

environmentalism, is an alternative that may be attractive to some, but at the considerable price of sacrificing one's affiliation with economics *qua* economics. While the foregoing are possibilities, King urges that it is better for Post Keynesians to carry on "as an embattled minority." This is a survival tactic he might have imbibed (as I did in my student days) from Sidney Weintraub, who often opined that "one must wait for one's enemies to die".

From the days of the Cambridge circus, to the tumultuous annual meetings in Trieste during the 1980s, to the more recent controversies about method, conflicting personalities are as much a part of the history of Post Keynesian economics as their diverging theories. At times, King's focus on personalities seems excessive, especially for readers who have not immersed themselves in the Post Keynesian literature. On the other hand, King's references are available to those interested in the multiple strands of Post Keynesian economics. His volume deserves shelf space in the personal libraries of heterodox economists of all persuasions and, hopefully, will also be read by more than a few neoclassicals.

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*Heterodox Views of Finance and Cycles in the Spanish Economy*. By Manuel Roman. Aldershot, UK: Ashgate, 2002. pp. xi + 205. \$74.95. ISBN 0-7546-1925-7.

#### Jesus Felipe

##### *Asian Development Bank*

This book seeks to understand how credit affected Spanish business cycles over the last 50 years. Towards this end, it examines several heterodox models of endogenous growth cycles with classical and Keynesian foundations. These models focus on the dynamics of short-term GDP fluctuations and their relation to cycles in bank lending to finance demand.

Roman contends that the rise and fall of profits set the central tendency for changes in the rate of accumulation. He also appreciates the Post Keynesian contributions linking finance and capital accumulation. Post Keynesians emphasize the need for credit to fund all planned business spending because production must precede sales. Money enters as credit finance to cover the working capital of firms. Investment plans are financed mostly out of retained earnings; but credit is used when internal funds are insufficient.

Following a 25 page Introduction, the book consists of three parts. Part One (Chapters 2-5) summarizes the models of Shaikh, Goodwin, Minsky and Foley. Shaikh emphasizes how external finance lets firms expand beyond their internal means. The downside is the accumulation of debt, which inhibits uncontrolled expansion. Goodwin's model, like Shaikh's, follows the classical tradition. In this model, labor and capital shares, labor productivity, profitability, and accumulation are all linked; cycles are produced by the dynamics linking investment to profitability. Minsky's model has Post Keynesian foundations—cycles are produced by excessive debt accumulation, which depends on the

perception by creditors of growing risk relative to profit flows. Finally, Foley seeks to integrate the dynamics of finance with the cyclical growth of productive capital. His model shows an inverse relationship between the rate of profit and the ratio of borrowed funds (i.e., credit finance) to the stock of productive capital. Cycles are produced by an inadequate growth of credit.

Part Two (Chapters 6-8) provides an excellent overview of the Spanish economy since the late 1950s. The role migration is especially important. Mechanization of the countryside led to a rising capital-output ratio. The result was an increase in unemployment; the solution was greater emigration to Northern Europe. In tracking the evolution of finance and growth cycles, Roman takes a Post Keynesian view. The supply of credit is determined by the short-run needs of firms for working capital and medium-term needs to cover the gap between investment and retained earnings. Finally, Roman analyzes Spanish recessions based on the shocks that caused them. In the classical theory that Roman favors, stochastic shocks occur frequently, but they are not the source of fluctuations. Rather, the availability of internal funds and the evolution of profit rates determine the pace of accumulation, which impacts employment, wages, and distribution, giving rise to medium-term endogenous cycles.

The last two chapters (Part Three) evaluate the models presented in Part One. Roman finds empirical support for the Goodwin and Shaikh models, but not for the Minsky and Foley models. The evidence supporting Goodwin takes the form of a plot of the ratio of wage workers employed relative to the total labor force against the labor share. The idea is that when the rate of accumulation rises above the natural growth rate, the demand for labor grows faster than the effective labor supply and unemployment decreases. Under these circumstances, the real wage rate will grow faster than labor productivity, unit labor costs will increase, and the profit share will fall. Then the rate of accumulation will decrease, the demand for labor will decrease, unemployment will increase, the real wage rate will grow below the level of productivity growth, and the profit share will increase. The Shaikh model analyzed in Chapter 10 is different from that in Chapter 2. In the Chapter 10 model profit margins are allowed to change, and these changes drive the transition from one phase to another and impact the dynamics of excess demand, defined as the difference between investment and savings out of profits.

The book reaches several conclusions. First, business savings (i.e., internal funds) have increasingly become the chief source of funding for capital accumulation. Second, firms tailor their investment plans to their internal budgets. In Spain, credit took precedence over internal funds as the main source of accumulation finance only in the second half of the 1970s. Third, the changes due to technological progress lead to a non-linear and unstable growth path. Spain went through a depression from the mid-1970s to the early 1980s, caused by the impact of mechanization on capital-output ratios and profitability. As accumulation plunged, unemployment soared and the wage share declined. Fourth, during the years of depression, large infusions of credit by the banking system did not lift the path of accumulation; it gave a temporary boost that dissipated as the debt was repaid with funds that were no longer available to finance investment. Finally, rising inflation in Spain coincided with stagnating profits, large infusions of bank credit, and a rapid growth in unemployment. This inflation was caused by profits failing to grow as fast as investment.

