THE DISSOLUTION OF THE FINANCIAL STATE: A MARXIAN EXPLANATION OF THE POLITICAL ECONOMY SINCE THE 1930S, Simon Mouatt, Lexington Books: New York. 2015. pp. 258; ISBN 978-0-7391-9037-1.

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This book tries to explain, and advance a possible solution to, the Great Recession. Even though the majority of heterodox scholars consider that the current crisis has been provoked by the financial sector, Mouatt attempts to explain that the productive sector, by means of the long-run falling rate of profit, is responsible for the low rate of accumulation, which has led to the control of money by private banks and corporations, thereby weakening the power of the state to manage monetary policy. In spite of his acknowledgment of several Marxist explanations using the law of the tendential falling profit rate (LTFPR) as the main cause of the current crisis, he utilizes the temporal single system interpretation (TSSI). According to the book, this explanation has theoretical and empirical advantages. First of all, temporal interpretation takes into account the value differential in inputs and outputs; and, second, the behavior of the profit rate, growth, and the rate of accumulation can be matched using this approach. Analyzing the rate of profit measured by historical cost prices of the capital stock, Mouatt finds that the rate of profit fell drastically during the Bretton Woods (BW) period in the United Kingdom and Germany without any important recovery during the post-BW period. The low profitability since the 1960s has had a negative impact on the rate of accumulation and on the capabilities of the state to carry out the usual policies of the central banks; conversely, the weakness of the state and the low accumulation have provoked the rise of private banks by means of the increase of the quantity of credit and the control of the value of money (purchasing power).

This 12-chapter book, with four appendices, starts with an exposition on the origins of money, the forms of money, and the value of money. In the opinion of the author, given a historical context, the nature of money can be established by its functions: means of exchange, store of value, unit of account, and credit. Two origins of money are highlighted: as a commodity and credit, the former endogenous to the market and the latter exogenous; Mouatt does not say which of these approaches is correct. He also distinguishes two forms of money: claims on goods (IOUs) where credit leads to deposits and reserves can be piled up, and credit backed by commodities where deposits make reserves, and through the money multiplier credit can be granted. In the book, form one seems to better match the contemporary world, above all taking into consideration the endogenous money theory (EMT). Finally, the value of money is defined by its representation of abstract labor.

In chapter 3, Mouatt groups mainstream views of money. Key tenets in this approach are the neutrality and equilibrium of the economic system, quantity theory (QTM), and free markets. The book hypothesizes that scholars such as Smith, Ricardo, and Steuart, as well as Walras, Marshall, and Wicksell, support this view, which “serves the interest of plutocratic financial powers by

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downplaying the social power of money" (44). Even though Smith, Ricardo, and Steuart have a heterodox view of money, Mouatt categorizes them as mainstream scholars. It is well known that Smith has notions of the EMT, Ricardo uses the labor theory of value (value depends on the labor embodied in the production of commodities), and Steuart advocates for state intervention in dealing with money issues; however, polemically, Mouatt highlights the adherence of these three great economists to the equilibrium of the economic system and free markets.

Chapter 4 deals with some heterodox views on money. Unlike the Austrian school, the majority of these views emphasize state intervention in influencing monetary policy. Key Keynesian ideas highlighted are the state's role in dealing with full employment, the rise of effective demand, and active fiscal and monetary policy. Highlighted Post-Keynesian ideas are that the supply of credit is driven by demand (EMT), that deposits and reserves are built by means of credit, and that central banks can determinate long- and short-run interest rates. Also, Mouatt notes the contributions of the Islamic Economists and the scholars of the Present Monetary Reform. Both schools maintain that credit must be regulated by the state to increase economic growth. The Austrian school is also presented in this chapter, and contrasted with the previous views on money. The Austrian school demands no monopoly on money by central banks and—similar to the mainstream view—asks for market-oriented policies. However, as long as these scholars do not hold the view of money neutrality, Moautt groups them in the heterodox approaches. The major findings in this chapter are the EMT and the state capability in regulating money. Later in the book, Mouatt claims that a stronger regulation in the financial system is needed to improve the performance of the world economy.

