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Book Reviews

Editor's Note: Guidelines for Selecting Books to Review

Occasionally, we receive questions regarding the selection of books reviewed in the *Journal of Economic Literature*. A statement of our guidelines for book selection might therefore be useful.

The general purpose of our book reviews is to help keep members of the American Economic Association informed of significant English-language publications in economics research. We also review significant books in related social sciences that might be of special interest to economists. On occasion, we review books that are written for the public at large if these books speak to issues that are of interest to economists. Finally, we review some reports or publications that have significant policy impact. Annotations are published for all books received. However, we receive many more books than we are able to review so choices must be made in selecting books for review.

We try to identify for review scholarly, well-researched books that embody serious and original research on a particular topic. We do not review textbooks. Other things being equal, we avoid volumes of collected papers such as festschriften and conference volumes. Often such volumes pose difficult problems for the reviewer who may find herself having to describe and evaluate many different contributions. Among such volumes, we prefer those on a single, well-defined theme that a typical reviewer may develop in his review.

We avoid volumes that collect previously published papers unless there is some material value added from bringing the papers together. Also, we refrain from reviewing second or revised editions unless the revisions of the original edition are really substantial.

Our policy is not to accept offers to review (and unsolicited reviews of) particular books. Coauthorship of reviews is not forbidden but it is unusual and we ask our invited reviewers to discuss with us first any changes in the authorship or assigned length of a review.

E Macroeconomics and Monetary Economics

The Myth of Independence: How Congress Governs the Federal Reserve. By Sarah Binder and Mark Spindel. Princeton and Oxford: Princeton University Press, 2017. Pp. xiii, 275. $35.00. ISBN 978–0–691–16319–2, cloth.
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1. Overview

An independent central bank has the ability to set monetary policy free of political influence. Over the last forty years, governments around the world have taken steps to make their central banks more independent. Why has this happened? Prior to the high inflation of the 1970s, there was no rigorous explanation for why it was optimal to have an independent central bank. The argument for independence was more intuitive, based on historical experience, that governments had incentives to abuse monetary policy in such a way that high inflation was the outcome of political control of monetary policy. Thus, it was best for society to have the money supply under the control of a nonelected entity. In fact, this is one of the key reasons for giving the Federal Reserve (also referred to here as the Fed) its decentralized structure in 1913— to keep power over monetary policy away from Washington, DC, the political center of the United States. Given its structure and other events that occurred during its history, the Federal Reserve is widely viewed as an independent central bank.

In this book, Binder and Spindel argue that Federal Reserve independence is a charade. Their basic thesis is that Congress and the Fed are "interdependent" institutions. Congress created the Fed so that elected officials could blame it for bad economic performance and avoid public wrath. Furthermore, the more power it puts into the hands of the Federal Reserve, the more credible is the blame. When economic crises occur, Congress can then threaten the Fed's independence as a way of showing the electorate that it will punish the Fed for bad behavior. This creates a cycle of blame and reform—when the economy does well, Congress ignores the Fed, but when an economic crisis hits, Congress blames the Federal Reserve and introduces legislation to reform the Fed, curtail its independence, and demand greater transparency.[1] Thus, based on their analysis, they conclude in the final sentence of the book that "At best, the Federal Reserve earns partial and contingent independence from Congress, and thus, barely any independence at all" (p. 240).

Before delving into a review of the book, I believe it is useful to present a short history of economic thought regarding academic research on central bank independence. This will show how academic research created the theoretical foundations for central bank independence and accountability. This literature was very influential at a critical time in the 1990s when the European Central Bank was being designed, as were the central banks in former Soviet Union countries. This literature addressed the issues of: 1) why it was important to protect the central bank from political interference, 2) how to maintain accountability of the central bank to the electorate, and 3) what the value of transparency regarding policy actions is.

The fundamental flaw of the book is that the authors never provide their definition of independence, so one has to guess what they believe an independent central bank looks like. According to my reading, the authors fail to separate the concepts of *independence* and *accountability.* Thus, in their view, the Fed cannot possibly be independent if it is accountable. In short, the authors are confused, and their confusion leads them to make silly assertions, as the title of the book demonstrates.

2. *A Brief History of Thought on Independence*

The modern emphasis on central bank independence is rooted in the work of Kydland and Prescott (1977), and later popularized by Barro and Gordon (1983a), on the time inconsistency problem of monetary policy. The issue is simple: society wants low inflation and the monetary authority promises to produce low inflation. But when it comes time to generate low inflation, the central bank has incentives (lower unemployment) to surprise private agents by creating unexpected inflation. Since agents are rational and understand this, they expect inflation to be high, not low. In short, the monetary authority's promise to produce low inflation is not credible. Now the monetary authority is trapped—if it creates low inflation, a recession will occur since real wages would be too high. So it chooses to validate private agents inflation expectations. The end result is excessive inflation and no gains in unemployment—a socially inefficient outcome. Presented with this framework, researchers began to think of ways to solve this problem.

There are two critical elements to this problem—the inability to make credible promises and the incentive to renege on promises. Many ways of improving credibility have been examined, including building reputation, adopting monetary-policy rules, appointing a conservative central banker, the use of central bank contracts, and inflation targeting.[2] A key element behind many of these prescriptions, such as appointing

[1] This thesis is not new; several authors have discussed this in previous works. See Kane (1982) and Havrilesky (1995) for examples of how political threats are used to influence monetary policy.

[2] See Barro and Gordon (1983b), Canzoneri (1985), Rogoff (1985), Walsh (1995), and Svensson (1997).

a conservative central banker, is central bank independence.

Regarding the incentives to renege on promises, researchers began to view the government as the source of the incentive problem—elected government officials may want to create inflation to gain an electoral advantage by lowering unemployment. This creates a principal–agent problem—the electorate wants low inflation, but elected officials have an incentive to deviate from promises to deliver low inflation. One solution to this problem is to take monetary policy away from elected officials and give it to a nonelected central bank. A critical element to ensure this independence is to give the central bank budget autonomy to avoid political influence by the "power of the purse."

Election motivations also opened the door to thinking about partisan conflict as a problem for monetary policy. Heterogeneous groups make the institutional design of the central bank more complicated since it requires political compromise over monetary policy. This conflict is often phrased as inflation hawks versus doves—a distinction the authors use quite often in this book. Research showed that partisan conflict was best dealt with by appointing an independent *committee* to set policy, whose members' terms of office are staggered and long, but finite. Independence acts as a check on a political party when it regains power—it cannot immediately enact its favored policies. The timing of appointments also matters since more partisan central bankers would be appointed right after an election, as opposed to right before.[3] The upshot is that central bank independence is critical to ensure good economic performance, and to deal with partisan conflict.

Although an independent central bank is optimal, it still needs to be accountable to society. One way to do this is for society to choose the economic goals of the central bank, but then let the central bank choose the instruments and policies to meet those goals.[4] Research on central bank contracts and inflation targeting are examples from the literature that exemplify this approach. Research on policy committees showed that accountability occurs via the appointment process. Since the will of the people is reflected in the choice of the executive and legislative branches, having the executive nominate central bankers with legislative confirmation ensures that central bankers will reflect the current attitudes of the electorate. But due to long terms in office and the inability to fire the central bankers, it takes repeated wins for monetary policy to move sharply in a partisan direction. Furthermore, even though independence is optimal, research showed that in very bad economic events, it was in society's interest to replace the central banker if policies were not changed.[5]

Finally, there was serious work done on central bank transparency. Starting with the rational expectations revolution in the 1970s, economists began to take seriously the idea that "good" monetary policy requires the central bank to clearly communicate its policies and intentions to help private agents avoid making mistakes. Furthermore, a more transparent policy can help solve the time inconsistency policy.[6]

What is the takeaway from this review of the literature? First, the Federal Reserve structure appears to mimic most of the proposals above. Its goals are chosen by Congress, yet it has the freedom to use whatever instruments it needs to achieve those goals. It has independence to set monetary policy, yet it is accountable to the electorate via Congress and presidential appointments. The Fed also has budgetary independence. The Federal Open Market Committee (FOMC) is a large committee composed of members who represent all parts of the country and serve long, overlapping terms. It communicates its policies clearly to the public via press conferences, the Survey of Economic Projections, release of the minutes from the FOMC meeting, and public testimony by the Fed chair to Congress. In short, despite its Byzantine structure, the Fed appears to be a well-designed institution.[7]

The second takeaway is that although this is a large literature, Binder and Spindel appear to

[3] See Waller (1989, 1992, and 2000), Faust (1996), Waller and Walsh (1996), and Bullard and Waller (2004).

[4] See Debelle and Fischer (1994) for more on this point. The authors acknowledge this idea, but then seem to dismiss it.

[5] See Lohmann (1994).

[6] See Svensson (1997).

[7] See Waller (2011) for more on this issue.

have not read any of it. None of the papers discussed above are mentioned in the book. So fifteen-plus years of research on central bank independence and accountability is ignored. That is sad because they could have done a much better job writing this book if they had read more of this literature.

