HISTORY OF ECONOMIC IDEAS

XVI / 2008 / 3

Fabrizio Serra · Editore
Pisa · Roma

History of Economic Ideas is a published three times a year by
Fabrizio Serra · Editore®, Pisa · Roma,
an imprint of Accademia editoriale®,
P. O. Box no. 1, Succ. no. 8 · I 56123 Pisa
Phone +39 050 542332 · Fax +39 050 574888
www.libraweb.net
Pisa Office: Via Santa Bibbiana 28 · I 56127 Pisa.
E-mail: accademiaeditoriale@accademiaeditoriale.it
Rome Office: Via Bonghi 11/b (Colle Oppio) · I 00184 Roma.
E-mail: accademiaeditoriale.roma@accademiaeditoriale.it

Annual subscription rates (2008) are as follows:

Italy, individuals € 145,00, institutions (with Online Edition) € 395,00;
Abroad, individuals € 265,00, institutions (with Online Edition) € 495,00;
Reduced rate for ESHET members: € 95,00;
Reduced rate for STOREP members: € 95,00;
This issue € 280,00.

Subscriptions should be paid as follows:

by cheque/international money order payable to Accademia editoriale®;
postal giro account no. 17154550;
by credit card (*American Express, Eurocard, Mastercard, Visa*).

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Edizioni dell'Ateneo®, Roma, Giardini editori e stampatori in Pisa®,
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Printed in Italy

ISSN 1122-8792
ELECTRONIC ISSN 1724-2169
ISBN 978-88-6227-061-8

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BOOK REVIEWS

Gilles Dostaler. *Keynes and his battles.* Cheltenham (uk), Edward Elgar, pp. vi+374, 2007; [an augmented and revised edition of *Keynes et ses combats*, Paris, Albin Michel, 2005, transl. by Niall B. Mann.]

Scholars of the life and work of John Maynard Keynes don't believe in decreasing returns. Every year new titles uncover in Keynes' writings fresh springs of insight on economics, politics, methodology, and ethics. Still, after decades of cumulative research on the Keynes Papers, Donald Moggridge's economic biography (1992) and Lord Skidelsky's three volume epic (1983, 1992, 2000), it is hard to add anything of surprising consequence about the great englishman. Dostaler in a new biography, a translation of a book he published in French in 2005, is aware of the depth and range of the field. The last footnote of the book's introduction lists, with no commentary, over sixty references dealing with Keynes' economics and life. And one can be sure that this is only a selection from a much lengthier list.

Dostaler is not addressing the expert. The great achievement of this manuscript is its organization and condensation of the life interests of Keynes. Each chapter focuses on a province of his thought, briefly identified as: ethics, knowledge, politics, war and peace, money, labor, gold, and art. The narrative is twice interrupted by «interludes», the first on the Bloomsbury Group, its membership and cultural influence, the second on the political history of Great Britain, and the demise of the Liberal (Whig) Party. The author quotes Keynes extensively, enjoying his famous turns of phrase and vivid metaphors. Dostaler's own authorial voice is largely mute, and he intervenes mostly to clarify and provide context. *Keynes and his battles* is distinctive from other biographies because it seems written as a musical piece. Dostaler samples riffs from Keynes's prolific pen, arranges them by subject matter, repeats them for emphasis, and interludes to offer perspective and pause. It is fitting that a book that concludes with reflections on aesthetics should be so carefully and cleverly arranged.

What representation of Keynes emerges from a musical biography? Is he anything like Moggridge's economist? Or Skidelsky's public intellectual? Or even David Felix's (1999) abused child? In Dostaler's narrative Keynes is a feverish pursuer of many passions, intent on leaving a personal mark on all of his public commitments. On occasion Dostaler reveals Keynes' «battles» intercepting. For instance, in a post-Keynesian remark, Keynes' views on uncertainty and probability are shown to underpin his proposals for monetary reform, while his sympathies towards psychoanalysis justify portrayal of the gold standard as fetishistic. But despite these threads, each chapter and each 'battle' are endowed with a distinct narrative that can be read separately from the others. Keynes is thus represented as a fragmented self, having to daily juggle incompatible engagements in art, politics and academia. While Dostaler allows the multiplication, he enforces over it a new kind of biographical unity by describing Keynes as an unchanging self. Hence, Keynes' writings at Eton and to the Apostles as an undergraduate at Cambridge University, are read as proof that his views on culture and ethics were fixed at a very early age. The book is not very specific about Keynes' intellectual development, and does not deal with his contradictory moments and changes of mind. Keynes thus becomes a passionate unity that through time fragments into multiple domains.

The book has the potential to charm a wide educated readership curious about the interwar period and the lead up to World War II. It is noteworthy that Dostaler is careful to explain the cultural and social context of Great Britain to the benefit of the non-expert or the non-english native. However, the book's online price of 144 dollars vetoes any broader circulation outside the University Libraries. (The original French version is much more reasonably priced at 26 euros.) Anticipating its limited readership, the book has appended a chronology of Keynes' life set alongside main historical events, and each interlude concludes with short encyclopedic entries on distinguished artistic and political contemporaries of Keynes. These reference materials and its sweeping subject matter make it a book of interest to the advanced undergraduate and graduate students.

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Natural Resources, Taxation, and Regulation Unusual Perspectives on a Classic Problem, ed. by Laurence Moss, London, Blackwell, 2007, pp. 300.

On the threshold of the new millennium one of the most important is the problem of sustainable development. The previous approach, that considered profit maximization and economic growth as the main goals in a micro and macro levels, has turned out to be fallacious. There exists a contrariety between economic growth and its sustainability, caused by the increasing use of natural resources, the environmental pollution, the global increase of social inequality and other problems. That's why environmental economics has become one of the basic subjects for economists and entrepreneurs – in the same extent as micro and macroeconomics.

The book contains a selection on different topics of the environmental economics: resource utilization, land management and rational use of economic resources, the regulation of environmental issues by taxation.

The article by William L. Anderson and Jacquelynne W. McLellan deals with the problem of public discussion about the economic and environmental issues. Authors put a question – what masters the journalist behavior? On what degree it is determined by the real importance of the problem and how much it is conducted by seeking for sensations and «modern» topics.

The article by Sean Alley and John Marangos covers the problem of formulation of goals and the choice of means to reach the goals. Is it possible, that the groups with the same goals, if they choose different means to reach the goals, may become competitors with antagonistic actions? If the economy is considered to be the «science of activity», these conflicting actions may diminish the efficiency of economy.

