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Jörg Bibow, *Keynes on Monetary Policy, Finance and Uncertainty: Liquidity Preference Theory and the Global Financial Crisis* (Abingdon and New York: Routledge, 2009), pp. xii, 249, £85 (US $135.00). ISBN 978-0-415-35262-8 (hardback); £32.50 (US $42.50). ISBN 978-0-415-61647-8 (paperback).

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Jörg Bibow is his own man. Without fear or favor, he takes to task both the loanable funds theory of interest, which continues even now to underpin mainstream thought and policy, and the endogenous money approach, which some would make the hallmark of Post Keynesian economics. He displays an extraordinarily deep knowledge and understanding of the writings of John Maynard Keynes and a real feel for the nature of banking practice. His principal claim is the centrality of the liquidity-preference theory of interest, not only to Keynes' *General Theory*, but to any serious macroeconomic theory and to any hope of understanding, let alone resolving, the crisis that currently grips the world economy.

The core of the book (chapters 2–6) is a collection of five, previously published, papers, mostly of a theoretical nature, providing the context for an analysis of the international monetary system (chapters 7–8). Yet, this is by no means an opportunistic offering. Bibow draws together the thinking of two decades to focus on the nature of the financial crisis and the needs of immediate policy. As I was reading the book, the Bank of England announced a further round of quantitative easing, and I was struck by the insight and immediate relevance of Bibow's analysis, particularly on the need for the central bank to purchase assets from non-banks and the need for re-regulation.

Bibow scythes through the confusions over accounting and the nature of money and banking that have so far prevented a final disposal of the loanable funds fallacy. A particular target is the view that loanable funds and liquidity-preference thinking are somehow alternatives or complements, as expressed by John Hicks, Axel Leijonhufvud, and also, surprisingly, by Paul Davidson. He is equally scathing about the horizontalist and circuit approaches to the supply of money, which dispense with liquidity preference altogether. He draws out clearly the importance of banking policy as an independent force and the need to recognize that Keynes' references in *The General Theory* to the banking system include both the central and member banks. The exogeneity of money does not mean that the supply is fixed but, rather, that supply is independent of demand.

Chapter 6 offers a novel account of Keynes' views on the structure, as opposed to the conduct, of monetary policy. Drawing on some of Keynes' lesser known writings, Bibow explains Keynes' concern to strike the necessary delicate balance between the independence and accountability of the central bank. Bibow argues convincingly that the model of central bank independence adopted in the UK in 1997 was consistent with Keynes' thinking, although he does not suggest that Keynes would have supported inflation targeting as a strategy for the conduct of monetary policy.

Chapter 7 analyzes Keynes' original ideas for an International Clearing Union. Bibow explains clearly the differences between this proposal for a global central bank and the indirect gold-exchange standard that emerged at Bretton Woods. Of central importance were the decoupling of domestic interest rates from global markets in the interests of full employment, the imposition of symmetric adjustment on both surplus and deficit economies, including *smoothly* adjustable pegs, and the incompatibility of such a monetary system with short-term capital mobility. Two quotations from Bibow's encyclopedic knowledge of Keynes's writings are particularly arresting:

> Ideas, knowledge, art, hospitality, travel—these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible; and above all, let finance be primarily national (Keynes 1933, p. 236).

> The whereabouts of 'the better 'ole' will shift with the speed of the magic carpet. Loose funds may sweep around the world disorganizing all steady business. Nothing is more certain than that the movement of capital funds must be regulated (Keynes 1941, p. 31).

Chapter 8 discusses the post-war history of the international monetary system down to the present day, and puts to work the earlier theoretical analysis. Bibow notes how the absence of Keynes' checks and balances from the Bretton Woods system led to its demise, or transformation to a pure dollar-exchange standard, in 1971. He identifies the flaw in the 'Bretton Woods II' hypothesis as the assumption that the dollar assets held by surplus countries would be safe. In practice, the lead-up to the 2007 crisis created private dollar assets that proved to be anything but safe, in line with Minsky's analysis. Furthermore, Bibow illustrates how Ben Bernanke's 'global saving glut' and Alan Greenspan's 'bond market conundrum' are both examples of misleading loanable funds thinking. Both phenomena are explained by recognizing that the Federal Reserve's reaction function in the face of the drag on effective demand caused by the growing trade imbalance led to increases in dollar liquidity. Chinese government bond issues were used to mop up the consequent 'global dollar glut' and maintain the dollar peg, and were not a response to an outbreak of thrift among the Chinese public.

Bibow's prescriptions to remedy the crisis include continued quantitative easing to provide the liquidity withdrawn by the stricken banking sector, combined with a fiscal expansion (including the reintroduction of public finance into the housing market). These measures would both boost US effective demand and substitute flows of safe public-sector debt for unsafe private debt to meet the foreign demand for dollar assets on capital account, corresponding to the trade deficit necessary if the US is to lead a global recovery. Such leadership appears essential, given stagnation in Europe and Japan and the continuing unique ability of the US to issue global reserve assets. In this way, a more stable 'Bretton Woods III' might come to pass, in the absence of a more rational cooperative reform along the lines indicated by Keynes.

Although events have been so fast-moving, particularly in the Eurozone (as I write in November 2011), that the book's analysis of current events already needs updating, its core is of enduring value and direct relevance to any thoughtful policy maker seeking an alternative to the discredited New Consensus. Bibow's message of the centrality of liquidity-preference and the active role of banks in shaping events, in contrast to their passive treatment within both standard and Post Keynesian models, could hardly be more timely. Although I would myself approach the abstract questions of the loanable funds fallacy and the meaning of liquidity differently, his case for reform of the international monetary system, while tempered with political realism, is compelling. Highly recommended.

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Thomas Karier, *Intellectual Capital: Forty Years of the Nobel Prize in Economics* (New York: Cambridge University Press, 2010), pp. 351, $35.00. ISBN 978-0-521-76326-4.

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Thomas Karier reviews forty (plus) years of the Nobel Prize in economics, beginning with the first awards in 1969 to Ragnar Frisch and Jan Tinbergen, and ending with Elinor Ostrom and Oliver Williamson in 2009. His is not an overly sympathetic review. Karier expresses strong opinions about the criteria for which the prize is awarded, and questions the originality and value of several of the laureates' contributions.

In the opening chapter, Karier provides a useful summary of the origins of the Nobel Prize in economics, emphasizing that it was not one of the original Nobel prizes given in chemistry, physics, medicine, literature, and peace. Nor is its official name the Nobel Prize in Economics but, rather, the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. In Nobel's will, he specified that the original prizes be awarded to those "who confer the greatest benefit on mankind." Karier notes that when the economics prize is announced each October, we are told that the winner had a "great seminal influence" (Buchanan) or "shared the prize for seminal work" (Stiglitz) or "did their seminal work in the 1970s and 80s" (Engle and Granger), but little is said about how their discovery benefited mankind.

Karier groups the sixty-four economists awarded the prize through 2009 into thirteen chapters, organized into "topics" or "types" rather than chronologically. This approach provides an opportunity to highlight relationships among the scholars and show how various literatures evolved. Yet, in most chapters, there is limited discussion of interaction among the economists. The thirteen chapters summarizing