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BOOK REVIEWS

Anthony Elson, *The global financial crisis in retrospect*. 2017. Palgrave Macmillan US, New York, ISBN 978-1-137-59750-2

Mainstream economics: with or without you?

Anthony Elson is not just a writer and a university lecturer, but also an international economist. He was a senior staff member of the International Monetary Fund with responsibilities to manage the IMF's macroeconomic surveillance and a programme involving lending money to a number of countries in the Asia Pacific and Latin American regions. Since leaving the IMF Prof. Elson has not only been a consultant with the World Bank but also with a number of other public and private organizations. He has also been a lecturer at the Centre for International Development (Duke University), the Paul H. Nitze School for Advanced International Studies (Johns Hopkins University) and Yale University. What is more Dr. Elson is an experienced and widely read writer. His previous works, such as *Governing Global Finance – The Evolution and Reform of the International Financial Architecture* and *Globalization and Development – Why East Asia Surged Ahead and Latin America Fell Behind*, a series of influential and commonly respected texts, are all the products of his intellectual proficiency.

His latest book entitled "The Global Financial Crisis is Retrospect" discusses the traits of the capitalist system and deals with the impacts of the Great Depression. He provides an assessment, which was absent in his previous book, of both the influence of mainstream macroeconomic thinking in setting the groundwork for the possibility of the financial crisis and its ability to influence economic policy in the period since. Of course the traces of such a comprehensive assessment can also be found in his other works. For example, his previous book, "Governing Global Finance", deals with the problems arising from the growth of financial globalization, as reflected in the global financial crisis and the need to improve what has come to be known as the international financial architecture. Using both contemporary and historical perspectives, Anthony Elson provides a thorough evaluation of the system of global financial institutions and outlines a grandiose vision of the lines along which these institutions ought to be reformed in order that global financial stability could be enhanced. His "*Global Financial Crisis*" can be considered as a sequel. Whilst his previous work addressed the crisis as well as how to create and maintain a stable financial system, his recent book is focussed on the causes and consequences of the crisis, helping us to understand its underlying factors and economic processes.

From time to time in human history, there occur events that mark definite turning points between one epoch and the next, when a particular practice grows overthrown and another takes its place. It is debated, however, whether such financial crises have a tendency to occur time and again. By now a multitude of theories have been developed about how financial crises develop and how they could be prevented. According to the age-old explanation of financial crises, such episodes are frequently caused by monetary excesses which lead to a boom and later end up in an inevitable bust. As the standard explanations assert, the underlying cause of the 2008's financial crisis was a housing boom and bust, which finally led to financial turmoil first in the United States and soon thereafter in other countries as well. Monetary excesses are conceived to have been the main cause of the boom and the resulting bust (Taylor, 2009). Contemporary studies of the historical evidence carried out by the IMF and some authors have shown that financial crises inevitably lead to sharp recessions, which may last for two years or so. Driven by the deleveraging of debts and risk perceptions, consumption, private investment and credit flows are also slow to improve. As a consequence, recovery is slow with unemployment levels continuing to rise for a number of years once the economy has been put back on the track of growth again (Verick and Islam, 2010).

Elson reviews the enormous impact of the financial crisis in terms of wealth lost by households and corporations. Nowadays, some years after the crisis, its effects are still clearly visible in many countries. Employment throughout the European Union remains below its pre-crisis levels and real wage stagnation, low inflation and weak economic growth have been continuing problems in the United States. These fiscal and monetary positions are expected to take a number of years to be stabilized or normalized, with uncertain economic effects triggered by the process itself.

The latest financial crisis having begun in 2008 is the one that has had the most significant effects on economic and financial processes. According to the author these events are closely related (or even inseparably tied) to the capitalist system. This fact reveals the challenges of reconciling financial stability with the extreme capitalist tendencies to maximize the benefits of the system. Arguably it has grown more difficult to achieve these objectives due to the expansion of financial globalization.

Elson's book is also really important for the methodological analysis – and actually this is the very reason why this review is written. It reveals significant shortcomings in the mind-set of economists and policy-makers in the period leading up to the crisis. Two main topics are concerned: the efficiency of the global financial order and the inherent stability of a market oriented capitalist system. The latter used to be the focus of the attack by Keynes in his analysis provided on the causes of the Great Depression. With the development of some alternative macroeconomic models the framework of Keynes's thinking has been repeatedly reconsidered. New models are developed to deal with the policy of inflation targeting, as validated by the experience of the Great Moderation, which preceded the global financial crisis.

As a consequence of major economic crises the economy is generally cleansed and renewed, with significant structural rearrangements occurring in the economy. Such modifications and rearrangements obviously affect contemporary economic thinking and economic theory. The theories forming the intellectual basis for Keynesian economics were first elaborated by the British economist J.M. Keynes in his

General Theory with the effective support of some of his fellow economists, such as Michał Kalecki of Poland. His contribution to modern macroeconomic thinking is thoroughly analysed by Prof. Osiatyński in this special issue. Keynesian economists generally argue that as aggregate demand is volatile and unstable, capitalist economies often experience suboptimal macroeconomic outcomes. Even though Keynesian economics lost some of its influence after the oil shock and the resulting stagflation episode of the 1970's, the advent of the financial crisis triggered an unprecedented resurgence in Keynesian thought.

