NEW DEAL BANKING REFORMS AND KEYNESIAN WELFARE CAPITALISM, Ellen D. Russell, New York: Routledge, 2007. ix+148 pages. $95 (cloth), ISBN: 978-0-415-95661-1.

Reviewed by David A. Zalewski, Providence College

As I read Ellen D. Russell's monograph in the midst of the global financial crisis in late 2008, I was struck not only by the timeliness of the work given the events that had transpired in the financial system since she had completed the book, but also by her prescience. *New Deal Banking Reforms and Keynesian Welfare Capitalism* details the transformation of the U.S. financial system from one in which finance had acted as a "servant" to industry during the post-World War II "Golden Age" of capitalism, to the more recent rise (and possible fall) of neoliberal financialization. A critical part of her interpretation is the role played by regulation – especially the Glass-Steagall Act of 1933 – in first creating conditions under which both industry and finance thrived, and then how regulatory contradictions set in motion the deregulatory forces that have contributed to the current economic crisis. What makes Russell's work particularly relevant today is her recognition of the fact that although we cannot return to the past, the experiences of this period provide important lessons to guide today's policymakers as they muddle through the current morass.

Russell's story focuses on the subservient role played by financial institutions in encouraging investment spending as part of a Keynesian program of aggregate demand management. Specifically, she details a hypothesized conflict between industrial firms that require external funding to pay for capital goods and commercial banks that profit from the interest on these loans. If industry has the upper hand, it forces interest rates down and stimulates investment. However, the investment boom may collapse if interest rate declines lower bank profits, which could eventually destabilize the financial system and the economy as a whole. Thus, it follows that the goal of policymakers should be to strike a balance between the competing interests of both industries. According to Russell, this was accomplished by Glass-Steagall through "compartmentalization" mandates that promoted rate-lowering competition, combined with deposit insurance and interest rate controls that stabilized financial sector profits and industry conditions. This balance was short-lived, however, since these restrictions motivated bankers to find loopholes that undermined the regulations, which ultimately led to the repeal of the Act.

Although Russell's account of recent financial history is informative, the question of whether finance and industry are typically in conflict or if they often negotiate mutually beneficial exchanges in markets is a key one. Russell presents adequate data to show how conditions and performance in the banking system changed over time; however, her argument would be more convincing had she compared these statistics with cost of capital data to show whether one sector stagnated while the other thrived. Since cost of capital estimates exist (for example, Balke and Gordon present several historical series in Robert J. Gordon, ed. *The American Business Cycle: Continuity and Change*, University of Chicago Press, 1986), this comparison could be easily done. Aside from this, Russell's basic point that regulation is essentially contradictory - in a Hegelian sense in which regulatory imposition sets in motion

creative impulses to circumvent the strictures that constrain profitability – is well supported by the evidence she presents from the historical record.

Because of the damage associated with the current financial crisis, I was eager to read about what type of guidance Russell's work provides for future policymakers. Here, she correctly concludes that there is not a "policy template" that can be successfully applied in all circumstances. Thus, we cannot expect to return to the post-World War II "golden age" of Keynesian policy, nor can we anticipate a resurrection of New Deal financial regulation – even in response to the wave of irresponsibility that engulfed Wall Street over the last two decades. Although learning from history can be a valuable experience, it is equally important to recognize that the events of the past occurred in unique institutional circumstances. Consequently, the questions of which policies are desirable, and whether or not they are politically acceptable, are ones that must be debated and decided by societies in response to the challenges they face.