FINANCIAL INSTABILITY AND ECONOMIC SECURITY AFTER THE GREAT RECESSION, edited by Charles J. Whalen. Northampton, MA: Edward Elgar, 2011, ISBN**:** 978-0-85793-483-3**;** xiv, 219 pages.

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Financial Instability and Economic Security after the Great Recession (2011) edited by Charles Whalen is a welcomed volume for a variety of reasons: 1) the book does a good job of surveying the foundations of Post-Keynesian Institutionalism (PKI), (2) unfolding new ways of understanding and appreciating the economic and institutional insights of Hyman Minsky (which are many) and (3) providing new economic analysis into the recent financial crisis both in the United States and globally.

Post Keynesian Institutionalism

Whalen's volume is a step forward in developing a PKI framework using what I have always considered to be the four pillars of Post Keynesian economics. The first is to understand the nature of the capitalist system and from that analysis develop practical policies to deal with *real world economic problems*. To deal with such problems it is important for Post Keynesian theory to be connected to the real world and the best way to do that is through an empirical approach that is wedged in institutionalism and history. This is a very different approach from neoclassical economics with its central core being a theory of equilibrium analysis with individual agents that are rational, fully informed and always acting to optimize their self-interest in a static state (If dynamic analysis is assumed, then individuals know and understand the probability distributions of possible outcomes over the infinite time horizon at the moment of decision).

The difference between neoclassical and Post Keynesian economics is elaborated even more in the second and third pillars. The second is a commitment to understanding how the economy develops through *historical time.* This is where institutionalism can provide major insights of how the economy is embedded in the historical and evolutionary process (Wilber and Jameson 1983, 156-157). The third is that the future is dominated by radical uncertainty. This is an area where Institutionalist and Post Keynesians can truly benefit from each other's work. If one accepts that economic processes go through time and have an institutional evolution similar to what Veblen talked about, we must accept that the future is uncertain and that the past is immutable. This was a major insight of Keynes and still dominates Post Keynesian analysis.

The volume extends Keynes's insight about uncertainty (after demonstrating that at least some of Keynes's ideas on this may have originated with Commons) in a couple of directions. The first is that the future plays a critical role in influencing the present because expectations about the future impact both individuals and institutions. Second, which we learn from Veblen, is that economic outcomes are more multifarious, heterogeneous and richer as compared to the mechanistic principle of the Max U model. How uncertainty affects institutions and individual behavior is something that needs more exploration, and this volume contributes to a much-needed discussion on how both institutionalists and Post Keynesians can work together on this.

The final pillar, which is the focus of this book, is the role of institutions in Post Keynesian analysis. The PKI approach is far more integrated with its institutional analysis than what I have seen with many Post Keynesian theoretical models that seem far too abstract and cannot explain their institutional roots. Another aspect of the PKI approach that comes out of this volume, which I was delighted to see and find missing in both traditional Institutionalist and Post Keynesian analysis is the importance of individual social behavior either by consumers or firms and their endogenous effects in creating uncertainty and even instability within an economy.

It is about time that both Institutionalist and Post Keynesians explore more the role of individual decision-making and social and institutional factors, such as human relations, conventions, habits and emulation, rather than on individual rational choice. This is an area where PKI can truly provide some rich and new analysis that would benefit both heterodox and mainstream economists. The PKI model opens itself up as compared to more traditional Post Keynesian models to looking at the meaning of rationality and agent actions by exploring the institutional and behavioral foundations of agent actions. For example, to think that one could develop a Post Keynesian micro foundation for macroeconomics without considering the feedback of the macro system on individual and institutional behavior is beyond belief. But there are many models out there that do this. This actually was one of Hyman Minsky's major insights that come out in his financial instability hypothesis model.

