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Macroeconomic Theories and Policies for the 1990s. Edited by BRUNO AMOROSO and JESPER JESPERSEN. (Basingstoke, Macmillan Academic and Professional Ltd., 1992, pp. 156, £40.00).

This book consists of a series of papers presented at a conference in Roskilde in the summer of 1989. The contributors are critical of orthodox neoclassical economics, particularly its attempt to establish ahistorical models in macroeconomics. The result is a most stimulating set of papers, set mainly but not exclusively within the Scandinavian model with its emphasis on institutions and market structure for understanding macroeconomics.

An excellent paper by Lando, for example, illustrates the appeal of the book. Writing in 1989, he considers the debt-deflation problem and concludes that it represents a serious threat to economic well-being in the circumstances of the late 1980s. Given that this was written over three years ago, it is a prescient view of the present problems of a number of economies in the world, including those Scandinavian countries in which the authorities were foolish enough to agree to demands from their financial sectors that "competition" should prevail and that they should be allowed unrestricted access to world capital markets. In fact, the passage of time from conference to publication—usually a criticism of books—has seen a sequence of events unfold which has served to strengthen considerably the arguments used in a number of the papers. Amoroso considers the possibility of a mixed economy approach to the problems of Eastern Europe, considering the free market approach to these problems to be deeply flawed. Holland anticipates much of the current debate on the direction of Europe and argues that a purely monetary approach to integration is bound to lead to severe problems.

Rather unusually for a conference volume of this kind, it can be said unequivocally that each of the individual papers is well worth reading. Readers anxious to encounter thickets of algebra or pages of econometrics should avoid this volume. For anyone interested in a well-argued balance of theoretical and applied observations related to important topics in actual political economy, this book can be recommended very highly indeed.

PAUL ORMEROD

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Economic Convergence and Monetary Union in Europe. Edited by RAY BARRELL. (London, Sage Publications Ltd., 1992, pp. 263, £12.95 paperback).

The opening study by Anderton, Barrell and in't Veld presents systematic statistical evidence demonstrating the increasing macroeconomic convergence of the European Community member countries since the establishment of the European Monetary System in 1979. This theme is further developed in other studies in this volume. Anderton, Barrell and McHugh argue that their empirical analysis suggests that the structure of member countries' labour markets during the 1980s has altered so that changes in the wage inflation process can be detected. Onofri and Tomasini examine the experience of France and Italy and they conclude that while France has fully accepted the discipline of the European Monetary System, Italy's behaviour has been somewhat erratic with signs towards the end of the last decade that its commitment is less than absolute. France since 1979 is also considered by Bordes and Girardin who provide an interesting assessment of French views on monetary union. In perhaps the best study, Bradley and Whelan evaluate the experience of the Republic of Ireland. Their discussion of the link between the Irish and British currencies should stimulate very useful research. Netherlands, Belgium and Denmark are discussed by in't Veld, while Larre and Torres focus on Spain, Portugal and Greece. All these studies leave no doubt about the success of Community member countries in achieving a high degree of convergence. However, they also demonstrate the differences among them as well as reveal the potential threats to the process of economic and monetary union.

European monetary union is considered by Langfeldt, while Friedman in a highly informative study attempts to draw lessons for the Community from Germany's monetary unification. Williamson's study of the potential external implications of European monetary union is surprisingly unimpressive. But Begg and Mayes convincingly argue that the elimination of regional disparities is a necessary condition for the survival of the proposed monetary union. On a different theme, Collignon presents an interesting plan for the creation of an ECU zone for the former socialist countries. Finally, the volume concludes with an appraisal by Barrell of the prospects for monetary union in Europe.

In brief, this is one of the better collections of studies that have recently addressed issues relating to European monetary unification. The authors were able to incorporate at least some preliminary assessments of the implications of the Maastricht treaty. The political nature of the decision to proceed to monetary union is emphasized in a number of studies. However, it is unfortunate that no systematic analysis of the politics of monetary union is included.

GEORGE ZIS

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Counting the Cost of Global Warming. By JOHN BROOME. (Cambridge, The White Horse Press, 1992, pp. 147, £24.95 hardback, £9.95 paperback).

Uncertainties loom large over the possibility of global warming and, in his introductory chapter, John Broome does rather well in describing the possible causes of climatic change, engendered by greenhouse gases and, in particular, by carbon dioxide. He cites the essential reasons why estimates diverge, why the sea level is expected to rise, why the regional impact is varied—and he also mentions some of the perhaps more remote but even more daunting threats like possible reversals of ocean currents. Most important facts seem to have been mentioned (with the possible exception of the reasons why global warming would be much stronger near the poles than near the equator).

The book is the outgrowth of a report to the Economic and Social Research Council and it constitutes an investigation into "the intergenerational aspects of climate change". The second chapter therefore abruptly switches to "justice and well-being". It is argued that the question of our concern for later generations should be approached in terms of their well-being, rather than in terms of justice. For global pollution would change the conditions of life so that different people, if any, would be alive if we did not control pollution than will be alive if we do control it. The book argues that justice is concerned with obligations to specific people. Broome therefore turns to "teleology" which he defines as an orientation of action towards what is regarded as good. But it turns out that his interpretation of the "good" is in terms of welfare and no attempt is made to discuss the contents of ethics in positive terms. Rather, the problem becomes that of a utilitarian evaluation of our possibilities for constructing aggregate measures for intergenerational welfare functions.

This is a technically very difficult subject, with many relevant questions still being open. The reader who expects some operational rules to guide policy decisions which have implications for later generations, for instance through decisions affecting climatic change, will be completely disappointed. Almost no positive results are derived but Broome's verbal discussion is extremely clear and the logic of his argument is fascinating to follow for all those who like this kind of mathematical philosophizing and who can accept the distance both from the tradition of Western philosophy and from all problems of applied economics involved in environmental policy. Not even carbon taxes are really analysed.

Instead, the third chapter provides us with a thoroughgoing discussion of the treatment of discounting, with very informative sections on why the matter of discounting for a global problem with a very long horizon is essentially different from the discounting problems we encounter in cost-benefit analyses for specific industries and regions and with shorter time horizons.

The last chapter on the aggregation of well-being discusses a number

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of solutions to the aggregation problem and opts eventually for "critical level utilitarianism" which measures the sum of the excesses of the well-being of people over a "critical level". The reason is that such a formula prevents total well-being from increasing with the addition of people who are very poor. I do not necessarily disagree with the value judgement implied but it is remarkable with what ease it is here being proposed, without much discussion of the fact that it contradicts important ethical traditions.

