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Antonio Varsori and Monika Poettinger (eds.), *Economic Crisis and New Nationalisms: German Political Economy as Perceived by European Partners*, Brussels, P.I.E. Peter Lang, 2014. Pp. 181. €39.00. ISBN: 978-2-87574-193-6.

In this book, Antonio Varsori and Monika Poettinger have collected the papers of a conference organised by the Cesifin Alberto Predieri Foundation and held in Florence on November 15th, 2012. It concerns present day theoretical positions on the difficulties currently encountered by the Eurozone with a particular focus on the German and Italian situations, but this topic is embedded in valuable insights from the history of Europe and from the history of economic theory. The present rise of nationalism is defined as the increasing perception that other countries are guilty of unreasonable behaviour. The book then digs deeply into a range of perceptions and theorisations of the causes of (and solutions to) the present crisis. In particular, the German political economy is discussed through the views of both Italian and German scholars. The level of the discussion is high but fully comprehensible to graduate students. In fact, it represents useful reading for all scholars as well as for non-academics who are engaged in some way with the present crisis.

The preface by Ginevra Cerrina Feroni – a comparative constitutionalist – deals with the relationship between Italy and Germany. This relationship has always been fruitful for Italian development because these countries experienced a parallel "late development" and an accelerated programme of institutional reforms. Germany was always ahead, acting as a source of inspiration and confrontation for Italian élites. In the last decades, however, the distance between the two countries has grown rapidly as Germany has acquired a level of development, competitiveness and stability which Italy has not reached – recently, the latter is actually losing ground. The birth of the euro and the difficulties of its management have revived a set of stereotypical preconceptions from both sides, which are not only expressed by less cultivated people but also by many scholars. Ginevra Cerrina Feroni expresses optimism, arguing that Italians have much to learn from the culture of rigour, not only with respect to public finances but also for our lifestyle in general. In fact, German hegemony cannot be denied and the real issue is how it should be exerted.

The introductory chapter, written by Monika Poettinger – a presentation of the volume and its conceptual and methodological background – consists of a press review of the years of deterioration in the German-Italian relationship, which began with Berlusconi's government. With reference to Rostow, Poettinger distinguishes "broad collective decisions" – in the sense of ingrained ideas absorbed by individuals in the socialisation process – from conscious "social decisions" – in the sense of (rational) policy measures. She affirms that the former re-emerge in situations of difficulty. The specific case discussed is the fear of the German hegemony that is perceived as a real danger by some Italians and which clearly emerges in Paolo Savona's paper. Monika Poettinger assumes that the recrudescence of new nationalisms is grounded in that cultural heritage as well as in the long-term effect of different schools of economic thought.

Early economists, such as Smith, Marx, Keynes and Erhard, have become symbols for a whole system of concepts and meanings and are not used for their specific theorisations but as "brands". In the light of this, *Ordo*-liberalism is seen as a crucial school as it has deeply influenced many influential circles in Germany, dominating the intellectual domain of élites and diffused in the broader culture as an element of practical judgement (Poettinger does not pursue her discussion into the field of performativity, which is a further relevant problem). This symbolic branding constitutes a rather impermeable system of meanings between different countries, generating misunderstandings, bad judgements and incommunicability, even though communication is badly needed to solve crises as difficult as the present one.

To support these reflections, Poettinger carried out an investigation, based on text analysis, of certain symbolic words used in major Italian and German newspaper articles between 2008 and 2013. This provides a quantitative measure of how the media has used economic concepts during the unfolding of the crisis. Surprisingly, Marx is the most cited economist in both German and Italian articles, with references to him peaking in the early years. The financial crisis has, therefore, contributed to a revival of radical discourses surrounding this crisis intended as "the crisis of capitalism". The focus then slowly passed on to other issues and, in general, was replaced by the crises of Europe and of so called neo-liberalism. Frau Merkel, in this way, tended to replace Marx as protagonist (we gained much from this).

Poettinger also provides a qualitative study of the articles of the two major Italian newspapers in an attempt to supply a broader perspective on reactions to the unfolding of the crisis. The study clearly points out the different theoretical references of the three newspapers studied (*Corriere della Sera*, *Repubblica* and *Frankfurter Allgemeine Zeitung*). Also, the beginning of the "blaming game" is clearly detected and studied by the author. However, I have some difficulty agreeing with Poettinger when she finds *Corriere della Sera* to be associated with Italian liberalism and *Repubblica* with Keynesian theory (particularly the latter, because its constant demand for monetary expansion is at odds with Keynes). On the other hand, we surely find a confirmation of the idea that in the media economic theories can be used as means to a political end, avoiding real theoretical confrontation.

