[Review of the book The Human Aspects of Economics: A Treatise on Unemployment, Inflation, and World Poverty, C.A. Cannegieter, 1982]

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system lacks nonlinearity, dynamic features, price variables, *etc.*, and step by step the framework is introduced for a typical macro-economic model of the industrial market economy. The Wharton model serves as Klein's example.

From the extensive amount of econometric techniques needed for analysing a large-scale model Klein has selected the following topics: model simulation, model validation, dynamic analysis, multipliers and policy analysis and forecasting. No attention is paid to specification and estimation problems. Closely related are on the one hand the chapters on model simulation and dynamics and on the other hand model validation and forecasting. The dynamic structure of the models is analyzed by studying difference equations. Based upon work of Tinbergen and Kalecky stability conditions and cyclic behaviour is investigated. No attention is given to a Box-Jenkins-like approach to the time series used in the models.

The model validation ('*ex post* prediction') is carried out for several models by using the well-known descriptive criteria such as root-mean-square-(percentage-)error and average-absolute-(percentage-)error. Analytic measures such as confidence intervals and variances of forecast errors are also discussed. Klein notes that the analytic calculation of variances may become troublesome in complicated (nonlinear) models. He suggests repeated generation of random disturbances in order to reestimate the model. In this context a reference to the bootstrap literature could be made.

The ambitious 'Project Link' is discussed in Chapter 7. Most national models treat imports and export prices as endogenous, while exports and import prices are considered as exogenous. The purpose of the Link system is to endogenize exports and import prices. A world trade matrix for 29 (groups of) countries is used to link the national (NIA-based) models. In an appendix Welfe indicates the main features of economic model building for socialist countries. He illustrates how regularities due to a 'central plan' and the predominant role of institutional factors can be incorporated in an input-output type model. The impact of the price mechanism, clearly visible in industrial market models, is hardly recognizable in the model of the socialist economy. 'Apart from price equations in foreign trade, the model explained only the changes in the general level of retail prices for consumption goods, including in these the prices of foodstuffs at local fairs.'

Though the statistical background on identification, specification and estimation is not reviewed, the book presents useful tools on dynamic analysis and prediction. Moreover, econometricians and economists dealing with macro-economic model building can find interesting examples of large-scale models in Klein's *Lectures in Econometrics*.

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C.A. Cannegieter, *The Human Aspects of Economics; A Treatise on Unemployment, Inflation, and World Poverty,* Exposition Press, Smithtown, New York, 1982. Pp. IX + 194. $12.50

Cannegieter's treatise on unemployment, inflation, and world poverty seems only useful for a more general reader and less useful from the point of view of a theoretical economist. For the general reader, it may give a better acquaintance with questions and answers along the lines promised on the front and back flap. On the front flap it should become clear that Cannegieter is focusing on such questions as: 'Can the terrible unemployment problem be solved? Can the continuing inflation be stopped? Can anything be done to alleviate the miserable poverty that afflicts much of the world's population? The answer to all these questions is yes. (. . .) 'What thwarts the successful application of a sound economic policy in most instances is human weakness: people are too greedy, too selfish, too shortsighted. (. . .) Added to these human foibles are ignorance and confusion, leading to many misconceptions about the workings of the economy. Even otherwise intelligent, knowing people are woefully misinformed about this field that affects everybody – and to help to clear up these misconceptions, Dr. Cannegieter reviews basic economic concepts and the mainstream of modern economic thought before discussing unemployment, inflation and projections of world population *vis-à-vis* world supply.'

The aforementioned statements are actually elaborated upon in the first two chapters. The introductory Chapter 1 talks of the unemployment rate that keeps rising to higher and higher levels and the problems of poverty and hunger in the world that will not go away: 'Can we economists do something about this?' Sure, we can, the author states. But like the medical field's prescriptions are ignored by the people 'because of their human weakness, the same story is true in the field of economics: although economists may seem to differ a lot in their theories, their prescriptions for the main economic ills are about the same. So there are certain prescriptions against economic evils, but they are not applied in the right way and as a consequence are not very successful. This is mainly because of human weakness.'

In Chapter 2 the author asks: 'What it is all about?: Some basic economics.' The first part is devoted to the whole concept of human wants and needs. Such a concept is flexible and not very well determined because it depends upon what people are. Although it is a basic concept in the field of economics, one should realize that a person's mentality is capable of changing overnight. The use of 'basic needs' statistics of the past means the use of statistics about what people did then, and this means we are not looking ahead, whereas the world is changing all the time.

