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.

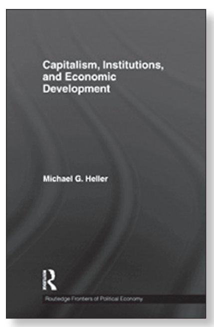
Reviewed by Jeremy Bray

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 with the frustrating uniqueness of each country, thus putting himself offside again—this time in the realm of area studies. Perhaps he decided he may as well be hanged for a sheep as a lamb. Heller compounds these sins by demolishing the notion that something called culture is responsible for the way new institutions fail to 'take' in poor countries.

This last position is a brave one when those around him take it for granted that culture is a key explanatory, indeed self-explanatory, variable because at any one moment they see something with that label stuck on it, as well as superficially the same assemblage of traits stretching back in time. But, as Heller observes, if culture explains under-development, every country squatting at the bottom of the league table of corruption and governance should share the same culture. This is the opposite of what cultural explanation implies. Heller suggests instead that culture is a front for variables like patronage, cronyism, strong-man politics, and so forth. These are determined by power relations and the political system, and should be analysed and amended in political terms. He thinks the specific antidote would be to establish impersonal procedural rules in today's 'facade democracies.' He is particularly concerned about the absence of dispassionate law enforcement, which he is convinced (surely correctly) that most people would prefer over existing arrangements, if only they were offered it.



Cultural norms may seem ever-present but they do not enforce themselves. Law, Heller insists, is what guarantees they will be maintained. Again and again, he presses the case for impersonal bureaucratic behaviour and established procedural rules. It is never quite clear how this is to be attained (the book does not pretend to discuss empirical cases) but the aims are plain. Weber is the well from which most of the analysis and some of the prescription is drawn. He was a very great man, astonishingly astute at recognising problems that in his day were elephants in the room, too obvious for others to see. He was however a Continental European systematiser, and life's untidy features bemused him. Weber—and Heller follows him—would have preferred order to emerge from proper rules, above all from law. In reality, matters were not so neat.

At least Weber avoided the conclusion drawn by his acolyte Talcott Parsons, which was that the common law, with defined property rights, procedural consistency, and judicial independence, was 'a fundamental prerequisite' of that central riddle of world history, the English industrial revolution. On the contrary, Weber sensed that English judges were surprisingly ambivalent about the free market and left property rights so undecided as to make entrepreneurial calculations hazardous.

How, then, did the country ever industrialise? Success was not guaranteed, which was what Weber saw as the 'England Problem.' Given this indeterminacy, the insistence on rules and disinterested bureaucracies—though I admire them myself—is more of an article of faith than this book makes it appear. In the maelstrom of actual existing capitalist transitions, Lewis Carroll and maybe Gilbert and Sullivan occasionally jostle with Weber. This quirk of uncertainty may account for the breadth of the expanses where, for all the clever distinctions and typologies, scholars still have such an opportunity to wrangle over concepts.

Agreed, stable procedural rules and impersonal behaviour must be a good thing. I cannot say, however, that I have seen much neutral, hands-off behaviour on the part of public servants, especially if one locates university administrators in the public service. Rules seem as much occasions for rent-seeking by bureaucrats as laws do for lawyers—something to select from rather than abide by. Checks and balances to curb transgressions in one domain by offsetting moves in another seem more likely the way things get done, a point that Heller does raise.

Heller has numerous interesting points and proposals to make. He has shaken off the dead hand of development studies and struck out on his own, but is too eager to blur his own voice with what the founding fathers of social science say. His hero, Weber, was a genius but not always as lucid as he might have been. The reason Wassily Leontief gave why the great Yale economist, Irving Fisher, never founded a school of thought was, 'Irving Fisher wrote so clearly that everyone understood what he was saying.' This cannot quite be said of Weber. Razor-sharp though his analyses are, he is not the best of presentational models. A more direct assault on the Capitalism Problem might be better. How is it that, despite waste and confusion, so enigmatic an arrangement came into being, has given us so much wealth and, for all the current turmoil, continues to work as well as it does? Michael Heller has plenty to offer on these issues and I hope he will return to the fray on his own account and in his own words.

Reviewed by Eric Jones