Antonio Varsori offers a detailed historical account of the German-Italian relationship in the context of contemporary Europe. Historically, Italy has never represented a major opponent to the growing role of Germany in Europe, unlike Britain, France and Russia (although Andreotti expressed some reservations concerning reunification). On the other hand, we (Italians) have never been a fully reliable ally and, after various bad experiences in the past two World Wars, Germans know what they can expect from us ... I would add that Germans are Kantian and see respect for rules and pacts as an essential form of morality; Italians, more influenced by classical culture, believe in the good that is beyond any rule and tend to consider rules as instrumental and as relative matters to be continuously discussed. Germans remain stuck on rules even when they are manifestly bad or wrong, Italians do not respect them even when they are evidently good. Reciprocal suspicion is unavoidable.

Paolo Savona contributes to this volume with a bitter letter to German and Italian friends where he expresses his sadness at his present disillusion concerning the state of Europe. His main message is an invitation to Europe, shaped by practical wisdom, to prevent further tragedies and the return of entire nations to poverty. Correctly, he argues that the myth of the balanced budget, which was rejected by economic science, is illogically coming back from the past at the wrong moment. The second point is that system competition is increasing – in, I would add, a context in which some countries have been disarmed of their fundamental assets for competing. Finally, and here I am somewhat perplexed, he argues that Germany is again on the same track as the Funk Plan of 1936 (imposing an order upon Europe). Savona, in this way, considers that the economic policy that Germany is proposing for Europe lays the foundation for a break-up of the European dream of peace and common civil progress. This sentence reveals Savona's fundamental adhesion to the Italian tradition of "social liberalism" – as correctly argued by Piero Bini later in the book –,which assumes the civilisation project as fundamental and as a priority in any economic equilibrium. I am certain that there are also German economists in the *Ordo* tradition who share this approach – not least those inspired by Röpke. However, they have a different idea of what should be included in this exogenous element and surely include the principle of fiscal responsibility as an ethical element, which is perhaps rather mysterious to Southern élites. Referring to institutional set-ups, Savona proposes the notion of "bio-juridical" organisms, borrowed from Giuseppe Guarino. This idea of autonomous systems evolving in time explains the difficulty of merging different countries and of carrying out reforms and policy-making exogenously. Such an interpretative framework is quite close to the *Ordo*-liberal framework and, in fact, it is even more sophisticated and realistic. Compared to the *Ordo* scheme, it suggests more prudence in reform and deflationary policies.

In the section directed to Italians, Savona underlines the gravity of the situation of the Italian economy. However, the most serious problem for Italy is socio-political and would sink any prospect for development even without European ties. A fundamental point of this discourse is that the pro-market reforms have not worked well and indeed have so far had counterintuitive effects (Rangone and Solari, 2012). Finally, Savona poses the problem of total inefficacy and the counterproductive effect of European policies on the deepening dualisms in the development of the European regions. Austerity and the specific shape of European policies are removing the barriers to centripetal forces acting on factors of production (Gambarotto and Solari, 2015).

Bertram Schefold supplies a balanced and detailed exposition of the present state of the Eurozone. In his account the relationship between indebtedness, demographic transition and the competition exerted by neighbouring low-wage economies is appropriately stressed. This reveals one of the issues that is a concern for Germans but which is usually overlooked in Italy and in other countries. In the last 30 years we have been told that public welfare through the repartition system is unsustainable because of the demographic evolution. Now, however, we should also recognise that any funded scheme presents a similar difficulty since the financial system suffers from an unsustainable proportion of young employees paying the pensions (rents) of the old. Ponzi games are not the correct answer to this issue. The present crisis can be seen as a case of overproduction in the financial and real estate sectors, and we have, in fact, done too little to regain control of these sectors compared to the efforts placed on public deficits. Schefold interestingly argues that *Ordo*-liberal and Keynesian theories would have been more effective in finding an integration or a synthesis, admitting their reciprocal success in specific areas rather than conflicting with each other.

Schefold supplies a historical account complementing Varsori's. Apart from certain noteworthy historical episodes, he opposes the European Economic Community model of integration to the European Free Trade Association (founded in 1960 and still existing). The former, more affected by classical culture, wanted to achieve economic integration, while EFTA identified with the goals of liberalism, aiming only at free trade. The common economy, however, requires a state and socio-political unification has far to go. In particular, no coordinated wage increase harmonisation has been possible and that has caused an asymmetrical dynamics of debt-led expansion in the periphery that has now come to its end. Here, Schefold overlooks the German abandonment of income policies in 1999 and the birth of "mini-jobs" that are the reason for the crowding out of many countries (including France) and for the general weakness of aggregated demand. The explication of low German wage increases – competition from Eastern Europe – is rather weak, but it has the merit of revealing real German internal weaknesses and unbalances between sectors and territories. Finally, I am happy to see that Schefold legitimises as a solution the *Europe of Regions*, that is to say, reducing sovereignty of nations in favour of both Europe and regions.