Are there other approaches? Of course there are. Setting apart the problems of the philosophical foundation, the historical origin and the cultural specificity of our value judgements, the economist might concentrate on the evaluation of a few relevant alternatives, rather than hunting for the principles of a general evaluation of all possible outcomes, which is what Broome aims at. The scientists have introduced us to the principle of comparing a few well-defined scenarios of future developments, distinguished according to the crucial policy alternatives and exogenous influences. If one considers, for example, scenarios relating to the transformation and use of energy, one realizes how the economic evaluations have to be complemented by an evaluation of the corresponding political and societal developments which cannot be reduced to material welfare. Earlier economists also proceeded in this manner, for instance Ricardo when he conjectured what Britain would be like with or without the corn laws. The idea of comparing all possible outcomes in terms of a comparison of the aggregated welfare functions is an outgrowth of the neoclassical tradition and I am more sceptical than Broome that it will ever be put to work effectively.

But this difference of opinion did not prevent me from reading Broome's book with mounting interest and pleasure, since it is written in a lucid style and inspired by a very serious concern.

BERTRAM SCHEFOLD

Johann Wolfgang Goethe-Universität, Frankfurt

Equity, Efficiency, and Social Choice. By DONALD E. CAMPBELL. (Oxford, Clarendon Press, 1992, pp. 188, £25.00).

The main theorems on social choice tell us that apparently reasonable restrictions on the method of making social choices lead either to inequity (dictatorship) or to inefficiency (no response to individuals' preferences). Relaxations of the apparently reasonable restrictions can help a little but "impossibility" remains the key word.

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Campbell covers all this ground very well, using topological methods to facilitate the analysis of economic spaces in which there is an infinite number of alternatives with suitable continuity assumptions. The topological concepts and the algebra of relations are introduced clearly enough in the first part that the book should be accessible to those who are not fluent in the concepts and language of topology.

The second part covers the standard Arrow result, the route through quasitransitivity to oligarchy and results on the inevitability of dictatorship when the method of making social choices is required to be immune to manipulation. The third part—which the less mathematical reader is likely to find both the hardest and least rewarding—examines impossibility results in connected spaces containing an infinite number of alternatives and in infinite societies.

The fourth part applies the theory to economic environments including public goods and overlapping generations (where the topological demands are greater) and it is very good to see the results of social choice theory applied in these circumstances—though, given the nature of impossibility results, the outcomes are not very positive.

There are books in social choice theory that interpret the results largely in the context of individual ethical judgements, there are books that are mainly concerned with voting schemes: until Campbell, it is perhaps true to say that the economic application of the theory has been the least well served. This clearly-written and well-structured book therefore fills a gap in the literature.

JOHN CRAVEN

University of Kent

Establishing a Central Bank: Issues in Europe and Lessons from the US. Edited by MATTHEW B. CANZONERI, VITTORIO GRILLI and PAUL R. MASSON. (Cambridge, Cambridge University Press, 1992, pp. 307, £29.95).

This volume contains the proceedings of a joint CEPR/IMF/CGES Conference hosted by the Center for German and European Studies at Georgetown University in May 1991. As is the case with most volumes arising from such conferences, the common theme is often rather loosely defined but this is usually compensated for by the high quality of the papers presented.

The contributions contained in the volume confront various issues connected with European Monetary Union (EMU), which is supposed to

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emerge as part of the Maastricht treaties. One set of papers seeks to identify some of the main institutional issues which arise with the creation of a European Central Bank (ECB), partly drawing on the experience of other countries such as the U.S.. This part of the volume contains a chapter by Barry Eichengreen who, with his usual effective combination of formal economic analysis and informative economic history, draws on the experience of the Federal Reserve System to demonstrate the importance of policy co-ordination between the national central banks in an EMU. This is followed by an insightful analysis by Alberto Alesina and Vittorio Grilli which focuses on the possible differences which might emerge between the preferences of an ECB and the "median European voter". Finally, David Folkerts-Landau and Peter Garber consider whether the ECB as envisaged in the EC treaty should have assumed more of the usual functions performed by a central bank.

A second part of the volume deals with the issue of the transition from the ERM to the EMU. This consists of a useful overview by David Currie, which analyses the advantages and disadvantages of Hard-ERM, Hard-ECU and EMU as alternative institutional arrangements, and a chapter by Alessandra Casella that assesses the incentives which various and diverse economies have in joining a monetary union. The third part of the volume tackles the central issue of fiscal policy relationships in a monetary union and, in particular, the problem of regional stabilization in the absence of independent monetary policy and the question of whether financial markets can impose some discipline on individual members of a union. Xavier Sala-i-Martin and Jeffrey Sachs note that the U.S. federal fiscal system plays an important part in the process of regional macroeconomic stabilization. Morris Goldstein and Geoffrey Woglom present evidence that American states with larger outstanding debt stocks and fiscal deficits face higher costs of borrowing. The final chapter, by George Alogoskoufis and Richard Portes, considers the implications for the international monetary system of the creation of a new major currency, the ECU, and the movement to a tripolar system of international policy co-ordination.

There is no doubt that this is a useful reference volume for students and teachers of international economics. However, like most conference volumes, it represents a rather loose collection of papers and hence it is likely to prove popular mainly with libraries. Furthermore, its future relevance obviously depends critically on the future evolution of EMU: in the light of the partial break-up of the ERM we cannot yet be sure which parts of the Maastricht treaties (and which economic models) will survive. Having said this, I did find most parts of the volume enjoyable to read. My estimate is that the average reader will find about 60 to 70 per cent of the papers in the volume useful; which papers are most likely to fall into this category is, of course, for individual readers to decide.

ANTON MUSCATELLI

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Income, Inequality and the Life Cycle. By JOHN CREEDY. (Aldershot, Edward Elgar Publishing Limited, 1992, pp. 240, £45.00).

This is a book purely for the specialist researcher or postgraduate student. It is a collection, with modifications and partial co-ordination of the author's not inconsiderable contributions.

Each chapter in the book stands as a separate entity. The chapters are connected, albeit loosely on occasions, by the underlying theme set out in the first sentence of Chapter 1—"measures of inequality that are based on observed incomes during a single year can be highly misleading" (p. 3). Chapter 1 proceeds to examine, among other ideas, the popular misconception that inequality always decreases as the reference period lengthens. Chapter 2 digresses into the problems of optimizing wealth holdings in a two-period framework. In Chapter 3, we return to the main theme and intergenerational inequality, considerable manipulative use being made of the "empirical law" that age effects are quadratic. The principle of Galtonian regression to the mean is examined for fathers' and sons' incomes with particular emphasis on measurement problems. Chapter 4, using Australian earnings data, considers income mobility utilizing the familiar Gibrat's Law of Proportionate Effect and derives the interesting conclusion that "there is little evidence to suggest that higher risk is compensated by higher earnings measured over the longer period" (p. 60). The analysis of earnings continues in Chapter 5, where the accident-compensation problem is confronted.

Chapters 6 to 8, which comprise Part II of the book, examine in detail the earnings of British and Australian scientists. The analysis of earnings and responsibility makes ingenious use of a "responsibility assessment schedule" devised by the Royal Society of Chemistry. The examination of earnings and job mobility indicates that "a great deal of upward mobility ... takes place within the organization"(p. 122)—a possibly comforting thought for those who dislike moving.

