

8

Financialization vs. Efficient Markets: Reframing the Economics and Politics of Finance

Thomas Palley

The Queen's Question and Mainstream Economics

Many readers of this book are probably familiar with the Queen's famous question (5 November 2008) to the faculty of the London School of Economics (LSE) asking why no one foresaw the financial crisis of 2008. The Queen's question has an innocent Hans Anderson 'emperor's new suit' character and it was met with stunned silence. After a few moments of confusion, the distinguished LSE economists responded they needed time to think about it, inadvertently exposing the hollowness of mainstream economics.

In fact, there is a simple and direct answer to the Queen's question, but the distinguished economists could not give it for reasons of professional interest. That answer is, 'We failed to anticipate the crisis because our theory says such things do not happen.' According to mainstream

T. Palley (✉)
Washington, DC, USA

© The Author(s) 2016
R. Skidelsky, N. Craig (eds.), *Who Runs the Economy?*,
DOI 10.1057/978-1-137-58017-7_8

economics, the economy is an ‘equilibrium system’ governed by ‘efficient’ financial markets. In that system, rational agents anticipate systemic causes of financial crises and prices immediately adjust to prevent them from happening.

This way of thinking has had an enormously profound effect on policy, politics, and society. It has promoted an age of ‘market worship’ in which financial markets are given special elevated standing. Financial markets are claimed to be the most perfect form of market and they are attributed a special role regarding allocation of capital, promotion of capital accumulation and growth, spreading of risk, and as an instrument of control over managers and corporations.

The financial crisis of 2008, the Great Recession, and the ensuing stagnation have exposed the fallacy of such thinking; they invite a reframing of the politics and economics of finance. This chapter argues that the concept of efficient markets, which has guided thinking about finance and its macroeconomic impacts, should be replaced by the concept of financialisation. The latter refers to the process whereby finance exerts an increasing influence over the real economy, economic policy, and politics. In doing so, it increases income inequality, creates financial fragility and proclivity to economic instability, and generates macroeconomic inefficiency in the form of reduced activity and slower growth.

The Fallacy of the ‘Black Swan’ and ‘Market Failure’ Defences

The mainstream economics profession would look silly if it tried to deny the obvious fact that capitalist economies are subject to recurrent financial market turmoil and crises. They have therefore devised two lines of defence: the first is the ‘black swan’ defence; the second is the ‘market failure’ defence.

According to black swan theory, problems arise owing to unforeseeable shocks that cannot be anticipated and adjusted for. This defence is the ultimate ‘get out of jail free’ card, as it invokes a *deus ex machina*—the black swan. To create a patina of science, so-called swan ‘shocks’ are dressed up in statistical theory and described as random events drawn

from statistical distributions with mathematically defined properties. That description creates a rhetoric that has succeeded in giving credibility to the black swan defence, despite the clear inapplicability and irrelevance of statistical theory to history. Financial crises are part of the historical process, and history is an unrepeatable non-ergodic process. That process is captured by Heraclitus' observation to the effect: 'You cannot step twice in the same river, for other waters are continually flowing.' Statistics applies to repeatable ergodic processes like rolling dice and drawing playing cards: it can never apply to history.

The 'market failure' defence argues financial crises happen because of imperfections in the market mechanism. Within neoclassical economics, this is a very long-standing defence and it is once again being invoked as mainstream economists try to construct new market failures to explain the crisis and stagnation. In mainstream economics, market failures are analogous to epicycles in the Ptolemaic geo-centric model of the cosmos. Every time economists encounter an observation that does not fit they add another market failure—another epicycle.

The problem is that the neoclassical competitive general equilibrium (CGE) model is a Platonic ideal which cannot exist because it does not conform to the real world. It is impossible to transform the real world into the Platonic ideal of CGE theory, which means the market failure defence cannot save the theory as the theory describes an impossible non-existent ideal. Despite this, three generations of economists have mistakenly thought the market failure defence saves their theory. Consequently, the CGE model has been able to retain a tight grip on mainstream economic thinking.

