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BOOK REVIEW

Philip Arestis and Malcolm Sawyer, eds., *A Handbook of Alternative Monetary Economics,* Edward Elgar Publishing, Cheltenham, UK/Northampton, MA, USA, 2006. ix + 524 p. GBP 130 (ISBN 978 1 84376 915 6)

A common distinction often made implicitly among economists is between mainstream and off-stream economics. Mainstream economics is what is taught in the main textbooks for graduate students. Off-stream economics textbooks do not seem to have a big market share and appear with less well-known publishing houses. Off-stream economics represents the heterodox views and contrasts the economic orthodoxy. I presume that alternative monetary economics, which is the main ingredient of the title of this handbook, concerns off-stream monetary economics, though the editors of this book in their short introduction do not discuss this issue which perhaps is of great importance for understanding what this book is all about and for explaining that it deals not with a purely semantic issue.

Why does alternative monetary economics deserve attention and even deserve a full-fledged handbook? And more importantly, what do the editors have in mind with alternative monetary economics when planning this handbook? To answer these questions we only have the heuristics of reading this handbook. A precise operational definition of the topic of this book is not provided and thus a general perspective for the potential reader is not offered. This is regrettable. Now the only perspective we have is the fact that there are 29 contributions written by 35 authors who attempt to sketch the field of alternative monetary economics and to give some intuitive feeling of what to expect of this handbook.

As to the authors of the 29 chapters a vast majority of 14 out of 35 are from the US. Of the other authors four, including the editors, are from the UK, another four are from Germany, two are from Canada, Italy and France, respectively, and one from Switzerland. Almost all contributors are unknown names to at least this reviewer which perhaps indicates that he unlike the authors of the chapters belongs to the monetary orthodoxy. The latter considers money a social institution and a means to improve social welfare and financial stability rather than an instrument to foster social equity. Perhaps the best way to review the 29 chapters of this handbook is to select a few topics that are also important in orthodox monetary economics. Such an approach enables this reviewer to compare the findings in this book with the results obtained by orthodox monetary economics. Therefore I have chosen to review three clusters of issues examined in this handbook. These are the endogeneity of money (chapters 2, 3, 4 and 15), the theory of interest and the liquidity preference theory (chapters 17 and 20), and the topic of banking and economic development (chapters 10, 21 and 23). These topics appear also in mainstream monetary economics.

In the cluster endogeneity of money in chapter 2 Marc Lavoie (University of Ottawa, Canada) considers the horizontalist or accommodationist view on the supply of money which graphically may be represented by completely flat curves in the credit-money and interest rate space. Therefore, the supply of high-powered or base money must be endogenous and demand- determined. Consequently the central bank cannot directly control the money supply. By contrast short-term interest rates are viewed as exogenous and under control of the central bank according to Lavoie. This theoretical position is vindicated by modern operating procedures of e.g. the Bank of Canada, the ECB and other major central banks which all control interest rates. A similar view is put forward by Sheila C. Dow (University of Sterling, UK) in chapter 3. She emphasizes that endogeneity refers in particular to the capacity of banks to determine how much deposits they create. So, the supply of reserves as well as the money multiplier is itself endogenous. Consequently central banks do not have the instruments to control the volume of either money or credit. The focus in endogenous money theory is therefore instead on the demand for credit and the structural aspects of the financial system. Empirical evidence to support the views of either Lavoie or Dow is offered in chapter 4, written by Peter Howells (University of West England, Bristol, UK). He discusses several estimated loan demand equations taken from a number of macro econometric models for the UK. It stroke me in this chapter that no attention is given to the loan setting equation which in my view is also crucial in this context, as shown in my paper in the EER of 1995 ('The demand for commercial bank loans and the lending rate', *European Economic Review 39,* 99–115). The endogeneity of money is a central concern in the post-Keynesian approach to monetary policy. This is the topic of chapter 15 by Thomas I. Palley (announced as economist, Washington, USA). In this remarkable chapter asset-based requirements provide an intellectually coherent framework for implementing reserve regulation across all financial institutions.

Interest rate theories and the like form another cluster in this handbook. I like to discuss the contribution by John Smithin (York University, Toronto, Canada) in chapter 17, by Jörg Bibow (Skidmore College, New York, USA) in chapter 20, and by Gunnar Heinsohn and Otto Steiger (both University of Bremen, Germany) in chapter 29. Smithin adheres to the view which he labels the horizontalist theory. This theory postulates that the interest rate is not primarily determined in the market but is a socio-political variable typically administered by the monetary authority in response to a variety of both economic and political forces. A fair rate of interest should according to this approach be the result. Naturally, this heterodox theory is beyond economics in the narrow sense and should be tested against the classical orthodoxy on interest rate theory to convince. Unfortunately, no such a testing is attempted in this chapter. One of the constituents of orthodox monetary theory is Keynes liquidity preference approach. This is the topic of chapter 20 by Jörg Bibow who examines in an elegant manner the liquidity preference theory from a post-Keynesian perspective. Surprisingly he concludes that central bankers' postulate of money neutrality makes them irrelevant because real magnitudes go their own way independently of what central bankers do. However, he also concludes that Taylor's rule means an important step towards Keynes vision, which is incorporated in the liquidity preference theory. The main thesis of Heinsohn and Steiger, put forward in chapter 29 is that interest rates and money cannot be understood without the institution of property and property premium. Therefore, according to them, central bank interventions to turn the tide are mostly useless because central banks cannot supply missing securities to influence property premia. To be honest I must admit that I do not understand the reasoning of this chapter that certainly belongs to monetary heterodoxy. Nevertheless it is a provocative chapter that deserves further attention.

Financial stability and its relationship to economic prosperity is the final cluster of this handbook I like to look at. Chapter 10 by Elisabetta de Antoni (University of Trento, Italy) examines, in the vein of Minsky's criticism, the role of financial relationships in economic progress. She concludes that, unlike Keynes, Minsky inclined to economic instability because of overinvestment and overindebtedness. In chapter 21 Philip Arestis (University of Cambridge, UK) explores the impact of financial liberalization on economic growth. His main conclusion seems to be that circumstantial evidence supports the view that financial liberalization enhances prosperity but that the empirical evidence is not convincing. A similar outcome is presented by Gary A. Dimsky ((University of California, Riverside, USA) in chapter 23, analyzing the role of banking in the financial crises of the last 25 years. According to Dimsky orthodox and heterodox economists seem to agree that scepticism on financial liberalization is warranted. In his view centrality of social power in market exchange between parties should be an important consideration in designing policy strategies.

I found this handbook an interesting collection of rather heterogeneous contributions that differ in scope and profoundness, and often overlap. Perhaps this is pitiful and raises the question of whether this book is a handbook for a specific area of economics. In some sense it is a description of a horse race with great flair even when the participants involve non-winners. Some readers will like the oddities of this description and opinions. However in my view the grim pleasure of this book, which certainly is misnamed a handbook, lies in the economic and monetary details.

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