MODERN MACROECONOMICS: ITS ORIGINS, DEVELOPMENT, AND CURRENT STATE. BY BRIAN SNOWDON AND HOWARD R. VANE. NORTHAMPTON, MASS.: EDWARD ELGAR, 2005.

Brian Snowdon and Howard R. Vane's *Modern Macroeconomics* is a description of each of the different major schools of thought relating to macroeconomic stabilization policy. The book had originally been intended to become the second edition of Snowdon et al. (1994), but the rewriting of the text became so extensive that the authors instead decided to publish it as an entirely new work (p. xiv). Although the book also covers economic growth theory and political macroeconomics, most of the text is about what has been called "the warring schools of macroeconomics" (Samuelson and Nordhaus 2004, chap. 33).

The book distinguishes seven different schools of macroeconomic thought: orthodox Keynesianism, orthodox monetarism, the New Classical School, real business cycle theory, new Keynesianism, Post Keynesianism, and the Austrian School. As the authors themselves acknowledge, their classification differs slightly from some of those made by other scholars (e.g., Phelps 1990), but it should not prove to be particularly controversial. Each school of thought receives one chapter, and most chapters conclude with an interview by the authors with a leading representative of the school (e.g., Milton Friedman on orthodox monetarism, Robert E. Lucas, Jr. on the New Classical School, Edward Prescott on real business cycle theory, N. Gregory Mankiw on new Keynesianism). The chapters on Post Keynesianism and on Austrian economics do not include such interviews, because they have been contributed by leading scholars of those schools (Paul Davidson and Roger W. Garrison, respectively) rather than by Snowdon and Vane.

What becomes clear upon reading through the chapters on stabilization policy is that after all these many years, the essence of the debate is still about the efficacy of government intervention (pp. 7–8). Keynesians argue that government can and therefore should intervene to correct what they consider deficiencies in the free-market system. Classical economists, on the other hand, believe that even to the extent that such deficiencies exist, it is not clear that government can and therefore should attempt to rectify them. Thus presented, Austrian economics would fit in the "classical" category. This is not to deny that there are, of course, substantive differences between Austrian and classical economics, just as there are critical differences between, say, the monetarist analysis of the business cycle and that by real business cycle theorists. But although different schools of thought within each of the two main groupings make different arguments to support their case, to some degree they nonetheless arrive at roughly similar macroeconomic policy recommendations.

THE QUARTERLY JOURNAL OF AUSTRIAN ECONOMICS VOL. 9, NO. 1 (SPRING 2006): 83–88

In addition to the chapters on stabilization, there is one chapter on "the new political macroeconomics" and one on macroeconomic growth theory. The chapter on political macroeconomics, which examines the impact of the political context on the macroeconomic policy-making process, feels somewhat out of sequence with the rest of the book. Although the treatment is thorough, the literature associated with the public-choice research program receives scant attention (approximately half a page in a 62-page chapter). This is perhaps odd if for no other reason than that public choice theory was recognized by the Nobel Memorial Committee in the awarding of its 1986 economics prize to James M. Buchanan for his contributions in this field. Considering the length of the present volume (712 pages of text plus 100 pages of bibliography and indices), it would perhaps have been better to have published this chapter as a separate book that included more material on the public choice literature.

The authors point out that in the long run, economic growth has a much greater impact on living standards than do most attempts at stabilization policy (pp. 32–33). The fact that stabilization nonetheless receives the bulk of the attention in the book reflects the current state of orthodox economic science. But if the authors are correct, the proportion of space devoted to stabilization vs. growth may well be reversed in future editions. The core of the chapter on economic growth, the longest in the book, is a discussion of three types of growth models (Harrod-Domar, Solow-Swan, and Romer-Lucas's endogenous growth models). In spite of the thorough treatment and extensive references, for some reason the well-known contributions by Ramsey (1928) and Phelps (1961) to growth theory are not mentioned in the text of the chapter.

