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Giuseppe Fontana, *Money, Uncertainty and Time*

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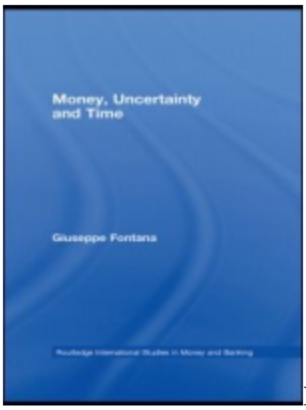
Full text



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1 The economic crisis since 2008 has led to an increasing interest in Keynesian explanations of it. Those who might be interested to understand why there may be many Keynesian interpretations of the crisis will certainly take benefit from Giuseppe Fontana's essay *Money, Uncertainty and Time*. More, they will certainly adhere to the author's purpose of providing its own synthesis of different Post Keynesian traditions in this specific economic context when it seems likely to attract more attention than ever.

2 We find Giuseppe Fontana's book a very interesting work, because it deals with many current, controversial Post Keynesian issues in just over 100 pages, using clear, concise language. The book is structured in three parts. Part I deals critically with the historical development of Post Keynesian economics, discussing the academic and political reasons for its rise during the 1960s and 1970s as well as the reasons for its 'crisis' during the 1980s and 1990s, the period "of doubt", as Fontana remarks, and "deep internal tensions". Part II deals with the theoretical elements of Post Keynesian economics, examining in particular the relationship between money, uncertainty and time, which are three strictly interconnected matters in the endogenous money theory described in the final part.

3 After a rich introduction on the centrality of money, time and uncertainty in the Post Keynesian theoretical scheme, a very interesting historical reconstruction of Post Keynesian thought is presented in the second chapter. Fontana explains when and why Post Keynesian scholars started studying methodological questions as well as the traditional ontological matters. To this end, he highlights two moments of remarkable importance in the history of Post Keynesian thought: one dating back to the period after World War Two and the other taking place in the last years of the twentieth century. In his reconstruction, Fontana reminds us that From an initial interest in building up on Keynesian short run analysis, the Post Keynesians switched their attention to the problems of growth and long term implications of the effective demand principle, in response to the challenges of reconstruction in the post-WWII period. It was this—above all due to the contributions of Joan Robinson and Nicholas Kaldor—that triggered the series of fruitful studies built on the theme of economic growth based on the problem of income distribution, whose leading principle was that economic growth not only depends on technological progress, but also on important social, institutional and political conditions. These new studies called for an implicit methodological reform, involving the rejection of the marginalist approach of microfoundations, in favour of a method based on functions of aggregate behaviour that could represent the real world. This rejection of marginalism led to the so-called Cambridge Capital Theory Controversy, which saw important scholars like Joan Robinson, Luigi Pasinetti and Piero Sraffa working on their critical assessment of the legitimacy of using comparative statics, largely adopted by neoclassical economists, who in their opinion were unable to understand the effects of the changes occurring in the real world over time.

4 After this phase of great vivacity, Post Keynesian thought experienced a new setback, when the New Classical Macroeconomic paradigm came to the fore thanks to its capacity to provide better solutions to the new phenomenon of stagflation. At the beginning of the 1970s, in any case, because of new emergencies in the real economy such as increasing inflation, pollution and superfluous arms spending, the Post Keynesians were involved in another period of flourishing scientific activity. This resulted in the definition of a new theoretical approach founded upon the four pillars of the dynamic theory of growth (studied in historical time and not in logical time), the theory of distribution (intimately tied up to the theme of growth), the "credit theory of investment", and the monopolistic competition approach. This new phase of Post Keynesian thought, which Fontana calls the "romantic age", was followed by a period of great uncertainty, originating in_methodological debates. The main participants in this debate were the Neo Ricardians, the Non-ergodic/Monetary Post Keynesians and the Kaleckians. The Neo-Ricardians, who elaborated an analysis based on a synthesis of the Sraffian theory of prices and the Keynesian principle of effective demand, proposed to return to using the Classical method. The Monetary Post Keynesians, on the other hand, starting from the relevance of the Keynesian analysis of money, time and uncertainty, needed a more dynamic method of handling historical time. Lastly, the Kaleckians, who placed less importance on the component of uncertainty, put forward models of deterministic equilibrium, based on non-Neoclassical microfoundations. This debate led to the development of the

affirmation, within Non-ergodic/Monetary Post Keynesian thought, of Tony Lawson's critical realism method, based on the idea that the real world is made up of complex relations of facts and events, of experience and impression, of structures and mechanisms that order events.

