simple wage–price spiral model that implies both an inverse relation between unexpected inflation and real wages and a positive relation between inflation and employment. Empirical results indicating that exchange rate shocks have only temporary effects on money growth and inflation are critically contrasted with the argument that large devaluations give rise to inflation inertia (because one-time devaluations are transformed into permanent rises in inflation through mechanisms of staggered price setting, of monetary and exchange rate accommodation to past price shocks and of wage indexation). The observation that after the introduction of the stabilisation programme in Israel, there was an immediate and abrupt reduction in the rate of inflation, together with a boom in private consumption spending and a delayed contractionary response of output and the rate of unemployment, confronts standard macroeconomic textbook models in which a deflationary policy gives rise to an initial drop in output and a rise in unemployment.

Careful interpretation of empirical results, combined with high-level theoretical development, are hallmarks of the book. This, of itself, makes it an invaluable read for economists researching the processes of inflation and disinflation; but the undoubted policy relevance of this book, particularly for developments in some of the Eastern European economies, makes the book deserving of a yet wider readership. Leiderman himself suggests that the rapid and successful results of the Israeli disinflation programme could be discussed at length in future editions of macroeconomics textbooks along with other famous case studies such as the German hyperinflation. This book should ensure that this is the case: Leiderman deserves to be congratulated on putting together a major contribution to our understanding of the causes and characteristics of high inflation episodes and how to bring them to an end.

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A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform. Edited by BORDO (MICHAEL D.) and EICHENGREEN (BARRY). (Chicago and London: University of Chicago Press, 1993. Pp. xiii + 675. £59.95 hardback, US $86.25 hardback. ISBN 0 226 06587 1.)

This monumental book comprises the conference proceedings of a meeting at the Mt Washington Hotel in Bretton Woods exactly twenty years after the suspension of gold convertibility. The essays are not the first, and probably will not be the last, reflections on the Bretton Woods system. But the book is rather comprehensive in several aspects: (i) It contains illuminating economic history sections with well-documented data sources on the performance of the system and comparisons across exchange rate systems (gold standard, free float, target zones). This includes the main monetary and real economic indicators, the effects of capital controls, and the coverage of forty-eight devaluation episodes in developing countries (with a control group of twenty-four non-devaluating countries). (ii) The main issues of economic debate at the time, i.e. the liquidity problem, the adjustment problem, and the issues of confidence receive extensive treatment from the present date vantage point. Thus the essays employ techniques like rational expectations, forward looking solutions, and solution concepts from noncooperative game theory. These advances allow one to recast the story of Bretton Woods in terms of the rules versus discretion debate, to analyse the adjustment problem as an exercise in noncooperative repeated game theory, and to draw the analogy between the Peso problem and the confidence problem. Oddly enough, the now popular theory of target zones is not used explicitly. Given the data material that is presented, however, such an analysis seems possible and might yield insightful results. (iii) The comments and panel sessions provide sufficient diversity of opinion to draw one's own conclusions. Thus the subtitle of the book is especially well chosen for someone who had to learn the rules of the old game during his undergraduate studies, but saw an entirely different world developing. Therefore, rather than reviewing each chapter separately, I will attempt to draw some lessons from the present material by focusing on the three core problems of institutional design.

The first problem of international liquidity is intimately related to the Triffin trap. It was widely feared that the set-up of the Bretton Woods system contained the seeds of deflation and depression. According to Triffin's analysis the limited amount of gold would either restrain the United States directly in its creation of (international) dollar liabilities, or indirectly via a crisis of confidence and the ensuing run on US gold by foreign central banks. Perhaps partly because of the attention given to the Triffin trap, the reverse scenario was observed. In the first years of the system's operation the Marshall Plan was conducive to creating the needed international liquidity. As is aptly analysed by De Grauwe (*International Money*, Oxford University Press, 1989), during the later years both the US and foreign central banks ran down their stocks of gold via the gold pool by sales to the public, in trying to stabilise the private price of gold. As is shown convincingly by De Grauwe, these sales were a straightforward consequence of Gresham's law.

When studying the macro data it is interesting to note that the United States had the lowest inflation rate and a positive current account for much of the period. Nevertheless, the United States ran huge balance of payments deficits through its capital outflows which provided the international liquidity for the rapidly expanding foreign economies. Not surprising then that one does not find much evidence for the international transmission of inflation, as is commonly predicted to occur with fixed parities. Nevertheless, in anticipation of future United States inflation and current account problems, the closure of the gold pool and the rising private price of gold, a crisis of confidence ensued in analogy with the peso problem. The relaxation of capital controls, which severely limited the possibilities for arbitrage at earlier stages, was instrumental in this respect.

At various points in the book this interpretation is questioned, and the alternative view is taken that by closing the gold window the United States wanted to force adjustment which seemed otherwise impossible. The adjustment problem arises from the asymmetric position of deficit versus surplus countries. If the burden of adjustment is shared, the former countries implement monetary deceleration while the latter do the opposite. But, as it happens, the surplus country is in the comfortable position of being able to wait and see, and force the entire adjustment on the other country (at least in the short run). A similar practice developed within the EMS. The two problems, of confidence and adjustment, have become much intertwined due to the postwar institutionalised sluggishness in wages. This rigidity crippled the domestic adjustment channel and forced the devaluation onto the adjusting country. Moreover, for various reasons (confidence) the United States at that time, and the EMS countries during the latter half of the past decade, were reluctant to implement small, and given the bandwidth, speculation free, devaluations. Hence, a speculative crisis often becomes inevitable as the outgrowth of an adjustment problem.

Several of the authors pay attention to the institutional features of the system. Cooperation in alleviating short-term balance of payments problems through the credit facilities at the IMF, for instance, was intended to counter the chain of competitive devaluations of the thirties. But what is probably the most crucial institutional aspect of a regime of managed exchange rates turned out not to have been well designed. This is again the issue of adjustment. While the burden of adjustment is expected to be shared symmetrically, the practice was one of downward asymmetry. A stark example from the EMS period is the German unification boom, which was stifled by a high interest policy, and subsequently forced almost all other EMS participants out of the system. The point is that, as was observed by one of the panelists, on major issues national governments do not subordinate their national interests to international goals. The question is one of mechanism design. It seems that the current literature on international monetary arrangements lacks a proper treatment of countrywise rationality and incentive compatibility constraints. What I learned from this broad-ranging book is that a study in this direction might be a worthwhile, albeit not easy, undertaking. The book is highly recommended to students and academics in international money and economic historians.

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Money, Banking and Inflation: Essays in the History of Monetary Thought. By HUMPHREY (THOMAS M.). (Aldershot and Brookfield, VT: Edward Elgar, 1993. Pp. xi+443. £49.95 hardback. ISBN 1 85278 941 7.)

I do not know where the *Federal Reserve Bank of Richmond Economic Review* would score in the ratings of those bestowing research rankings on university departments. My suspicion is that it might well fail to score at all. This merely demonstrates, however, an unfortunately arbitrary element in such exercises. The *FRBRER* is not well-known, at least outside the ranks of monetary specialists, and Edward Elgar has thus performed a singular service by bringing