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Erkki Koskela, On Disequilibrium Effects of Interest Controls in a Monopolistic Banking System

Terje Hansen, The Relationship between Aggregate Costs, Employment and Cargo Capacity of the Norwegian Purse Seiner Fleet

Karl-Gustaf Löfgren, The Corridor and Local Stability of the Effective Excess Demand Hypothesis: A Result

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Lars Jonung and *Eskil Wadensjö*, Wages and Prices in Sweden, 1912–1921. A Retrospective Test

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Lars Werin

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The Scandinavian Journal of Economics

Founded by David Davidson in 1899

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arrangement as compared with full contingent markets". One might question, however, whether this is really an interesting standard of comparison since perfect contingent markets do not exist anywhere in any case and probably could not be established either as a matter of policy (institutional change). Stanley Fischer, finally, speculates "On the Non-existence of Privately Insured Index Bonds in the United States Capital Market". He is at a loss to find fully convincing explanations of the phenomenon but is inclined to link it to the low variability of the inflation rate until the end of the sixties. He believes that the higher variance in the seventies will be more conducive to the issue of private index bonds. Even so there is a long way to go before we, the victims of modern inflation, will trust that indexed inflation with all its inescapable imperfections is better than no inflation. I would certainly prefer to see economists return to the problem of policies, including profound institutional change, *against* inflation rather than being preoccupied with policies *for* inflation.

As a product of the English book industry this volume does not greatly honor the publishers. It is expensive, proof-reading is substandard, references are not in order, many pages in my copy were glued together and could not be separated without destroying part of the text, and the uneven right hand margin is ugly. Western World books begin to look more and more like products of Russian war-communism—or is it a result of inflation?

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Leif Johansen: *Lectures on Macroeconomic Planning: 1. General Aspects*, North-Holland Publishing Company, Amsterdam, New York and Oxford 1977, X + 355 pp.

The excellent Norwegian economist Leif Johansen's book is a comprehensive work and rich in thought. In order to convey due appreciation of its richness and comprehensiveness, I shall begin by attempting a brief survey of the present state of the literature on planning. This detour seems necessary in order to determine the place of Johansen's book in the literature.

The subjects treated in works written on planning may be divided into four main categories.

1. *Empirical description of planning*. In our day, a central apparatus of national economic planning has been built up in almost every country, and a large number of experts deal professionally with drawing up plans. Their activity is connected with numerous offices and authorities that participate in preparing the plans, advisory committees, academic research workers, etc. While this work has grown into an important part of economic reality, there are, in fact, only a few such books or articles as offer a sincere and thorough account of how planning really works. What social forces affect the planner and how are decisions made? How are problems first recognized and then solved? What interests clash and how are compromises

made? Hardly any case studies have been carried out based on direct empirical observation, such as would answer the questions asked above and similar ones, and as would allow an insight into the "workshop secrets" of planning.

2. *Descriptive theory of planning.* As in category 1, this again refers to the description of planning processes which take place in reality, but now at a higher level of abstraction and aimed at generalization. The literature of this sphere of subjects is much wider than that of the first category. The works implied here discuss—partly in verbal form and mostly using a mathematical model—some characteristic aspect of planning, e.g. the flow of information between the center and lower-level organs or firms; or the connection between decision-maker and planner; or the relation between prices and "quantity targets", and so on. These works analyze the essential features, mechanism and regularities of one or another such aspects.

Although this subject may already claim a number of valuable results, its further development is withheld, in my opinion, by the deplorable poverty of the literature of direct observations mentioned as category 1. It is difficult to "generalize" where facts are not yet sufficiently revealed.

The descriptive theory of planning is in rather a disintegrated state; valuable fragments have been contributed, without a grand integration.

3. *Planning methods.* Here we are faced with an embarrassing abundance. A large number of books and articles put forward proposals for adopting various planning methods, and a particularly large number deal with the application of mathematical methods in planning. And, although there are still quite many uncleared methodological problems, some remarkable integrating works have been published that survey the "tool-kit" available for planning.

4. *"Philosophy" of planning.* What in fact do we call planning? What is the place and role of planning in the functioning of economic systems? Such questions come

under this category. A considerable number of studies have already treated the subject, often from standpoints diametrically opposed to each other in many aspects.