Professor of the University of Maryland Robert H. Nelson considers a case study about the contradiction between the economic and environmental goals in economy, in this case concerning the public land management in the US, where the influence of the historically dominant groups should be considered as well.

The paper by John Loomis, Lindsey Ellingson, Armando Gonzalez-Caban and Andy Seidl deals with the study of differences in behavior of different ethnic groups of society. The study is done on the basis of the response rates, refusals to pay, and willingness to pay concerning the public surveys, which explain the policies of the federal agencies. This item should become more and important due to the globalization process, and the experience of such multiethnic societies as the USA should be generalized and taken in to consideration in economic analysis and decision making process.

Professor Gerald F. Vaughn has devoted his article to the historical revue of Grover Peace Osborne – the author of the first American textbook on resource economics in 1893. The problem of rational management of non-renewable resources since this time has become by far more significant.

The article by Jonatan Perraton considers the problem of the economic development based on reduction of material content of production. The discussion is on the question – is it true that nature sets physical limits to economic growth? Is it possible, that unlimited economic growth, based on postindustrial services economy will succeed in a global level or the World will be divided in economies, based mainly on primary sectors in contrary to economies, based mainly on tertiary sectors, with the increasing gap and contradictions between these economies as the result?

The paper by Lowell Harriss opens with information on the Georgist program of taxing "economic rents" either directly by a rent tax or indirectly by a severance tax. His followers have continued the discussion. Natural resources present greater potential for financing government than has yet been realized. The author also points out same main term and problem that include in the article: rents, justice, present versus future, property taxation and severance taxation. This is a new access method to well known things. The method is expounded briefly laconically in easy to perceive language.

The articles by Robert Andrew Peters and Mason Gaffney deal with other problems of taxation in environmental economics.

The paper of Jeffery J. Smith and Thomas A. Gihring presents an annotated bibliography of literature concerning financing transit systems through value capture.

The paper by Fred E. Foldvary presents taxonomy of the factors, including the complexity of natural resources. The main idea of the item – that factors play enhances an understanding of economic reality and policy. The item is fully devoted to exposition of basic factors. The author refer to classic economical thought, to compare with synonyms and historical evolution of terminology, develop conception, a new sense about territorial space, speculation for space, no producer surplus, material lands, living beings, human action in the production of wealth and capital goods. The author has come to a conclusion that the factors of production are much more complex than the simple two-factor neoclassical models suggest, or even the classical three factors.

The article by Malte Faber and Ralph Winkler offers a theoretical debate on heterogeneity and time as the main aspects of economic activities in contents of the environmental and resource problem of today. Authors consider the Austrian approach to be well suited to encompass the ecological-economic analysis. The article presents a historical revue of the Austrian and neo-Austrian School of economics and the implementation of these ideas of the contemporary ecological economics. The article contains a wide bibliography on the topic.

The paper of Richard J. Brazee and L. Martin Cloutier continues the historical debate of Harold Hotelling and Lewis Cecil Gray on the economic analysis of exhaustible resources. The paper in a great extent is built on mathematical way of explanation, which may be difficult for an unaccustomed reader.

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The book may be useful in the studies of environmental economics for students in a graduate and postgraduate level, for economists and entrepreneurs and for officials, who deal with the problems of strategic economic development.

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Guglielmo Forges Davanzati, *Ethical Codes and Income Distribution: A Study of John Bates Clark and Thorstein Veblen*, Routledge, London, 2006, pp. xiv-144.

Are standards of morality in income distribution correctly expressed by the working of the market mechanism? Or should a proper definition of ethical codes need an external institutional intervention? Who should establish moral rules of behaviour? And how and to what extent do moral codes affect income distribution? These are some of the difficult questions of political economy, classically conceived as a branch of moral philosophy, tackled in this slim but smart book on the ethics of economics by Guglielmo Forges Davanzati, associate professor of history of economic thought at the University of Lecce, Italy.

The subject is treated by the author through the analysis of the works of two well known American economists active in the last decades of the 19th century and at the beginning of the 20th century: a neoclassical one, John Bates Clark (1847-1938), who supported the 'inside-the-market' approach, according to which the functioning of market economies rests on natural constants (market interactions between self-interested individual maximizers), and the founder of the 'old' institutional school, Thorstein Bunde Veblen (1857-1929), who defended the opposite 'outside-the-market' view, implying the existence of social and moral norms of historical nature, which emerged through social conflicts and politics.

The neoclassical approach to the problem, which assumes that sound ethical codes are spontaneously generated by a competitive market, backs the recourse to labour market deregulation to contrast involuntary unemployment and tends to exclude from the economic discourse any moral conception different from ethical individualism. The old institutional approach was more realistic. It rejected the application at a macroeconomic level of moral norms derived from the principle of consumer sovereignty and favoured a social control of the economy.

In my opinion, the choice as chief exponent of the first approach of J. B. Clark – the author of several studies on income distribution, culminated in the volume *The Distribution of Wealth* (1899) – is amply justified. Clark was indeed the greatest exponent of the marginalist school in the States at his times and the proposer of a productivity theory of distribution. As an utilitarian, he thought that what was good for individual business was good for society as a whole and that in a competitive capitalist system workers are not exploited. Oddly enough, his son John Maurice, also a great economist, was an institutionalist, an admirer of Veblen (see his beautiful obituary in *AER*, Dec. 1929) and had a public interest view of the social responsibility of firms.

The choice of Veblen as a typical representative of the second approach may rise, on the contrary, some perplexity. Veblen, who had J. B. Clark as a one-time teacher of economics, was a theoretician of the fundamental role played by institutions and institutional change in the working of the economic and social system. He challenged the foundations of neoclassical theory, but had no specific theory of the functional distribution of income. He was simply an opponent of J. B. Clark's views on the subject, from an egalitarian perspective aimed at reducing people's inequalities of welfare (see his essay on *Professor Clark's Economics*, QJE, Feb. 1908, critical of Clark's *The Essentials of Economic Theory*, published by Macmillan the previous year).

