform, and their growing role during the Reagan administration. However, this discussion could have been combined with a rigorous examination of dominant economic theories of capital markets and capital market regulation. Khademian's obvious competence in leading us through the complex world of securities regulation suggests that she is also capable of opening the complicated world of financial economics to her audience.

These final points should not detract from Khademian's accomplishment. She has written an animated, sophisticated, and accessible analysis of securities regulation—a field dominated by narrow specialists and securities lawyers. *The SEC and Capital Market Regulation* joins Shapiro's *Wayward Capitalists* (1984) and Seligman's *Transformation of Wall Street* (1982) as one of the definitive works on securities regulation appealing to a broad audience. It is also a welcome addition to a growing number of analyses of regulatory decisionmaking and administration. It should be required reading for anyone

attracted to, or disturbed by, prevailing models of political control and bureaucratic decisionmaking.

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Ideologues and Presidents: From the New Deal to the Reagan Revolution. By Thomas S. Langston. Baltimore: Johns Hopkins University Press, 1992. 247p. \$35.00.

Regardless of how one feels about its legacy, the presidency of Ronald Reagan has excited scholarly interest like few other administrations. One of the Reagan administration's most controversial features was its intense ideologization. Thomas Langston argues that far from being a unique feature of the Reagan era, the important role played by ideologues was the culmination of a significant trend that began with Franklin Roosevelt and continued through a transitional stage during the administration of Lyndon Baines Johnson. Ideologues have become both "increasingly indispensable and irresistible to presidents who expect their administrations to bring about significant change" (p. 18).

These three "presidents of achievement"—a category introduced by Erwin Hargrove and Michael Nelson in *President's, Politics and Public Policy* (1984)—exhibited the personal ambition and commanded the political resources needed to undertake a fundamental redirection of American domestic policy. In this view, brief bursts of dramatically reorienting legislative activity are followed by "presidencies of consolidation" while those that lay the preliminary groundwork in public and elite debate are "presidencies of preparation." Langston extends the Hargrove and Nelson analysis by providing new insight into how presidents may still pursue dramatic departures in domestic policy despite the decline of political parties.

Traditionally, policy realignments launched by presidents of achievement hinged on a partisan realignment. But absent such a shift in popular partisanship, a phenomenon much examined in the scholarly literature, recent presidents of achievement have been forced to find an alternative means to pursue their ambitious programmatic goals—reliance on "people of ideas" or ideologues. Thus, Langston suggests that presidents committed to pursuing a goal of massive policy change may pursue a partisan-based strategy or an ideology-based strategy, but only the latter has been available during the recent era. In the last three presidencies of achievement, "people of ideas . . . have become . . . more systematically integrated into White House operations and more closely tied to the defining domestic interests of these administrations" (p. xvi). Moreover, suggests Langston, the trend is likely to continue with serious implications for democratic accountability.

In a field largely defined by the work of Richard Neustadt and its well-known focus on presidential persuasion, ideology has received relatively little attention either as a means to motivate associates within the presidency and executive branch or as a basis for appealing to elites and the public. Langston hopes to bring "ideology into the mainstream of studies of the presidency" (p. 174). Toward this end, he develops and applies an "ideal type" to identify ideologues and then examines their impact on important domestic policy initiatives for each of the three administrations. Potential

ideologues are evaluated in relation to four ideal characteristics: expressing claims of logical certitude, absolute truth and comprehensive explanation; ascribing value to groups experiencing different social conditions, that is, the tendency to dichotomize people; displaying an immanent historical consciousness as expressed in the blueprints for analyzing and resolving problematic social relations; and possessing a link to the institutional apparatus undergirding an ideological movement. This ideal type is applied to both individuals and groups who served within the three administrations. One of the book's most interesting discussions (chapter two) focuses on how these people were recruited and managed by each president, with the Reagan experience given particular attention.

The three case studies are based on secondary sources, analysis of documents found in the Roosevelt and Johnson archives, contemporary commentary, and more than fifty personal interviews conducted by the author. Roosevelt's establishment of the Tennessee Valley Authority, Johnson's Model Cities program and Reagan's 1981 initiatives to establish supply-side economics are the three cases. The central analytic focus is on the role played by people of ideas: the two competing ideologies and personalities whose struggle doomed TVA; two groups of administration liberals whose conflict complicated implementation of Model Cities; and a largely cohesive group of supply-side zealots whose unity diminished after 1981. More importantly, however, Roosevelt and Johnson remained closely attuned to the partisan forces that underlay their electoral success, while Reagan operated more like an apartisan president. Roosevelt gave little validity to ideological reasoning, Johnson encouraged the generation of ideas but subordinated them to his partisan goals, and Reagan steadfastly pursued an ideological goal with little grounding in popular support.

Langston's emphasis is on a distinctive subset of modern presidents. Presumably, if presidents of achievement turn to ideologues as a means to fill the vacuum in partisan politics, the same forces should compel presidents of preparation and consolidation to do so as well. Langston briefly surveys evidence on other administrations (Bush is given lengthier discussion in the Epilogue) but leaves the issue unresolved, a critical question if this is truly a long-term trend affecting the office. Although Langston offers an illuminating treatment of Reagan, it is reasonable to question whether the trend is likely to continue. Reagan's roots in partisan politics were distinctively shallow, so much so that it seems premature to predict that any president will soon enjoy comparable freedom to ignore partisan forces.

It is also important to note that modern presidents have sought to fill the partisan vacuum through means other than turning to ideologues. As Samuel Kernell has demonstrated, *Going Public* (1986) has become a favorite presidential strategy pursued by broadcasting appeals for broad support. Presidents dating back at least to Franklin Roosevelt have also used a variety of strategies to create temporary coalitions of like-minded interest groups, constructs termed "presidential parties" by some analysts. Reagan made extensive use of both these techniques to advance his agenda, as well as relying on the contributions of ideologues. Thus, a reliance on ideologues may merely be one of several means employed by modern presidents to pursue their programmatic purposes.