



# Theories of Financial Disturbance

An Examination of Critical Theories of Finance  
from Adam Smith to the Present Day

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# Debts and discharges

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I wish to record my thanks to the librarians of the Perry Library of South Bank University, the British Library of Political and Economic Sciences; the libraries of the School of Oriental and African Studies and the Szkoła Główna Handlowa; and the British Library, and Tish Collins of the Marx Memorial Library, for their assistance in my research for this book. The generosity of the Amiel-Melburn Trust, the Leverhulme Foundation, and the European Commission's research network on Financial Integration and Social Cohesion has helped to defray expenses associated with broader research, of which this is one outcome. Especial thanks are due to Anita Prażmowska for her unique encouragement of my efforts to overcome the obstacles that academic employment today throws in the path of intellectual endeavour. That employment, however, also brought into the orbit of my discussions some talented and enthusiastic students on whom I was able to try out many of the ideas in this book. When those ideas became serious I was able to discuss them more knowledgeably with David Gowland, Leslie Fishman, Peter Howells, Jesper Jespersen, Julio Lopez-Gallardo, Tracy Mott, Geert Reuten, Zvi Schloss, Nina Shapiro, Geoff Tily, Tadeusz Kowalik and Randy Wray. I am grateful to Mary French-Sokol for advice on Jeremy Bentham and his writings; to Ian King and Claudia Jefferies for their assistance in translating Marek Breit's 1935 article from German; and to David Cobham, Gary Dymski, Susan Howson, John King, Andy Denis, Alfredo Saad-Filho, Warren Samuels and Geoff Harcourt for comments on an earlier draft and various chapters in the book. Especial thanks are due to Victoria Chick, who has been the most consistent and sympathetic critic of my work. She and Geoff Harcourt generously gave time and trouble to look at my drafts in the frantic crisis-ridden months as this book was being completed. None of the individuals listed here saw the book as a whole and, therefore, they bear no responsibility for its overall content and conclusions.

At a crucial stage in the emergence of the book, in September 2001, I was invited to give a series of lectures at the Faculty of Economics of the Universidad Nacional Autónoma de México. The opportunity to discuss the ideas in this book with Noemi Levy-Orlik, Alicia Giron, Guadalupe Mantey, Eugenia Correa and their students made an invaluable contribution towards clarifying my arguments. Later on, aspects of the book were discussed at a presentation for Economics staff at the Open University. At around this time,

a draft containing the results of my investigations in classical political economy floated off to appear in the annual *History of Economic Thought and Methodology*, Volume 22-A, as ‘The Prudence of Projectors’. Completion of the book was made possible by the shelter generously provided by John Weeks, Machiko Nissanke and the Economics Department at London University’s School of Oriental and African Studies. The book owes more than is apparent to the enthusiasm and interest of all these individuals. The author takes responsibility for the remaining errors. The enthusiast for new ideas, and novel approaches to old ideas, is especially prone to overlook mistakes in pursuit of some immanent conception that inspires research. I hope that the remaining blemishes are small enough to be overlooked in that greater construction, and that the kindness of many friends is reflected in its qualities.

The most personal debt is owed to Anita Prażmowska and Miriam Prażmowska-Toporowska. Their tolerance of literary dementia and support in difficult times deserves more gratitude than can be expressed here, and a monument more beautiful than anything a mere economist can create.

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# Introduction

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The macroeconomic consequences of finance are a neglected part of financial economics. This may be in part because the professional duty of central bank economists condemns them to measuring the efficacy of monetary policy, and that of economists employed in banks and financial institutions condemns them, at worst, to advertising their employers' wares and, at best, to projecting asset prices, calculating optimal portfolios, and anticipating the policy of the central bank. Such neglect comes in spite of the domination of the markets by large collective investing institutions (pension funds, insurance companies and investment funds) that has emerged in the second half of the twentieth century. Although such institutions are more amenable to study than individual investors, their activities in many cases have shown that their bureaucratic rationality in the face of their ignorance is little advanced on that which Keynes criticised 75 years ago:

The ignorance of even the best-informed investor about the more remote future is much greater than his knowledge, and he cannot but be influenced to a degree which would seem wildly disproportionate to anyone who really knew the future, and be forced to seek a clue mainly here to trends further ahead. But if this is true of the best-informed, the vast majority of those who are concerned with the buying and selling of securities know almost nothing whatever about what they are doing. They do not possess even the rudiments of what is required for a valid judgement, and are the prey of hopes and fears easily aroused by transient events and as easily dispelled.<sup>1</sup>

