JOHN MAYNARD KEYNES: HYMAN P. MINSKY'S INFLUENTIAL RE-INTERPRETATION OF THE KEYNESIAN REVOLUTION, by Hyman P. Minsky, McGraw-Hill Books, 2008; ISBN: 978-0-07-159301-4; 176 pages.

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John Maynard Keynes, the first full-length book published by Hyman Minsky in 1975, begins with his refutation that the body of knowledge proposed by the *General Theory* is anything but a continuation of the ideas now known as Hydraulic Keynesianism, IS-LM Keynesianism, or the Neoclassical Synthesis. Instead, Minsky argues that it was truly a radical work that differed from the Marginalist position that dominated the profession prior to 1936.

In Minsky's interpretation of Keynes, the monetary economy in which uncertainty, liquidity preference, and the marginal efficiency of capital dominate decisions regarding investment demand- which is so crucial to Keynes' *General Theory*- is because there are highly advanced financial relations within capitalist economies. Due to these interrelated financial positions in which one firm's asset is another's liability, as a result of reliance upon external financing, each successive state within a business cycle can be explained by a corresponding position of financial behavior. This allows Minsky to transition to an early exposition of his famous Financial Instability Hypothesis in which each successive financial position of the economy inevitably creates conditions leading to its own demise, and later on, a transition to recovery. Hence, Minsky was able to provide economic theory with an endogenously produced explanation of the business cycle instead of relying on exogenous phenomena, like 'the stupid Fed.'

At the heart of his explanation of the business cycle is Minsky's investment theory of the cycle and his financial theory of investment. When a firm looks to make an investment, it must have a way of obtaining the necessary funds. Consequently, a firm will use a combination of internal and external finance. When financing externally, there are two types of risk: borrower's risk, due to the uncertainty that the expected return or quasi-rent will not materialize, and lender's risk which arises from the possibility that the borrower will default. This creates a two price system in which there is a demand price for capital assets and a supply price for capital assets. Beyond the point at which internal financing is utilized, the demand price for capital assets curve, P_k, decreases in slope because there is less of a margin for error due to repayment commitments. The supply price for capital, P_s, initially lies below the P_k curve and begins to slope up due to lender's risk and the fact that a greater margin of safety is needed as more funds are loaned. The point of intersection of these two curves is the total amount of investment that will occur.

During an expansion, past the point at which external financing is sufficient for investment, both curves become flatter as margins of safety decrease. Thus, the total level of investment will increase. Once expectations are justified in the form of greater receipts and repayment of loans, greater confidence will be placed in the current financial relations and the necessary margins of safety will decrease again, only increasing external financing. At some point, due to an interest rate increase, or current receipts falling short of expected receipts, default may occur and confidence in the financial system will be shaken. This could lead to a debt deflation because cash commitments exceed current profits. Consequently, rampant uncertainty and pessimistic expectations develop. Moreover, due to the prevalence of debt financing, the economy weakens and experiences a crash, followed by a recovery, stabilization, and a subsequent boom again. This is Minsky's investment theory of the cycle.

With the recent economic troubles involving subprime mortgages and stock market volatility, *John Maynard Keynes* is a must read for anyone wanting to be able to dissect what is going on in the global economy today. Despite the fact that this work has always been relevant in terms of revealing the inner workings of a capitalist economy, it seems more prescient than ever. Towards the end of the book, Minsky makes certain policy recommendations that he believes should mitigate some of the effects of the capitalist system he describes. One should be forewarned though, because as Minsky emphasizes throughout the book, there is no final solution to remedy the boom and crash cyclical nature of capitalism because at its root it is an economic system that is inherently flawed.