Charles Blankart's contribution to the book is tailored around the metaphor of "oil and vinegar": we have united countries with rather long and different traditions of policy-making, particularly in managing the redistribution of public finances. According to this scholar, the Maastricht treaty went beyond the threshold of what could be done, and the previous European arrangement was working much better. His theoretical framework, based on constitutional economics, is brilliant and supplies a clear and simple answer to the causes of the present situation. However, it risks being too much clear. The identification of Germany with the "market-oriented economy" and the "Latin" countries with redistributive economies is rather problematic, particularly with respect to Germany. This country has saved one large bank and poured large amounts of capital into its local popular banks (unlike Italy); *Länder* hold the property of the most important companies; the *Kreditanstalt für Wiederaufbau* is hiding a good part of German public debt; and mini-jobs hide one half of real unemployment. Moreover, before the crisis Spain had a public debt much lower than the German debt. Therefore, we should be more cautious in attributing such simple categories to actual countries. On the other hand, the causes of the present difficulties cannot be attributed solely to the euro. As some contributions point out, globalisation is causing more stress to our economies than the euro and European directives often set hard bounds to the economic strategies of single economies (e.g., the recent prohibition on indicating the origin of agricultural products, sacrificing the valorisation strategies of small Southern local producers in favour of the brand strategies of large continental concerns). However, the discourse of Blankart is certainly not wrong and his points holds, in particular in so far as the different views of policy-making do not allow for shared and viable solutions to the crisis. Therefore, there is no reason for being optimistic. In particular, the euro has been the means adopted by peripheral wealthy élites to ensure a monetary stability that they were not able to achieve by managing their own country – for the simple fact that their wealth is a result of unhealthy practices that are quite redistributive in their own way. It is also questionable whether the small bourgeoisie and the labourers of the South are in any way gaining from the euro. They are surely hardly hit by desperate policies to keep their countries in the monetary union.

The study of Piero Bini proposes a valuable picture of the opinions of Italian scholars in the face of the present crisis. He divides economists' analyses into four categories and points out different causes: bad EMU (European Monetary Union) institutional design and wrong currency area; the difficulty of harmonising different models of capitalism; the crisis of capitalism due to inequalities; and misgovernment due to cultural anthropology factors. As an introduction, Bini summarises the literature that preceded the birth of the EMU, which is a difficult task because, while the "Bocconi entourage" published a variety of influential papers, other economists were rather absent and remained silent until a few years after the beginning of the financial crisis. In fact, if the "Bocconi boys" contributed to spreading a set of faulty ideas which contributed to the creation of the euro as a (financial) "creditor's paradise" (Blyth, 2013), that has been possible because of the lack of counter-arguments.

The first group of economists demands a more active role for the European

Central Bank and the achievement of fiscal policy integration, perhaps partially sharing the burden of public debt. This solution has at least two sub-differentiations, with some advocating a generalised *social market economy* (Quadrio Curzio, Savona) and others, more inspired by Keynesian theory (Cozzi), questioning the idea of shifting the burden of European economic adjustment to weak countries. The second group of economists believe that the solution to the crisis is not to be found in macroeconomic policies and instead privilege the study of institutional configurations. European peripheral countries have a weak economic structure that needs specific institutional arrangements to assure their viability. European integration has reduced their defences, leading to an irreversible degradation of their production systems back to their historical condition as semi-peripheral countries. This has led to strong centripetal forces best represented by the image of the Ferrari car industry shifting headquarters to the Netherlands. The third group of economists share a more radical interpretation of Keynes (and Sraffa) and is mainly centred in the schools of Rome and Naples. Their view highlights the bad distributive effects of the euro and the depressing and uncertainty-increasing role of deflationary policies. Their solution tends to vary from exit from the euro to a certain disobedience to European treaties (à la Tsipras). Both solutions present deep uncertainties. Finally, there is the group of liberal scholars, which is in fact divided into the "American" school (mostly connected to Bocconi) and the Italian tradition of economics. Both are favourable to remaining in the euro but are increasingly disillusioned with the capacity of the Italian political system to enact suitable reforms. The Italian school of economics has a deeper distrust as it identifies (not unlike the second "structuralist" group) the reason for this inability to reform in the insufficient cultural development of Italians. The Bocconi group has offered in the *Corriere della Sera* a gradually changing diagnosis of this crisis and, at the same time, insists on the old failed programme of reforms. On the other hand, changing the Mediterranean clientship culture by decree appears to be unrealistic. In conclusion, the opinion of Italian economists is rather fragmented. However, the tragedy is not that they are all wrong but rather that they are all right. Each vision brings a partial truth, but the actual situation carries all the problems that they describe.

