# Introduction

*Jan Toporowski and Jo Michell*

When we were asked some years ago by Edward Elgar to consider preparing a 'handbook of alternative finance' our initial response was to turn down such a proposal on two grounds. The first was that such a handbook might sell too well among wealthy individuals, only to disappoint them when they realized that it was about alternative theories and approaches to finance, rather than about investing in Stradivarius violins, the paintings of the Camden Town Group, or the guano market of the South Pacific. But this objection might have been overcome by a more informative title indicating the scholarly rather than accounting character of the volume.

A more serious objection to the whole enterprise is the very small amount of what might be called 'alternative' theory relating to finance. There are, of course, any number of obscure investment strategies that might be called 'alternative', whose purveyors promise higher returns than with more conventional finance. Indeed, there is now a whole new sub-set of investment funds, called hedge funds, that specialize in finding such alternative investment strategies and securing those higher returns. But these strategies, and the financial instruments that are combined to obtain those returns, are as ephemeral as the market conjunctures that they arbitrage.

Related to such alternative investment strategies is 'behavioural' finance. This purports to explain various 'anomalies' in observed security prices and returns by reference to the limited understanding and rationality of individuals and hence their resort to rules of thumb, conventions and delegation of financial responsibility. Such research now has some purchase in universities. But the observation that individuals cannot manage their financial resources with the sophistication that North American university professors of finance apply to their study of finance is not a revelation and may not even flatter those professors. By studying merely 'investment behaviour', behavioural finance places itself too much in the craft of marketing, rather than the discipline of systematic economic investigation. Readers wishing to learn about this approach can satisfy their curiosity in textbooks and publications of key authors in this strand of academic finance.

Other alternative approaches are provided by a different class of writers who may be called 'agitators'. (In the penultimate sentence of his *General Theory* Keynes accused them, along with civil servants and politicians, of applying old ideas to 'current events'.) This is not necessarily a pejorative term since, in all situations of stress, it is to be expected that individuals will come forward articulating the ideas that the mass of participants would have thought if they had the time to think in such situations. But precisely because they appeal in particular situations, in changing conjunctures, the ideas of agitators are frequently as lacking in consistency and systematic analysis as are the instant reflections of those operating in the financial markets.

Nevertheless, with the growing wealth of the middle classes over the last 100 years, and the dependence of the developing countries on commercial international credit since the 1970s, finance has reached a social significance that it did not have before. Its higher social and political profile has attracted criticism and blame when finance is associated with social and political catastrophes. Such associations inevitably attract agitators, so that blame for disasters and social pathologies is liberally apportioned to financiers. The origin of such agitation in modern times lies in popular agitation around usury in pre-capitalist times when, as Jeremy Bentham remarked in his *Letters on Usury*, it was associated with anti-Semitism and other notions that we would today regard as irrational.

There is therefore, in particular after the financial crash of 2008, a rich seam of such 'alternative' views of finance. It ranges from systematic criticism, such as may be found in the works of J.A. Hobson, John Maynard Keynes and Hyman P. Minsky,[1] intended to change common ideas on finance, to more populist agitation intended to associate finance with disasters, pathologies and political conspiracies that could fill up and discredit more than one handbook.

As a matter of editorial policy we have chosen in this handbook to focus on the systematic analysis of two sets of issues. The first are topics that tend to be discussed in a rather uncritical way in standard finance textbooks, or in the conventional discussions of financial economics, pointing out some of the flaws in the conventional understanding of those topics. Examples of this in our handbook are the entries on exchange rates, by Annina Kaltenbrunner; options pricing, by Paulo dos Santos; risk, by Tracy Mott; hedge funds, by Photis Lysandrou; securitization, by Sanjay Krishnan; transnational companies, by Grazia Ietto-Gillies; central banks, by Tim Congdon; microfinance, by Judith Tyson; finance in developing countries, by Noemi Levy Orlik; financial crises, by Martin Wolfson; money, by L. Randall Wray; globalization, by Jonathan Perraton; emerging markets, by Kobil Ruziev; international banking, by Trevor Evans; and bank regulation, by Geoffrey Wood.

A second large group of topics includes entries that are of increasing importance in finance and financial economics, but are largely ignored in standard considerations of finance. Examples of such entries are the entries on limited liability, by Stephanie Blankenburg; the methodology of finance, by Sheila Dow; cooperative banking, by Panu Kalmi; Islamic banking, by Ewa Karwowski; financial Keynesianism, by Riccardo Bellofiore, flow of funds, by Jo Michell; bad banks, by David Mayes; liquidity, by Anastasia Nesvetailova; credit cycles by Dirk Bezemer; financialization, by Engelbert Stockhammer; the Icelandic crisis, by Robert Wade and Silla Sigurgeirsdóttir; capital controls, by Giovanni Cozzi; commodities, by Luigi Ventimiglia; tax havens, by Ronen Palan; the Asian monetary union, by Wei Song; and financial fragility, by Eric Tymoigne.

There is a third, much smaller group of entries on Keynes, Marx, Veblen and Minsky from Michael Lawlor, Andrew Trigg, Charles G. Leathers and Pat Raines, Jan Kregel and Charles Whalen, illuminating systematic analyses that give finance a central role in the organization of economic activity.

This volume is therefore intended to complement standard textbooks and the specialist critical literature on particular topics in finance. Further reading or references may be found at the end of each entry.

Finally, we would like to thank all our contributors for gamely extending our knowledge and putting up with our editorial process. We ask them and our readers to enjoy the result and indulge our 'ignorance unconquered' as editors.

## NOTE

1. Much of this literature is surveyed in Jan Toporowski (2005), *Theories of Financial Disturbance*, Cheltenham, UK and Northampton, MA, USA: Edward Elgar.