

BOOK Reviews**The New Look in Monetary Theory**

READINGS IN MONETARY THEORY: Edited for the American Economic Association by F. A. Lutz; and L. W. Mints. Blakiston, New York, 1951. 505 pages. Price \$475.

Reviewed by Bhabatosh Datta

ECONOMISTS all over the world have been grateful to the American Economic Association for the excellent series of reprints that it has been publishing during the last few years. Many valuable contributions to the development of economics had been lost on the tracks and even the most careful student had to make a strain some effort to remember and to procure the important landmarks. And during the six years of war economists outside England and America could not easily maintain continuous touch with all the new developments: foreign periodicals did not arrive regularly and even today many libraries have not been able to fill up the war-induced gaps. There has besides been the problem of replacing lost copies of old volumes, a problem of which no solution seemed to be in sight a few years ago.

The Blakiston Readings appeared just in time. The volume on the *Social Control of Industry* was not perhaps read much outside America, but the other three were eagerly collected by economists in all countries where English is understood. None of these was perhaps as perfect as one could wish it to be, but taken together—and combined with the excellent photostats issued by Clemence—these volumes were an outstanding achievement of postwar publication.

The long-promised fifth volume—on *Monetary Theory*—was eagerly waited for and it is a pity that it has not been able to live up to the expectations that the earlier volumes had raised. There are of course some reprints about which there would be no two opinions. It is pleasing to find Caiman's 1921 article on the application of the supply-demand apparatus to the theory of money and to remind oneself of the way in which the economics student of the twenties was trying to acclimatise himself to the idea of the demand for money as a demand to hold money. It is also fitting that a good place should be found for the famous 1917 contribution of Pigou on the exchange-value of legal tender money, the

contribution which broadcast to the world what was up till then a Cambridge esoteric. And probably all readers will appreciate the inclusion of Hicks' 1935 'suggestion' for simplifying the theory of money which did much to pick out the main issues from out of the seeming confusion created by the Keynes-Robertson differences. Among the more recent articles, the foreign reader is thankful for the reprint of the brilliant essay on liquidity-preference and the theory of interest by Modigliani from the *Econometrica* of 1944—a paper the wartime numbers of which are often difficult to

The reviewer also likes the inclusion of Patinkin's 1948 article on price-flexibility and full employment and the detailed analysis of the velocity of circulation of money by Ellis in the *Quarterly Journal of Economics* for 1938. About the other reprints, opinion would perhaps diverge considerably. One could easily doubt whether the best representative of Robertson in a collection like this is his short five-page essay on the relation between the

cash-transaction and cash-balance price levels. One could equally well argue that if Hawtrey was to be represented at all, there should have been something that would show the essential Hawtrey and not the pedestrian study of money and index numbers which lies deservedly half-forgotten in his *Art of Central Banking*. Pigou's 1947 essay on economic progress in a stable environment is readable but is not a product of Pigou at his best and is not certainly a suitable choice for a collection on monetary theory.

Opinion outside America would be justifiably critical of the whole of the fourth part of the volume dealing with monetary policy. A collection like these Readings should continue to be useful for a long time and (if the American Economic Association is not thinking of the domestic market alone) over a large part of the world. It is therefore a pity that about 120 pages of a 456-page text should be devoted to the contemporary problems of the American economy. Simons is good but could easily have yielded his place to some one else. Friedman in his programme largely repeats what has often been said since the League of Nations published the report on economic stability in the postwar world. Chandler has written better things than the piece of financial journalism—very high-grade, of course,—that finds its place here.

This raises the question, what should be the proper approach to



NORWICH UNION

FIRE INSURANCE SOCIETY LTD.

CALCUTTA - C 4, Clive Buildings
BOMBAY - 16, Bank Street
KARACHI - P. O. Box 30

August 25, 1951

the editing of a collection of this type. One obvious line is to 'revive' forgotten pieces and from that standpoint the collection is apparently underweighted; many of the articles reprinted were written during the last few years—two of them in 1949 and two others in 1948. Another equally laudable aim would be save the student's labour by making a good collection of standard essays available in a handy volume. A third possible aim would be to provide a systematic text-book on monetary theory by making the selections in such a way that there is at least one good essay from a distinguished writer on every important subject. And a fourth possible aim may be simply to give a good representation of the builders of modern monetary theory.