That has had enormous consequences, because economic theory is the prism through which we see and interpret the economy. In a sense, the economy presents a Rorschach test and the prism you hold determines what you see. In Fig. 8.1, if you focus on the sides of the box, you see two faces; if you focus on the top and bottom, you see a vase. When it comes to economics, if you subscribe to CGE theory, you will be inclined towards neoliberal policy recommendations. Abandoning CGE theory and adopting the economic ideas of Keynes (1936) and Minsky (1992) results in fundamentally different perceptions with fundamentally different policy prescriptions.

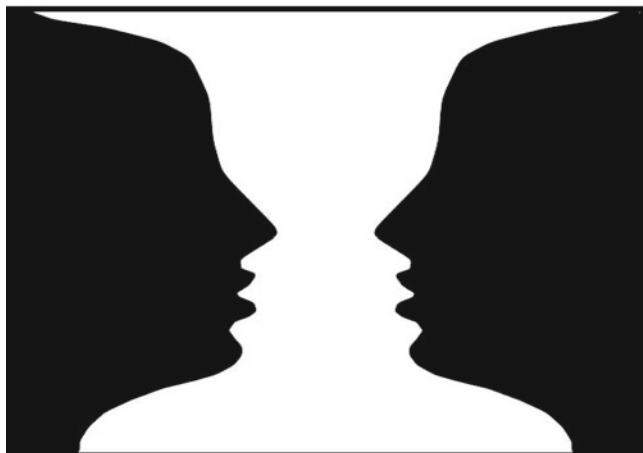


Fig. 8.1 The power of economic ideas: what you see depends on the ideas you believe

The Triumph of Bad Ideas and the Tragedy of the Past 30 Years

It is understandable why elite moneyed interests are attracted to the prism of neoclassical CGE theory. That theory serves their economic and social interests. The tragedy of the period since the mid-1980s is that labour / social democratic parties have also been captured by this same thinking, albeit tempered with a sprinkling of compassionate policy in the form of more generous welfare payments and more progressive tax systems.

This capture is evident in the fact that the leading academic and policy economists that advise labour and social democratic politicians hold the same core theoretical perspective as advisers to their political opponents. The social democratic advisers only differ in their estimation of the extent and severity of market failures and their assessments of the beneficial capacity of policy to remedy these failures.

The policy consequences have been enormous. In terms of the Rorschach metaphor, it is as though all the major political parties have a common vision of the economy. The political challenge is to compel a change of understanding. In the absence of that, we will remain locked

in a neoliberal policy orbit that only fluctuates in the degree of neoliberal intensity.

That raises the issue of ‘power’. Mainstream economic ideas are socio-logically entrenched and defended by a nexus of inter-locking interests. This reality is particularly clear in the USA with its significantly privatised higher education system. Academic economics is a neoclassical monopoly, organised as a club in which existing club members have an interest in excluding economists of a different theoretical persuasion. The club plays a vital role in educating the chattering class, the business class, the media, and those who will govern. Think-tanks, like the Brookings Institute and the Peterson Institute in Washington DC, extend the monopoly into the realm of public policy and provision of advice to politicians. And academics, think-tanks, and politicians are all supported by the moneyed elites whose interests they promote: the quid pro quo is that the moneyed elite pays academics, think-tanks, and politicians to promote ideas supporting their interests and to block threatening rival ideas.

In his *General Theory*, Keynes (1936, pp. 383–384) wrote about the importance and power of economic ideas, but he was naïve about their source. That source is best understood through Marx’s (1845) abiding and penetrating observation in *The German Ideology* that: ‘The ideas of the ruling class are in every epoch the ruling ideas, i.e. the class which is the ruling material force of society, is at the same time its ruling intellectual force.’