Part III, concerned with demographic effects, focuses on the financing of pensions in an ageing population—various schemes are analysed in Chapter 9 and Chapter 10 considers the invariably neglected or ignored problem of aggregation in life-cycle consumption models. This is a valuable contribution to consumption function theory.

Part IV encompasses taxation themes ranging from the individual choice of tax structures, based on Buchanan—a little obscure I felt—to the implications of the shift from direct to indirect taxation, taxation and union demands, and the financing of higher education.

Such is the disparate nature of this book—despite the underlying theme—that the selection of any specifically good chapters would be likely to reflect personal interest rather than intrinsic merit. As a reference and guidance text for researchers, it is excellent. Those seeking a more general socio-economic analysis of age and inequality, however, must be forewarned

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of its technical and theoretical content.

TOM STARK

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Applied Econometric Techniques. By KEITH CUTHBERTSON, STEPHEN G. HALL and MARK P. TAYLOR. (Hemel Hempstead, Harvester Wheatsheaf, 1991, pp. 274, £45.00).

What would one expect from a book with this title? Certainly *some* discussion of econometric techniques but also a good chunk of empirical applications. It is perhaps therefore rather disappointing that, of the 230 or so pages, only 46 (my best estimate) concern empirical illustrations and applications of the techniques. The non-econometrician could be forgiven if the first reaction on opening this book is that it is a textbook of econometrics.

The authors are very explicit about their intentions: the book "is designed to bridge the gap between a standard third-year undergraduate or a postgraduate econometric theory course and the practical work which will be asked of most applied economists ..." (p. ix). The chosen econometric techniques, namely dynamic modelling, non-stationarity and cointegration, rational expectations, Kalman filtering and large non-linear models, are regarded as the essential augmentations of standard courses. The treatments of such topics are said by the authors to be overviews which concentrate on the implications for practical work, these being illustrated by empirical examples mainly based around demand for money functions and exchange rate models.

To what extent does the book meet these objectives? A summary judgement is that it does not, although this needs to be tempered by specific points. The book is not well written: it bears the marks of a "committee job". There are many points where it is not easy to understand what is being said, or where notation or ideas are mentioned without having been previously explained. There are numerous typographical errors: the sample size is so large that some rather entertaining examples emerge. The best illustration of this is the Shakespearean test for serial correlation on p. 124 which has "... the value of the Box-Pierce statistic for sixteen lagges ...". Whilst one can make allowances for orthographic errors, one would worry about typos in the equations in a book intended for student use.

In an econometric textbook, one would expect to see the steady linear development of ideas dear to econometricians. This book deliberately eschews such an approach: the authors wish instead to reveal the implications of the topics they choose for practical problems, irrespective of their order in a standard development. There is nothing intrinsically wrong with this approach, provided one is prepared to accept its implications, one such implication

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being that the reader should be referred to other books for preparatory work. In fact, 100 pages of this book are taken up with such preparatory work as the general linear model, maximum likelihood and time series modelling. This *is* standard material, treated in a standard and rather sketchy way. With hindsight, it would have been better to omit this and to expand discussion of the major topics and empirical examples. In summary, this reviewer is disappointed: it could have been a good and useful book, but unfortunately it is not.

LEN GILL

University of Manchester

The Economics of Monetary Integration. By PAUL DE GRAUWE. (Oxford, Oxford University Press, 1992, pp. 193, £25.00 hardback, £9.95 paperback).

There is a large number of wide-ranging texts on European economic integration now available but this is the first book to focus at a non-elementary level on the economics of monetary integration.

Part I, on the costs and benefits of monetary union, starts with a chapter on costs which reviews the original optimum currency area literature. The second chapter provides a critique of this literature with particular reference to the difficulty of changing exchange rates and to the issues of time-consistency and credibility. Chapter 3 looks at the benefits of a common currency, covering transaction costs, the elimination of exchange rate uncertainty and possible (endogenous) growth effects. Chapter 4 brings costs and benefits together in a single diagram that focuses on the importance of trade between the potential partners of a monetary union: the more the trade, the smaller the costs and the greater the benefits of monetary integration.

Part II, on monetary integration, starts with an examination of the European Monetary System as an example of an incomplete monetary union, discussing the credibility issues, asymmetry and the nature of German leadership, and the disinflation of the 1980s. Chapter 6 considers alternative paths of transition to monetary union, from the Delors Report and the Maastricht treaty to the parallel currency approach. Chapter 7 considers the choice between European Monetary Union with irrevocably fixed exchange rates between national currencies and national central banks, and EMU with a single common currency and a single central bank, arguing the superiority of the latter and emphasizing the problem of credibility for the European Central Bank despite the relatively hard-line provisions of the Maastricht treaty on its objective and status. The last chapter considers the various issues related to fiscal policy within EMU, from the case for significant budgetary centralization to the appropriateness of rules in the light of unpleasant "monetarist arithmetic" considerations.

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In general, the book is extremely well written. It is short on history and institutions, which are covered elsewhere, but long on economics. Here, with minimal algebra and a lot of diagrams, it manages to provide lucid and balanced accounts of a wide range of arguments. Particularly good examples of exposition are the sections on seigniorage, time-consistency and credibility, parallel currencies, and the sustainability of budget deficits. The only reservation to be made concerns the book's level: it is not technical enough on its own for a postgraduate course or even for some specialized undergraduate courses but may be too detailed for some lower-level courses. For an intermediate-to-advanced undergraduate course that is technically unambitious but comprehensive in scope, however, it is ideal.

DAVID COBHAM

University of St. Andrews

Technology and Enterprise in a Historical Perspective. Edited by GIOVANNI DOSI, RENATO GIANNETTI and PIER ANGELO TONINELLI. (Oxford, Clarendon Press, 1992, pp. 415, £40.00).

This book makes an admirable case for the proposition that history and economics matter vitally to each other. Its focus is the evolutionary approach to the microeconomics of industrial development. Two themes pervade the contributions. The first is the impact of technological innovation on the structure of corporate organization and, in turn, the implications of technological development for continuity and change in the internal organization and management of businesses. The second is regularity in the process of technological innovation and diffusion, especially the part played by businesses in anticipating and stimulating change, and in adapting to it through R&D, design and process innovation.

The editors argue for a synthesis of history and theory within a framework that recognizes the dynamic nature of industrial development and the ways in which technological decision-making occurs within firms shaped by boundedly-rational individuals and groups. The seven chapters of Part I—by Pollard; Rosenberg; Hughes; Lazonick; Nelson; Dosi, Teece and Winter; and Pavitt—form a continuum from the historical to the theoretical. Part II contains case histories of R&D in chemical firms: Du Pont (Hounshell) and Montecatini (Saviotti). Part III, which is concerned with integration in the Italian context, contains chapters by Sapellil, Malerba, and Sirilli. The chapter by Dosi, Teece and Winter is pivotal. It draws attention to the path dependence of technological and economic development, the recognition of the role of the past in the present and future uniting the various perspectives presented in the volume. The result is the contextualization of the emergence and progress of technology by reference to the behaviour of the developers

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and adopters of innovations and to the organizational opportunities and constraints within which they operate.

