not allow us to design useful monetary policies, for this task ultimately requires an explanation for the endogenous emergence of an asset that also serves as a medium of exchange. Such a general equilibrium explanation for the role of money is admittedly ambitious but neither its fundamental importance nor recent research on it, such as that of Jones (1976), Kiyotaki and Wright (1988), and others, is even mentioned. Second, while selected historical issues in money demand and monetary policy are thoroughly surveyed, numerous topics of more recent vintage, such as time consistency and the credibility of policy announcements, are notably absent. Third, a more detailed description of some operational aspects of the construction of monetary aggregates would be welcome. How, for example, does one actually estimate implicit user costs for financial assets, which rely on the expected values of future interest rates, when the yield curve is inverted? Finally, while the author’s prose is both lucid and erudite, this book would undeniably benefit from greater coherence in its organization of topics and a fuller integration of material in the first portion of the book with that in the second. Some casual readers might be forgiven for wondering, on their Pirandellian journey through the material surveyed, if these six chapters will ever succeed in their search for the author’s unifying theme. A summary chapter would be particularly valuable, especially as it would afford the author the opportunity to share with us his speculation on future directions in research on monetary aggregation.

These criticisms, however, are of modest importance relative to the real contribution made by this book. Professor Fisher has provided a valuable and thought-provoking discussion of new research on monetary aggregation. His book will prove to be a valuable resource for both monetary economists and policy makers.

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This is the eighth in the Handbooks in Economics series published by North-Holland. The target users are researchers and advanced graduate students, and each Handbook is intended as a collection of surveys of the state of the art in a particular branch of economics, by leading scholars in the field. There are contributions in the Handbook of Monetary Economics that students and practitioners will find very useful. However, what is of value could be distilled perhaps to something on the order of 200 pages. Some serious omissions, replication of material, misallocation of effort, and material that is simply not up to speed, detract from what could otherwise have been a helpful roadmap for future research.

The book covers most of the traditional topics that would be included in a graduate course in monetary economics, first dealing with “deep” models of money, which explain monetary arrangements from fundamentals, and progressing to money and growth, demand for money, money supply, asset pricing, money and macroeconomics, inflation, and monetary policy. Particularly good contributions are those by Joseph Ostroy and Ross Starr on “The Transactions Role of Money,” by Robert Merton, Kenneth Singleton and Robert Shiller on various aspects of asset pricing, by Olivier Blanchard on “Why Does Money Affect Output? A Survey,” and by Michael Woodford on “The Optimum Quantity of Money.” All of these contributions are written by authors who have thought deeply about monetary and financial economics, have made important contributions to the field, and who guide the reader skillfully to the frontiers of research in their particular subfields.

The book suffers most, in my view, from the absence of contributions from those who work on “fundamental” approaches to monetary and
financial theory. Developments in this area are among the most exciting, and controversial, in monetary economics in the last twenty years. However, many of the contributors are openly hostile to these approaches. For example, Michael Haliassos and James Tobin state that

The common methodology makes this literature [fundamental approaches to money and macro-economics], even more than most economic theory, a collection, indeed a battle, of parables. . . . The methodology limits the scope and realism of the parables; it is very difficult to draw any "big picture" inferences from this literature. (p. 908)

Further, Karl Brunner and Allan Meltzer, in their chapter on "Money Supply," state that "insistence on first principles first impoverishes science" (p. 361). Unfortunately, the editors give the proponents of fundamental approaches little opportunity to rebut these claims. In particular, contributions from Neil Wallace and Robert Townsend are sorely missed. The work of Wallace, his coauthors, and his students (e.g., Wallace 1980, Sargent and Wallace 1982, and Bryant and Wallace 1984), on applications of the overlapping generations model to monetary phenomena, has been highly influential, and has changed the way the profession thinks about financial restrictions, open market operations, and inflation, among other issues (for proof, see the references and citations in the Handbook). Townsend's work (e.g., Townsend 1980, 1983, 1987, 1989) has also been important in focusing attention on how spatial and informational frictions give rise to monetary and intermedial arrangements.