3. *The Myth of Independence*

The book is fairly short and comprises eight chapters. Chapter 1 introduces the idea that politics is a part of monetary policy and is responsible for the Fed's structure. The authors propose "that the transformation of the Federal Reserve into a more powerful and transparent institution stems from a century of political interaction between Congress and the Fed" (p. 27). In chapter 2, the authors offer "tests" of their theory using approval ratings of the Fed and data on legislation regarding the Fed. After that, the book becomes more of a history lesson on the Fed's structure and reforms of its structure. Chapter 3 looks at the founding of the Fed and the partisan conflicts over its structure. Chapter 4 addresses changes to the Federal Reserve Act in the aftermath of the Great Depression. Chapter 5 focuses on what many consider a defining moment for Federal Reserve independence—the Treasury Accord of 1951. Chapter 6 looks at the Volcker war on inflation and proposes that Paul Volcker could not have ended the Great Inflation without the political support of Congress. Chapter 7 breezily discusses Fed policies during the Great Recession and the partisan politics that followed. Chapter 8 concludes.

Chapter 1 introduces their main thesis. Right from the start, it is clear that the authors are confused when it comes to the concept of central bank independence as it is used in the academic literature. On pages 5 and 6, the authors say:

> By defining the Fed as political, we do not mean that the Fed's policy choices are politicized … the Fed is not just another partisan body reflecting the views of the presidents who appoint the Board of Governors in Washington or boards of directors who select the Fed's reserve bank president who then vote on monetary policy. Decision making inside the Fed surely involves technocratic, macroeconomic policy expertise, even within a political organization.

The authors seem to acknowledge immediately that the Fed is an independent policy maker! So what is the point of this book, particularly its title?

On page 6, the authors give their concept of "independence" (without using the word):

> We deem the Fed "political" because successive generations of legislators have made and later remade the Federal Reserve System to reflect temporal, political, and economic priorities … Institutions are political not because they are permeated by partisan decision making but rather because political forces endow them with the power to exercise public authority on behalf of a diverse and at times polarized nation.

This highlights the fundamental flaw in the authors' thesis—being a product of politics means that Fed independence is a myth. On the contrary, I interpret the quote above as saying the Fed is accountable to the electorate and accountability changes over time. Thus, it is appropriate that the Fed's structure be changed over time in a way that reflects society's preferences, and as we better understand how the economy functions. Why should it be otherwise?[8] But to the authors, accountability implies a lack of independence.[9]

Chapter 2 presents evidence to support the authors' claim that there is a cycle of blame. They show that Fed approval ratings are procyclical and that the introduction of legislation affecting the Fed is countercyclical. While the evidence is supportive of their idea that attention to Fed policies varies over the business cycle, it does not show that the Fed changes its policy course as a result. Much of this can be interpreted as the theater of

[8] I think this applies to any organizational structure, public or private. It even applies to the US Constitution, which is viewed as a "living document."

[9] How accountable should the Fed be to Congress? The extremes would be no accountability (the Fed is the fourth branch of government) and no independence (whereby the Fed is just a puppet agency for Congress). It would be very hard to argue that the current degree of accountability is anywhere near these two extremes.

monetary policy—legislators, particularly House Representatives, need to show they did something when they run for reelection. One way to do this is to introduce legislation even though it has no chance of being passed into law. In this sense, we could interpret the increase in legislation during economic downturns as political cheap talk. Furthermore, public and Congressional anger at the Fed comes with the territory when your job is "to take away the punchbowl just as the party is getting started."[10] This chapter also brings up an issue that bothered me throughout the book—the reliance on very weak evidence to support their claims. The phrases "slightly supports" or "has moderate effects" appear numerous times when interpreting empirical evidence.

Chapter 3 is a nice discussion of the politics behind the creation of the Fed and the partisan conflict between east-coast financial center states and agrarian states that led to its decentralized structure. The authors seem to believe that political compromise led to a poor design of the Fed, but what is the alternative? One group gets exactly what it wants and the other gets nothing? That does not sound like a central bank design that would survive long. Furthermore, the authors seem to believe that any institution that is the result of partisan compromise cannot be independent. But as I argued earlier, an independent central bank is exactly what is needed to avoid swings in monetary policy resulting from changes in political power.

This chapter also has an interesting discussion of how reserve bank cities were chosen. The general view is that they were chosen based on financial and commercial needs of the communities. The authors argue that politics played an important role.[11] The authors construct a conditional logit model to predict the likelihood that a city was chosen based on financial and commercial needs. Since the Federal Reserve Act stipulated between eight and twelve reserve banks, they look at the top eight–twelve cities and compare them to the ones that were chosen. Six of the actual reserve bank cities are in the predicted top eight, and seven are in the predicted top twelve. They take the latter as evidence that politics played a role in placing reserve banks in cities rather than financial concerns. However, the authors ignore the fact that many of the predicted cities received a branch bank (Baltimore, Pittsburgh, New Orleans, and Denver), which tended to have substantial economic importance early in the Fed's history. So I find this a weak thread to claim that politics drove the selection of reserve cities. Even the location of two banks in Missouri has been shown by Wheelock (2015) to be driven mainly by economic concerns, rather than political, contrary to the claims of the authors.

Chapter 4 focuses on the reforms of the Fed in the 1930s that are well known. The authors show how political influence over the Fed shifted to the White House and Treasury. I found this to be a very interesting political account of Fed reforms and the politics behind the reforms. The reforms of the Fed during the Great Depression are consistent with the authors' main thesis of a cycle of blame. Furthermore, the independence of the Fed was diminished greatly since the Treasury exerted a tremendous amount of power over it, which lasted until the accord. However, two parts of the authors' history narrative are damning to their main thesis. The first is that Congress did nothing to the Fed for over four years after the onset of the Great Depression. Reforms were not introduced until the Democrats took unified control of the government in 1933. Why did the Republican-controlled Congress of 1928–32 not behave as the authors predict? Why did they not engage in the blame game, especially to protect themselves from backlash in the 1932 elections? The authors argue that inaction was the result of the "Republicans' ideological commitment to fiscal austerity and letting weak firms fail" (p. 92). So, is the authors' thesis only applicable when Democrats are in control of Congress? I find this episode to be very damaging to their thesis—if it does not hold for the worst economic crisis in US history, when should it?

Second, the authors make it very clear that many of the changes to the Fed's structure were not the result of demands from Congress. Rather, they were enacted to satisfy Marriner Eccles. Eccles was at the Treasury when Franklin

[10] Martin, William McChesney Jr. (October 19, 1955). Address before the New York Group of the Investment Bankers Association of America.

[11] While I find this an interesting idea, it is not clear what it implies for the independence of monetary policy.

Delano Roosevelt asked him to become the Fed chair. He accepted, conditional on a complete overhaul of the Federal Reserve Bank structure. Most of his demands were enacted in 1935.[12] Note that Eccles was not elected; he was a Treasury bureaucrat. Eccles wanted these changes because he felt "the public–private balance of the original act had become 'unbalanced': private interests dominated decision making by the Fed and its reserve banks" (p. 114). I interpret this to mean that Eccles did not think the Fed was sufficiently accountable to the electorate. He was not engaging in a political blame game. Thus, the most dramatic changes in the Fed structure arose not from a blame game, but rather from the view that the Fed needed more accountability.

Chapter 5 mainly focuses on the 1951 accord. The accord gave control of monetary policy back to the Fed and ended years of interest-rate pegging by the Treasury to lower debt-servicing costs. Most economic historians view this as a key event in establishing Fed independence. The authors claim the opposite: "The 1951 Accord did not create an independent central bank. Instead … the Accord unwound the Fed's Treasury dependence and reaffirmed its dependence on the legislature" (p. 125).

Let's think about this statement for a minute. Prior to the accord, the Treasury had control of the main monetary policy instrument—setting interest rates. The accord gave instrument control back to the Fed and ended executive branch interference in the setting of monetary policy. For the authors' statement to be valid, Congress must have taken control of interest-rate policy. It did not do so in 1951, or in the years that followed. As a result, the Fed has instrument independence to this day. So what are they talking about? Their argument is that the accord would never have happened without the support of Congress. I am sympathetic to this point, but it does not lead to the conclusion that the accord simply transferred dependence from the executive to the legislative branch. This is just another example of how the authors use a very different concept of independence than economists.

Chapter 6 deals with the Great Inflation and Volcker's actions to kill it. In the academic literature, this episode is viewed as a critical moment in establishing Fed credibility. In the 1970s under Arthur Burns, the Fed pinballed back and forth between fighting unemployment and inflation. Any announcements that it would end inflation lacked credibility. By carrying out his promise to end the Great Inflation, Volcker established Fed credibility as an inflation fighter. The deep recession that followed his policy actions led to tremendous political pressure to stop. Yet Volcker did not yield to the pressure, further establishing the Fed's independence.

This narrative is challenged by the authors. Their view is that "The Volcker Fed remained deeply dependent on strong support from within the political system … Once signals of political support weakened with the onset of a deep recession in 1982, Volcker eased policy to stimulate the economy. We find moderate evidence for the … hypothesis."

The authors appear to be confusing correlation with causation. The Consumer Price Index inflation rate peaked at 13.5 percent (at an annualized rate) in 1980 and fell below 4 percent by the end of 1983. Meanwhile, unemployment rose from around 6 percent to over 10 percent. So by the end of 1982, inflation had been beaten and unemployment was now the problem. By any standard economic model of monetary policy, it was appropriate to start lowering the Fed funds rate in 1982. The Fed took policy actions that were consistent with the incoming data; simultaneously political pressure rose because unemployment was high. In my view, political criticism was correlated with Fed policy but did not cause it. The authors argue the reverse, yet only provide anecdotal information to support their claim. My question to the authors is this: if the Fed had been truly independent in your eyes, what course of action should it have taken given the incoming data? Should the Fed have continued on a very restrictive policy path contrary to the data?[13] If they could provide

[12] One of his demands was to have the reserve banks stripped of their voting rights on the FOMC. Carter Glass prevented this from happening. Was his intention to ensure that Congress could blame the reserve banks for policy decisions in economic crises? It seems unlikely.