The chapters all deserve to be read in their own right. But, despite their excellence, some comment is necessary on the nature of the evolutionary economics to which they contribute, a subject-matter which is restricted in three important respects. First, it is internally-orientated, concerned with intra-firm behaviour and, perhaps only by default, treats the market as exogenous to the innovative process. Market considerations, where they arise, are cast mainly in terms of transaction costs. Second, it is production-orientated. The marketing activities of firms are also treated as though they are exogenous to industrial development. There is little if any comprehension here that innovation can be the outcome of marketing/R&D interaction leading to the creation and exploitation of marketing mixes, or that firms anticipate and shape demand. Only passing attention is paid to the role of customer behaviour in the development as well as in the diffusion of innovations. Finally, the approach is evolution*ist*: it incorporates the cumulative, gradual, combinatorial aspects of economic and technological development; but it lacks the explicatory mechanism that would make it evolution*ary*. That is, it lacks a psychological model which can account for the persistence of behavioural routines, a micro-micro level of analysis which would precisely and consistently identify replicative behavioural units and the environmental components that select them. Insofar as data from the past consist largely of records of production systems and behaviour, the historical approach is likely to exacerbate these omissions.

GORDON FOXALL

Birmingham Business School

Keynes, Coordination and Beyond: The Development of Macroeconomic and Monetary Theory Since 1945. By HARRY GARRETSEN. (Aldershot, Edward Elgar Publishing Limited, 1992, pp. 228, £39.95).

Since the mid-1980s we have witnessed a quiet revolution in mainstream macroeconomics. The macro debate has turned full circle so that once again it is academically correct (even, possibly, politically correct) to be Keynesian. No doubt soon someone will claim that "we are all New Keynesians now". There are several explanations for this quiet revolution not least of which is academic ennui with the New Classical approach. The interesting questions are now being generated elsewhere, primarily by the New Keynesians.

Garretsen's book reviews the numerous New Keynesian developments and tries to assess what is Keynesian about the New Keynesian economics.

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He does not attempt to provide his own detailed interpretation of Keynes's *General Theory* as a benchmark. Rather he sets out the main insights of Keynes's analysis and asks to what extent these insights have been developed by the New Keynesian economics. Garretsen considers Keynes's main insight to have been the co-ordination problem in a decentralized market economy. Keynes's revolution was to deny the relevance of the Invisible Hand, enshrined in the notion of the Walrasian auctioneer, as a model of the co-ordination mechanism in the macro economy. The co-ordination problem cannot be reduced to the existence, uniqueness and stability of general equilibrium because of the conditions of uncertainty and imperfect information in which individual agents have to operate. To assume the existence of a Walrasian auctioneer is to foreclose on the questions which Keynes raised.

Garretsen identifies two main strands in the New Keynesian economics. The first is concerned with providing choice-theoretic explanations of the standard Keynesian assumption that prices and wages are not fully flexible. This has resulted in a wide array of models encompassing imperfect competition, menu costs and efficiency wages. He argues that these models ignore the co-ordination problem. The other strand is concerned with multiple equilibria and includes search models and overlapping generations models. Multiple equilibria are caused by the heterogeneity of agents, informational imperfections and externalities. Garretsen considers these models to have provided results which parallel Keynes's insights but, as with the rigidities approach, the context of these models is a barter economy and, hence, they cannot really be characterized as Keynesian.

Garretsen adopts a constructive approach to this dilemma. He argues that the way forward is to develop the multiple equilibria approach in a monetary context, by providing appropriate "macro-foundations" for models of individual behaviour. He follows Laidler in viewing money as an alternative social arrangement to the Walrasian auctioneer for resolving the co-ordination problem. Price and wage rigidities are viewed as a necessary condition for the continued functioning of a monetary system. Garretsen draws on the insights of Post-Keynesian and Austrian economics which have emphasized the importance of money, uncertainty and time. He argues that there is an urgent need to consider the dynamics of adjustment under conditions of uncertainty.

Garretsen provides a useful and insightful guide to the New Keynesian economics and suggests some directions for future research. However, he does seem to underestimate the methodological difficulties involved. In particular, it is not clear what he considers the appropriate modelling strategy to replace rational expectations when dealing with dynamic adjustment under uncertainty. Post-Keynesians would suggest that another rereading of Keynes's *General Theory* may provide the answer.

BILL GERRARD

University of York

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The Philosophy and Economics of J. M. Keynes. Edited by BILL GERRARD and JOHN HILLARD. (Aldershot, Edward Elgar Publishing Limited, 1992, pp. 253, £39.95).

This volume is part of a recent explosion of writings about the philosophical foundations of Keynes's economic thought and such fundamental contentions as that Keynes's *General Theory* cannot be properly understood without wrestling with the *Treatise on Probability*, and that Moore had a great influence on Keynes's conception of economics as part of moral philosophy.

Hillard allows that Keynes's thinking and work are so complex that they cannot be classified along any conventional lines. While such complexity always throws up the possibility of new and fruitful interpretations, Keynesians do seem to rush off in disorderly directions. There are now fundamental Keynesians, Post-Keynesians and New Keynesians. Does this diversity help? Just when Western World economies are increasingly burdened by precisely the fundamental problem which Keynes sought to understand, namely, whether monetary entrepreneur economies necessarily equilibrate at levels of aggregate economic activity with the full and efficient use of resources, many economists no longer turn to Keynesian economics, other than in name, for any help. Does this volume aid us in coming to grips with Keynes's problem?

Bateman's "Das Maynard Keynes Problem" (the extent to which Keynes, under attack from Ramsey, renounced his earlier conception of probability) *is* very important but how much light does it shed upon the validity of his economics? One reason why some young economists do not embrace Keynesian economics is that they believe that Keynes's monetary theory of value is fundamentally flawed. Do the authors have something new to say about *that* structure of Keynes's economic thought? No, not much!

An exception is Carabelli's argument that Keynes's choice of units of measurement in the *General Theory* reflected his belief that most, if not all, measures in economics could not be founded on individual rational choice but had to be based upon social relations. Why the problem of organic dependence affects a measure of aggregate output in "real" commodity terms any more or less than in "real" labour terms is beyond me. Carabelli's essential point is, however, that costless fiat money in Keynes is a social convention and has no role to play in traditional Walrasian individual economics, where the constraints to which agents are subject can be satisfactorily assessed without conventional measurements. Carabelli's argument is a prelude to her work on Keynes's monetary theory of value. The concept of liquidity in Keynes (and Townsend) is not, however, the property of the services of fiat money but rather the property of the services of the monetary authorities, a part of the social arrangements into which, in a world of incompleteable knowledge, individuals rationally enter. Certainly, we need

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a theory of central banking as part of a monetary theory of value; Keynes offered hints and it will be interesting to read what Carabelli has to say on this fundamental part of economic theory.

