

Book Reviews

Recent Advances in Economics: A Book of Readings. Edited by Rendings Fels and John J. Siegfried. (Homewood, Illinois: Richard D. Irwin, 1974).

This book is the latest in the American Economic Association series of "readings". But, unlike its predecessors, it is more difficult to review because there is not one but several themes, a mixed bag: mixed in subject matter, in approach, is one's view of things, in its general tenor, and to some extent, in quality as well. It was published in response "to the realization that undergraduate instruction too often treats economics as an unchanging body of knowledge instead of as a field of research like medicine, astronomy and archaeology, in which new discoveries are constantly made" (P. v).

The lead article, "Optimal Control: A Mathematical Supertool", describes—without the use of mathematics—the applications of the techniques of control theory to economic questions and problems. It is followed by a brief essay, "Is the Phillips Curve Losing its Allure?" Thereafter, there is a lone article in the area of public finance, by Michael J. Prell, who studies the advantages and disadvantages of the Full Employment Budget (FEB) which many economists believe to be superior as a fiscal indicator than the conventional budget. Kenneth Stewart discusses the Measure of Economic Welfare (MEW) developed by Nordhaus and Tobin¹ and concludes, *inter alia*, that (MEW) is more accurately a broad measure of consumption rather than welfare.

The editors must have been well aware of the need to give the book a modicum of 'balance'. Hence, perhaps, the inclusion of the works, among others, of E.J. Mishan, the well-known antigrowth British economist and Paul Sweezy, the eminent American Marxist economist. What they have to say is very well-known and, in the opinion of this reviewer, more a matter of conjecture than "science". If Tobin had his way he would require that even "Philosopher-kings" submit to the discipline and rigour of empirical studies. In the same tenor is the work of Stephan Hymer, "The Internationalization of Capital." It is written with considerable rhetoric: "American capital may well be able to retain a position of dominance, but it is under severe challenge and will have to share power with other capitalists far more than it has done in the

¹"Is Growth Obsolete?" in *Economic Growth*, Fiftieth Anniversary Colloquium, Vol. 5 (New York: National Bureau of Economic Research, 1972).

past" (p. 74). These words were written before the Arabs had "discovered" their oil "weapon" and had increased oil prices. Hymer's villains, thus, were not the Arabs but the countries of Western Europe and Japan.

Another controversial, though different in nature and purpose, is the paper by Joan Robinson, "The Second Crisis of Economic Theory." She had some tough things to say about economics and economists—things which she had said before. But then perhaps they need to be said again: (1) Growth will not solve all our problems; (2) Poverty among plenty could go on *ad infinitum* and *ad nauseum*; (3) Keynes' pleasant day-dream has been turned into a nightmare of terror by the military-industrial complex; (4) Pollution, which gave us the automobile and other industrial goods but took away our fresh-air, meadows, lakes, rivers, and now even oceans, will choke us all slowly but surely; (5) Economists are too busy with their intricate theories, fancy and bigger and 'better' models out of touch with reality. In short, she talks of the "evident bankruptcy of economic theory which for the second time² has nothing to say on the questions that, to everyone except economists, appear to be most in need of an answer" (p. 38). Tobin's rebuttal, "Cambridge (U.K.) vs. Cambridge (Mass.);" treats the sting.

Do Euro-dollar deposits originate partly, from the U.S. balance-of-payments deficits partly from dollar reserves of non-U.S. central banks and partly from the proceeds from the sale of Euro-dollar bonds? "Complete nonsense" (p. 166) is the answer by Milton Friedman in his article "The Euro-Dollar Market: Some First Principles." The "correct" answer is that the major source of Euro-dollar deposits—like domestic deposit liabilities—is a book keeper's pen! Fred H. Klippstock, "Money Creation in the Euro-dollar Market—A Note on Professor Friedman's Views", finds Friedman's propositions confusing "what is possible with what has happened in fact" (p. 177). He offers the resolution that "the traditional expository devices used in analyzing monetary processes in the United States are ill-suited for the task of explaining monetary expansion in the Euro-dollar market. The sources, purposes and functions of dollar deposits in Chicago banks and Euro-banks have little in common. Dollars deposited in the Euro-dollar market are, except for a small proportion, created by American banks rather than Euro-banks" (p. 180).