Keynes truly revolutionized economic thinking, and for decades has determined the main thrust of the theoretical development in our discipline. In the context of the 2008's Great Recession one question naturally arises – a question regarding the future practice and what changes ought to be expected to follow now. How has mainstream macroeconomics performed at all? A significant part of the profession think that modern macro has not addressed some major issues properly, following from its inability or even unwillingness to answer three basic issues emerging from the crisis. Accordingly it is argued that no explanation is provided as to why the 2008's crisis actually broke out; the specification of the main features is incomplete and no adequate suggestions are available as to a therapy to enable recovery from the crisis (Mellár, 2010).

Mainstream economics, which is both the ultimate ground of economic education and the basic approach to a lot of theoretical and practical problems, may be opposed to heterodox economics which has a limited impact on the majority of professionals. Modern economics is related to neoclassical economics and neoclassical synthesis combining neoclassical methods and the Keynesian approach to macroeconomics. According to Keynes economic crises and, consequently, the causes of wars are the inadequate and profitable demand that cannot absorb productivity gains. The most powerful critics of Keynesian theory emerged in post-WWII Chicago under the monetarist banner led by Milton Friedman. According to his basic tenets if a government feels tempted to increase prosperity, it is not to resort to increasing public spending as Keynes taught. Along with this powerful criticism it was further elaborated and radicalized by new classicals, the status of mainstream economics has changed over the past couple of decades. Although a direct opposition between Keynesianism and radical monetarism is debated today it is obvious that our understanding of the conditions under which Keynesian economic policy may prove to be successful has grown clearer by now than it ever was before.

I can agree with the author that the crisis has triggered a debate on the status and merits of mainstream economics and its alleged ineffectiveness. Questions have arisen as to whether it is underdeveloped or rather effective enough and how it works at a purely theoretical level. The Great Depression of 1930's and the global financial crisis of 2008's challenged mainstream economics, for economists had created these models to identify the abstract tendency laws of economic optimization and behaviour. Arguably it is not our directly experienced socio-economic reality that is depicted, it was not meant to fully describe any phenomena – but to help us to specify some law-like tendencies of fundamental importance (Galbács, 2015). As a consequence of the financial crisis of 2008's, a scepticism began to spread among both economic theorists and a wider cross-section of the public, regarding the status and outlook of mainstream economics. Some critics argue that promising approaches are excluded from major mainstream publications platforms (Csaba, 2014) and, instead, the focus is still on problems amenable to formal modelling techniques. Since the crisis many new initiatives have been launched that emphasize the importance of economic history and the history of economic thinking. Lots of theories deal with the evidence-based approach. According to Elson mainstream economics is not a fault, despite the crisis. One of the main conclusion of the book is that we can learn a great deal from crises, recessions and by using the lessons taught by crisis we can further improve economics. Surely critics will keep on saying that the mainstream way of macroeconomic analysis was framed erroneously (Mellár, 2015), for it could not predict the crisis, and, according to Elson, macroeconomic analysts and modellers are commonly required to be able to identify economic and financial activities where significant risks and nuisances may arise.

Basically, I am under the impression that Elson is not very satisfied with how mainstream economics dealt with the crisis. Unfortunately, when it comes to presenting the methodology of neoclassical orthodoxy, he appears to have drifted under the influence of Lars Syll, who is a well-known critic of mainstream economics, whilst he seems not to have nurtured any familiarity with neoclassical epistemology. Unfortunately, his criticism – and this is the line of criticism to which Elson also subscribes – approaches the subject of criticism from an outside viewpoint. They do not try either to understand how neoclassical orthodoxy has organized itself on the basis of the chosen epistemological principles or to identify what the basic issues are, in the analysis of which both the main stream and modern macroeconomics as its subset are particularly successful (Galbács, 2016). Instead they start from the issues they consider to be the most important problems for them, and which, as they argue, the main stream cannot (and of course does not want to) answer. For this reason the main stream cannot but prove unsuccessful – the oft-cited relationship between general mainstream thinking and institutionalism shows this controversy clearly. It is interesting, for example, that the author attributes the downward revisions of the potential GDP estimates to the failure of the NMC (new macroeconomic consensus), saying that the basic assumptions of the theory are not met. Here it should be realized that mainstream economics does not have any direct descriptive relevance (something for Prof. Syll to learn), so it cannot be the failure of the theory when reality differs from the pattern predicted in one way or another. These arguments are well-known, so mainstream believers are expected to receive the book with some bitter taste in their mouths. The doors are already open. Research within neoclassical orthodoxy has been conducted for years to change the paradigm labelled as NMC in order that our esoteric models could become closer to reality. Elson's behavioural economics, for example, can no longer be called a rival view, since in today's terms the main stream and behavioural economics seem to be quite cooperative (Angner, 2015).

At the end of the day Elson's volume must be viewed as an important recent product of institutional or economic policy thinking in which the author also processes the most up-to-date available resources. The institutionalist camp will approve of the author's depiction of the main stream as a deficient set of thoughts. However, this circumstance will hardly dampen the merits of the book. The only question is whether, as far as our methodological principles are concerned and as long as the profession remains fragmented, a consensus can emerge at all, in which each school of the economic thought recognizes one another's virtues and a dialogue can start. Elson's book touches upon important issues that are essential in addressing the tremendous impact of the financial crisis. The themes are important for abstract economic, institutional and political considerations. This recent book complements his previous works, offering a type of assessment on the foundations of the macroeconomic theories shaped about the financial crisis. The overall assessment of authentic and professional economic processes that the book describes will be highly appreciated by the readers.

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