

Book Reviews

Minsky.

By Daniel H. Neilson.

Polity Press: Cambridge, 2019. 224 pages, £16.99.

A decade after the Great Financial Crisis, Daniel H. Neilson's book *Minsky* presents a meticulous reconstruction of Hyman Minsky's lifework that goes well beyond the mere explanation of financial bubble bursts. Indeed, Neilson devotes only a few pages to what Minsky is best known for – his Financial Instability Hypothesis. The reason is not for its lack of relevance within Minsky's theory, but because the author places it as one piece of an overall financial theory of capitalism that he painstakingly elaborates in a mere 150 pages. Presenting Minsky's ideas in a comprehensive and exhaustive way is not an easy task, given that he worked out his thinking by sketching his theory piecemeal in various places as he witnessed history pass by. Thus, the author elaborates three different threads through which he deconstructs Minsky's work into elements to be then reconstructed and presented as a thorough vision of capitalism.

The first thread comprises four out of eight chapters of the book and deals with Minsky's financial theory. In modern societies, a matrix of balance sheets connects all agents via debt and credit commitments –assets and liabilities – that have arisen from past payment decisions. Minsky shows that payment structure, intrinsic to capitalist societies, is prone to recurrent crisis due to the imperative requirement to repay debts. This requirement, or 'survival constraint' as Minsky termed it, forces everyone to generate greater monetary inflows than outflows. When debts come due, debtors search for a liquid position that allows them to redeem their debts using money or, as Minsky said, whatever the lender will accept to write off the debt. Position making is the action through which assets and/or liabilities are sold if a unit is illiquid and in need of cash. The famous hedge, speculative, and Ponzi positions are nothing more than a form of position making, - a search for liquidity. A crisis might be triggered by the effect upon other units of a unit's inability to pay i.e. to find liquidity. A widespread financial crisis unfolds when the market for position making for liquidity comes to a halt. At this point, the role of the central bank is to step in as lender of last resort – the market maker of last resort – that can blow liquidity into the system as its only initiative.

The second thread, interwoven with the first, narrates Minsky's path to becoming the economist he was. For example, we learn from Henry Simons, his professor in Chicago, how Minsky adopted a practical outlook view of Simon's view on the requirement to pay debts and how he added the theoretical and institutional issues of liquidity to Schumpeter and Keynes' monetary theory of production.

In Neilson's account, liquidity is at the core of Minsky's financial theory. Minsky's considerations about liquidity, uncertainty, and time, stand as the main divergences between his approach and that of the mainstream. The third and final thread of the book deals with the position Minsky took towards the rest of the economist profession, disentangling the contradictions between the two. In need of a new language through which he could express the knowledge he wanted to convey, Minsky found himself at the margins of the profession and in conscious opposition to the mainstream. Interestingly, the book also reveals how even interpretations by those who, as post-Keynesians of different strands claiming to Minsky's insights, sometimes fail to understand his core contributions.

Throughout the book, Neilson successfully presents Minsky's theory and policy and the intellectual challenges he faced during his career as an economist. The book also encompasses his PhD thesis, the writing of his two books – *John Maynard Keynes* and *Stabilizing an Unstable Economy* – his collaborations with the financial sector, his financial analyses for the public sector, as well as the economic and financial crises he witnessed and eagerly strove to analyse. Overall, the author conveys, with a dash of critical insights of his own, what he and his professor, Perry Mehrling, consider to be the most important thing we can learn from Minsky: his vision of how financial capitalism works.

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The Political Economy of Central Banking Contested Control and the Power of Finance, Selected Essays of Gerald Epstein.

By Gerald Epstein.

Edward Elgar. Cheltenham, 2019. 567 pages, £135.

The epithet “central bank led capitalism” has been hugely popular as a descriptor for the last decade of unconventional monetary policies that have shaped the landscape of major economic regions (Bowman et al, 2012). However, Gerald Epstein's *Political Economy of Central Banking* presents his firmly established position that this ought to be conceptualised as *capital led* central banking. Although Epstein's terminology does understandably shift across forty years of work on the global impact of the Federal Reserve (Fed.), he evidently views monetary policy as an entrenched trade-off between societal values and the economic value of assets held by monopoly interests.

Debates over acceptable levels of price instability may well have begun as a *contested terrain* between three differently motivated groups, namely industrial capital, financial capital and labour, but central bank independence from government effectively secured industrial and financial monopolists' interests

in this contest. This ever-evolving dynamic has increasingly favoured financial interests through the intensification of financial motives, institutions and elites in the operations of domestic and global economies that Epstein alluded to in his much-cited definition of financialization. Perhaps this definition would benefit from a reconsideration of whether financial motives have contemporaneously changed over time as they have ‘blended’ with those of industry or have had ‘social purpose’ ‘stitched’ into them (Langley, 2020).

