wrote that "God is in the details." Indeed God and the devil are likely to be in the details of how people connect Christian faith and economic life. But Rebecca Blank tells us that "the need for wisdom and the possibility of being wrong in our judgments does not excuse us from acting in the public realm to the best of our abilities. We have choice in deciding what issues to work on, what programs we support, and how we pursue economic justice in our own lives. We have, however, no choice in whether or not we should care about these issues. That is a tenet of our faith." Many Christians would agree with this perspective. Moreover it is not through our private and public actions, necessary as they are, that our lives are renewed and fulfilled, rather it is through faith in Jesus Christ. In believing this there is great freedom to be and to act. ■

Out of Work: Unemployment and Government in Twentieth-Century America

by Richard K. Vedder and Lowell E. Gallaway

New York, NY: Holmes & Meier, 1993. ISBN: 0-8419-1324-2, $34.95.

This book presents an intriguing perspective on the causes of unemployment, one of the greatest social problems of the Twentieth Century. The authors' central premise is that unemployment is determined by the adjusted real wage, where the adjusted real wage is defined as the real wage divided by labor productivity. This was the viewpoint of the Austrian school of economics, but is a view that is seldom heard today. The book is thought-provoking, and it is written simply and clearly enough that an undergraduate student of economics will be able to follow its arguments without much difficulty. At the same time, an experienced economist can learn a great deal from this study.

The authors take two approaches in arguing that unemployment is determined largely by the adjusted real wage. First, they regress the unemployment rate on the adjusted real wage and a constant term, using annual data from 1900 to 1989. They find that the coefficient on the adjusted real wage is highly significant and that this simple regression is able to explain 83.6% of the variation in unemployment over this time period. An expanded model that includes the lagged value of the adjusted real wage and current and lagged values of the percentage changes in nominal wages, prices, and productivity (entered as separate variables) does an even better

Reviewer

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job of predicting the unemployment rate. The authors then substituted the adjusted real wage in each year into the estimated equations to obtained predicted values of the unemployment rate. The actual unemployment rate and predicted unemployment rate were then plotted over time, both for the entire period and for 20-year subperiods. The authors' predicted unemployment rates do a very good job of tracking the actual unemployment rate over the entire period and over the various subperiods.

The author's second approach is to examine, over various periods of the 20th century, the reasons for shocks to nominal wages, the price level, and labor productivity. They then show how these shocks affected the adjusted real wage and thus the unemployment rate.

The discussion of these various periods (i.e., the Gilded Age, the period from the New Era to the New Deal, the New Deal, the postwar expansion, the l950s, the Camelot years, the stagflation of the 1970s, and the disinflation and return to normalcy of the 1980s) is quite detailed. The authors are extremely knowledgeable of 20th century American economic history and use this knowledge to argue that most of the variation in unemployment has resulted from shocks to nominal wages, prices, and/or productivity.

The most interesting part of the book deals with the Great Depression. The authors attribute the dramatic rise in unemployment in the early 1930s to a decrease in labor productivity and a decrease in prices not offset by a corresponding fall in nominal wages, resulting in a 28% increase in the adjusted real wage between the fourth quarter of 1929 and the second quarter of 1932. According to the authors, the reason that nominal wages did not fall significantly in response to the high unemployment was that Herbert Hoover believed that wage cuts would lead to reduced consumption and would exacerbate the economic downturn. He thus pressured business leaders to keep their wages stable. The authors quote from statements made by business leaders, journalists, and economists, as well as from a White House press release, to demonstrate that government officials and business leaders believed that cutting wages would further reduce consumption and that firms were abiding by President Hoover's appeal to not reduce wages. This explanation for the high levels of unemployment in the 1930s has not received much attention in current discussions of the Great Depression, but the authors present a convincing argument that Hoover's high-wage policy was an important factor in the unusually high level of unemployment.

The major policy implication that Vedder and Gallaway draw from their work is that the government ought to minimize its interference in the economy. The authors argue that, in the absence of government intervention, high unemployment will lead to a reduction in the adjusted real wage. This fall in the adjusted real wage will return the economy to full employment. Thus, the authors conclude that the private economy is inherently stable, and that government intervention interferes with the economy's self-correction mechanism. In addition, the authors are critical of government social programs such as unemployment compensation, workers' compensation, and public assistance programs, as these programs raise the reservation wage of workers, thereby lowering the level of employment. They are also critical of other government policies that act to raise wages, such as minimum wage laws, the Davis-Bacon Act, and the Wagner Act (which they claim has increased the proportion of the workforce that is unionized).

