**Money and Monetary Regimes: Struggle for Monetary Supremacy by George Macesich, Pracger Publishers, CT, U.S.A 2002, pp XIV +167,US $ 62.**

The title of the book evokes considerable academic curiosity and even excitement in the mind of an aspiring reader, especially if he takes the "Struggle for Monetary Supremacy" at face value. "Struggle for Monetary Supremacy" is generally perceived as a contest among various national currencies for a pre-eminent role in international transactions. However, the present book confines itself to the role of money and the performance of monetary regimes within a national economy.

Ever since the abolition of private banks to issue notes, power and authority in monetary matters are shared between the Finance Ministry and the Central bank. The interlinkage between political power structures and policy introduces an element of discretion in monetary policy. The exercise of such a discretion, according to the author, affects the conduct of monetary policy. The efficacy of monetary policy can be substantially enhanced through imposition of constraints on the use of discretionary authority in monetary affairs by bureaucracy and political elites. The author provides interesting historical accounts of the rules versus discretion debate by looking at the actions of the Federal Government in USA to deprive the Second Bank of United States (a defacto Quasi Central bank at that time) of its right to hold Federal deposits and of its Federal Charter during 1830s. Two instances of an international perspective are presented in detail. These relate to imposition of 'indemnity payment' by Germany on France after Franco-German war of 1871, and imposition of 'reparation payment' by the allies on Germany after the end of the First World War.

The author exhibits a lurking predilection for the gold standard monetary regime at the global level, scarcely falling short of overt espousal of its return. This emerges both from his uncharitable treatment of the 'fiat monetary regime' through much of the book, and from his categorical attribution of virtues of relative stability to gold standard era with respect to both real growth in gross national product (GNP) and absolute price level. The statistical figures that he adduces to support his contention of greater stability in real GNP growth are far from sufficient to conclusively vindicate that contention (besides being confined to only two countries, the U.K. and the USA). More importantly, the author overlooks the fact that long-run GNP growth rate has been faster in most countries, including the U.K. and the USA, under the fiat monetary regime, than under the earlier gold standard regime - a higher rate of secular growth would make greater degree of sub-period deviations more inevitable as well as more acceptable. Even the protracted economic travails and tribulations of the inter-war period as a direct result of growing shortage of gold at the global level are unconvincingly dismissed by the author as being due to "unfortunate coincidence".

The argument presented in the book strongly supports the view that much greater discipline at the policy level, and much greater order at the operational level prevailed under the gold standard monetary regime, and disparages the fiat monetary regime in comparison therewith, at various points in the book. The collapse of the gold standard, the onset of the Great Depression of 1930s and the advent of Keynesianism have been discussed by looking at the Keynesian economic model. According to the author, the Keynesian Policy prescriptions introduced elements of discretion in monetary policy and the exponential growth of the bureaucratic set-up in modern

democracies. The treatment of Keynes is inadequate, and based on a supply side view of Keynes' Liquidity Preference Theory : "The monetary crises (of the 1930s) was indeed due to an inadequacy in the supply of base money, consisting of gold, …….. This is certainly consistent with what keynes was to call a rise in liquidity preference. In effect, there was not enough base money for the banking system to be able to come to the reserve" (P 50). Thus the author ignores the behaviourial assumptions embedded in Keynesian economics, that, liquidity preference is essentially a psychological phenomenon, which is subject to temporal fluctuation in the face of changing subjective views about future interest rate, and at its extreme, renders inadequate a money supply which would be otherwise adequate - even substantial increase in money supply at the initiative of the monetary authority gets absorbed by hordes of economic agents, whose preference for cash *vis-à-vis* any other asset becomes absolute.

