Classical Versus Neoclassical Monetary Theories. Will E. Mason, William N. Butos, editor
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pg. 167

> social institutions can be fostered and sustained in order to make this potential a reality in the lives of all Korean people. (p. 120)

All in all, Technology, Energy and Development marks the beginning of a very important shift in scholarship and thinking about East Asian Development and development in general. The complex links between production, distribution and freedom are underlined. For East Asia to claim success in development there must be institutions safeguarding freedom in the economic, political and cultural spheres. This is a sobering assessment - surprisingly so, from a seemingly technocratic book.

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Classical Versus Neoclassical Monetary Theories. Will E. Mason, William N. Butos, editor. Boston: Kluwer Academic Publishers, 1996. 206 pp. + index. US$ 99.95

For several decades until his retirement in the late 1970s, Will E. Mason was an influential economist and teacher at Penn State, a monetary theorist who, in the acknowledged tradition of the late Frank W. Fetter, devoted particular attention to the intellectual and historical context(s) of economic ideas. In his brief foreword, Raymond Lombra, a former graduate student, remembers the 'Masonian approach' as one that featured close reading of primary sources, a commitment to 'substantive' definitions/conceptualizations, a concern with microfoundations, careful distinctions between 'historical' and 'theoretical' time, and an attention to international economic relations. «Classical versus Neoclassical Monetary Theories» (hereafter, CNMT) proves no exception, even if, or perhaps because, it 'welds' two once distinct texts. As Lombra notes, the first half of CNNT, Mason's account of the major developments in monetary theory from Adam Smith to Milton Friedman, circulated in draft form in the 1960s (!), while the second half, a discussion of modern central bank behavior, was written after his retirement and not finished until a few months before his death in 1993. Indeed, it fell to William Butos, another former graduate student, to edit the manuscript and secure its posthumous publication. In a separate foreword, Butos notes that Mason considered CNMT his *magnum opus*.

If CNMT is much more than the sum of its parts, it nevertheless deserves two separate reviews. The first, written for historians of economics, would be less fulsome, perhaps: Mason paints with broad brush strokes, and the results are mixed. The failure to mention either Steuart or Tooke, for example, both of whom are still well known for their reversals of the 'causal arrow' over the equation of exchange, seems almost inexplicable. The omission of the more obscure Birmingham School, with its proto-modern understanding of central bank stabilization, is easier to ex-

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plain, but no less disappointing. The second review, written for comparativists and other readers of this journal, requires fewer reservations. In particular, while Mason's sharp delineation between the classical and neoclassical theories will surprise few intellectual historians – his claim that '[t]here was no doctrinal dichotomy in classical literature' (9) has little shock value now, for example - some of those who write about, or advise, the transition economies will be surprised to learn that, to paraphrase Newton, the 'giants' whose shoulders we stand on are not Adam Smith's. From Mason's provocative perspective, the costs are substantial: 'Adam Smith [was] a more reliable guide through the mysteries of political economy than Milton Friedman.' (122)

Two distinct, but related, themes dominate CNMT. The first is the classical achievement of *integrated* theories of value and money, an integration that is, *contra* Patinkin, absent in neoclassical economics. In Mason's own words:

'Anglo-American economists, who purported to interpret and elaborate classical monetary theory without substantively modifying it, actually turned it upside down without apparent realization or subsequent detection. The commodity and quantity theories of money, which were complementary branches of classical analysis, were converted into competing neoclassical theories of the value of money ... [T]he commodity theory of money virtually died with Laughlin.' (36)

In a nutshell, the classical 'long run value of money, like that of any other commodity, was explained by its cost of production' (11), where, following Ricardo, Mill and others, the latter was understood to include the 'cost of acquisition' in the 'price specie flow' sense. There is a difference, in other words, between classical and crude metallist explanations, one that preserves, in principle if not in practice, the modern relevance of the former. The short run value, on the other hand,. was determined 'just as the market value of any good ... by its supply and demand' (11), in which context the 'quantity theory [is] merely an application of market ... analysis to money' (11).

