Book Reviews

How Economics Should Be Done: Essays on the Art and Craft of Economics
By David Colander and Huei-chun Su
Edward Elgar, 2018

How Economics Should Be Done is an excellent book that discusses the methodological approaches of economics and economic policy. As the authors highlight in the introduction, the book aims to discuss the methodological underpinnings of economic sciences, because as Colander has argued, 'just as economics has become remote from the real-world economy, so too has economic methodology become remote from what the economists do'. Colander argues that economists should make use of a methodological framework that combines science, heuristics, creativity and moral judgments.

Huei-chun Su has selected seventeen of Colander's articles that portray his arguments through a tripartite division of the study of economics and one final section focusing on methodology in a broader sense. The first part is dedicated to the study of *methodological framework and methodology for economic policy as art*. In this Section, Huei-chun Sun introduces the reader to five different articles written by Colander through which he reflects on the methodology of economics and the economics profession. In this part, Colander reveals that the reason for the loss of relevance of economic research nowadays is not related to the amount of research done by economists but is due to economists' unachievable aim to maintain a neutral standpoint. Colander brings to the forefront of the discussion the concept of judgements and argues that economic methodologists should avoid maintaining a neutral stance but make judgements whilst showing the basis of those judgements clear.

The second part of this book focuses on the *methodology for microeconomics.* Here, Huei-chun Su has selected articles which focus on applied microeconomic policy research as well as introducing the reader to more unconventional methodological perspectives such as complexity economics. According to Colander's view, models are very useful for specific policy problems relating to microeconomics, however he argues that economists have failed to recognise the extent to which these models can be useful. Colander asserts that economists should receive methodological guidance about how to make better use of these models in real-world problems. His more recent work reaches in to areas of complexity of economics and its methodology and argues that this new perspective can complement the existing mainstream economic thinking.

The third part, titled *methodology for macroeconomics,* gives an insight of the extent to which mainstream economic modelling provides understanding of the real economy. Colander argues that developing specific general equilibrium models to understand the dynamics of the macroeconomy is difficult, and that economists need to recognise the limitation in the application of these models. Thus, in the process of applying theories economists should highlight that these are heuristic theories rather than macro theories. Through his work presented in this section, he highlights that economists should move away from the traditional macroeconomic perception of the economy as a system made up of homogenous atomistic individuals, and the need to understand the emergent phenomena in the dynamic complex economic systems.

Part four of this book focuses on the *pragmatic methods for doing economics as a profession*. While the previous three sections dealt with the methodology used in economics specifically, this section discusses methodology in a broader sense. After the financial crisis in 2008, unlike other economic methodologists, Colander has remained pessimistic about the change that economic methodology can achieve. Through the work presented in this part, Colander sees methodology as embodied in the institutions of economics. He argues that the only way for a change in the economics methodology is through a change in the institutional structure which led to the current situation of the economics profession.

The text demonstrates how a better understanding of the methodological framework used in economics and the economic profession can help the reader to have a better insight into the ways that real-world problems can be better approached and investigated.

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Europe's Growth Champion: Insights from the Economic Rise of Poland
By Marcin Piątkowski
Oxford University Press, 2018

After 30 years of the transformation, Poland's economy is seen as a success story. Undoubtedly, Poland has achieved stable growth rates and built its strong economic position as a member of the EU. For many, Poland become the vanguard of Central and Eastern Europe. Piątkowski's *Europe's Growth Champion* examines the reasons for this recent success.

In the first part of the book, Piątkowski outlines his methodological approach and gives an extensive background on Poland's economic history. He adopts a new institutional framework (Acemoglu et al., 2005), which recognizes the proper institutions as drivers for the economic growth. The author expands this framework also attributing economic development to culture, ideology and ideas. Following Acemoglu et al. Piątkowski shows that a shift from extractive (undemocratic) to inclusive societies (democratic) is a key to economic development.

