

Book Reviews

The Political Economy of Central Banking Contested Control and the Power of Finance, Selected Essays of Gerald Epstein.

By Gerald Epstein.

Edward Elgar. Cheltenham, 2019. 567 pages, £135.

The epithet “central bank led capitalism” has been hugely popular as a descriptor for the last decade of unconventional monetary policies that have shaped the landscape of major economic regions (Bowman et al, 2012). However, Gerald Epstein’s *Political Economy of Central Banking* presents his firmly established position that this ought to be conceptualised as *capital led* central banking. Although Epstein’s terminology does understandably shift across forty years of work on the global impact of the Federal Reserve (Fed.), he evidently views monetary policy as an entrenched trade-off between societal values and the economic value of assets held by monopoly interests.

Debates over acceptable levels of price instability may well have begun as a *contested terrain* between three differently motivated groups, namely industrial capital, financial capital and labour, but central bank independence from government effectively secured industrial and financial monopolists’ interests in this contest. This ever-evolving dynamic has increasingly favoured financial interests through the intensification of financial motives, institutions and elites in the operations of domestic and global economies that Epstein alluded to in his much-cited definition of financialization. Perhaps this definition would benefit from a reconsideration of whether financial motives have contemporaneously changed over time as they have ‘blended’ with those of industry or have had ‘social purpose’ ‘stitched’ into them (Langley, 2020).

The selection and arrangement of the essays and articles that comprise this book should be commended as they foreground Epstein’s engagement with core questions in technocratic governance through a detailed historical narrative. The collection begins with the collapse of the Carter government and the revolution at the Fed. in the early 1980s under Paul Volcker’s leadership. The radical shift towards prioritization of the price stability demanded by the economic system undermined the Fed.’s dual mandate from Congress of maximum employment and stable prices, established in the Federal Reserve Act of 1977. By 1983 unemployment significantly increased, while the rate of profit for finance increased by 30% and decreased for non-finance by 30%. For Epstein, the Fed.’s independent status impelled it to protect financial markets rather than the demos- in order to establish that independence from the inflationary steering of electorally focused politicians more than empty symbolism.

As the reader proceeds through articles discussing the interrelated phenomena of financialization and the globalization of markets in the 1990s under the Fed. Governorship of Alan Greenspan, they gain an appreciation for the global convergence to Anglo-American models of central bank independence and the tendency to disproportionately empower the interests of hybridized financial-industrial capital. This constituency is sensitive to financial asset returns and on rentier income and so demands the minimization of inflationary impediments to real returns. The result was the promulgation of a complex system replete with latent asset bubbles.

Following the collapse of the global mortgage bubble in 2008, Epstein's research into the Bernanke led Fed.'s quantitative easing and securities purchases leads him to suggest that capital led central banking has continued unabated. Epstein provides evidence that the greatest beneficiaries of these policies were large banks that specifically sold Mortgage Backed Securities to the Fed., and that these policies were withdrawn when they no longer produced a strong positive impact on returns for real estate investors and were contributing to diminishing returns on asset prices. Consequently, the latter part of the book is oriented towards a series of (occasionally idealistic) proposals that could democratize the Federal Reserve System.

This book promises to be an invaluable addition to postgraduate and advanced undergraduate reading lists on economics degrees. Providing remarkable historical detail on four decades of finance led growth, it also necessitates critical engagement with politics embedded in technical economic governance. If, as Epstein suggests, the fundamental contemporary policy challenge is to confront the climate emergency, then this collection alerts future economists to the institutionalized empowerment of monopolist holders of carbon assets within the economic system.

Dr John H Morris and Paula Bejarano Carbó
University of Warwick

REFERENCES

- Bowman, A., Erturk, I., Froud, J. and Johal, S., 2012. Central bank-led capitalism. *Seattle UL Rev.*, 36, p.455.
- Langley P. The folds of social finance: Making markets, remaking the social. *Environment and Planning A: Economy and Space*. 2020 Feb;52(1):130-47.