The main overall contribution of the book is the diligence and fairness of its presentation of each of the different macroeconomic schools of thought of stabilization policy. The treatment is so exhaustive that unless you have some degree of familiarity with the subject matter, it may be easy to lose the forest for the trees (e.g., in the 30-page description of all the different new-Keynesian explanations for wage and price rigidity, pp. 366–96). But the contributions of each school of thought have been nicely summed up and assessed by the authors at the end of each chapter. In addition, the final chapter presents six remarkably detailed propositions about which the authors believe there is a consensus that, although perhaps not quite "unanimous," is nonetheless "widespread" among mainstream economists (pp. 703–05). In terms of presenting a comprehensive overview of the history and current state of macroeconomic thought, the book is outstanding and deserving of the accolades it has received.

As a reader you are afforded the opportunity to make up your own mind regarding the merits of each of the different schools, in the unlikely event you are coming to this text as an agnostic. Representatives of several different schools clearly receive their due. Although the authors exhibit Keynesian leanings, the influence of Milton Friedman's contributions, particularly of Friedman and Schwartz (1963) and of Friedman (1968), is heralded without qualification (pp. 165, 175). So is that of Robert E. Lucas, Jr. (pp. 220–21). A minor point of criticism would be that Friedman (1962) is missing from the discussion on central bank independence, which furthermore is oddly broken into two different sections in the book (pp. 257–62 and 549–54). Perhaps as a result, both sections lack focus: the pros and cons of different institutional monetary arrangements (automatic commodity standard, independent monetary authority, rules enacted by the legislature) could have been presented much more sharply.

The book contains an extensive bibliography, spanning 83 pages with more than 1,300 entries. Perhaps an obvious omission is David Ricardo's *On the Principles of Political Economy and Taxation*. Of course, this work was first published in 1817, or prior to Keynes's *General Theory* (1936), which the authors take as their starting point for macroeconomics. But most other pre-Keynesian works in the historical canon of economics (e.g., Adam Smith's *Wealth of Nations*, John Stuart Mill's *Principles of Political Economy*, Alfred Marshall's *Principles of Economics*) have all been included. Ricardo also does not appear in either the author index or subject index, although he is mentioned in the main text in several places. The subject index, incidentally, is somewhat brief. For example, the book discusses Friedman's time lags that contribute to the inefficacy of fiscal stabilization policy, but these lags do not show up in the subject index. The word interest, to randomly pick another one, also does not appear in the subject index.

Notably, the book includes a chapter on Austrian economics, written by Professor Roger W. Garrison. There are advantages to the chapter having been written by a representative of the Austrian School rather than by Snowdon and Vane themselves. The description of Austrian economics is as fair and accurate as any Austrian could hope for. Indeed, throughout the entire volume not a disparaging word is said about Austrian economics, or it would have to be the label "radical" (p. 698), which is equally applied to Post Keynesianism. Indeed, it is to the authors' credit to have recognized the merits of Austrian economics in the first place with the allocation of an entire chapter. Still, there are limitations that arise from the Austrian chapter being presented as a stand-alone entity written by a separate author.

Throughout the rest of the book, there are many instances where different schools of thought are compared and contrasted, but the Austrian viewpoint is usually not included in these comparisons. For example, the debate about the neutrality of money is discussed in several chapters, but nowhere is mentioned the Austrian view that money is not neutral because "changes in the quantity of money can never affect the prices of all goods and services at the same time and to the same extent" (Mises 1998, p. 396). The book contains a very good explanation of the Lucas critique (pp. 264–67) of the practice of macroeconometric modeling, namely that it tends to fail to account for parametric changes following changes in government policy. It would have been instructive to at least mention in this context the reasons for the Austrian aversion to mathematical modeling of the economy. Elsewhere (p. 174), the authors discuss the common ground between orthodox Keynesianism and Milton Friedman's monetarism. They conclude that "[a]lthough orthodox monetarism presented itself as an alternative to the standard Keynesian model, it did not constitute a radical theoretical challenge to it" (p. 357). This discussion would have been more complete if the Austrian case in that regard (e.g., Garrison, 1992) had been included.