The editors have also neglected the growing body of literature on the theory of banking and financial intermediation. A particularly influential contribution was that of Diamond and Dybvig (1983), who developed a novel approach to modeling banking, bank runs, and deposit insurance. The financial intermediation literature, surveyed in Gertler (1988) and Williamson (1987), derives intermediation structures from first principles, and studies, among other things, the importance of financial intermediaries for aggregate fluctuations. Here, the editors of the Handbook have allowed the old to displace the new. The chapter by Brunner and Meltzer, and one by Lucas Papademos and Franco Modigliani on "The Supply of Money and the Control of Nominal Income," use modeling approaches that would have been unacceptable in the major journals even ten years ago.

Problems with overlap are apparent in four chapters on "Money, Inflation, and Growth," by Alhanasios Orphanides and Robert Solow, "Inflation: Theory and Evidence," by Bennett McCallum, "Costs of Inflation," by John Driffill, Grayham Mizon, and Alistair Ulph, and "The Optimum Quantity of Money," by Michael Woodford. These contributions all deal with similar issues using similar models, and could have easily been collapsed into one or two chapters.

A student unfamiliar with monetary economics reading this book would be likely to conclude that much of monetary economics was either boring or hopelessly backward. Thus, this student might respond in one of two ways. First, she might determine that monetary economics was barren ground, and go off to study Nash equilibrium refinements. Second, she might conclude that many monetary economists are defenseless against a league of young turks armed with modern theoretical and empirical tools, and elect for a career as a monetary economist instead. In any case, the student would be mistaken in thinking that money and banking is either boring or backward, and I would certainly prefer that she take the second course of action, in spite of being fooled into doing so. Perhaps this is what the editors of the Handbook of Monetary Economics had in mind, but I doubt it. Those interested in current developments in macroeconomics and money would be best advised to save the hefty price asked by North-Holland for the Handbook of Monetary Economics, and opt instead for Modern Business Cycle Theory (Cambridge, MA: Harvard U. Press, 1989), edited by Robert Barro.

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References


Gertler, Mark. "Financial Structure and Aggregate


Marx and Keynes have long inspired economists seeking to develop a heterodox approach to analyzing capitalist economies, and recent years have witnessed several attempts to construct models synthesizing their key ideas. Peter Skott’s book is an important, innovative, and extremely satisfying contribution to this literature and to the theory of economic growth and business cycles in general.

The heart of the book is a novel model of growth cycles, developed in Chapters 4–6. Keynes’ theory of effective demand enters through an independent investment function. Marxian class conflict enters through an output-expansion function which makes the speed of output adjustment depend on—in addition to the state of demand—the tightness of the labor market. This latter function is the truly novel feature of the model, distinguishing it from both Keynesian (in which output adjusts instantaneously to an excess demand for goods) and Marxian models (which usually do not allow demand to affect output and make class struggle affect distribution directly).

After an insightful methodological discussion and a useful survey of the background literature, Skott provides a clear and detailed description of his model. Next, in a skillful analysis of its behavior, he first examines the ultra-short run, which assumes that output is fixed and the goods market clears through price variations (an assumption unfortunately at variance with much empirical evidence). Then he considers the short run in which output adjusts. Finally, he turns to the long run in which capital accumulates, where the properties of steady states in which capacity utilization is adjusted to its desired level are discussed. But of far greater importance is the model’s out-of-steady-state behavior. Investment is assumed to depend on the share of profits and the capacity utilization rate, which makes the economy perpetually fluctuate around the steady-state growth path. Here the output-expansion function plays the central role: at low rates of employment, output expands rapidly and this in turn causes increases in capacity utilization, and hence investment; the resultant rise in the employment rate heightens conflict, slows down output growth, and heralds the downswing.

While the author consciously places his contributions in the heterodox literature, the book is an equally valuable contribution to mainstream macroeconomic theory. The implications of this book for these literatures must be considered separately because of their (unfortunately) segmented nature.

Skott’s main contribution to the heterodox literature, is a masterful and elegant integration of Marxian and Keynesian approaches to the business cycle. Drawing on the models of Goodwin and Kaldor, respectively, he provides a model of cyclical growth. Skott’s is not the first attempt at such synthesis, nor will it be the last, but in my view it is the first truly convincing one because it is based on plausible behavioral relations. Another important contribution is a more serious treatment of finance than is usual in the heterodox literature: Skott’s formal analysis of the financing of investment in an endogenous-money framework should help to clear up many unrewarding controversies.

On a more methodological plane, the author’s