Debt, Innovations, and Deflation: The Theories of Veblen, Fisher, Schumpeter, and Minsky

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J. Patrick Raines and Charles G. Leathers, *Debt, Innovations, and Deflation: The Theories of Veblen, Fisher, Schumpeter, and Minsky*. Cheltenham, UK: Edward Elgar, 2008. xiii + 191 pp. $100 (hardcover), ISBN: 978-1-84542-785-6.

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J. Patrick Raines and Charles G. Leathers have produced a remarkable book on a very timely subject, namely the interplay between debt, innovations, and deflation. The authors recognize that little is being said about the causes of deflationary pressure in today's economy. Therefore, they set out to provide a fresh critical assessment of the deflation theories of Thorstein Veblen, Irving Fisher, Joseph Schumpeter, and Hyman Minsky in light of the growing concern about deflation in the early 2000s in the United States.

For this purpose, the authors focus on three fundamental questions. First, Raines and Leathers determine the four economists' explanations of the causes of deflation and how those explanations relate to the historical context of their writings on deflation. Second, they establish the extent to which those four theories have common points and complementarities. Third, the authors lay out the analytical and policy lessons to be taken from this study to analyze the concerns about deflation in 2002-2003.

The book is organized in six main sections in addition to the introduction and a concluding section. Chapter 2 underscores the importance of the research question that Raines and Leathers are undertaking in this book. The authors provide a very concise analytical overview of the emergence of deflation as a monetary policy issue in the 2003-2004 period. They argue that the 1940-2000 period was dominated by concerns over inflation. Raines and Leathers point out that Alan Greenspan, however, began referring to deflationary tendencies as early as 1998, initially as an academic issue, and later as a matter of concern to policymakers. His main conclusion was that deflation is a monetary phenomenon in the long run. The authors highlight that in the brief period of concern over disinflation and deflation, neither Greenspan nor Ben Bernanke addressed the causes of deflation but merely focused on its likelihood and its consequences.

In chapter 3, Raines and Leathers review the mainstream theory of deflation based on the classical interpretation of the quantity theory of money. In addition to Fisher's interpretation of the quantity theory, the authors assess the "deflation" theories put forward by Adam Smith, John Stuart Mill, and Thomas Tooke. The chapter ends with an overview of the monetary theories of business cycles of R.G. Hawtrey and Friedrich von Hayek.

Chapters 4, 5, 6, and 7 respectively dissect the theories of Veblen, Fisher, Schumpeter, and Minsky. These chapters are excellent stand-alone readings for an advanced undergraduate or a graduate course on the four economists in question. Their scholarship is succinctly laid out, and the literature is thoroughly and critically reviewed. The strength of these chapters is the historical contextualization of the deflation theories developed by Veblen, Fisher, Schumpeter, and Minsky. Chapter 8 is where the entire book comes together in a meaningful way. It provides a comparative summary of the analysis made in chapters 4 through 7. This is by far the most interesting chapter of the book. Here, Raines and Leathers identify two main categories accounting for the differences among the four economists. First, there are evolutionary changes in the institutional structure of the economy that must be accounted for; and second, there are differences in methodologies and normative perspectives that cannot be reconciled. Veblen and Schumpeter are identified as the two extremes on the spectrum of the book, despite sharing an evolutionary analysis of the role of technological innovation in the development of capitalism; what sets them apart is the way they treat business values and institutions. Fisher and Minsky are placed somewhat in between, with Fisher's descriptive theory of deflation closer to Schumpeter; and Minsky's financial instability hypothesis closer to Veblen's evolutionary analysis. The authors conclude that when taking all four theories together, we could have a better understanding of the causes of deflation and be able to develop the appropriate policies to deal with it. This is especially important in an era in which (technological and financial) innovation and debt play an increasing role in the structure of the U.S. economy.

The shortcomings of the book are mentioned here in the spirit of unsatisfied curiosity. First, the choice of Veblen, Fisher, Schumpeter, and Minsky remains somewhat unexplained. Why not Keynes or Marx? Second, the book is exclusively focused on the U.S. experience with deflation; one would have liked a discussion of Japan's experience with deflation in the 1990s, for instance. Third, the focus on the Fed's treatment of deflation seems to be the initial motivation for writing the book, but somehow it remains as an add-on theme, albeit an interesting one, that only appears in the beginning and at the very end of the book. This makes the thesis of the book a bit too broad, and suggests that there are perhaps two competing book ideas -- one on the deflation theories of Veblen, Fisher, Schumpeter, and Minsky; and another on the Fed's treatment of deflation concerns. In sum, the book is a valuable contribution to the literature on the causes of deflation, and how it has been treated by the Fed.

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