The Peasant Betrayed is a somewhat formidable book, not to be undertaken by the faint-hearted. But, besides amassing an abundance of information, it raises vital questions for anyone concerned with Third World development and the role of the West.

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A Nation in Debt: Economists Debate the Federal Budget Deficit
Richard H. Fink and Jack C. High, eds.
Frederick, Md.: University Publications of America, 1987, 300 pp.

Twenty years ago, economists were asking: "Does money matter?" At the time, the international monetary system was rooted in the gold standard and a system of fixed exchange rates under the Bretton Woods agreements. This provided for some degree of stability and predictability of monetary policy that persisted until the system broke down in the early 1970s. The remainder of that decade witnessed a failed attempt in the United States to manage the nation's monetary policy. The consequences were high inflation and interest rates, volatile and generally slow economic growth, and sagging productivity. By the end of the decade, the uncertainty and pessimism about the future seemed to be a confirmation (for those who needed it) that the answer to the question is "yes." Money not only matters, but it can matter a great deal.[1]

During the 1980s, it could be argued that there has been an improvement on the monetary side of U.S. economic policy. That is, while price stability has not been restored and uncertainty over policy decisions remains, both the level and the volatility of inflation have fallen. However, the economy is now exposed to the large structural budget deficit of the federal government. This suggests that some of the earlier mismanagement may have shifted to the fiscal side of the nation's economic policy-making. As a consequence, economists are now asking an old question with renewed interest: "Do budget deficits matter?" The timely collection of essays assembled by Richard Fink and Jack High addresses this question.

There seem to be two overriding concerns that went into the selection of these essays. One is to provide a historical perspective on the issues surrounding deficit spending. In this regard, the book is very successful. Even those intimately familiar with the current debates will likely find something new and of interest, particularly in the first two chapters. I was surprised to learn, for example, of the important role that government debt issues played in the early development of organized capital markets in Great Britain (pp. 52–57).

[1]This is not to suggest that *only* money matters. Other policy- and non-policy-induced shocks, for example, those related to regulatory uncertainty and OPEC pricing, also had significant effects on the real economy during the 1970s.

The second concern is to provide a nontechnical and balanced treatment of the issues. Once again, the book generally achieves this objective, although my impression is that one is likely to come away from the book viewing the deficit as an institutional problem of major importance that needs correcting. While this may be the only proper conclusion one can draw, I did experience one minor frustration on this point. Many of the essays in the book are drawn from the popular press. While the objective of presenting the issues in a nontechnical fashion makes this understandable, it leaves sections of the book vulnerable to accusations of an overstatement of positions and a general glossing-over of important and substantive views.

With no discredit intended, an example is the article by Paul Craig Roberts (pp. 83–86) entitled "Why the Deficit Hysteria Is Unjustified." The intention of that article was apparently to defuse criticism of the 1981 tax cuts by diverting attention to monetary policy. In passing, Roberts itemizes a number of positions taken by academic researchers, including Robert Eisner and Charles Plosser, that stress the relative insignificance of budget deficits on the economy. The casual reader might wrongly infer that Eisner and Plosser would have similar policy prescriptions, and that those would conform to the "supply-side" agenda of Roberts. We are subsequently given a discussion of Eisner's view (pp. 87–101), but not of Plosser's, nor of Evans's, nor of Barro's (which for unknown reasons, Roberts failed to mention). While the popular press has tended to focus on the views expounded by Paul Volcker regarding the consequences of large budget deficits, which are also included in the book (pp. 154–61), and to which Roberts was no doubt reacting, the important debates in academic circles focus on the research of Evans, Plosser, and Barro. It is the relative inattention to their work that constitutes my only serious criticism of the book.

The organization of the book is exceptional. The issues surrounding deficit spending are developed historically in a more or less "point-counterpoint" fashion. Chapter 1 includes extracts from Adam Smith's *Wealth of Nations* and Karl Marx's *Das Kapital*. It is interesting to note that the undesirability of the government's freedom to issue debt may constitute the only point on which these two men would ever have agreed. On my rereading of Adam Smith, I was once again impressed with just how "modern" his views have remained. At the time of his writing, Britain had, for the first time, accumulated a significant amount of "war debts," the consequences of which were largely unknown. In his analysis of this problem, Smith discusses how the government's freedom to issue debt places an upward bias on government spending and taxation. He also describes the consequences this has on private incentives, due (in part) to the destruction of private property rights. Smith further discusses why political expediency will lead to increasing monetization of these debt issues. Monetization represents a transfer from creditors to debtors, and as the latter are larger in number, they give the policy a greater constituency.

Chapter 2 traces the emergence of stabilization policy out of the economics of J. M. Keynes. It presents his views, the context in which they were developed, their evolution into the "functional finance" of Abba Lerner, and their diminishing influence as predicted by Ludwig von Mises. Chapters 3 and 4 present a wide range of views on the subject of deficit spending with essays by no less than four Nobel Laureates (Friedman, Hayek, Tobin, and Buchanan) whose views are all quite distinct. With the exception noted earlier, I found these chapters to be a comprehensive and balanced treatment of the principal issues surrounding the significance, causes, and consequences of deficit spending.

Chapters 5 through 7 round out the collection with a focus on political and institutional reform. Most of these essays take the position that deficit spending is symptomatic of a larger problem of a government that lacks the structure required for self-discipline and self-restraint. Without substantive reforms, government spending and taxation will continue to rise, and economic growth that is founded on personal initiative will stagnate. These essays discuss the effectiveness and the feasibility of various reforms, including constitutional amendments to balance the budget and limit the growth of taxation, legislative reforms mandating "supermajorities" for enactment of spending and taxing bills, and measures that would impose greater control over the budget process. These are all important issues that deserve the attention of our elected representatives in Congress. In sum, I would recommend this book as a useful collection of essays that deserves the attention of those of us who are being "represented."

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The New Protectionist Threat to World Welfare
Dominick Salvatore, ed.
New York: North-Holland/Elsevier Science Publishing Co.,
1987, xvi + 581 pp.

I did not like this book and quickly regretted having agreed to spend the time necessary to review it. It is a mixed bag, though, and some of the articles in it are worth reading, as I'll explain.

Writings on the "real" (as opposed to monetary) side of international economics generally fall into either of two categories: (1) exercises in high-powered price theory and (2) a blend of economics with political and institutional description and self-conscious, moralizing internationalism. Most of this book falls into the second category.

As its title should have warned me, the book is full of complaints. Countries are backsliding from the noble ideals of the GATT and the diplomats who negotiated tariff cuts under its auspices. Protectionists are resorting more and more to sneaky measures such as import quotas, "voluntary" export restraints imposed on foreign suppliers, orderly marketing arrangements, and miscellaneous disguised restraints on imports. It is desirable, urgent, imperative—whatever—that governments abandon their wicked ways and adopt liberal trade regimes; such trade barriers as do remain should be nondiscriminatory and "transparent" (i.e., forthright, undisguised).