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Book review

Piero Ferri, *Aggregate Demand, Inequality and Instability* (Edward Elgar Publishing, Cheltenham, UK and Northampton, MA, USA 2016) 192 pp.

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This is a rather slim book on a vast topic: How to get a better analytical model for understanding the Great Recession. The author, Professor emeritus at the University of Bergamo, Italy, has worked on analytical macroeconomic models for decades, which numerous references to his previous papers and books demonstrate. Hence, this book can best be read as his latest contribution to his ‘work in progress’. He is working within the Goodwin tradition of using mathematical macromodels which generate cycles; the dynamic features are mainly driven by aggregate demand (short term) and supply side (long term). Throughout the years Ferri has elaborated and sophisticated this model by adding functional and now personal income and wealth distribution together with some financial aspects of the process of capital accumulation.

In this new book his two focus points within the rather general model framework are: (i) personal distribution of income and wealth with inspiration from Piketty (2014); and (ii) the present lack of convergence to a stable growth path, which Ferri calls ‘instability’. So, his time perspective is the ‘medium run’: neither the short period dominated by aggregate demand, nor the long period dominated by general equilibrium, but the ‘in-between’ run. The recession has been surprisingly persistent and thereby has made conventional supply-side macro models less relevant, not to say obsolete.

The author asks: what are the major changes that can explain these seemingly new macroeconomic dynamics which make the analysis of a medium-run ‘instability’ more relevant than previously to an understanding of the prolonged recession? An attempted answer is: distribution and financialization. These two macroeconomic features, the author claims, have been underdeveloped to such an extent that he calls his new model a ‘regime-switching model’ (chapter 12), because agents have changed behaviour and institutions work differently from the past.

The book is divided into five parts. Part I is an insightful discussion of Piketty’s contribution on income and wealth distribution in a historical perspective. Ferri correctly takes issue with Piketty’s imprecise definitions and his use of the concepts of capital and wealth. Capital should, according to Ferri, be defined as real capital causing aggregate demand when produced and increased productive capacity when installed. Its value depends on discounted expected profits. Although a nation does not become more wealthy by issuing public bonds (or money), households consider these financial assets as personal wealth. So, Ferri – like Piketty – does not, of course, subscribe to the Ricardian equivalence doctrine. On the other hand, he is criticizing Piketty for taking mainly a supply-side view on macrodynamics and assuming that capital accumulation and growth rates can be analysed independently.

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In parts II–IV Ferri analyses the macroeconomic dynamics of introducing wealth, income inequality and public debt into what could be called a post-Keynesian growth model, a mix of ideas from Harrod, Kaldor, Goodwin and Pasinetti. His main concern is to make a more comprehensive analysis of macroeconomic '(in)stability'. The reader is reminded that the original Harrod growth model was not only unstable but was balancing on a 'knife-edge' of collapse, contrary to the Solow growth model, which is rock-solid by assumption. The body of these three parts is a mathematical exercise in how the extended model modifies, but also enriches, the analysis of the medium-run macroeconomic development. The 'workhorse' model, through the course of the book, becomes more and more complex (and realistic?), using calibrated values for the essential parameters. The generality of the outcome of the model simulations are not easy for the reader to interpret, because Ferri organizes the simulation in such a way that the model by assumption neither collapses nor moves into a steady state in the medium run.

Readers who work and/or are experienced within this Goodwin tradition of undertaking macroeconomic analyses will benefit greatly from a close study of this book; but for scholars outside this tradition the model exercises within the three central parts are heavy stuff. It is difficult to sift out what are robust results of the employed model and what results are just outcomes dependent on the calibrated/assumed parameter values. In some way I am as much in doubt of the relevance of the analytical outcome as I was 40 years ago when I read Samuelson's (1939) paper on the multiplier-accelerator model, where any outcome was possible depending on the chosen values of the critical parameters.

The perspectives of the book, by integrating distribution and financialization into the rather rigid mathematical models, are, of course, important. Any macroeconomic model should take these aspects on board (in addition to environmental issues, which are missing here), but the more general discussion of the question, 'Why we have not yet seen a collapse of the Western Economies?' is left unanswered: Is it endogenous floors and ceilings or is it politics and institutions which have saved even Southern Europe from a total collapse – or are we just witnessing an interregnum?

Perhaps some readers might get more profit from this book after an initial consultation of Lance Taylor's (2011) *Maynard's Revenge: The Collapse of Free Market Macroeconomics*.

In sum, this book contains much needed ideas and suggestions for any open-minded medium-term model-builder who wants to integrate personal income and wealth distribution and financialization into a mathematical macroeconomic analysis. (In)stability of the macroeconomic system is a crucial topic. But, within the Keynesian tradition, one could say that to secure full employment is even more important. For that purpose a more elaborate policy analysis is wanting. This might be for Ferri's next book, because the final sentence reads as follows: 'Stagnation is not a state of nature, but only a likely scenario in the presence of unchanging policies' (p. 153).

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