Book Reviews

SCHMÖGNEROVÁ, Brigita (2025): **Regulating Capitalism. The Politics of Market and Financial Regulation**. Cham: Springer. 380 p.
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Recently, a new book on regulation in the market economy was published by Springer. The book by B. Schmögnerová belongs to the series Professional Practice in Governance and Public Organizations, which provides "cutting-edge insights and practical guidance for professionals in the areas of economics, politics, public policy, public administration, and international organizations."

Brigita Schmögnerová draws on her deep and broad theoretical knowledge and practical experience from leading positions in public organizations to significantly contribute to fulfilling this mission. Problems of regulation in a market economy, and specifically of regulating the financial sector, are at the center of political debates in many countries. For Slovakia, recent approaches in the European Union and the impact of current global challenges are of particular importance.

The emphasis of the book – according to the author – is on market regulation, and especially on financial market regulation. A specific feature of the book is its political economy approach. This means that the author not only analyzes the development and recent tendencies in regulatory measures, but also considers them in a broader socio-economic context, showing how different proposals for regulatory documents and institutions are linked to the interests of various stakeholders. Not only the macroeconomic impact but also the distributional effects of regulation and their political consequences must be taken into account.

In the author's opinion, regulation in a market economy is more oriented towards "saving capitalism" (of course, with regard to changing technological, social, demographic, geopolitical, and other challenges) than towards correcting market failures. The history of regulation shows that government intervention has had to go beyond ensuring market competition in order to safeguard "the functioning market."

Two basic theories of regulation are analyzed in the book: the public interest theory of regulation and the private interest theory of regulation. According to the first approach, the role of regulation is to protect public interests by correcting market failures and ensuring that the market provides the best results for society as a whole. Regulation should minimize negative externalities of business behavior, such as environmental damage, insufficient health care, and shortcomings in the education system, as well as contribute to protecting cultural heritage, etc. The efficiency of this regulation is defined in terms of social efficiency, which, of course, is difficult to measure.

The private interest theory of regulation states that market actors attempt to influence regulatory decisions in ways that serve their own narrow interests rather than the social welfare. The concept of "regulatory capture" is of particular interest and is widely used in the theory of regulation and in political debates. In the current book, we find many interesting ideas about this aspect. As B. Schmögnerová argues, regulatory capture is driven by business interests either to avoid restrictions that could reduce profits or to shape regulation so that it aligns with their rent-seeking strategies. However, in some cases, regulation acquired by the industry and primarily designed to benefit it, can lead also to positive results for consumers and improvements in the regional situation (Stigler, 1971).

The book is structured in two parts. In both parts a political economy approach is applied and relevant theories of regulation are analyzed. The first part provides a review of the history of theory and practice of regulation at a general (non-sector-specific) level. In this part the reader can find not only an interesting review of important regulatory measures in the USA and EU (and their comparison) in a wider political and economic context, but also a dedicated analysis of regulation theories. In some cases (e.g. Minsky's theory of financial instability, the social valuation theory by K. W. Kapp) the book contributes also to the general history of economic thought. Chapter 3 in the first part, with the very topical title "Too much regulation?", responds to critics of "overregulation" and provides interesting ideas about the interrelation between regulation and democracy.

The second part deals with the regulation of the financial sector. This is a very important area, and the wealth of information provided about the history and recent practical experience in financial market regulation makes the book a must-read for all persons active in the financial field (both regulators and regulated entities). Chapter 4 (the introductory chapter of the second part) has the title "Too weak to regulate?". Readers may wonder how to understand the term "weak." Should we understand it as suggesting that the institutional structure of financial regulation and, eventually, regulatory skills are not sufficient to deal with the complex problems of current "financial capitalism" and global challenges? Or are the differences in the positions of individual EU member states so divergent that achieving harmonization of regulatory principles is very difficult?

