Book review

Eckhard Hein and Achim Truger (eds), *Money, Distribution and Economic Policy – Alternatives to Orthodox Macroeconomics* (Edward Elgar, Cheltenham, UK and Northampton, MA, USA 2007) 272 pp.

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The essays edited by Hein and Truger are grouped into three parts, each addressing a specific issue of the critique of the new consensus in macroeconomics. In part 1, ‘Heterodox economic theory and money in macroeconomics’, there are four chapters. In the first chapter, G. C. Harcourt discusses the Cambridge approach to economics, the research program and the most important economic questions addressed by this school of thought, including the capital controversy, the concept of equilibrium, and the critique of neoclassical economics. He also discusses the distinct methodology and the contributions of the most important authors. Harcourt laments the fact that the economics department at Cambridge University has moved away from this approach, there being less product differentiation in terms of ideas and, as a consequence, the impossibility of fruitful exploitation of comparative advantages in each field.

Next, Sheila Dow deals with the role of different schools of economic thought. She shows the transformation of the concept of ‘schools of thought’ in both orthodox and heterodox circles using the distinction between closed system (with well-defined boundaries in terms of theories, methodologies, and ideologies) and open systems (the opposite). She proposes the use of ‘structured pluralism’, as opposed to pure pluralism, to identify the current theoretical debates and concludes that the concept of schools of thought is still valid as long as it enhances cross-fertilization and communication among different theories and approaches.

In chapter 3, Trevor Evans, Michael Heine, and Hansjörg Herr provide a summary of the most important components of a monetary theory of production, characterized by the circuit M-C-M, not C-M-C. Among others, they argue that the monetary nature of capitalism makes it unstable and crisis-prone, plagued by fundamental uncertainty. Labor markets are a fiction, unemployment is inevitable, and the concept of potential output is irrelevant. Money and credit advanced by banks play a fundamental role in expanding the production of commodities and generating employment.

In the fourth chapter, Jean-Vincent Accoce and Tarik Mouakil address some flaws in the monetary circuit approach. The circuit school starts with the concept of a monetary economy of production and money supply endogeneity. But according to the authors the approach has some important limitations, including the lack of formalism, the neglect of central banks, and the omission of stocks. They then proceed to formalize a stock-flow consistent model, and carry out simulations. The conclusion is that the most important

insights of the monetary circuit approach are valid under the more sophisticated framework.

Part 2, 'Distribution and aggregate demand', has two chapters. Olivier Giovannoni and Alain Parguez deal with the issue of the empirical determinants of profits in the USA, criticizing the incoherence of the New Consensus in emphasizing the role of savings for long-term growth, which they call the Profit Paradox. Using national income accounting identities, they engage in an empirical approach that follows the seminal contribution of Christopher Sims about theory-free data analysis. This means employing top-notch time-series techniques and a large number of different statistical measures of 'causality'.

In chapter 6, Stefan Ederer and Engelbert Stockhammer discuss the relationship between wages and aggregate demand for France, backing their econometric investigation on a neo-Kaleckian theory. They address the proposal in the EU to reduce wage costs to boost economic growth. Their econometric analysis suggests that the French domestic sector is wage-led, whereas the foreign sector is profit-led. Given the recent growth in foreign trade, the overall economy has become slightly profit-led, which could lend support to supply-side structural reforms.

The third part, 'Economic policies', has Jesús Ferreiro and Felipe Serrano dealing with the role of institutions and information in the new institutional economy in chapter 7. They show how institutions can minimize the problem of asymmetric information in the new approach. However, they criticize it for not addressing the issue of static equilibrium or the role of norms and customs. The authors then emphasize the importance of institutional change in historical time by means of an evolutionary and dynamic perspective that includes expectations, fundamental uncertainty, and distributive conflicts. Economic policies informed by the new paradigm, they conclude, are not likely to deliver the promised results of growth and stability.

Next, Gustav Horn criticizes the German *Agenda 2010* and its focus on labor market and social security flexibility (structural reforms) to foster economic growth. He brings forth the question about the role of reducing labor costs and the impacts on economic growth depending upon the domestic versus the foreign sector. If structural reforms result in lower growth via aggregate demand, Horn argues, then fiscal policy must be expansionary to compensate. He then simulates the impacts of tax cuts and increased public investments.

In chapter 9, Anthony Laramie and Douglas Mair rely on a Post-classical or Kaleckian theory of the role of taxation on long-run economic growth. They suggest that, under some conditions, increasing taxes on profits and lowering taxes on wages may have a strong stimulatory impact. Besides bringing forth the role of income distribution, they also introduce a concept, the distribution-neutral rate of unemployment (DNRU), a rate less than full employment, based on Kalecki's discussion of the political aspects of full employment.