This judgement is perhaps severe, in view of the huge academic and professional investment in methods of calculating optimal investment portfolios since those words were written. But, as I have argued in *The End of Finance*, when the markets are being inflated, it does not take much rationality to make money. Such calculation, by keeping attention focused on market *outcomes* and their shifts over time, fails to pay due attention to the sequences of transactions outside the markets that bring about such outcomes. Calculating optimal portfolios provides reassurance in the face of the ignorance that Keynes described. This practice narrows down the scope of risk, or unpleasant surprise, to a fall in asset prices.

Behind this preoccupation with obvious phenomena is a particular methodological predilection, the rise of formalism in economics.<sup>2</sup> Formalism is loosely associated with the conversion of economic analysis into mathematical



models. However, while mathematics has a place in economics, it cannot substitute for the study of how markets work. Keynes rightly criticised Irving Fisher for confusing what an equation told him would happen with what would happen in the real world.<sup>3</sup> It is not enough to have an equation relating two variables: it is necessary also to have an explanation of how the two variables are brought into such a relation-ship in the economy. When such a relationship includes a presumption of equilibrium, which financial models need for technical reasons of determinacy, the outcome is a presumption of stability, which may not exist in the real world.<sup>4</sup> Finance literature allows for instability of variables, and even extended ‘departures from equilibrium’ as in New Keynesian-type information cascades, or behavioural finance. But these models provide different time paths for variables, rather than showing the mechanisms by which financial instability is conceived and propagated.

## 1. EQUILIBRIUM, REFLECTIVE AND CRITICAL FINANCE

By and large, mainstream economics has adhered to two doctrines concerning the way in which finance operates in modern capitalist economies. Equilibrium finance, most notable in Walrasian general equilibrium and Tobin’s ‘q’ theory of investment, postulates that financial markets and the economy in which they operate are either in simultaneous equilibrium, or are determined by an immanent equilibrium, so that deviations from that equilibrium are eventually eliminated. As Tobin observed:

If the interest rate on money, as well as rates on all other financial assets, were flexible and endogenous, then they would simply adjust to the marginal efficiency of capital. There would be no room for discrepancies between market and natural rates of return on capital, between market valuations and reproduction cost. There would be no room for monetary policy to affect aggregate demand. The real economy would call the tune for the financial sector, with no feed-back in the other direction ... Something like this occurs in the long run, where the influence of monetary policy is not on aggregate demand but on the relative supplies of money and real assets, to which all rates of return must adjust.<sup>5</sup>

In general equilibrium the relationship between the real economy and the financial system is a state of static, *mutually determined equilibrium*. Any or all variables in the economy may then cause change. By contrast, *reflective finance* regards the conditions in the financial markets as being determined by circumstances in the real economy, that is, outside the financial sector. This view was nicely expressed by the French monetary economist Suzanne de Brunhoff in her exposition of Marx’s theories of money and credit:

... the financial cycle is only a reflection of the economic cycle; monetary and financial movements reflect non-monetary and non-financial internal and international disturbances. But they reflect them *in their own way* because of the existence of specific financial structures.<sup>6</sup>

An early exponent of 'reflective finance' was Joseph Schumpeter, who described in *The Theory of Economic Development* a system in which credit is more or less automatically advanced to entrepreneurs.<sup>7</sup> Schumpeter allowed for breakdown of the financial system, for example in crises of international capital withdrawal, which he had noted already before the First World War.<sup>8</sup> But in Schumpeter's view these are 'unfortunate accidents' rather than any systematic tendency.<sup>9</sup> In his later work on business cycles he explicitly rejected any notion that money or credit may initiate economic instability, although he allowed that it may transmit disturbances in particular parts of an economy to others.<sup>10</sup> The efficient markets hypothesis and numerous stock pricing theories (for example the arbitrage pricing model) are latter-day examples of such 'reflective' views of finance. In both cases, any instability that finance may suffer cannot be anything more than temporary 'corrections', while a new equilibrium establishes itself, reflecting underlying changes in the real economy.

