STERLING: ITS USE AND MISUSE — A PLEA FOR MODERATION, by Douglas Jay (London: Sidgwick & Jackson, 1985) 288 pp., £15.00.

Ambitious arguments need clear definitions. In *Sterling: a Plea for Moderation*, Douglas Jay, a former British Member of Parliament and President of the Board of Trade in the Labour Government of 1964, presents a highly ambitious argument. Unfortunately, its persuasiveness is reduced by its reliance on vague and obscure definitions.

The crux of Mr Jay's thesis is that economies have to keep total demand and total costs in balance if they are to maintain a reasonably high level of employment. He claims that no economic dynamic exists which automatically steers the two into equality and therefore believes that governments have the tasks of both managing demand and controlling costs. He pours scorn on monetarism, for it rejects demand management in the conventional sense, and doubts that recent inflationary pressures result from excess demand. He thinks that they should be regarded as 'cost inflation' not 'demand inflation'. Because the problem lies on the cost side, Mr Jay wants the British Government to introduce an incomes policy to restrain wages and dividends directly. He describes his policy prescription as a 'plea for moderation', by contrast to extreme monetarism which he identifies with the economic approach of the Thatcher Government in the last six years.

These ideas are set out, rather haphazardly, in the chapters on policy which take up the concluding 100 pages and are the kernel of the book. It is not obvious to this reviewer that the policy chapters are particularly relevant to sterling as a currency. The preceding chapters, which amount to a potted economic history of the last two thousand years, are relevant to sterling and to a great many other things beside.

It is in the policy chapters that the definitions are at their most loose and unsatisfactory. Since Mr Jay's recommendations on policy depend on the ability to distinguish between cost inflation and demand inflation, he must state the empirical criteria for distinguishing between the two. There are some casual remarks about rising profits being associated with demand inflation and falling profits with cost inflation, but they are hardly adequate to sustain the large judgements at which Mr Jay arrives. More fundamentally, we are told on page 179 that the concept of total costs, which is essential to the central argument, is 'hypothetical' (or, at least 'normally hypothetical') and is 'of course' not 'estimated as such in the official statistics'. What, exactly, does Mr Jay mean?

The main virtues of this book are an appendix, containing a consumer price index running from the years 1264 to 1983, and the readable, attractive and enjoyable style in which it is written. There are some memorable phrases, such as the description of rational expectations theorising as 'an intellectual leg-pull'. But it is a pity that so much wit in expression should have been squandered on so much confusion in thought.

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L. Messel & Co., London