Mainstream Neoclassical Critiques of Finance

Mainstream economics is dominated by the efficient financial markets hypothesis, but there has always been a fringe critique of that view. Hirshleifer (1971) argued financial markets could lower real output to the extent that they were de facto casinos because operating the casino costs a great deal. Tobin (1984) noted that financial markets actually finance very little investment which, instead, is largely financed by retained profits. He also noted that many financial market activities may be unproductive so that bankers, brokers, and traders are paid far more than they contribute to economic production. Willem Buiter, with his customary stinging wit, argues that derivatives market traders are actually irrational:

‘I have yet to meet a trader who did not believe that he or she could not beat the market. Because these traders effectively are the market, they are collectively irrational, as they cannot beat themselves.’¹

This financial markets critique from the mainstream fringe is welcome. However, it remains an ‘insider’ critique trapped in the efficient-market discourse which is framed by the neoclassical ideal of a perfect economy. Inefficiency is the result of departure from this ideal. Consequently, mainstream critiques of finance do not surface more profound issues regarding the power of finance and its broader negative macroeconomic impacts. In terms of the Rorschach metaphor, insider critiques of the efficient-market hypothesis remain blind to other interpretations of the economy. That limitation points to the significance of the theory of financialisation, which provides a critique of finance based on a different vision of the economy. In doing so, it generates a significantly different policy reform agenda.

The Macroeconomics of Financialisation

Financialisation refers to the increased presence and power of finance within the economy, resulting in ‘the domination of the macro economy and economic policy by financial interests’ (Palley, 2013, p. 1). Empirically, financialisation increases the significance of the financial sector relative to the real sector; transfers income from the real sector to the financial sector, increasing the financial sector’s share of GDP; and contributes to wage stagnation and increased income inequality.

Financialisation raises concerns with power, stability, and macroeconomic efficiency. The concern with power relates to finance’s ability to restructure the economy and redistribute income to owners of financial capital. The concern with macroeconomic stability relates to finance’s capacity to destabilise economies, as evidenced in the US economy by the stock market crash of 1987, the Long Term Capital Management crisis of 1998, the stock market technology bubble of the late 1990s and 2000, the housing bubble of the 2000s, and the financial crisis of 2008. The concern with macroeconomic efficiency concerns the adverse impact on economic activity and growth.

¹ Buiter (2009).

Finance's power to restructure is illustrated by the history since 1980. Until the late 1970s, developed country economies could be described as a Keynesian virtuous circle growth model in which wages were the engine of demand growth. This model is illustrated in Fig. 8.2 and the economic logic was as follows. Productivity growth drove wage growth which fuelled demand growth. That promoted full employment which provided the incentive to invest, which drove further productivity growth.

Within this virtuous circle framework, finance was characterised by a public utility model based on New Deal regulation. Its role was to provide business and entrepreneurs with finance for investment, to provide business and households with insurance services, and to provide households with means of saving for future needs.

After 1980, the virtuous circle Keynesian growth model was replaced by a neoliberal growth model. The two key changes were the abandonment of the policy commitment to full employment, which was replaced by a commitment to stable low inflation, and the severing of the link between wages and productivity growth. These changes created a new economic model. Before 1980, wages were the engine of demand growth; after 1980, debt and asset price inflation became the engines of demand growth.

As illustrated in Fig. 8.3, the new economic model can be described as a 'neoliberal policy box' that fences workers in and pressures them from all sides via:

- a corporate model of globalisation;
- the small government agenda that attacks public sector activity;

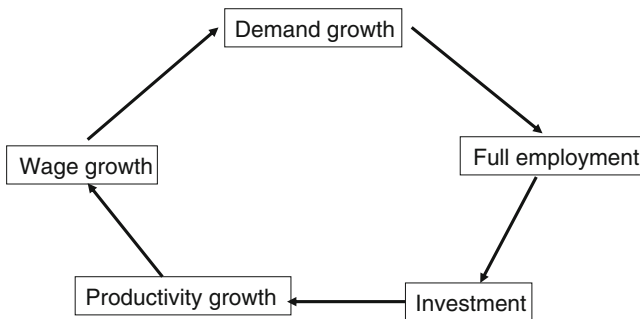


Fig. 8.2 The 1945–1980 virtuous circle Keynesian growth model

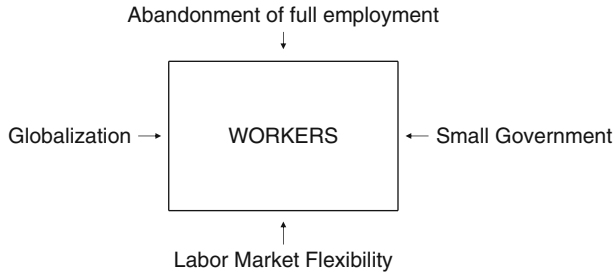


Fig. 8.3 The neoliberal policy box

- the so-called labour market flexibility agenda that attacks unions and worker protections; and
- the replacement of full employment policy with low inflation targeting policy.

