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Review of *Prices, Wages and Business Cycles* by Burton H. Klein

Abdur Chowdhury
Marquette University, abdur.chowdhury@marquette.edu

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Abdur R. Chowdhury was affiliated with Bentley College at the time of publication.

losophy of self-sufficiency (organizing his own group) as a basis for making the campaign effective. Gandhi is against machinery (technology) if it is used in a modern economy by capitalists for exploitation. However, if it is used by the owner himself without employing hired labor, it is acceptable. Hence, when one applies his theory to an economic development program, any product for which technology with hired labor is needed should be nationalized.

In recent years, there has been a state of disarray in the international economy. Dasgupta does not believe that it has much to do with monetary management or mismanagement (he very much fails to elaborate on this point), but that it is the result of long years of unequal economic progress in different parts of the world and unequal exchange among them can be mutually beneficial only when the relationship between them is complimentary. Dasgupta may be incorrect because in reality there has been no free trade in history; studies have shown that, in fact, industrial countries such as the EEC, U.S., Canada, and Japan have manipulated quotas and tariffs [1;5]. Hence, OPEC and the group of 77 were formed to defy the masters. Here, Dasgupta falls short by not including the Non-aligned Movement (NAM) group, which is an extention of the Group of 77. It has been very actively powerful in recent years, but the U.S. and the developed countries strongly criticize NAM's activities as being very much against them, especially against U.S. policy [3]. However, Dasgupta sees that confrontation does not seem to solve the problem of conflict; cooperation is one of various factors that can realize the potentiality of creating conditions for a stable economic order.

The last part of the book, "Part III: On Planning" (a total of 3 sections), first gives a good description and distinction of the terms democracy, socialism, and planning. Dasgupta finds individualism exists and is workable in socialism and planning (as in the case of India) as well as in capitalism. Here, Dasgupta fails to realize that viable capitalism can exist without individualism but with nationalism, e.g., in Japan, as Morishima explains in his book, *Why Has Japan 'Succeeded'?: Western Technology and the Japanese Ethos* [2].

Dasgupta considers that Gandhi's social conflict theory and its approach to the solution have in fact been used as a cornerstone for Indian Economic Planning (started in 1952), which was gradually derived from Marx's Extended Reproduction Scheme a few years later. Despite some of the plan's shortcomings, it achieved economic growth and a reduction in inequality of income in Indian society.

In conclusion, the reviewer feels that this book is worth reading; it gives a new explanation of domestic and world economic problems and explains how to deal with them with Gandhi's "non-violence" approach. Although as a book it is not too well put together (the author himself is well aware of this problem), each essay is well written. Overall, the book is strongly recommended for the general economist, as well as for political leaders, and hopefully its influences will reduce tension in our world.

Tosporn Chotigeat
Catholic University of Puerto Rico

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Prices, Wages and Business Cycles.

By Burton H. Klein. New York, Oxford, Toronto: Pergamon Press, Inc., January 1984. *Pp. xx, 199. $29.50.*

This book contains a competent and impressive range of theoretical and empirical study explaining the viewpoints of a dynamic economist. Klein considers himself to be an unrepentant Keynesian as well as a dynamic economist engaged in a genuine interchange of ideas that will ultimately revolutionize economics. Dynamic economics consists of two major components—a dynamic concept of competition and the method of explicitly relating the competition to the overall performance of an industry. Dynamic competition refers to the rivalry to generate advances in technological inputs and productivity. Klein refers to this competition as dynamic since it assumes that firms involved in such competition must compare two risks: the risk of being unsuccessful in discovery or innovation versus the risk of having a market stolen away by a competitor. The greater the risk that a firm's rivals take, the greater must be the risks to which it must subject itself for its own survival. Thus when firms engage in risk-taking, they also impose risks upon their competitors. In terms of this concept, the average propensity to engage in risk-taking (PERK) is relatively low in certain industries (such as steel), while relatively high in certain others (such as computer).

In Chapter 1, a statistical relationship is developed between PERK and long-run technological progress. This relationship is used to formulate a predictive theory which is then used for hypothesis-testing. Most of the book is devoted to developing and applying this predictive theory. The principal hypothesis that is being tested in this book is whether the degree of price pressure provides a reasonable predictor of the steadiness of productivity gains over reasonable long periods. Klein is of the opinion that static equilibrium theory can play an important role in understanding economic reality but it does not explain economic changes. In Chapter 3 he points out the shortcomings of the static equilibrium theory. In almost all macromodels, the underlying micro-behaviour is, in most cases, ignored. In Keynesian models, firms play an entirely passive role; while the monetarists believe that the economy is moving towards a static equilibrium and that only monetary variables determine the economic stability of the country.

The basic implications of the statistical and theoretical arguments advanced in this book can be summarized as follows. First, the problems involved in improving the performance of the manufacturing sector of the U.S. economy is more specific than many economists and political leaders would believe. Although decline in productivity performance in manufacturing and an increasing severity of economic downturns are considered to be the same problem, yet only about twenty-five industries are responsible for the worsening economic performance of the seventies. For instance, serious supply shocks in the seventies are generally attributed to OPEC actions, but Klein showed that during the seventies, increased cost of steel inputs had quite an important impact on high manufacturing costs, as did the energy supply shocks. Second, industries which contributed to the low rate of productivity advance acted on the assumption that they faced inelastic demand for their products. Most of these industries were profit maximizers subject to market informations and technological opportunities that are at least a decade old.

Third, the industries that contributed most to inflation during the seventies also were the first to raise prices once recovery was underway. According to classical economists, a static equilibrium is stable while the monetarists argue that both inflation and economic fluctuations would be eliminated only if the money supply were kept stable. Yet, evidence suggests that the same industries that were moving toward a static equilibrium contribute most to the instability of the economy. Klein tries to explain this apparent contradiction between theory and observation by using the Keynesian argument regarding paradox of thrift, "An average propensity to engage in risk taking that is close to zero in particular industries can contribute to the security of individual firms, but, at the same time, it makes an economic system less stable [xx]."

Nearly all economists favor free trade. Although trade does not increase the size of the pie, it leads to more efficient international allocation of resources. In Chapter 7 and 8, Klein makes a powerful argument for international dynamic competition saying that it provides a means for making lower-cost alternatives. As a result, real income can become larger thus increasing the size of the pie. Any book of this length is not without its shortcomings. For instance, treatment of the deadweight drag and its impact on business cycle is somewhat superficial. Moreover, forays into specific theoretical issues distract from the main theme of the book. While readers may disagree with some of the assumptions and conclusions regarding the monetarists, Keynesians and dynamic economists, they will certainly provoke discussion. Economists who believe in the phenomenon that the quest for microstability ultimately leads to increasingly serious economic downturns will find this book interesting and informative. It is a useful contribution to our knowledge about dynamic economics.

Abdur R. Chowdhury
Bentley College