From the political economy point of view, important issues in this chapter include the positive and negative effects of macroprudential regulation, securitization and its impacts on financial stability, the role of big banks in regulatory capture (and their status as "too big to fail"), the role of non-banking financial institutions, information asymmetry due to the complexity of financial products and markets (and the necessity to improve the financial literacy of the population), etc.

From both the theoretical and practical points of view, the crucial question is whether there is too much finance in the economy and what the impact of intensified financialization may be. The answer to the first part of the question is not explicit and indeed cannot be definite today. It is difficult to determine the turning point at which the growth of the financial sector becomes a barrier to GDP growth (or worsens other macroeconomic indicators).

In connection with the impact of intensified financialization on economic stability, an important contribution of the book is its revitalization of Minsky's financial instability hypothesis (which was for a long time neglected by mainstream economics). This hypothesis is based on debt financing, its role in the capitalist economy, and the manner in which debt is validated (Minsky, 1980). Fluctuations in the capitalist economy, according to Minsky, are not created by external shocks, but are based on the internal dynamics of the capitalist economy and the system of intervention and regulation designed to keep the economy operating within reasonable bounds. By imposing constraints on banks' leverage ratios, government regulation (by the central bank) can increase the share of equity in financing and thereby constrain financial instability. However, financial institutions as profit-motivated actors constantly innovate their operations, and "innovators will outpace regulators." Government intervention to save banks can lead to massive deficits, inflation, and the threat of increased unemployment. Long before the financial crisis of 2007/2008, Minsky formulated ideas about the internal reasons for financial sector instability – ideas that were confirmed by the experiences of the crisis (and even intensified by globalization, which was not the subject of Minsky's analysis).

Lessons from the 2007 – 2008 financial crisis and the regulatory measures and plans to deal with instability risks form the main focus of the last (5th) chapter of the book, titled "Financial Regulation in the EU." In this chapter, the basic stakeholders considered are the individual EU member states, which, due to historical development, social structure, culture, etc., have different preferences in the field of financial regulation. Harmonization of regulatory principles is of fundamental importance. With some simplification, we can say that the chapter concentrates on three basic areas: building the European Banking Union, European capital markets and the complicated problems of their harmonization and potential integration, and the road to Sustainable Finance, connected with Green Economy projects.

In the first problem area, a dedicated analysis of the regulatory documents, institutions, and experiences accepted so far, including "an intricate journey" to the third pillar of the Banking Union, is provided. These subchapters are a must-read for all actors in the EU banking sector.

In the second problem area, the book shows that harmonizing and eventually integrating capital markets in the EU is an even "more intricate" process than in the banking sector, mainly due to underdeveloped capital markets in most (and especially newer) continental member countries. From the political economy point of view, it seems that forming the Capital Markets Union is not a significant priority for continental European countries.

The third problem area – sustainable finance – deals with improving the contribution of finance to sustainable and inclusive growth, mitigating climate change, and incorporating sustainability risks into financial stability regulation, including company financial reporting. Practical experience shows that differences of opinion between business stakeholders and non-profit organizations, between businesses from different sectors, and between member countries with different industrial structures are so profound that it is very difficult to achieve a consensus. Much future research is needed to estimate the costs and especially the social value of different projects. How can we optimize the increase in costs connected with developing the green economy and the increase in costs due to coping with current global political tensions and instability? How can we ensure that the costs of more detailed reporting will not outweigh the results achieved? In considering the definition of social value, the basic ideas of Kapp's theory of social valuation (Kapp, 1950; 1972) can be useful.

To conclude the evaluation of the book by B. Schmögnerová, it can be said that this work is a very valuable contribution to the theory and practice of regulation in developed countries, with special attention to financial market regulation. The book provides not only an up-to-date review of accepted and even proposed regulatory measures and schemes, but also incorporates this analysis into a wider socio-economic context and contributes to explaining the theoretical background of these approaches. The information provided and the original theoretical insights make the book relevant for both regulators and managers in regulated entities, as well as for the wider public that is influenced by the processes analyzed. The book can also be useful in university teaching. It will contribute to broadening students' horizons in understanding the role of regulation.

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