Overall, this is a very interesting and highly recommended book. It provides a different view of growth and cycles from that provided by neoclassical models, and complements Roman's [1997] previous book on Spain, which investigated the link between technical change and profitability for the growth of capital and labor.

However, the book suffers from three problems. First, the evaluation and testing of the different models is shaky. Statistical analysis is absent in the third part of the book, dedicated to evaluating the theoretical models. Instead, Roman uses a combination of verbal arguments and graphs as his tools in the empirical chapters. This is clearly insufficient. Roman does use regression analysis in the second part of the book. However, his main regressions are misspecified and so his conclusions are dubious.

In Chapter 6, Roman tests whether there is a positive relationship between the unemployment rate ( $u_{pr}$ ) and the capital-labor ratio ( $K/L$ ), and a negative relationship with the growth rate of capital ( $g_k$ ), by estimating the equation  $u_{pr} = f[K/L, g_k, g_k(-1)]$ . The desired signs appear only after an autoregressive process of second order is added. With a similar data set I reproduced this regression. Without the autoregressive terms,  $g_k$  is positive and the Durbin-Watson statistic is close to zero, indicating that the regression is misspecified.

In Chapter 7, Roman tests the proposition that credit supply growth is a positive function of credit demand growth (the sum of private sector wages, investment in plant and equipment as well as residential housing, depreciation, interest payments, taxes and the trade deficit). The problem here is

that the regression contains a first-order autoregressive process and a second-order moving average, and so the results cannot be interpreted as validating the hypothesis tested.

Chapter 8 regresses the capital-output ratio and the labor share on a time trend in order to estimate the trend growth of these two variables. However, the results suffer from the spurious detrending problem. Although the Durbin-Watson statistic is not provided, the graphs indicate the presence of positive autocorrelation. Most likely the variables analyzed contain a unit root. In this case, the trend has to be estimated in a regression of first differences.

A second problem is that the book should have undergone a better editing and review process. Some sections are not clear enough and could have used a good rewriting. Finally, it would have been helpful to provide the data set used by the author in an appendix.

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*Economic Behavior and Distributional Choice: Selected Writings of Harold H. Hochman*. By Harold H. Hochman. Cheltenham, UK & Northampton, MA: Edward Elgar, 2002. 266 pp. \$100.00. ISBN: 1-84064-398-6.

**Donald F. Vitaliano**

*Rensselaer Polytechnic Institute*

The hallmark of Harold Hochman's professional contributions has been his skill in using neoclassical price theory to address urgent and intractable public policy issues, ranging from income distribution, urban decay and over-regulation in New York City, to drug addiction. He works from the premise that sound public policy must be grounded in theory, and that empirics should be guided by that theory. Hochman's distinguished career is brought together in this volume of his collected papers.

Hochman and Rogers' seminal 1969 paper ("Pareto Optimal Redistribution") lays out a compelling case that interdependent utility functions imply that self-interested persons will be prepared to make transfers to those less well off, and that policies aimed at fairness or "social justice" need not be viewed as antagonistic class warfare. The model of economic man is thus consistent with caring and decency. Underlying Hochman's writings is the belief that significant progress on distributional policy can be made without the baggage of interpersonal utility comparisons or resorting to the fiction of a social welfare function, and that economists need not be distributional agnostics.

Nonetheless, much is written nowadays about growing inequality in the market distribution of income and the need to do something about it. But as Hochman and Rogers make clear in their 1977 analysis of the Public Choice of income distribution ("The Simple Politics of Distributional Preference"), the lowest 20 percent of the income distribution cannot enact redistribution by themselves— they need political allies among those who are better off to form a majority coalition. Whether the better off favor helping the poor out of benevolence or because of the negative externalities arising from poverty, Hochman's models suggest that the growth of inequality is potentially self-correcting. Of course, ardent egalitarians are unlikely to be satisfied with purely voluntary redistribution— even if undertaken by government so as to limit free riders.

One of the more interesting aspects of Hochman's work is his development of a taxonomy of utility functions or preferences. Instead of dismissing selfish or self-destructive behavior as minor aberrations, he seeks to identify the shape of the drug addicts' indifference curves (which are both convex and concave); and altruism, generosity and charitableness are defined by different marginal rates of substitution between own and others' income or consumption. Economists would greatly enhance their understanding of individual behavior by carefully reading his papers on this topic.

Hochman was associated with the Urban Institute in the 1970s when urban economics was at the forefront of professional and public policy debate. He also spent 15 years at Baruch College in New York City (as Director of the Center on Government and Business) before becoming a Chaired Professor at Lafayette College. Reading his 1988 essay "Clearing the Regulatory Clutter" should be required

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