There is here a need to distinguish clearly three different problems: i. the historical problem of explaining the emergence of ethical codes; ii. the normative problem of defining a criterion of distributive justice for an ethically acceptable economic system; and iii. the positive problem of ascertaining what in the real world actually determines the social distribution of income. Veblen tackled over all of these problems in an unconventional way. But he did not systematize his views on the subject. He conceived the functional distribution of income in terms of power relations, rather than as analytical relations. He was a social scientist in a broad sense: a cultural anthropologist, a philosopher, a social psychologist and an environmental sociologist. Not only a professional economist, in a strict technical sense.

Veblen's personal conception of the structure and the working of the economic system was based on the idea of a fundamental conflict between the active and hard-working world of producers and the acquisitive and parasitic circle of business and speculation. He studied the logic of growth and the effects of technical progress and criticized the limited boundaries of the search field of neoclassical economic theory. His ethical criterion was to allow for those institutional changes which reduced the waste of social resources in a market economy and increased the standard of living of the working class (see his 1884 Ph.D. Dissertation in Philosophy on *The Ethical Grounds of a Doctrine of Retribution*). But – differently from later non neoclassical authors, as Boulding, Kaldor and Kalecki – Veblen did not formulate a full-fledged economic theory of the functional distribution of income. He had an original theory of consumption (*The Theory of the Leisure Class*, 1899), a following and related theory of production (*The Theory of Business Enterprise*, 1904) and a theory of useful efforts, power relations and of collective actions (*The Instinct of Workmanship*, 1914). Not a theory of income distribution.

Later on, a neo-institutionalist evolutionary economic approach – the Veblenian one developed by Williamson, Coase, North, Alchian, Demsetz, March and Olsen and others, which takes as foundation stones an eclectic mix of constitutive elements (not only Veblenian, but also neoclassical, Schumpeterian, neo-Marxian and post-Keynesian) – focused on a similar regulationist framework based on «institutions as behavioural rules», a building block of humanly devised constraints which ultimately limit the role of individual and class actions. Forges seems to share their position.

The first chapter of Forges' book is devoted to a synthetic but useful description of the main contemporary philosophical approaches to the question of the nature of moral norms. The author mentions Sartre's ethic of freedom and commitment, Smart's traditional act utilitarianism and Harsanyi's rule utilitarianism, Rawls' neo-contractualism based on the *maximin* rule of perequative distributional justice, Nozick's libertarian ethic of individual rights founded on the formal and minimalist criterion of a valid entitlement, Christian ethics of the dignity of man, Marxist ethics of power relations, neo-Kantian deontological ethic of duties, Meade's socialization approach, the Frankfurt School ethics of subject alienation, Jonas's ethics of technological responsibility towards posterity, Moore's intuitionist ethic, Mackie's ethic of natural rights and Sen's and Nussbaum's 'basic capability approach'. The catalogue is reach but incomplete. It does not include, *inter alia*, the neo-Aristotelic teleological and eudemonistic ethic, Weber's ethic of rationality, Apel's ethic of argumentation, Habermas' ethic of communicative (inter-subjective) action, Lévinas disintered ethic of alterity, Hare's analytic and normative ethic, MacIntyre's post-analytic ethic of virtues, Vickrey's ethic of impartiality of the social decision maker, Parfit's prioritarianism and Broome's 'lottery approach', which takes for granted that the requirements of equality will never be met and thus retreats to simple equality of opportunities.

Forges' basic catalogue of modern doctrines of social dialogue and choice valuation is followed by a discussion of the role played by established ethical standards in affecting the distribution of income. More specifically, there is a description of the origin, the spread and the effects on the labour market and income distribution of the adoption of some equity criteria and ethical codes on the relationships between firms and their workers. The chapter is completed by a discussion of the propagation effects generated by two opposite approaches to ethical codes and by two appendices on the nature and results of altruism and on the Webbs' analysis of the ethical foundation of the labour market, which allowed for the existence of non self-interested subjects.

The two contrasting views of Clark and Veblen are then examined. The search for an ethical foundation of market economies was the declared (and apologetic) purpose of Clark's neoclassical analysis of the problem. He maintained that in a competitive market marginal distributive rules and practices are applied by self-interested economic agents and that they satisfy both efficiency and equity conditions. As a result, the distribution of income based on the principle of marginal productivity should be regarded as just, because incomes are related to individual merits. Therefore exploitation could not exist in the labour market.

Differently from Clark's immanent conception of persistent behavioural rules, based on the notion of systemic equilibrium, Veblen's institutionalist analysis was centred on evolutionary change in institutions and on social conflict among opposed vested interests (those of the 'leisure class' and those of the 'lower class'), regarded as the driving force of changes in the existing distributive order. Veblen denied that wages are determined according to the marginal productivity of labour, because workers and employers have different bargaining power. But, in my opinion, he did not offer an alternative theory of distribution.

Actually, apart from some remarks on the obvious relevance of economic and political power and on the determinant roles played by social conflict and technical progress, on the whole one gets from this book the impression that a truly antagonist Veblenian institutionalist and evolutionary theory of income distribution did not exist and that it cannot therefore be opposed to the neoclassical theory. Veblen's theory was concerned with the historical evolution of the institutions which determine or influence the production, distribution and exchange of income and wealth. He had an interesting personal view of the interaction of labour with the capitalist power structure. But this does not provide an economic theory of the social distribution of income.

The widespread interpretation of the Veblenian view of the working of the capitalist society as a weak and rather ingenuous sociological variant of the Marxian conception of social conflict – based on the hermeneutical category of conflicting social habits, rather than on that of class struggle – seems to be substantially confirmed in this book. With the addition of a distinction between the institutions which govern the production of wealth and those which regulate the appropriation of wealth. There are indeed some familiarities between the Marxian and the Veblenian theoretical systems. Both of them have an evolutionary character. In Veblen, however, the influence of Darwin is evident and class analysis is not of Marxian type. Veblen did not look at the working class as a revolutionary force, but as an exploited and discontented multitude, aiming at higher consumption levels and eager to become part of the upper (leisure) class. And his conception of capital was different from the Marxian one (see his article «On the Nature of Capital», *QJE*, 1908).

Forges's book is the most likely result of an *ex post* assemblage of independent original writings. The author's analysis is plain, reasonable and fairly impartial, although in some points an undeclared preference for the humanitarian Veblen's approach to the theory of income distribution is rather evident. He should probably be considered a 'moderate' Veblenian, of a Galbraithian type (as P. D. Bush, G. M. Hodgson and the editors of the *Journal of Economic Issues*), rather than a 'radical' Veblenian (as W. M. Dugger, D. Brown, P. A. O'Hara and others).

