Book Reviews

The Financialization Response to Economic Disequilibria: European and Latin American Experiences
N Levy-Orlik and E Ortiz
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Levy and Ortiz's *The Financialization Response to Economic Disequilibria* is a timely book. It critiques mainstream economic theory and its limitations in explaining how economic conditions change or the transition from one state of equilibrium to another. Its analyses rely on Keynes, Kalecki, Kaldor, Minsky, Prebish, Furtado, and Marxists such as Luxemburg, Marini and Lapavitsas. Macroeconomic teachers interested in a heterodox approach may benefit from Levy and Ortiz's book as complementary material with experiences showing the dysfunctionality of the global economy from the specific prism of financial disequilibria.

The book has as a common denominator the power dispute within the capitalist system. Disequilibria are not the result of market imperfections and exogenous shocks, but are seen as structural and inherent to the system, resulting from powerful groups determining productive and financial structure, controlling surplus size and influencing its distribution between social classes. The analyses in the book go further in expanding these imbalances from the perspective of unequal power between countries. The hegemonic power of the US, the US dollar and the strength of other financial centres in developed countries are crucial to understanding the processes of deregulation and financial globalisation that have happened since the 1970s. The denomination of private debt in US dollars, with no institutions to act as lenders of last resort or regulations to limit capital movements globally, increase the international liquidity disproportionately, puts pressures on financial markets and reinforces the power of financial centres, which they exert in shaping the solutions to financial disequilibria. This is what is behind a monetary policy that is obsessed with price stabilisation and attracting foreign investment, which repeatedly restores the activity and profitability of financial markets while failing to increase employment or wages, or promote social spending on health and education.

Chapters 1-3 shed light on the conundrum behind the euro crisis while challenging mainstream economic theories regarding i) trade imbalances (Optimum Currency Areas and inter-temporal approach to current accounts); ii) monetary policy that focuses on price stabilisation and control of public finances, based mainly on the channels of interest rates and credit; and iii) explanations for recession based on excess of money supply or policy mistakes on the 'real side' of the economy when it is possible to observe a debt deflation process à la Fisher in the US and Europe during the recent crisis.

Chapters 4-5 challenge the new growth theory and the theory of (static) comparative advantage, arguing that structuralist and dependency analyses are still relevant to the situation of peripheral countries today, especially considering the continuing extraction of surpluses towards hegemonic countries. Essentially, the new financial and global order recreated old disequilibria in new forms of dependency. For example, i) trade policy, fiscal and monetary policy, and labour regulation constrained by free mobility of capital; ii) new forms of dominance by foreign capital accompanied by external disequilibria that stop peripheral countries overcoming domestic structural limitations; and iii) a type of external accounts opening that empowers financial capital and increases external liabilities, which then reinforces the extraction of surpluses towards developed countries. Chapters 9-14 examine some of these aspects in more detail when considering the case of the Mexican economy.

Overall, the analyses in the book attempt to theoretically and empirically understand the increasing trade of financial securities and other financial instruments as well as foreign exchange activities, which has been accompanied by overall unemployment, weak economy recovery and increasing inequality (Chapters 6-8 discuss this more directly). They emphasise over-indebtedness and excessive leverage and their effects on income generation.

However, the reader may still wonder: why do financial activities 'decouple' from the productive sector in the first place? The transformations understood under the neoliberalism umbrella and technical innovations explain the 'dominance of finance capital', and the 'different interest/power groups' explain the control and distribution of surpluses, but what explains the alleged dichotomy between financial and productive capital? The emergence of financialisation has made the discussion on value and creation of wealth more pertinent than ever, but both orthodox and heterodox economic theories continue to neglect this. The acknowledgement that production creates value followed by a focus on problems of surplus distribution and/or controlling of debt does not solve the contradictions that are part of the process of creating of value in the first place.