# Book Reviews

*Governing Financialization. The Tangled Politics of Financial Liberalization*
By Jack Copley
Oxford University Press: Oxford, 2022. 208 pages, £65.00.

Jack Copley joins earlier literature (Krippner, 2011; Streeck, 2013) in arguing that rather than a premediated strategy, financialisation is the unintended consequence of governments' pragmatic responses to economic and social pressure. In addition to an analysis of the British case, based on in-depth archival research, he extends the theoretical framework of this literature. This book is essential reading for scholars interested in financialisation and the role of the state in propelling it. But it will also be of interest to those seeking to understand state action under capitalism more generally.

Governments opening new avenues for profitmaking through financial liberalisation are often argued to be captured by financial elites. Copley, on the other hand, holds that states are dominated by the impersonal pressures emanating from global capitalism. He combines Marx and Mehrling to argue that capitalism's monetised social relations impose discipline on governments to continuously pursue international competitiveness. Otherwise, they would be faced with – impersonal – sanctions such as 'balance of payments crises, speculation against the national currency, capital flight, and prohibitive global borrowing costs' (Copley, 2022, p. 152).

In seeking to align their national economies with the pressures of global capitalism, states run up against civil society, who demand to be shielded against these very pressures. Confronted with competing and contradictory claims on state action, government responses fall on a spectrum between 'depoliticised discipline' and 'palliation'. In a Hayekian fashion, depoliticised discipline acts on pressures for competitive restructuring of national economies, while aiming to blur governments' role and shield it from political backlash. Palliation, on the other hand, seeks to delay the harshest effects of such restructuring and maintain social peace to safeguard competitive conditions.

Copley applies this theoretical framework to the case of Britain, analysing subsequent governments' responses to the twin dilemma of falling global competitiveness and growing social demands on the state. He examines four key financial liberalisation policies as the British government oscillates between palliation and depoliticised discipline – Competition and Credit Control (CCC) in 1971, the abolition of exchange controls between 1977–9, and the Big Bang and introduction of the Financial Services Act (FSA) in 1986.

Take the path to the CCC reforms. Faced with a deteriorating balance of trade, the British government enacted selective lending ceilings to shift credit from persons to exporting companies. However, this proved unworkable with the tools the state had at its disposal and given the rise of unregulated, secondary banking institutions. It also generated considerable political backlash against the uneven credit squeeze. In response, CCC replaced quantitative limits on credit with an indirect governing strategy via interest rates. While this meant less control over the extension of palliative credit to exporting industries, the disciplining element would be retained and the relationship between government action and economic outcomes blurred.

More than a quick fix for a state caught between competitive pressure and legitimacy concerns, financial liberalisation policies unintentionally fuelled financialisation. As anticipated, lending to the private sector rose exponentially following the implementation of CCC. But rather than productive activity, much of this credit was channelled into a rapidly inflating property sector. The associated increase in house prices set the path for the housing crisis Britain experiences today.

The argument of financialisation being an 'unintended and uncontrollable' consequence of strategies by private and public actors who use finance to achieve specific objectives has attracted increasing interest recently (Schelkle and Bohle, 2020, p. 8). But is it uncontrollable? The capitalist domination theory advanced by Copley certainly makes it seem that way, whereby states faced with impersonal pressures are scrambling for economic survival. Even more so as he demonstrates the convergence of policies across subsequent Labour and Conservative administrations. But by drawing attention to pressure for political legitimacy, the book strikes a hopeful tone. Ultimately, 'the framework of action within which state actors strategize is thus not a structural given, but is rather determined by social struggle' (Copley, 2022, p. 40).

Hannah Hasenberger
University of Hertfordshire Business School, UK

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*Raising Keynes: A Twenty-First-Century General Theory*
By Stephen Marglin
Harvard University Press: Cambridge, MA, 2021. 928 pages, £79.95 (hardcover).

Raising Keynes is no regular book about the "Master" and Keynesian economics. It is Marglin's most recent (and the most successful in my view) attempt to provide a conceptual description of the dynamics of capitalist economies.

The main premises of the book are hardly new, at least for the heterodox camp: aggregate demand matters (in the short, medium and the long run), price and wage flexibility can be destabilizing, "we can't do it without money", unemployment is not due to the presence of sand in the wheels or imperfectly competitive markets, and so on. What is novel is the answer that Marglin provides to the question that Keynes' incomplete project never addressed in detail. Is there an equilibrium without full employment and flexible prices?

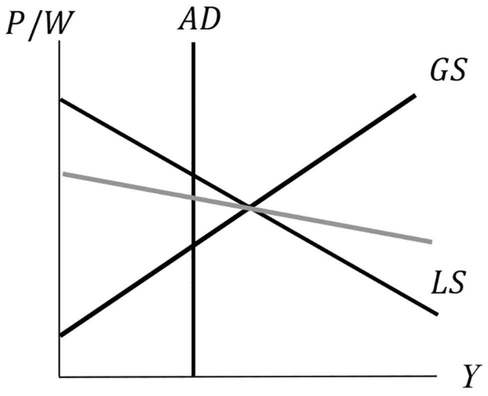
For the heterodox camp the answer is the full employment is not a stable position of a capitalist economy left at its own devices. But surprisingly, very few have provided a detailed model where there is an equilibrium with less than full employment when wages and prices are fully flexible. Marglin's book provides a coherent answer. The main argument of the book can be stated as follows: Keynes throws in an additional equation into the classical labor market, where supply and demand are supposed to define full employment as the unique equilibrium. This additional equation is aggregate demand. The system has now three equations: labor demand (which Marglin calls "goods supply" GS), labor supply LS and aggregate demand AD and two unknowns (the real wage and employment/output).

