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Book Reviews

Editor's Note: Guidelines for Selecting Books to Review

Occasionally, we receive questions regarding the selection of books reviewed in the *Journal of Economic Literature*. A statement of our guidelines for book selection might therefore be useful.

The general purpose of our book reviews is to help keep members of the American Economic Association informed of significant English-language publications in economics research. We also review significant books in related social sciences that might be of special interest to economists. On occasion, we review books that are written for the public at large if these books speak to issues that are of interest to economists. Finally, we review some reports or publications that have significant policy impact. Annotations are published for all books received. However, we receive many more books than we are able to review so choices must be made in selecting books for review.

We try to identify for review scholarly, well-researched books that embody serious and original research on a particular topic. We do not review textbooks. Other things being equal, we avoid volumes of collected papers such as festschriften and conference volumes. Often such volumes pose difficult problems for the reviewer who may find herself having to describe and evaluate many different contributions. Among such volumes, we prefer those on a single, well-defined theme that a typical reviewer may develop in his review.

We avoid volumes that collect previously published papers unless there is some material value added from bringing the papers together. Also, we refrain from reviewing second or revised editions unless the revisions of the original edition are really substantial.

Our policy is not to accept offers to review (and unsolicited reviews of) particular books. Coauthorship of reviews is not forbidden but it is unusual and we ask our invited reviewers to discuss with us first any changes in the authorship or assigned length of a review.

B History of Economic Thought, Methodology, and Heterodox Approaches

Remembering Inflation. By Brigitte Granville. Princeton and Oxford: Princeton University Press, 2013. Pp. xvi, 272. $35.00. ISBN 978–0–691–14540–2. *JEL 2013–0973*

In theory, the problem of inflation has been solved. Any central banker who is unsatisfied with the prevailing rate of change in prices need only conduct the appropriate set of open market operations to slow the growth rate of bank reserves. These policy actions will be followed, inevitably, by a decline in the growth rate of broader measures of the money stock, bringing about the desired fall in inflation itself. Then, to keep inflation low and stable, all that central banker needs to do is to conduct further open market operations to maintain the new, slow-but-steady growth in reserves and, consequently, all other nominal magnitudes.

But if making monetary policy is as simple as theory suggests, why do we still see economies experiencing unacceptably high rates of inflation? And why should anyone worry that someday—perhaps even someday soon—inflation will move sharply higher in the United States, United Kingdom, and Euro Area? These are the critical questions addressed, then answered, in Brigitte Granville's *Remembering Inflation*.

Granville begins by reviewing for us the historical circumstances under which, in the aftermath of the First World War, British officials, struggling to restore the workings of the classical gold standard and to return the value of the pound to its prewar benchmark, adopted deflationary policies that also produced a sharp rise in unemployment. Granville describes the development of John Maynard Keynes' economics as a reaction to this episode of postwar stagnation as well as, of course, the Great Depression that followed it. After World War II, Keynes's intellectual descendants worked to establish the Phillips curve as offering a trade-off between inflation and unemployment; policymakers' attempts to exploit this trade-off led, first, to the breakdown of the Bretton Woods system and then to the Great Inflation of the 1970s. Classical principles finally returned when, guided first by Milton Friedman's monetarism and then by Robert Lucas and Thomas Sargent's rational expectations macroeconomics, central bankers worked again to deliberately slow the growth of nominal aggregates. Here, Granville's masterfully told tale offers a compelling example of how history influences the evolution of economic thought, which in turn feeds back on and affects the course of history itself, establishing the cyclical theme of "remembering" and "adaptation" that runs through the rest of her narrative. And she accomplishes all of that in the first chapter of her book!

Granville goes on to consider a variety of other pressures that threaten to push inflation higher, even now, more than a quarter century after it was brought back under control in the world's major economies. Time-consistency problems, which can tempt policymakers to exploit the Phillips curve even when they know that doing so may be futile, and political economy considerations, which identify winners as well as losers from inflation, are all discussed. Two later chapters focus on conflicts that arise when central bankers must take responsibility for stabilizing the financial system in periods of crisis, and the special challenges that policymakers face in a world of globalization, in which open economies import both manufactured goods with falling prices and raw commodities with volatile and often sharply rising prices. Readers will appreciate and learn much from Granville's skillful review and synthesis of even the most recent research on both of these timely issues.

Above all else, however, the government's budget constraint plays a central role in Granville's analysis, as she repeatedly describes historical examples in which fiscal pressures have led governments to choose policies that generate higher inflation, in an effort to either secure seignorage revenue or depreciate away the real value of the sovereign debt. It is Granville's telling of these stories, together with her summary of the literature that builds on Sargent and Wallace's (1981) idea of "unpleasant monetarist arithmetic," that will give her readers reasons to pause and consider how large government deficits in many countries around the world today threaten to undermine the conditions of monetary stability enjoyed since the early 1980s.