The final paper is written by Gerhard Wegner, who focuses on the *Ordo*-liberal school of thought, generally identified as the source of German political economy. *Ordo*-liberalism has left a long-lasting impact on public managers and bureaucrats as well as on the world-view of the *Frankfurter Allgemeine Zeitung*. Therefore, the *Ordo* culture has a certain relevant practical diffusion. Some descendants of this tendency still exist, but their theory (the Freiburg school) has been hybridised by Hayekian and Buchanan's thought. Wegner presents a good account of this school. In particular, in the last twenty years it has developed the idea of "system competition", that is to say, an economic order able to put a certain competition among jurisdictions to induce them to perform the best results for citizens. European governance tends to follow this scheme as nations compete to attract the best resources (labour and capital) and to favour their companies and citizens. In particular, after the *Cassis de Dijon* sentence of the European Court, countries compete with their rules. Bad rules and ineffective institutional arrangements cause damage to the companies of a state, obliging governments to reform them. Surely, Europe is more and more characterised by this dynamics. This phenomenon has produced both good results and severe problems (fiscal elusion). On the other hand, I would underline that *Ordo* theory has undergone an epistemological transformation which does not greatly convince me. The original theory of Eucken and Böhm adopted a phenomenological approach that led to pragmatic policy indications. The present day heirs of this tradition have distorted this approach into a standard normative theory, more abstract and ideological, and in which we no longer find any sign of Röpke's humanism.

In conclusion, this book supplies a tremendously interesting confrontation of major contemporary political economists on the theme of the Eurozone crisis and on the causes of the rise of new nationalisms. In Europe, we lack a real integrated system of communication where the confrontation of concepts can take place democratically and where ideas and world views can be publicly tested and judged. This political element is even more important than unified political institutions. Also, the competition between jurisdictions has no hope of displaying useful results in a field of systematically distorted and self-centred communication. National communication practices on issues of political economy tend to be quite selective, being self-acquitting with respect to national faults and harshly critical toward other countries' positions. Theoretical frameworks play a crucial role in this dynamics as they help magnify certain aspects and hide others. The only complete account of the situation must be a multifaceted, cubistic picture where we have a broad but not precise or sharp definition of the economy. Simple and clear pictures have to be distrusted.

The impression is that economists find it difficult to carry out a plain and pragmatic discussion of the real issues at stake. In fact, they tend to be rigidly trapped in the theories they are in love with. Italian economists, with the notable exception of the "Bocconi entourage", have absorbed a process view of the economy that has a certain Keynesian ground. They are consequently afraid of deflationary policies and they cannot believe in the healing effect of austerity. On the other hand, they are paralysed by the large debt and by the unbearable balance of payments consequences of any fiscal policy (or even of a rise in wages). On the German side, there is a fatalistic attachment to the idea that the euro has failed in integrating incompatible policy regimes, which is indeed the case but which is also disastrously complemented by the incorrect idea that the Germans will be the only ones to pay the costs of any adjustment. German economists have, in fact, difficulties (like everyone else) in explaining how the austerity-deflation-equilibration process would work to settle the present situation. They also find refuge in abstract ideological theories (that make everybody else nervous).

However, if we consider the issue as a whole from a political economy perspective, we recognise two differently shaped "financial-creditor-paradise" regimes in difficulty. The U.S. system requires a continuous ignition of money to sustain the stock exchange, jumping from one bubble to another and forever living in a precarious equilibrium made up of growing financial debt. The viability of this system is assured by the continuous expansion of financial debt and assets in a Ponzi scheme that was first designed by Alan Greenspan. This system has not helped much the real economy of the European periphery. On the other hand, the German system is entirely oriented to assuring the value of savings by the control over the quality and expansion of debt. The latter system is certainly more favourable to the Italian economy, which is made up of small firms, but it is difficult to apply due to the present state of Italian public finances. Therefore, while I can agree with and sympathise with the German position, in the present circumstances I am afraid that it should be moderated to avoid the implosion of the European economy and the explosion of irrational political regimes. The creditor's paradise risks becoming a hell if we strangle the debtor.

Stefano Solari
University of Padua
stefano.solari@unipd.it

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Shahrukh Rafi Khan, *A History of Development Economics. Challenges and Counter-challenges*, London and New York, Routledge, 2014. Pp. 146. $ 135.00. ISBN: 978-0-415-67630-4.

The history of development – that is, as historians conceive it, the history of development policies, international foreign aid, multilateral organizations, and modernist ideologies – has become in the last twenty years a rather populated field. Instead, the history of development economics has remained largely unexplored. It is thus a merit of Shahrukh Rafi Khan, the author of this book, to underscore the importance of a historical approach to development economics. As Khan aptly points out in his preface, "if current development economists bothered to read the classics and the pioneers, they might find many of their ideas reflected in what has already been said" (p. xvi). One could not agree more, and indeed many current debates in the development field are just old wine in new bottles. Khan rightly notes that reading the first generation of development economists