DEBT, INNOVATIONS, AND DEFLATION: THE THEORIES OF VEBLEN, FISHER, SCHUMPETER, AND MINSKY; by J. Patrick Raines and Charles G. Leathers, Northampton, MA: Edward Elgar, 2008. viii + 200 pp. $100 (hardcover), ISBN: 978-1-84542-785-6.

Reviewed by Zachary Nixon, Denison University

At the end of 2002, then-Federal Reserve Chairman Alan Greenspan and Governor Ben Bernanke conceded that deflationary forces were possibly more threatening to economic growth in the United States than inflation. This was a much different outlook than the chronic fear of inflation that had characterized American economic policy over the past 60 years. The threat of deflation stemmed initially (and rather hastily) in the media from the economic hardships that the Japanese faced in the 1990s, as well as the Asian financial crisis in 1997, but fear and policymaking was eventually driven by the fact that relative price stability had left the U.S. economy susceptible to deflationary forces. Taking this all into account, the Federal Reserve vowed to vigilantly guard against the threat of deflation in the economy and promptly implement monetary policies to combat deflation if need be.

However, developments in the early 2000s that spread concerns about deflation through monetary policymakers were halted in April 2004, when Greenspan asserted to the Senate's Banking Committee that the threat of deflation was no longer considered a major policy issue for the Federal Reserve. Monetary policy focus returned to maintaining price stability—particularly the threat of a high inflation that had characterized the U.S. economy in the 1970s—became the primary economic concern in the media. This all, of course, raises questions about what causes—as Greenspan called it—the "circumstance" of deflation. What made the threat of deflation appear and fade away just as quickly?

Acknowledging that the Federal Reserve is notoriously elusive in citing theories that guide their analysis and policymaking, J. Patrick Raines and Charles G. Leathers believe that there is a need for nontraditional theoretical analysis to properly understand and combat the circumstances of deflation. Thus, their book *Debt, Innovations, and Deflation* focuses on examining the origins and consequences of deflation, as analyzed through the writings of 20th century economists Thorstein Veblen, Irving Fisher, Joseph A. Schumpeter, and Hyman Minsky. While the choice to examine *these* four economists is interesting, to say the least, the purpose of Raines and Leathers' work is to show that a critical examination of these men (all of whom share the common bond of straying from the classical quantity theory of money in their writings) and their deflation theories can shed light on the questions that surround the issue of deflation in modern capitalist economies. With this purpose in mind, Raines and Leathers set out to answer the following questions:

(i.) What is deflation, and—taking historical context into account—from where in an economy does it originate?

(ii.) What are the similarities and differences in each economist's theory of deflation, and how does a combination of these theories enhance or contradict each individual theory?

(iii.) Most importantly, how do these theories promote a critical discussion of the deflationary concerns, as well as the analytical and policy insights that characterized 2002-2003 policy making?

Following the introductory chapter that lays out the above questions, the book divides neatly into four sections. The first section (chapter two) discusses how the threat of unsustainable inflation dominated policymaking from 1940 to 2000. The section then details the discussion of how deflation transformed into a legitimate monetary concern in the economy following Greenspan's speech in December of 2002, the subsequent policymaking discussions and enactments, and the eventual dismissal of deflation as a primary policy concern.

The next section (Chapter Three) introduces the theories that serve to explain the origins, evolution, and significance of the quantity theory of money, while later on the role of debt in deflationary pressures is discussed in the context of classical economic literature. Examination is given to the role of debt and credit in the origin of deflation in the works of classical economists such as Adam Smith and John Stuart Mill, but the main purpose of this section is to help the reader develop knowledge of neoclassical theories of deflation for the purpose of comparing and contrasting these ideas with the theories of Veblen, Fisher, Schumpeter, and Minsky.

Making sure to note the historical context in which each work was written, section three (consisting of chapters four through seven) work progressively through the deflation theories of Veblen, Fisher, Schumpeter, and Minsky. Raines and Leathers allow each chapter in the section to build upon one another; for example, the analysis of Schumpeter's theory of deflation in his *Business Cycles* is evaluated through the lens of the previous theories discussed in the works of Veblen and Fisher. Although the chapters in this section build upon one another, it is important to note that each chapter could—for the most part—stand alone as its own essay on each theorist, and will enhance the reader's knowledge of each of the four economists.