The tone of Fitzgibbons's good paper is captured when he says: "In Keynes's system of thought the ends of policy were subject to logical analysis, and macroeconomic policy was supposed to contribute to a moral goal" (p. 102). Sawyer argues that, though it was not necessary for Keynes to embrace imperfect competition, his analysis of the relationship between real wage rates and the volume of employment would have been improved had he embraced it. Dutt does not show how the analysis of the *General Theory* is enhanced by consideration of market forms. A definitive paper needs to be written here on the question of why, given that Keynes was perfectly familiar with the short period analysis of Kahn and Robinson, he did not choose to embrace increasing returns in his short period analysis. (Marris's review in the *Economic Journal* of Kahn's short period analysis is most unhelpful in this regard!) It is known that Keynes thought diminishing returns in the short period was a robust assumption yet was perfectly happy to accept the Douglas-Tarshis findings about the relationship between real wages and output. Did Keynes think there was something excessively formal and empty about the literature on imperfect competition?

Chick's interesting paper asks what exactly the competitive firm knows in Keynes's short period equilibrium with unemployment. Each firm knows that if it and all firms like it in the production of consumption goods attempt to expand beyond the point where expected price equals marginal cost and planned output can be sold, it and all firms will experience losses since expenditures on consumption goods will not increase by the same amount as the outlay of the firms. In general, however, firms for Chick are polypolistic and while the specification of how the firms know the required interdependence which leads to their being demand-constrained is not made clear, her paper represents an attempt to build uncertainty into the theory of the firm, where the uncertainty is associated with a set of conventional beliefs as to the response of other firms to demand conditions.

Brown's paper does not add to our understanding of what it was that made Keynes's disavowal of the quantity theory in the *Treatise* turn to a search for something completely different in the *General Theory*. While I agree with Brothwell that "The economic system is not a self-equilibrating mechanism but a cumulatively unfolding one" (p. 201), why did he not take (say) Pasinetti, put in a monetary sector and provide us with a model which unfolds in the manner he seeks to describe?

Winslow offers the terribly forced theme that Keynes's account of the psychology of the trade cycle is essentially Freudian or has anal-sadistic characteristics. Keynes's well-known repugnance of the love of money stemmed not from the argument that such love was Freudian but rather that such love was contrary to good in Moore's sense.

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The quality of the essays in this volume varies and different readers will mark different papers and will respond with different grades than mine to contributions which I have highlighted. I wish, however, that after reading them I had a sense of Keynesian economics moving forward.

THOMAS K. RYMES

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The Fading Miracle: Four Decades of Market Economy in Germany. By HERBERT GIERSCH, KARL-HEINZ PAQUÉ and HOLGER SCHMIEDING. (Cambridge, Cambridge University Press, 1992, pp. 302, £24.95).

To publish an account of German economic policy during these times of fundamental changes must be considered as a useful but risky endeavour. The title *The Fading Miracle* suggests that, given an appropriate economic policy, the tremendous growth rates of the German economy of 8.2 per cent on average between 1950 and 1960, compared with the meagre 1.9 per cent between 1980 and 1989, could still be achieved. The basic hypothesis of the authors that "miracles emerge when spontaneity prevails over regulation, and they fade when corporatist rigidities impair the flexibility for smooth adjustment" (p. xi) points to the supposed major cause of declining growth rates. But is it true that regulations and rigidities caused the fading miracle? The authors' point seems to be particularly striking for the period from 1973 to 1982 during which growth rates were low, but inflation and unemployment high, compared with German standards. At the same time, trade unions achieved high wage increases and the public sector absorbed an increasing share of GNP. However, looking to the 1980s, some doubts arise. Wages rose only moderately, the share of the public sector in GNP dropped, and yet growth rates were still poor compared with previous decades. The authors' explanation—the increasing extent of environmental regulation and protectionism, for example—does not convince in the light of severe environmental problems and of Germany's growing international trade. A more convincing hypothesis may be that the continuing integration of international markets creates a competitive environment which, in the end, leads to a convergence of growth rates. Such convergence hypotheses, as stated by Porter and Baumol, are not considered in depth by the authors and thus they may have overlooked a very important reason why miracles will not last but rather fade.

Nevertheless the authors provide an interesting and inspiring review of economic policy in Germany after the war. It is particularly useful to read this book at a time of the currency union between East and West Germany, since many lessons may be learned from the past. One is that the currency union of 1992 in an open and competitive environment cannot be compared

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with the currency reform of 1948 in a still largely isolated German economy. *The Fading Miracle* thus does not provide any recipes on how to create a miracle but there are occasions when it may prevent economic policy-makers from entering a wrong track. That is not the worst one might say about an economic policy review.

GUSTAV-ADOLF HORN

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Beyond the Steady State: A Revival of Growth Theory. Edited by JOSEPH HALEVI, DAVID LAIBMAN and EDWARD J. NELL. (Basingstoke, Macmillan Academic and Professional Ltd., 1992, pp. 374, £45.00).

Anyone who starts by reading the Introduction to this volume is likely to put it down without reading further. That would be a mistake. The Introduction starts with yet another Cambridge-style denunciation of a straw man called "neoclassical" economics, differentiated from its hundreds (thousands?) of predecessors only by a claim that neoclassical growth theory died in 1970. In fact, the last few years have seen a great deal of activity in mainstream growth theory, thanks to new models of endogenous technical change. According to the editors: "Our students have observed that their reading lists, with few exceptions, contain items dated around or before that time (1970)". By contrast, a reading list issued by one of my colleagues has twenty entries on endogenous growth, all published after 1986. It seems that the book is based on a conference held in 1987, while many contributions seem to have been written even earlier, since there are few references to works published after 1985 (the few more recent items are almost all autocitations in the editors' own papers). If the editors were in a position to update their references, they should surely have been able to rewrite the Introduction in less misleading (and offputting) terms.

There is some of the same sort of tired rhetoric in the body of the collection but, fortunately, not very much. After an "overview" by Vivian Walsh, there are sections on demand-determined growth, on technical change, on the "traverse", and on growth cycles. My main reservation about the demand-determined (i.e., Keynesian) models presented here is that only Nell explicitly tackles the key issue, the labour market. However, his suggestion that labour supply curves may slope backward does not really explain anything and is hard to square with the empirical evidence. In the section on technical change, Nell again has the most interesting paper, suggesting that early nineteenth-century technology was less flexible than its twentieth-century successor and that this real difference in economic behaviour may account for the difference between classical and Keynesian models. Laibman updates Kaldor's "technical progress function", and Flaschel and Semmler

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have some simulations of adjustment following the introduction of a new process. The "traverse" (Hicks's term) is the behaviour of a system out of steady-state growth. It is a particular problem for the "Cambridge" tradition, which relies heavily on fixed coefficients and steady-state assumptions. The papers in this section are likely to be of interest mainly to specialists. In the final section, on growth cycles, Goodwin has simulations of a new version of his growth cycles model, and there is a useful survey by Mukherji covering predator-prey models like those of Goodwin's, along with others. In sum, this collection seems rather dated but it is not quite as dated as it looks, since many of the papers (even in the technical change section) deal with issues which have been relatively neglected in the new literature on technical change.