The AD, GS and LS curves become the loci of stationary price level, wages and output. The are many possible adjustment paths, and Marglin does a great job describing many of them. In all of them the order of adjustment changes, but. Most variants feature a constant price to wage rate, where both wages and prices are changing at the same speed. The key is that full employment is only reached by fluke.

Figure 2 shows an example in the price/wage ratio and output space: it is not the standard way to present the labor market, but it helps to rationalize Marglin's argument. The GS curve is upward sloping due to profit maximization and perfect competition. A higher price to wage ratio raises profits, thus firms find profitable to hire additional workers. The LS is downward sloping due to household's utility maximization and the often neglected assumptions that substitution effects dominate the income effects. A higher price to wage ratio implies a lower real wage, thus households are willing to supply less hours of work. The AD curve is drawn as a vertical line, but it may have other shapes if, for example, Keynes effect is operative; this does not change the main argument.

The grey line represents the locus of stationary price to wage ratios. Below (above) the LS curve and above (below) the GS curve, both prices and wages are falling (increasing); at some point both fall (increase) at the same speed. The stable equilibrium with price flexibility is located when the grey line (along which the real wage is constant) intersects the AD curve.

Figure 1




Source: author's own elaboration

There are only a few parts of the book that are slightly imprecise. For example, in chapter 2 it is suggested that Ricardo and Smith assumed that interest rates equalize savings and investment. Classical economists did not use the loanable fund approach. Instead, they assumed that all the desired savings are mechanically invested. The model is extended to the long-run. Here Marglin assumes an unlimited supply labor *á la* Lewis. But it has been claimed, most notably by Harrod (1933) that labor shortages may affect investment behavior and capital accumulation, a case not analyzed in the book.

The book deserves the best welcome possible. Economists that are closer to the mainstream will see the main premises of contemporary macro challenged and will profit from a well-crafted manuscript. Most readers familiar with Institutionalist, post-Keynesian and Marxist economics will probably find overall argument and the framework extremely persuasive and innovative.

Emiliano Libman
Universidad Nacional de San Martín

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*Value and Unequal Exchange in International Trade*
By Andrea Ricci
Routledge: Abingdon, Oxon. 242 pages, £120 (hardcover).

Ricci reviews theories of unequal exchange (UE), concluding that they are rooted in *imperfections* in capitalism, rather than in an understanding UE as emerging from the *normal* functioning of the capitalist mode of production on a global scale. To establish such a framework, he first elaborates the theories of value and money which underpin his theory of UE. Against the 'substantialist view', wherein value is understood as a property of a commodity which derives from the abstract labour objectified in it, he proposes a 'processual view', wherein value acts as a 'social algorithm' translating between the market exchange ratio of commodities (the 'extrinisic measure') and the quantity of objectified socially necessary abstract labour (the 'intrinsic measure'). Money, in Ricci's view, is *always* a commodity-in-general, in that it has both use and exchange value; but he differentiates money as capitalist commodity (gold) and money as non-capitalist commodity within capitalism (fiat socially imposed by the state). Money expresses *both* the extrinsic and the intrinsic measures of the exchange value of commodities. In a powerful metaphor, Ricci compares money to an x-ray. Without the x-ray we could not compare the organs of different people, but they are comparable not because they are impressed on the x-ray, but because they are made of a common organic substance: "In the case of money, this common substance is abstract labour, and the human organ is the abstract labour time objectified in the commodity."

These theoretical priors are brought to bear on UE. Critically for its calculation, differences in national labour productivities mean that the application of the international law of value results in the systematic overvaluation of exchange rates of rich countries (the 'Penn effect', a 'puzzle' unresolved in the orthodox economic literature). This is because the national units of average social labour are not comparable since they are founded on different historical and institutional trajectories. When the exchange rate corresponds to its Purchasing Power Parity level, national units of labour are "coherently converted in units of universal labour having an identical monetary expression for all countries", but if this is not the case, "a unit of universal labour has a different international monetary expression depending on its national origin", with the difference equal to the margin between the exchange value that a country creates in production ('the intrinsic measure') and that which it is able to realise in circulation (the 'extrinsic measure').

Ricci calculates value transfer between centre and periphery, 1990–2019. The central regions' inflow reaches a peak of 8.5% of their GDP in 2008. Outflows from the emerging periphery correspondingly peaked in absolute terms during the global financial crisis, though fell as a share of their GDP from an average of 20% before the GFC, to single digit levels in the last decade. Outflows from the poor periphery, especially South and Southeast Asia, have grown in both absolute terms and as a share of GDP throughout, exceeding 20% of GDP. Importantly, the relative share of value transfer that occurs via Global Value Chains (GVCs) has steadily increased during the period. An index of dependency on UE, showing the share of potentially available economic surplus received from/transferred abroad, reveals that of all peripheral countries, only China has started to move towards a net neutral position on value transfer.

Ricci's findings should lead many orthodox – and indeed heterodox – economists, to question their belief in the 'progressive' properties of capitalism. In this view, while exploitation under capitalism may not be pretty, in the long-run it leads to technology transfer, rising productivity in the periphery and increases in living standards, that is, catching up. More countries will follow the Chinese example. Abstracting from what this understanding implies for climate breakdown, Ricci's work provides a theoretical framework and empirical evidence with which to counter such facile assertions. It should be of interest, not only to those studying trade and GVCs, but finance, labour studies, value theory, inequality and more. It deserves to be at the centre of a reinvigorated discussion of imperialism and dependency.

Jeff Powell
University of Greenwich