area or make clear that their opinions are their own. As Finkin and Post make clear, universities that adopt such policies are implicitly approving what academics say in their area of expertise; probably not what the policy intended.

This excellent book leaves the reader with the strong feeling that academic freedom is worth protecting. Occasionally, academics will say things that annoy some people, but this is the price we pay for advancing knowledge.

Reviewed by Steven Schwartz
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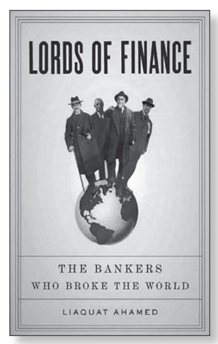
Endnotes

1 Anthony Lewis, *Freedom for the Thought That We Hate: A Biography of the First Amendment* (Basic Books, 2008).
2 'Allegations of Academic Bias in Universities and Schools,' Senate Standing Committee on Education, Employment and Workplace Relations (Commonwealth of Australia, 4 December 2008).
3 As above, 14.

Lords of Finance: The Bankers Who Broke the World
by Liaquat Ahamed
William Heinemann, 2009
US$27.75, 576pp
ISBN 9780434015412

For those interested in political economy and international finance, the events of recent years have been astounding. Jumbo-sized banks being brought low by poor investments and rogue traders, whole countries sinking under the weight of financial sectors that their economies cannot support, investors switching from market-melting despair to stratospheric optimism and vice versa in the space of a day, extraordinary interventions by governments and central banks, international conferences useless for anything but grandstanding and photo-ops. We're seeing it all.

And we're not the first. Those living in the 1920s and '30s were witness to the same events, although their experiences were more vivid and horrible than ours. The story of this period, and of the people who shaped it, is told in Liaquat Ahamed's wonderful *Lords of Finance*. Five years in the making, and with its release timed almost to perfection, Ahamed's book details how the great and the good of Europe and the United States imposed pre-World War I institutions on a world that, distorted by inflation, war debts, and US preponderance in trade and finance, could no longer bear them, and then watched helplessly as their policies drove the world into deflation and despair.



One of the most striking aspects of the story is the lack of creativity among the lords of finance as they made policy in the 1920s and early '30s. Well-educated, worldly and sophisticated, and placed in social circles brimming with experience and debate, they showed few signs of being able to adapt their thinking to the new circumstances after the war.

Their personalities didn't help. Montagu Norman at the Bank of England was a flaky and arrogant control freak, dismissive of the new science of economics and relying only on his untutored instincts. Hjalmar Schacht at the Reichsbank was a self-aggrandising careerist with appalling judgment and a character bypass. Emile Moreau at the Banque de France was a veteran Treasury whiteshirt who saw financial policy as yet another instrument for extending *la gloire de France*. The only person with both feet on the ground was Ben Strong at the US Federal Reserve—Ahamed sees him as the model of a modern central banker—but he died just as the world began tipping into the abyss.

Worse, the international situation weighed against them. The French, having been bled white in conflict and terrified of a resurgent Reich, had pushed the Allied powers to impose punitive reparations payments on Germany. The Germans, never having accepted responsibility for the war, and with their own economy in a shambles, tried every trick in the book—including hyperinflation—to avoid paying reparations. Without reparations from Germany, the French could not repay their loans from the British, and the British and the French could not repay the Americans—who in turn dug in their heels against debt restructuring.

Meanwhile much of the world's gold had gravitated either to the now-dominant United States or—by virtue of an undervalued franc—to France, leaving the Bank of England with little backing for its efforts to re-peg sterling at $4.86. Strong's efforts to support with low interest rates Norman's dream of recreating London as a financial centre led to a bubble on Wall Street and extravagant lending to a shaky Germany. The withdrawal of cheap money in the late '20s caused both processes to reverse, crushing the US and German economies. But the bankers' attachment to 'sound money' and the gold peg meant that interventions aimed at arresting the consequent deflation were limited and came to naught.