Although Granville largely eschews the use of mathematics and limits her statistical analysis to a set of well-chosen tables and graphs, she does assume that her readers have studied or are capable of studying theoretical and empirical articles published in leading economics journals. That probably puts her book beyond the reach of a general audience, despite the fact that it is so clearly written and deals with such an important set of issues. Instead, *Remembering Inflation* will be most useful to academic economists and policy advisors who, like me, will surely appreciate Granville's unique ability to weave elements of both economic history and economy theory into a compelling, unified narrative. Economics graduate students and even ambitious undergraduates could also use Granville's book as an introduction to the enormous literature on inflation, its causes, and its consequences, adopting her bibliography as a list for further, required reading.

Granville writes to us from London, making her perspective a British one. But this can be helpful, even for readers based elsewhere. To cite just one example, which hits closest to (my) home, Granville's discussion of the challenges faced by British policymakers in the 1920s, as the United Kingdom began to be eclipsed by the United States as the world's economic and financial center, will surely be of interest to Americans seeking to predict, and guard against, what might happen if our dollar one day loses its status as the world's leading reserve currency.

Along those same lines, however, I would like to have read more in Granville's book about one particularly striking set of divergent trends that has appeared in the major economies since 2008. Recent experience in the United Kingdom, where inflation has consistently come in above the Bank of England's two percent target, differs considerably from that in the United States and Euro Area, where inflation has instead remained surprisingly—and stubbornly—below expectations. On several occasions in her book, Granville suggests that raising the target to four percent in Britain might be necessary and desirable, both to acknowledge the pressures that have generated the increase in inflation already and to protect the credibility of the Bank of England's policies going forward. But why, exactly, has Britain experienced rising inflation even as the threat of deflation still looms larger elsewhere? And, as a partial remedy for what ails both economies, would Granville also advocate an increase in the inflation target for the United States and Euro Area, or would it be enough for the Federal Reserve and the European Central Bank to simply bring the actual inflation rate back to target? She does not tell us here, but I hope she will in her future work. For now, any economist with an interest in inflation and in the theory and practice of monetary policy more generally would do quite well to read carefully the excellent study that Brigitte Granville has given us.

References

Sargent, Thomas J., and Neil Wallace. 1981. "Some Unpleasant Monetarist Arithmetic." *Federal Reserve Bank of Minneapolis Quarterly Review* 5 (3): 1–17.

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C Mathematical and Quantitative Methods

Value Solutions in Cooperative Games. By Roger A. McCain. Hackensack, N.J. and Singapore: World Scientific, 2013. Pp. ix, 225. $88.00. ISBN 978–981–4417–39–6.

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Cooperative game theory is a branch of game theory that is concerned with the payoffs that rational agents may obtain given that binding agreements are possible. Under these assumptions, coalitions of players may commit, due to mutual benefits, to take a joint course of action earning them a joint payoff. Thus, the focus shifts from strategic considerations to payoff allocation among the coalition's members. Unfortunately, the economic reality cannot be neatly divided into domains where only cooperative or strategic considerations should apply. Many times, strategic and cooperative behaviors coexist. This calls for a theory that may bridge cooperative and noncooperative games. The "Nash program" is an attempt to base cooperative games on, as the author puts it, "noncooperative games with enforcement mechanisms, penalties, and retaliations incorporated as strategic moves." This book makes a point of the need for another program, the "Coase–Barro" program, whose objective is to model strategic interaction by "cooperative games with explicit account of the barriers, such as transaction costs, that account for the failure to realize a fully cooperative solution." The intuitive need for such a program stems (as the name suggests) from macroeconomics. A particular example that is also discussed in the book is search and matching in labor markets.

The book supplies an attempt to tackle this vast research program. This is mainly done by supplying many examples that emphasize the underlying cooperative reasoning behind seemingly noncooperative interactions. These examples may help the nonexpert reader to appreciate the need for such a program; they may familiarize the reader with the mindset of cooperative game theory, and supply the right intuition for the proposed program. Some of the intuition is built, at times, at the expense of rigor; however, I feel that this ensures a smoother ride for the nonexpert reader.

The main interest for experts is the "Coase–Barro" program, with the possible new applications of cooperative games in macroeconomics. However, an expert reading the book may witness some conceptual difficulty. The author seems to be promoting the idea that the ability to form binding agreements is not only anchored in economic reality, but also in the agent's mind; namely, that underlying cooperative games is a different form of rationality, a "costless cooperative rationality" (CCR), which states that, "if an agreement is in the advantage of all those who are party to it, or if a threat can improve the payoff to an agent in a group of agents, then