BOOK REVIEWS

MODERN POLITICAL ECONOMICS: MAKING SENSE OF THE POST-2008 WORLD
Yanis Varoufakis, Joseph Halevi and Nicholas Theocarakis
Routledge, Abingdon, 2011, pp 530

MARKET SOCIETY: HISTORY, THEORY, PRACTICE
Ben Spies-Butcher, Joy Paton and Damien Cahill
Cambridge University Press, Melbourne, 2011, pp 268

Reviewed by Frank Stilwell
These two new books develop important but contrasting approaches to modern political economy. I should say at the beginning of this comparative review that all but one of the authors are well known to me as colleagues and friends. What is most interesting about their work, apart from its intrinsic quality, is the way in which they approach political economic analysis so differently. One book focuses on developing detailed critique of key elements in mainstream economic theory as a prelude for considering the major economic problems associated with the great crash of 2008. The other takes a more interdisciplinary approach to looking at a range of issues on the boundaries between political economy and economic sociology in order to highlight how our ongoing economic and social opportunities, activities and experiences are shaped by markets and their social underpinnings. The contrasting character of the two books tells us a lot about alternative approaches within modern political economy, including heterodox economics and interdisciplinary perspectives.

The book by Varoufakis, Halevi and Theodorakis (VHT) is a veritable magnum opus, running to well over 500 pages in quite small font. Some
of its initial impetus came from a unit of study – on the economics of modern capitalism - taught by Halevi in the Political Economy program at the University of Sydney. As developed and extended by Varoufakis and his colleague in Athens, it has become a comprehensive, erudite and densely argued book, leavened by many entertaining sub-plots and rhetorical flourishes. The first two thirds of the volume re-assesses the history of economic ideas, from classical political economy – indeed the odyssey starts much earlier with Aristotle – through to the modern economic dogma that so woefully failed to anticipate the GFC and indeed contributed to it.

As you would expect in such a critical retrospective, there are numerous twists and turns, so the reader requires some strength of commitment, probably based on prior interest, to complete the long journey.

What helps to maintain focus and direction in the book, other than simply a chronological ordering, is the use of recurrent themes, particularly about the ‘radical indeterminacy’ that pervades economic activity and the corresponding problems of trying to turn economics into a science. As the authors argue, ever since the ‘marginalist revolution’ of the late 19th century, neoclassical economists have proceeded on the assumption that improvements in analytical technique can lead to definitive models of how the economy actually works at both microeconomic and macroeconomic scales. This quest is bedeviled by what they call ‘the inherent error’ – ‘the impossibility of telling a credible story about how values on prices are formed in complex (multi-sector) economies that grow through time’ (p.10).

Not all economists have been equally prone to this error, as the authors point out. Following the marginalist revolution, the Austrian school took a different direction to the dominant neoclassical school by emphasizing risk and dynamic change. In von Hayek’s hands this led to claims for the supremacy of capitalism, not as an equilibrating system, as neoclassicals assert, but as a system capable of adapting to the innate conditions of uncertainty and perpetual change. While the politics of the Austrian school may generally be seen as stridently right-wing, its methodology is preferable to the dominant neoclassical school (a point previously emphasised in a useful book by Jon Mulberg, The Social Limits to Economic Theory, which is seldom cited, including in the book under review).
The Institutional economics tradition also stood aside from the mainstream, but that hardly gets a guernsey either – perhaps because its distain for ‘pure’ theory denied it ‘respectability’ in academic circles, although it was quite influential in practical public policy in the USA in the first half of the twentieth century and, in the hands of Myrdal, Galbraith and Hodgson, has continued to be a thorn in the side of the orthodoxy.

Rather, it is John Maynard Keynes who emerges as the generally heroic figure in the VHT volume, because his economic analysis notably did not perpetuate ‘the inherent error’ (p. 225). His focus was on the characteristics of a distinct macroeconomic system – not derived via the fallacious aggregation of assumed microeconomic behaviours of utility-maximising individuals, as in neoclassical theory. Inherent systemic instability is the hallmark. The authors stress (as do Rod O’Donnell and other Keynes scholars) that Keynes’ analysis of capitalism as a system prone to recurrent recession was based on the view that all knowledge about economic affairs is contingent and uncertain. Indeterminancy and disequilibrium possibilities are pervasive features.