[13] Taylor (1999) argues that the Volcker Fed kept interest rates too high relative to versions of the Taylor

evidence of this I would be more sympathetic to their argument.

Chapter 7 looks at the Great Recession. The authors do a cursory job of reviewing the history of that period, which is fine. Their takeaway is that the Dodd–Frank bill fits their story of blame and reform. That is fine, but most of the reforms were regulatory and dealt with lender-of-last-resort issues. There is still substantial controversy over asset purchases and the blurring of monetary and fiscal policy. However, nothing has changed regarding instrument independence or the setting of day-to-day monetary policy. There have been lots of legislative threats against the Fed in the last decade (as the authors show in chapter 2), but very little has actually been done to limit the Fed's instrument independence.

4. Summary

While this book is an interesting read, the authors interpret accountability of the Fed to Congress as a lack of independence. The large academic literature on central bank independence always emphasized the importance of accountability of the central bank to society in some fashion. Independence matters in the ability to conduct monetary policy free of political interference, and the Fed clearly has that, as the authors themselves acknowledge in the opening chapter.

So what are we to make of this book? I get the sense that the authors woke up in 2009 and realized the Fed was not the fourth branch of the US government. This is forgivable since during the Greenspan era this became a common perception, especially near the end of his reign. Politicians were worried about challenging the Fed prior to the Great Recession. As the authors demonstrate in chapter 2, there were very few bills introduced affecting the structure of the Fed during the Greenspan era, whereas they rose dramatically after the Great Recession. Some of this may have been due to political influences; Alan Greenspan was renowned for his political connections in Washington, DC, whereas Ben Bernanke and Janet Yellen were effectively political outsiders. One can only speculate how things would have played out if Greenspan had been head of the Fed in the aftermath of the Great Recession—would his political savvy and reputation have muted Congressional ire at the Fed?

In conclusion, "The Myth of Independence" is a catchy title, much more than "The Fed is Accountable to Congress." But the intellectual support for the title of this book is woefully absent.

rule. Yet he does not view this as a policy mistake since the Fed needed to establish its credibility.

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Central Banks and Gold: How Tokyo, London, and New York Shaped the Modern World. By Simon James Bytheway and Mark Metzler. Cornell Studies in Money. Ithaca and London: Cornell University Press, 2016. Pp. xvii, 240. $39.95. ISBN 978–1–5017–0494–9, cloth.

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Central Banks and Gold provides a global financial history for the period from the late 1890s to the early 1930s. Its subtitle, *How Tokyo, London, and New York Shaped the Modern World*, reveals its uniqueness. To the canonical, oft-told history that has London and New York as principals, Simon Bytheway and Mark Metzler pay attention to Tokyo. They seek to show the antecedents of Japan's rise in the 1980s to the world stage, arguing that as early as 1896, "Japanese money played a surprising and significant role in London itself. In the 1910s, Japanese financial authorities were already working to establish Tokyo as an international credit center" (p. xii). In 1917, Junnosuke Inoue, soon to become governor of the Bank of Japan, aspired to turn Tokyo into the "London of the East" (p. 51).

Chapter 1 (covering 1895–1914) opens with the Japanese victory in the Sino–Japanese War of 1894–95, and the resulting huge indemnity that the Bank of Japan received at the Bank of England. Japan's Minister of Finance, Masayoshi Matsukata, insisted that the Chinese indemnity be paid in pounds sterling, directly convertible into gold. These funds then became the overseas reserve when Japan in 1897 adopted the gold standard. The end to the Sino–Japanese War had another important consequence. Japan was able to rid itself of the unequal treaties first with England and then with other European countries. Its customs sovereignty was restored.

The impact of the large indemnity obligation for China was dire. It needed to finance the indemnity and its debt soared. By contrast, for Japan it was a windfall. Japan's foreign exchange bank, the Yokohama Specie Bank, tried to set up an account at the Bank of England; it was refused. Instead, the Bank of Japan (Japan's central bank) was permitted to open an account, actually two accounts, which totaled, on June 1, 1896, almost £20 million or the equivalent of 53 percent of the Bank of England's entire gold reserve. Bytheway and Metzler found that Japan's balance was significantly higher than the value of all the other British bank balances at the Bank of England at that time. By December 1, 1896, the sums were smaller, but they equaled roughly 60 percent of the Bank of England's reserves.

1902 saw the Anglo–Japanese Military Alliance. In 1904 and 1905, Japan had to finance its war with Russia and turned to London (and New York) to borrow. Using Bank of England records, Bytheway and Metzler trace the Bank of Japan/Bank of England connections, arguing that (in 1906–07), the Bank of Japan's overseas specie reserves were serving to reinforce the global preeminence of the pound sterling. The Bank of England "made especially active use of Bank of Japan's London funds during 1906 and 1907" (p. 23). At the same time, from 1900 to 1913, Japan was the largest foreign government borrower in London capital markets, accounting for more than 20 percent of London's loan issues for foreign governments. Bytheway and Metzler make a convincing case for the rising importance of Tokyo in British capital markets and the beginnings of central bank cooperation.

The United States did not set up the equivalent of a central bank until 1913/1914, with the start of the Federal Reserve System. In their Tokyo–New York prewar discussion, Bytheway and Metzler might have added a segment on the role of the Yokohama Specie Bank, which as early as 1880 (the year it was founded) established an agency in New York (Wilkins 1989, 1990).

When the Federal Reserve System came into being on the eve of the outbreak of World War I in Europe, although the Federal Reserve Board was in Washington, DC, from the start the Federal Reserve Bank of New York (FRBNY) played a preeminent role in the system's ongoing international involvements. Bytheway and Metzler show the close personal relationships during the 1920s between Benjamin Strong, who headed the FRBNY (1914–28), and Montagu Norman, who led the Bank of England (1920–44). This resulted in central bank cooperation. Where did Tokyo fit into that story line?

With the Anglo–Japanese Military Alliance, at the advent of World War I Japan entered on the side of the Allied Powers (the United States did not become a combatant until April 1917). Japan immediately moved to take over German concessions in China. Japan also embarked on substantial lending to its wartime allies; while the amounts were small in comparison with US lending, they were "great in Japan's experience" (p. 57). Its erstwhile enemy, Russia, borrowed from Japan and purchased military supplies from the lender. Russia also ceded to its Japanese creditor the Chang-chin Sungari branch line of its Chinese Eastern Railway, enhancing Japanese expansion in China. Both the United States and Japan, which had been debtor nations in world accounts, would emerge from World War I as creditor nations (in the Japanese case, that position was short lived, as Bytheway and Metzler would explain).

In June 1917, after US entry into the war, Strong sent a message to the Bank of Japan representative in New York, indicating that the FRBNY had developed relationships with the British and French central banks and suggested similar ones with the Bank of Japan, arrangements that took place in a formal manner on January 9, 1918. The war ended November 11, 1918. World War I had profound economic and political consequences, and although Bytheway and Metzler focus on London, New York, and Japan, they make clear the war's disruption, as well as the effects of the Russian revolution, new nations on the European continent, German defeat, French financial responses, and the changed conditions in the East.

During the war years, both Britain and Japan had abandoned the gold standard, as had most countries. The United States had introduced a gold embargo on September 7, 1917, and less than two years later, June 26, 1919, had removed it. In 1919, the United States was nearly alone in its being on the gold standard, albeit both Britain and Japan (as well as other countries) planned to return to a gold-backed currency, with fixed exchange rates, as rapidly as possible. In most financial circles, the prewar gold standard was considered highly desirable, a cornerstone of financial responsibility.

The immediate aftermath of World War I saw new inflationary pressures. Norman, Strong, and Inoue were convinced that the central bankers' role should be to carry forth deflationary policies, raising interest rates. If Britain and Japan were to return to a gold (or to a gold exchange) standard at the prewar parity, deflation was necessary. In the move to gold, there arose conflicts with policies of national treasuries that sought to keep interest rates low to help in refinancing war debts. The central bankers won out (pp. 74–5).

In the Spring of 1920, there were visits to Japan by three of "Wall Street's top bankers," major actors in shaping US international financial policies as the United States assumed a newly significant role in the world economy. Strong was there in May 1920 (ostensibly to recover from an illness). So, too, Thomas W. Lamont of J.P. Morgan & Co. was feted by the Japanese, as was Frank A. Vanderlip, just dismissed from leadership of National City Bank for his role in miscalculating Russian (now Soviet) responsibility for its debt obligations; the Japanese had made similar mistakes. Lamont also visited China, but found business there out of the question, given political and economic conditions. Moreover, he recognized Inoue's (Japanese) interests in the East.

The 1920 Japanese visits of Strong, Lamont, and Vanderlip coincided with the commodity and financial market crash in Osaka and Tokyo, ending the wartime boom. The bankers had left Japan by the time of the devastating earthquake of 1923. Japan's borrowings mounted. Japan was no longer a creditor nation. For Japan, the plan to return rapidly to the gold standard was put on hold. Thus, when in 1925, Britain resumed the gold standard (actually the gold exchange standard), and many other nations followed suit, Japan could not yet take that step—that is until 1930, when under Anglo-American encouragement, it too returned to gold (at the prewar parity). Inoue, who had served as governor of the Bank of Japan, was minister of finance in 1929, when he worked with Lamont (Strong had died in October 1928) to return Japan in January 1930 to the gold standard, which in Bytheway and Metzler's words, induced "the deflationary crisis that helped bring down Japan's liberal order" (p. 84). Bytheway and Metzler added, "Inoue's restoration of the gold standard was afterward universally understood as a disaster" (p. 72).