ANTHONY BREWER

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Modelling Seasonality. Edited by SVEND HYLLEBERG. (Oxford, Oxford University Press, 1992, pp. 476, £45.00 hardback, £19.50 paperback).

Methods of modelling seasonality have developed rapidly over the last decade or so, as econometricians and applied economists have increasingly realized that both the size and variability of seasonal fluctuations are important components of the movements of many economic time series. Svend Hylleberg has brought together a collection of many of the most important articles published on the topic, from Crutchfield and Zellner's study of the halibut fishing industry, published in the early 1960s, to recent work on seasonal integration and cointegration.

The book is organized in five parts. The first is introductory and contains a historical perspective by the author, the two influential articles on the effects of seasonality in regressions published in 1974 by Ken Wallis and Christopher Sims, and the comprehensive survey article of a decade later by William Bell and Steven Hillmer. The second part presents four papers concerned with developing aspects of an economic theory of seasonality: as is made clear by the editor, these provide an important step towards such a theory—though it is a long way from being complete. One aspect of seasonal modelling that is absent here is the work on the relationship between the seasonal and business cycles, on which topic research has been published for both the U.S. and U.K. economies.

The third and fourth parts deal with seasonal adjustment procedures, with both X-11 and model-based procedures being represented in the selection of papers. A perhaps surprising omission is David Pierce's contribution to the famous Zellner volume on the *Seasonal Analysis of Economic Time Series*, in which a tractable technique for modelling both deterministic and stochastic

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seasonality within a single series is proposed and developed. The final part of the book contains three papers on the relatively new topic of seasonal integration and cointegration.

For econometricians interested in modelling seasonal fluctuations in time series, this is, therefore, an excellent reference book in which almost all of the important research papers on the subject are included.

TERENCE C. MILLS

University of Hull

Geography and Trade. By PAUL KRUGMAN. (Cambridge, Mass. and London, The MIT Press, 1991, pp. 142, £15.95).

This book contains the three Gaston Eyskens Lectures which Paul Krugman delivered at the Catholic University of Leuven in 1990 on "economic geography". By this he means "the location of production in space", where factors of production are perfectly mobile but there are costs to transporting goods. Since Krugman has pioneered the "new trade theory" based on increasing returns and imperfect competition, it is not surprising that he applies its insights to explain the pattern of localization of industry. The fact that production within a country tends to be geographically concentrated is ascribed to the pervasive influence of increasing returns. Given the recent advances in modelling the latter, he believes there is now less excuse for economists to ignore economic geography.

Chapter 1 focuses on the case of the U.S. manufacturing belt stretching from New England to the Great Lakes. Krugman ascribes this concentration of manufacturing to demand factors and to the relative size of fixed and transportation costs. He highlights the possibility of multiple stable equilibria: "which equilibrium you get to depends on where you start: history matters". As well as explaining the persistence of manufacturing concentration, his core-periphery model implies that changes in the geographical structure of production can occur suddenly.

Chapter 2 moves from the emergence of huge metropolitan belts to the localization of particular industries, updating Alfred Marshall's analysis. Reasons for localization include labour market pooling, the availability of specialized inputs (both these reasons presuppose increasing returns to scale), and technological spillovers. Krugman downplays the latter since they can be invoked all too easily. It is odd that he nowhere refers to Bertil Ohlin's classic *Interregional and International Trade*, which not only discusses economic geography issues in some detail but also suggests that economies of large-scale production are an important reason for trade, in addition to factor endowment differences.

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Since localization often transcends national boundaries, what role is left for the nation-state? Krugman tackles this in Chapter 3, where he provides data supporting the surprising conclusion that the Big Four European nations are less specialized than four "great regions" of the United States. He attributes this to trade barriers within Europe and speculates on the likelihood of European integration engendering a centre-periphery pattern.

There is much food for thought for economists here. For those wedded to traditional modelling based on perfect competition and constant returns to scale, this book provides a painless and often entertaining introduction to the insights which the new trade theory has to offer, and to how it can be applied to the issues of geographic concentration which are likely to be of increasing importance in future years.

ANDREA MANESCHI

Vanderbilt University

The Economics of Oligopolistic Competition: Price and Nonprice Rivalry. By ROBERT E. KUENNE. (Oxford, Blackwell Publishers, 1992, pp. 492, £45.00).

This collection of 20 of Professor Kuenne's papers on oligopoly is the first volume in a new series, "Advances in Theoretical and Applied Economics", from the European Economics and Financial Centre. All but one of the papers have been published previously, in books of readings or in journals (mostly academic, although a piece in the *Princeton Alumni Weekly* sneaks in).

The papers are grouped in four sections. The first of these deals with Kuenne's central approach to oligopoly, namely his theory of "rivalrous consonance". It is argued that there develops in mature oligopolies a blend of competition and cooperation, resulting in tacit collusion and a mutual deference in firms' pricing decisions. (A detailed account of the approach has also appeared in Kuenne, *Rivalrous Consonance: Theory of General Oligopolistic Equilibrium,* North-Holland, 1986.) Each oligopolistic industry will have a specific history and will be unique in terms of personalities, modes of behaviour, etc. These "sociological specifics", together with the possibility of multiple objectives, are sufficient in Kuenne's view to signify both the need for an alternative approach to game theory and the futility of searching for a universal theory of oligopoly. Instead the author relies on "simulative theorizing", *viz.*, the use of simulation methods to guide the choice of specifications for functions in fictitious environments and to derive insights into firm behaviour.

To illustrate the operational nature of the theory, Part II presents five papers applying the author's ideas on rivalrous consonance to OPEC. Here the intention is not to offer a predictive model of OPEC but rather to gain insights into the power structure (one of the well-known key difficulties in

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this particular analysis) and into the relative stresses and strains within that structure.

In Part III, the analysis of oligopolistic competition is extended beyond the well-defined, relatively homogeneous products of the earlier chapters and introduces the possibility of non-price competition, with particular attention to product quality, marketing and spatial aspects of product differentiation. In the final section, three papers introduce uncertainty and imperfect information and non-economic bargaining into the model.

Throughout the fundamentals of Kuenne's approach remain unchanged but the evolutionary path of his ideas is readily discernible. However, it would probably be fair to say that this approach to oligopoly has not as yet been accepted into the mainstream, possibly because of an unease with "simulative theorizing". The author's views on measurement are also unconventional: his emphasis on simulation and factor analysis, and to a lesser extent historical analysis, his scepticism about the power of regression analysis, and his endorsement of the greater use of "fuzzy" or "pseudo" measurement scalings (which he likens to the grading systems used to assess the quality of academic excellence). Many may baulk at the methodology employed.

Taken as a whole, the collection makes a weighty volume, quite dense with formal analysis. It is a remarkably sustained assault, over a period of some twenty years, on a difficult area in microeconomics.

