

war turns out according to his ‘timeless theories,’ Clausewitz told us to expect it. When it turns out otherwise, Clausewitz told us to expect that too.”

On War is a great work, Fleming con-

cludes, but it should not be used as a rhetorical bludgeon. Rather, it should be taught “as poetry, even in the staff colleges, an expression of the intrinsic contradictions of the human condition.”

ECONOMICS, LABOR & BUSINESS

Murk at the WTO

“The Safeguards Mess: A Critique of WTO Jurisprudence” by Alan O. Sykes, in *World Trade Review* (Nov. 2003), Cambridge Univ. Press, 100 Brook Hill Dr., West Nyack, N.Y. 10994–2133.

When the Appellate Body of the World Trade Organization (WTO) upheld the European Union’s case against American steel tariffs last November, the decision was hardly a surprise. Since the WTO was created in 1995, the appeals court has thrown out every “safeguard” protectionist measure that has come before it. The problem is not that all safeguards were meant to be illegal under the WTO, but that the law lacks any coherent guidance as to when they are permissible, argues Sykes, a law professor at the University of Chicago.

The WTO Agreement on Safeguards lets nations temporarily impose tariffs to protect domestic industries threatened by “serious injury” resulting from a surge in imports. The 1947 General Agreement on Tariffs and Trade (GATT) did the same in cases in which “unforeseen developments” after a trade concession led to increased imports and “serious injury.” But over time, as the practical meaning of the GATT provision proved elusive, it fell into disuse, and countries resorted to extra-legal direct negotiations with one another to “voluntarily” limit exports.

The WTO safeguards agreement was designed to end that practice. Yet the text is murky. (What does “serious injury” mean? And how do you determine that increased imports “caused” it?) The WTO Appellate Body’s decisions haven’t clarified the “conceptual muddle.” Since the WTO agreement isn’t likely to be renegotiated, it would take a dose of judicial activism by the Appellate Body to clarify matters.

Is that necessary? Sykes himself is agnostic. “Purist” advocates of free trade say that the only thing safeguard measures really safeguard is wasteful protectionism. Others warn that trade negotiators will be reluctant to agree to future free-trade measures if they lack the political cover afforded by the ability to protect certain industries. Then there are the “somewhat cynical” observers, who argue that the current system provides sufficient political cover by allowing national political leaders to noisily announce trade restrictions that are only later struck down by the WTO. Today’s illegal but temporary trade barriers, these observers say, are better than yesterday’s long-lived and extra-legal “voluntary” agreements.

Over the Rainbow

“The Economics of Happiness” by Richard A. Easterlin, in *Daedalus* (Spring 2004), Norton’s Woods, 136 Irving St., Cambridge, Mass. 02138.

Most Americans cherish family and health, but few will turn down a higher-paying job even if it cuts into their time at home or in the gym. The extra money, most people believe, will buy additional happiness. Presented in one opinion poll with a hypothetical job that would give them higher pay but less free time

than their current job, none of the 1,200 respondents said that it was “very unlikely” they would take the job.

Americans hold no monopoly on materialism, notes Easterlin, an economist at the University of Southern California. In the early 1960s, social psychologist Hadley Cantrill con-

ducted a poll that asked people in 14 countries what would make them happy. The number one answer everywhere: more.

When asked how much money it would take to make them completely happy, Americans typically name an income about 20 percent higher than their current one, reports Easterlin. It's true that people with higher incomes report higher levels of happiness, on average. The problem is that increasing their wealth doesn't make them any happier. That's because we tend to compare our material situation with our peers, the proverbial Joneses. A study that began tracking a group of Americans who were in their twenties in 1972 found that their incomes had more than doubled by 2000. But the measure of happiness they reported changed not at all.

All of this confounds the predictions of

Easterlin's fellow economists. Yet psychologists don't have a better grip on the sources of happiness. In psychology, the vogue is for a "set-point" theory, which holds that each individual has a fixed level of happiness, determined by genetics and personality. Events such as marriage or divorce make only a temporary difference on the individual's happiness meter. Before long, the old self, happy or sad, reappears.

Some studies lend support to this idea, according to Easterlin, but a lot of others (and common sense) contradict it. Marriage, for example, really does make most people happier over the long term.

Easterlin's advice: If you're offered that higher-paying job, ignore the economists and psychologists and strongly question your own "commonsense" impulse to go for the money.

Castoff Cornucopia

"Reverse Supply Chains for Commercial Returns" by Joseph D. Blackburn, V. Daniel R. Guide, Jr., Gilvan C. Souza, and Luk N. Van Wassenhove, in *California Management Review* (Winter 2004), F501 Haas School of Business #1900, Berkeley, Calif. 94720-1900.

You're back at the mall again. That racy purple peignoir you hurriedly bought for your wife's birthday got the classic icy smile. Or maybe a knob fell off that sleek new television. Whatever the reason, Americans are returning goods in ever-greater numbers. Product returns now amount to about \$100 billion annually.

So what happens to all that stuff? Only 20 percent of returned merchandise is put back on the shelf as new. Fifty-five percent is refurbished, repaired, or "remanufactured" in some way and sold at a discount. Ten percent is salvaged for components. And 15 percent winds up at the local dump. In the end, the sellers recover only 45 percent of the value of the returned goods. That's a loss of \$55 billion.

The authors, all business professors at dif-

ferent universities, report that retailers haven't paid much attention to what they call "the reverse supply chain." Mainly, sellers try to minimize costs. It would be smarter to focus on speeding up the process. A returned computer loses one percent of its value every week, and at one company the authors studied, the opened boxes sat around for more than three months. Other items age much more slowly because the technology and styles don't change quickly. A power drill, for example, depreciates by one percent per month.

The authors make a number of suggestions to help cope with the problem, but some seemingly obvious ones aren't mentioned, such as selling better products—or providing aesthetic counseling to taste-impaired men.

The ABCs of CEO Success

"What Makes an Effective Executive" by Peter F. Drucker, in *Harvard Business Review* (June 2004), 60 Harvard Way, Boston, Mass. 02163.

The legendary management guru Peter Drucker has known a remarkable number of chief executives in his 65 years as a consul-

tant, and he concludes that no single personality type characterizes the most effective of them. The best CEOs have "ranged from