BOOK REVIEWS

The Economics of Financial Turbulence: Alternative Theories of Money and Finance

Bill Lucarelli

Edward Elgar, Cheltenham UK, 2011, 183 pp, $110

Reviewed by Bill Dunn

Bill Lucarelli's book contributes to recent discussions on finance and the financial crisis. It is a short but ambitious book, culminating in a useful empirical account of the recent crash. It begins with Marx and Keynes before moving 'to construct a theoretical synthesis which incorporates Kalecki's principle of increasing risk and Minsky's financial instability hypothesis' (pp10-11). While I am not convinced it fulfils this lofty objective, there remains a great deal here with which it is worth engaging.

The book's brief chapters cover an enormous ground. Lucarelli avoids the waffle that characterises too much academic writing but the sheer density of his writing does sometimes make it a tough read. He also makes no concessions to the ignorant. So expect no gentle introduction to 'endogenous money', 'Keynes' non-ergodic vision', 'the Rubin school', 'Ponzi schemes', 'an inverted yield curve' or 'Hick's IS/LM analysis'. Personally, I confess a little more patient guidance through the Keynesian chapters, in particular, would have been welcome. My criticisms should accordingly often be qualified with the caution 'if I have understood correctly'. Nor is the book likely to win over those clinging to 'the false apologetics of prevailing orthodoxies' (p11). There are repeated denunciations of neo-classical economics in general and of particular monetary shibboleths but there is no systematic critical engagement. The book should instead be read as an intervention in debates amongst the already critical and economically knowledgeable.

Some of the material will indeed be familiar to many readers of this journal, not least the discussion of the last two chapters which is based on Lucarelli's excellent article from 2008 on 'The United States Empire

of Debt'. Amongst other things, these chapters effectively link the escalation of international and domestic US debt. On the one hand the international currency regime with the dollar at its centre allowed the development of global imbalances, US current account deficits matched by the surpluses and dollar reserves accumulated in China and elsewhere. US privileges, its ability to pay less on its debts than for its credits and to devalue away the former, are powerfully described. This is also effectively tied to the way these 'reserves' are recycled within the US, allowing the debt bubble which developed there. There is much else, including accounts of the way neo-liberalism involved privatization, deregulation and wage repression, which left workers needing to borrow. The story has been told in many places elsewhere but Lucarelli tells it particularly well.

Coming as they do at the end of this book, these empirical chapters should now apparently be read as informed by, even as the denouement of, the earlier theoretical contributions. This presents a greater challenge.

It is worth briefly recapitulating the book's structure. It is comprised of three main parts; on Marxian perspectives, heterodox theories of endogenous money and on the roots of the current crisis. First, however, the introduction jumps straight to what many readers will find a familiar narrative of the 2007-08 crisis and the subsequent slump. Neo-liberalism reversed the 'financial repression' of the Keynesian era, we are told. It partially restored profit rates at the expense of labour but redirected these to unsustainable financial speculation rather than to the productive economy. Consumption was only maintained by the accumulation of debt, while workers themselves became embroiled in the financial system through share ownership, either directly or via mutual and pension funds. Spurred on by free market ideology and deregulation, all this proved unsustainable and neo-liberalism is now exposed as a failure, even for capital. One might quibble with some of the detail, for example over exactly how repressed finance was in the post-WWII period (see e.g. Konings 2010). A bigger problem is the apparent conceptual distance between the empirical discussions with which the book begins and ends and the theoretical sections that provide its core. Most of the ideas discussed in the latter were developed many decades previously and conducted at a much higher level of abstraction, without reference to any of the new financial instruments or the vagaries of neo-liberal ideology or policy. The gap between the theoretical and empirical parts of the

book is no doubt bridgeable but I am not convinced the construction here achieves this.

Chapter 1 begins with a useful introduction to Marx's labour theory of value. The last few pages (pp24-28) articulate a theory of surplus value which incorporates a non-commodity money form. Workers sell their labour power before but are paid their real wages only after the circuit of production is complete. Only then is it possible to calculate the 'magnitude of surplus labour and the rate of surplus-value' (p27). The story is taken up in Chapter 2, beginning with Marx on money and drawing on *Capital* but also on many of Marx's interpreters. Lucarelli makes clear that there is a significant shift from Marx's view of commodity money to one in which the state becomes vital in validating non-commodity money as the universal equivalent. The aim is to move 'towards a Marxian theory of financial crises' (p40). However, the 'towards' is well chosen and we appear to stop somewhat short. Lucarelli describes how crises for Marx involve a separation of money from the commodity base, but there is little engagement with the implications of this for a contemporary monetary system which lacks the commodity base to begin with. And, while it is surely 'necessary to distinguish the various forms and functions of money and how these have evolved historically' (pp31-2), this is not something developed much further. Indeed, to do so would require a rather different sort of book.

Instead of dwelling on money and finance, the text turns to some relatively familiar views on Marx and crises. Lucarelli avoids the endless 'he said, she said' descriptive approach that can bog down so many accounts and instead uses the various sources to construct a synthetic interpretation, a synthesis supported by at least some of the texts to which he refers, notably Makoto Itoh and the Uno school. This seems a sensible way to interpret Marx's arguments but a bit more explanation would be useful. At least some of the people cited here are arguing for mutually incompatible crisis theories. I'm thinking of David Yaffe's 'fundamentalist' interpretation of the Falling Rate of Profit and Paul Sweezy's underconsumption/overproduction approach. Without venturing a bit deeper into the debates and tensions between the approaches, there is a hint of cherry picking rather than theory building. The book in any case appears to abandon much of this, with only a few of the insights reappearing in the later interpretations of Kalecki.