With gold rapidly leaving Britain, the country was forced to abandon the gold standard, effective September 19, 1931; Japan would go off gold December 13, 1931. On September 19, 1931, Japan began its invasion of Manchuria. As for the United States, it kept on gold until after Franklin Delano Roosevelt took office (Herbert Hoover had remained convinced that the gold standard was the key to financial integrity, economic prosperity, and stability).

All during the 1920s, there had been close cooperation between Strong and Norman, and that cooperation had included Inoue. Bytheway and Metzler document the impact of gold flows and the policy responses. The book contains new data on how the gold price was set in the period when Britain was not on the gold standard and the role of the British Rothschilds in that endeavor. In 1930, the Bank for International Settlements (BIS) came into existence with the goal of promoting cooperation of central banks. It was an international bank of banks. At origin, the parastatal Industrial Bank of Japan and Yokohama Specie Bank were shareholders, standing in for the Bank of Japan. Japan was "the single country [participating in BIS's start] not belonging to the circle of racially European and religiously Christian powers" (p. 149). Bytheway and Metzler conclude their study in the early 1930s, with the Great Depression.

Bytheway and Metzler's volume stimulates its readers to look more closely at the activities of central banks, the patterns of gold flows, and in particular, Japan's participation in the shaping the world economy and business activities in the East, during the first third of the twentieth century. The book casts new light on the exceptional role of Japan. The authors are persuasive in their argument that to understand and to evaluate today's world economy, today's financial globalization, it is imperative to include the important activities of the Japanese central bank and Japanese gold flows not only in contemporary times but in the period from 1896 to the start of the 1930s.

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F International Economics

Gaining Currency: The Rise of the Renminbi. By Eswar S. Prasad. Oxford and New York: Oxford University Press, 2017. Pp. xviii, 321. $29.95, cloth. ISBN 978–0–19–063105–5, cloth; 978–0–19–063107–9, EPUB. *JEL 2017–0536*

China is a rising giant. While Chinese GDP made up 10 percent of US GDP in 1980, the IMF projects a rise to 80 percent by 2022. The economic historian Robert Fogel sees China's GDP per capita hitting $85,000 by 2040, with the share in global GDP (40 percent) dwarfing the US (14 percent). As in the past the world's political and economic hegemons also provided the leading international currency, the front flap of the book announces the renminbi (RMB) to take the world by storm, like the mogul Kublai Khan conquered China.

Eswar S. Prasads' book *Gaining Currency: The Rise of the Renminbi* explores to what extent the outstanding growth of China's real economy is reflected by an ascent of the renminbi as international currency. The book has ten chapters and two appendices. Because the international status of a currency is influenced by a broad range of path-dependent macroeconomic, regulatory, and political decisions, Prasad discusses (inter alia) capital account liberalization, exchange rate policy, financial market liberalization, and political developments. This makes the book a valuable read for everybody who is interested in China.

The book starts with the history of paper money in China, going back to the Tang dynasty (618–907) when certificates of deposits were issued for coins and goods left as collateral. In the Yuan dynasty (1279–1369), Kublai Khan amazed Marco Polo with the first fiat currency (made of bark of mulberry trees). To ensure the purchasing power, those refusing to accept the currency as a means of payment were executed. In 1948, the Communist Party founded the Peoples Bank of China, which has since issued the renminbi. The international interest in the renminbi started in 1994, when China abolished exchange controls on current-account transactions and unified the exchange rate at a hard peg to the dollar to fulfill the IMF's Article VIII requirements on current account convertibility.

The book explains why a stable currency and its convertibility have been crucial for the outstanding export and growth performance of the Chinese economy. Profound information about capital account liberalization, the emergence of onshore and offshore currency markets and on the changing directions of international capital flows are provided. Capital account liberalization is acknowledged to have been "selective and calibrated" (p. 69) to promote the international presence of the renminbi "without risking the potential deleterious effects of complete capital account liberalization" (p. 69). Full capital account liberalization is seen to be a clear goal for Chinese authorities which, however, keeps being postponed until the foreseeable future.

The chapter on Chinese exchange rate policy is footed on US claims of "currency manipulation" and "China rigging rules." After having stressed the stabilizing role of the Chinese dollar peg during the Asian crisis, the author describes the moves to a gradual appreciation path (2004–14, interrupted during the global financial crisis). Since 2014, the renminbi is shown to depreciate erratically, accompanied by nebulous official statements about the exchange rate regime. The tremendous accumulation of foreign reserves from 2000 to 2014 is mainly attributed to China's WTO accession (rather than hot money inflows). The loss of foreign reserves since 2014 is rooted in the capital account opening (rather than capital flight).

In two chapters on the internationalization of the renminbi, the author traces China's gradualist approach, with Hong Kong's financial markets being used as a foot in the door to international financial markets. The role of the renminbi for trade settlement as well as the emergence of dim sum and panda bonds are explained. Despite substantial achievements, the role of the renminbi in international financial markets is shown to remain modest, in particular in comparison to the dollar. A picture of the Peoples Bank of China's governor Zhou with Christine Lagarde praises the prestigious inclusion of the renminbi into the IMF's special drawing rights currency basket. It is revealed, however, that this event is state led, rather than being the result of market forces, with uncertain benefits for the international role of the renminbi.

Finally, the chapters with the titles "The Mirage of Safety" and "House of Cards?" show that China is far from one core prerequisite for the internationalization of its currency, i.e., the domestic and international liberalization of capital markets. Trade misinvoicing, over-indebted enterprises, overinvestment financed via a state-controlled banking sector, a huge shadow banking sector with high risks and stock markets, which are doomed to serve the goals of the omnipotent communist party. All these factors suggest that "the notion that the RMB will become a dominant global reserve currency that rivals the dollar is far-fetched" (p. 245).

Prasad provides a vast array of information on the Chinese currency, which confirms him as leading expert in this field. His oeuvre is a must read for everybody who is interested in the contemporary Chinese economy, as it identifies the institutional setting of the currency as core factor for China's economic development. It illustrates that the international faith of the renminbi is strongly linked to the willingness of the communist party to allow for further economic and political liberalization. With president Xi becoming the most powerful Chinese leader since Mao, seizing more control over the Chinese people and enterprises, China is moving in the opposite direction. This will render all official attempts to transform the renminbi into a true international currency into a vain endeavor.

One limitation of the book is the missing theoretical framework concerning the interaction of underdeveloped capital markets and exchange rate stabilization. The faith of the renminbi to become a true international currency is strongly intertwined with underdeveloped capital markets and the foreign currency denomination of its international assets and liabilities under the umbrella of the unloved dollar standard (McKinnon 2013). Missing tools to hedge foreign exchange risk remain an important impediment to float the exchange rate.

In addition, the modest rise and very likely failure of the renminbi as international currency—or even as leading regional currency—remain strongly contingent on the US monetary policy. The low interest rate policies in the United States since the bursting of the dotcom bubble and the resulting hot-money inflows into China have led to an externally imposed financial repression and a misallocation of resources, which are heralding the fading of the Chinese growth miracle including the international faith of the renminbi.

If China's macroeconomic interaction with the United States and the link between capital market development and exchange rate stabilization would be incorporated into a future edition of the book, it could ascend to a leading position in the literature on the Chinese currency.

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Creativity without Law: Challenging the Assumptions of Intellectual Property. Edited by Kate Darling and Aaron Perzanowski. New York: New York University Press, 2017. Pp. vi, 280. ISBN 978–1–4798–4193–6, cloth; 978–1–4798–5624–4, pbk. *JEL 2017–1539*

This volume of papers documents creative activity in a wide range of products for which the use of legally enforced intellectual property (IP) protection is either not possible, or is rejected in favor of alternative forms of protection. The key issue addressed is how these markets deal with the problem of information appropriation in order to restrict outright copying and protect original works for their creators. In some areas, the alternative system relies on social norms, in others it depends on market-based responses. Most researchers in the field of IP would acknowledge that the present systems of protection (patents, copyright, etc.) are not always optimal for a given sector of the economy. Here we are invited to learn about a variety of nonlegal incentives for creativity that may usefully replace legal protection and may even provide a basis for modifying public policy regarding IP.

The innovative product markets covered in the volume range across a broad list of goods and services, beginning with Part I: Cuisine and Curatives, containing analysis of protection of chef's recipes, cocktail mixes, and medical procedures, moving on to Part II: Countercultural Communities, covering tattoos, street art, and roller derby team names, and ending with Part III: Content Creators, examining fan fiction, internet pornography, and Nollywood (Nigerian Cinema).

In part 1, the common theme is that these arts are unable to use formal IP and have developed various alternatives. Top chef's recipes are protected by social norms, whereby voluntary recipe sharing occurs only between individuals who trust each other to credit their recipe sources and not to pass on information to others. Those who break these norms are punished by lowered reputations and denying them access in future. This system mimics trade secrecy to some extent, although penalties are not enforced through the legal system and a barter system replaces licensing.