In the second part of the chapter the auther focuses his attention on the other leg of economics, *i.e.* its means and goods aspects. It deals with Adam Smith's demand-and-supply diagram in relation to *Wealth of Nations* and with Keynes' *General Theory of Employment, Interest and Money,* making use of the famous 45° diagrams. After this, Dr. Cannegieter asks: 'Do we have to change economic theory again, as in the time of Keynes?' He thinks not, saying we can explain existing economic evils by paying attention to human aspects in the field of economics, as announced on the back flap.

In Chapter 3 different kinds of unemployment and inflation are discussed. Wondering how it is possible to have both inflation and unemployment at the same time and asking if there is something wrong with economic theory or with the real world, the author shows the statistical evidence of the original as well as of the reverse Phillips curve. Both relations are realistic, but the latter one is more applicable to recent periods, in which inflation rates are on a higher level while employment rates are at a lower level. This circumstance leads to the author's syncretic theory of different Phillips curve relations at different levels of economic growth. Up to a certain limit inflation stimulates employment, but beyond that point it impedes economic growth and reduces employment. Empirically-founded diagrams would show that this limit-point is in the range of 3 or 4 percent and gives rise to the author's proposal to make his proper extensions of the simple models of Keynes in order to make the necessary adjustments for the somewhat more complicated real world. However, structural unemployment on an increasing level in consequence of a higher wage level, automation and computerization still has to be accepted. The prescribed policies of more complicated Keynesian models will not help here and the only way something can be done would be via the author's solution involving a kind of nonmilitary labor service with strict discipline and organization. Apart from retraining and reeducation the latter way out would mean that marginal work would be done that increases GNP but is not done by either the private sector or the public sector. The cyclical-nonstructural unemployment can be reduced by measures of fiscal and monetary policy as long as the limit-point of inflation has not been surpassed. Beyond this range the author rejects the Keynesian recommendation based on the conventional Phillips curve idea, and so reduction of the rate of inflation below the 4-percent level is a necessary condition to avoid the negative effects of inflation for the distribution of income, interest rates, savings and investments, accounting, taxation and public expenditure. A disregard of the latter condition will lead to productivity reduction and other dampening effects on economic growth. The author's final opinion about what to do against and how to cope with inflation is an optimistic one, telling us that although it seems a cause for anxiety when the inflation rate is too high (as it was around 1982?), there are grounds for hope in that there are many examples of countries that have been able to reduce their rate of inflation.

Part III of this third chapter is devoted to poverty and hunger. In particular the problems of world population and food production in the past and the future are dealt with. The author's main conclusion is that it seems that it will be possible to feed the future world population by changing people's eating habits, inducing them to eat new foodstuffs as well as to produce them in a more economic way. Since experience shows, however, that it is easier to develop and produce low-cost, highly nutritious foods than to get the neediest to eat them, it thus becomes a matter of education and of propaganda in bringing about a change in social behavior. Sooner or later the mass media can do the job in stimulating worldwide nutrition programs.

'If we have the resources why is there still so much misery?' is the question in Chapter 4. The author points to human factors (such as greed, selfishness, narrow-mindedness of participants in the economy), all resulting from human weakness and, again, stimulated by the main economic problems of today. A few points regarding what can be done in the field of economics to alleviate the present misery are worked out in Chapter 5. The author stipulates the need for 'one world or none' and discusses 'which economic system?'. He compares the economic and social performance of different systems of the centrally-planned economies and the nonsocialist countries: the systems of Russia, China, Sri Lanka, Burma, the Middle East, Korea, East and West Germany, East Africa and other countries are briefly considered.

