

states or possibilities. “Learning” or “feedback of the world” occurs by observing data recording additional characteristics. Data of “cases” that record instances of actions, outcomes, and situational characteristics are the primitive concept of case-based decision theory as introduced by Gilboa and Schmeidler (2001). Viewing learning as the subjective response of agents to objective information in form of new data may provide a promising framework for studying learning with unforeseen contingencies. Indeed, it may reconcile the classical Bayesian approach, where new data contain only familiar characteristics of a situation and just increase the frequencies of observations, with the case of data containing records of “new” characteristics that the decision maker was so far unaware of.

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## F International Economics

*Trade Wars Are Class Wars: How Rising Inequality Distorts the Global Economy and Threatens International Peace*. By Matthew C. Klein and Michael Pettis. New Haven: Yale University Press, 2020. Pp. xi, 269. \$28.00. ISBN 978-0-300-24417-5, cloth.

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For over twenty years, the world’s major economies have had an unusual pattern of current account deficits and surpluses. Most notably,

northern European economies (in particular Germany) and East Asian economies (in particular China) have run very substantial surpluses, while the United States has run corresponding deficits.

These “global macroeconomic imbalances” have been blamed for the great financial crisis of 2008–09, for the eurozone debt crisis that followed it, for trade tensions among the United States, China, and the European Union, and for generally destabilizing international financial markets and the world economy. Whether one agrees with these indictments or not, the patterns are surely unusual, and require explanation—if not mitigation.

Matthew Klein and Michael Pettis argue—as most informed analysts would—that the roots of the imbalances are to be found *within*, not among, nations, and specifically in patterns of national savings behavior. Their explanation focuses, as the title of the book suggests, on economic inequality. The “class wars” they have in mind are, on the one hand, between elites in China, Germany, the United States, and elsewhere and the masses of working people on the other.

They argue that inequality has led to a “savings glut” that has caused surpluses, because the rich are different than you and me—they save more money (more accurately, a larger proportion of their income). In arguing for this channel Klein and Pettis are hardly alone—Mian, Straub, and Sufi (2021) also write of a “savings glut of the rich,” and even the IMF has gotten in on the idea in the 2022 *World Economic Outlook* (p. 62ff). Klein and Pettis are particularly insistent on the class nature of the problem, and broad in their application. For them, US deficits are also the result of elite dominance.

The book is written for a general audience, and it is both accessible and entertaining. Along the way of making their case, they provide useful general-interest primers on the balance of payments, on national income accounting, on the history of international finance, and on the international monetary system. As one might expect of a book by Pettis, one of the world’s leading experts on the Chinese economy, there is a detailed discussion of Chinese economic and political development since the 1970s. The authors provide rich historical background, starting their story

with Adam Smith and David Ricardo, with side trips along the way. For example, they relate the Chinese and East Asian development model to English enclosures in the eighteenth century, and the transfer problem in the nineteenth century to Louis-Napoléon Bonaparte's gallstones and sex life. As they proceed, they usefully debunk some popular misconceptions, including Peter Navarro's nonsensical views on bilateral trade deficits. Breezily written and cleverly developed, the book would be a great supplemental addition to an undergraduate reading list on international macroeconomics.

Klein and Pettis are relentless and single minded in their insistence that many of the world's economic controversies, specifically the backlash against globalization, "can be blamed on policies in surplus countries that steadily transfer income and wealth from workers to elites" (p. 89). To be sure, few informed analysts would disagree with the notion that Chinese or German surpluses reflect suppressed consumption and wages. But the case is a bit harder when it comes to the United States. After all, if inequality causes surpluses, then the most unequal rich country should certainly have some of the largest surpluses—and yet, as we know, the US pattern is to run deficits that match the surpluses of others.

In explaining US trade and current account deficits, Klein and Pettis invoke the reserve role of the dollar. They regard this as an exorbitant burden rather than a privilege, enriching the United States' financial elite at the cost of its middle and working classes. But while the dollar's central position in international monetary affairs certainly can explain US deficits to some extent, it hardly seems sufficient to explain the substantial changes in the deficits that we have seen over the past 25 years. Here the argument falls a little flat. But, in line with their class wars motif, the authors insist that just as surpluses require deficits, "the interests of American financiers were complementary to the interests of Chinese and German industrialists" (p. 224).

The book was written before the COVID-19 pandemic. In that pre-pandemic context, the authors recommended that surplus countries expand government consumption, and that the United States expand government investment (especially in infrastructure). The pandemic and

its aftermath suggest that we may need to reevaluate both the analysis of persistent imbalances and expectations about surplus and deficit-country fiscal policies. Recent geopolitical events, too, might suggest that their analysis of China's Belt and Road Initiative should incorporate more than purely economic motives on the part of the Chinese government. Nonetheless, the broad outlines of the book's analysis are pertinent to enduring issues in the world economy.

Economists and other informed analysts will find much to agree with in *Trade Wars Are Class Wars*. Klein and Pettis provide a compelling corrective to the all-too-popular notion that trade and current account deficits are due to trade policy, and can be "solved" with trade barriers. They are also convincing in their insistence on the importance of understanding the domestic political economy of both surplus and deficit nations. Scholars may not find every aspect of their argument, and of their proposed remedies, fully convincing. But *Trade Wars Are Class Wars* is well-argued, eminently readable, largely accurate, and provocative.

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## N Economic History

- A Monetary and Fiscal History of Latin America, 1960–2017*. Edited by Timothy Kehoe and Juan Pablo Nicolini. Minneapolis, MN: University of Minnesota Press, 2021. Pp. xvii, 569. \$80.00, cloth; \$20.00, paper. ISBN 978–1–5179–1198–0, cloth; 978–1–5179–1136–2, pbk.

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Latin America was plagued by economic and financial crises in the twentieth century. This book provides a concise economic history focusing on the last quarter of the century, a period in which volatility was particularly high. The history is narrated through the lens of a common analytical framework that is applied to eleven countries in the region. The framework is based on a