Austrian tradition and his rejection of deterministic views of social systems – and so is Warren Samuels, a scholar specialising in the history of economic thought with a particular focus on the Old Institutionalist School – not because of his commitment to any particular methodological position but because of his role as a thoughtful critic of Buchanan and the Austrians.

Boettke is lucky to have been exposed to a multitude of intellectual influences over his scholarly career, ranging from Austrians to scholars working in other methodological traditions but sharing an understanding of the market as a process and of the essential role of institutions in producing socially desirable outcomes.

Boettke has very strong views about the current state of the economic profession, and he is not afraid to share them. The collection thus includes a version of his 1997 *Critical Review* essay 'Where Did Economics Go Wrong? Modern Economics as a Flight from Reality', and several other papers making related points (in Part III of the book). There, he makes the argument that much of modern economics has gone astray, partly because of economists' fascination with formal modelling and because of the temptations offered to economists by the political process.

The current state of the economic profession should not be seen as a reason to despair. Quite the contrary – it is a unique opportunity for 'mainline' economists to make contributions that (*a*) focus on important questions, (*b*) are based on rigorous empirically relevant research, and (*c*) do not overlook the unintended consequences of policies and institutions, the dynamic nature of the market process and the role of the entrepreneur. *Living Economics* can thus be read as a joyous manifesto for better and more relevant economic scholarship and teaching – regardless of any methodological or ideological labels.

Dalibor Roháč
Legatum Institute and King's College London
dalibor.rohac@li.com

Santayana's Curse

Sean Corrigan, Lausanne and London: Diapason Commodities Management, 2011. ASIN: B007E9N8O0 (Kindle edition), £5.14

Sean Corrigan's *Santayana's Curse* centres on one idea: the more things change, they more they stay the same. In this sense it is not so different from other recent tales of the repetitive nature of financial crises (Carmen Reinhart and Kenneth Rogoff's *This Time Is Different: Eight Centuries of Financial Folly* springs to mind). Corrigan offers a unique perspective, in two ways. As the Chief Investment Strategist for Diapason Commodities Management, he brings his experience to the table and provides a realist's account of recent and historical financial happenings. As a self-proclaimed adherent to the Austrian School of economics, he underpins his analysis with a theoretical framework strongly focused on the destabilising effects of credit expansion.

The slim book is divided into two parts roughly analogous to the theory and the history of financial crises.

While European Monetary Union (EMU) fills today's news with dire accounts, Corrigan brings to light the Latin Monetary Union (LMU), which was set up in 1865 and lasted until 1927. France, Belgium, Italy and Switzerland formed a monetary core that would later encompass two modern PIIGS, Greece and Spain, as well as some smaller Eastern European states. While EMU is grounded in a political desire to unite the

© 2013 The Authors. Economic Affairs © 2013 Institute of Economic Affairs. Published by Blackwell Publishing, Oxford

European continent, the LMU was a response to the Californian and Australian gold strikes of 1849–52, and a raft of devaluations by European powers by way of reducing the gold content of their coinage. In response, Louis-Napoléon of France spearheaded the effort to end these competitive devaluations.

If the pretext for the monetary union sounds familiar, its culmination should also come as no surprise. Internal imbalances as well as some 'cheating' by its members resulted in some suspensions of convertibility, first by Italy and later by Greece. Much like today, Greece was seen as the odd man out – political instability, high debt levels and continued government deficits perpetuated a state of financial uncertainty.

At around the same time, a tug of war between the US administration and the Bank of England resulted in coinage flows destabilising each country over the course of the 1830s. Both by altering interest rates and the gold–silver mint ratio, Britain tried to counter the gold outflows abroad. The crisis of the 1830s did have the positive effect of instigating the Banking and Currency School debates as to the origins of the instability, as well as the culmination of the Bank Charter Act of 1844 to halt the recurrence of such monetary instability.

The second part of the book provides the theoretical underpinning necessary to explain these histories. This theory follows the Mises–Hayek explanation of the business cycle, rooted in monetary manipulations disrupting economic planning. Artificially altering the money supply and interest rates harms the real economy by, according to Corrigan: (*a*) generating the business cycle, (*b*) imposing chronic inflationism, complete with the shift in morality and prudence that humans generally display, (*c*) turning would-be entrepreneurs into spectators as they try to not lose money through inflation, and (*d*) favouring large financial companies that receive fresh money before prices have a chance to adjust, leaving the 'little people' footing the bill.

It is in the final vestiges of this theory section that Corrigan makes two large theoretical contributions.

First, a move to full-reserve or universal banking would eliminate these detrimental effects without unduly curtailing credit as many advocates of fractional-reserve banking suggest. Banks would still be at liberty to broker loans, thus facilitating credit. The only restriction – legally enforced if need be – would be that bankers could not use deposits to fund credit-backed ventures.

While the use of a legally enforced reserve may strike the reader as an unusual stance for an Austrian-aligned economist to take, it is here that Corrigan makes his second theoretical contribution. A law governing reserves does not infringe on the rights of bankers but rather returns them to the legal playing field that all other firms work within. He makes use of Aristotle's law of non-contradiction: a sum of money cannot be a deposit and a loan simultaneously. More damning for the fractional-reserve bankers is Corrigan's insistence that the practice is not a victimless crime. Such bankers are exposing innocent bystanders to detriment by setting in motion a business cycle. By way of analogy, while drunk-driving does not necessarily jeopardise innocent pedestrians, the act is illegal due to the contingent risk created.

There remain some small quibbles with the book. It would read better if the ordering was reversed: first the theory, then the history. (This reviewer suggests the reader proceed this way for full effect.) The book finishes with an application of its principles to the modern economy and illustrates the effects of credit expansion on output and prices. This section reads almost like an

© 2013 The Authors. Economic Affairs © 2013 Institute of Economic Affairs. Published by Blackwell Publishing, Oxford

afterthought, and with a little more attention and explanation it would be a very convincing exposé of what is now going so wrong in the financial world.

Sean Corrigan has written a crisp book that advocates returning the financial sector to two basic principles – ‘my word is my bond’ and ‘first do no harm’. As the history demonstrates, doing so sooner rather than later may evade a much worse fate.

David Howden
Department of Business and Economics,
St. Louis University, Madrid
dhowden@slu.edu

© 2013 The Authors. Economic Affairs © 2013 Institute of Economic Affairs. Published by Blackwell Publishing, Oxford