The discussions on determination of price level in a Keynesian framework is clearly inadequate. The author argues that in the Keynesian model, the absolute price level is determined entirely outside the mechanics of the economic system, with the result, changes in aggregate demand register themselves entirely in output change, and not at all in price level (P 92, also P 62). While it is true that Keynes did highlight certain degree of downward rigidity in the price level, deriving from corresponding rigidity in money wages due to trade union resistance, he saw no such rigidity in the upward movement of the price level. For, while it is integral to the Keynes analytical model that during the upswing of an economy from under employment equilibrium (one of the salient features of the model), every monetary increase does not lead to corresponding increase in commodity prices, the absolute price level is far from unaffected by conditions and movements of the relevant macro economic variables. Indeed, chapter 21 (entitled "The Theory of Price Level") of The General Theory, which is devoted to a rigorous treatment of the price behavior in the course of an economy's approach to full employment, delineates intermittent bouts of inflationary pressures (due particularly to shortage of specific inputs and diminishing returns) at what are known as "semi-critical points" before full employment is finally reached. And what is more, after attaining the level of full-employment, at which point true inflation is supposed to set in, every increase in the quantity of money is expressly shown to be accompanied by corresponding increase in the general price level.

The salient theme of the book is the debate over discretion versus rules in the formulation and conduct of monetary policy. The author consistently evinces unconcealed penchant and support for rule-based monetary policy, as against a discretionary one. The present popularity of rule-based monetary regimes is linked to the failure of discretionary monetray regimes to abate inflationary pressures of 1960s and 1970s in large number of countries. He portrays a regime of discretionary monetary policy as not only inherently expansionary in its stance, but also inexorably inflationary in its outcome. However, a reader well familiar with monetary and banking history would be quick to point out that even during pre-Keynesian era, monetary authority did resort to discretion in ample measure for monetary management, whenever economic exigencies so warranted. The author himself reports instances of monetary expansion in the pre-Keynesian periods in overt disregard of clearly laid down rules for monetary policy. Efforts by monetary authorities in several countries of the world to economise on the gold coinage during gold standard in order to increase the ratio of money stock to the existing gold stock (to which the author makes specific reference on Page 7) is an eloquent testimony to the fact that monetary authorities faced an inevitable need for discretion even in the pre-Keynesian

era. One of the main grounds on which the author is distrustful of discretion in monetary policy is the near impossibility of making correct choices, while implementing such a policy. The rule-oriented monetary policy that he has in mind throughout the book is what Milton Friedman advocates in terms of a pre-determined stable annual rate of growth in money supply. Even if the particular rate of growth which is statutorily laid down, happens to be correct and appropriate at the time when such a growth rate is scientifically decided upon, how can that rate be similarly correct and appropriate for all subsequent periods in the face of changes in economic conjunctures and configurations?

With regard to money and monetary policy, the author displays excessive and even exclusive focus on the price level effects (real or putative), and altogether disregards effects on the real sector. He approvingly cites the 19th century dominant view, which was against using monetary expansion even for raising the level of aggregate output and employment. This standpoint, aside from its intrinsic plausibility on empirical plane appears irreconcilable with his dismissal of the very possibility of monetary authority influencing real values of economic variables, including output and employment, and categorically affirms that the impact of monetary changes is confined only to nominal values of these variables. Moreover, the author grants a dubious role for monetary policy, when he speaks of monetary disorder adversely affecting real magnitudes; that is to say, in positive direction, money affects only nominal values, but in negative direction, it affects real values - a standpoint that has everything in it to severely circumscribe the perceived role of monetary policy, and to engender diffidence in the minds of monetary authorities. He generally endorses policy prescription of economist like Milton Friedman for a statutorily fixed rate of annual growth in money supply as a sure means of reducing fluctuation in prices, real output and employment. However, readers with more realistic view of economic variables and tendencies cannot help questioning the practical value of such a policy-prescription, in so far as fluctuation in the real sector like effective demand, technology, labour efficiency/ attitude, and even weather (which has a crucial bearing on agricultural output) would inevitably tend to entail fluctuation in prices, output and employment, especially in prices-it is disparity between money and real output that causes price fluctuation.