Critical finance may be defined by contrast with these doctrines as an approach to finance which does not presume that finance is benign, but shows how, notwithstanding the virtues of its intermediary function, finance may systematically disturb the functioning of the modern capitalist economy and aggravate fluctuations in the real economy. By finance is meant here the markets for credit and securities (stocks and bonds) which dominate the economies of the English-speaking industrialised countries, and which are starting to predominate in those parts of Europe and Asia where bank finance was more common in the past. This book argues that critical finance theories were published through the twentieth century, from Veblen at the beginning of that century to Minsky at its end. The coherence of essential elements of these ideas is all the more remarkable in view of two notable features of this work. The more obvious feature is that some of the thinkers who put forward similar ideas (for example Thorstein Veblen and John Maynard Keynes) did not know each other's work, suggesting the kind of coincidence that Joan Robinson thought of as characterising objective, 'scientific' insight.<sup>11</sup> Don Patinkin and the sociologist Robert Merton thought that such 'multiple discovery' was the hall-mark of scientific advance.<sup>12</sup>

The less obvious feature is a confusion over the origins of ideas that arose with the publication by Hyman P. Minsky of his book *John Maynard Keynes*. In this Minsky associated himself with the 'Post-Keynesians': 'Joan Robinson, G.L.S. Shackle, Nicholas Kaldor, Sidney Weintraub, Paul Davidson, Robert Clower and Axel Leijonhufvud are prominent among the

dissidents who affected my thinking.’<sup>13</sup> These theorists were largely exponents of a *monetary* Post-Keynesianism. This may be distinguished from Minsky’s own ‘financial Post-Keynesianism’, which is discussed in Chapter 15 of this book, and which, in his book, he argued was implicit in Keynes’s views on finance. In *Manias, Panics and Crashes*, Charles Kindleberger put forward the view that, ‘in its emphasis on the instability of the credit system’, Minsky’s argument ‘is a lineal descendent of a model, set out with personal variations, by a host of classical economists, including John Stuart Mill, Alfred Marshall, Knut Wicksell and Irving Fisher’.<sup>14</sup> In fact Minsky’s ideas owed more to Fisher, which Minsky was happy to acknowledge, and to Veblen, whom Minsky does not mention in his writings.<sup>15</sup> At the same time, not all Keynesians shared their master’s disequilibrium approach to finance. Joan Robinson stands out as an early critic of Kalecki in this regard, for fear that his views on finance may be a cover for the determination of investment by saving.

Allowing for changes in the way in which the scope and structure of the financial markets has evolved through recent centuries, ideas of critical finance, as this book shows, have recurred repeatedly, from the earliest times in the pre-classical discussions of finance by François Quesnay and Adam Smith. This is not because they are some Hegelian *Geist* at work on the minds of disparate men and women, but because the thinkers observed the way finance initially provides welcome liquidity and then disrupts the functioning of capitalist enterprise from the earliest combination of capitalism and finance at the end of the sixteenth century to its hubris at the end of the twentieth century. This was most notable in the case of the 1929 crash, and recently in the case of the Third World debt crisis and subsequent emerging market crises at the end of the century. Because of the time that has elapsed, financial disturbances appear less obvious, but arguably were no less real, in the decades before the First World War. In this book it is argued that, following the establishment of the classical consensus that finance merely intermediates saving and investment, there were essentially two waves in which systematic generalisations about the principles of critical finance (as defined above) were developed. The first of these lasted from the turn of the twentieth century until the middle of that century. The second began in the 1970s. In between there was an interlude in which critical views of finance were concerned with the interpretation of past history rather than present possibilities, and in which the thought of the pre-eminent critic of finance in the twentieth century, John Maynard Keynes, was reinterpreted as a monetary theory of capitalism. It is rather obvious that the historiographic interlude coincides with what came to be known as ‘financial repression’ that accompanied the Keynesian boom after the Second World War.

This book is therefore a study in the history of economic thought. As it

shows, the exposition of such history is rarely innocent. Journalists, politicians and less reflective economists seek out in the commonplace events of everyday life incidents that will illustrate particular, more obvious, views. More thoughtful economists from Adam Smith onwards have reconstituted the history of economic thought not as it was, a succession of rhetorical interrogations of events largely obscured by history, ennobled by algebra and the passage of time, but as the emergence from obscure backwardness of more learned views. These views then conclude with those ideas that the historian of economic thought deems to transcend their origins and to illuminate the circumstances in which the history is written. This author is no exception. Those readers who know my previous work will readily identify in these chapters hints of the approach adopted in my previous books. This means that I have not done full justice to the totality of the ideas of many of the writers discussed here. This is most notable in the cases of Adam Smith, Karl Marx, John Maynard Keynes, Michał Kalecki and Josef Steindl. Any apologies due to them may perhaps be excused by the higher purpose of the book, to introduce the reader to neglected aspects of their work and, in the case of Marek Breit, to a writer whose work, though relevant, is virtually unknown today.

