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Smithin, John (1996). *Macroeconomic Policy and the Future of Capitalism* The Revenge of the Rentiers and the Threat to Prosperity Cheltenham, UK/Brookfield, USA: Edward Elgar 160 pp £ 45.00. ISBN 1-85278-731-7

The subtitle of the book is a reference to Keynes's prediction about the euthanasia of the rentier, if the policies he was advocating were to be followed John Smithin's main thesis is that the two decades of prosperity enjoyed by industrialized countries of the Western world soon after the Second World War were the result of a compromise between the entrepreneurs and the rentiers, whereby the latter received low, but positive, real rates of return on their bonds and other similar holdings This compromise broke down in the 1970s, when apparently high nominal rates of interest were eroded entirely by high inflation rates This induced a political revolution, around 1979–1982, that brought the resurgence and the revenge of the rentiers, under the guise of various schemes such as zero-inflation policies or strong currency policies This led to the imposition of abnormally high real rates of interest, accompanied by stagnation and high unemployment rates. The objection one can make to this thesis is then the following. in the late 1940s and early 1950s, real rates of interest were much more negative than in the 1970s, why wasn't there a revenge of the rentiers then?

Smithin's book can be seen as being divided into two parts In the first part, consisting of the first four chapters, the author gives a broad picture of his views He presents the main macroeconomic trends of the last 100 years He also presents the main developments in macroeconomic theory since Keynes's General Theory The last four chapters – the second part – are devoted to more specific issues Chapter five examines the main topic of the book – the reasons for which current economic thinking is so much obsessed with low inflation Chapter six takes on the causal effects between budget deficits and interest rates Chapter seven discusses the scope for monetary policy within a world with globalized financial markets Chapter eight analyses the links between the vagaries of the stock market and the performance of the real economy, in light of the aftermath of the 1987 crash

As Smithin himself argues, the present book brings together the ideas of two previous books of him, *Macroeconomics After Thatcher and Reagan* (1990) and *Controversies in Monetary Economics* (1994), thus putting together issues of contemporary macroeconomic policies and issues arising from theoretical monetary economics Smithin's main point, presented in chapter five but reiterated throughout the book, is that central banks having abandoned monetarism and its reliance on growth rates of monetary aggregates, have quickly reverted to a Wicksellian view of the world, whereby interest rate variations are the means by which inflation rates can be controlled. Some central banks, in particular the US Fed, would seem to conduct monetary policy by manipulating short-term interest rates in order to achieve a target real interest rate Smithin himself does not seem to object to such targets, claiming that the target real rate of interest should be in the one to two percent range Such targets would achieve low but positive real rates of return for rentiers, and hence bring about a renewed compromise between entrepreneurs and workers on the one hand, and rentiers on the other In contrast to the views of the central bankers, however, Smithin's targets on real interest rates would not be set to achieve near zero inflation, but rather to help achieve full employment

The last three chapters of the book are devoted to the consequences of and the objections to this view of interest rate determination Smithin argues that government deficits and debts are the result of high real interest rates, rather than large deficits and debts being the cause of high interest rates Here his claims are supported by the most recent empirical research (Stanford 1997) It is therefore possible for central banks to fix low real rates despite large government deficits In addition, Smithin argues that even within small open economies it is possible for central banks to pursue looser monetary policies than the rest of the world, as many recent historical examples show The crux of the argument is that foreign assets are not perfect substitutes, and hence that uncovered capital flows will soon subside Finally, as the events surrounding the 1987 stock market crash show, it is quite possible for monetary authorities to bring down interest rates quickly, provided they act with sufficient determination For Smithin the perverse reactions of the stock market – prices going down when good news about the real economy come out – are indicative of the state of conventional wisdom in economics

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