In fact, Mason later claims that the classical notion of an endogenous means of circulation extends, in a fashion, to modern flexible exchange rate regimes:

'Responsible authorities have always known that flexible exchange rates do not render a country economically independent of what happens abroad. It has, however, been widely assumed that fluctuating rates give a nation independence in determining domestic monetary policy. The American experiment [in the first half of the 1980s] in monetarism demonstrates that there are limits to even this kind of independence and that they have been found.' (123)

The rationale is more or less straightforward: the increase in interest rates that accompanied the Federal Reserve's efforts to contain Ml expansion remained 'manageable' until the Bank of England abandoned its own experiment in monetarism,

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after which short-term capital flows and dollar appreciation undermined both central bank control and the possibilities for American expansion. The explanation is not novel, however, and it is not obvious how much *more* the classical and/or Masonian perspectives add.

Mason is not a 'world monetarist,' however, in the sense of Mundell or McKinnon, and the difference is reflected in CNMT's second dominant theme, the neoclassical conflation of calendar and model time, and the resultant 'inversion' of the classical position. As he reads the modern literature, the Chicago School 'extend[ed] the application of the classical analytical short run quantity theory to the historical long run, then excis[ed] its 'short run' application' (36). In CNMT's reconstruction of (John Stuart) Mill, on the other hand, the equation of exchange is relevant over the short run, where 'short' is understood in the analytical, not historical, sense, and where the neglect of 'transitional effects of *assumed* increases in the domestic money supply' (36) is a rhetorical device, a consequence of his 'opposition to monetary panaceas,' Mason contends, therefore, that for the classicals, *ceteris paribus* was a 'methodological assumption ... rather than a condition that had to be fulfilled in fact' (37) over substantial periods of (historical) time.

I am less confident that the classicals' conception of time was as definitive as Mason hints but more important, I also wished that the differences between historical and theoretical time had been made even sharper. 'Model time,' for example, is often reversible, while 'historical time' is of course not, and 'time's arrow' is an important feature of *bona fide* Keynesian models, as the work of Louis Makowski and others demonstrates.

For Mason, one of the most problematic manifestations of the 'application of the classical analytical short run quantity theory to the historical long run' (36) is the current confusion between 'currency flexibility,' a sensible and (in the United States) *de jure* standard, and 'monetary stability,' identified as the *de facto* standard. It should come as no surprise, then, that it is Benjamin, not Milton, Friedman whom he quotes with obvious enthusiasm:

It is difficult to escape the conclusion that there is now a conceptual vacuum at the center of the US monetary policymaking process ... [W]ith nominal GNP by mid-1987 more than 40 percent below the value implied by the long-run relationship to Ml which prevailed during 1959-90, the problem is no longer in the fine tuning but in the anchor itself ... [A]ppeals to the tradition of the 'quanity theory' are of no use ... in the absence of a clear statement of what is the quantity and what is the theory .. .' (Friedman 1988: 69–70).

The implication for central bankers, both in the United States and elsewhere, is obvious: the usual 'solution' for volatile and/or excessive nominal GDP growth is neither classical nor, more controversial, reliable. In particular, he concludes that commitments, constitutional or otherwise, to 'intermediate targets' - the rates of Ml and M2 growth, for example - 'prevent the central bank from doing what

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central banks were intended to do: avert a potentially devastation interest rate spike resulting from a sudden deflationary increase in the asset demand for money' (119). The discussion of the 1907 Panic (105, 112, 132) and its overlooked role in the establishment of the Federal Reserve reveals Mason at his best, skillfully weaving both economic history and the history of economics in order to illuminate current predicaments.

I was puzzled, however, that Mason chose not to extend his indictment to the use of nominal exchange rate anchors, which rationalize central bank policies in much of Latin American and Eastern Europe. Some readers will infer the existence of a similar 'inversion' - that is, a substitution of the historical long run for the theoretical short run - in modern references to 'purchasing power parity,' and it would have been useful to read Mason's own views.

Is there an alternative to monetarism, either national or international? In the penultimate chapter, Mason outlines his own 'neo-Keynesian' option. He distances himself from 'textbook' reconstructions of The "General Theory" - the Samuelson income/expenditure model is dismissed as 'Keynes without money' (90) and Hicks' IS/LM construction as 'Keynes with money but without prices' (90), both harsh judgments - and identifies Keynes' little read chapter on "Money Wages and Prices" as the correct point of departure. But while I share Mason's belief that the mainstream has often ignored the 'complete Keynes' to its considerable detriment, his own reconstruction is both brief and incomplete, and therefore not a *bona fide* alternative.

This is in the end a flawed but provocative book, not the desired *magnum opus* but rather an eloquent bequest from an influential teacher and scholar.

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