The book frequently brings up the debate as to whether macroeconomics requires microeconomic foundations. Austrians would argue that it is a selling point that their macroeconomic theories are indeed based on a foundation of microeconomics, and that the split between micro- and macro- in orthodox economics is arguably meaningless and indicative of its shortcomings (cf. Horwitz 2000). But, although relevant, there is no mention of this in the text outside of Professor Garrison's chapter.

There are other examples of the lack of integration of Austrian economics in the main text. Friedrich von Hayek is acknowledged as an influence on the New Classical School's early emphasis on information and expectations (p. 223). But the point

is not developed, and the reader is left guessing to which of Hayek's publications the authors are referring.

As a final example, it would have been helpful to see the Austrian view on growth debated in the chapter on economic growth theory. The Austrian view that growth is not a maximand, that instead growth should merely reflect economic agents' intertemporal preferences as expressed in their consumption and saving decisions (p. 482), would appear to be highly controversial to orthodox economics.

As the authors themselves point out (p. 5), intense academic debate is conducive to arriving at truth. For this reason alone, it would have been appropriate if the Austrian School had been engaged in debate more fully throughout the text. Roger Garrison's chapter, mirroring the approach of his pathbreaking work *Time and Money* (2001), does just that, but his propositions go unanswered. Considering the authors' fair and reasonable treatment of each of the other different schools of thought, it would have been interesting to hear their assessment of the Austrian School.

For all their fairness and impartiality, the authors exhibit clear Keynesian leanings. As noted, they take Keynes instead of Smith as their starting point. If economics began with Smith, macroeconomics began with Keynes (pp. xv, 32; p. 698 claims that there is "no dissent" about this). But although the influence of Keynes on macroeconomic theory is universally recognized even by Austrians, in a volume such as this it would have been appropriate to have included more about the historical development of economics prior to the 1930s, not all of which was strictly about price theory, or what would subsequently come to be called microeconomics. Certainly Austrians such as Mises (1912), Hayek (1929, 1931), and Haberler (1932) had been thinking about monetary economics and business cycles long before the publication of Keynes's *General Theory* in 1936.

Four of the eight chapters dealing with stabilization are about Keynesianism ("Keynes v. the 'old' classical model," "The orthodox Keynesian school," "The new Keynesian school," "The Post Keynesian school"). This seems excessive, especially since the authors (p. 197) agree with Mankiw (1989) that what has come to be known as the new Keynesianism might as well have been called the new Monetarism (e.g., the preference for monetary over fiscal stabilization policy; cf. Modigliani's [1977] statement that "we are all monetarists"; cf. also DeLong 2000). In the introductory chapter, the authors unabashedly state that "[t]he most plausible explanation of the Great Depression is one involving a massive decline in aggregate demand" (p. 14), even though the different schools of macroeconomic thought to this day remain very much divided on that point.

The authors cite and agree with Vercelli (1991) that "the work of Keynes remains the 'main single point of reference, either positive or negative, for all the schools of macroeconomics' " (p. 29). As such, the book reflects perhaps the centrality of Keynesian theory to the development and current state of macroeconomics. But this is unfortunate. Volumes such as the present one more or less codify the present state of macroeconomic science. When they adopt Keynesian centrality, it becomes that much more difficult for the science to move on and get beyond Keynesianism.

Still, the book is highly suitable as a textbook for an undergraduate course in intermediate or advanced macroeconomics with lower-level macro courses as a prerequisite. Alternatively, the book could be used in a first-semester survey course in a graduate program. The book assumes a certain familiarity with basic concepts in

macroeconomics, such as the IS-LM model (p. 102), although it frequently points out where in the literature students can go in order to brush up on those basic concepts.

All in all, the thoroughness and fairness of the exposition of the different schools of thought make *Modern Macroeconomics* a worthwhile addition to the academic literature. Austrians should relish the fact that the book treats their theories better than most comparable economic textbooks do. After an absence of almost 70 years, Austrians may have begun regaining their seat at the table, even if at the same time *Modern Macroeconomics* makes clear that they still have work left to do in convincing their colleagues about the merits of their views.

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