

specific location called 'America', whilst his prewar protagonists were primarily European. Postwar neoclassical theory came to espouse all sorts of positions that would have been *verboden* in the prewar configuration; economists now imperiously pronounce on epistemology; 'agency' now can be indifferently vested in firms or animals or machines or memes; institutions are conflated with a few structural impediments foisted upon a Promethean rationality. I have argued elsewhere that the causes of this change must be sought *outside* of economics proper, in particular in the mid-century rise of operations research; and that the profession is not now nor has ever been an autarkic and self-validating sphere of discourse. Once this proposition has been taken on board, as it has by a new generation of historians such as Sonja Amadae, Esther-Mirjam Sent, Abu Rizvi and others, we shall find that the Idol of Rationality shrinks back down to manageable size in a proper history of twentieth century neoclassical economics. In the meantime, this book is a nice antidote to the ahistorical portraits of the meaning of rationality found in Aumann, Myerson, Binmore, and other high priests of orthodoxy.

PHILIP MIROWSKI

*University of Notre Dame and New York University*

*Money and the Nation State: The Financial Revolution, Government and the World Monetary System.* Foreword by MERTON H. MILLER. Edited by DOWD (KEVIN) and TIMBERLAKE, JR. (RICHARD H.). (New Brunswick, NJ and London: Transaction Publishers, 1998. Pp. viii+453. US \$19.95 hardback. ISBN 1 56000 302 2, 1 56000 930 6.)

Good wine takes time to mature. One of my colleagues argues one should put away empirical articles for ten years before reviewing these, and proceed to publication only if the results still hold up. This reviewer has not so good an excuse for the current belated review, but the quality of the book shows that since it is as relevant and up to date today, as it was when it was sent to me a few years back. This intriguing book certainly passes the acid test of my colleague.

The book is divided into three parts. The essays in the first part provide fascinating reviews of a number of episodes from the history of international monetary system. The emphasis is on the fact that the current monetary arrangements were not always in place but nevertheless contain essential lessons for current and future monetary developments. These lessons are echoed in the last part of the book, which provides a number of refreshing and often unconventional suggestions for reform of the current money and banking systems. The middle part too criticises a number of current institutional flaws leading to adverse policy choices and moral hazard in the financial system.

The first chapter does away with the usual emphasis on the demand externality for a single currency in analogy with the benefits of speaking the same language. It is convincingly demonstrated that historically the monopoly right of the state to issue money contributed to the security of the state. It was an easy means, i.e. no approval of the parliament was needed, to quickly raise large sums of money needed in times of war. The chapter leaves one wondering how this security

feature came to be neglected in the Maastricht treaty. The treaty perhaps errs on the safe side by overly safeguarding against the inflation tax rip-offs during normal times.

The fourth chapter on the gold exchange standard makes fascinating reading. It recounts how the restoration of the gold standard was built on the personal relationships between the governors of the Old Maid and the Federal Reserve Board. Thus it became only a halfhearted exercise, pounds were only made redeemable in bullion. It left the United Kingdom the possibility to pursue inflationary policies only to be accommodated by the FED. In the end, the go-go years had to collapse like a pudding under the weight of unsound credit and obfuscated price ratios. It is a necessary supplement to the Friedman and Schwartz analysis of the mishandling of the ensuing banking crisis in the United States.

The second part contains a highly interesting chapter on the traditional IMF recipe given to countries with runaway inflation. The traditional conditions applied by the IMF for support, required devaluation and increased taxation (on the premise that budget deficits cause monetary expansion). The monetary expansions are indeed often fiscally driven, but the relation is subtle. As is shown in a very useful case analysis for numerous countries, this policy prescription often was a guarantee for disaster, leading to slower growth and even higher inflation. Instead, countries that stabilised the currency and further restored confidence in government budgetary policies by cutting taxes and subsidies did fare a lot better. The restored confidence quickly led to a return to growth and hence increases in collected taxes. Similar evidence now exists for moderate inflation countries of the EMS arrangement.

The last part contains a useful critical discussion of the Maastricht treaty, emphasising the political rather than economic motivation for this enterprise. It sketches the legal loopholes in the treaty that might be exploited by politicians hungry for Euros. To sound a word of criticism: In the last part, I missed a discussion of electronic money and how this medium of exchange may endanger the position of central banks and how it might affect the ability to conduct monetary policy. The book however makes great reading and I hope many of this JOURNAL's readers will order it now. It is not too late.

CASPER G. DE VRIES

*Erasmus University Rotterdam*

*In Search of Prosperity: Analytic Narratives on Economic Growth.* Edited by RODRIK (DANI). (Princeton, NJ: Princeton University Press, 2003. Pp. vi+431. £22.95 paperback. ISBN 0 691 09269 9.)

An enormous amount of cross-country econometric studies have tried to isolate the determinants of economic growth. Although the cross-country regression approach has been very useful in highlighting correlates, it leaves some of the most interesting and important questions concerning growth unanswered. For example, as the editor of this volume, Dani Rodrik, asks; 'How has China