In the field of medical procedures, which are largely excluded from patentability worldwide, what has developed is a community of user innovators, who share information about new procedures that they have developed for their own patients. The innovator's gains arise from feedbacks allowing refinement of their procedures, parallel information exchanges with other practitioners, and enhanced reputation. If these gains are sufficient to sustain optimal rates of innovation, then society also benefits by avoiding the deadweight losses that would occur with patents and licensing.

In part II the chapters explore industries where available IP protection is available in the abstract via copyright (tattoos, graffiti) or trademarks (roller derby names), but these systems have been displaced by complex social norms or industry-provided self-regulation. This is not too surprising in the field of graffiti, where elements of illegality arise when permission to paint private property has not been sought. For tattoo artists, other complications arose in that their work was in some places and times banned and in response, they developed a close-knit community. In addition, their art reaches the wider public via someone else's body, which cannot be owned by the artist.

In respect of three cultural content industries discussed in part III, their responses to unauthorized copying include safeguards built into their online platforms (fan fiction) as well as some reinvention of business models, to include interactive services packaged with film products (adult entertainment) or reliance on speed and lead time with remakes and multiple sequels (Nollywood).

Questions that in this reviewer's opinion are neglected include the following:

- How many of these case studies relate to activities that society as a whole wants to encourage? If there is no significant ongoing increase in overall social welfare from their creation then a lack of IP protection is entirely appropriate and an alternative system of protection is also undesirable. It is not sufficient to condone an alternative system of protection merely because it serves the interests of the producer community.
- Even if the products or services are valuable in the wider sense, does each of these creative markets require protection? For the award of patents, we require innovations to be novel and nonobvious. This preserves the ideas from the economic theory of patents that lengthy protection is welfare improving where the costs of invention are high, and when the innovation is not a close substitute for products already in the market place. These characteristics define the areas that would otherwise suffer the most significant market failure due to an undersupply of innovations.
- Where protection is justified, do these models replicate the information disclosure function of the IP system? To get a patent or to claim copyright requires disclosure, but some of the alternatives appear closer to trade secrets, a system which does not place information in the public domain.

Thus, these basic elements of the process of stimulating "enough" innovation should be more firmly examined in analyzing some of the markets described in this book. For example, given the myriad of highly substitutable food and drink recipes, would society be demonstratively poorer with fewer of each? Given the pervasiveness of adult entertainment, should society be concerned that copyright infringement has been made possible by the Internet to the detriment of some producers?

This volume expands our understanding of organic systems of protection designed to preserve incentives for innovation in IP's negative spaces. It will be useful reading in law and economics courses to expand student's ideas about possible options for IP protection outside of the law. The volume will undoubtedly provoke much debate, stimulate new research, and give rise to some interesting future conferences.

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O Economic Development, Innovation, Technological Change, and Growth

The Economy of Ghana Sixty Years after Independence. Edited by Ernest Aryeetey and Ravi Kanbur. Oxford and New York: Oxford University Press, 2017. Pp. xx, 415. £60.00. ISBN 978–0–19–875343–8, cloth.

JEL 2017–1601

I am very happy to review this book about the economy of Ghana on its sixtieth anniversary of independence. Ghana is an interesting case for economic development. In this one country one can find very good examples of most of the topics one would teach in an economic development class. The country's economic development experience is also interesting in its own right. Ghana was the first African nation to get its independence in the wave of independence from European colonialism in the 1950s and beyond. Riding a post-independence wave of euphoria, Ghana became the country to watch. The country had many well-wishers early on. The US Peace Corps, for example, started in Ghana. Its independence leader embarked on very radical programs to industrialize the country and to catch up to the rest of the world following what was perceived as decades of neglect by the colonial rulers. The greats of development economics—Albert O. Hirshman, Nicholas Kaldor, Arthur Lewis, among others—all descended upon Ghana in the early 1960s to expound their theories and, to this day, a large number of development academics and writers study Ghana or use it for examples.

This book by Ernest Aryeetey and Ravi Kanbur is a compilation of papers that discusses different aspects of the economy of Ghana during its post-independence period. The book is divided into four sections, the first of which is an overview of the thematic issues. The first chapter of this section goes into some of the history of the country, reaching back into the pre-independence period. It mentions Gordon Guggisberg, the British colonial governor from 1919 to 1927, who was an old-style colonial development planner—the British were big state planners before the African leaders did the same. Guggisberg is a hero to many and had some achievements to his credit (a primary and secondary school—Achimota—which became the nation's first university, the Takoradi port, and a hospital—Korle Bu).

This first section has a very lovely piece by Kanbur on the Nobel Laureate Arthur Lewis, considered by many to be the father of modern development economics. Lewis won the Nobel Prize in 1979, years after being appointed economic advisor to Ghana, getting expelled, and then having his theories molded by his Ghana experiences. The work of Lewis is seeing a resurgence in interest today. There is a lot of work on structural transformation of economies, especially in relation to agriculture and industrialization, and indeed Lewis's work has become the "bible" on the topic. Like the Christian bible, it is often misquoted. Often, one hears of Lewis as talking about the surplus labor in agriculture. In reality, African labor is relatively expensive, as land is so abundant that it is hard to find the labor to work on that land. One also hears of Lewis claiming that agriculture should be subservient to industry; on the contrary, as Kanbur quotes, Lewis instead argued that, "If agriculture is stagnant, industry cannot grow . . . ." Kanbur's paper also tells the story of Lewis as a great scholar who got his hands dirty with real-life policy work. He had to grapple with the super-ambitious politician and Ghana's first President, Kwame Nkrumah. I particularly like a comment made by Nkrumah to his then-advisor Lewis, "The advice you have given me […] is essentially from the economic point of view, and I have told you […] that I cannot always follow this advice as I am a politician and must gamble on the future." This chapter is also important for pointing out that of most of the development profession in the 1960s agreed with the state interventionist policies of the Ghanaian government at that time.

In the same section is a paper on property and freedom, which is interesting in part because it reminds us of some old debates which seem to have completely disappeared in today's economic development conversations—state control of land and property, restrictions on economic freedom, and the paramountcy of the state. This piece reminds us of the bad, old, confused days of the 1960s, and again early 1980s, when scientific socialism and Marxism was discussed and often became state policy—in Ghana and in many newly independent African nations. There was a time when debates on economic development could not proceed without a discussion of how foreigners owned everything and there was exploitation of the masses and foreign ownership of everything. Today, the exact opposite seems to be the case. Governments and their donors from international institutions are now begging foreigners to come in, own everything, and exploit the country, couching this in terms like private–public partnerships with tax forgiveness, etc. The important role of the chiefs and traditional authorities, often backed by the state, in this process is highlighted in this chapter. This is extremely important, although often overlooked in the narrative of economic development of Ghana over the years.

Ghana is a proud nation always trying to do big things. Its independence leader Nkrumah epitomized this ambition, seeking to industrialize Ghana as rapidly as possible—too rapidly according to many of his political opponents. There was, for example, the World Bank aided Volta Aluminum Company hydroelectric plant and the associated Akosombo Dam, which created the world's largest man-made lake and still contributes to Ghana's power grid today. The industrialization process was through import substitution—looking at the shopping list of Ghana's imports and using the government to establish industries to produce those imports (items like soap, leather shoes, canned foods, etc.). All this was in the early 1960s.

These ambitions caused major economic difficulties at home. The second section of the book is a collection of papers focusing on Ghana's macroeconomic and financial journey since independence. These papers record the economic difficulties with numbers. Some papers in this section are a litany of statistics—growth rates, money supply figures, etc.—that finance ministers and development officials like to list off in speeches. The other chapters discuss Ghana's fiscal, monetary, financial, and trade policies. All the figures are there, and all the numbers and growth rates are competently recorded. The chapter on exchange rates and trade as well as the chapter on banking do a good job of spelling out the main issues in these areas.

Part III of the book is a collection of papers on what the book refers to as sectoral perspectives. Following Lewis's dictum on the importance of agriculture mentioned earlier, this section begins with a chapter by Fred Mawunyo Dzanku and Christopher Udry on agriculture. That chapter, delightfully organized by eras of governance in Ghana's post-independence history, paints a somewhat sobering picture of erratic government policy in the sector together with continued poverty and lack of irrigation and enhanced productivity, which to this day, continues to account for a significant percentage (around 40 percent) of employment. Chapter 11 is on industrial policy and includes a very nice paper by Nkechi S. Owoo and John Page, which will doubtlessly become popular among policy makers. The paper eschews the numerous tables and instead tells us what the past was, and what could be the future of probably the most important question for the economy: industrialization and diversification. This general question of industrialization or firm formation is further studied by William F. Steel in chapter 12 through the prism of formal and informal enterprises, focusing on their role in employment creation.

A major export of Ghana is gold. This, alongside cocoa and small quantities of other minerals, accounts for a huge fraction of Ghana's exports. In this sense, Ghana, for a long time, has been the quintessential undiversified developing economy—a handful of commodities account for almost all of the exports. Chapter 16 discusses the minuscule impact which gold has on the rest of the economy.

Mining is central in the larger discussion of management of the environment. Some communities in Ghana literally sit on top of gold reefs. The lack of regulation is also a problem, as unlicensed miners dig under houses to get at the gold, often resulting in collapsed buildings. The mercury and other chemicals used in extracting the gold from the dirt in turn poisons rivers. This small-scale unlicensed and poorly regulated mining also has attracted a large number of Chinese immigrants into the country. Mining is also associated with deforestation, which in turn results in scarcity of water in some areas. Chapter 15, by Daniel K. Twerefou and K. A. Tutu, and chapter 16 by Gavin and Abigail Hilson, examine these and other issues related to the environment in general, and mining in particular.