5 In order to explain how this innovative methodological approach works, Fontana examines the terms of the Keynesian criticism of the Classical method (chapter 3), then goes on to focus on probability theory in the Keynesian mould and its use in the critical realism method (chapter 4). The most significant aspect that emerges in the third chapter is that the Keynesian criticism of the Classical method essentially concerns its partial experience analysis, which is limited to studying the permanent laws of the economic world, without any predictive power. According to Fontana, Non-ergodic/Monetary Post Keynesians—influenced by Keynesian criticisms of the Classical method—would put forward Keynes' theory of probability at the epistemological level. They explained the facts of the real world in terms of macroagents' behaviour, conditioned by the centrality of money and by their changing expectations, which depend on the degree to which they believe in the information coming from market signals. These concepts are brilliantly explained by Fontana in the fourth chapter, where he discusses the concept of uncertainty in Post Keynesian thought and how this uncertainty has been treated by the Non-ergodic/Monetary scholars, implementing Lawson's critical realism method in the models based on the four above-mentioned pillars: the dynamic theory of growth, the theory of distribution, the credit theory of investment, and the microeconomic perspective of monopolistic competition.

6 Chapter five is devoted to showing the "intimate relationship" between Keynes' major works and the main streams of Post Keynesian economics, in particular "New Fundamentalist Keynesians", the Monetary Theory of Production, and the "Non-ergodic/Monetary Post Keynesians", which respectively have separately developed the Keynesian theory of probability and decision-making, the Keynesian theory of money as means of payment, and the Keynesian theory of involuntary unemployment, expanding upon the theory of money as store of value. Fontana successfully links the three approaches showing how the different states of uncertainty are strictly related to the different functions of money. The use of money as means of payment releases agents (workers and firms) from their reciprocal obligations (labor *vs* commodities) because of the intrinsic risk related to the provisos of contracts. In contrast, the accumulation of money as store of value protects agents (workers and firms) against the unpredictability of expenditure, which, by affecting the equivalence between aggregate demand and current income, has an impact on the employment level. In Chapter six Fontana suggests using the Hicksian methodology of the "causal chain of historical events" in order to show a proper dynamic analysis and to get a better understanding of the debate between Horizontalists and Structuralists in the endogenous money theory. In order to study the dynamics of economic events, the author borrows two ideas from Hick's *Value and Capital* (1939). The economic process are first, described as a sequence of stages within a period in which expectations do not change (the "single period"), and second, their evolution is analyzed as the 'junctions' of the single periods, that is, as a description of events that can modify the sequence of stages in any one period, also affecting the subsequent new single period (the "continuation theory"). The author then extends the Hicksian categories to the monetary theory, in order to explain the theory of monetary flows as the "single-period theory of money" and the liquidity preference theory as the "continuation theory of money", finding the methodological and analytical conjunctions for their compatibility. Chapter seven then provides an overview of Horizontalism and Structuralism in the endogenous money theory. Here Fontana describes the process by which "loans create deposits and deposits create reserves" proposing a well structured study of the balance sheets of agents —commercial and central banks, firms and households—involved in the process of

endogenous money supply. He goes on to discuss Structuralism, showing how the endogenous process of money supply is affected by the liquidity preference. The two approaches are firstly studied separately in order to discuss the following controversial issues: *a)* the relationship between the central bank and commercial banks, *b)* interest rate elasticity as regards demand for reserves, *c)* the different slope of loans supply and *d)* the not strictly automatic nature of the Kaldor-Trevithick reflux mechanism. Finally, Fontana tries to find the complementary aspect of the two approaches in order to propose a synthetic model of the endogenous money supply. Although the two approaches converge for purposes of analysis, they differ in the state of expectations involved in their model. From this standpoint, Fontana suggests that this divergence can be overcome by using the Hicksian categories of single and continuation analysis and by directing the single endogenous money approaches towards a general theory of money through a joint analysis of the process of creation and circulation of money based on the constancy and changes in expectations.

7 Fontana's work is a successful attempt to meld the Monetary Circuit, the Horizontalist, and the Structuralist approaches - three strands often considered heterogeneous because they work with different methodological schemes and ontological matters, consistent with some distinctive features of Keynes' thought. At the same time, they all attempt to revitalize the Keynesian monetary theory, in order to reverse the reserves-money causal relation of the money multiplier, undermining the foundations and the policy implications of the New-quantitative monetary theory. The value of Fontana's work lies in suggesting a convincing methodological way to study monetary phenomena in a more general Keynesian framework in which the expectation factor—becoming the real 'glue' for standard and flow analysis—reconciles the financial and the speculative motives. We think, in conclusion, that Fontana's work appears to be an important attempt to unify the various current directions of Post Keynesians, in order to propose a convincing "general theory of endogenous money" alternative to the mainstream theory.

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