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Book Review

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The Economic and
Labour Relations Review
2021, Vol. 32(2) 304–305
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DOI: 10.1177/1035304620982006
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Bruna Ingrao and Claudio Sardoni, *Banks and Finance in Modern Macroeconomics: A Historical Perspective*, Edward Elgar: Cheltenham; Northampton, MA, 2019; vii +281 pp., ISBN 9781786431523 (hbk), AUD 301.25; ISBN: 9781786431530 (ebook), AUD 59.39.

Reviewed by: John E King, *La Trobe University, Australia*

As the authors explain, this book originated in a request from some of their graduate students who, in the wake of the global financial crisis of 2007–2008,

> asked us to organize an extra-curricular short course on macroeconomic theory and its evolution over time, which could help them put what they were studying in other courses in a more general context as well as better understand the current economic situation. (p. vi)

In addition to the very useful introductory and concluding chapters, the book contains eight chapters, divided into two parts. Part I (chapters 2–6) deals with the treatment of money, banking and finance in mainstream economic theory from the 1920s down to the immediate post-war period, whereas part II (chapters 7–9) covers the literature from the (old) neoclassical synthesis down to the development of New Keynesian economics.

In the early work of Wicksell and Fisher, banks had played an important role, and the same was true also for Schumpeter and Robertson in their work on structural economic change. Milton Friedman was also 'attentive to banks', but for later monetarists 'the attention to the banking system progressively declined' (p. 40), so much so that in 1996 'Robert Lucas' Nobel Lecture, extensively devoted to the quantity theory of money, contains no reference at all to banks and almost no reference to the financial structure of the economy' (p. 41). James Tobin mounted a rearguard action, but long before his 'doubts on aggregation were set aside; the emphasis on the genuine diversity of agents was lost, and eventually his New View was submerged by a new family of macroeconomic models where no financial intermediation at all is included' (p. 177). Real business cycle theory took over the mainstream; with or without market imperfections, no significant role remained for money, banking and finance.

This is all very well done, with the very clear and extensive discussion of the literature complemented by a most useful 20-page bibliography. There are some very interesting arguments, including one directed (to my surprise) against Keynes, who 'in the *General Theory* had expunged banks from his analysis of the functioning of the economy' (p. 8) in an analysis of liquidity preference that relied heavily on the assumption of an exogenous

https://doi.org/10.1177/1035304620982006 Published online by Cambridge University Press

money supply and also reflected 'his abandonment of a dynamic/sequential approach in favour of an equilibrium method' (p. 20). In this, he was followed by the Keynesians of the Neoclassical Synthesis, for whom

> the quantity of money in circulation was conceived as essentially determined by the central bank. In fact, it was assumed very often that the quantity of money created by commercial banks was a fixed multiple of the hard money issued by the central bank (the money multiplier). (p. 11)

Ingrao and Sardoni are even more critical of later mainstream macroeconomists, whose insistence on the provision of rigorous micro-foundations required 'the assumption of a strict equivalence between the macroeconomic behaviour of the economy and the behaviour of an ideal, representative household' (p. 14). But the 'rational, single household optimally adjusting inter-temporal choices cannot enter into borrowing and lending with itself' (p. 15), so there is simply no room for money, banking or finance in New Classical macroeconomics.

The authors are quite open about their almost exclusive concentration on mainstream macroeconomic theory, to the virtual exclusion of any reference to its heterodox critics. They do make an exception for Hyman Minsky,

> one of the few non-mainstream economists whose analysis of recurrent episodes of fragility of economic systems with a well developed financial sector has attracted the attention of some mainstream economists especially after the recent crisis. (p. 3; see also pp. 163–164, 226–229, 247–248)

They also make brief references to the critical ideas of Nicholas Kaldor (pp. 122–127) and Michał Kalecki (pp. 134–135), but there is no mention of influential critics of the mainstream like Paul Davidson or Basil Moore. I would have liked to see just a little more on the heterodox ideas that are briefly alluded to in the introductory chapter and also in the conclusion, where the authors note that

> The alternative to the perfect rationality of far-sighted agents optimizing over infinite horizons is not irrationality *tout court*. It is neither madness not stupidity: it is bounded rationality, interpreted as the intelligent human response in an environment of radical uncertainty and limited information. (p. 249)

But these are minor criticisms. There will certainly be a substantial readership for this book, among the graduate students for whom it was written and also, I suspect, among academics who will appreciate the thorough and systematic treatment of the history of macroeconomic monetary thought that it provides. And there is one final special feature that must not be overlooked. The cover image comes from an 'etching created by Bruna Ingrao 2018', and very impressive it is, too.

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