The final third of the VHT book turns directly to looking at what has happened to the capitalist economies in the real world as that tendency to instability erupted with a vengeance in the great crash of 2008. As one might surmise from the foregoing critique of mainstream economic theory, this analysis reflects an underlying post-Keynesianism but tends in practice to historical description of perverse institutional behaviours, particularly those of the deregulated financial sector and central banks. Evidence and discussion of the trends in capital flows, debt levels, trade and budgetary imbalances, productivity, wages, profit rates and similar variables is put together with criticisms of policy attempts to patch up a failing economy. This is a useful addition to the already enormous volume of literature analyzing the GFC and its aftermath. It gains added poignancy from the fact that two of the three authors hail from Greece, that most problematic of indebted nations where the embrace of austerity measures is currently causing such social turmoil.

Overall, what the VHT book offers is a sophisticated critique of centuries of western economic theorizing, partly emphasizing problems of internal inconsistency but also paying attention to the changing economic experiences and policy failures in the real world. The numerous theoretical arguments would be hard to follow for someone without any
pre-existing knowledge of economic theories but, for those with the required capacity and stamina, it is a fascinating experience. Much of it takes the form of ‘set it up, knock it down’ reasoning, which readers impatient to get to the preferred alternative may not find readily appealing, but the long and arduous journey has much of intrinsic interest along the way.

The other book by Spies-Butcher, Cahill and Paton (S-BPC) is a relatively compact volume, of only half the page length and probably rather less than a third of the word length. Yet it packs an enormous amount into those pages. Like the VHT volume, it also had partial origins in a unit of study at the University of Sydney – this time on the social foundations of capitalism, taught and/or studied by all three of the authors and focusing inter alia on the study of political economy from the perspectives of Karl Polanyi and theorists of the ‘social structures of accumulation’. Developed now as a book, it has a more comprehensive coverage of a wide range of socioeconomic issues, organized in a structure that is both original and easy to navigate.

The S-BPC book begins by showing how important are markets in our everyday lives and how they relate to the structure of economic and social institutions. A sketch of the history of market society then leads to an introduction to competing theoretical perspectives - classical political economy, neoclassical economics, Marxian political economy, Weberian sociology, institutional analysis, Keynesian economics and modern economic sociology. Subsequent chapters apply these currents of economic and social analysis to the study of production, values and commodification; growth, accumulation and crises; and inequality, distribution and conflict. These chapters enable the reader to see how market societies shape what is produced and consumed, how economies grow and why they sometimes stumble, and how the fruits of economic activity are shaped by relations of class, gender and race.

The authors then turn their attention in the second third of the book to regulation in market societies. Successive chapters look at states, politics and welfare; markets, risk and globalisation; and firms, corporations and competition. The focus here is on understanding how markets interact with states in developing welfare arrangements, establishing legitimacy for the existing socioeconomic order and shaping or constraining the profit-seeking and restlessly expansionary corporate activities. It is emphasized that markets are themselves regulatory institutions,
simultaneously producing incentives and imposing discipline on participants. Their expansion worldwide, and particularly their explosion in speculative finance, creates new challenges (such as those discussed in the latter parts of the VHT book). But firms are not themselves markets: their internal functioning is shaped by the exercise of authority relationships, such as the authority managements exercise over workers because the capital–labour relationship is one of unequal power. Where the firms are large corporations, enjoying the special privilege of limited liability and command over substantial resources, concentrated corporate power poses yet more profound challenges for public policy - and for democracy. All these considerations, and more, feature in this important middle section of the S-BPC volume.