The last few decades have seen the return of progress and the confidence of Ghanaians. The democracy has been enduring, the streets are peaceful, and people are expecting rapid economic progress. When the Nobel Peace Laureate and economist Ellen Johnson Sirleaf became President of Liberia about a decade ago, she made her long-term economic goal for her country to be that of reaching the level of attained by Ghana (Cooper 2017).

A surprising development in Ghana about a decade ago was the discovery of oil. This raised high hopes in the country and added to the general mood of optimism. On the other hand, some warned that the advent of oil could do more harm than good, particularly through the Dutch disease and other ailments. Nigeria was often mentioned as a cautionary tale. Almost never mentioned was the fact that despite the huge expectations for oil, the reserves discovered were relatively small, and situated offshore. Furthermore, from the time that Ghana discovered oil, foreign-aid receipts began to fall almost one-to-one with the introduction of the oil. Unfortunately, politicians didn't explain this to the electorate, and increased government spending and higher national debt followed. In the paper by Augustin Kwasi Fosu, there is a discussion of the impact and management of oil on Ghana's economy. The paper goes through institutions created to reduce the probability of Dutch disease problems and a review of governance metrics over the period of the oil production is also provided.

The independence leaders, when imagining the issues that would face the nation sixty years in the future, may not have predicted the rapid population growth and resultant urbanization of the country. They would not have predicted the difficulty government is facing in providing the basic infrastructure for the booming population, most visibly in the urban areas. Urbanization is addressed by George Owusu and Paul W. K. Yankson's chapter, followed immediately by a chapter by Edward Nketiah-Amponsah and Patricia Woedem Aidam on the question of infrastructure. Politicians, of course, love infrastructure projects—Nkrumah's fans in Ghana like chanting the list of projects he is associated with (the modern road called the "Tema Motorway," the Tema industrial city and port, and the Akosombo dam). Today, the story of infrastructure is closely associated with investments by China in that sector. This chapter makes mention of China's involvement in revamping Ghana's railway infrastructure. When discussing population growth, one must also mention the youth and their large numbers. There is a demographic dividend that could be potentially reaped. Emmanuel A. Codjoe studies this topic.

The fourth and last section discusses human development issues: health, education, gender, and youth. In volumes like the this one by Aryeetey and Kanbur, human development and education always seem to show up at the very end of the volume, with macro and finance almost always at the beginning. Perhaps this is because there is so much of an implicit faith in governments to do everything despite the glaring evidence to the contrary? Or, is it because of the relative importance of central banks, the IMF and World Bank, and their issues? (Are they the funders of these volumes?) If one believes that it is from educated healthy people that innovation and growth (and even state capacity of the government itself—at least the good noncorrupt kind) come, then we would have an argument for reversing the order of the chapters in volumes like these.

Education is essential to the long-run growth of the country, and it is important to understand issues around this. When I think of the cause of the recent political stability of Ghana and relative increase in prosperity relative to early post-independence years, education immediately comes to mind. There are simply many more educated people around now than in the 1960s, or even 1980s. This has had a tremendous, although hard to measure, impact in my view on state capacity and governance in general. The chapter by Kwabena Gyimah-Brempong takes on the question of education. The paper examines the reasons why measured returns to education in Ghana have not reached the expected levels, and suggests a need for institutional reforms to fully leverage the power of education in the development of Ghana. Importantly, this chapter also identifies the Ghanaian diaspora as a major potential source of funding for the national education system. Remittances have recently received some attention in the literature. The large emigration of the highly skilled could be an explanation of the low returns to education mentioned in this chapter. The measured returns often only include Ghanaians in Ghana who have benefited from the education system. With some 50 percent of all tertiary educated Ghanaians living abroad as of 2010, earning relatively very high salaries can easily, for example, explain the returns to tertiary education (see Nyarko 2016). The physical return of diaspora—those who come back to Ghana with their new skills and dynamism—as well as the remittances of those abroad, is also an understudied reason for the recent prosperity of the country. By some estimates, the impact of this exceeds that of foreign aid and possibly even the oil exports.

The last two chapters of the book take on the question of health. I am glad the National Health Insurance Scheme (NHIS) made it into the book. The NHIS is Ghana's "Obamacare." It was a great innovation in Ghana and is rare in Africa. After a very promising beginning it, unfortunately, looks as if the NHIS is being allowed to fail.

In conclusion, this book covers all the main areas of the economy of Ghana. I am happy to have it on my bookshelf. I know I will reference it often. In my opinion, it is best used in the context of being a set of field examples for the basic economic development question—generating growth and progress in a small developing nation. Of course, for those caring only about the economy of Ghana, the book also provides ample material.

Some topics, for better or for worse, do not get much attention in this volume. There is little work on foreign aid here, despite the fact that many papers in the academic literature focus on this. Foreign aid also captures a huge amount of the attention of governments. There are many vocal opponents of foreign aid—my NYU colleague William Easterly has authored numerous publications and books questioning the effectiveness of foreign aid in generating economic growth.

China is a major player today affecting many aspects of the economy, and this is very minimally covered in the volume. There is little comparative work in the volume. There have been many debates about Ghana relative to Singapore, the Republic of Korea, and Taiwan. The argument is often made that although these countries were at the same GDP per capita levels as Ghana in the 1960s, they now have a GDP per capita around ten times higher or more.

Despite this, the volume covers a majority of the key topics in economic development, each written in a different style. After reading the book, one is still left with the question of what the next decade holds for Ghana. What will the Ghana at seventy volume look like? How different will it be from today, or from the perspective of Ghana at sixty? In judging economies, one often hears of the opening sentence of Tolstoy's *Anna Karenina*, "All happy families are alike; each unhappy family is unhappy in its own way." As I think of economic development, it may be the opposite. The bad or unhappy economic experiences, particularly in Africa, all seem to have similar features. These include many of the topics in this volume: macro-mismanagement and government overspending; currency overvaluation; mining as enclaves; low state capacity in dealing with problems like urbanization, education and health; etc. As regards what will make countries progress, I think each nation is different. Ghana will have its own unique path of rapid economic development. How that will shape out over the next decade, we do not know. We will have to wait for the Ghana at seventy volume, and hopefully it will be a good story.

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Inequality and Growth: Patterns and Policy. Volume II. *Regions and Regularities*. Edited by Kaushik Basu and Joseph E. Stiglitz. International Economic Association Conference Volume no. 156–II. New York: Springer Nature, Palgrave Macmillan, 2016. Pp. xxix, 282. $165.00, cloth. ISBN 978–1–137–55457–4, cloth; 978–1–137–55458–1, pbk.; 978–1–137–55460–4, EPUB; 978–1–137–55459–8, EPDF. *JEL 2017–1202*

This valuable and timely collection results from an International Economics Association gathering in Dead Sea, Jordan, in 2014, supported by the World Bank, in order to discuss frontier topics in the theory and empirics of inequality and growth. The sixteen papers in the two volumes—with the respective comments in the IEA tradition—are all interesting, but unfortunately too many to review here. I thus focus on the keynote paper by Joseph Stiglitz, which set the agenda, and four contributions that best develop its theme.

A creative seventy-page paper by Stiglitz ("New Theoretical Perspectives on the Distribution of Income and Wealth among Individuals"), which opens volume I, starts by updating Nicholas Kaldor's familiar set of "stylized facts" for contemporary advanced economies, characterized by growing inequality in both wages and capital income, a rising income–wealth ratio, stagnant wages despite rising productivity, and no decline in the return-to-capital. The dynamics of wealth become Stiglitz's key variable, represented analytically by land values, but also applicable to intellectual property and—importantly—market power itself. Saving from wages takes the conventional life-cycle provision for retirement, but accumulation from profits and rents is for present power and future heirs and thus essentially unconstrained. Financial wealth increases with the support of monetary policy and banking structures, leading to endogenous asset bubbles and collapses. Continually increasing inequality is an inevitable consequence of this accumulation of wealth, as opposed to capital in the familiar textbook models. Stiglitz concludes that the only solution is "a tax on rents (that) can raise revenue, not only incentivizing more productive investment, but also ensuring that more of society's scarce savings go into such productive investments, thereby enhancing growth and reducing inequality" (p. 51).

The issue of whether inequality can be effectively tackled by fiscal means as Stiglitz suggests is addressed by Michele Battisti and Joseph Zeira ("The Effects of Fiscal Redistribution," chapter 7 in volume I) in a careful empirical exploration of the effect of government size (G/Y) and fiscal incidence (defined as the difference between the household income Ginis before and after taxes and transfers) using the new World Income Inequality Database at Harvard, which reconciles often inconsistent data allowing for source quality. They find that, in fact, the inequality of *market* incomes (i.e., pretax/transfer) is quite similar, and that "the large differences we observe are due mainly to differences in fiscal policy across countries" (p. 216). The extent of redistribution is, in turn, closely related to the size of the state itself, as might be expected. Battisti and Zeira imply that tax and welfare reform (rather than labor productivity) is the key to reducing inequality as Stiglitz suggests.