With regard to the financial system, the New Deal public utility model was slowly gutted by deregulation and subsequent financial innovations were left largely unregulated (Palley, 2012, ch. 5).

The combination of the neoliberal box model and the gutting of the public utility model of finance created a new system characterised by wage stagnation, increasing income inequality and growing financial instability. The macroeconomic workings of this economy are illustrated in Fig. 8.4. Within the real economy, the configuration of economic policies embodied in the neoliberal policy box generated wage stagnation and increased inequality, which contributed to creation of a structural demand shortage. Within the financial economy, financial innovation, deregulation, speculation, and fraud combined to produce a long-running 30-year credit bubble that fuelled borrowing and asset price inflation, which papered over the demand shortage problem. This bubble process was accommodated by easy monetary policy that sequentially lowered interest rates every time the bubble threatened to burst.

This economic configuration was sustained until the financial crisis of 2008, albeit the business cycle weakened in the 2000s despite an intensified asset bubble. However, the process came to an abrupt halt with the bursting of the credit bubble in 2008. With interest rates near zero and economic agents heavily indebted, monetary policy has been unable to

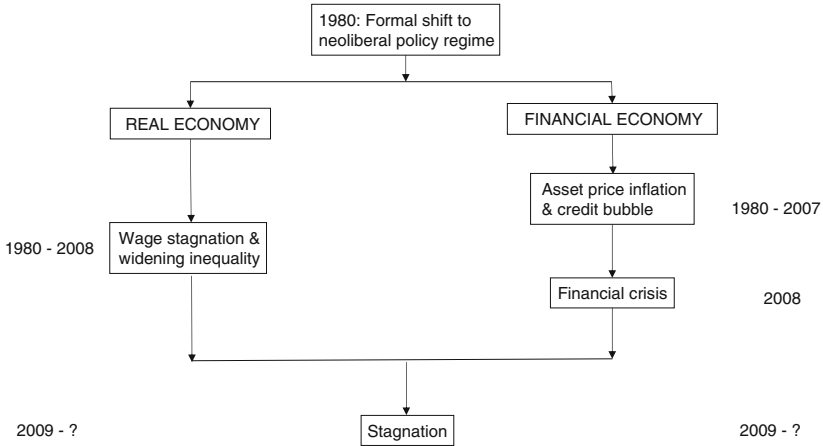


Fig. 8.4 The evolution of the US economy in the Neoliberal Era, 1980–2015

Table 8.1 Average income share of bottom 90 % of households

	1951– 1960	1961– 1970	1971– 1980	1981– 1990	1991– 2000	2001– 2007	2007	2008– 2012	2012
Bottom 90 % share (including capital gains)	66.5	66.0	66.4	62.0	58.8	53.3	50.3	51.8	49.6
Bottom 90 % share (excluding capital gains)	68.1	68.2	67.7	64.5	59.1	55.9	54.3	53.5	51.9

Source: Author’s calculations using data from Piketty & Saez, Tables A1 and A3, <http://elsa.Berkeley.edu/~saez/TabFig2013prel.xls>

jump-start the credit expansion process as in the three previous downturns (1982, 1991, and 2001). Without the credit bubble to fill the structural demand gap created by the neoliberal policy box, the USA has suffered from demand shortage and stagnation.

