MONEY, DISTRIBUTION AND ECONOMIC POLICY, edited by Eckhard Hein and Achim Truger, Edward Elgar, 2007. ISBN: 978 1 84720 063; 272 pages.

Reviewed by Sara Hsu, St. Edwards University

Money, Distribution and Economic Policy is a compilation of perspectives on heterodox economics. The book reads as a collection of essays that seem disjointed at times, but quite useful. There are some excellent insights on the relevance and applications of heterodox theory.

In Chapter One, G.C. Harcourt discusses the Cambridge approach to economics, which held the view that money has a long-run impact. Harcourt writes that the Cambridge school, particularly through Keynes, departed from Marshallian economic theory to integrate the real and monetary features of the economy. This distinguished his followers in the Cambridge school as leaders of theoretical innovation.

Chapter Two, by Sheila Dow, defines new heterodox and orthodox approaches to economics. This is a thought-provoking and apt assessment of changes in heterodox versus orthodox economic theory, and points out new alliances and developments in economic thought. These changes have occurred gradually, unnoticed by many, but have altogether changed the nature of the subject.

In Chapter Three, Trevor Evans, Michael Heine, and Hansjörg Herr present an alternative to the Neoclassical "dream world" that lacks focus on the advance of money for profit purposes. This alternative is heterodox theory, which reflects real world dynamics rather than purely theoretical models. The authors discuss various aspects of the capitalist economy and are successful in pointing out the ways in which money impacts economic production.

In Chapter Four, Jean-Vincent Accoce and Tarik Mouakil present and model a version of the Circuit theory. The theory places money, rather than exchange, at the forefront of the economic system. Using Lavoie and Godley's 2001 growth model, the authors add a government and Central Bank to create a stock-flow consistent model that is tested by increases in the rate of business accumulation, government expenditures, and an increase in Central Bank interest rates. Theirs is an interesting analysis, although it falls short of being a true Circuitist model as described by Poulon (2000) due to the lack of user costs and time elements in the model.

In Chapter Five, Olivier Giovannoni and Alain Parguez build an original model of profits based on the National Income and Product Accounts of the United States. They find that profits are endogenous and mainly affected by consumption, compensation and imports rather than investment, which is contrary to New Consensus theory. This chapter is timely in predicting that a credit crunch in the United States can depress consumption and therefore profits.

Chapter Six, by Stefan Ederer and Engelbert Stockhammer, investigates whether a wage cut in France will stimulate aggregate demand using a Post Keynesian model based on Marglin and Bhaduri (1990). Using empirical data they find that France is wage-led, and that a wage cut will have an adverse effect on demand. However, wage cuts may be compensated, to some degree, by changes in net exports. The policy recommendation is to raise wages in order to increase aggregate demand in order to avoid "beggar thy neighbor" effects among trading partners.

In Chapter Seven, Jesus Ferreiro and Felipe Serrano discuss the application of information problems to heterodox theory through the notions of historical time as well as institutions, and the impact of social relationships on institutions. This is an apt and interesting way of framing uncertainty in Post Keynesian economics.

In Chapter Eight Gustav Horn shows that Germany's structural reforms will have a negative impact on the economy without appropriate economic policies to accompany them. These structural reforms have been aimed at labor market rigidity. The general effect of the theories, using Horn's simulation, is to reduce rather than increase domestic demand. Expansionary macroeconomic policy would offset some of these negative effects to avoid a downturn.

Chapter Nine, by Anthony Laramie and Douglas Mair, constructs an alternative to the Neoclassical theory of the effects of taxation on long-run growth. This model is based on the work of Kalecki, which allows taxation to operate through the level of profits and the rate of depreciation in an EMU member state. The authors find that a rise in profit tax and a fall in income tax can result in no change in the growth rate. This model is a shorter version of their work in another article, and is an appealing look at the growth effects of fiscal policy.

In Chapter Ten, Richard Werner rejects Neoclassical explanations for a slowing German economy. Werner uses the Japanese example of expansionary fiscal policy in the 1990s to show that fiscal expenditure can be directly crowded out, without the need for interest rates to rise, and without the need for full employment. For Germany, a monetary expansion in conjunction with fiscal expansion would boost the lagging economy. Werner shows the cause of the German recession was a lack of credit creation.

Finally, in Chapter Eleven, Eckhard Hein and Achim Truger look at the macroeconomic policy of the US versus the Euro area, with respect to more restrictive monetary, fiscal and wage policies in the Euro area. They find that the Euro area's tendency to focus on low inflation has constrained growth and employment. Policy-makers should raise their inflation target and place more emphasis on the development of real variables, given institutional reforms in the macro policy framework.

Despite the heterogeneity of the chapters, this book provides powerful insights for heterodox economists that have not been previously explored. Most chapters, as outlined above, are highly original and altogether underscore the importance and relevance of heterodox theory as a reflection of the "real world."