What does not seem to emerge sufficiently from this work is why neither Clark's nor Veblen's discourses anticipated to some extent two fundamental features of the present reflection on ethics, and particularly on distributive ethics. First, the relevance for the discourse on ethical codes of the distinction between a deontological ethic, based on intuition (Whewell) and on the perception of the moral obligation to act (Hobbes', Rousseau's and Kant's ethics, which answer the voices of conscience and reason; or the Buddhist ethic of *karma*), and the axiological and teleological ethic of aims and values (the utilitarian ethic of Bentham and the two Mill and the edonistic ethics of Sidgwick and Edgeworth). Second, that it does not come out, both in Clark's and Veblen's treatment of ethical codes, any noticeable premonitory sign of the modern tendency to abandon an anthropocentric optic and to point out a progressive dissolution of the subject (the 'death of man').

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Steven Pressman (ed.), *Alternative Theories of the State*, Basingstoke, Palgrave Macmillan, 2006, pp. vii+229.

The stated purpose of this collection of essays is to present «alternative perspectives on the role and function of the state in contemporary economies». Given the rather unsettled nature of political environments in the West today and the debates over the role that the State should play in economic matters domestically and internationally, a volume of this nature would seem to be very warranted by events. Unfortunately, the contents of the present volume fall somewhat short of its stated promise.

The first thing one notices in perusing the contents of this volume is that it is mistitled. It deals not with «alternative» theories of the State but with 'heterodox' theories of the State. Perhaps a more serious flaw is that it is informed by a complete misunderstanding of modern mainstream economics, which, in the present volume, goes by the name «neoclassical».[1] The editor's introductory chapter begins by noting that «In the real world, the state plays a significant role in the economy». So far, so good. But a few paragraphs farther on, we are treated to the following assertion:

Unfortunately, neoclassical economics has very little use for the state and assigns virtually no positive role for the state in the economy. In most incarnations of neoclassical thought, the State is necessary only as a night watchman. Its main function is to protect property rights so that free market activity can go forward with minimal outside interference. When the state attempts to do anything beyond this, it is seen as a negative force on the national economy (pp. 1-2).

[1] I will use the term 'neoclassical' to describe the professional mainstream, along the lines assumed by most of the authors in this book, though I believe it a wholly inaccurate as a descriptor of what has been going on in economics for the last thirty years.

I must admit that it is difficult to take serious a volume that has this view of economics as its underlying premise. One can point to certain individuals or groups thereof who loosely fit the caricature espoused here, but as a description of the professional mainstream it is wholly inaccurate. It ignores both the heterogeneity of what passes for orthodoxy and the untold thousands of articles on topics including (but by no means limited to) growth, mechanism design, the economic analysis of law, monetary theory, international trade theory, and public economics that are regularly published in mainstream journals – to say nothing of the work behind numerous Nobel Prizes handed out over the past decades, including several of those bestowed on ostensibly free-market Chicagoans. The point of this little diatribe is not to defend the analysis of the State in mainstream economics, but to raise a more fundamental issue: if you are going to hammer away at X, you had best understand what X is really all about. Unfortunately, there is little evidence of such understanding in this book.

The six chapters that follow editor's introduction are more or less critiques of the neoclassical straw man, the «neoliberal» ascendancy in Western politics over the last few decades, or both. William Waller discusses institutionalist perspectives on the state. James Ron Stanfield and Jacqueline Stanfield look at the evolution of the capitalist state from the perspective of an evolutionary approach informed by the work of Karl Polanyi, while Raju Das surveys competing Marxist approaches to the state. Philip Anthony O'Hara analyses the impact «neoliberal» political regimes of the last three decades on long-term economic performance. Steven Pressman presents a post-Keynesian theory of the State, and Ellen Mutari offers a feminist view. As the audience of this journal consists of historians of economics, I should mention that there are bits of the history of economic ideas touched on in these essays, but the primary focus is the argument for a particular heterodox approach as against the neoclassical.

The final two chapters stand out from much of what comes before. In the first of these, Morris Altman gives us an interesting analysis of how a behavioral approach to examining institutional inefficiency can augment the understandings generated by the New Institutional analysis of Douglass North and others. While Altman is a bit off the mark in his characterization of the New Institutional approach as stating that private property rights and competitive markets generate efficiency, his analysis of the effects of changes in the bargaining power of labor, effected through state statutes, on economic efficiency and technological progress offers us a useful application of behavioral insights to the analysis of the effects of legal rules on economic performance.

Perhaps the most unique essay in the collection is Peter Boettke and Bridget Butkevich's examination of how the economist and the state can interact to influence the growth path of a country. Boettke and Butkevich suggest that the economist can fill either of two roles: the relatively passive «student of society», or the relatively active «savior». The State, too, is said to have a choice between two roles: it can serve as a referee between competing interests or as an active player in the economic game. The authors assert that the passive economist-state grouping gives rise to a stable classical liberal political economy equilibrium characterized by high growth, while the activist grouping is said to generate a stable statist political economy equilibrium characterized by low growth. Passive-activist combinations, they suggest, will give rise to unstable equilibria. The authors then proceed to apply this schema to the Russian transition, which was accompanied by a great deal of State-economist interplay. While one could debate the validity of the simple dichotomies set out by Boettke and Butkevich and the implications they draw from them, they are both intellectually stimulating and empirically testable.

My difficulties with this volume can be illustrated using an example taken from Waller's essay on the institutionalist approach. Waller argues that institutionalists view the state as a mechanism for ensuring social stability and continuity and as vehicle for generating pragmatic solutions to ongoing practical problems. (Is there an economist on the planet who would disagree with this view of the appropriate functions of the State? The devil is in the details of determining what should be the outcome of the pragmatic problem-solving process – on which even the authors in this volume would not agree). Waller attempts to show how the neoclassical approach differs from the institutionalist by considering the provision of childcare. «Suppose», he says, that «the people of a small town determine that their social and economic well-being would be enhanced if more childcare was available». Neoclassical economists, he says, «would seek to solve this problem by having each person purchase additional childcare. This would result in a price increase for childcare which would encourage providers to provide more childcare». Institutionalists look at things differently; for them, «the pragmatic state insures the provisioning of childcare» by, if necessary, «using its taxing authority to insure safe childcare and enhance the economic provisioning process» (pp. 24-25).