The first and second spheres of subjects represent a descriptive approach, while the third and fourth are normative—at various levels of abstraction and generalization. Most works grasp just one of the four spheres of subjects and treat that one exclusively. Only a relatively small part of literature undertakes to discuss two subjects at the same time. Johansen's book is rendered especially interesting and important by the fact that it covers all four main spheres of subjects. I do not think it is an exaggeration when I say that in this respect, it is a unique work. Of course, the same thing is also a disadvantage to some extent, as the author openly tells the reader in his Foreword. At a given size for the book, this inevitably involves treating each aspect very briefly. At some points the merger of the different aspects into one another was disturbing to me; it was difficult to find out whether the question was about what planning *is like*, or what it *should be like*. However, we are compensated for the disadvantages by the manifold character and comprehensiveness of the book: the simultaneous discussion of direct experience, descriptive theoretical generalization, methodology and "philosophy".

As regards the first sphere of subjects, direct observation empirical description, the reader will find more than one interesting observation. Of course, it cannot be expected of this book that it should make up for what the whole of the literature has failed to do.

In my opinion, the book has the most to offer with respect to the second subject, i.e. the descriptive theory of planning. Chapter 2 is particularly valuable, novel and original. It uses the apparatus of choice theory and its various branches, game theory and team theory, to examine the connection between planning and other elements of the economic system. Earlier

a number of authors presumed perfect harmony of interests between the representative of the "whole" (Central Planning Office), and the "parts" (sectors, lower-level institutions, firms). Johansen's approach is much more realistic. He takes it sensibly into account that there may be conflicts among them. In this "game" each player tries to integrate into his own steps the foreseeable steps of the next player. Games of the cooperative as well as the non-cooperative type may develop. I think that this train of thought may prove to be highly productive in understanding planning as an *actual social process*. In this process there are not blindly obeying parts of a machinery aimed simply at a common target that participate, but living people, each with their own motivation. The mode of description initiated by Johansen promotes the thorough analysis of this process and the revelation of its characteristics.

Within this conceptual framework the institutional reforms taking place in socialist countries can be described as an introduction of some new "rules of the game": "The construction of systems of decentralized decisions will to a large extent aim at constructing rules of the game, including rewards and sanctions, in such a way that the players by playing non-cooperatively, implement a solution which coincide with a cooperative solution", is said in the book (p. 87).

Planning is an extremely complex and complicated task, which has several "dimensions" and can be examined in many different "sections". In Chapter 3, Johansen takes each of these "dimensions" and "sections" in turn: the quantitative and qualitative sides of planning, aggregation, the multistage, i.e. iterative approach, the partitioning of the large planning problem, the time span of planning, international co-ordination of plans, plan consistency, etc. These questions are treated mainly at the level of descriptive theoretical generalization (second sphere of subjects), while a number of valuable methodological proposals (third sphere of subjects) are also set forth.

Johansen has made an important step towards *synthetization* of planning theory, which I have said is in rather a disintegrated state. It is true that the integration of a full and finally matured theory remains the task of a distant future. Considerable empirical observations still have to be gathered; a number of theoretical problems are waiting to be elaborated. Johansen's book provides by all means stimulation and a good starting-point for further work on theoretical synthetization.

Johansen's work is already an important foundation stone for this theoretical building because of its firmness and balance. It is free from the "liberal" bias that in every macro-planning sees inevitable bureaucratism, suppression of all individual initiative and central despotism. But it is also free from the naïvete that expects the mere fact of introducing central planning to eliminate inconsistency, uncertainty and contradictions.

In his earlier works Johansen has proved that he is an outstanding *mathematical* economist. It is all the more remarkable that he is free from the illusion that expects—although not of any kind of planning, but at least of mathematical planning—the total victory of strict rationality. In Chapter 4 of the book he presents very sensibly and moderately what mathematical planning can and *cannot* do and indicates the place of mathematical models in the practical process of planning.

The same sensibility and moderation run through the whole book, including the "philosophical" explanations. The book also has a convincing and interesting message to convey in the fourth sphere of subjects. (See e.g. the definition of planning—free from one-sidedness and exaggeration—on p. 48.)