By 1931, Norman had realised that the game was up. The central banks simply couldn't square the circle of reinvigorating their economies while maintaining the peg to gold. The pegs were broken successively: Britain in 1931; Germany (in practice, if not in law) and the United States in 1933; and France in 1935. Breakage was followed by devaluation against gold, and with devaluation came recovery. But breakage also ushered in new ideas that were validated by economic reinvigoration. The central banks, having imposed a nightmare on their populations, would be soon subordinated in economic policy formulation to activist Treasurers—a situation that would last until the 1970s, when the government profligacy once again made sound money a policy imperative.

Might the Great Wheel be turning again? The policy frameworks of western governments over the last 30 years or so—inflation targeting, floating exchange rates, international openness, support for financial innovation, commitments (at least in some countries) to balanced budgets, and debt reduction—have supported remarkable growth in living standards both domestically and in emerging countries. But with success comes complacency. The hard lessons of the '70s and '80s—and also of the '20s and '30s—were forgotten in some countries during the prosperity of the noughties. The legacy is one of imploding financial centres, rising unemployment, mind-boggling budget deficits and national debts, and the spectre of deflation.

Already there is talk of the end of the 'neo-liberal experiment,' of a new role for government in the economy, and restraint of market forces. But this hardly seems right. The current crisis was caused by poor financial regulation, inappropriate currency and interest rate policies, and exorbitant government largesse. A return, once the crisis has passed, to sound money, government restraint, international cooperation, and encouraging appropriate regulation and shareholder activism would be a good program for reinvigorating economies and restoring employment, productive investment, and prosperity to society.

Lords of Finance is an engaging read and displays the fruits of deep research. The author chose his subject well. Although long at just over 500 pages, the text never bogs down. The wealth of fascinating detail and material for reflection allows Ahamed to weave a narrative that dances across the page. The text could have been more closely edited: the repetition of a few vivid facts and anecdotes, especially in the second half of the book, was mildly annoying. And the descriptions of pivotal events—such as Britain's return to gold in 1925—could have benefited from a more dramatic touch. But overall, Ahamed writes with a lovely style.

Although the lords of finance themselves don't come off well, there are some heroes in the book. We see Keynes at his most brilliant, author of *The Economic Consequences of the Peace* and *A Treatise on Money*, before his magnificent overreach with the *General Theory*. We see Churchill, his deep perception into events, insight into others (he saw right through Norman), and willingness to take counsel from his experts—all the qualities that would soon make him a great leader. And we see George Harrison, working tirelessly at the Federal Reserve Bank of New York to avert disaster but without Strong's stature to make the big changes needed to save the day.

All in all, a great read, and one that explains well why the great and the good of our own age are throwing everything they have into the fight against deflation.

Reviewed by Jeremy Bray

Capitalism, Institutions, and Economic Development
by Michael G. Heller
Routledge, London, 2009
US$125, 312pp
ISBN 9780415482592

An attempt to see how capitalism may take root in less-developed economies inspires this gloss on Max Weber and other top-flight scholars. Of itself it is not an inspiring prospect. Those of us who have read widely in the literature on economic development will approach further work on the subject with our senses dulled, anticipating more of the social science mumble in which the debate is conducted. A rehash of the sacred texts sounds especially unpromising. Furthermore, in this part of the world, we have been lulled by East Asian success stories into thinking the development problem is more readily soluble than it is. Why do other areas not just get on with it? But world poverty is likely to take a turn for the worse before it gets better; hence, we ought to give any serious new approach a fair go. And Michael Heller, a political scientist at the University of Technology, Sydney, is nothing if not serious.

First, he sees nothing wrong with promoting capitalism, which at once puts him offside in development studies. Second, he is a universalist, seeking to distil an all-round formula from the classical work of Weber and others, notably Joseph Schumpeter. He wants no truck