The fundamental misunderstanding of mainstream economics reflected in these statements is obvious to someone who has even a nodding acquaintance with modern public economics. First off, neoclassical economics predicts that if the people of the town want more childcare and the market is not providing enough of it, they will vote to tax themselves to finance childcare provision if, as a group, they are willing to bear the costs of additional childcare provision. If less than a majority of the citizens want to tax themselves to provide increased childcare, then more childcare will not be provided.[1] Are we left with people who cannot get as much quality childcare as they would like to have? Almost certainly – just as some people are not able to get as big a house, as fancy a car, as much organic food, etc., as they would like. The basic economic fact is that in a mixed-market economy set in a democratic political system, people are not going to get what they are not willing to pay for, either individually or collectively. This has nothing to do with neoclassical economics, nor does neoclassical economics attempt to justify any of this or to suggest that the market is the only or the best way for any particular good to be provided. It offers an explanation for observed outcomes (the more you are willing to pay or able to pay, the more you can have), but not a defense. For Waller to suggest that neoclassical economics tells us that if the market does not supply it, then state action to fill the gap constitutes «an intrusion into the otherwise stable and desirable natural order» (p. 25) is the height of absurdity.

Waller and several of the other contributors to this volume err in assuming that neoclassical economics takes a particular normative stance. They then compound the problem by arguing that the proper normative position – the appropriate vision for state action (one, I might add, that would be commonly associated with the left) – is different from that supposedly embodied in neoclassical economics. In fact, modern mainstream economics is little more than an analytical toolkit that can be applied to the analysis of a wide-ranging set of problems and issues. It shows potential consequences of alternative courses of action, either theoretically or empirically, and can be used to show that markets or governments work well or work poorly, depending

[1] Neoclassical economics also predicts that people will tend to sort themselves across communities in a way that matches their preferred tax-expenditure package (the Tiebout model, which has been around for more than a half-century), including provision of publicly-financed childcare.

on the assumptions underlying the model, and that programs of redistribution are welfare-enhancing or welfare-reducing, depending on antecedent normative assumptions. Neoclassical economics does not consider any particular quantity of childcare or any other good either good or bad, because it is not in the business of making such judgments.

Readers of this journal who are interested in heterodox economics and hammering away at neoclassical straw men will undoubtedly find much to like in this book. For my taste, it is short on history and an informed understanding of mainstream economics and long on ideology and normativism. The authors seem wholly unaware that orthodox economists have published voluminous amounts of work on issues of concern to the authors of this volume. Perhaps because it is done with modern econometric methods and not under the banner of heterodoxy, these authors are inclined to dismiss this work. Are there holes in the toolkit of neoclassical economics? Yes, certainly. Does this leave the neoclassical approach lacking when it comes to the analysis of certain types of problems? Most assuredly. But the present volume does little to help us out on this score. A better project, I think, would be to put together a volume that takes a particular economic problem and has economists analyze the problem from the perspective of their particular school of or approach to doing economics. In fact, one could easily conceive of a whole set of such volumes on various problems of real import and with specialist contributors. This offers the potential for providing insight into the real differences between the various approaches and, more importantly, into what each of the schools can learn from the others.

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The Challenges of Globalization: Rethinking Nature, Culture, and Freedom, ed. by Steven V. Hicks, Daniel E. Shannon. Blackwell Publishing, 2007, pp. vi+270.

The book under review is a collection of papers and addresses presented at the 6th World Congress of the International Society for Universal Dialogue. In the modern highly specialized system of 'knowledge-production' the usual destiny of a book like this is to remain unnoticed by anyone except the contributors or, at best, except the students from the same branch looking for the recent sources to expand their lists of references. Perhaps, that is why organizers and publishers try to choose for headings in such cases easily and widely recognizable labels: «globalization» is surely one of the favorites among them. And, one may add, such a heading may well cause some additional suspicion. In any case, it provides an easy target for criticism. Do in fact several short papers correspond to the declared task of rethinking «our concepts of nature, culture, and freedom in an age of increased globalization» (p. vii)? What *is* «globalization», by the way? However, it would be fair not to pose the questions like these before a collection of essays and pay attention to their content.

The modern world sees the process of erosion of national state authorities corresponding to the increasing role of various international and transnational structures; the widespread attention to human rights challenging the notion of national sovereignty. Ed. Demenchonok in his essay criticizes the theories of «liberal peace» proclaiming the right of «just war» of liberal vs. non-liberal States as the means of expanding the «liberal zone of peace» worldwide. He insists that the picture of «a federation of free states» envisioned by Kant in one of his works cannot serve as one of the foundations of these theories. Rather, it makes necessary to develop international cooperation and communication through the UNO to approach an ideal of «cosmopolitan democracy».

K. O. Apel tries to expand the Kantian approach and comments and criticizes J. Habermas's and J. Rawls's views on relations between positive law and morality; political sovereignty and human rights. According to him, an ideal which free and rational individual ought to pursue, whether on domestic or international level, is not any certain bunch of rights, nor even certain positive laws *per se*, but «an ideal communication community» (p. 51). This ideal is not grounded on any empirically or potentially existing phenomena. The transcendental character of the discourse ethics (the rules of conduct of communication between honest and rational individuals) allows to avoid arbitrariness and to provide morally grounded solutions and regulations to changing situation.

A. Bernstein argues that J. Rawls's notion of the Law of Peoples and the vision of human rights associated with this notion hold despite the decentralization of functions of national state and increasing influence of the TNCS, the NGOS, etc.; and that the Rawlsian approach which continues the tradition of classical liberalism is compatible with some modern theories trying to count on these recent developments.

J. Sterba wishes to outline a contour of «global justice». He insists that the traditional ethics «without argument» assumes that only human beings count morally (pp. 72, 73). This is, probably, an exaggeration – we need, for example, to turn some pages to see in the essay of M. Lucht Kant's argumentation on this issue (pp. 127-129). What is important, however, is Sterba's own argumentation on why all living beings (not only human, but also non-human and ecosystems) «morally count». Let a reader judge whether his argumentation is adequate (the author of the review has some doubts about it). According to Sterba all living beings deserve what is their own, but he does not answer the question which of *humans* deserve the right to guard non-humans. Still, to their judgment he leaves the need to remedy some vagueness of his principles «in practice» (p. 79). We need to hope, with him, that the actual situation will not soon reach the limit when the necessity to preserve endangered species will induce their potential "guardians" to restrict "basic needs" of humans, or even to start «killing us» (p. 81).