Then, in part three of the book, the authors explore the theme of ‘living in market society’. This involves focusing on work, consumption and quality-of-life; family, environment and sustainability; and civil society, community and participation. It is an intriguing taxonomy of socioeconomic and political concerns. At first sight some of it may look somewhat contrived. To give one example, take the chapter on family, environment and sustainability. Is this just a collection of sundry social and ecological concerns that don’t fit neatly elsewhere into economic analysis of markets? No, as the authors show, it is the relative neglect, until quite recently, of both household economic activities and the environmental impacts of market-based economic activities that has given mainstream economics a biased understanding of what constitutes progress in human (and broader ecological) wellbeing. By bringing these issues together into the foreground we see how a socioeconomic analysis that is embedded in values ‘beyond the market’ can help us to understand the broader conditions and prospects at this stage in human history.

Throughout the S-BCP book there are numerous summaries of key economic and social concepts, theories and debates. Students will certainly find this an enormously valuable compendium of material for understanding economy and society. Like the VHT book, it gains coherence through the use of recurrent themes, such as the importance of social embeddedness in the existence and functioning of markets.

Mainstream economics is, of course, the poorer for largely neglecting these underpinnings. When orthodox economists do consider ‘social’ phenomena - as in the writing of Gary Becker on households, marriage and procreation, crime and punishment, and so forth - they typically do
so by extending neoclassical reasoning, rather than by learning from sociology and other social sciences. That Becker legacy is one of the many competing influences on theory and policy that is critically considered in this book. The authors show that a fruitful modern political economy, while maintaining a central focus on understanding the functioning of the economy, must embrace a more thoroughgoing interdisciplinary perspective. ‘Imperialist’ extensions of orthodox economics into the study of social phenomena are part of the problem, not part of the solution.

No panacea is posited though. Rather, the implicit message in the S-BPC book is that understanding economy and society requires continuous judgments about the usefulness or otherwise of the theoretical lenses that shape our perceptions. Hence the careful assessments of a range of concepts that are in common but frequently loose usage - such as social capital, Fordism and post-Fordism, commodification, consumerism, globalisation and theories of class. One gets the feeling of being led carefully by the hand on a tour of territory that has numerous pitfalls and in which progress depends on continuous reassessment of the shifting terrain. This is what navigating the territory characterized by ‘radical indeterminacy’, as the VHT book calls it, must mean in practice. The contrast with the comforting but misleading ‘certainties’ within mainstream ‘equilibrium economics’ could not be more striking.

Are these two books complementary and compatible? Or should they simply be regarded as two types of political economy - one primarily concerned with developing improved economic analysis through critical engagement with mainstream economic theory and the other primarily concerned with more closely integrating economic analysis with social inquiry? Such a modest conclusion would be quite reasonable, providing a foundation for mutual respect in academic activities that run parallel to each other. However, productive interaction raises yet more interesting potentials for symbiosis. In pursuit of this goal, the critique of mainstream economic theory in the VHT book may be regarded as a foundation or stepping-off point for the latter volume. The ‘inherent fallacy’ which is the central theme in the former volume is nowhere to be found in the latter. But the S-BPC book also builds on a broader base of social and institutional inquiry than comes from economic analysis alone – whether neoclassical, post-Keynesian or whatever. It is enthusiastically recommended, whether for student use or for academics
and other concerned citizens wanting a readily accessible analysis of the main features of contemporary economy and society.

So, in effect, here are two mutually beneficial approaches to modern political economy. There are striking differences in both style and method between the two books. In terms of style, VHT is both forensic and erudite, albeit sometimes seemingly ‘inebriated by the exuberance of its own verbosity’; while S-BPC tidily and succinctly summarizes a wide array of social science research and debates, sometimes at the expense of leaving the reader (this one anyway) thirsting for more explicit personal judgments about the most fruitful way forward. In terms of method, the former is primarily concerned with examining and contesting economic orthodoxy, while the latter seeks to build a positive alternative to that orthodoxy right from the start. Putting them together gives us a great basis for future progress, albeit not necessarily taking us on a single track.