The final section of the book (the rather dense chapter eight) begins with a discussion of the similarities and differences between the four theorists, paying close attention to innovation, the catalysts and impediments of deflation, and the relationship between debt and prices. This is all, of course, taking into account the evolution of the field of economics and the historical context that surrounds each theory. The first half of the final chapter reads almost as a summary of all the previous chapters; brief summations of each theorist's view on particular deflationary ideas is succinctly restated and then compared with the other three theorists.

Many of the differences discussed in chapter eight between the theories are rather straightforward, since a century's worth of time will inevitably lead to changes in the institutional structure of the economy. For example, while Veblen examined the economy in an oligopolistic era that deemphasized public policy, Minsky examined a post-World War II economy that was characterized by a government with large expenditures and an emphasis on public policy; understandably, then, their view of monetary policy differed because of historical

circumstances. However, Raines and Leathers wisely acknowledge merely the existence of these historical differences and choose to focus instead on the similarities and differences in the methodologies and perspectives between the four theorists. These comparisons are undeniably relevant, intelligently noted, and necessary to help answer the questions the authors seek to answer at the book's outset. Historical differences aside, Raines and Leathers assert that the four theories help explain how innovations in the technological and financial sectors, coupled with financial developments that have altered how we create and deal with debt and credit, allow for both inflation and deflation to simultaneously be issues in the U.S. economy. What was once an ambitious question posed at the beginning of their analysis is answered rather clearly by Raines and Leathers in their conclusion.

Where the analysis becomes perhaps too ambitious, though, is in its critique of the deflationary concerns of the early 2000s. While the authors seem to side with the idea that the threat of deflation was not as severe as Greenspan initially believed, this conclusion catalyzes a complex and all-too-brief discussion of debt-dependent policies that could prevent financial breakdown in the United States. The insights into the recent concerns about deflation are indeed concise but inevitably all too swift. The authors possess an undeniable ability to be succinct with their observations, but the remarks concerning the role of the Federal Reserve and federal policies during moments of economic concern would be enhanced by specific examples, as well as further explanation. That the last section of this book could be its own volume in a series of works on modern deflation is no understatement. Raines and Leathers' analysis of the four economists' theories in the context of the modern U.S. economy just skims the surface in terms of possible discussion; there are many important and acute insights made by Raines and Leathers that merit much more discussion. For example, the authors allude to the danger of future inflation that is created in an economy that chooses policies to avoid deflation (as outlined by Minsky), but choose only to mention and not to further discuss areas in the financial sector that have the potential to be problematic; this discussion would be a welcome addition given the fallout of low fixed-rate mortgages during the Subprime crisis. The discussion that concludes *Debt, Innovations, and Deflation* is all-too-brief, but at the same time all-too-important not to discuss.

All complaints about the brevity of the final section of the book aside, *Debt, Innovations, and Deflation* is an interesting, enriching read for any non-economist curious about the origins of deflation in the 20th and early 21st century American economy. I would also wholeheartedly recommend this book to any undergraduate studying the field of economics, as nearly all of the chapters do an excellent job standing alone and outlining each economist, the historical context he worked in, and his theories about the origins and consequences of deflation. The chapters in the third and fourth section of the book would each do an excellent job serving as individual essays, and would be an excellent addition to any undergraduate classroom discussing Veblen's, Fisher's, Minsky's, or Schumpeter's economic theories, the history of these heterodox theories, or deflation in general. It is worth noting, however, that together the chapters draw a "red-thread," of sorts, through the history of non-traditional, deflationary theories in the 20th century, and also allow Raines and Leathers to provoke a discussion of the possible role of these theories in 21st century monetary policy that is not possible through the reading of simply one section of the book.

The fear and origins of the deflation that Greenspan outlined in his Federal Reserve speeches are certainly not currently a "hot topic" in the field of economics, yet Raines and Leathers present a thorough examination of non-neoclassical theories of deflation that will undoubtedly broaden any economist's knowledge of the complex and dense field of deflation theories. In a social science so immersed currently in the discussion of the Subprime crisis, perhaps the insights and open-ended nature of Raines and Leathers' work will not only provoke the reader's interest in the work of Minsky or Veblen's *Theory of Business Enterprises*, but will hopefully encourage more much-needed discussion concerning deflationary threats in the modern U.S. economy as well.