Ch. Brown in his essay is careful in breaking the link between environmental ethics and the threats of eco-terrorism and eco-totalitarianism by constructing a «pragmatic conception of value» (pp. 115-116). M. Lucht tries to open the way for awareness in environmental issues taking into account subject-object dualism and instrumental attitude inherent to the Western culture and described, in particular, by M. Heidegger. He thinks that Kant's aesthetics (but not Kant's ethics) provides a clue for this task through the notion of «disinterestedness of taste».

X. Li opposes cultural relativism which presumes that person's embeddednes into the shared norms and traditions of a community («culture») is not the cause and the justification of moral choices. Her definition of "culture" allows to argue in favor of uneven dispersion of cultural attitudes among a community members. Cultural integrity does not prevent the uniqueness of each member's moral choice. Thus, she finds the way to unite individuality of each culture and universality of human rights in a liberal framework.

P. Santilli describes «art-horror» as an inevitable creature of «the Cartesian ideal of total knowledge and total control» (p. 186) inherent to capitalist civilization. Instead of forcing it out, he persuades us to teach ourselves to recognize horror as a tool of «coming to terms with modernity» (p. 185).

J. Lizza provides us an insight into the debates on the definitions of life and death. To approach the answer he chooses to explore the different views of «personhood» and argues in favor of the substantive view (see, *e.g.*, p. 201). His description of this approach may appear somewhat vague for an unprepared reader, still his essay may be useful for the acquaintance with the modern State of the debates.

J. Sanbonmatsu, alongside with some other contributors, dismisses the «traditional» dualistic division between humans as rational subjects, and objects of Nature. He modifies the «socialist humanism» of E. Fromm and others by inserting the ideas of the modern environmental ethics and calls for «the liberation of other animals from human oppression, and the emancipation of ourselves *as* animals» (p. 217).

K. Wang in the conclusive part of the book presents the only Non-Western outlook to the environmental problem. Leaning on the long Chinese philosophical tradition he unfolds the concept of the «interactive oneness» (p. 243) between heaven (nature) and human, where ethics, aesthetics and reason cannot be separated. He warns against the danger of «over-humanization» (p. 253) of nature. But at the same time he is much more sympathetic to humankind, than some other contributors, calling for a harmony between humanization of nature and naturalization of humanity.

The structure of the book makes it a useful guide to various 'discourses' – especially for those unacquainted with them. For example, an economist would probably be amazed that the discussion on social justice is possible without literally any reference to A. Sen (mentioned only one time - p. 35) or other economists contributed to the issue.

Perhaps, the book is not so much on globalization – but this claim can be raised to a larger part of printing production on this subject. But it definitely highlights crucial modern challenges. S. Hicks in his interesting *Introduction* warns that without the proper «social glue» «the new 'globalization' may herald a new 'dark age'...» (p. 21). Reason is important, if not crucial, a component for this «glue». Tiredness or even rejection of reason and science shared by so many today, even among the scholars, is an alarming signal of seriousness of the modern situation.

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Interpreting Classical Economics: Studies in lon-period analysis, ed. by Neinz D. Kurz and Neri Salvadori, London and New York, Routledge, 2007, pp. xiii+269 index.

Classical economics tends to conjure up different views to analysts with different slants of training in economics. But most economists accept that a description of the workings of a private enterprise economy – producing agricultural goods, manufactures, and service, employing land, labor and capital goods – and indicating the requisite policies a government needs to adopt to foster a sustained growth in production were among the classicals' fundamental concerns. The different perceptions of classical economics by modern economists tend to be driven by the kinds of assumptions they think the classicals employed in their analyses. Often the differences in interpretation derive from different understandings of the words or concepts the classics used. Even among the classicals themselves many of their disagreements can be traced to different meanings they attached to the same words or concepts.

In this their third of edited collections of essays, Heinz Kurz and Neri Salvadori bring together eleven recently published (between 2001 and 2006) essays in academic journals and some other edited volumes. Six of these were co-authored by Kurz and Salvadori, one jointly with them and Christian Gehrke, one by Gehrke and Kurz, one by Giuseppe Freni, Gausto Gozzi, and Salvadori, and one each solely authored by Neri and Salvadori. All the essays favor interpretations of classical economics in the tradition of Piero Sraffa which significantly contrasts with that of «mainstream» economics or that deriving from the tradition of Alfred Marshall. The book thus presents quite a challenge to a reader, like this reviewer, who interprets the classicals mostly as Marshall did, following J. S. Mill. The challenge is made more difficult when the authors of this volume repeatedly treat classical economics as dating form William Petty to David Ricardo, contrary to the dating typically adopted by historian of economic thought, namely, from 1776 (Adam Smith) till 1870 (before the so-called marginalist revolution). The latter dating thus takes more seriously J. S. Mill's contributions to our understanding of classical economics than these authors do, particularly with respect to the classical theory of value and the concept of «capital».

After an introductory chapter that summarizes the subsequent essays, the eleven essays are organized into three parts. Part 1 contains four essays that, in effect, celebrate David Ricardo's analyses of value and of rent in agriculture. The first essay defends Ricardo's analysis of value against its criticisms by J.-B. Say, which are said to stem mainly from Say's misunderstandings of Ricardo arguments. The second essay is a note defending Ricardo's illustrative analysis of rent under what the authors call «land saving» and «capital (*alias* labour) saving» technical progress against criticisms by the likes of Edwin Cannan and Harry Johnson. The authors argue that Ricardo that he «could only be criticized for having changed the definition of rent, which implied a change as regards the timing of its payment from *post* to *ante factum*, when proceeding from one numerical example to the next; alas, without explicitly noting, nor perhaps even noticing, the implication» (p. 45). The third essay takes Léon Walras to task for his criticisms of Ricardo's theories of value and rent in the *Elements of Pure Economics*, noting that these derive from Walras's own misunderstandings. The fourth essay employs the language of game theory in an attempt to explain how rent could appear on marginal land in Ricardo's analysis, under the heading, «Is Ricardian extensive rent a Nash equilibrium?» I doubt that many readers will feel having been more enlightened on Ricardo's differential rent analysis after going through Salvadori's exercise in this essay.