And then there is a third type of contribution to political economy – developing analysis for the explicit purpose of social and political advocacy. There has been a long and important tradition of this type of writing, making the case for particular political economic changes – whether reformist or revolutionary – that could herald the creation of more equitable, satisfying and sustainable societies. Such writing takes us beyond the critique of modern capitalism or ‘market society’ to consideration of fundamentally different socioeconomic orders. There are glimmers of this in both the VHT and S-BPC books, but a more striking example is to be found in the next book under review below…

**LIFE WITHOUT MONEY**

Anitra Nelson and Frans Timmerman, Eds.

Pluto Press, 2011, 244 pp.

**Reviewed by Ted Trainer**

The GFC, the European ‘de-growth’ movement, Occupy Wall St, and the Transition Towns movement, all seem to be part of a long overdue surge in discontent with the unacceptability of the system and the quest for alternatives. Thus this is a timely book, reconsidering some classic themes in a contemporary context focused on alternatives to money.
Eleven chapters explore a range of interesting and important themes, loosely divided into critiques of capitalism and consumerism, and activism and experiments. Among the topics are non-market socialism, self management, the labour credit system of the Twin Oaks commune, the money-free economy of Spanish squatters, the elimination of work and wages, and the gift economy. There are helpful introductory and concluding chapters by the editors. Although all chapters are clear and easily understood by the non-specialist reader, the discussions are also likely to be valuable refreshers for professional students of political economy.

The book’s central thesis is that a satisfactory society requires the scrapping of markets, the state and money. The emphasis on the third of these propositions is particularly distinctive and debatable. It is obvious that many of the most absurd and outrageous aspects of consumer-capitalist society are directly due to the monetary system, especially its taken for granted assumption that money must take the form of credit which has to be repaid with interest, and which has to be issued by private banks. But the key question is, are the resulting effects due to the use of money or just due to the form of money used in consumer-capitalist society? Could a different form retain the advantages of money while avoiding these effects? My main doubts regarding the book are to do with whether the case given for the need to scrap all forms of money is convincing.

I firmly believe that we are entering an era of intense and irremediable scarcity brought on by resource and ecological problems, in which the rich countries in particular will be jolted into a scramble for radically different social systems. These will not be characterised by heavy industrialisation, globalisation, economic growth or affluent lifestyles, and they will have to at least heavily control markets if not entirely eliminate them. The new local economies will not function satisfactorily unless they are mostly under participatory social control at the level of the neighbourhood committee and town meeting, with a relatively minor role for the remnant ‘state’. This vision sets crucial questions regarding the role, if any, of money. How will we balance contributions and rewards, make production and distribution decisions, provide incentives, raise and allocate capital, ensure efficiency, and coordinate the economy? Can and should these things be done without the use of money?
As I see it, most of these questions are not so difficult to answer in traditional ‘socialist’ terms, e.g. via rational democratic public planning of the essentials through open and accountable processes. (After all, as the book points out, the present economy is heavily and meticulously planned...mostly within the corporate sector.) This could in principle be carried out without the use of money, especially since the advent of IT, simply by feeding in statistics from shops, farms, factories, etc. and working out whether we need to produce as many tomatoes or jumpers next year as last year.

But it is mostly at the level of calculating personal inputs and consumption that it seems to me it would still be desirable to retain a monetary form of accounting, most likely of the ‘time dollar’ variety. Although in my view the basic principle should be contribute as we are able to and receive as we need to, I would like to be able to judge how many extra hours ‘work’ I should contribute to ‘earn’ the goods my lifestyle required in excess of my ‘needs’. I might want more elaborate equipment for my pottery hobby and I would want to know what is a fair additional input to ‘pay’ for this. A form of money that was no more than a unit of accounting, and could not be lent at interest, or used for speculative purposes, or sustain a financial sector making 40% of corporate profits, would enable us all to know if we were pulling our weight and how much more or less we should contribute if we wished to acquire something in excess of what would satisfy our needs. This doesn't necessarily imply having to resort to a market to determine the appropriate inputs and costs.

