

Critiques aside, the authors should be commended for examining important and topical issues. If others want to turn their organization into social-justice battering rams then, as the authors suggest, social-movement unions like the ILWU and WWF should be studied.

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ARNON, ARIE. *Monetary Theory and Policy from Hume and Smith to Wicksell. Money, Credit and the Economy.* Cambridge University Press, Cambridge [etc.] 2011. xxii, 424 pp. £68.00. (Paper: £25.99.) doi:10.1017/S0020859014000212

In modern and contemporary times, economic crises normally do not make history. Entrepreneurs and bankers have a limited memory, and so do politicians. “Never again”, is the normal reaction to crises like 1929 and the Great Depression, but then it is followed by an euphoric conception of an “unique” and historically unseen self-financing linear “new economy”, which eventually turns out to be exactly like the old one, with the usual (but for a while forgotten) hard landing. Then, again, as a result of the crash, political regulation appears on the agenda. Monetary policy seems to offer a way of avoiding over-speculation and risky transactions independent of the “real” economy. Only no-one really knows which conception to choose. For the reasons behind this, we might look into this important book by Arie Arnon.

Publications on the subject are not abundant. The many failures of contemporary “active” monetary policy tend not to be entered into collective memory. The usual references like Viner,¹ Rist,² or Hayek³ attempt to give practical orientations, as manuals of doctrine for the use of politics, but they do not offer much insight into the evolution of monetary theory and monetary policies (and their mutual relatedness). Arie Arnon, well known for his excellent and definitive *Thomas Tooke: Pioneer of Monetary Theory*,⁴ here presents a serious contribution to the *history* of economy, and of its intellectual tools.

This book is clear, instructive, inspirational, and invites further research. It does not only offer another theory of money and the monetary system, but a precise history of British monetary thought and policy in well-defined historical contexts from c.1750 to 1920. Arnon includes a series of participants in the various discussions who are often forgotten by mainstream historiography (Ricardo is a classic, whereas Bosanquet is unknown today, but he indeed modestly challenged the former, etc.). The book is

1. Jacob Viner, *Studies in the Theory of International Trade* (New York, 1937).

2. Charles Rist, *History of Monetary and Credit Theory from John Law to the Present Day*, transl. Jane Tabrisky Degras (London, 1940).

3. Friedrich Hayek, *Denationalisation of Money: An Analysis of the Theory and Practice of Concurrent Currencies* (London, 1976).

4. Arie Arnon, *Thomas Tooke: Pioneer of Monetary Theory* (Aldershot, 1991).

organized chronologically, the chapters either written around a specific author or a more general debate: Hume, Smith, the Bullion Debate, Boyd, Baring, Thornton, Lloyd, Tooke, Fullarton, Wilson, Joplin, Wicksell, and more.

Up to the end of the eighteenth century, after the experiences of the Wisselbank of Amsterdam, mercantilism, coin-clipping (i.e. decreasing the amount of precious metal in coins) and John Locke's remedy to it, and after the disaster of John Law's banking activities and the revolutionary assignates, not only economists and bankers, but also politicians and public opinion (at least in Britain) were convinced of one thing: that the best monetary policy for the avoidance of financial crisis was to maintain a "perfect circulation" of coined precious metals, which means commodity money. Accordingly, David Hume introduced the theory of a quantity price-specie-flow mechanism, whereas Adam Smith added a "real bills" doctrine (bank loans representing "real" goods in production). If, for practical convenience, "ideal" money had to be replaced by paper or banknotes, these should be fully convertible to the metallic standard and thus imitate a perfect circulation.

It was with the introduction of a monetary system of inconvertibility in Britain during the Restriction Period (1797–1821) that political discussion really began, with the respective parliamentary committees engaged in it, and developed during the following century, with the Bullion Debate, Peel's famous Bank Act of 1844, as well as the progressively global crises of 1835, 1847, 1857, and 1866. Arnon presents two centuries of theories and policies on money, credit, banking, and trade in Great Britain, from the classics Hume (1711–1776) and Smith (1723–1790), to the iconoclastic and paradoxical Wicksell (1851–1926).