Part 2 contains four essays devoted to Sraffa's contributions to economic analysis. The first details Sraffa's decade-long efforts, from 1930 to 1940, to retrieve from Jacob Hollander pertinent Ricardo papers for inclusion in the *Collected Works and Correspondence of Ricardo* (1951-73). Sraffa himself was not very successful in publishing his interpretations of classical economics in journals. His manuscripts ended up at the Trinity College Library, Cambridge, after his death. The next two essays are publications of what Sraffa sought to argue in the archived manuscripts. We read Sraffa's interpretation of classical value theory as one devoid of a subjective or utility conception, and a reduction of the production process to one of commodities producing commodities, the latter conception mainly following James Mill. The view contrasts with the usual understanding that the classics conceived of production as the employment of labor, land, and capital goods as factors to transform raw materials into their consumption stage. The fourth essay details Sraffa's long pursuit of mathematicians, particularly Abram Besicovitch, to help him write up his version of classical value and production theories, with not much success.

Part 3 includes three essays discussing the contributions of other 20th century analysts who have employed the mathematical interpretations of classical economics consistent with Sraffa's views. The first is that of John von Neumann whose analysis is contrasted with that of Kenneth Arrow and Gerard Debreu, the latter being cited as a representative of neoclassical economics. That valid criticisms may be leveled against the Arrow-Debreu model of a competitive economy is used as indicating the superiority of the von Neumann alternative, and thus supporting Sraffa's reading of classical economics. Peculiar to this model are such notions as (a) fixed capital is reduced to circulating capital, (b) costs are «physical real costs», and (c) «the natural factors of production, including labour, can be expanded in unlimited quantities» (p. 210). The second essay also interprets Nicholas Georgescu-Roegen's valid criticisms of the neoclassical production function as justifying von Neumann and Sraffa's view that the classicals conceived of production as one in which there are no fixed capital goods, but only circulating capital and that «the aim of economic production is to produce not only the usual products but also tired workers and used tools» (p. 226). The final essay discusses endogenous growth in a multi-sector economy, again drawing on the mathematical tools of von Neumann. The aridity of the exercise may be gauged from the authors' willingness to employ the assertion that «in the model there is some space for the 'classical' opinion that 'even if part of the income from property were spent on consumption, and not saved, the rate of interest would not necessarily be much affected: it might still be *approximately* equal to the greatest expansion rate that *would* have been possible *if* all income from property had been saved» (p. 246). Of course, this is quite in the tradition of growth theorists discussing savings and investment without paying attention to savings and investment demand as being the determinants of equilibrium interest rates.

Economists who appreciate Sraffa's interpretation of classical economics may find this volume of much use. That most of the essays have been published recently in journals is a testimony to the plurality of views regarding the interpretation of classical economics, which also may be cited as a sign of vibrancy of research in the field of the history of economic thought. One just has to be careful to send a manuscript where it would find acceptance. On the other hand, the existence of significant differences in interpretations of the classics puzzles many economists with little interest in the history of their subject. What does it take to convince careful readers of Adam Smith not to interpret his explanation that «the price or exchangeable value of every particular commodity, …, *resolves* itself into [i.e. pays for] some one or other», (*WN*, 1, 58; Italics added) of wage, rent, or profit in the chapter on «Of the Component Parts of the Price of Commodities» to mean his having argued an «adding-up» theory of value as claumed in this book (pp. 26-27, 34, 146)? After all Smith subsequently in chapter 7 argues that variations in the price of produce affect rent on land as well as profits and that one is a loser when one «sells at a price which does not allow … the ordinary rate of profit in [the] neighbourhood» (62-63); Ahiakpor (2003, ch. 2 elaborates). Similarly, what does it take to convince readers of Smith that he did not argue a labor theory of value but rather used labor as a measure of value, just as J. S. Mill (3, 581) reaffirms, against the contrary assertion by Sraffa and repeated by authors in this book?

In highlighting Sraffa's «physical real cost» theory of value, the book (p. 135) is critical of Marshall's use of 'utility,' or 'disutility,' 'waiting,' 'abstinence,' or 'opportunity cost' in explaining value as being contrary to the classical tradition. But Smith employs the «ease, liberty, and happiness» (*WN*, 1, 37) laid down or foregone in production as a measure of value or cost as well as the notion of opportunity cost in explaining a loss from sales (*ibidem*, 63). Nassau Senior also treats «abstinence» as «*that agent, distinct from labour and the agency of nature, the occurrence of which is necessary to the existence of Capital, and which stands in the same relation to Profit as Labour to wages*» (1836, p. 59). The authors also show little reason why economists should follow Sraffa's fascination with James Mill's 1821 claim that «the agents of production are the commodities themselves» (pp. 121, 122, 135) and to regard that as a more informed view of the production process. I also find little merit in the authors' criticism of Smith when they note that «on the one hand [Smith] insisted that the subsistence part of wages ought to be reckoned as a part and parcel of stock, i.e. capital, yet on the other hand [he] anticipated modern national income accounting by treating total wages as revenue» (p. 145).

Recognizing that 'stock' derives from savings (part of income) and is partly spent in paying the wages of labor should eliminate the need for that criticism.

I come away from reading this book convinced that Sraffa would have benefited greatly from paying heed to Marshall's advice against attempting to use mathematics as an engine of economic inquiry, but only as a short hand for registering careful thought. Mathematical models of an economy that rely so much on mind-numbing assumptions to derive their conclusions, as several of those employed in defense of Sraffa's reading of classical economics in this book, may entertain some readers. But they contribute little to a better understanding of the classics or to the formulation of policies capable of promoting sustained economic growth in a society preserving individual liberties as the classical economists sought.

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Vilfredo Pareto, *Considerations on the Fundamental Principles of Pure Political Economy*, ed. by Roberto Marchionatti and Fiorenzo Mornati, London and New York, Routledge, 2007, pp. xxx+161.

Between May 1892 and October 1893, Vilfredo Pareto published in the *Giornale degli Economisti* a five-part article entitled «Considerazioni sui principii fondamentali dell'economia politica pura». This extensive article (179 pages in the original version) represents Pareto's first systematic contribution to pure economics, and is a key step in the development of utility theory at the end of the 19th century. Among other things, in the «Considerazioni» Pareto shows that Marshall's constancy of the marginal utility of money holds only under restrictive assumptions, and works out demand analysis in the general case of non-additive utility functions. The article is also important from a methodological viewpoint. In it Pareto discusses a wide range of issues, including the role of mathematics in economics, the epistemological status of *homo oeconomicus*, and the concept of marginal utility.