Evidence supporting this story is clearly visible in data for the US economy. Table 8.1 shows the average income share of the bottom 90 % of US households according to the Piketty and Saez database, which uses tax return information. The table shows that the share of total income of the bottom 90 % was stable at approximately 66% from 1950 to

Table 8.2 Average income share of top 1 % of households

	1951– 1960	1961– 1970	1971– 1980	1981– 1990	1991– 2000	2001– 2007	2007	2008– 2012	2012
Top 1 % share (including capital gains)	10.6	10.3	9.3	13.0	16.7	20.1	23.5	20.2	22.5
Top 1 % share (excluding capital gains)	9.2	8.2	7.9	10.2	14.1	16.6	18.3	17.8	19.3

Source: Author's calculations using data from Piketty & Saez, Tables A1 and A3, <http://elsa.Berkeley.edu/~saez/TabFig2013prel.xls>

1980. Thereafter, it began a rapid decline, falling to 50.3% in 2007, one year before the financial crisis. After briefly recovering during the Great Recession (2008–2009) as profits and the income of the top 10% declined, the income share of the bottom 90% has resumed its decline in the ensuing weak recovery. This finding holds regardless of whether income is measured with or without capital gains.²

Table 8.2 shows the average income share of the top 1% of US households, which is again derived from the Piketty and Saez database. The table tells the other side of the story contained in Table 8.1 and shows that higher-income households have seen an increase in their income share. The important feature in Table 8.2 is that the top 1% of income earners have gained disproportionately, so that income redistribution has been concentrated at the top. That matters because higher-income households have a higher propensity to save.³ Consequently, redistributing income to the top increases aggregate saving and weakens aggregate demand, which contributes to explaining stagnation in the wake of the Great Recession.

Table 8.3 shows the distribution of income gains in each business cycle expansion since World War II. In the expansions from 1949 through to

² If capital gains income is excluded, the share of the bottom 90% is slightly larger as capital gains flow disproportionately to the top 10% of households who are wealthier and own more property, real and financial.

³ Carroll (2000).

Table 8.3 Distribution of income growth by business cycle expansion across the wealthiest top 10 % and bottom 90 % of households

	1949– 1953	1954– 1957	1959– 1960	1961– 1969	1970– 1973	1975– 1979	1982– 1990	1991– 2000	2001– 2007	2009– 2012	Average Pre-1908	Average Post-1980
Top 10 % of households	20 %	28	32	33	43	45	80	73	98	116	34 %	92 %
Bottom 90 % of households	80 %	72	68	67	57	55	20	27	2	-16	66 %	8 %

Source: Tcherneva (2014), published in *The New York Times*, September 26, 2014.

Table 8.4 Selected indicators of the growth of the financial sector relative to the overall economy

	FIRE output/GDP (%)	Financial/Non-financial profits (%)
1973	13.6	20.1
1979	14.4	19.7
1989	17.9	26.2
2000	20.1	39.3
2007	20.4	44.6

Note: FIRE = finance, insurance, and real estate.

Source: Palley (2013), Tables 2.6, 2.7, and 2.11

Table 8.5 Debt-to-GDP ratio and growth rate

	1950	1980	2007
Domestic non-financial sector debt–GDP ratio	1.34	1.38	2.20
Domestic financial sector debt–GDP ratio	0.03	0.20	1.12
Domestic non-financial + financial sector debt–GDP ratio	1.37	1.58	3.32
	1950–1979	1980–2007	
Average annual growth of real GDP (%)	4.0%	3.0	

Source: Bureau of Economic Analysis, Federal Reserve Board (Financial Accounts of the USA) and author's calculations

1979, the bottom 90% of households always received more than half the gains, albeit the trend was downward. After 1980, there is an abrupt and extreme change, and the share of income gains going to the bottom 90% plummets. In the most recent expansion, which began in 2010, the bottom 90% has had negative gains. Rather than sharing in the growth of aggregate income, the bottom 90% has suffered a decline in income: conversely, the top 10% have gained more than the increase in total income.

Tables 8.4 and 8.5 describe developments in the financial economy that accompanied these developments in the real economy. Table 8.4 shows the enormous increase in the size of the financial sector relative to the real sector, and the increase in financial sector profits relative to the profits of the real sector. In the 30 years preceding the financial crisis, the financial sector has increased its share of US gross domestic product (GDP), reaching more than 20% in 2007. Over that period, its profits relative to non-financial sector profits more than doubled.