Richard Werner addresses the links between fiscal and monetary policy, comparing the specific experiences of Japan and Germany, in chapter 10. He argues that coordination of fiscal and monetary policies is fundamental to stimulate aggregate demand. Fiscal policy is expansionary only if there is a net credit expansion. He argues against the implementation of structural reforms in Germany based on the supply side. According to Werner, the Japanese stagnation in the 1990s and the German recession in the 2000s were not caused by supply-side problems such as rigid labor market institutions, but by lack of cooperation between the Treasury and the Central Bank. The tight monetary policies pursued by the latter led to the crowding out of private spending by government expenditures.

In the final chapter, Eckhard Hein and Achim Truger provide an analysis of monetary policy and macroeconomic performance in the Euro area. They conclude that, despite the diversity of experiences, fiscal policy is usually restrictive, but that monetary policy is the culprit of the stagnation of the European economies since 2000. They discuss different specifications for the Taylor rule, and conclude that the ECB has an anti-growth bias. They also claim that the use of output gap in the Taylor rule is unwarranted, but their evidence about that is far from clear, since the use of GDP is not significant.

Overall, the chapters in this book are interesting and well researched. The studies represent an important critique of the new consensus, which ignores important issues such as the relationships between functional income distribution, aggregate demand, and employment. The quantitative-oriented chapters show that heterodox economists can use standard quantitative methods in innovative ways. Concerning specifically the individual contributions, Harcourt's represents a warning to progressive, heterodox, and radical departments on the dangers of being trapped in the mainstream methods and research programs. Maintaining diversity, as crystallized in different schools of thought, is fundamental, as argued by Dow. The chapter by Evans, Heine, and Herr has a problem related to the unspoken assumption that productive capacity can be expanded *ad infinitum* if the creation of money and credit is not constrained. The issue deserves a deeper discussion and arguments that are more convincing. Accoce and Mouakil highlight some other important limitations of the approach.

The findings of Giovannoni and Parguez are sometimes surprising, mainly the results about the relationship between investment and profits and between imports and profits. Nonetheless, an interface with the painstaking empirical studies of Gérard Duménil and Dominique Levy about profits and profitability in the USA could certainly enrich the work. Concerning the study by Ederer and Stockhammer, its conclusion seems to be based on the use of foreign trade data for a single year (2004), suggesting that the results could be sensitive to how foreign trade is factored in the analysis. The study also does not seem to consider the role of exchange rates and intra-capitalist conflicts for redistribution of profits, for example.

The chapter written by Ferreiro and Serrano provides an important criticism of the new institutional economics and its impacts on policymaking. The study by Horn does not consider the fact that, if full employment is restored, wages are likely to grow again, imposing the same initial 'burden' on the German economy. Laramie and Mair come up with perhaps the most important theoretical contribution of the book, the distribution-neutral rate of unemployment. A potential problem with Werner's approach in chapter 10 is the assumption of a constant velocity of monetary or credit aggregates. The author himself claims that this is not backed by the data, but he does not discuss the implications for his analysis. Finally, Hein and Truger seem to place an undue emphasis on the role of the ECB, suggesting that the capitalist dynamics depends exclusively upon open market operations determined autonomously by central bankers. Yet many other aspects, including (but not limited to) class conflicts, can also affect growth of commodity production. Besides that, more rapid growth does not necessarily mean that everybody will be better off. In addition, Hein and Truger do not consider the possibility that there may be potential beneficiaries of policies of monetary constraint, and that the ECB is not totally independent or autonomous in deciding about short-term interest rates.

Summing up, the book accomplishes its goals and it is strongly recommended for heterodox economists interested in issues of money, distribution, and economic policy in developed countries, mainly in Europe. The chapters that make up part 1 are about theory and should have a general appeal to the extent that they point to the universal need of

creating and nurturing heterodox departments of economics. The chapters discussing the role of money should be applicable in general to any capitalist economy, but the nature of the stocks and flows and the relationship between money and employment could be different in an economy facing widespread poverty, underinvestment, and different political institutions and economic structures, for example. The same applies to the relationship between profits, wages, and aggregate demand. The forms of international constraints faced by developing countries may be very different from the ones considered in part 2. But their approach to the problem could be easily adjusted to make room for different economic settings. Chapter 7 may provide interesting insights to economic policy in less developed countries, given the emphasis on institutions, culture, and norms. The other chapters in part 3 have a more general interest as long as they discuss problems of distributive conflicts, unemployment, a method for comparative macroeconomic analysis when two similar countries are considered, and a way to assess the relationships between fiscal and monetary policy and their combined macroeconomic effects. Yet, again, in concrete situations of countries facing different constraints these issues may turn out to be completely different from the ones addressed by the authors.