The author's opinion is that the best economic system falls between the two main kinds of systems. But his final conclusion prefers an in-between system which leaves as much as possible to private enterprise and the free market and price system, because this is the most 'practical' system. Such a system works by itself and saves us from inefficiency, corruption and unnecessary government expenditure. In part III of this last chapter the author's main purpose in writing this study appears to be revealed in his promotion of the so-called system of 'Sociocracy,' with its call for improved human relations as the key to ending today's troubles in the field of economics. The author focusses on Kees Boeke's definition of sociocracy as: 'The management of a society by the society itself.' It prefers mutual discussion of things to voting in parliaments, until discussion determines what society wants and until answers are found on which everybody can agree. Of course, this requires many amendations and consultations, since such a consensus is hard to realize, particularly in a large society. Sociocracy can work, at least to the degree that communities are characterised by self-government and voting can be avoided. Personal adjustment of all the members of the community to the common cause is the goal, relinquishment of own interests or views. The author cites the instances of the Quakers, the Society of Brothers and many other communities fulfilling the principle of sociocracy in the fields of religion, education, personal development, world improvement, production and politics. Nevertheless the author wants to be realistic and he questions: 'How may the sociocratic system be further applied?.' He refers to more rational and recent possibilities already realized by the 'existing tendencies in private enterprise that have already embraced sociocratic principles such as worker participation in management, industrial democracy, profit sharing, production cooperatives' but in politics he cannot give any examples. 'On the contrary, in the present system countries use, it is the expert that determines the measures that have to be taken; the political parties contribute only to a splitting up of the country into groups that distrust each other.' Cannegieter ends by saying that: 'If the sociocratic system were universally applied the role of political parties and of labor unions would change. Not their present encouraging of the antagonisms that pull our society apart, but instead their function would be to promote community feeling, bridging the gaps that separate us; thus in a sociocracy they would become completely different institutions.'

Some remarks, whether or not in a critical sense, are in order. Dr. Cannegieter gives us an overwhelming number of facts about world problems of unemployment, inflation and poverty and their mutual interdependence that are worthy of consideration. However we miss a good deal of the time an elaborated argumentation. Sometimes the author's propositions have to be qualified as thorough delusions, for instance, when he states on page 3 that: 'Although economists may seem to differ a lot in their theories, their prescriptions for the main economic ills are about the same.' Apart from forcing many open doors he deals wrongly with a number of Keynesian viewpoints (pp. 2, 20, 21 and 23). This can become dangerous when, on page 39, he says that 'the answer is that the real world is a bit more complicated than the simple models of Keynes; his models are all right, but we have to make some extensions.' In the very few times the author tries to argue he really uses the mere base of empirically-founded relations, as is the case with his syncretic argument for a limit-point range of allowed inflation. A good example of how the author makes a muddle of it is on page 50. There he discusses the way enterpreneurs counter the power of labor with pressure of their own and why such actions will contribute to inflation. The author uses statistical data from New Zealand to sustain his proposition, saying that enterpreneurs want to keep their profit at a certain percentage of wages so that, if wages rise, profits will follow suit. He considers this latter fact to be confirmed by an empirically-founded (combined with a high correlation coefficient) two-year time lagged function correlating the movements of the rate of inflation and those of the change in company profits (as a percentage of National Income) for the period 1961–1972. We have verified the author's result, making use thereby of his own Figures 21 and 22 about the developments of wages, productivity and inflation in New Zealand. Making use of the definitional relation between the annual relative change of the labour income share and that of the profit share, we were able to calculate the numerical data of the latter over the last-mentioned period. The results obtained show, in the first place, that the author's high correlation coefficient is due to leaving out of consideration the very high negative annual changes of the profit share in 1970–1971 and 1971–1972, while the rates of inflation were very high during that time. In the second place the author's result cannot be understood because our analysis has shown a very high correlation between the annual relative change of the inflation index and that of the wage/productivity index over the period 1964–1965 to 1968–1969 while the period after 1969–1970 was characterised by the phenomenon of a 'profit squeeze.' Only in three years (1963–1964, 1965–1966 and 1969–1970) can one talk of a 'reverse' profit squeeze. Our last demonstration of the author's flawed argumentation refers to page 65, where he tries to explain that the feature of the so-called 'services inflation' is a main reason why, in the United Kingdom during the period 1958–1965, the current expenditures of the public sector increased more than 40 percent while inflation increased the GNP value by only 23 percent. However, if Cannegieter would have considered more thoroughly Kuroda's 'reverse Phillips curve' diagram reprinted by himself on page 29, he would have seen that the U.K. in the period 1958–1965 showed an accumulated rate of inflation of 23 percent whereas the accumulated rate of growth of the GNP equalled 26 percent. These latter results can also be deduced from the author's own 'reverse Phillips curve' diagram on page 30. So the nominal increase of GNP was sufficiently higher than the aforementioned 40 percent increase of public expenditures. The latter facts imply that the phenomenon of 'services inflation' was not actual during the 1958–1965 period in the sense that the money cost of the public sector did not tend to increase as a proportion of the total economy. Now the reader will understand why we want to close by saying that we don't see any reason to change our opening remark.

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