Hyman Minsky as a Post Keynesian Institutionalist

Though most Post Keynesians have always been aware of the importance of institutions in economic analysis, the nature and the fundamental role of institutions has not been clear (Holt 2007). At one level you have the important work of Ed Nell (1994) on transformational growth that looks at institutions, technology and social and political forces behind the general development of capitalism over a variety of times and societies. At another level, which the volume discusses, is the work of Paul Davidson (1982) who looks at the role of institutions in the economy during a particular era and how they affect present economic conditions. What Post Keynesians have not been very good at is using and explaining the interaction and complexities of these two institutional factors in their economic analysis. The first gives us a sense of the role that institutions play in forming and transforming economic systems. The second looks at the nature and role of institutions during a specific era. The interaction between the two was something that Minsky was constantly concerned about (along with John Kenneth Galbraith who truly might be considered one of the first Post Keynesian Institutionalist). Minsky was always analyzing the dynamic institutional foundations of capitalism as it evolved and the role of institutional structures at a particular time in either creating economic failures or their ability to change and stabilize economic and social factors.

One of the major assertions of the book is that Minsky should be considered a Post Keynesian Institutionalist and that he played an important role in its development. The irony here, at least from my numerous conversations with him, is that he did not want to be labeled a "Post Keynesian" or an "Institutionalist." If a label is needed, as the book points out, Minsky considered himself a "financial Keynesian." This distinction is important. Though he considered himself to be a "heterodox" economist, he always looked at himself as working within the framework of mainstream economics. This is partly due, I believe, to the influence of the University of Chicago where he was an undergraduate and studied under economists like Jacob Viner, Frank Knight, and Henry Simons. Though Minsky did his graduate work at Harvard, he always looked at the University of Chicago as being his intellectual home and appreciated the commitment he saw there for clear thinking. He viewed economists like Knight, Lange, and Simons at Chicago in the 1940s as heterodox economists working within the mainstream framework. This experience provided him with hope that honest dialogue and progress within the profession was possible through intellectual discourse and research.

I believe this early experience at Chicago defined his approach and attitude toward mainstream economics and explains partly his reluctance to put himself within any particular school like Post Keynesian or Institutionalist, though he did not mind being associated with either school. He always considered himself working at the edge of mainstream economics as he tried to instill more heterodox views within the mainstream. I also believe this is partly why Minsky was attracted to Keynes -- someone willing to work with the mainstream while trying to change it.

Another reason why Minsky saw himself outside of the Post Keynesian circle was his lack of interest in the larger general theory debates that seemed to encompass the Post Keynesians, and this can be contributed to his strong institutionalist roots. Theory was in many ways meaningless to him unless it could be put into a context of institutions. For example, once the Lenin-Stalin model of socialism came to an end in 1989 and there were efforts to change the Eastern European countries into market economies, he told everyone the problem was not theory but focusing on "the problem of creating a financial structure" (Minsky 1995). So, an effort to simply label Minsky a Post Keynesian or an Institutionalist, I think is wrong. He would have appreciated being considered a "major contributor" to Post Keynesian Institutionalism and having it "inspired in large part" by his work, but most likely he would avoided this label as he did others.

Having said that, I do not think that Minsky would disagree with the foundation of PKI as laid out in Part I of the volume with three essays from Steven Katz, W. Robert Brazelton, and Charles Whalen; and an excellent final essay by Glen Atkinson and Whalen titled "Futurity: Cornerstone of Post-Keynesian Institutionalism." Minsky wanted to understand how a capitalist system with developed financial markets and a large government sector functions. The PKI method captures well his approach that can be seen even in his first important publications where he looked at market structures, institutional innovation and profit opportunities (Minsky 1957a,b), where he endogenized institutional innovation making it a function of profit behavior. This approach, I believe, of bringing in the foundations of institutions in understanding the role and development of financial markets (or the capitalist system) and working within the boundaries of mainstream economics can be found from the beginning to the end of his professional writings and career. This is also why I believe he liked the work of John R. Commons so much. Like Commons, Minsky did not necessarily oppose mainstream theory but recognized that an economy emerges and operates from its institutions. For Commons, it was the legal foundations of capitalism and for Minsky it was financial institutions.