It is all about causes and effects. *Grosso modo*, there were four hypotheses to consider: "hard" money forms the ideal or perfect circulation, which any circulation of paper notes should imitate; the quantity of notes determines the prices; credit influences money in circulation; and money in circulation corresponds with domestic and foreign drain of bullion. Against every one of these positions, an opposite one is held; and, to be sure, any possible combination of every position is advocated. Actors on the scene can change opinion during their lifetimes, and actually most of them do. Arnon succeeds in presenting the inner logic of every participant in the debate, without imposing an encompassing theory of his own on to the reader. At the same time, he advocates active banking policy and presents a theoretical approach to credit-money: "So far in our discussion, we have followed the common structure that starts from commodity-money and then moves to near-money [highly liquid assets] and credit. [T]his is not the only logical possibility for analyzing systems of exchange. Maybe, then, the historical path was also different. In principle, people can exchange and use a promise as payment. [Private] debts can act as medium of exchange" (pp. 59ff.).

Arnon also discusses Marx's contribution to the debate in a chapter headed tellingly with the question "Does Karl Marx fit in?": "Marx's starting point is very clear: money has to be understood as it evolved from the exchange of commodities. The basic form of money, both analytically and historically, is commodity-money. This conceptualization, typical of Marx, is not a natural starting point for analysing modern forms of money and finance, which seem to be divorced from the exchange of commodities" (p. 328). He concludes that "Henry Thornton and [...] Knut Wicksell both offered an alternative that Marx did not seriously consider" (p. 329). In his book, however, Arnon does not consider the (mostly still unpublished) manuscripts of Marx. In 1850, Marx did not come up with a pertinent theory of money. In a series of notebooks, he embarked on studying all the debates on monetary policy in detail. It is the group around Tooke, Fullarton, Wilson, and the *The Economist*, which convinced him of the shortcomings of the currency principle. Over the years, Tooke became his favourite and most inspiring economist. "Money" is not necessarily "money", even if it is, and the "ideal currency" is not a "perfect" one. Before "money", credit is already established, Tooke explains. Marx identifies this as "capital", following Smith's distinction between two different exchanges (dealers/dealers

and dealers/consumers). What then follows is described by Marx as “rational dialectics” of the different functions of money. Their logical “transition” (cf. the chapter “Übergang zum Kapital” of the *Grundrisse*) then only means that they are functions of capitalist reproduction, *not* of developed barter. In this sense, in effect, credit comes before hard money, logically and historically (p. 397). According to Arnon, Marx did not see this. But he actually did, explaining that *via* the function of money as means of payment, capitalist buyers and sellers are debtors and creditors; that, mutual advances between industrials and traders being the essential fundament of credit, letters of exchange are the real basis of credit money and banknotes.

The use of money and banking is a praxis, a social fact which is prior to theoretical reflection and to any regulation whatsoever. Merchants and bankers act in accordance with what they think makes sense, with a whole load of empirical background and experience. They do not act in accordance with any theory, not even their own. Theory only comes into the play when things go wrong – or threaten to do so – and politics feels the urgency for action and asks for explanations before taking measures.

A reader of the history of monetary and credit theory, as well as the history of banking, is struck by the observation that, after three centuries, the monetary system is still treated like a trivial black box. There are a several variables and a few handles for political trial and error operations, in a rather blind search for “regulation”. On every question, there is absolutely no consensus as to which operation causes what effects. This concerns academic observation as well as active policy. Every combination of the variables has been tried, but no-one gives a clear solution to the question of what actually happens inside the black box. This even allows scholars like Wicksell openly, and in cold blood, to advocate paradoxes, as Arnon explains (pp. 346ff.).

The scholars all have only one basic conviction in common: that “money cannot be left to itself”, and that active politics should be steered towards the avoidance of panic, bankruptcy, and crises; whereas Tooke, and Marx too (“verrückte Einmischungen der Staatsgewalt” [insane intrusions of government], Marx to Engels, 3 February 1851, in: MEW, vol. 27, 174) note the contrary effect of political regulations. This was true for the crises of 1847 and 1857, with the failure of the self-regulating banking system. And it seems also to be true for recent crises where politicians treated the “real” economy with anti-cyclical measures, thus possibly reinforcing the overlying financial cycle.