These comments indicate the valuable discussion issues that this book sets up. If the planet’s ecological and social systems continue their accelerating collapse we are soon going to have to confront the task of building new and very different systems, and central among the decisions to be made will be those to do with the nature and role of money. The book does a good job of stimulating thought about these issues.
THE WORLD BANK AND THE POST-WASHINGTON CONSENSUS IN VIETNAM AND INDONESIA

Susan Engel

Reviewed by Frank Stilwell

The international conference held at Bretton Woods in 1944 established ‘a small, conservative banking institution’ called the International Bank for Reconstruction and Development (IBRD). Together with the establishment of the International finance Corporation (IFC) twelve years later – and the subsequent development of bodies concerned with securing multilateral investment – came the emergence of The World Bank as a distinct institutional grouping. The IBRD and the IFC are still the Bank’s two principal development lending arms, sharing the same staff, headquarters and president (who is always from the USA). The IFC provides zero-interest loans to the poorest of countries, while the IBRD provides loans at market rates to more conventionally credit-worthy nations ranging from poor to middle-income. Together, their cumulative lending totalled over $590 billion by the end of 2006.

This book by Susan Engel investigates how the funding lever of the World Bank has been used to promote a particular view and practice of economic development. Her book is a study of hegemonic power – ‘the organisation of consent’ (p.7). That emphasis on hegemony distinguishes the book methodologically from other critiques of the World Bank, of which there are many. In historical terms, it involves analysis of how the Bretton Woods negotiations and outcomes reflected the shift from British to American hegemony. It also involves study of how the Bank’s later ‘discovery’ of poverty became linked with a neoliberal agenda through structural adjustment programs, ‘transforming the Bank from a reflection of pax americana to an institution that was a key force in establishing and reproducing that hegemony’ (p.35).

As an enforcer of the ‘Washington Consensus’, the Bank emphasised loan conditions relating to trade liberalisation, privatisation of state-owned enterprises, banking deregulation, removal of foreign exchange controls and its own interpretation of what constitutes ‘good
governance’. The problems of this particular prescriptive model came to be widely recognised, and the subject of much resistance in developing nations. By 2000, as the author notes, the Bank had to admit the negative impact of the Washington Consensus: that was the time when its former chief economist Joseph Stiglitz resigned and came out as a strong critic of the Bank and its policies. A more nuanced Post-Washington Consensus was then developed, with emphasis on ‘social capital’ and redressing some problems of ‘market failure’, albeit showing considerable continuity with neoliberal principles of ‘sound’ public finance and trade liberalisation.

A great strength of Susan Engel’s book is its detailed examination in how these policies operated ‘on the ground’ in two important developing economies – Indonesia and Vietnam. The Bank has claimed to be increasingly sensitive to individual countries’ social, political and economic circumstances, but the evidence tends to suggest otherwise. Of course, consultations occur with government officials in each country seeking loans, but the nature of policy prescriptions almost invariably has a quite standard character. It is a neoliberal agenda that has been pushed in ways that are inimical to a balanced, sustainable or pro-poor development process. As Engel concludes, ‘the case studies showed only a few indications that the Bank has moved beyond its traditional concern with economic growth within a market capitalist framework’ (p.197). Even the emphasis on community ‘participation’ in the Post-Washington Consensus does not fundamentally change this orientation: rather ‘in Gramscian terms … it is a moral, intellectual and educative engagement to construct civil society in the neoliberal image’ (p.193).

So what is to be done? The book’s focus is on understanding what has happened, not on prescribing change. One is left with the general feeling, however, that a campaign similar to the ‘50 years is enough’ movement against the International Monetary Fund would have more than sufficient justification.

From a Gramscian perspective, challenging hegemonic power requires, first and foremost, an understanding how that power operates, how it determines the discourse and practices and creates complicity with the prevailing political economic processes even among these whose interests are thereby subordinated. Engel’s book helps to provide that analysis. It is a carefully researched, clearly presented and well reasoned contribution to international political economy.
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