Monetarism and the Methodology of Economics: Essays in Honour of Thomas Mayer
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principal criticism of an otherwise admirable volume — its failure to include the Public Choice model gives readers an incorrect impression that economists cannot explain the inefficient and often perverse policies actually enacted.

Our policy advice will continue to be ignored as long as it is based on the unrealistic assumption that government is run by philosopher-kings rather than self-interested, utility-maximizing individuals. The challenge to the profession is to design policies that incorporate, rather than ignore, Public Choice considerations.

Monetarism and the Methodology of Economics: Essays in Honour of Thomas Mayer. Edited by Kevin D. Hoover and Steven M. Sheffrin. Hants, England: Edward Elgar, 1995. Pp. x and 276, $77.95, ISBN 1-85278-940-9.

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This book is a collection of essays written to honor Thomas Mayer on the occasion of his retirement from the University of California at Davis. It is an excellent and well written group of essays, superbly edited by two of Mayer's colleagues, Kevin Hoover and Steven Sheffrin. There are 16 essays, including a brief autobiography and an essay of appreciation by the editors.

Part I contains these introductory essays, which convey something of the character and life of Mayer. Mayer's reputation is that of a monetarist, whose most scholarly work was a comprehensive synthesis of the literature and empirical evidence on aggregate consumption. For a while he was a member of the Shadow Open Market Committee; but he was let go for "left wing deviationism" when he favored a more expansionary monetary policy than other monetarists. Apparently, Mayer opposed dogmatism even from those who shared his own point of view.

Some of the autobiographical details are of interest. Mayer was raised in Austria and had to flee the Nazi invasion in 1938. He spent the war years in England, moving to New York in 1944. He was educated at Queens College and Columbia University. The teachers who influenced him most were Albert Hart, George Stigler, James Angell, and William Vickrey. His first professional job was at the U.S. Treasury; then he moved to the Office of Price Stabilization. Mayer came to believe that he was not suited for a government job. In 1953, he took a one-year position at West Virginia University. Then he had a few years at Notre Dame and Michigan State University before moving to Davis in 1960.

The essays in Part II appraise monetarism. James Pierce reviews one of Mayer's best known papers, which identifies 12 distinguishing propositions of monetarism and reviews each in some detail. Along the way, Pierce asserts that the Keynesian-monetarist controversy was more a matter of dogma than objective scientific evaluation. He also criticizes the monetarists for wanting to "fine tune the quantity of money"

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even though they criticize Keynesians for wanting to fine tune the economy (p. 44). Pierce believes that the role of monetarism was to "hold the neoclassical fort" until the new classicists could arrive. The essay by Mark Blaug seeks to determine the truth of the quantity theory of money. This excellent summary of the history and development of the quantity theory concludes that while many of its broader implications are true, some detailed aspects are not.

Part III contains six essays loosely organized around the theme of the monetary transmission mechanism. Martin Bronfenbrenner provides a thorough overview of a monetary controversy which mostly preceded the Keynesian-monetarist debate. This was the conflict over Say's Law, Say's Identity, and Walras' Law. Several examples are explained and then the discussion is extended to the international sector, where it is concluded that Say's Law mostly is invalid. In the second essay, David Laidler critically reviews the theoretical and empirical literature on the demand for money. He admits to a past error of being over-committed to Friedman's view that the demand for real money balances should be modeled as a consumer durable good. Laidler also questions the methodological individualism behind the search for the microfoundations of macroeconomics. He argues that monetary phenomena cannot all be reduced to and derived from "individualistic first principles" [94]. He also suggests that it may be uneconomic for agents to use all available information. In the third essay of this section, C.A.E. Goodhart reappraises the money supply control debate that was a dominant feature of the Keynesian-monetarist controversy. In the broadest of terms, the dispute concerned whether interest rates or the monetary base should be given higher priority as a short term target for central bank policy. The Keynesian policy of stabilizing interest rates seemed to have procyclical and inflationary consequences. However, a switch to monetary base or reserve aggregate targeting made things even more unpredictable Consequently, monetary targeting was effectively abandoned by most central bank authorities apparently ending the academic and scientific debate.

The remaining three papers of Part III, though worthy of greater attention, can only be mentioned in passing. Richard Sweeney reviews the theoretical and empirical literature on the wealth effect and its significance for Patinkin's interpretation of the quantity theory. W.T. Woo empirically assesses problems with the export sector of the Indonesian economy in the late 1970s. And Steven Sheffrin addresses macroeconometric issues in identifying monetary and credit shocks. He contrasts the use of historical information with time series methods in identifying these shocks. He concludes with a warning from Mayer that econometric results must be used carefully in conjunction with other evidence.

Part IV concerns the political economy of monetary policy. Milton Friedman recapitulates his hope for an economy and a financial system that is both stable and free from government intervention. Friedman recognizes that freedom and stability are often difficult to achieve simultaneously, and outlines four ways to achieve monetary stability with minimal government intervention. First, he recognizes that a private gold standard could develop and compete with government monies, but he believes that this is unlikely in the U.S. Second, he suggests that there are other ways of

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increasing monetary competitiveness. Contracts could be written in foreign currencies; contracts could be adjusted with reference to a price index; or the government could guarantee the purchasing power of its long term debt. Third, legal and constitutional limitations could be used. Fourth, smaller countries could peg their money to a major currency. The remaining two papers in this section deal with central bank performance in relation to its institutional structure. King Banaian, Richard Burdekin, and Thomas Willett presents empirical research on this subject. Thomas Cargill deals with the Bank of Japan and its rather good record of controlling inflation even though it is not independent of the government.

Part V has three essays on economic methodology. Abraham Hirsch considers John Stuart Mill's position on the problem of induction. Although Mill's approach is unsatisfactory, it seems to have affected his view of economic theory. Laws in the inexact sciences, such as economics, could not be verified, according to Mill. They were tendency laws which were deduced from broad inductive generalizations. In effect, this made economic science rely more on theory and deduction rather than empirical investigation. This disciplinary bias is still evident in the economics profession in the late 20th century, which Mayer no doubt would criticize. In the second essay, Wade Hands reviews and extends the methodological framework of Mayer's Truth versus Precision. In that work, Mayer distinguishes between formalist and empirical science economics. Within empirical science, Hands argues for two different variations, an explanation pole and a prediction pole. Hands suggests that Friedman is an example of the prediction pole while Stigler is more concerned with explanation. In the last essay, Kevin Hoover writes a piece in defense of data mining. He recognizes that data mining is regarded as disreputable within economics. As a consequence, econometric results are often distrusted. Hoover reformulates the problem as a twin paradox. There are two researchers who are twins; one mines data, but the other one does not. Both researchers find the same functional form and similar test statistics. Should the results of one twin be accepted and the other rejected? Hoover then considers the philosophical, methodological, and econometric implications of data mining. In this context, he reviews Mayer's proposal that all regressions, not just the most favorable ones, be reported.

Macroeconomics is inherently a methodological subject. Usually this tight association is identified with Milton Friedman. However, it is even more appropriate for Thomas Mayer. His macroeconomic contributions have exhibited keen insights and displayed a self-critical attitude. His writings on economic methodology are extensions of the methodological sensitivity of his research in macroeconomics. The essays in this volume similarly reflect these same propensities. Thus in many ways this volume mirrors Mayer's vision of how economics ought to be practiced. What a thoughtful way to honor a meticulous, scholarly, and prolific colleague.

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