The selection and arrangement of the essays and articles that comprise this book should be commended as they foreground Epstein’s engagement with core questions in technocratic governance through a detailed historical narrative. The collection begins with the collapse of the Carter government and the revolution at the Fed. in the early 1980s under Paul Volcker’s leadership. The radical shift towards prioritization of the price stability demanded by the economic system undermined the Fed.’s dual mandate from Congress of maximum employment and stable prices, established in the Federal Reserve Act of 1977. By 1983 unemployment significantly increased, while the rate of profit for finance increased by 30% and decreased for non-finance by 30%. For Epstein, the Fed.’s independent status impelled it to protect financial markets rather than the *demos*- in order to establish that independence from the inflationary steering of electorally focused politicians more than empty symbolism.

As the reader proceeds through articles discussing the interrelated phenomena of financialization and the globalization of markets in the 1990s under the Fed. Governorship of Alan Greenspan, they gain an appreciation for the global convergence to Anglo-American models of central bank independence and the tendency to disproportionately empower the interests of hybridized financial-industrial capital. This constituency is sensitive to financial asset returns and on rentier income and so demands the minimization of inflationary impediments to real returns. The result was the promulgation of a complex system replete with latent asset bubbles.

Following the collapse of the global mortgage bubble in 2008, Epstein’s research into the Bernanke led Fed.’s quantitative easing and securities purchases leads him to suggest that capital led central banking has continued unabated. Epstein provides evidence that the greatest beneficiaries of these policies were large banks that specifically sold Mortgage Backed Securities to the Fed., and that these policies were withdrawn when they no longer produced a strong positive impact on returns for real estate investors and were contributing to diminishing returns on asset prices. Consequently, the latter part of the book is oriented towards a series of (occasionally idealistic) proposals that could democratize the Federal Reserve System.

This book promises to be an invaluable addition to postgraduate and advanced undergraduate reading lists on economics degrees. Providing remarkable historical detail on four decades of finance led growth, it also necessitates critical engagement with politics embedded in technical economic

governance. If, as Epstein suggests, the fundamental contemporary policy challenge is to confront the climate emergency, then this collection alerts future economists to the institutionalized empowerment of monopolist holders of carbon assets within the economic system.

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The Case For People's Quantitative Easing.

By Frances Coppola.

Polity: Cambridge, 2019. 140 pages, £9.99.

The global financial crisis of 2007–08, a seminal event in monetary policy making, triggered the Great Recession and demonstrated the limitations of traditional response of central banks to economic collapses. To deal with this crisis, major central banks cut rates, their conventional tool, but were constrained by the zero-bound and resorted to Quantitative Easing (QE), which although arrested the slide of the global economy and stabilized it, left consumers deeply scarred and disaffected with the recovery. QE or the Great Experiment, made whole the financial sector, which was the originator of the crisis, but did not do much for consumers, its victims. This situation was ripe for counterfactuals and Frances Coppola examines one in her book, the case for People's Quantitative Easing, which is "giving money directly to people is the best way to restoring damaged economies".

In the book, Coppola first delves into the Great Experiment reasoning that Milton Friedman's 'helicopter drop' lies at its heart. Friedman proposed that in sharp economic slumps monetary authorities should pump money directly into economy to counter contraction and price deflation. Coppola says that the QE may have warded off a Depression and raised asset prices, but it did not help consumers.

To examine QE and why it failed, she then explains what money is, how it works and how it is created. QE, she writes, was like money creation by commercial banks for lending. The early QE, she notes, led to the fear of runaway sovereign debt, which prompted governments to implement austerity. As recovery stalled, central banks tried other types of QE. They poured more money into economies, but governments drained it out. The result was that the

QE didn't work as it didn't deal with real economy but only with banks and financial markets.

She suggests a better way – the QE for the People, a concept proposed, in different forms, by many including Friedman, John Maynard Keynes, Ben Bernanke and the UK Labour Party. Coppola notes that most of these proposals require a level of cooperation between monetary and fiscal authorities that never happened except, perhaps, in Japan under Abenomics.

Coppola builds upon a hypothesis expounded by Friedman and Keynes that distributing money to masses is the best way to revive an economy facing intractable recessions, debt-deflation and liquidity trap. Her proposal has two parts – giving money directly to people to boost short term consumption and spending money for longer-term investment to achieve some sort of rebalancing of economy. Under first, she discusses cash cards, financing government deficits and debt jubilee to boost immediate spending. In the second, she covers direct financing of government, national investment banks and direct investment in private sector.

Coppola then addresses many potential criticisms – some persuasively and some not. Her arguments against the view that People's QE might lead to hyper-inflation and central bank insolvency are strong and supported by past decade's data. Two other objections that she covers are that the QE for People could not be reversed and that the people will not spend the money to stimulate the economy. She suggests many approaches and programs to address these objections but their efficacy is debatable.

Coppola has written a clear and concise book explaining the ideas behind QE, why it didn't work and why consumers are disappointed. She presents a robust case for a different approach. The weakness lies in the lack of supporting data and case-studies. Some of her solutions are theoretical and depend upon the effective coordination of monetary and fiscal policies, which, as she noted, does not have a good track record. The book is influenced by the distinct political and economic circumstances in UK and EU. The usefulness her approach in other countries lacking the power of reserve currencies like Dollar, Euro, Pound sterling and Yen is debatable. Despite some shortcomings, Coppola presents a provocative idea in a short book worthy of consideration by anyone intrigued by the effectiveness of the Great Experiment, the Quantitative Easing.

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