TITLE
Fragile by Design

AUTHOR
Charles W. Calomiris & Stephen H. Haber

PUBLISHER
Princeton University Press (£24.95)

Charles Calomiris is a financial economist at Columbia. Stephen Haber is a political scientist at Stanford. Both are fairly robust free marketers, associated with the American Enterprise Institute and the Hoover Institution, and both are pretty distinguished in their fields – which means their magisterial (570 pages) volume on what they (inelegantly) call the "Game of Bank Bargains" is worth some bath time.

The book's thesis is simple: every country's banking system is the result of a bargain struck with the dominant political forces, which determines the rules under which banks operate, how they interact with the state and who makes off with the economic rents that are produced. Its conclusion is equally simple: generally, democracies produce better, and more stable, banking systems than autocracies or outright dictatorships – though there are examples close to home that suggest that democracies can get it almost as badly wrong as the worst autocracies.

The authors' approach is a bit random. It is to apply their thesis to a range of banking systems that varies geographically and temporally: Britain or, rather, England and Scotland, from the late 17th century on; the US and Canada from colonial times through the recent unpleasantness; Mexico and Brazil – with brief nods to Bismarckian Germany, Meiji Japan and Pinochet's Chile. With the (arguable) exception of the last, their thesis and conclusion hold. The special interests that underpin autocracies tend to produce banking systems that are little more than government piggy-banks.

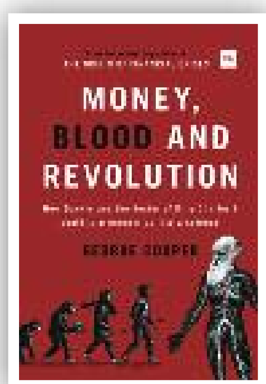
No great surprise, there. However, the authors' analysis of the US banking system pre- and post-2007 is interesting. As they put it, "stupidity is the logical outcome of the self-interested behaviour of a powerful coalition" – in this case, the coalition that built up around Fannie Mae, Freddie Mac and the bipartisan political imperative to support wider home ownership. It was, in their view, a conscious political bargain that produced "the subprime mortgage risk machine" – and the fact that politicians across the ideological spectrum were complicit does not bode well for America's ability to prevent the next banking crisis.

It is not a particularly uplifting book. Only Canada and pre-1707 Scotland get much of a pat on the back. But the lessons are important. The key ones are probably:

- that democracies with liberal institutions tend to be the least bad system when it comes to the broad distribution of bank credit and avoidance of crises (but beware the government sponsored entities);
- that government safety nets are inherently destabilising;
- that all banking systems are potentially vulnerable – but vulnerabilities can be handled in the absence of the kind of political coalitions that undermine market discipline;
- that, other things being equal, it probably helps to have been a part of the British Empire in the not too distant past.

All pretty solid stuff, though I surmise the authors may be a bit too kind to Canada, where inertia has played a role. Plus, I am less enthusiastic about the stability of mega-banks than they are, and their dismissal of the Volcker rule is excessively brisk. Still, for someone who barely knew about Brazil's emperors or, indeed, the successful branch banking system in pre-union Scotland, it is a rewarding, if exhausting, read.

Andrew Hilton



TITLE
Money, Blood and Revolution

AUTHOR
George Cooper

PUBLISHER
Harriman House (£18.99)

Outsiders can be forgiven for thinking economics has a problem. It enjoys huge power, which just goes on growing. Yet, at the same time, it struggles to explain many things that might appear to be its raison d'etre. Meanwhile, some of its most eminent scholars carry on public verbal slugfests. These can be entertaining, but they do little for the discipline's credibility.

You would never know from its unlovely title that *Money, Blood and Revolution* is one of the most thoughtful and refreshing attempts yet to explain what is going on. It is concise (200 pages), uses words of one syllable and flashes of humour, and is grown-up enough not to look for simplistic answers. "I hope," writes the author, "to disappoint anyone looking for extreme ideas." Above all, it offers something that is all too rare in discussions of the tangle that economics finds itself in – some historical perspective and a sense of the bigger picture.

Before it became a cliché, the term "paradigm shift" first appeared 50 years ago in the work of Thomas Kuhn. Kuhn made his name by explaining why the way science proceeds sometimes looks so odd. Scientists may seem to be avoiding or ignoring obvious problems. They are. But there is a reason for it: donning blinkers helps them to keep things moving quickly. In the end, though, too many unsolved problems pile up. Eventually this produces a sharp change of direction – that is, the "paradigm shift." Blinkers made the new direction inconceivable – until the shift suddenly occurs.