Trevor Young

University of Manchester

New Directions in Economic Psychology. Edited by Stephen E. G. Lea, Paul Webley and Brian M. Young. (Aldershot, Edward Elgar Publishing Limited, 1992, pp. 287, £39.95).

This book is a collection of papers most of which are appearing for the first time. It is intended to provide state-of-the-art discussions on economic psychology. The first chapter, written by the editors, is an introduction which familiarizes the reader with the subfield of economic psychology. The second chapter, by Etzioni, provides a brief but useful introduction to socio-economics which, according to the author, adds social, psychological and political variables to economic ones. In Chapter 3, Livingstone and Lunt discuss the important issue of necessities and luxuries with reference to human needs. Earl's chapter, dealing with the connections of economics with cognitive dissonance theory and personal construct theory, is an extremely good example of the possibilities of cross-fertilization between economics and psychology. Chapter 5, by Casson, examines the link between transaction costs and the cultural context and shows that a strong culture reduces

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transaction costs and thus improves economic performance. Chapters 6 to 10 are on experimental economics and should be read together. Hey's paper provides an excellent introduction to the interesting subject of experimental economics and an evaluation of the methodological foundation of the subject. The subsequent four chapters are examples of experimental economics ranging from endowment effects (Tietz), receiving gifts (Pieters and Robben) and stability of the cobweb model (Fischer) to bargaining power (Güth, Ockenfels and Tietz). The remaining five chapters (11 to 15) although interesting, deal with topics which I suspect many economists would find not very appropriate even in this context, namely, reactions to autoteller machines, the fax machine, entrepreneurial motivation, wife's employment family fit, and selling a house.

Overall, there are a number of papers in the book which promote the interaction between economics and psychology and also the establishment of economic psychology as a respected subfield of economics. These are extremely important functions since an increasing number of economists feel the need to turn to neighbouring disciplines for possible assistance and guidance. The papers by Earl, Casson, and Hey, for instance, are representative of the constructive role that economic psychology can play. Thus, I would recommend this volume to all research economists who are willing to look at other dimensions of economic problems. However, I believe that the editors could have produced a better book if, in place of the last five chapters, they had substituted papers on other important topics of economic psychology. Notable examples which are missing are the psychologies of inflation, union participation, job satisfaction, and the process of wage bargaining.

S. A. DRAKOPOULOS

University of Aberdeen

The Economic Legacy 1979–1992. Edited by JONATHAN MICHIE. (London, Academic Press Ltd., 1992, pp. 365, £9.95 paperback).

This book consists of a series of papers which were presented in working form at a Cambridge conference in October 1991. The book has been available for some months already at the time of review and both the editor and publisher are to be congratulated for bringing this timely book into the public domain with such speed. The book is in the best Cambridge tradition of political economy: issues of real practical significance are addressed and assessed with a wide range of evidence. The papers are firmly outside the prevailing neoclassical framework of academic economics. Readers looking for pages of differential calculus or counter-factual simulations on large macroeconomic models will be disappointed. But they should nevertheless

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persist with the book and come to realize that alternative methodological approaches to economics can be both rigorous and interesting.

Overall, the papers are critical of the conduct of policy during the past thirteen years. For much of this period, commentators who took this view were often dismissed as irrelevant. But the current position of the British economy a year after the conference only serves to strengthen the arguments of the book. A wide range of issues is covered, from the impact of global financial deregulation to more specific discussions of inner cities, regional policy, women's employment and small businesses. Perhaps inevitably given the provenance of the book, the balance of payments attracts a good deal of comment.

The authors satisfy the purpose of the book admirably and offer an excellent assessment of the 1979–92 economic record. A theme which runs through the papers, however, sometimes openly but more often implicitly, is the question: how could things have been different? Or, more precisely, how could things have been better? Bob Rowthorn, for example, does deal with this in his splendid chapter on government spending and taxation and concludes that a different strategy could have been followed but it would have been necessary for taxation to rise. In a book of this kind, authors cannot be expected to address all the issues but perhaps there is, in general, a slight lack of sympathy for how difficult things were at the end of the 1970s, following the major shocks to the world economy earlier in the decade. But this is just one criticism of an excellent book. Overall, it can be recommended unreservedly to all levels of the economics profession.

PAUL ORMEROD
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Market and Non-Market Hierarchies: Theory of Institutional Failure. By CHRISTOS PITELIS. (Oxford, Blackwell Publishers, 1991, pp. 254, £40.00).

The objective of this book is to "examine the reasons for the existence, evolution and failure (crisis) of capitalist institutions, in particular the firm, the market and the state" (p. 1). To achieve this objective, Christos Pitelis integrates disparate literatures covering neoclassical, Austrian, Institutionalist, Marxist and Post-Keynesian views. The command of this wide literature is impressive: it is not only covered in a comprehensive way but also synthesized and moulded into a well-rounded argument with intellectual synergies being exploited between these schools of thought.

Chapter 2 examines the mainstream transaction cost approach to market failure and the existence of firms. The main problem here identified by Pitelis is the sole attention given to exchange relationships. To complement this perspective the importance of the production sphere is emphasized. This

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exchange and production focus allows the historical evolution of the firm to be viewed as a transition from market to non-market hierarchies (hence the title of the book)—even markets embody power relations. Furthermore, from this perspective there is no need to separate the existence and objective of firms (as in orthodox analysis), rather the two are inseparable. The objectives of those with decision-making authority guide institutional evolution, a principle that is applied to the development of the firm into the modern transnational company.

Chapter 3 shifts emphasis to market structure, pricing and the monopoly-competition debate. Differences are emphasized between the structure-oriented neoclassical view and the more process-based Marxist and Austrian approaches. The resulting synthesis emphasizes both rivalry between and within firms as the driving force to increasing long-run profit and the ensuing tendencies to monopolization and transnational production.

In Chapter 4, attention is shifted to the capitalist state. Four particular questions are addressed: Why do capitalist states exist? Who are their principals? What are the principals' objectives and constraints? What explains the growth of the state sector? After examining neoclassical, new right and Marxist perspectives, it is suggested that "the capitalist state is an institutional device for complementing the market and the firm in explaining the fruits of the division of labour and team work, with an eye to furthering the interests of its principals" (p. 142). This approach emphasizes that while the state is a response to private sector (firm and market) failure, it is also faced with its own institutional failure (fiscal crises, etc.), an idea that extends into Chapter 5 where long-run capitalist failure and crises are given specific attention. The elements of the preceding discussion are brought together here. Transaction cost, Keynesian (macroeconomic failure), monetarist and new right (government failure), and Marxist (crisis theory) perspectives are accommodated and subjected to empirical testing.

In conclusion, I recommend this book to any reader who wants, first, an impressively thorough review of the various literatures covered and, secondly, a thought-provoking synthesis which goes beyond the individual elements of the discussion.

MICHAEL DIETRICH

Sheffield University Management School

Income Distribution, Inflation, and Growth. By LANCE TAYLOR. (Cambridge, Mass. and London, The MIT Press, 1992, pp. 290, £31.50 hardback, £15.75 paperback).