To understand the success of Poland, its economic backwardness in historical perspective should be considered. Frequently, the recent economic success is solely juxtaposed with the gloomy years of communism. Piątkowski uses the *longue durée* perspective and begins his investigation in the middle ages. He skilfully debunks the myth of idyllic era of the Polish Lithuanian Commonwealth, where prosperity was only limited to the gentry, while the majority were subject to serfdom, effectively enslaved. Piątkowski explains the reasons for Poland's backwardness, as he puts it: 'the Polish gentry monopolized power in the sixteenth century and proceeded to use it to enslave peasants, destroy city bourgeoisie, and create a par excellence extractive set of political and economic institutions' (p 50). Piątkowski argues that both the Kingdom of Poland and the interwar Second Republic were typical examples of extractive societies. He argues the Second World War and the subsequent communist rule were the 'external shocks' which helped the shift towards inclusive society by eradicating old, feudal structures and laid the groundwork for a capitalist free-market democracy. Moreover, communism created a positive legacy in terms of welfare policies, which contributed towards more egalitarian society. This thesis was previously explored more from the sociological rather than economic perspective (e.g. Leder, 2014).

In the second, most extensive part of the book, Piątkowski presents Poland's transformation story. He supports it with comprehensive data on Poland's transition. The author puts emphasis on the role of the Western institutions and Westernised Polish elites who were responsible for conducting the transition. The picture of Poland's route to capitalism drawn by the author is overwhelmingly positive. He systematically claims that Poland's growth is inclusive and 'lifts all the boats'. Piątkowski focuses on some of the failures of the transformation, including massive migration, flexible labour markets and decline in fertility rate (pp 153-156). However, in his analysis, he overlooks the disastrous consequences of the transformation, such as skyrocketing unemployment (1990–2004), 'cherry-picked' privatisation of SOEs, inequality and dismantlement of the welfare state (Hardy, 2009; Kowalik, 2011).

Europe's growth champion finishes with recommendation on how Poland should sustain its growth. The author introduces the concept of 'Warsaw Consensus', a version of the Williamson's 'Washington Consensus' modified with stronger institutions. This clearly demonstrates, that economic discourse in Poland is slowly shifting away from dogmatic neoliberalism towards more regulation.

Piątkowski's analysis of Poland's success story with its demystification of Poland's economic history and focus on the importance of institutions, culture and ideas constitutes a novel and constructive approach. Clearly, Poland is Europe's growth champion, however this championship is largely limited to the statistical 'averages'. The gross majority of Poles still suffers from the precarious and low paid employment which resulted in the biggest exodus since the end of the World War II. In that sense, Piątkowski's might be telling an incomplete and overoptimistic story of Poland's economic rise.

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Financial Models and Society: Villains or Scapegoats
By Ekaterina Svetlova
Edward Elgar, 2018

This book is an intelligent rebuttal of blanket criticisms of financial models, in particular the idea that economic processes will converge towards their depiction in such models, known as Barnesian performativity. Instead, the author, Ekaterina Svetlova, argues for a 'multifaceted interplay between users and models in the practice of markets' (Svetlova, 2018, p 4) and makes a call for qualitative methods to study 'cultures of model use' (Svetlova, 2018, p 144). In doing so, the book provides a useful overview of the theoretical basis for performativity, and numerous empirical examples that compare how financial models are used.

In discussing the theoretical basis for performativity, the book rejects both the 'over-calculative' view, where the world is rational and predictable, and the 'under-calculative' view, where agents ignore calculations altogether. Instead, the book argues that there are cultures of model use. These range from Barnesian performativity, such as the Black-Scholes model, where model use results in the convergence of economic processes (option prices) towards their depiction; to situations where models are combined with human judgement, such as 'quantamental investing', with varying levels of discretion; to counter-performative models, where model use leads to behaviours that eventually undermine it.

This argument suggests there is no unifying definition of a financial model. Earlier, however, the book defines financial models as 'practical decision-making instruments' (Svetlova, 2018, p 8) that suspend the unknown aspects of markets under 'conditions of radical uncertainty and symmetrical ignorance' (Svetlova, 2018, p 13). This central idea, that models are selected to cope with 'non-knowledge' (Svetlova, 2018, p 67), continues throughout. However, the book is largely silent on the institutional and power structures that lead to the selection of models in the first case. There is a brief discussion of 'front stage stories', where models are employed by sales and marketing teams as a 'necessary fiction to keep markets going' (Svetlova, 2018, p 140), but the processes of model creation, adoption and rejection, are largely unexplored.