In contrast to Stiglitz's essentially deductive method, José Gabriel Palma ("Do Nations Just Get the Inequality They Deserve? The 'Palma Ratio' Re-examined," chapter 2 in volume II) takes a robustly inductive approach. He makes an important empirical observation as to the stability over space and time of the measured income share of the middle half of households (deciles two through six) which varies only within the 35–40 percent range. In marked contrast, differences in the ratio of the income share of the top 10 percent to that of the remaining bottom 40 percent account for most of observed variance in Gini's across countries. Palma argues that this is due to the delinking of wages from productivity through social structures and specifically the ability of the elite to manage the economy to their advantage—an ability which varies between countries and decades and thus contextualizes the Stiglitz model. Palma correctly points out that this means that the variations in human capital (e.g., education) are only relevant in determining distribution *within* these middle classes. However, he pays little attention to fiscal redistribution, which is unfortunate not only empirically because the household income data he uses are net of taxes and transfers, but also analytically because elite control over the budget, when combined with the familiar "median voter" ability to ensure broad fiscal neutrality for the middle classes, means that much of his observed inequality variance may in fact be fiscal in origin as Battisti and Zeira point out.

Jonathan Ostry ("Inequality and the Fragility of Growth," chapter 4 in volume II) contributes an innovative conceptual and empirical insight to the extent and direction of the relationship between growth and distribution. He explores the "fragility" of GDP growth—measured as the duration of growth episodes rather than their intensity—and how this duration relates to household income distribution. After careful specification in order to sort out directions of causality, he concludes that "the main finding is that equality seems to drive more sustainable growth." Rather than the familiar argument about human capital formation in the endogenous growth literature, Ostry's original use of growth fragility would seem to speak to Stiglitz's arguments about the importance of the social contract in underpinning sustainable economic growth and—by extension—the unsustainable consequences of continued unequalizing wealth accumulation.

Nora Lustig, Luis Lopez-Calva, and Eduardo Ortiz-Juarez in "Deconstructing the Decline in Inequality in Latin America" (chapter 7 in volume II) address the causes of the much debated decline in household income inequality in this region during the early twentieth century. The careful empirical work by Lustig and her colleagues has made a major contribution to the resolution of the puzzle of whether this decline is driven by reduced inequality of "market" incomes or increased progressive government transfers—that is, by economic change or government policy. They find that the former is dominant and mainly due to changes in labor income—specifically the decline in the skill premium and in effect the returns to secondary education. The authors believe that this may be due to an increase in skilled labor supply driving down its return (the Tinbergen conjecture); which contrasts sharply with both the Stiglitz model and the Palma empirics discussed above; but unfortunately overlooks the macroeconomic effects of the commodity cycle on both wages and employment.

In sum, this is a valuable collection not only for development economists but for all those interested in the classical issues of political economy. At the analytical level, the papers underline the need for macroeconomic models to make wealth and rents much more explicit; and imply a need for microeconomics to shift from an almost exclusive focus on the household and to return to the analysis of the large firm, and thus profits and property. At the empirical level, these findings imply that agencies such as the World Bank should shift the focus of inequality measurement from households to the economy as a whole; which in turn implies supporting full implementation of the UN System of National Accounts with its corresponding "institutional accounts" which map functional (i.e., "market") onto household income via fiscal redistribution to provide the social accounting matrix needed to test Stiglitz's challenging model. An agenda of more than academic significance.

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P Economic Systems

Liberalism and the Welfare State: Economists and Arguments for the Welfare State. Edited by Roger E. Backhouse, Bradley W. Bateman, Tamotsu Nishizawa, and Dieter Plehwe. Oxford and New York: Oxford University Press, 2017. Pp. vi, 250. $74.00. ISBN 978–0–19–067668–1, cloth. *JEL 2017–1626*

In November 1942, *Social Insurance and Allied Services* (the Beveridge Report) was released and recommended a course of government actions that would tackle the problems that plagued Britain: want, disease, ignorance, squalor, and idleness. A raucous political debate ensued, but the intellectual climate of opinion throughout Western democratic countries was decidedly aligned with the report. It was now simply assumed that the public sector had the responsibility of providing social insurance, and ultimately working toward the eradication of the social ills: freedom from want; freedom from disease; freedom from ignorance, squalor, and idleness.

The Beveridge Report was the embodiment of the transition from the classical liberal public philosophy of the night watchman state to the new liberal public philosophy of the activist state. The volume under review tells this story through a set of detailed examinations of the intellectual history of the public policy experiments in the United Kingdom, Germany, and Japan (see pp. 14–19 for a list of all the social policy initiatives in these three countries starting in the sixteenth century). But the discussion quickly moves from the transition from classical liberalism to new liberalism to the rise of neoliberalism. Here things get more disjointed because some of the contributions demonstrate an intimate relationship between new liberalism and neoliberalism, and others want to suggest neoliberalism is some sort of insidious force in the modern age, and that classical liberalism and new liberalism were actually intellectually aligned.

Like any collection of essays, this volume suffers the fate of uneven contributions. Personally, I thought the introduction by Roger Backhouse, Bradley Bateman, and Tamotsu Nishizawa, the chapter on the British welfare state by George Peden, and the chapter on ordoliberalism by Harald Hagemann were the most well-done chapters, while the chapter by Dieter Plehwe on neoliberalism, thinktanks and the crisis was the worst chapter.[1] The other chapters fill in important information about Japanese intellectual and policy history, the role of business economists in the conversation over public policy in post–World War II Britain, the evolution of the German social market economy, and the intellectual history of international federalism. Other chapters address more contemporary developments such as new labor in Britain, postcommunism in Germany, and Japan in the 2000s. But the critical contribution I would suggest is in discussing the evolution of ideas in the UK debate with Lionel Robbins and F. A. Hayek on the one side, and William Beveridge and J. M. Keynes on the other, and the discussion of ordoliberalism and the ideas of Walter Eucken and Ludwig Erhard. There is much to learn in these pages and in tracking down the references.

If one is able to leave aside the constant invoking of some vague neoliberal conspiracy to rule the world for the benefit of a few at the expense of the many, the volume has much to offer. But even if one does that, there remains two glaring omissions: (1) there is no discussion of US policy history, and (2) there is no sustained discussion of the empirical evidence on the effectiveness of welfare policies on the populations that are targeted and the overall economic performance in the different countries being discussed. It is almost as if the book wants to leave the impression that Milton Friedman didn't couch his argument in public policy about whether the worst off were being made better off by activist policies, or that the tragic outcome was that despite best efforts and commitment of resources, the public policies chosen to alleviate the problems of poverty, ignorance, and squalor were not working. The sort of arguments put forth in works such as Murray's *Losing Ground* (1984) that studied social policy in the US between 1950–80 just are not engaged. In fact, one needs to look very hard to find any mention of inflation rates, unemployment rates, economic growth rates, or any measure of economic well-being that would normally be consulted in discussions of impact of public policy on economic performance. Yet, it doesn't seem too far a stretch to insist that one cannot really debate these issues unless the historical record of the policies in practice is discussed and whether or not they achieved the stated objectives or were plagued by unintended and undesirable consequences. It seems very strange to this reader to pass any assessment on the ideas of say Hayek, Friedman, and James Buchanan without looking at the empirical context of public policies that were pursued to fulfill the intent of the Beveridge Report. Hayek's knowledge problem argument, Friedman's incentive-alignment argument, and Buchanan's public-choice argument were all developed in part as responses to the lived reality of the failure of government planning, and the frustration with efforts to manage the economic system to eradicate social ills and orchestrate economic growth and development.

[1] In the interest of full disclosure, readers should know that I am the current President of the Mont Pelerin Society (MPS) (2016–2018), and I have been involved with groups such as Institute for Economic Affairs (IEA) and Atlas Economic Research Foundation, as well as MPS throughout my entire professional career. I just don't actually recognize in Plehwe's rendering the world that I have inhabited, and yes I was one of the speakers at the MPS special meeting in New York City and the Atlas discussion after the Crisis. But MPS is a debate club, and Atlas is a policy analysis shop. Political maneuvering and policy implementation just simply is outside the capabilities of these organizations, and never were the actual purpose of the organization. And the description of neoliberalism and the neoliberal thought collective just isn't factual history, but fanciful conjecture perhaps fueled by conspiracy conjectures, not even rising to the level of conspiracy theory. So the introduction of this style of reasoning mars this volume from a scholarly point of view, and reinforces the impression of weak analytical examination and an absence of serious empirical examination of the issues related to welfare policies that permeate the volume. The MPS adoption of Chatham House rules was so that the debate inside the meetings would be free wheeling and uncensored, not to cloak the group in secrecy, and throughout its history the written papers for the meetings often are published. For example, my paper from the New York meeting was published Boettke (2010). In Plehwe's chapter, there is no discussion of the contending perspectives debated from well-known economists such as Harold Demsetz, Axel Leijonhufvud, and Edmund Phelps, let alone is any of the data analysis pertinent to the crisis by Anna Schwartz or John Taylor discussed.

But this narrative isn't what emerges from these pages.

Unfortunately, much of *Liberalism and the Welfare State* is content to restate the different positions of the respective sides (sometimes merely the stated goals, with no discussion of the steps suggested to achieve or the costs associated) and how they found a hearing for their position in the political–historical context of the countries studied, *but not the policy history itself*. Taking the UK as an example, one might get the impression from reading this book that Margaret Thatcher rose to power merely by accident, and not as a counter-reaction to the economic malaise that had set into the British economy in the 1970s. There is neither any discussion of double-digit inflation in the mid-to-late 1970s, nor double-digit unemployment in the early 1980s, not to mention negative economic growth rates during the late 1970s that can be found in the book. So as I was reading the conclusion, I couldn't help but think about the role that basic economic facts play in this analysis, particularly with regard to the performance of public policies: there exists little to none. Instead, as stated in the conclusion, the point is to make sure: "For those who are concerned about both the history and the field of economics, it is most important not to equate economics with liberalism or neoliberalism *tout court*, and hence to avoid the essentialism implied in talking about the power of economic ideas without specifying what kind of ideas these are" (p. 215).