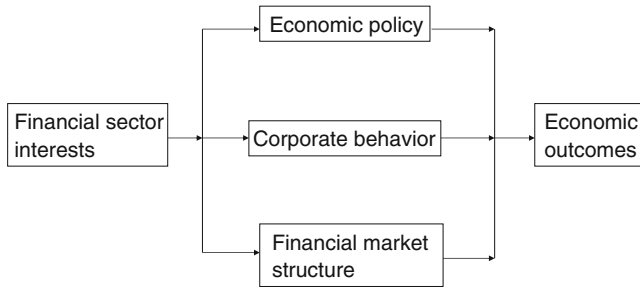


Fig. 8.5 Main conduits of financialization

Table 8.5 shows a dramatic increase in the debt-to-GDP ratio after the inauguration of the neoliberal era. In the 30 years from 1950 to 1980, the debt to-GDP ratio rose fractionally from 1.37 to 1.58, and the domestic non-financial sector's debt-to-GDP ratio was essentially constant. After 1980, there is a dramatic increase in debt-to-GDP ratio of both the domestic non-financial sector and the financial sector. In the 27 years from 1980 to 2007, the aggregate debt-to-GDP ratio rises from 1.58 to 3.32. However, the average annual real GDP growth rate falls from 4% to 3%, so that the era of financialisation is actually associated with slower growth. That is consistent with the cross-country study findings of Cecchetti and Kharroubi, from the Bank of International Settlements, who report that too large a financial sector lowers growth.⁴

The Microeconomics and Political Economy of Financialisation

Finance has played an essential role in creating and maintaining the new economic model. That role is illustrated in Fig. 8.5, which shows how the impact of finance has operated through three conduits. First, finance used its political power, derived from money, to promote the economic policies on which the new model rests. Thus, finance lobbied for financial

⁴Cecchetti and Kharroubi (2012).

deregulation; supported the shift of macroeconomic policy away from focusing on full employment to focusing on inflation; supported corporate globalisation and expanding international mobility of real and financial capital; supported privatisation, diminished regulation and a more regressive tax code; and supported the attack on unions and employment protections, with the aim of lowering wages and strengthening the hand of management.

Second, finance took control of business and compelled it to adopt financial sector behaviours and perspectives. The change was justified by appealing to economists' notion of shareholder value maximisation. The result of this change in corporate behaviour was adoption of the leverage buyout model that loaded firms with debt, the adoption of a short-term business perspective that undermined willingness to undertake long-term investment projects, the adoption of impossibly high required rates of return that also undercut long-term investment, support for offshoring of production to take advantage of lower labour costs, and the adoption of Wall Street-styled pay packages for top management and directors.

Third, the combination of deregulated financial markets and financial innovation provided the supply of credit needed to finance leveraged buy-outs, takeovers, and stock buybacks. The increased supply of credit also supported consumer borrowing and mortgage borrowing that inflated house prices, thereby filling the 'demand shortage' created by wage stagnation, trade deficits, and investment offshoring.

Putting Finance Back in the Box

The overarching task is to restore shared prosperity, which requires rebuilding the wage-productivity growth link and having economic policy commit to full employment. That task is twofold. First, it is to remake the rules and policies governing the real economy so that workers share in the fruits of economic growth. Second, it is to rein in the financial sector, which has been a principal driver of so much adverse change in the real economy.

This task can be understood through the lens of economic institutionalism. The American institutionalist economist John R. Commons

(1862–1945) made the ‘transaction’ the centre of his economic theory. The role of institutions (which includes regulation and policy) is to impose some degree of collective control over transactions so that they deliver socially desired outcomes. Financialisation involves finance using its powers to structure the economy’s transactions to its advantage. Putting finance back in the box involves designing a different set of institutions that deliver other socially preferred economic outcomes.