## 2. OMISSIONS

My wilful distortion of the works of these great writers is compounded by several omissions. Apart from Schumpeter, mentioned above, some explanation is also necessary for the exclusion from this study of the work of the followers of the Swedish monetary economist, Knut Wicksell. This is a school of thought whose subtlety of analysis of cumulative processes of disequilibrium in the economy, also involving finance, was unmatched in its time. However, there are two reasons why their analyses are beyond the scope of a book examining how economists have postulated disturbance of the economy by finance. First of all, the fundamental disequilibrium driving the business cycle in the Swedish view is an inequality of saving with investment, brought about by a difference of the 'natural' rate of interest (the rate of profit on new investment) and the money rate of interest set by a banking system that is, in the work of Myrdal, a proxy for the whole range of costs of credit for various terms and risks offered in the financial system. The 'natural' rate is determined by the scarcity of capital, technology and technological innovation. According to the Swedish view, the fluctuation of this 'natural' rate away from the 'money' rate, and interest rate policy by the monetary authorities that does not match the money rate of interest to the 'natural' rate, accounts for disturbances in the economy. Like Hobson's theory of excessive saving, the Wicksellian view has important implications for finance. But finance does not

play an autonomous role in disturbing the economy. It merely transmits the initial imbalance between saving and investment. Myrdal's book *Monetary Equilibrium*, for example, is not about equilibrium or disequilibrium in the money markets or finance. It is about how monetary *policy* can bring about an equilibrium of *ex ante* or intended saving, with investment in the economy. Adam Smith put forward a cogent case against usury which, in a credit economy, would drive the rate of interest up to induce under-investment (see Part I below). However, the Swedish school did not suggest at any stage that the financial system would naturally produce excessive interest rates, as Smith did. Indeed, Wicksell himself emphasised that:

The main principal and sufficient cause of cyclical fluctuations should rather be sought in the fact that in its very nature technical or commercial advance cannot maintain the same even progress as does, in our days, the increase in needs – especially owing to the organic phenomenon of increase of population – but is sometimes precipitate, sometimes delayed. It is natural and at the same time economically justifiable that in the former case people seek to exploit the favourable situation as quickly as possible, and since the new discoveries, inventions and other improvements nearly always require various kinds of preparatory work for their realization, there occurs the conversion of large masses of liquid into fixed capital which is an inevitable preliminary to every boom and indeed is probably the only fully characteristic sign, or at any rate one which cannot conceivably be absent ... If again, these technical improvements are already in operation and no others are available, or at any rate none which have been sufficiently tested or promise a profit in excess of the margin of risk attaching to all new enterprises, there will come a period of depression; people will not venture to the capital which is now being accumulated in such a fixed form, but will retain it as far as possible in a liquid, available form.<sup>16</sup>

Hence 'Wicksell held a "real" theory of the business cycle, in the sense that he believed that the cycle arose because of changes in the natural rate.'<sup>17</sup> Wicksell's is therefore not a theory of financial disturbance but a theory in which the banking system is the transmission mechanism for cumulative disturbances arising out of changes in the productivity of capital.

The second reason for excluding Wicksell and his followers is that the modern view of how finance disturbs the economy is built on the idea that, in the process of financial intermediation, assets are created which cannot be converted into means of payment, or credit is extended to the point where the liquidity that households and firms use to manage their economics affairs is insufficient to manage all financial liabilities (see Part II below). But, in Wicksell's view, financial innovation moved from commodity money to a 'pure credit' economy of a banking kind.<sup>18</sup> His Swedish and Austrian followers therefore did not develop a view of finance in which financial and productive assets have differing liquidity. The differential liquidity of assets was the basis of Keynes's financial and monetary economics.<sup>19</sup>

There are other omissions which will perhaps be contested by partisans of the authors concerned. Karl Polanyi, in his book *The Great Transformation*, presents an intriguing picture of the emergence of the 'market system' of economy, underpinned by the gold standard and a nexus of *haute finance* linking the main capitalist countries until the failure of that standard after the First World War. The collapse of finance that it occasioned reveals the superficial and frail nature of the apparently 'self-regulating' market system. But, like Hobson's analysis of finance in *Imperialism: A Study*, Polanyi does not reveal any mechanisms of disturbance emanating from finance. Both of them show finance as the dominant feature of capitalism at the end of the nineteenth century. But for all the acuteness of their criticism of finance as a social and political institutions, Hobson and Polanyi have finance brought down with the economy by the violence of the social and political changes that economic forces and financial developments unleash. This does not make their analyses less correct. They merely lack the detail this author and the reader may expect to find in an analysis of financial disturbance of the economy.