That is all well and good, but it would be wise in discussing the "clash of economic ideas," to use the phraseology of White (2012), to consider the political and economic power involved in the deliberations and the empirical context in which the clash is played out. Rhetorically, it is not at all clear how much intellectual progress can be made when the conclusion also states that Hayek is viewed as a "pretend" liberal. This is another reason why the Hagermann paper on ordoliberalism and the German social market economy stood out to me as one of the strongest in the volume, because it is the most nuanced, and the least caught up in the sort of ham-fisted neoliberal narrative that gets peddled, in particularly by Plehwe. It is just good solid scholarship.

Although I have been overly negative in my review, let me end with reasons to recommend this volume to readers. First, the topic is of great interest. The effort to address the problems of poverty, ignorance and squalor in the twentieth century in Western democratic states is fascinating and the various experiments and the debates around them must be studied in depth. The evolution of economic ideas in the twentieth century takes place against this historical background. As pointed out in this volume, if you read John Stuart Mill, Alfred Marshall, and Arthur Cecil Pigou, the idea that economists were hard hearted in their perception of the least advantaged simply cannot be maintained. Economists from Adam Smith forward possessed a soft heart, but hopefully a hard head, so that they could think through and propose steps that would be effective. It was always about "do good" and not merely "feel good" public policies. Or as Pigou often stressed, economists were committed to the idea that economics could "bear fruit" in terms of social policy. It is a significant error to equate the hard-headed critique of proposed policy remedies such as those offered by Hayek, Friedman, and Buchanan, with hard hearts. It is rather the opposite. Like their predecessors in liberalism, they not only expressed great concern for the least advantaged and the maintenance of a democratic society, but also they voiced their concern that the steps taken by the new liberals were both harming the least advantaged rather than helping, and in the process distorting the operation of a democratic governance rather than improving it. The argument that classical liberals put forth in their academic work and in their work as public intellectuals was a dual one that the transformation in the policy space in the twentieth century would have detrimental effects on the economic system *and* the political system. They could be right or wrong in their analysis, but their analysis is not a consequence of a cold or hard heart. In fact, the critique they offered was because they shared with others the soft heart concern with the poor and the sentiments of spreading the democratic ideal of basic human equality and citizens as "one another's equal." But they differed in their assessment of the consequences of the policies advocated and followed by governments from 1950–80. The analysis of Hayek, Friedman, and Buchanan was a critique of the effectiveness of chosen means in satisfying desired ends. I certainly hope that this work spurs not so much additional research on the neoliberal thought collective that is marred in my opinion by this "hermeneutics of suspicion," but instead critical scholarship on the diversity of the liberal project, the institutional infrastructure of liberalism, the appropriate scale and scope of government action, and an examination of the consequences for human well-being of alternative courses of public policy on social questions.

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Z Other Special Topics

The Economics of American Art: Issues, Artists and Market Institutions. By Robert B. Ekelund Jr., John D. Jackson, and Robert D. Tollison. Oxford and New York: Oxford University Press, 2017. Pp. xv, 368. $74.00, cloth. ISBN 978–0–19–065789–5, cloth; 978–0–19–065790–1, uPUB. *JEL 2017–1711*

The stated goal of *The Economics of American Art: Issues, Artists and Market Institutions* is to ask if "economics has anything to contribute to our understanding of one of the greatest human activities beyond what long-standing art historical investigations have created" (p. 5). In answering this question, the three authors, esteemed professors of economics, have succeeded. Economics has much to offer our understanding of art markets, with respect to institutions, labor, and ultimately market efficiency, all well-trodden themes in discussions of the economics of the arts. This book is extremely relevant and a welcome addition to the growing literature on the economics of art markets.

In eight chapters spanning 368 pages the authors build on the specific literature in the field and extend their own previous work, revisit, and conduct additional empirical analysis specific to a sample of American art auction sales. Combined with thought-provoking discussion, the authors reach a formidable and passionate conclusion, presenting their stance on how the American market for art is evolving. The authors' commanding knowledge of the literature and avid understanding of the inner workings of the art market attests to a lifetime of experience as economists. Sadly, Professor Robert D. Tollison, to whom the book is jointly dedicated, passed away during the publication stage.

The unifying starting point is the book's focus on American art. By extending the empirical studies of others, and their own previous work, with data on auction sales from a sample of thirty-three early American and forty-seven contemporary (highly successful, predominately male, and well represented American) artists, the data provide a consistent source for referral throughout the book whilst discussing a number of economic issues. These data are introduced in chapter 2, accompanying an introduction to the economic market for American art.

Students of American art history and economics will most definitely find this book rich in empirical detail, particularly the historical evolution of the market for American art, the discussion on the derivation of European influences and how the politics of the postwar era led to the shaping of the contemporary art market as we know it today. Economists will find intriguing aspects of productivity, innovation, and creativity, and the subsequent discussion abating around whether age or marketing is related to productivity.

It is a refreshing approach to revisit specific topics using the extended empirical studies in the subsequent chapters 3 to 5, and in chapter 7. In chapter 3, the authors discuss the relation between age and productivity/creativity and the seminal work by Professor David Galenson on this theme. Using their additional dataset comprising these eighty American artists, the authors argue that technology and the evolution of market forces explain these value/age profiles.

The authors are careful to point out that central to the book is the theme of credence, experience, and expertise. Patterns are changing and creativity is related to "market conditions, human capital, marketing, and expert opinion" (p. 103). A number of recent gender-related papers provide evidence that there is an institutional distinction across male and female artists (see, Bocart, Gertsberg, and Pownall 2017; Cameron, Goetzmann, and Nozari 2017; and Adams et al. 2017). In the book an important distinction between the institutional development of the modern and the contemporary market is made. Central to their thesis is the market shift to encourage younger talent and a preference for undiscovered fresh items.

The consequences of this finding are drawn out with much more passion in the final chapter, where the book really comes to its own. Bringing together the ideas of the individual chapters and providing a holistic discussion of the implications on the development of the American art market, and what differentiates the contemporary art market in the United States from the market for modern art.

In a similar-styled approach in chapter 4, the authors discuss the contribution of auction house expertise, the bias surrounding the provision of experts' price estimates, and the influence of raising buyer's premiums on auction house revenue—providing intriguing evidence of the detrimental effect that such institutional practises have on auction house revenue. It is interesting that Sotheby's announced that it was raising buyer's premiums in August of 2017 along with disappointing income results (Spero 2017). Whilst the removal of buyer's premiums in the online market is likely to create more revenue for auction houses (in line with the industry findings of Pownall 2017b, Petterson 2017, and McAndrew 2017). The reputational advantage of prestigious auction houses and leading galleries and their relatively inefficient behavior are powerfully argued to have shaped the contemporary American art market. Overall, economics has much to contribute to understanding these institutional and market forces.

The ramifications on prices resulting from the structural difference between the two American art markets under discussion becomes clearer in chapter 5, which highlights the substantially higher returns from contemporary art than of that accruing in the market for modern American art, which on accounting for transaction costs result in a negative real rate of return.

Particularly illuminating is the discussion in chapter 6, on issues surrounding the illicit art trade, the prevalence of fakes, fraud, and theft. The authors predict that theft of art will remain the third most highly valued crime on a global basis, only after money laundering and drug crime. Posited in an economic context, the contribution from rational economics of weighing the marginal benefit from illegal activity in the art market against the marginal cost of that activity renders activity in the use of art to launder money, and to use in exchange for goods and services on the black market, at a suboptimal equilibrium level, with currently little incentive in the market for American art to eradicate such illicit behavior.

Discussion of a potential bubble is provided in chapter 7 together with an empirical analysis of the impact of an artists' death on subsequent auction prices. The apparent link is made between the death effect of artists and economic bubbles, reconsidering Ronald Coase's explanation for a death effect. Again using evidence from the contemporary sample of American artists (for which the authors' sample contains, at their own admission, only a few "hot" artists) the innovative character of the contemporary market along with widespread and growing affluence results in a rational bubble in contemporary art prices. Whilst there was no evidence of the bubble bursting at the time of writing, with the number of billionaire and millionaire collectors, as well as global inequality in wealth on the rise, it may be rather indicative of a structural shift that the auction prices of many American contemporary artists dropped substantially during 2017 (Pownall 2017a).

Revisiting a range of topics, including the influence on prices from an artist's death, if experts' auction estimates are fair or biased (and if this is even more the case for Masterpieces), and how the probability of sale is influenced by being put up at auction and not getting sold, provide the core from which the authors are able to argue how economics has much to contribute to the development of the American art market. This is powerfully expressed in the final chapter, chapter 8, which brings the points made in the book to the overarching standpoint that the "evolution of the American art market has followed the paths of methods of marketing in capitalist institutions" (p. 256).

Readers will glean an interesting perspective to the evolution of the American art market, although they may wish to avoid the statistical analysis. Undoubtedly the student untrained in statistics can enjoy the complete narrative descriptions of the research findings. Experts and connoisseurs of art will enjoy the application of economic theories and thinkings as compliments to cultural, social, and historical studies of art.

As with any good book, the twist is in the tail. Here, the reader is enlightened and may be struck by the consequences of economic forces at play in the institutions surrounding the American market for art.

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