HOV model may invalidate the existence of factor price equalization (FPE) between trading countries. FPE is a basic tenet of the HOV model.

Despite the historical and empirical themes that dominate this book, Baldwin has very little to say about the nature of the international arena. There is as yet no world government; and international organizations concerned with trade like the WTO have limited authority. The adjective Hobbesian is often applied to current international relations. Derived from the name of the seventeenth century English political philosopher Thomas Hobbes, such an environment is said to be (after a phrase by Hobbes that is now famous) "solitary, poor, nasty, brutish and short." Individual nations must devote considerable resources to the possible fallout of the many negative externalities caused by the absence of a planetary government. Even the experience of nations already participating in international trade agreements varies considerably. While Europe may be making slow progress to political unity this subject is not even on the agenda for NAFTA members. The peoples of Mexico, Canada, and the United States have expressed no interest in joining together into a larger political grouping. Ultimately, even Baldwin recognizes this challenge by calling on international trade theorists to base their efforts on the empirical data first before anything else.

Christopher Pepin
Saskatchewan Finance

Christopher Pepin is a Research Officer in the Bureau of Statistics. Please note that these comments are not intended to reflect the views of the Government of Saskatchewan.

The Return to Keynes, edited by Bradley W. Bateman, Toshiaki Hirai and Maria Cristina Marcuzzo. Cambridge, MA and London: Belknap Press of Harvard University Press. 2010. Hardcover: ISBN 978 0 674 03538 6, $49.95. vii + 312 pages.

This volume's chapters are strong and organized around a small number of themes: the rise and fall of Keynesian economics; re-reading Keynes; the relevance of Keynes for the current crisis; and necessary extensions to Keynes' thought.

Four chapters address the first topic, although others also touch on it, questioning whether "Keynesian" theory and policy followed Keynes' *General Theory* (GT). The "old" neoclassical synthesis developed slowly as microfoundations, Tobin's portfolio balance approach, a labor market, and the Phillips Curve were added to Hicks' ISLM model. Likewise, "Keynesian" policy did not take hold until President Kennedy's administration. This version of Keynes never incorporated true uncertainty or "unknowledge," and thus deviated substantially from Keynes' treatment of expectations--essentially reducing Keynes to sticky wages and prices. The stagflation of the 1970s ended the "great debate" between "Keynesians" and "Monetarists" in favor of Milton Friedman, and set the stage for the rise of increasingly silly theories rooted in pre-Keynesian thought. As Robert Skidelsky argues in *Keynes: The Return of the Master,* "[r]arely in history can such powerful minds have devoted themselves to such strange ideas."

In recent years a "new" neoclassical synthesis rose from the ashes, adopting most of the "strange ideas" but obtaining "Keynesian" results by reviving sticky wages and prices. Several of the chapters imply that the global crisis exploded reigning orthodoxy. Among those theories that should no longer be taken seriously by any macroeconomist I would include: rational expectations and continuous market clearing; New Classical and Real Business Cycle approaches; neutral money; the New Monetary Consensus, the Taylor Rule and the Great Moderation; the Efficient Markets Hypothesis; Ricardian Equivalents and other versions of the policy irrelevance doctrine; and claims made by advocates of deregulation and self regulation. None should be taught in any serious economics course — they are no more relevant to economic theory than are bloodletting techniques to the study of medicine.

Some chapters focus on re-reading and re-interpreting Keynes, while others highlight over-looked aspects of Keynes' approach. Space constraints prevent summarization of all chapters, so I will discuss only three. Roger Backhouse defends the GT's method, in particular, Keynes' reluctance to use mathematical models. The earliest reviews complained about Keynes' *excessive* use of mathematics — surprising to the modern reader. This is not simply because economics came to rely heavily on mathematics. Backhouse shows that the GT is permeated by a mathematical way of thinking — beginning with intuition and clear thinking, with details added later as Keynes constructed incomplete models, explained mostly verbally. Keynes believed there were qualifications, reservations, adjustments and interdependencies that precluded specification in formal mathematics. In other words, to keep his theory *general* he had to keep it vague. Because postwar "Keynesian" economics translated the GT into algebra, it became too simplistic and specific to be relevant to our complex world. The chapter also illuminates the GT's structure, explaining why many chapters are concerned with definitions, principles, and functions, and why Keynes often pauses to re-summarize the general argument.

Gilles Dostaler's entertaining chapter focuses on Keynes as publicist, one who circulates ideas. Keynes realized his gift for language at an early age, and his contemporaries — even his enemies — were awed by his unrivaled debating skills. Like Backhouse, Dolstaler emphasizes that Keynes appreciated vague definitions, intuition, and rhetoric while shunning unwarranted precision. His concern was the art of persuasion with his primary goal nothing less than the preservation of civilization.

I am less convinced by Heinz Kurz's chapter that addresses Piero Sraffa's skepticism of Keynes' arguments. Some of the evidence offered is found in Sraffa's writings, but much comes from notes on his copy of the GT. Sraffa rejected Keynes' marginal efficiency of capital schedule, his exogenous money supply, and his liquidity preference theory. Kurz claims the marginal efficiency of capital is based on the concept of a given order of fertility of different qualities of land. However, Jan Kregel's chapter provides an alternative view derived from Chapter 17's own rate analysis, which was based on earlier work undertaken by both Sraffa and Keynes on commodities markets. It is also interesting to compare Kurz with Kregel on an important GT passage, where Sraffa noted that Keynes got it wrong. Kregel makes it clear that Keynes was right, meaning Sraffa did not understand the argument. One wonders if Kurz places too much weight on these marginal notes — perhaps written on a first reading by Sraffa of the GT. For the reasons discussed above, Keynes was sometimes purposely vague (Kurz reports this frustrated Sraffa) and in any case the GT is a difficult book to absorb.

Several chapters discuss the "return of Keynes" with respect to the current crisis. Again, I cannot examine these contributions, but will conclude with Kregel's brilliant chapter, which provides sufficient material for a graduate-level course on financial macroeconomics. Among his important contributions is the demonstration that the GT already contains the necessary microfoundations for Keynes' theory — there was never any need to "synthesize" his macro with neoclassical micro. Further, Kregel links Chapter 17 to Keynes' earlier work on exchange rates, commodities, and the interest rate parity theory. The own rate analysis is thus a generalization of the earlier work, and it underlies Keynes's monetary theory of production. Finally, Kregel ties all this to Keynes' work on ancient monies and his endorsement of Knapp's state money theory — revived in the modern Chartalist approach. This is the direction that Keynesian policy should take.

In short, this is a first-rate and provocative volume that signals the timely return of Keynes, the master.

L. Randall Wray
University of Missouri – Kansas City

L. Randall Wray is a Professor of Economics.

Radical, Religious, and Violent: The New Economics of Terrorism, by Eli Berman. Cambridge, MA: MIT Press. 2009. Hardcover: ISBN 978 0 262 02640 6, $24.94. xiv + 300 pages.

Since 9/11, rational choice analyses of religious terrorism have attracted a lot of attention within social sciences. Eli Berman tries to understand the phenomenon of religious terrorism from the perspective of the Economics of Religion. The result is an eminently readable book, which effortlessly weaves together otherwise ignored trends and patterns for different regions and religions and deflates the overblown image of religious terrorism in popular media. The discussion in the book is evenly divided into eight chapters, with nice accompanying photographs and helpful maps, sketches, and charts. A brief technical appendix presents the theoretical foundations of Berman's argument. Any apprehensions about this being yet another book on Islamic terrorism are quickly dispelled. The book is, in fact, about *religious organizations* rather