

banks once again (Pierre Jacquet and Thierry de Montbrial) and economic policy co-ordination (by Jacob Frenkel, Morris Goldstein and Paul Masson). Again, much of this is highly repetitive.

While the book has a number of nuggets to tweak the interest of readers who are already reasonably familiar with the global debt issue, it is tough slogging trying to find them. On the other hand, people wanting a coherent overview of this sad episode in the world's economic history will have to look elsewhere since the papers — some of which appear to have been “recycled” from a previous work — don't hang together very well. This is always a danger in weakly-edited works where the authors are not kept on a short leash.

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***Money in the People's Republic of China.* By Gavin Peebles.** Sydney: Allen and Unwin, 1991. Pp xiii, 289.

Gavin Peebles' book “Money in the Peoples Republic of China” comes at a time when most observers of China are wondering how the government is going to calm down an overheating economy that is socialist by nature but capitalist by growth figures. Last time these problems were on the economic planners' agenda in the mid 1980s, and their deliberations resulted in a harsh austerity programme that almost put the economy to a halt. Amongst others, an underdeveloped monetary system and a rudimentary capital market were identified as major reasons for the abrupt deceleration in the economy's growth at that time.

The key question today is whether policy-makers in Beijing have gathered enough experience to steer their country in a less turbulent way. Peebles' answer is that planners are still in a learning phase. This is an ambiguous answer: on the one hand, it offers hope that they have

improved monetary management: on the other it indicates that further changes in the institutional setting of the monetary sector are in the offing, thus increasing uncertainty. However, his book is helpful in that it offers readers interesting insights into the way Chinese policymakers think. It is divided into seven chapters which offer the reader a menu approach to a vast amount of information until recently only available to a small circle of China specialists. In the first two chapters, Peebles attempts to develop an alternative approach to the Quantity Theory of Money in order to explain China's monetary experience. Instead of focusing on aggregate stock data, he prefers to use a model based on flows of expenditure into and out of the consumer sector, analysing what he calls the resulting purchasing power imbalance (PPI). This special approach reflects the measure used by Chinese authorities: they were concerned with the ratio of monetary aggregates to the value of retail sales, as GDP would not have indicated the amount of goods available to consumers. As both available data and the resulting policy can only be understood in connection with the underlying methodology of the study, this is a sensible approach. However, readers with a Western economic education sometimes tend to get confused over particular expressions.

In his overview of the 1952–85 time span Peebles provides three remarkable findings:

1. There is a reverse short run relation between money and real income, unlike events in Western countries. However, in the long run the relationship is positive.
2. There is a positive relationship between inflation and money supply.
3. Real money demand increased in times of inflation and falling output, which again is in contrast to industrial countries' experience.

These findings have to be seen against the Chinese political background. From the 1950s onwards, the use of money was discouraged, only to be strongly favoured again in the 1980s. Still, Peebles argues that the monetary system was the same over the period 1953–85, as money was pumped into the economy via state enterprises.

In the third chapter, Peebles lays the conventional theoretical foundation for the analysis of the Chinese monetary system given in the later chapters of the book. He summarizes the role money plays in an economy, discusses its definition and functions (which is of particular interest when having in mind an economy with inflationary potential), and looks at the mechanics of changes in money supply. In particular, he questions the relevance of the Quantity Theory of Money for a country like China. However, his thesis that increased expenditure can reduce the nominal money supply indeed much more explanation than the author provides, because it rejects a basic assumption of monetary economics. In fact, it can only be understood if the concept of money supply is altered completely. Otherwise the reader is left with the impression that in China increases in money stock evaporate once they have been spent. As a matter of fact, they just leave one part of the economy and enter another one. Peebles seems to focus on the causality between monetary and other aggregates, not on the identity equation $MV=YP$ itself, and he supports the Post-Keynesian View that money supply is endogenous. Without saying so, he raises the question of the monetary concept: the further away the definition of money supply "M" is from the monetary base, the less predictable will be, of course, the change in money supply. In that sense all Ms in all countries are endogenous to varying degrees.