Similarly, their remaining partisans will contest the exclusion from this book of the respective theories of C.H. Douglas ('Major' Douglas) and Silvio Gesell. Along with Hobson and Polanyi, they saw finance as a critical flaw in the modern capitalist system. They, 'following their intuitions, have preferred to see the truth obscurely and imperfectly rather than to maintain error, reached indeed with clearness and consistency, and by easy logic, but on hypotheses inappropriate to the facts'.<sup>20</sup> Indeed, Gesell's advocacy of stamped money, along with Irving Fisher who is included in this volume, would seem to recommend him for inclusion. Perhaps their devotion to political advocacy of their views, through journalism and pamphleteering (although Gesell's work, like that of Hobson, goes significantly beyond such instant interventions), left their analyses lacking certain systematic qualities which are necessary to sustain an academic argument. These systematic qualities may be a consistent critique of the economic theories of contemporaries or predecessors, or a comprehensive explanation of how their insight may change our understanding of the capitalist economy.<sup>21</sup> Nevertheless, for the thinking individual the study of the work of brave 'heretics', and consideration of the strengths and limitations of their arguments, provides much greater understanding of modern finance than the commonplace truisms that are the foundation of textbook wisdom.

For a somewhat different reason I have excluded theories of *policy-induced* financial disturbance. These were a familiar staple of Austrian and German monetary theory, as expounded for example by Hayek. Their equivalents today are the views of latter-day (post-Friedman) monetarists and new classical theorists, who see in the inappropriate management of interest rates or the money supply the roots of economic disturbance. With the exception of

Hayek, they reveal their true allegiance by their assumption that without government intervention the economy would naturally fall into equilibrium.

### 3. THE THEORY OF CAPITAL MARKET INFLATION

The origins of this book lie in a somewhat belated 'literature review' for my book *The End of Finance*. At a number of points in this book, I allude to the theory of capital market inflation. It is appropriate therefore to give a brief outline of the theory in this introduction.

The theory emerged from this author's attempt to make sense of what was happening in the financial markets during the final decades of the twentieth century. Each successive boom in the financial markets promised higher investment, economic growth and prosperity, only to deliver a boom led by luxury consumption and lagging investment (notwithstanding fringes of speculative over-investment), followed by financial instability and crisis. In the course of a seminar at University College, London, around the beginning of the 1990s, the distinguished French economist Alain Parguez referred to Keynes's analysis as 'a theory of capital market inflation'. There are suggestive allusions in Keynes, for example his suggestion in the *Treatise on Money*, that excess liquidity in the stock market gives rise to excessive productive investment, and his urging in his Chicago University Harris Foundation Lectures that the financial markets be flooded with cheap credit to induce investment.<sup>22</sup> Further clues were found in the writings of Keynes's followers and critics (principally Hyman P. Minsky), not to mention the financial disturbances of the latter three decades of the twentieth century that this author experienced at first hand, to give intellectual and empirical support to a new approach to finance in an economy where investment is dominated by companies' external finance and its consequent liabilities, and consumption is dominated by wealth effects arising out of credit inflation.

The theory of capital market inflation examines the consequences of an inflation of the stock market. Such an inflation has been induced by the policy of diverting pension fund contributions from the payment of current pensions to 'funding' the purchase of stock market assets, the income from which is supposed to pay the future pension of the contributor. The general benefits of this are supposed to be an increase in saving and investment, leading to faster economic growth. In practice, the effect of a greatly increased demand for long-term financial securities leads to the over-capitalisation of companies. Companies' excess capital is used to repay debt or to build up stocks of liquid (financial) assets, as an insurance against companies' extended financial liabilities. Rising asset values in the capital market, and its greater liquidity, engender a festival of corporate balance sheet restructuring (mergers and

takeovers and so on). Governments find that they can make their debt disappear by privatisation, that is, the issue of company stocks whose proceeds are used not to increase the productive capacity of the companies issuing the securities but to repay government debt and finance fiscal deficits.