Instead, the book calls for economists to a turn towards qualitative methods to investigate these subsequent human/model interactions. These conclusions could be more radical. The book has already given examples, such as CAPM, where the model remains a powerful 'language and thought argument' (Svetlova, 2018, p 120); and where banks adopt models to create a 'perception of control' where absolute control is clearly not possible (Svetlova, 2018, p 141). The book suggests that this is because 'authoritative knowledge' frequently suppresses 'economic logic' (Svetlova, 2018, p 142). However, more could be done to unravel the sources of this 'authoritative knowledge'. If the 'very process of model creation (is).. *an idea*' (Svetlova, 2018) then this creation process is where the focus of research should be. The subsequent human/model interactions would then become secondary effects or, in the words of the book, a means of 'theatrical persuasion, convincing staging and, thus, [] making believe' in the already chosen models (Svetlova, 2018, p 124).

In summary, the theoretical overview, in particular, is well-written and would be especially useful to research students interested in performativity. As such, the book is essential reading alongside other established works (Callon, Millo, and Muniesa, 2007; Mackenzie, Muniesa and Siu, 2007). However, in an era of fake news and social media algorithms, the book will disappoint those who are looking for ways to mitigate the impact of financial models. The central problems of model creation, model selection, and regulation of the new forms of human/financial model interactions that follow, are largely unresolved.

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Economic Stagnation in Japan Exploring the Causes and Remedies of Japanization
Edited by Dongchul Cho, Takatoshi Ito and Andrew Mason
Korea Development Institute, The East-West Center, and Edward Elgar, 2018

Since the abrupt failure of Japanese economic growth in the early 1990s, Japan has become an example to the rest of the world of how deflation may happen, and what policies may be undertaken to reverse that deflation. If we are to take the historical record of banking crisis and limping economic growth since then, and the extremes to which fiscal and monetary policy have been taken by successive Japanese governments, it seems that there is precious little that can done to put a once-dynamic economy back on a path of sustainable growth. But ‘hope springs eternal in the human breast’, and nowhere more so than among economists seeking to conjure up policy solutions from their dismal science.

The contributors to this book have little new to offer in the way of policy. But they do provide a wealth of empirical data on the Japanese deflation, as well as insight into policy-making over the last three decades. A number of the contributions also have an original approach to the question of the Japanese deflation, by asking how far this deflation is likely to spread to South Korea and beyond, an issue that arises in this case because the book was organised by the Korea Development Institute.

The first part of the book contains chapters by Takatoshi Ito, Kyooho Kwon and Kyu-Chul Jung on ageing demographics and export dependence in East Asia. This is followed by a second part, with chapters by Keiko Ito and YoungGak Kim, and Jiyoon Oh on productivity in Japanese and Korean firms. A third section contains an insightful chapter by a former regulator from the Bank of Japan, Mitsuhiro Fukao on ‘financial market efficiency’ (he means inefficiency), and Daehee Jeong on zombie firms in Korea. A fourth part is devoted to monetary policy and house prices, with chapters by Barry Eichengreen, Dongchul Cho, and Inho Song. A final section contains chapters on fiscal policy by Jerry Schiff and Ikuo Saito, and Seong Tae Kim.

The data and the policy discussion in the various chapters are excellent. Of particular interest to this reviewer is the question of corporate finance and how the carefully managed investment machine of Japanese industry, that underpinned the rapid growth of the economy since the Second World War, fell apart causing the deflation. Various authors suggest that this was due to speculative excess, caused by financial deregulation in the 1980s. This undoubtedly happened. But the data cannot give us more ‘structural’ explanations, such as Richard Koo’s ‘balance sheet recession’ (an author not mentioned in this book). A consequence of this over-emphasis on data and lack of analytical underpinning is a reliance on conventional insights could bear more critical consideration. For instance, Daehee Jeong treats the ratio of interest payments to operating profits as an indicator of the degree to which a firm is a ‘zombie’ company, that is a loss-making company kept going by successive credit extensions. This may be appropriate for a free-standing company, but is less so for firms in holding company structure that proliferate in East Asia and the developing world. There is no mention of international value chain production, which too is a common feature of industrial production and links Korean and Japanese firms with companies in China and beyond. The old underconsumptionist saw of an ageing population, that haunts Japanese discussions to distraction, is predictably raised here by Kwon and others.

Despite these reservations, this book is a valuable summary of where the discussion on Japanese deflation is, and why research on this topic needs to be taken further. The prospect of 'Japanisation' in the rest of the world, raised by Takatoshi Ito, is one that cannot be left to regional experts.

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