The present collection obviously fails as a standard cyclopaedia of reference. As a treatise on monetary theory built on the instalment plan it can perhaps serve the students in an American University, but here also one notes singular gaps. It is difficult, for example, to understand why not a single one out of the many recent contributions to the theory and mechanics of inflation has been included. If Pigou was included twice, why not his 1941 essay on the types of war inflation? If Friedman could be permitted only one appearance, why not one of his articles on the inflationary gap? And there could surely have been at least one article on the monetary approach to the business cycle theory.

As a purely 'representative' collection, its tailings are again inexplicable. One notes that Keynes does not appear at all his essay on the inflationary process written at the beginning of the war could surely be there—nor does Irving Fisher. The editors had of course the obvious difficulty of maintaining the imposed dichotomy between monetary theory on the one hand and the theory of business cycle, income and employment on the other. This prevented them from taking a wide field of choice and restricted them to a field in which the inclusion of an article on the genesis of bank deposits seemed appropriate. The reader however gets a feeling of incompleteness and inadequacy, and this feeling is not dispelled even when he remembers that the present volume is to be taken as complementary to the earlier one on business cycle theory.

To atone for all deficiencies, however and to justify a large part of

the foreign readers' hard-currency expenditure on the book there is an extensive bibliography—including many old items and practically all notable contributions from 1938 up till the end of 1949 (and in some cases the middle of 1950). And in fairness to the American Economic

Association, one must acknowledge that if the present volume has not fully satisfied its readers, this is largely due to the very high expectations created by the Association itself in its earlier readings in business cycle theory, income-distribution and international trade.

Principle of Industrial Awards*

DURING the last decade or so, employer-employee relations in India have come to be looked upon as an urgent social problem, the resolution of which is the *sine qua non* of economic progress. *Laissez faire* which till then characterised public attitude to these problems has had to be abandoned and State intervention, either on a voluntary or compulsory basis, has been found necessary, in order to establish industrial peace. Industrial Courts and Tribunals have been created to adjudicate upon the industrial disputes. Until recently autonomous, these quasi-judicial bodies have pronounced judgment on the claims and counter-claims of workers and employers, based upon considerations of expediency and common-sense. The result is a crop of pronouncements on various issues, not always consistent with one another, and sometimes sharply at variance. Nevertheless, some fundamental considerations weighing with these courts, the members of which were drawn from the country's judiciary, must be discernible in the mass of awards given by them. An attempt to elicit these principles was, therefore, overdue. The present publication* has done the job admirably and the general public and, even more, industrial and commercial firms, will welcome it heartily.

The monograph has analysed the awards given by the Industrial Courts and Tribunals in India during the last 11 years on the more important questions which have figured in the disputes. These include: minimum wages, dearness allowance, leave with pay, bonus, provision for the future of workers, wages during strikes and lockouts, retrenchment, compensation for involuntary unemployment and reinstatement.

Each of these problems is studied against the general background of world conditions and the practice in foreign countries. The material collected is well authenticated. Each

chapter, therefore, contains a brief but excellent and authoritative dissertation on some problem of labour economics. The publication is thus something more than a textual analysis of Indian awards and incorporates the results of considerable original research.

Five appendices summarise the findings of the Courts on the question of wages, dearness allowance, leave with pay and provident fund and gratuity.

A perusal of the monograph does reveal a large measure of agreement of the various adjudicating authorities on various issues although, not infrequently, they appear to take very divergent views of identical sets of circumstances. The general principles emerging from the analysis may be briefly rioted:

Wages

The standard of living and the condition of the industry will always remain the guiding considerations in fixing the minimum wage although the wage must not be allowed to fall below a certain level. Considerations of the industry's capacity to pay the minimum wage appear, however, to be a negative rather than a positive factor affecting the actual level at which the wage has been fixed. In other words, the wage level is fixed after considering the minimum needs of the worker, his living standard, the cost of living, etc., and then the industry's or employer's capacity to pay is taken into account. The onus of proof that the industry or unit concerned cannot bear the burden rests on the employer.

The minimum wage is fixed in relation to the needs of a family of about 3 consumption units. The worker is considered the sole earner in the family. The minimum wage for both men and women should be, as far as possible, the same for the same type of work.

The principle of wage differential is accepted and workers are

* INDUSTRIAL AWARDS IN INDIA—AN ANALYSIS, Government of India, Ministry of Labour, Labour Bureau.