Lance Taylor has over the years made structuralist macroeconomics very much his own and has produced many important contributions to the

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literature. His basic message has remained the same, namely that it is inappropriate to impose on developing countries models that have been designed in the context of developed countries. Functional relationships and the constraints within which these operate vary significantly and, as a result, policy prescriptions which might make sense in a developed country may be counter-productive in developing countries. Perhaps, most notoriously, Taylor has been associated with the claim that conventional IMF conditionality will be stagflationary in developing countries.

This new book is in the tradition of Taylor's earlier work but explores in more depth some analytics of structuralist macroeconomic theory. This is Taylor the theorist rather than Taylor the polemic. Chapters cover, *inter alia*, growth theory, inflation, and income distribution. A useful first chapter summarizes methodology and introduces the assumptions which underlie subsequent analysis. Starting from a closed economy model, Taylor gradually adds embellishments incorporating openness, inflation, financial crisis, exchange rate management, and increasing returns. He examines in some detail how policies designed to redistribute income may influence growth, as well as the relationship between income distribution and inflation. Following on from this, a growth model which is investment driven and which generates unemployment is introduced to show how different macroeconomic policies impact on short-run adjustment and longer-run growth. Subsequent chapters explore openness, trade, and class conflict.

This book is not a light read; but at the same time it is a rewarding one. It makes an important contribution towards putting in place the necessary analytical infrastructure which makes policy prescriptions intellectually respectable. Normally viewed as something of a maverick, even the staunchest traditionalist will be pleased to see that Taylor concludes that "if the real exchange rate is roughly 'right' ... then policies should be orchestrated to keep it where it is. Letting it become badly overvalued is the worst policy mistake that the authorities in a small, open economy can make", an observation which could have come straight out of the Fund!

GRAHAM BIRD

University of Surrey

Optimal Regulation: The Economic Theory of Natural Monopoly. By KENNETH E. TRAIN. (Cambridge, Mass. and London, The MIT Press, 1991, pp. 338, £35.95).

This is unashamedly a textbook on regulation of natural monopoly, not a literature survey. As such, the scope is narrow but the treatment is exceptionally clear. The author has gone to considerable pains to develop rigorous yet straightforward diagrammatic treatments of virtually all results.

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The rigour is illustrated by the fact that there are several proofs by contradiction, though naturally three dimensions (e.g., two outputs and profit) are the most that can be catered for in diagrammatic form. Moreover, the treatment really does aid understanding; for example, in almost thirty pages on the basic Averch-Johnson model, the reader gains a very precise understanding of what is and is not implied.

The opportunity cost is that a rather narrow range of results is covered, relatively few being recent. After dealing with Averch-Johnson under certainty and uncertainty, the book examines basic Ramsey pricing, the Vogelsang-Finsinger mechanism, Loeb and Magat and other surplus subsidy schemes, multipart tariffs, time-of-day pricing and self-selection tariffs, contestability (rather briefly) and, finally, in an Appendix, price cap regulation. Throughout the formal analysis the assumption is made that the regulator wishes to benefit society and is determined to design tariffs, in the face of imperfect information, which have the maximization of social surplus as their aim. Political economy is not part of the agenda.

A recital of the contents also indicates that the heavy emphasis on rate-of-return regulation makes the book rather more suitable for a North American audience that for one in the U.K.. It is a pity that the developments in the Appendix are rather a brief afterthought. I noted a number of occasions where the correspondence between text and diagram was not exact, or draughtsmanship was poor (e.g., Chapter 3), and one instance (p. 150) where the text goes awry. Nevertheless, taken within its own terms, this is a book from which the average second- or third-year undergraduate will learn and understand a considerable amount of regulatory economics. I will recommend it to them.

MICHAEL WATERSON

University of Warwick

On the Dynamics of Growth and Debt. By CASPER VAN EWIJK. (Oxford, Clarendon Press, 1991, pp. 220, £30.00).

This book deals with the dynamics of growth and debt on the basis of medium- and long-term disequilibrium models, such as those developed by Malinvaud (*The Theory of Unemployment Reconsidered*, Blackwell, 1977). According to the author, these models are more appropriate to the study of a long-period phenomenon, like the evolution of public debt, than are the short-period IS/LM models mainly used in the literature.

Through these models van Ewijk provides new analytical support for some established views, such as the traditional Keynesian proposition that the dynamics of the economy is characterized by a "corridor". The economic system is locally stable, so that there is no need for "fine tuning" to absorb

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small shocks, and globally unstable, so that it is dominated by destablizing forces and may break down when large shocks occur. The author also argues, in opposition to many IS/LM-based studies, that a high wealth elasticity of consumption has a destabilizing impact on the system. In addition, he examines the effects of several well-defined budgetary regimes in order to clarify which one a government can best choose from the point of view of economic stability.

A particular feature of van Ewijk's work is the incorporation of two elements of the heterodox tradition. The first element allows for the existence of two distinct classes in the private sector, as in Kaldor's and Pasinetti's theory of growth and distribution. The relevance of the assumption of differential saving for macroeconomic theory is emphasized by the author, who recalls the views expressed by Malinvaud ("Pure Profits as Forced Saving", *Scandinavian Journal of Economics*, 1986) and discusses the theoretical foundations of this assumption, arguing in favour of a distinction between a class of workers, with a low propensity to save, and a corporate class of entrepreneurs and shareholders, with a high propensity to save.

The second element allows for the influence of financial constraints on investment decisions. Following Kalecki, Wood, Eichner and others, van Ewijk underlines how the availability of finance and the conflicts of interests between managers and owners influence the decisions of a representative corporate firm. He also points out the reluctance of outstanding authors, like Robinson and Asimakopulos, to formalize their views on the determinants of investment, and argues that this position, "although understandable, is unsatisfactory as it frustrates the development of an appropriate investment theory" (p. 48). He then takes "a more positive stand" (p. 48), by presenting a formal model to capture the basic ideas of this tradition on investment. This choice may provoke scepticism among some heterodox readers. Yet, the limited development of "alternative" analyses on this and other subjects should induce these readers to avoid dismissing van Ewijk's work too easily and to look for more direct analytical comparisons between different economic traditions.

This line of research, as the book demonstrates, requires a wide coverage of economic literature. On the whole, van Ewijk meets this requirement. Yet, he overlooks some points of the heterodox tradition, two being particularly important. He assumes a production function with constant returns to scale and diminishing marginal returns (see the formalization of the heterodox investment analysis on p. 54) and invokes a monetary authority with full control of the money supply, the latter assumption being relaxed only in the chapter on public debt in an open economy. The unsatisfactory treatment of these points should, however, lead to further research and improvement in the analytical apparatus of the heterodox theories.

To sum up, van Ewijk's book contains several novelties that make his work stimulating. Its publication is to be welcomed by those in favour of

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debates among schools of thought, even if one may sometimes think that the author provides only a partial account of heterodox positions.

CARLO PANICO

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