After having a look at the nature of the subjects treated in the book according to the four categories listed above, I shall proceed to comment on a few general features equally characteristic of the discussion of all four subjects.

Johansen went through the literature of planning in a very wide sphere and

highly comprehensively, and he presents it to the reader in a well-arranged form. A certain linguistic or regional "provincialism" and theoretical-ideological bias are characteristic of most works on planning. Anglo-Saxon authors, even in the best integrating works, rely almost exclusively on English language literature. Most of the East-European works support themselves on East-European (sometimes even only on national) literature. Johansen is exemplary in his many-sidedness and objectiveness. He makes use of the Marxist, neo-classical and Keynesian schools; he draws on the experience of socialist, advanced capitalist and developing countries; and refers to the pioneers now considered classics, as well as to the present practitioners of planning. The book is a veritable history of the science of planning. The confrontation of quotations is highly illuminating; bibliographies are carefully selected. Even if the book had no other value, as a guide in the vast literature on the question it could still be a great help to academic researchers of planning, practitioners of planning, as well as university students.

This instructive role of the book is further strengthened by the many different ties that bind the treatment of planning to the foundations of economic theory. This is exactly what makes the book particularly apt for use as a manual. The student who has become acquainted with micro- and macroeconomics, decision theory and game theory, and has dealt with comparison of different economic systems, can now organically fit into all this knowledge what Johansen says about planning.

Finally, a few words about the style of the book. It never fails to give an economic interpretation and justification to the formal discussion. It can explain complicated theoretical questions with great clarity and simplicity. It is free from the self-importance and pompousness of numerous works on similar subjects. This book is engagingly modest.

We anticipate with interest and impatience the next volume of Johansen's work on planning.

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Mary Jean Bowman, Åsa Sohlman & Bengt-Christer Ysander: *Learning and Earning. Three Essays in the Economics of Education*. National Board of Universities and Colleges, Stockholm, 1978, 272 pp.

The three essays in this book are quite independent. Ysander discusses a theory that might be used in evaluating education policy, i.e. the human capital theory; Bowman makes use of this theory in a normative discussion of educational planning; Sohlman analyzes the development of the educational system in Sweden and summarizes the status of Swedish research on education and earnings.

The main topic in Bowman's essay is: how can congruence between the educational system and the economy be achieved? Her answer is to make changes in students' incentives rather than restrict their choices by physical planning of the number of students in different disciplines. The manpower planning theory recommends that the educational system be planned so as to supply as many engineers, medical doctors, lawyers, etc. as society requires.

Bowman's main criticism of the manpower planning approach is that it assumes *ex ante* near zero skill substitutabilities. The recommendations of the manpower planning system leave no room for the price system to operate and disregard the determinants of supplies of qualified manpower (p. 23). An alternative to manpower planning is to use rates of return calculations as a guide for determining which disciplines should be expanded; see Anderson, C. and Bowman, M. J. (1967).

Bowman also discusses the Swedish educational system. According to Bowman,

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Lars Wohlin: How can Sweden Cope with its Economic Problems?

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Johan Fellman: The Role and Education of Statisticians

Book Reviews

Contents in Brief – In English

Announcement

International Course in European Integration, Amsterdam

The "Europa Instituut" of the University of Amsterdam and the Netherlands Universities Foundation for International Cooperation (NUFFIC) announce the start of the *14th International Course in European Integration* on 7 September 1979. This is a post-graduate course lasting 8 months, given in the English language and intended for lawyers and economists. A limited number of scholarships is available.

Subjects to be dealt with are:

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2. Context

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3. Host Institution

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For further information, please write to the Director of the Organisation committee: Dr Michel De Schrevel, Fondation Universitaire Luxembourgeoise, Rue des Déportés, 140, B-6700 ARLON, BELGIUM.

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from the Editors Paul Davidson Sidney Weintraub
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References to articles and books (including the first names of all authors cited) should be listed at the end of the article; references in the text to this list should be made *by year* (in parentheses). *Figures* should be suitable for direct photographic reproduction and allowances should be made for necessary reduction. *Tables* should be clearly labeled. Supplementary explanations of mathematical methods and statistical tests which, although not intended for publication, could facilitate the referees' work, should be enclosed.

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