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BOOK REVIEW

THE DYNAMICS OF KEYNESIAN MONETARY GROWTH

Carl Chiarella and Peter Flaschel
Cambridge University Press, 2000

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The objective of this book is to provide "a systematic theory of endogenous business fluctuations and growth with a hierarchical structure of integrated macrodynamical models" (p. 372). The starting point is Tobin's neoclassical model of monetary growth, and successive chapters show how Tobin's model can be extended in various "realistic" directions while preserving the relevant adding-up and balance-sheet constraints of a macro model. The work reported here is squarely in an ongoing European theoretical tradition that eschews the stochastic, representative-agent, approach to macroeconomic modeling. Absent stochastic disturbances, the authors provide a qualitative analysis of dynamic behavior for a variety of closed-economy models—a variety that, as the authors themselves point out, is closely related to three prototype models studied in Part I of Sargent's 1977 book, *Macroeconomic Theory*.

For the most part, expectations are formed adaptively. Apart from a brief reference to empirical realism, the authors justify this choice on methodological grounds. An appeal to saddlepoint instability, they argue—with its consequent emphasis on rational jumps to the stable manifold—misses the possibility that saddlepoint instability is a local property. Global analysis of nonlinear dynamics shows that many models approach a limit cycle—a result of intrinsic nonlinearities arising from products and ratios of endogenous variables. So, rather than assume rational expectations, the authors prefer to analyze models in which the rational expectations solution emerges as a limiting case for particular parameter values in a more general model.

In other respects, many of the modeling assumptions will seem unsurprising for readers familiar with recent empirical policy simulation models, many of which

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share the book's Keynesian features of short-run nominal rigidities, a mixture of expectations-generating mechanisms in various markets, and oscillatory convergence to a steady-state growth equilibrium. One exception is the maintenance of Kaldor's saving assumption, that all wages are spent and part of profits are saved. Another is that, unlike the empirical Keynesian modeling tradition—see Phillips (1954), Jonson et al. (1977), and Powell and Murphy (1997), for instance—explicit stabilization objectives of monetary and fiscal authorities are pushed to the background.

In what is now a fairly common policy environment, where the monetary authority has an explicit inflation target and the fiscal authority is subject to some kind of fiscal responsibility legislation, the effect of the resulting feedback rules is to ensure that the model economy does not get too far away from its long-run growth path. So, the stability question in policy-relevant models takes a different form than in this book. Chiarella and Flaschel analyze the dynamics of model economies in the absence of stabilizing control. The modern policy environment, and models of it, examines dynamic stability from the perspective of the form, and informational feasibility, of alternative policy rules.

A useful synthesis of the field—or "systematic theory" —is necessarily selective, emphasizing only the more significant contributions. The authors, as single authors and together, have made numerous contributions to the area. Their comprehensive knowledge of the field has resulted in a book that is, unfortunately, encyclopedic rather than synthetic. At some point—at the end of each chapter, or at the end of the book, perhaps—I was hoping to find a concise summary indicating which of the model extensions have important and generic effects on model dynamics, and which do not. This is difficult in a theoretical treatise such as this, because there is no empirical metric by which to judge the plausibility of assumptions as to parameter values, or the cyclical behavior of the models. Instead of an attempt at synthesis, the authors make copious reference to the literature, showing how existing partial analyses of nonlinear dynamics are closely related to one or more of the special cases considered in the book. Too often a list of further possible extensions is used to conclude a chapter, when it would be more useful to provide a clear statement of what has already been done.

So, it is not clear who is intended as their audience. Graduate students and empirical macro-modelers can get a flavor of the approach by reading a few of the existing papers. Those who are already familiar with the literature have not had it synthesized for them. To be fair, the authors indicate that the present book is a stepping-stone toward the dynamic analysis of a more complete system, one that is similar to modern Keynesian macro simulation models. A systematic analysis of the dynamic structure of these policy-relevant models, building on the approach developed in the present volume, is likely to be a useful and interesting exercise.

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