Cooper argues that the current state of economics makes it ripe for one of Kuhn's paradigm shifts. That may sound like the cue for a lot of detailed and tiresome economic theory. Thankfully, it is not. Instead, Cooper sketches four scientific revolutions from the past. The names Copernicus and Darwin will be familiar to everyone; two others, perhaps less so: William Harvey (circulation of the blood) and Arthur Wegener (continental drift).

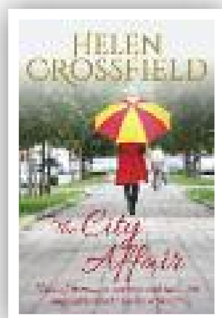
These examples have nothing to do with economics as such, but everything to do with the tangle it now finds itself in. Each example shows a science that got stuck. Brilliant people were going down blind alleys. Often they were rather angry. Does this sound familiar? In the end, it took a paradigm shift to remove the blinkers.

Chapter 7 is the heart of the book. In 40 pages, Cooper summarises nine different schools of economic thought and suggests reasons for thinking that a paradigm shift is needed. Even those professional economists who are not wearing blinkers may find this a bit glib. Cooper himself warns that this is "the most difficult material" in the book. This ex-banker, but non-economist, found it was pitched just right.

But this much is the (relatively) easy part. Kuhn pointed out that the reason scientists hang on to their blinkers for so long is because no one has come up with a better idea. Cooper admits that "throwing stones at the various schools of economics...is of little practical value unless it is also possible to offer a better paradigm to displace the old one". So that is what Cooper sets out to do in the second half of the book. These 70 pages are equally readable. But even a non-economist knows that re-inventing economics is going to be a bigger job than this.

In the meantime, you should read this book if you are interested in a fresh look at the bigger picture, or if the author's starting point appeals. "It is tempting to look for individuals or groups of individuals to blame for both the original financial crisis and for the failure to reform policy subsequent to the crisis," Cooper writes. "While superficially satisfying, this may be a fool's errand. The real culprit may be within the 'science' of economics itself."

Peter Morris



TITLE
The City Affair

AUTHOR
Helen Crossfield

PUBLISHER
Endeavour Press(£1.99)

Sex and the City was one of the most popular TV shows of the 1990s, mainly, it seems, because it brought together large sums of money and vertiginous high heels. The same combination of high finance and high fashion lends glamour to the City of London, even if the day-to-day reality of working on a spreadsheet into the small hours is about as thrilling as a cold cup of tea. Still, there is a great deal of money at stake in parts of the City – and one does see Louboutin heels – so there is, arguably, room for a novel that manages to meld money, marriage problems and Gucci.

The City Affair follows the story of Tish Thorp. It will not surprise that she gets her man in the end. What matters is how she gets there. The story is set against the backdrop of the financial crisis and the lives of the characters are interwoven with the drama of that time.

When the novel opens, Tish Thorp and her father are on a train to Paris, celebrating her first big acting job, and she meets a man. Not just any man, but one who immediately wins the approval of her successful fund manager father. As luck, and the plot of a novel, would have it, the handsome stranger is also a fund manager and, again like her father, a lover of card games. This is where one might expect that this man must be a monster or, at least, a potential stalker or maybe even a serial killer? How can something that seems so right be so right?

If there is a problem with *A City Affair* it is just that: everything is alright. Simon, the handsome stranger from the train, is no Mr Wickham, the bounder in *Pride and Prejudice* who threatens the wellbeing of the whole Bennett family with his duplicity and self-absorption. On the contrary, Simon is a highly eligible young man who makes Mr Darcy (also *Pride and Prejudice*) look a little flaky. He is unfailing decent, dependable and devoted.

The characters in the book do suffer – at least in the way that suffering generally presents itself in a picturesque village in England. There is coldness and there is misunderstanding and things could go awry. It is a particularly British sort of drama, with mild emotional discomfort, followed by some bad behaviour, which could be judged more or less harshly depending on one's point of view.

The question is whether this is the novel about the recent financial crisis in the City of London (and elsewhere) that some, among them *The Economist*, have said needs be written. If you are looking for a modern version of *The Way We Live Now*, with all its larger-than-life villains, this is not the book for you. However, if you want to while away an afternoon in the garden, with a glass of Pimms, this book knows its way around London and the Home Counties.

Lisa Moyle