Throughout all the chapters of his book, Arnon repeatedly asks the question as to why public and political opinion, and also the learning of scholars, have over so many years been blind to alternatives to the simple currency principle like Thornton and Wicksell, if practical policy has clearly resulted in failure. The answer might be that this public opinion was – and still is – constantly in search of clear logical lines and rules (as demanded by the committees), and the avoidance of complicated explanations, and is even more hostile towards paradoxical reasoning, even if it proves to be empirically and theoretically correct.

Experience shows that politicians tend to reason in short cause–effect terms, to reduce problems to single factors (and thus misread complex financial interdependencies), to extrapolate into lines instead of following different cyclical processes, to fight financial markets as disconnected from the “real economy” (which they are definitively *not*), and to share with other actors on the stage a typical professional amnesia. They regularly overestimate the possibilities of their blind regulating interventions into the black box, generating systematically worsening effects. Anti-cyclical policy has to consider different cycles, and there are historical periods where they are correlated in a way that monetary options will not find a way out of. In medicine there are situations where every medication will have a worsening effect and a cure is impossible. The consequent treatment is palliative. It is difficult for politicians to face that.

Like Arnon’s previous *Thomas Tooke*, this is an excellent book which combines history (for the economist) and theory (for the historian). However, this reviewer cannot share (though he would like to), the author’s optimism concerning the possibilities of active

monetary policy. On the other hand, as a historian he materially supports at least substantial parts of the “credit approach of money” (p. 397). Marx’s manuscripts point towards exactly this direction.

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ROSENTHAL, JEAN-LAURENT and R. BIN WONG. *Before and Beyond Divergence. The Politics of Economic Change in China and Europe.* Harvard University Press, Cambridge (Mass.) [etc.] 2011. xi, 276 pp. \$47.50; £35.95; € 43.00. doi:10.1017/S0020859014000224

Given that economic history as well as the history of economic thought have all but disappeared from the curricula of most American universities’ economics departments, and that few economists actually take up the challenge to write a book on such a major topic as the origins of capitalism, I was initially intrigued by this volume, co-authored by Jean-Laurent Rosenthal (a professor in Business Economics at the California Institute of Technology) and Roy Bin Wong (formerly a professor in History and Economics at UC Irvine and currently Director of the Asia Institute at UCLA). Their backgrounds in economics weigh heavily on the book: boxes on contractual arrangements, pricing credit, family structure, labor markets, wages, and so on are sprinkled throughout the study, but unlike, for example, Emigh’s discussion on socioeconomic developments in medieval Italy,¹ they are often formulated in mathematical abstractions and not grounded in an in-depth historical assessment of their sources. To be fair, *Before and Beyond Divergence* is an intellectual exercise in comparative social science examining the different path dependencies of Chinese and European political economies over the last 2,000 years, and is therefore unlikely to meet the specific demands of a historian’s desire to see primary sources uncovered or even evaluated.

The authors’ “immodest ambitions” (p. 231) to shed more light on this major historical conundrum certainly deserve to be applauded, as relatively few studies even dare to tackle such a vast topic: comparing developments in two different continents over so many centuries is not an easy undertaking. What is striking, however, to this reviewer is the rather cavalier way centuries are glossed over, often without evidence substantiating dubious statements or generalizations. Entire pages are written without a single bibliographic reference to familiarize readers with the historical and socioeconomic developments or to provide further background for the interested reader. Did, for example, the Emperor Augustus’s claim to the throne really come from his “military prowess” (p. 27)? One can only wonder. The actual bibliography, given the richness and complexity of the issues at hand, is at less than twenty pages quite underwhelming, and over a dozen references in it are unpublished “working papers” whose accuracy or intellectual depth the reader cannot possibly verify. A dozen endnotes for the entire book

1. Rebecca J. Emigh, *The Underdevelopment of Capitalism: Sectors and Markets in Fifteenth-Century Tuscany* (Philadelphia, PA, 2009).