PKI and the Financial Crisis

Parts II and III of the volume try to build on the work of PKI from Part I of the book and apply it to the American economy in Part II and the global economy in Part III. The chapters on the American economy focus on the three primary outcomes of the financial crisis and how we might be able to stabilize the crisis. Fadhel Kaboub's essay "Understanding and Preventing Financial Instability: Post Keynesian Institutionalism and Government as Employer of Last Resort" focuses on employment. The chapter takes Minsky's lifetime concern with inequality (this concern was both moral and economic) and how increasing gaps in income can create economic instability. The chapter also looks at how a Minsky government policy of "employer of last resort" (ELR) can help stabilize the economy through full employment policies. The second chapter is by David A. Zalewiski and Whalen looks at the predicament of states and local governments as they try to balance their budgets through austerity measures that are being forced on them by balanced-budget rules. The consequence is that the economy cannot recovery if local and state governments are cutting spending and jobs. The chapter recommends a federal/state policy partnership to help the states through these recessionary times to get the economy back on track for economic growth. The third chapter by Eric Tymoigne takes on financial regulation and questions that by simply improving capital and liquidity requirements this will be enough for long term financial stability. The chapter provides an alternative method heavily influenced by the work of Minsky through capital and liquidity buffers.

Part III of the book looks at global issues. The first essay by Jan Troporowski, which in many ways extends Tymoigne's chapter looks at international banking regulations. Troporowski argues that simply by increasing capital requirements would deplete capital from non-financial institutions who drive economic growth. The chapter suggest an international banking system based on "contingent lending commitments" to governments as part of a cross-border lending program that allows for international financial stability besides acting as a lender of last resort. The next chapter by John Marangos and Whalen take on the contentious issue of the "Washington Consensus." It is an interesting chapter in that it shows the evolution of the Washington Consensus doctrine and recommends an alternative using the PKI framework where "social goals, time, history and context power and participation" are taken into consideration. What I like about the chapter is that it really does an excellent job of showing how a PKI method of analysis would approach an important issue like development policy. The final chapter "Money-Manager Capitalism, Capital Flows and Development in Emerging Market Economies: A Post-Keynesian Institutionalist Analysis" is by Yan Liang who looks at the role of financial money managers on the flow of capital from developed to developing or "emerging market economies" (EME). It is a thought-provoking chapter as it gives a nice critique of conventional wisdom of capital flows and development.

The final chapter in Part IV of the book is more or less a summary chapter by Charles Whalen on the future of Post Keynesian Institutionalism. In many ways this is a Charles Whalen book. He either authored or co-authored five of the ten chapters. He should be congratulated for exploring and pursuing this important aspect of both Post Keynesian and Institutional economics. There are few issues that I think need to be brought up. The first it is not clear from the book whether the goal of PKI is simply to create a Venn diagram and focus on what overlaps between these school of thoughts for insights into the recent financial crisis or is the goal more ambitious of creating a new foundation for both schools. Whalen talks about the importance of future research on the methodological foundations of PKI, suggesting an aggressive agenda that goes beyond just looking at the overlap of the schools in understanding the present worldwide recession. If this is the case then the weakness of the book is its almost sole focus on the work of Hyman Minsky. To develop a strong foundation for PKI will require going beyond its heavy reliance on Minsky's work and develop a broader explanation and theories that can explain the evolution of capitalist development and its structural changes in a historical world of uncertainty (I am pretty sure Minsky would agree with me). There is a lot of literature to look at -- both from the Institutionalist and Post Keynesian tradition. John Kenneth Galbraith is clearly one thinker that comes to mind. Another issue that needs more thinking about is the role of social provisioning and technology in Post Keynesian analysis. They play a central role in Institutionalism, but their role in Post Keynesian economics is not clear to me. Maybe PKI can provide some insights here. Overall, a very interesting and stimulating book that provides some new insights in the development of both Institutionalist and Post Keynesian thought.

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