From an economic perspective, my major reservation with Vedder and Gallaway's book concerns the reliability of their data and the unsophisticated econometrics used in their work. Economic data from before World War II is notoriously unreliable, and the authors sometimes use different data sources for different time periods. In addition, almost all their econometric work involves Ordinary Least Squares applied to highly aggregated data, and these techniques could lead to misleading results. For example, while real wages affect the level of unemployment, it is also true that unemployment affects the level of real wages. The authors do not control for the simultaneity between wages and unemployment, so that the coefficient on the adjusted real wage in a regression for the unemployment rate is probably biased. Another potential problem with their results is that short-run changes in productivity are often affected by the degree of labor hoarding. In particular, firms often hoard labor during recessions, resulting in a decline in measured labor productivity. Thus it is possible that the relationship between productivity and unemployment is explained by the fact that higher unemployment results in lower measured productivity (because of labor hoarding) rather than by the fact that an exogenous decline in labor productivity raises the adjusted real wage and causes a rise in the unemployment rate. While the authors briefly discuss this issue and claim that it is probably not important, a better approach would have been to use peak-to-peak productivity instead of actual productivity in their calculations of the adjusted real wage.

Furthermore, the highly aggregated level of their data casts doubt on the validity of their results. Their theory depends critically on the assumption that the adjusted real wage is countercyclical, an assumption they claim is verified by their empirical work. Previous economists who have used aggregated data have also generally found real wages to be counter–cyclical. However, economists using data on individual workers, such as Bils (1985) and Keane, Moffitt, and Runkle (1988) have generally found wages to be pro–cyclical. The most common explanation for the difference in findings between studies using microeconomic and macroeconomic data is that the workers most likely to be laid off during a recession are those with less skill and less experience. As the com–position of the workforce shifts towards workers who are more highly paid, observed aggregate real wages may rise, even if the real wages of individual work–ers fall or remain constant.

While Vedder and Gallaway's book was not written from a religious perspective, it is interesting to consider the impli–cations of their work from a Christian point of view. Their work suggests that God created an economic system that has a natural tendency to correct itself in response to an exogenous shock, in the same way that many biological systems have a built-in tendency to stabilize following a shock to the system. As a Christian I find such a perspective quite appealing. However, I am not sure that it accurately describes the world. In addition to my reservations about the data and statistical methodology, it is quite possible that wages are rigid downward, making the adjustment of real wages to a new equilibrium level a long process. In a sinful world, there are good reasons why labor markets may not operate perfectly. For example, if workers reduce their effort in response to a cut in wages, even if wages are cut for valid economic reasons, then firms would be deterred from cutting real wages in response to high unemployment. In the absence of government intervention, this rigidity in wages could mean that the economy takes a long time to recover from a shock.

From a Christian perspective, the authors' argument that government policies designed to assist the economically disadvantaged actually hurt these people is significant. If this view is correct it supports the work of Christian economists such as Gary North who argue that the Bible teaches that government interference in the private economy is wrong. In fact, the authors' argument that many government policies serve to raise adjusted real wages and thereby decrease employment makes a great deal of sense. However, government policies can have the opposite effect on the adjusted real wage. For example, increased spending on education and training will raise the productivity of workers, and will thereby lower the adjusted real wage and raise the level of employment. A more balanced

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approach to the issue would have been to discuss the positive, as well as the negative, effects of government intervention.

As a macroeconomic labor economist, I highly recommend reading this book. The authors provide a perspective that is seldom discussed in current economic debates, and I learned a lot from reading their work. However, because of the problems with the quality of their data and their econometric techniques, I am not sure if their conclusions are warranted. More work needs to be done to test their theories using more advanced techniques, but if the same results are found with more sophisticated econometrics, then their study will make a major contribution to our understanding of unemployment.

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Capital and the Kingdom: Theological Ethics and Economic Order

by Timothy J. Gorringe

London: SPCK; Maryknoll, NY: Orbis Books, 1994, ISBN: 088344-944-7, $18.95.

Reviewer

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It is the argument of this book, as it was the argument of the Deuteronomists, that two ways lie before us, a way of life and a way of death, a way of equality and a way of dominion, a way of corporate justice and a way of concealed tyranny, a way of global nurture and a way of global suicide. The way of death is the prevailing economic system, built on cynicism and whistling for destruction, content to enjoy power and affluence at the expense of the Third World and of future generations. The way of life calls for conversion, turning around, making new options, as it did for the people who listened to the Deuteronomic preachers. Then it was the future of Israel which was at stake; now it is the future of humankind and of the planet (p. 159).

Familiar criticisms, and words of warning that members of this Association have often heard. The prophetic voice here is accompanied by an analysis of the capitalist order which emphasizes its egoistic individualism, the alienation that results from denigrating labour, the disparity between