With regard to the task of restructuring the real economy, the details of the needed policy programme are beyond the scope of this chapter. However, the programme is briefly summarised in Fig. 8.6. Politically, the challenge is to overthrow the neoliberal paradigm and replace it with a ‘structural Keynesian’ paradigm that ‘repacks’ the policy box, taking workers out and putting corporations and financial markets in. The goal is to have corporations and financial markets serve a broader public interest instead of shareholder value maximisation. That requires replacing corporate globalisation with managed globalisation which incorporates labour and environmental standards and prohibitions on currency manipulation; restoring macroeconomic policy commitment to full employment; replacing the neoliberal anti-government agenda with a social democratic government agenda that ensures investment in infrastructure, health, and education; and replacing the neoliberal labour market flexibility with a solidarity-based labour market policies that rebuilds worker bargaining power via increased trade union membership, a robust minimum wage, and efficient worker protections.

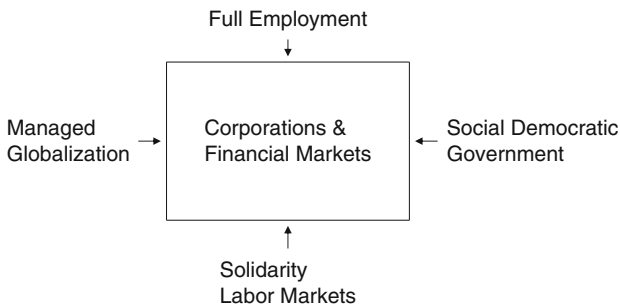


Fig. 8.6 The structural Keynesian box

The second task is reforming financial markets and corporate governance so that they help the real economy deliver shared prosperity. One challenge is political and concerns electoral and campaign finance reform. The political power of finance rests on money, which is why it is so critical to reduce the role of money in politics. In the absence of campaign finance reform, finance and corporate interests will retain the power to distort the democratic process and block necessary economic policy reform.

A second challenge is changing corporate behaviour. This requires reform of corporate governance that makes business more accountable, changes the incentives that promote current business practice, and recognises the interests of stakeholders other than shareholders.

A third challenge is to regain control over financial markets. Figure 8.7 illustrates a four-part programme for putting financial markets back in the box so that they promote shared and more sustainable forms of prosperity. The top edge of the box indicates the need for monetary policy to re-commit to full employment, which requires abandoning rigid ultra-low inflation targeting and recognising that monetary policy can permanently influence the level of economic activity. The left edge of the box concerns the need for tough regulations that impose appropriate capital and liquidity requirements on financial institutions, and also the barring of banks from engaging in speculative activity using government insured deposits—the so-called Volker rule. Of course, regulation also must be

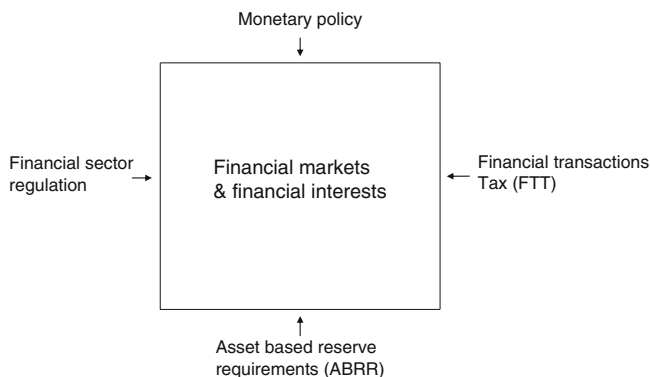


Fig. 8.7 Putting finance back in the box

also enforced, which speaks to the importance of a good government agenda that ensures the integrity, financing, and operational efficiency of regulatory agencies.

The right edge of the box concerns the need for a financial transactions tax (FTT). An FTT can raise revenue, help shrink the financial sector to more appropriate and healthy proportions, and discourage damaging speculative transactions (Palley, 2001).

Lastly, the bottom edge of the box advocates that the Federal Reserve institute a system of asset-based reserve requirements (ABRR) that covers the entire financial sector (Palley, 2003, 2009). ABRR require financial firms to hold reserves against different classes of assets, and the regulatory authority sets adjustable reserve requirements on the basis of its concerns with each asset class. By adjusting the reserve requirement on each asset class, the central bank can change the return on that asset class, thereby affecting incentives to invest in the asset class.