The book has an intellectually stimulating chapter on fiscal policy dealing with some new concepts. First is the concept of 'Fiscal Policy Multiplier', which denotes ratio of change in real Gross National Product to policy induced fiscal changes. The second is the concept of 'Formula Flexibility', which denotes counter-cyclical fiscal measures through legislative changes in tax rates/ exemptions, in contrast with 'built-in flexibility', by which counter-cyclical fiscal changes are brought about automatically by the very cyclical movements in the economy. The chapter advocates legislatively stipulated balanced budget, which has its counterpart in the idea of 'Fiscal Responsibility Act' in this country. In the United States, as early as 1982, under the Republican Administration of President Reagan (known for strong conservative persuasions on monetary and fiscal matters) a proposed constitutional amendment for a legislatively mandated balanced budget was rejected by the Congress. What this implies is that it is easy for people to speak or write glibly about balanced budget, fiscal responsibility, but those in the helm of fiscal affairs become conscious of the stark fact that such a limitation on the executive may create more problems than it solves in terms of day-to-day economic management. In fact the author himself alludes to the attempts in the United States to cut federal spending in the 1980s, under the relentless campaign of the advocates of constitutionally mandated fiscal balance. Yet these

attempts only led to further increase in the federal deficits because of the deep recession that ensued in consequence of such cuts in spending - recession meant decline in fiscal receipts due to lower aggregate income, and rise in expenditures due in particular to income transfers to the unemployed.

The book has a chapter on Inflations and Monetary Regime'. The author portrays the post World War II period as particularly inflationary, which he attributes to hyper sensitivity of policy makers to any degree of unemployment. The author also discusses the influence of trade unions and oligopolies on inflationary trends. He holds monetary increase as necessary pre-conditions for the successful exercise of market power by trade unions and oligopolies, a contention, whose empirical validity is conspicuously called in question by stagflationary experiences in different countries at various periods. He also glosses over the distinction between demand-pull and cost-push varieties of inflation on the plea that Keynesians and monetarists, respectively, regard types of inflation as empirically and conceptually indistinguishable.

The chapter on monetary policy brings out the dichotomy between 'adaptive' expectation and 'rational' expectation. Adaptive expectation is based on forecasting movements of economic variables on the basis of their behavior in the recent past - veritable extrapolation, so to say. Rational expectation, on the other hand, takes into account the past behavior of not only the variable being forecast, but also of other variables which interact with that variable, besides any other information under the possession of economic agents about possible future course of economic variables in general. The author makes the economically crucial point that the econometric models based on adaptive expectations (which dominantly influenced model-buildings until mid-1970s) mislead policy makers into regarding inflation as integral to the national economic structure. The operational implication of such models was that monetary and/or fiscal policy, to have any durable dent on the inflationary process, would need to be restrictive for a very long time, since the lower inflation rate would have to pass through the parameters of adaptive expectation process in order to alter the momentum of inflationary course in a significant manner. Consequently, policy makers were erroneously advised by the users of such models into believing that halting inflation would impose unacceptable costs on society in terms of unemployment and output losses, a belief which, as the author points out, had imparted an inflationary bias to macroeconomic policies in most industrialised countries. At the same time the author is not much sanguine about the alternative models based on the rival 'rational' expectations hypothesis. After underscoring certain possible scenarios, citing Robert Lucas, the author urges economists to reconsider the entire way in which econometric models are formulated.

In retrospect, the book is readable for the engrossing debate among major schools of economic thought : between Monetarists and Keynesians, between those who regard money as the ultimate provenance of price movements, and those who emphasise a host of non-monetary factors in this regard; between those who exaggerate the importance and feasibility of a stable price level, and look upon any inflation as an unmixed evil, and those who accept the inevitability of price instability in the course of economic progress, and even believe in utility of inflation within moderate limits in this regard; and between those who advocate rule-based monetary and fiscal policy as a panacea for problems of economic instability, and those who would like monetary and fiscal authorities to have sufficient latitude to counter instability from non-monetary factors.

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