Something similar happens in Part II. Chapter 3 jumps to Keynes. It describes his ideas of radical uncertainty, which ‘to a certain extent’ explain instability and it discusses liquidity preferences and the paradox of thrift, whereby saving undermines investment in production. Lucarelli cites Keynes, who even before the *General Theory*, was describing how booms and depressions were peculiar to an economy in which money was not neutral (pp54-5). Chapter 4 then introduces three more recent ‘heterodox approaches’, more committed than Keynes to the idea that money was endogenous. Lucarelli makes clear that these ‘Horizontalist’, ‘Structuralist’ and ‘Circuitist’ approaches are ‘divergent’, not only from each other but also from the Keynes to whom we had just been introduced. The first rejects Keynes’ theories of liquidity preference, the second reinstates them while for the Circuitists the Central Bank’s issue of ‘high-powered money’ is the critical mechanism in regulating liquidity (p76). Here (in contrast to the Marx chapters) Lucarelli concentrates on detailing what the different perspectives say rather than venturing a synthesis or offering a systematic defence of one or another, although the ordering perhaps implies a certain preference for the Circuitist interpretation. The point seems to be simply that these perspectives agree on money’s endogeneity. This contrasts with Monetarist visions but such consensus hardly seems devastating since these perspectives are said to have themselves ‘failed to provide a coherent and unified theoretical framework’ (p83). Again the discussion is anyway dropped abruptly.

Chapter 5 deals with Kalecki and Minsky. The former uses a Marxist framework but quite differently from most of the authors discussed in the first part of the book. In common with some of the underconsumptionist readings discussed earlier, Kalecki places considerable weight on imperfect competition in developed capitalism, with crises ‘caused by problems in the realization of surplus-value into profit’ (p93). However, he sees financial fragility arising specifically ‘from the fact that the circuit of credit from oligopolistic firms tends to diminish as investment is curtailed in the aftermath of the preceding boom’ (pp88-89). This appears to be a progressive process, so ‘the ability of governments to dampen the fluctuations of the business cycle via Keynesian anti-cyclical policies will tend to deteriorate over time’ (p105). Minsky is right to describe a recurring cycle of speculative bubbles based on the endogenous instability in the financial system, in which for example rising asset prices fuel euphoria and ultimately unsustainable borrowing. However, the process becomes less manageable.

On that note we return to the narrative. The final empirical chapters offer several references to Minsky. As other authors have noticed, there are many features of the recent speculative bubble that fit the trajectory he described. However, it is less clear that Kalecki's analysis informs much of this. Indeed the one attempt to make it relevant is one of the few instances where the empirical story appears significantly questionable. Lucarelli describes non-financial corporations' increased investments based on increased external borrowing rather than retained earnings. Others have suggested that rates of capital formation within the US and other rich country economies remained at historically low levels, and that what did occur was largely financed out of internally generated funds. Corporations were running financial surpluses and generating savings which could then be thrown into the speculative whirl, while it was households and governments that were in debt (see e.g. Harman 2009, Wolf 2010). This makes little difference to the thrust of the argument but highlights the difficulties of linking the theories with the evidence; and Lucarelli himself concludes the empirical chapters by stating that 'the origins [of this crisis] are quite specific to the financialization of personal income rather than to the logic of speculative investment cycles' (p142). This further highlights the somewhat tenuous connections between the different parts of the book. The international dimensions, so well described in chapter 6, had been anticipated by little if any of the preceding theoretical commentary. The role of the state (and of inter-state cooperation), seen as both contributing to the crisis and as vital to any strategies for recovery, had similarly gone largely unexamined in theoretical terms.

All this means that there are numerous loose ends and recurrent frustrations that the theoretical discussions are seldom revisited in considering the evidence. The parts of the book work better as separate essays than as a synthetic whole. The grandest ambitions remain unrealised. Perhaps not unusually, the pot of gold at rainbow's end remains elusive. It is nevertheless possible to appreciate the rich spectrum of theoretical perspectives and empirical detail that is on display. In its conclusion the author identifies a more modest aim of restoring heterodox insights and, towards this, it makes a valuable contribution. If the book can indeed inspire further debate and progress towards a more completely adequate, theoretically informed account of financial turbulence, its enduring contribution could be considerable.

References

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Marx at the Margins: On Nationalism, Ethnicity and Non-Western Societies

Kevin B. Anderson

Chicago: University of Chicago Press, 2010, 336 pp, paperback
USD 22.50

Reviewed by Tom Barnes

Kevin B. Anderson's book offers an interesting historical account of Marx's writings on non-Western societies. Anderson, a Professor of Sociology and Political Science at the University of California, Santa Barbara, analyses Marx's writings on countries considered 'peripheral' to industrial capitalism during his lifetime: India, Russia, Algeria, China and Indonesia. He also looks at Marx's commentary on the Polish and Irish nationalist movements and on the American Civil War. Anderson focuses on Marx's lesser-known writings, many of which are yet to be published in any language. Most of his research delves into the monumental—and unfinished—*Marx Engels Gesamtausgabe* (MEGA), a collection of German-language publications, letters, manuscripts and drafts.

Anderson's main argument is that Marx's views about capitalist development, and its relationship to colonialism and nationalism, evolved during his lifetime. As a young man in the 1840s, Marx held an 'implicitly unilinear perspective, sometimes tinged with ethnocentrism, according to which non-Western societies would necessarily be absorbed into capitalism and then modernized via colonialism and the world market' (p. 2). By the time he reached his sixties, Marx had adopted a