THE KEYNES SOLUTION: THE PATH TO GLOBAL PROSPERITY, Paul Davidson, Palgrave Macmillan, 2009; ISBN: 978-0-230-61920-3, 208 pages.

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In this book, Paul Davidson examines the origins of the current financial crisis, and shows how Keynesian economics can be used to correct the recent breakdowns. Davidson ultimately wants to establish the necessity of incorporating Keynesian ideas into the United States' "entrepreneurial capitalist system" to prevent future financial crises (p. 8).

Davidson provides sufficient background information concerning the recent meltdown. He tracks the evolution of free market thought from before the Great Depression to the present. The author pays particular attention to the role of government spending and financial regulation in helping the United States out of the Depression in the 1930s. Specifically, he focuses on the financial regulation and then deregulation between these time periods by examining the Glass-Steagall Act of 1933, which banned banks from underwriting and promoting the sale of securities, the deregulation of the 1970's leading up to the eventual repeal of Glass-Steagall in 1999, and the Roosevelt administration's handling of the 1930's housing default crisis (p. 21-23).

After a thorough historical analysis, Davidson tackles more difficult issues in an attempt to "lay out the kind of business and social reforms that are long overdue…These needed reforms will make it easier to create a prosperous economic system in the future" (p. 63). Here, Davidson focuses on the current economic crisis: the housing market collapse, credit default swaps, Lehman Brother's bankruptcy, and Bear Sterns failure. He tackles issues such as liquidity preference, the foundation of markets, uncertainty, government spending, inflation, and national debt. Davidson provides a brief and introductory analysis of the theoretical underpinnings of both neoclassical and Keynesian economics as well.

Overall, this book accomplishes its goal of explaining, "in simple language the two major different economic ideas and philosophies regarding how a capitalist system operates and how these ideas suggest different explanations of the economic problems that arise over time" (p. 5). There are a few areas that could be improved.

First, although the biographical and historical explanations are refreshing and entertaining, Davidson's final chapter "Who was John Maynard Keynes: A Brief Biography" seems out-of-place as a conclusion. This chapter would be better served in the beginning of the book or as an appendix.

Additionally, Davidson's summary analysis of the neoclassical position can be characterized as unjustly unflattering at times. Davidson occasionally weakly portrays classical economic thought. He sets up straw-man arguments in several chapters such as when he insists that "unless the future is known, today's market participants cannot make decisions that the future will prove were efficient" (p. 37). I think this carries the ergodic axiom a bit too far—

classical economics is not actually claiming that all investors know the future. Additionally, he prematurely dismisses the possibility of default on contractual obligations in efficient market theory and states that "this classical theory cannot logically explain the relationship between subprime mortgage problems and the global financial crisis" (p. 50).

Lastly, the book could have benefited from a critical assessment of some criticisms and responses to the Keynesian economic approach. Davidson sings Keynes's praises loudly, but he does not consider several classical objections to government intervention. His suggestions for improving the global economy would benefit from anticipating and responding to neoclassical objections. Most importantly, Davidson's proposed solution for international trade control, the IMCU, is never critically analyzed, which leaves the reader to question the strength of Davidson's proposal. To a non-expert reader, it seems impractical to allow one body the power to monitor the movement of every country's financial funds and the power to redistribute excess trade credit as the IMCU sees fit (p. 137). Davidson offers an excellent analysis of classical economics versus Keynes's theories, but he could strengthen his analysis by responding to neoclassical objections.

This book is a great overview of the Keynesian critique of neoclassical economics. It would be an excellent resource for high school teachers or undergraduate professors seeking to expose introductory students to alternative economic philosophies as well as adult readers with some basic knowledge of economics. The book would be best served as a supplement to classroom experience as it does draw on many introductory economic concepts. Its modern day application and straightforward prose make it appealing to a variety of readers.