From this starting point, money in socialist economies has to be seen from a special angle: Peebles distinguishes between a "traditional view" which sees the reason for excess money balances in the nature of forced saving, and a "new view" which contends that higher money balances are a natural reaction to systematic conditions and therefore desired: there simply cannot be excess demand, as any balance is desired. Otherwise, the holder would burn the bank notes, one might add. The latter, rather cynical view is dismissed by Peebles. He stresses the importance of positive real interest rates and reduction of financial repression, as suggested by the Mckinnon/Shaw school. In checking a simple quantity equation for

industrialized countries, developed countries and China, the author concludes that the effects of excess money balances depend on the underlying type of economy: in industrialized countries, inflation is the most likely result, whereas an increase in money supply may translate into lower velocity in developing countries, and in China in particular. Recent studies, however, do question the validity of a stable velocity for Western countries, too. More interesting than the fact of a differing velocity behaviour is Peebles' conclusion that instead of a country's state of development its institutional setting is responsible for volatility of income velocity of money. This is the topic of Chapter 4.

Starting from the well known distinction between market economies and planned or "socialist" economies Peebles shows the different roles money can play under these systems. In both cases it is important as a medium of exchange. If, however, the use of money is discouraged, there will be substitutes for money, as was the case in China with the "grain certificates". Their widespread use is a good indicator of excess demand, a phenomenon almost deliberately reinforced when the number of state owned retail shops was reduced between 1957 and 1978. As opposed to peasants, the urban population was more dependent on money income, which included automatic inflation adjustment probably contributing to present inflationary tendencies, too. Besides, the management of foreign trade via state monopolies is another factor influencing money supply because these agencies themselves are setting the exchange rate they apply to cross-border sales and purchases. Peebles assumes that there are no price effects from exchange rate changes. This was certainly true for most of the considered time span as the share of trade in total output was small. Peebles makes an important observation in saying that the official fight against inflation is still in a learning phase and that measures taken in future need not necessarily resemble previous policy actions. This may come as a relief to all those who today fear a crush on domestic lending similar to that of the mid 1980s. This learning process cannot be seen detached from the official

Chinese concept of money being basically a credit by wage earners to the government. This credit should finally be redeemed by the delivery of material goods. As a matter of fact, cash was scarcely used among state agencies which were connected via a transfer settlement by state banks. Money in this case was only a standard account. Cash was mainly used among consumers and employers. This has to be taken into account when measuring the money supply. Only now it becomes clear why Peebles suggests expenditure as an important tool for estimating purchasing power. In fact, unlike Western countries, increased expenditure can reduce money supply as purchasing power is transferred from the ("active") cash economy to the ("passive") internal economy of the state. In a world of administered prices and preset output figures and money balances, income velocity becomes an important element to be taken into consideration by monetary management. As a matter of fact, changes in the velocity represent changes in money demand. However, planners are reluctant to allow velocity fluctuate freely as an increase in unspent money means purchasing power out of their control. They therefore prefer a reduction in the money stock by additional supply of goods to an increase in deposits. This practice is quite different from those adopted in other socialist countries. It explains, too, why banking reforms since the mid 1980s have not led to a more market-based monetary policy, and instead have kept direct quantitative controls in place.

The book's fifth chapter provides us with a survey of relevant literature of the past three decades. Not only does it support much of Peebles' own approaches, but it also offers the reader an almost unique and very readable access to the existing analyses. Up to this point Peebles has gathered enough facts to start an empirical test of his hypotheses against Chinese reality. He does that in a very comprehensive way which allows him to maintain his thesis that money stock (note the distinction as against money supply!) is demand driven in the sense that imbalances between availability of goods and purchasing power result in a reaction by the authorities to increase retail sales

via prices or supply. This result could very well be called the socialist version of financial repression, and is an interesting supplement to existing research.

In the book's last chapter, Peebles takes up the question of which changes have occurred over the past decade and how they may affect policy-making in the People's Republic of China. This is of particular relevance to all those who have to estimate how the government is going to deal with the present tendencies towards economic overheating and corresponding inflationary pressures. Peebles shows that reform of the financial sector has lagged behind the liberation of once tightly controlled industries and the agricultural sector. This invariably has led to an increasing inadequacy of monetary instruments *vis-à-vis* typical phenomena of market driven economy. Peebles is right in saying that "very little market discipline" existed in the banking sector. However, applying his own analytical approach, we see that there is one major explanation for this fact: although large parts of industry still belong to the state sector, they have to compete with private enterprises for manpower and funding. Market discipline is difficult to achieve under these circumstances, both in the state's industrial and financial enterprises. There is no way out except through a further careful liberalization of this large remnant of communist China's history.

China will continue to move towards the front stage of world politics and economies. In this context, Peebles' book is a meaningful contribution to our understanding of this important country's upcoming internal processes.

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***Authority and Academic Scribblers: The Role of Research in East Asian Policy Reform.* Edited by Sylvia Ostry. San Francisco: ICS Press, 1991.**

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