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Review of *Money, History, and International Finance:  
Essays in Honor of Anna J. Schwartz* by Michael D.  
Bordo

Abdur Chowdhury

Marquette University, [abdur.chowdhury@marquette.edu](mailto:abdur.chowdhury@marquette.edu)

compatibility between rational and selfish individuals, on the one hand, and the existence of effective social institutions, on the other. The trouble with this approach is that there is nothing uniquely human about the evolutionary process so characterized. In fact, the repeated Prisoner's Dilemma game has been shown to be able to account for the behavioral tendencies of plants and lower animals, just as well. What is conspicuous in the repeated PD game, as a modelling of social process, is the absence of human characteristics, e.g., the capacity for envy, among other things. If envy is phylogenetic to human race, as Schoeck suggests, then an analysis of institutions must squarely face *homo invidiosus*. Otherwise, economists may end up blaming people for not seeing the value of their suggestions, which are derived from their analysis, based on the assumption that human nature is a certain way. It would be like blaming people for what they are, rather than what economists think they are, or should be. That was, I believe, the predicament of the late professor W. H. Hutt in *Economists and the Public*.

In addition to exposing what is possibly the biggest omission in the social sciences and moral philosophy in ignoring *homo invidiosus*, *Envy* is a very suggestive book. Schoeck's analysis of the place of envy in the institution of private property, innovation and entrepreneurship, the process of economic development, and modern politics, are all suggestive and invite thoughtful reflection. Even if one did not agree with much of what Schoeck has to say—many will find him politically too conservative—*Envy* provides rich food for thought for economists, as well as for other students of society. I highly recommend Schoeck's *Envy*.

Young Back Choi  
SUNY College at Old Westbury

**Money, History, and International Finance: Essays in Honor of Anna J. Schwartz.**

Edited by Michael D. Bordo. Chicago and London: The University of Chicago Press, 1989. Pp. xi, 272. \$35.00.

The five papers presented in this volume provide a critical evaluation of Anna J. Schwartz's work and analyze the development in monetary research over the years. The papers cover such diverse topics as a historical perspective of Schwartz's contribution to the U.S. and British monetary system, a monetarist perspective of the money-income causality literature, stability under the gold standard, and international transmission of inflation. Together they tend to provide an indication of how far monetary theory and policy have come, and also an indication of what areas require further investigation. Each of the papers underscore the legacy of Schwartz's work to important fields of research. In the process, they make their own contribution to the fields of monetary theory and policy.

In the first paper, Michael Bordo examines the role of *A Monetary History of the United States 1867–1960* by Milton Friedman and Anna Schwartz as a progenitor of research in monetary history. Specifically, his paper gives an encyclopedic survey of the current state of research on three major themes explored in this book—monetary disturbances, the domestic monetary framework and monetary policy, and monetary standards. However, this reader comes out with an impression that instead of critically analyzing the work, Bordo is more interested in proclaiming the dawn of what he believes to be the “dark age of vector autoregression.” His failure to substantiate his claim of an impending “dark age” with logical and thoughtful reasoning keeps the reader wondering.

In the second paper, Forrest Capie and Geoffrey Wood discuss the contribution of *Growth and Fluctuation of the British Economy, 1790–1850: An Historical, Statistical, and Theoretical Study of Britain's Economic Development* [1953], coauthored by A. Gayer, A. Schwartz, and W. Rostow. Although the analytical framework has changed over the years, that volume still remains one of the major sources of carefully constructed data for the British economy for the years it covers.

Phillip Cagan, in the next paper, provides a scathing criticism of time series analysis in general and VAR models in particular. Cagan's paper implies that his rejection of time series regression analysis validates the adequacy of historical analysis of economic theories. However, nowhere in his article does he provide any evidence of the reliability or power of the historical analysis approach. He criticizes the time series analysis for not providing evidence in support of certain known monetary propositions. However, it should be noted that these propositions follow from previous historical analysis. Hence his conclusion that time series analysis is inadequate is based on the preconceived implicit assumption that the historical analysis approach is adequate.

Cagan argues that interest rate targets have not always ruled monetary policy beyond short horizons. The author appears to fail to distinguish between an interest rate target and an interest rate instrument. Interest rate instruments have been in effect throughout the entire period since the fifties. Even during the 1979–82 money target regime, indirect interest rate instruments were employed by the Federal Reserve.

The last two papers deal with important aspects of international monetary economics. Using statistical techniques from what Bordo earlier dismissed as the “dark age of vector autoregression,” Allan Meltzer and Saranna Robinson analyzes data from seven countries to provide empirical evidence about the transmission of changes under the gold standard. Their study of unanticipated money, prices, and output suggests that base movements played a dominant role in the international transmission of impulses while price shocks had no role in stability. Both short and long-term anticipations about prices and output are less stable under the gold standard than under the monetary arrangements of the Bretton Woods or the managed float system. Moreover, some countries succeeded in reducing price and output uncertainty under the fluctuating exchange rate regime relative to the Bretton Woods and the gold standard period. In addition to these interesting results, Meltzer and Robinson’s paper provide a good example of contradicting Bordo and Cagan’s blanket criticism of time series models. This paper provides evidence that time series models can be conveniently used to capture empirical regularities in the data and thereby gain insight into the channels through which the system work.

In the final paper, Michael Darby and James Lothian present evidence on the international transmission of inflation under alternative exchange rate systems. Their evidence is consistent with the hypothesis that under the managed float system, monetary authorities gained independence. They discuss long-run relations in growth rates of prices, nominal money and real money in twenty developed countries during 1956–73 and 1974–86. First, they report greater cross country variances of average growth rates of price and money in the floating period. Their results also show smaller cross-country variance in average real income and real money growth during 1974–86. This implies that, in the long run, nominal money and prices were constrained for each country during 1956–73 (fixed exchange rate period). Moreover, their results also show a substantial decrease in the correlation across countries between average nominal and real money growth from the pegged to the floating period. This again shows that the pegged rates constrained monetary policy and prices in the long run, while floating exchange rates provided some monetary independence.

The book ends with a note of appreciation from Karl Brunner and Milton Friedman. Despite its blemishes, the book has merits. Because it contains such a diverse set of studies, anyone interested in monetary economics would find value in at least some of the papers presented. All in all, the papers are capable of generating further discussion and research on various issues. The set of brief comments on each paper also appears useful. The editor and the authors deserve credit for their interesting contributions.

Abdur R. Chowdhury  
*Marquette University*

**Latin American Debt and Adjustment: External Shocks and Macroeconomic Policies.**

Edited by P. Brock, M. Connolly and C. González-Vega. New York: Praeger Publishers, 1989. Pp. 288. \$49.95.

The problems facing Latin American economies in the 1990s are legion, as this collection of essays makes clear. Not only are there difficulties in adjusting to a volatile international environment, but there is also a wide range of domestic policy and structural constraints that must be recognized, eliminated or compensated for. The editors have brought together 15 essays in seven major topic areas to highlight these difficulties. There is a good mix of theoretical and empirical analysis. Although prescriptions are suggested, these essays are strongest as a whole in their description of the past and current economic problems facing the Latin American economies. This volume will be of use to policy-makers and to students of Latin America desiring a firmer grounding in its recent economic history.

The topic areas addressed in this volume outline a taxonomy of issues facing the Latin American economies. After a cogent introductory essay by Robert Mundell, the essays address the transmission of external shocks to Latin America, fiscal constraints to adjustment, financial-market instability, labor market disequilibrium, monetary and exchange rate policies, trade strategy and political-economy issues. The quality of the essays, while uneven, is on average quite good; I found especially attractive the essays by