there are plenty of ride-the-wind consultants floating around out there in fields such as accounting, securities regulation, and banking law who think that downloads from their laptop drives are a sufficient substitute for actually learning something about country conditions. I'm not sure, for example, that Utah's bankruptcy law is what Nepal needs right now. Finally, I am sorry that the e-technology segment of the book is short and set apart. I believe strongly that institutional reforms and the best e-technologies need to be married as two parts of the puzzle at every stage.

Credit, Interest Rates and the Open Economy: Essays on Horizontalism. Edited by Louis-Philippe Rochon and Matias Vernengo. Cheltenham, UK & Northampton, Mass.: Edward Elgar, 2001. Pp. 296. $90.00. ISBN 1-84064-098-7.

Giuseppe Fontana
University of Leeds, United Kingdom

This collection of essays deals with the horizontalist interpretation of the endogenous money hypothesis (EMH). Horizontalism is associated with Post Keynesians like Nicholas Kaldor and Basil Moore, and it holds that the supply of money curve is horizontal rather than vertical. Its most ardent supporters today are Marc Lavoie, John Smithin, and Louis-Philippe Rochon. This book is a testament to Rochon's efforts at showing the relevance of horizontalism. Matias Vernengo adds his own expertise on international economics and money.

The book contains 12 essays arranged in four parts, plus a preface by Anthony Thirlwall and an insightful introduction by the editors. Rochon and Vernengo claim that "horizontalism encompasses a number of approaches…[and] provides an important common framework among post-Keynesians, Sraffians and circuitists" [2]. While I am sympathetic to the goal of developing a coherent framework for heterodox monetary theory, this claim should have been defended. Some discussion of the methodological underpinning of these different schools of thought would have helped readers appreciate the similarities and differences among the various approaches, and would have allowed readers to assess the claims of the editors.

Part 1 provides a guide to the EMH debate and monetary economics. Basil Moore assesses his [1988] analysis of endogenous money in light of modern developments in Post Keynesian and mainstream monetary economics. He argues that the EMH failed to capture the attention of mainstream economists due to the never-ending debate between horizontalists and structuralists (who see the supply of money curve as positively sloped). Rochon scrutinizes this debate in the following essay. Unfortunately, Moore and Rochon seem more concerned with defending their position than with moving the EMH debate forward. Moore claims the debate between the horizontalists and the structuralists is a "storm in a teacup" [13]. Rochon argues that much criticism of horizontalism is "the result not only of misinterpretation, but also from [sic] a misunderstanding and unfamiliarity with the literature" [56]. I suppose structuralists would make the same claim. Nonetheless, Moore and Rochon provide a useful discussion of the core ideas of horizontalism.

Part 2 of the book deals with linkages between horizontalism and other schools of thought. Alain Parguez maintains that the circuit approach shows that the money supply is credit-driven and that the price of credit is a truly exogenous variable since it is determined neither in financial markets nor in money markets. Extending the analysis developed in his recent book, Rochon [1999] discusses similarities and differences between horizontalism and New Keynesian monetary theory. He finds the similarities between these two approaches more apparent than real. "Horizontalists see credit-money as...demand determined. New Keynesians, on the other hand, see the quantity of money in circulation as...supply determined. Scarcity, savings and sticky prices all play a central role, while they are absent from the horizontalist theory" [136].

Massimo Pivetti's essay on horizontalism and Sraffian economics contends that the EMH needs to be supported by an appropriate theory of distribution. According to the orthodox theory of distribution, monetary factors play no role in the composition and the level of output, and so monetary policy is ineffective in the long run. Things are different if the analysis starts with the horizontalist notion of an exogenous money rate of interest. The money rate of interest now determines production costs and is a major explanatory variable of the ratio of prices to money wages. Thus, a change in the money rate of interest affects the distribution of income between profits and wages and, through the propensity to consume and the inducement to invest, the level and composition of output. This is good news for horizontalism. Money is non-neutral and monetary policy is effective. But there are still problems. As Pivetti explains, "the impact of changes in distribution on the inducement to invest is bound to be different in each different concrete situation, and may go either way....So...a lasting change in interest rates may affect the quantity of money outstanding in either direction" [115f.]. This is also one conclusion of chartalism, a major position in the debate on the policy relevance of the EMH, which unfortunately gets ignored in the entire book.

Part 3 seeks to illuminate the EMH based on forgotten historical contributions. Alcino Câmara and Vernengo discuss the inflation analysis of the German Balance of Payments and the Latin American neo-Structuralist Schools. Nogueira da Costa discusses the EMH from the perspective of countries that have experienced chronic inflation. While rejecting a monetarist analysis of inflation, he suggests that endogenous money "permits or sanctions inflation growth since it validates product prices increases, the power force of inflation" [175].

Edward Nell discusses the monetary theory of Hicks, who is often quoted as saying that monetary theory is in history. According to Nell, Hicks sought "to integrate Keynes and Wicksell, and to re-establish Keynesian theory on the basis of a pure credit-money system" [187]. This is an important message, but it is surprising that Nell does not discuss any links between the monetary and methodological writings of Hicks, especially his suggestion for a single period analysis and its relevance to the EMH debate.

Riccardo Realfonzo discusses the monetary contributions of Antonio de Viti de Marco, especially his 1898 book on banking theory *La Funzione della Banca*. Institutionalists regard money as a social institution, although it can and often takes the form of a commodity. Realfonzo distinguishes institutionalists who claim that money is the result of a social convention and those (chartalists) who maintain that money is imposed by the state. De Viti de Marco defends the institutionalist view of money with a four-stage theory of the evolution of the banking system. As capitalist societies develop, money becomes a bank liability rather than a commodity. He assimilates bank money to state money, and also suggests that the difference between state money and bank money is due to state laws creating a hierarchy of monies.

Part Four deals with horizontalism in an open economy. Drawing on Keynes' criticism of the Wicksellian notion of a natural rate of interest, Vernengo puts forward several arguments against the purchasing power parity theory. Lavoie maintains that the logic of horizontalism is the same in open and closed economies. In both cases, monetary authorities set the short-term interest rate, although in an open economy they have to consider how that decision affects foreign reserves. In both cases, agents dispose of excess money balances by repaying previous debt. Lavoie explains the neoclassical approach to monetary analysis in an open economy, and shows that the monetarist approach to the balances of payments and the interest rate parity theory lack theoretical and empirical support.

Finally, Smithin investigates the policy implications of economic and financial integration for horizontalism. He argues that, as long as monetary authorities refrain from attempting to fix the external value of their currency to an international standard like the dollar, domestic policy makers retain control of their monetary and fiscal policies. Interestingly, chartalists have used this argument to defend a policy of full employment and price stability. One major drawback of this part of the book is that the policy implications of horizontalism have not been confronted with chartalist prescriptions for monetary and fiscal policies. Overall, this is a very pleasant volume on credit, interest rates, and the open economy. It would be useful to anyone interested in gaining knowledge of the major issues in the horizontalist interpretation of the endogenous money hypothesis.

REFERENCES

Moore, B. *The Horizontalists and the Verticalists*. New York: Cambridge University Press, 1988.

Rochon, L. P. *Credit, Money and Production: An Alternative Post Keynesian Approach*. Cheltenham, UK: Edward Elgar, 1999.