Capital market inflation induces financial fragility in the economy in two ways. First of all, by encouraging equity (common stock) finance rather than debt, it deprives the capital market of the regular, predictable and stabilising inflows of funds as companies and governments repay their debt. The liquidity of the market becomes much more dependent on future inflows of speculative funds. In the case of the recent capital market inflations of the United States and Britain, driven largely by the inauguration of mass funded pension schemes, the decline of these inflows is more or less inevitable as the schemes mature because employment ceases to rise, or because schemes that start together tend to mature together. The other means by which financial fragility is promoted by capital market inflation is through the disintermediation of banking systems. The best loans of banks have traditionally been to governments and large corporations. When these customers find that they can raise funds more cheaply in the capital market, banks are only able to retain those customers' financial obligations in their bank balance sheets by buying them in securities markets at prices which give banks negligible or negative margins over their cost of funds. Banks are thereby induced to lend into more risky markets where they can charge higher rates on their loans.

Finally, capital market inflation renders governments' monetary policy less effective because the greater liquidity of big corporations makes their expenditure on investment (the chief motor force of business cycles) less vulnerable to rises in the bank interest rates that are influenced by central bank rates of interest. The borrowing by households and small and medium-sized concerns is less responsive to changes in short-term interest rates. Accordingly, a higher change in interest rates is necessary to induce a given change in aggregate expenditure in the economy.

The theory of capital market inflation is a *macroeconomic* theory in at least two senses of the word. First of all, it is an explanation of how the balance between income and expenditure, that is, aggregate saving, and the institutional channels through which that saving occurs, determines the value of assets in the financial markets.<sup>23</sup> This contrasts with the commonly held belief that the value of financial instruments is derived from estimates of the future earnings of the real or productive assets that are financed with those instruments. Indeed, so widespread is this view that it was held by most of the authorities discussed in this book, including Veblen, Keynes, Kindleberger and Minsky. However, this is quite evidently a *microeconomic* view.

More importantly, the theory of capital market inflation is a *macroeconomic* theory because it identifies the mechanisms by which a process of inflation in



the capital markets determines the way in which the rest of the economy operates. By contrast, general equilibrium models do not identify any central subset of markets in the economy determining the rest of the economy. In a general equilibrium, by definition, all markets are in equilibrium and changes in *any* market can be transmitted to the other markets by the process of reconfiguring the other markets to bring about a new general equilibrium. Once a sufficient number of variables is fixed, the interactions of supply and demand in each market brings the whole system into equilibrium.<sup>24</sup> In this respect, general equilibrium models are really just interconnected *micro-economic* models in which change could be inaugurated by a shift *anywhere* in the underlying structure of technology or consumer tastes. The distinguishing feature of *macroeconomics* is its identification of crucial variables, such as money, government economic policy, or, in the case of the theory of capital market inflation, finance. Such crucial variables affect the efficient working of the rest of the economy in a way that mere interdependence of markets on variables set in other markets does not. By extension, *reflective* theories of finance, as defined above, deny the possibility of functional determination by finance of the real economy, since it is the latter that is supposed to determine financial conjunctures. The classical theory of interest, which identified the rate of profit as the determinant of the rate of interest, is an outstanding example.

As indicated earlier, this book does not claim to give a comprehensive account of the theories of the authors cited in the book. This would take too long, and would distract the reader from the main purpose of the work, namely to explain how successive authors argued that finance disturbs, or if unregulated would disturb, the economy. Readers wishing to have a comprehensive account of these authors are recommended to read their works. This book's claim on the attention of the reader is not as history of economic thought, but to complement the economics literature summarised in 'A brief digression on later developments in economics and finance' below. In that literature, finance appears in its intermediary function, for which we should all be grateful because without it the modern economy would be lost. But, as a consequence of this emphasis on efficient intermediation, the possibility that the financial system may unbalance and disorganise the economy, as well as lubricate it, has been lost sight of by many academic economists. Among academic and practising economists, and the well-educated and economically literate non-economists, an increasing unease arises out of the contradiction between the claims of academic experts that inflated financial markets are more efficient, and the apparent economic instability and financial insecurity that accompany such inflation. It is to thinking and reading individuals among those classes that this book is addressed.