There are two good papers on pollution and resource economics: one by Ralph C. D'Arge, "Essay on Economic Growth and Environmental Quality" and the other "The Economics of Resources and the Resources of Economics" by Robert M. Solow. While D'Arge adopts the approach that production, consumption, and waste generation are joint products and should be so treated in economic analysis, Solow believes that with 'correct' background assumptions the optimality properties of competitive equilibrium could be relied upon to allocate the dwindling supply of natural resources to competing uses.

In the area of labour economics, Daniel Mitchell reopens the Ross-Dunlop debate of the forties over the nature of union wage policy. This debate had "centered around two apparently opposing characterizations of the motives

²Economic theory, according to her, faced its first bankruptcy when it failed to account for mass unemployment and prolonged depression of the thirties.

underlying" union behavior—Dunlop's economic union model and Ross' 'political' union model" (p. 125). Mitchell reinterprets Ross' model incorporating both dimensions of the debate and suggests that "where there is employer resistance, the Dunlop assertion that union leaders must perceive the employment effects of their wage demands adds little to the explanatory power of Ross' model" (p. 140).

The above is merely a sample of the flavor of *Recent Advances*. There are other essays and "surveys" on diverse topics—some old and some new: "Grant Economics: A Simple Introduction" (Kenneth Boulding *et al.*); "Behavior of the Firm Under Regulatory Constraint: A Reassessment" (Leland L. Johnson); "Whither Econometrics?" (Lawrence R. Klein); "Quantitative Studies of Industrial Organization" (Leonard W. Weiss); "The State of Monetarist Debate" (Leonall Andersen); "Commentary on 'The State of the Monetarist Debate'" (Lawrence R. Klein and Karl Brunner); "The Current State of Money and Production Theory" (John R. Moroney); "Radical Economics in America: A 1970 Survey" (Martin Bronfenbrenner); "Property Rights and Economic Theory: A Survey of Recent Literature" (Erik G. Furunbotn *et al.*); "Tariffs and Other Measures of Trade Control: A Survey of Recent Developments" (Robert M. Stern); and "Consumer Economics: A Survey" (Robert Ferber). The latter is an extension of two earlier surveys³ on the same topic and, thus, includes many other factors not previously 'surveyed'.

Omissions also indicate something about the book. It has nothing of recent advances in development economics or economics of human resources. Quibbling about inclusion or exclusion aside, it is an excellent and provocative book. Most of the articles, especially the survey articles, contain valuable bibliographies which alone are well-worth the cost of the book. It will be useful not only to teachers, students in regular courses and students wanting independent study, as the editors had hoped, but also to the busy specialist. It provides a reasonably comprehensive perspective on contemporary economic theory, thought, climate of opinions, and doctrinal changes. It is neither commanding nor very much demanding. Algebra, calculus, and even two-dimensional geometry, the common tools of today's economists, are to be found only on 23 out of 300 or so pages of text. Moreover, it can be read selectively or randomly as, for the most part, its previous discussion is not related to the next. Its only minor faults are its uneven printing and, like some other books of readings, lack of an index.

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³A Brown and A. Denton, "Surveys in Applied Economics: Model of Consumer Behavior" *Economic Journal*, December 1972, 82, pp. 1145-1236 and Daniel B. Suits, "The Determinants of Consumer Expenditure: A Review of Present Knowledge" in Commission on Money and Credit, *Impacts of Monetary Policy*. Englewood Cliffs, (N.J.: Prentice-Hall, 1963) pp. 1-57 and reprinted in Walter L. Johnson and David R. Kamerschen (eds.) *Macroeconomics—Selected Readings*, (Boston. Houghton Mifflin Company, 1970), pp. 59-92.