Although a prompt and extensive survey of Pareto's article appeared in the *Economic Journal* (Sanger 1895), an English version of the «Considerazioni» has still been missing. This lacuna is filled by the translation of the article prepared by Vincenzo Savini and John Kinder (University of Western Australia) under the supervision of

Roberto Marchionatti (University of Turin) and Fiorenzo Mornati (University of Turin and Centre Walras-Pareto, University of Lausanne), together with the help of Michael McLure (University of Western Australia).

The English edition of the «Considerazioni» is remarkable for its balance of technically precise translation with readability. The editors' notes to the article support and clarify its content and explicate the numerous references Pareto makes to other texts. Moreover, the introduction by Marchionatti and Mornati allows the reader to understand how the «Considerazioni» fit into the theoretical debates of the period. Finally, the editors correct some typographical errors found in Pareto's original mathematical formulas. While this renders the formulae and their applications more intelligible, it would have been appropriate for the editors to identify the corrections made with a table displaying Pareto's original formulas together with their corrected versions. This is the only imperfection I see in the the Marchionatti-Mornati edition of the «Considerazioni». In every other respect, it is an indispensable and reliable working tool for all English-speaking scholars interested in Pareto's thought.

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Denis P. O'Brien, *The Development of Monetary Economics. A Modern Perspective on Monetary Controversies*, Cheltenham (UK) and Northampton (MA, USA), Edward Elgar, 2007, pp. xv+265.

This book focuses on the rise and fall of the quantity theory of money in the history of monetary thinking. It discusses in particular the pros and cons of money supply control, and contrasts them with the shortcomings of interest rate setting in the case of the Bank of England at the time of the debate between the Currency School (advocating monetary targeting) and the Banking School (in favour of interest rate setting). Using a formal model, O'Brien shows that «the prescriptions of the Currency School would, had they targeted the right money supply, have been stabilising, while those of the Banking School left the price level indeterminate and magnified fluctuations» (p. 5).

After a short introduction, the book is divided into three parts, addressing what the author calls early monetary debates (that is, Bodin's analysis of price increases, Law's paper money system, and Locke's view on the rate of interest), then focusing on 19th century British controversies (revolving around the Currency versus Banking Schools debate, the issue of monetary base control, and the concept of lender of last resort), and finally elaborating on some macroeconomic models of the past (namely, the models of Bagehot and Joplin respectively). The last chapter deals with the question of stability with an endogenous business cycle.

The author shows an impressive knowledge of the history of monetary thinking, and is thus able to throw new light on old ideas, considering a huge volume of bibliographic sources that are not available in the vast majority of university libraries. The book is therefore worth reading for scholars interested in the development of monetary ideas within the realm of the quantity theory of money or, to put it in modern language, with respect to the exogenous money view. This view stems from the still widespread belief that central banks supply monetary base exogenously, that is, can control the quantity of central bank money available in the banking system. The money multiplier idea, then, is called upon to explain how every unit of central bank money supports indeed more than one unit of bank deposits within the private banking sector (hence the monetarist notion of high-powered money, to mean central bank money or, in modern parlance, settlement balances).

In fact, central bank money is the means of final payment on the interbank market, that is, the market where all debt obligations arising between banks are settled, using a third-party acknowledgment of debt – provided by the settlement institution at a trifling cost, as it is a mere double-entry book-keeping device necessary in order to measure and settle interbank debts across the whole national banking system (see Rossi 2007, 67-79 for analytical elaboration). As Goodhart (1994, 1425) points out cogently in this respect, «[i]f the central bank tried to run a system of monetary base control, it would fail.» This is a lesson that several central bankers learned by practical experience. As a matter of fact, whenever central banks move to cut non-borrowed reserves in an attempt to reduce the increase in some monetary aggregate, and thereby curb the increase in the general price level, this action deprives the national banking system from the needed liquidity, which then threatens the solvency of banks. The central bank then really has no choice but to turn around and increase borrowed reserves. Again, Goodhart (1989, 293) is clear on this point: «Central bank practitioners, almost always, view themselves as unable to deny the banks the reserve base that the banking system requires, and see themselves as setting the level of interest rates, at which such reserves are met, with the quantity of money then simultaneously determined by the portfolio preferences of private sector banks and non-banks».

For Goodhart (1989, 327), who has been himself a central banker beside being a professor of monetary economics, the notion of central bank control over the monetary base is «an almost farcical situation.» Even in the 1970s and 1980s, when many central banks officially implemented monetary targeting strategies based on the Friedman rule, a number of them used the short-term interest rate as a policy tool to meet the targeted rate of growth of the money supply. The best example is that of the Bundesbank (1975-1998), whose money-supply targeting strategy was put into practice via an implicit rule that can be written down as follows:

$$i_t - i_{t-1} = \gamma(\mu_t - \mu^*) \qquad \text{with } \gamma > 0$$

where *i* represents the policy-controlled interest rate, m is the observed growth rate of the targeted monetary aggregate (in Germany M0 until 1987, thereafter M3), m* is the rate of monetary growth that the central bank considers as being compatible with price stability, and *t* is the time period considered. This rule means in practice that when the growth of the money supply exceeds the targeted growth rate, the central bank increases its interest rate to bring money supply growth into line with the monetary target that it announced publicly, with a view to enhance transparency and thereby affect the agents' expectations over monetary policy outcomes.

As Fullwiler (2003, 852) explains for the case of the United States, «reserves are not an exogenously controllable variable for the Fed; rather, changes to reserves must be made endogenously in response to changes in banks' demand for reserves.» In short, it is not possible to control the supply of money, as even the reserve base is endogenous for the smooth working of interbank settlement systems (Rossi 2007). In fact, interbank settlements today are still an «often ignored determinant of bank reserve demand» in the mainstream view of monetary theory and policy (Furfine 2000, 536). This is also the case of O'Brien's analysis, which is interesting on historical grounds, but, contrary to his book's subtitle, offers no modern perspective on monetary economics, as it is based on old ideas «which ramify into every corner of our minds», as Keynes used to say, and are therefore difficult to dispose of in both literature and academic circles.

A last note is in order and refers to the book's layout. This is not in line with Edward Elgar's housestyle and is rather awkward, which is a pity as the reader is not encouraged to carry on his or her effort on aesthetic grounds. The publisher should really avoid such an experience to readers, and seriously consider that the whole production work leading to camera-ready copy be carried out in-house rather than by authors themselves.

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