Chapters 5 and 6 are dedicated to Marx's contributions. At the beginning of chapter 5, Mouatt stresses the basics of Marx's ideas, and, subsequently, he notes the importance of the falling rate of profit as a central explanation of the current crisis, and the advantage of using TSSI over the single-system interpretations. According to Mouatt (78): "Marx never implied that the input values must match the output ones because of the separate time periods. . .. This is important, since if the replacement cost is used as an input value, a priori, this leads to the assumption that labor does not add any value to the output." If historical cost profit rates are calculated, there is no divergence between the rate of profit and the rate of accumulation, which can explain the increased power of private banks and the decline of the state's financial capabilities during the neoliberal period. Chapter 6 describes how the control of money always rested with a special class, that fiat money and credit creation (*ex nihilo*) are compatible with Marx's ideas on money, and that a low rate of profit explains the low accumulation, stagnation, and the migration of capital to the financial sector. The major findings of this chapter are, then, that the LTFPR has a negative impact on the ability of the state to control money; however, stronger capabilities of the state can improve the trajectory of national and world economies.

Chapter 7 describes how the state or the private sector can control money, with both having the capability to determine social outcomes. Despite the state having many tools to carry out monetary policies such as lender of last result, credit controls, reserve regulations, buying and selling securities, and currency transactions, currently, private banks and corporations have much more power than the state. Mouatt notes that the state "reflects the priority of interests of capital and the expansion of accumulation of value" (127), but he prefers state-oriented to market-oriented capitalism.

Chapter 8 intertwines Marxian and Post-Keynesian analyses using a graphical example of how the falling rate of profit and the EMT work together. Mouatt argues that the price of production determines the volume of credit and hoarding. However, both processes are subject to risk and uncertainty.

Chapters 9 and 10 are historical chapters about the changes in monetary policy in Germany and the UK from the 1930s onwards. Chapter 11 is an empirical chapter focused on the decline of the rate of profit in both countries. Mouatt claims that in both countries there was an erosion of state control over credit, reserves, open market operations, exchange rates, and inflation. In Germany's case, the 1945-1957 period was characterized by the state's ability to influence monetary policy; in contrast, from the 1960s onwards, the state's power has diminished. In the UK case, from 1945 to the end of the 1960s, the state influenced monetary policy; however, with the establishment of the Competition and Credit Control Act, capital control was removed and private credit increased. As explained in chapter 11, the loss of the state's power to deal with monetary policy is explained by the decline in the rate of profit. Through the 1950s and 1960s, the rate of profit declined drastically in both countries, which has provoked low growth, a stagnant rate of accumulation, the erosion of the power of the state, and the rise of credit by private banks. Mouatt claims that Marxian scholars have been unable to match the rate of profit in the current crisis with the behavior of the rate of accumulation because the majority of them have been trying to measure the evolution of the profit rate with respect to current replacement cost instead of historical cost.

The conclusion of the book questions how to give power back to the state in determining monetary policy similar to the BW period. According to Mouatt, "The study findings also shed light on the need for government policy that takes account of the need to restore profitability…. Marx … did not predict the inevitable collapse of capitalism…" (225). This assertion is in line with previous statements in the book: "Marx had considered the inevitability of system collapsed is very weak. A gradual transformation toward an alternative economic, in contrast, driven by political/social/cultural factors is an entirely different suggestion altogether" (85).

This book provides a comprehensive overview of a monetary theory in a way that is easy to read. The book's major contribution is the attempt to relate the current crisis to the LTFPR. Also, the book has the advantage of being optimistic and advancing a proposal. As criticism, the following aspects can be mentioned. First, the role of the state is ambiguous in Mouatt's treatment. In chapter 7 he notes that the "state reflects…interest of capital" (127); however, in other parts of the book he highlights that "capitalism itself had instigated a shift in financial power away from the state from the outset" (217). Some authors have asserted that post-BW deregulation was carried out with the participation of the state, and not all the financial sectors were deregulated (Campbell and

Bakir 2012), but Mouatt's position is not clear. Second, a stronger recommendation is needed regarding how the state, and more importantly, the people, can influence the process of production and circulation in the long run, to the detriment of the financial private sector. As A. E. Davis (2017) noted, money is a social institution that has effects on other institutions and also has an impact on the creation of new rules, attitudes, knowledge, etc. Last, Mongiovi (2002) has singled out the theoretical problems of the TSSI, Shaikh (2016) has reported the advantages of using current replacement prices instead of historical prices in measuring the rate of profit,[2] and Bakir and Campbell (2010) have well documented the divergence between the rate of profit and the rate of accumulation in the neoliberal period. The theoretical foundation of the book is thus controversial, and the empirical findings are in line with the conclusions of other scholars.

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[2] Also, it has been commented by Marquetti et al. (2019) that historical cost rate of profit is not an adequate measure of the evolution of profitability in inflationary contexts.