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Financial Alchemy in Crisis: the illusion of liquidity. Anastasia Nesvetailova. Pluto Press. £22.99. 0745328776

This review critically appraises *Financial Alchemy in Crisis: the illusion of liquidity* by Anastasia Nesvetailova. It begins by highlighting the background to the book's emergence, and then details the theoretical and methodological frameworks adopted by the author. Upon tracing the author's line of argumentation, the strengths and limitations of the book are highlighted, after which an overall assessment of the book is given. Published in 2010, the book is written in the context of global recession (110-111), and puts the question of liquidity at its core. More precisely, the author contends that the activities of financial innovation/engineering, enabled by processes such as deregulation and securitisation, led to a false belief in the financial system's capacity to provide the necessary platform for a viable and ever-more profitable market. Rather, in her view, the emergence of an unregulated regime made it possible for the underlying value of unviable financial assets to be disguised, resulting in the increased trading of toxic debts that ultimately resulted in *less* structural liquidity (20).

Nesvetailova's line of argumentation proceeds as follows: firstly, she introduces the disputed concept of liquidity vis-à-vis the global credit crunch, after which she outlines the stages of the financial meltdown. She then uses the experience of English bank Northern Rock as a case study to comprehensively capture the dynamics of financial innovation and fraud. Next, she highlights the conflicting interpretations and theories of the financial crisis, and follows this by focusing on both the dismissal of cautionary voices and the crisis of the current system. After detailing the pillars that supported this false idea of liquidity, she considers the reactions to the crisis in terms of their practical and theoretical responses. Finally, Nesvetailova proposes a reassessment of current policy and institutional processes, though she ultimately presents a rather gloomy, dispiriting view of the post-crisis landscape regarding genuine impetus towards global financial reform.

Nesvetailova's framework for conceptualizing both liquidity and the financial crisis sits within heterodox political economy: she takes a critical view of orthodox explanations for the collapse of the financial system (175), and her argumentation exhibits Keynesian and Minskyan influences. In the case of the former, it is notable how the author draws attention to the implications of financial processes for social welfare (43), and considers the role of the state as a regulator in the neoliberal order of capitalism (160). Regarding the latter, this is highly apparent in her engagement with Minsky's financial instability hypothesis and his notion of Ponzi finance (181), in order to explore the dynamics of fraudulent lending and borrowing in the lead-up to the financial meltdown (102). Underpinning her work is the idea that, in an environment of a passive state and widespread trading of highly risky yet profitable assets, the role of private actors in ensuring both the robustness and liquidity of the financial market cannot be readily assumed (ibid., p. 20). Nesvetailova adopts a qualitative methods approach, relying primarily on compiling secondary literature, with a mix of both numerical and non-numerical data. Her method is inductive, i.e., she analyses specific instances of financial malpractice and ill-informed decision-making, and uses this evidence to infer the theoretical standpoints laid out in the text.

In explaining the centrality of liquidity, Nesvetailova notes that the new, complex financial processes that have emerged with the collapse of the Keynesian consensus have resulted in the nature of liquidity becoming more opaque. Accordingly, the mainstream assumption that these financial techniques lead to efficient expansion of transaction opportunities, in a manner that enhances social welfare, becomes problematic when poor risk management and overconfidence among borrowers and lenders are at play (13). In other words, if financial actors do not derive their earnings from genuinely valuable products, and are instead arbitraging between markets driven by toxic debt (7), the financial system will *not* become more liquid and productive. Instead, their realization that they risk absorbing heavy losses, coupled with the consequent panic, will cause access to liquid assets to dry up (32). Nesvetailova uses this logic to explain the global financial crisis, demonstrating that the participations in the US property market, through the trading of assets such as mortgage-backed securities (involving similar products with highly variable price and risk profiles), resulted in the housing bubble that subsequently led to global recession, as the degree of investor/consumer exposure to an illiquid market became apparent. Facilitated by an environment of political passivity and lax regulation, institutions such as Northern Rock could engage in questionable borrowing and securitization practices. In Nesvetailova's view, the bankruptcy and subsequent nationalization of Northern Rock demonstrates succinctly how operations driven by the erosion of lending standards and poor asset-liability ratios could have such a contagious effect on the financial system (32).

In detailing the clashing perspectives, Nesvetailova shows that the systemic concerns shared by structural theorists conflict with the cyclical, more mainstream views that frame the crisis as an isolated event in an otherwise effective market (69). Ultimately, she demonstrates this by detailing the unwillingness of financial actors to confront the warning signs (97), and by showing that a widespread dismissal of risks, an unfounded collective belief in the liquid nature of the markets, and a willingness of institutions such as credit rating agencies to disguise the artificial character of market liquidity, indeed lead to systemic problems in the financial system

(139). Finally, by examining the disputes over the character of international finance reform, Nesvetailova demonstrates the difficulties involved in promoting meaningful change (155); and ultimately suggests that the impact of the crisis is not painful enough to prompt radical restructuring of global finance (176).

Nesvetailova's study of the financial crisis is compelling: the data is informative, and sources very well suited to the topics under investigation. Her work makes it clear how inadequate substitutes for money risk making the economy less liquid over time. It should be noted that its limited space sometimes results in a lack of background information; especially when discussing the milestones in financial deregulation that enabled practices such as securitization. Furthermore, a more comprehensive exploration of how states could effectively regulate their economies might have made her analysis of crisis-policy responses more insightful. However, despite its brevity, it succeeds in showing the harmful effects associated with misconceptions of market liquidity.