
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 disdain 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. Indeterminacy 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 Franz Zimmerman, 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.