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Book Reviews

Contemporary Post Keynesian Analysis

L. Randall Wray & Mathew Forstater (Eds)
Cheltenham, Edward Elgar Publishing, 2004, 356 pp., $100.00 hardcover
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In the 1970s, three economists, Jan Kregel, Sergio Parrinello and Pierangelo Garegnani, decided to organize a summer school at Trieste, Italy, to expose graduate students and scholars to non-mainstream approaches to economic theory and policy. The driving principle was that what Keynes, Sraffa and their followers developed in Cambridge should not be forgotten but revived. The annual Trieste Summer School continued until the mid-1980s; it was succeeded by a biennial summer school held in Knoxville, Tennessee from 1988 to 2000. Since 2002, the Center for Full Employment and Price Stability at the University of Missouri-Kansas City and the *Journal of Post Keynesian Economics* have hosted a Post Keynesian Summer School and Workshop in Kansas City every other year.

This book is a collection of 19 selected papers presented at this summer school in 2002. The contributors are leading scholars in the field of Post Keynesian economics from all over the world. As the title of the book suggests, the topics cover contemporary issues from a heterodox point of view. They are divided into six sections: current economic policy; monetary theory and policy; development, growth and inflation; growth, inflation and distribution from a Kaleckian perspective; methodology; and history of thought. The emphasis is on contemporary issues (e.g. the introduction of e-money) and up-to-date information is provided. Most contributions are influenced by recent political events.

Readers interested in heterodox schools of thought will find the book intellectually rewarding, although the contributions do not (and cannot) provide in-depth treatments of the topics at issue. I shall focus here on a few contributions which seem to me representative of the book's content.

The chapter by Hassan Bougrine examines the issue of public debt. Bougrine argues that a strong public sector together with a progressive taxation system would create a more equal and democratic society. He uses the Circuit theory, according to which banks advance money to firms in order to finance investment (flux). Since people choose to hold money, the reflux (needed by firms to repay the debts) is insufficient for that purpose, and the government needs to step in and create money to close this gap. Starting from the Kaleckian profit equation $P = (I - S_h) + (G - T) + (X - M)$ Bougrine demonstrates that the only reliable way to increase private wealth is deficit spending by the government. The other two options—improving the balance of payments and increasing private debt—are limited. Moreover, if the Treasury follows a high interest rate policy, rentiers are rewarded at the expense of other groups in society since a high interest rate (1)

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leads to a lower value of assets; (2) increases the costs of firms and hence lowers profits and growth; and (3) discourages households from borrowing funds to start new businesses. Following such a policy, he argues, leads not only to an unequal but to an undemocratic distribution of wealth since access to opportunities to acquire wealth are reduced.

In the 1980s, the New Monetary Economics sparked a debate about the implications of financial innovation on the working of the financial system. Transactions could be made via bookkeeping adjustments, reducing transaction costs; a world without money, free from instability and inflation, would be possible—or so the story goes. Claudio Sardoni takes up this issue and examines the effects of e-money on the ability of central banks to control the economy. After surveying the different positions on the issue, Sardoni concludes that e-money reduces banks' demand for reserves, but does not impair the power of central banks. E-money presupposes conventional money since the latter is needed to buy the former. Therefore, decoupling does not take place: changes in the central bank's balance sheet or in the rate of interest do affect the volume of assets and liabilities, as well as prices in the economy as a whole. Although the demand for reserves might decrease, the central bank retains its power to set the interest rate because it is lender of last resort.

An influential Post Keynesian approach to the theory of money is a neo-Chartalist approach according to which money is defined by the state when it requires that taxes be paid in a particular type of asset, the state's own currency. From that viewpoint the value of money is based on the power of the issuing authority, i.e. the state's power. While he doesn't reject the neo-Chartalist theory, Thomas Swanke argues that it does not explain why money works. As he explains, money works because it is a social convention. People expect money to be accepted in any situation and they act accordingly, and this network of shared expectations is what ensures that money works.

Whereas Swanke's analysis has a sociological focus, Stephanie Bell takes the reader back to the realm of economic policy. Bell argues that the nations of the European Monetary Union cannot engage in what Abba Lerner called Functional Finance. By giving up their sovereign currencies and accepting the Euro as stateless money the EMU nations are unable to create money by printing it. In this way, the Maastricht Treaty acts as a constraint on policy. Governments must compete 'with the financing needs of private borrowers' (p. 107) since spending can only be financed by taxation or borrowing. The combination of stateless money and an independent European central bank makes national macroeconomic policy extremely difficult to implement, and gives greater scope to market forces. (Bell's analysis applies also to currency unions and currency boards.)

In an interesting though complex contribution to methodology Paul Downward & Andrew Mearman discuss the use of econometric methods. Critical Realism, the methodology underlying a good deal of Post Keynesian economics, is generally thought to be incompatible with the use of econometrics on the grounds that econometric methods can be legitimately employed only when the conditions for closure are satisfied so that event regularities can be isolated, whereas economies are open systems in which causal factors lie beneath the empirical level. In contrast, Downward & Mearman argue that econometrics is compatible with Critical

Realism. Since all empirical analysis involves closure, which is not necessarily justified from an ontological point of view, the question becomes how to use empirical analysis in open systems. The authors' answer is triangulation: 'the triangulation of empirical insights can be linked to the concept of a refined ontology comprising a "quasi-closed" system in which institutional and conventional behavior helps to produce regularity in social behavior' (p. 289). Adopting a triangulation strategy, i.e. using different techniques, including qualitative and quantitative research, guarantees that no technique is relied on in isolation. It follows that econometrics can play an epistemological role and can facilitate retroduction.

To sum up, this book usefully presents topical issues in the field of Post Keynesian economics. The contributors generally build on their earlier work, and the chapters, rather than being full treatments, provide directions for further research. The reader may not agree with the conclusions reached, but this book will lead her to think seriously about the issues raised. Finally, this collection deserves praise for exposing readers to the tradition of economic thought built on the work of Keynes and the Cambridge tradition.

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Against Leviathan: Government Power and a Free Society

Robert Higgs
Oakland, The Independent Institute, 2004, 408 pp., $18.95 paperback
ISBN 0-945999-96-8

Against Leviathan is a collection of short essays written over the course of 20 years by economic historian and libertarian commentator Robert Higgs. As a collection, it lacks some flow and coherence, but it is not without structure. Each essay can be read independently of the others, making for enjoyable reading; I do not recommend trying to read this book straight through. It is scathingly polemical at times, often repetitively so, but also well informed and entertaining.

The introductory section, 'Welfare Statism', sets the tone for the rest of the volume. The first essay offers reasons for disregarding statistical measures of inequality are meaningful for their own sake. The more meaningful questions, argues Higgs, is what caused the inequality, and what would be lost in removing it? This is followed by a brief historical essay that outlines the US Government's attempts to reduce inequality and redistribute income; the next essay explores the consequences of this redistribution.

The second part of the book, 'Our Glorious Leaders', sketches the evolution of government power from the fascistic—Higgs would argue—control of Franklin Delano Roosevelt, through Nixon's paranoid and somewhat racist investigations of American citizens.