The US house price bubble showed that central banks cannot manage the economy with just interest rate policy targeted on inflation and unemployment. Doing that leaves the economy exposed to financial excess. Interest rate policy must therefore be supplemented by balance sheet controls, which is the role of ABRR.

ABRR provide a new set of policy instruments that can address specific financial market excess by targeting specific asset classes, leaving interest rate policy free to manage the overall macroeconomic situation. ABRR are especially useful for preventing asset price bubbles, as reserve requirements can be increased on over-heated asset categories. For instance, a house price bubble can be surgically targeted by increasing reserve requirements on new mortgages. That makes new mortgages more expensive without raising interest rates and damaging the rest of the economy.

Finally, ABRR can be used to promote socially desirable investments and 'green' investments that are needed to address climate change. Loans for such investment projects can be given a negative reserve requirement that can be credited against other reserve requirements, thereby encouraging banks to finance those projects in order to earn the credit. In sum, ABRR provide a comprehensive framework for collaring the financial sector and ensuring it promotes shared prosperity.

Conclusion: Beyond Orthodox Economics

We live in an age of market worship. Orthodox economics fuels that worship; and it also gives special standing to financial markets, which are represented as the most perfect form of market. Of course, there is also some critique of the functional efficiency and casino aspects of financial markets, but these critiques stop far short of the financialisation critique. Consequently, orthodox diagnoses of the financial crisis and policy recommendations stop far short of what is needed to put finance back in the box.

The economic evidence clearly shows the need to make finance serve the real economy, rather than having the real economy serve finance, as is now the case. It can be done. The challenge is to get a hearing for policies that will do so. Meeting that challenge requires getting new economic ideas on the table, which is why the debate about economics and the economy is so important. However, the road to policy change runs through politics. Putting finance back in the box therefore also requires breaking the political power of finance, which is why campaign finance reform, electoral reform, and popular political engagement are equally important.

References

- Buiter, W. (2009, 12 April). Useless finance, harmful finance and useful finance. *Financial Times*.
- Carroll, C. D. (2000). Why do the rich save so much? In J. Slemrod (Ed.), *Does Atlas shrug? The economic consequences of taxing the rich*. Russell Sage Foundation at Harvard University Press.
- Cechetti, S. G., & Kharroubi, E. (2012). *Reassessing the impact of finance on growth* (BIS Working Paper No. 381). Basel, Switzerland: Bank of International Settlements.
- Hirshleifer, J. (1971). The private and social value of information and the reward to inventive activity. *American Economic Review*, 61, 561–574.
- Keynes, J. M. (1936). *The general theory of employment, interest, and money*. London: Macmillan.
- Minsky, H. P. (1992 [1993]). The financial instability hypothesis (Working paper No. 74). New York: The Jerome Levy Economics Institute of Bard

- College (published in Arestis, P., & Sawyer, M. (Eds.), *Handbook of radical political economy*. Aldershot: Edward Elgar).
- Palley, T. I. (2001). Destabilizing speculation and the case for an international currency transactions tax. *Challenge*, 44(May/June), 70–89.
- Palley, T. I. (2003). Asset price bubbles and the case for asset-based reserve requirements. *Challenge*, 46(May/June), 53–72.
- Palley, T. I. (2009). A better way to regulate financial markets: Asset based reserve requirements. Amherst: Economists' Committee for Safer, Accountable, Fair and Efficient Financial Reform, University of Massachusetts. Available at http://www.peri.umass.edu/fileadmin/pdf/other_publication_types/SAFERbriefs/SAFER_issue_brief15.pdf
- Palley, T. I. (2012). *From financial crisis to stagnation: The destruction of shared prosperity and the role of economics*. Cambridge: Cambridge University Press.
- Palley, T. I. (2013). *Financialization: The macroeconomics of finance capital domination*. New York: Macmillan/Palgrave.
- Tcherneva, P. R. (2014). Reorienting fiscal policy: A bottom-up approach. *Journal of Post Keynesian Economics*, 37(1), 43–66.
- Tobin, J. (1984). On the efficiency of the financial system. *Lloyds Bank Review*, 153, 1–15.