

After a brief overview of Ayn Rand's own career and character, the authors devote one large section to the attributes of 'effective people' in business and industry, and another section to business organisation, focusing on entrepreneurship, innovation, vision and long-range thinking. True to their own commitment to economy and rational organisation, the authors divide each chapter into titled subheadings. For example, the chapter on 'Justice' – which examines, among other things, the justice of T. J. Rodgers, CEO and founder of Cypress Semiconductor – contains such subheadings as 'Justice Defined,' 'Loyalty to the Facts' and 'Moral Judgment and Response.' Doubtless, in a new edition of *Ayn Rand and Business*, that chapter may contain the additional subheading, 'You Can't Cheat Reality,' comparing the Enron débâcle with its parallels in the fraud and bankruptcy of the Twentieth Century Motor Company in *Atlas Shrugged* and of the Monadnock Valley episode in *The Fountainhead*.

The authors, who are seasoned and knowledgeable business journalists and publishers, deftly and with obvious agreement with Rand explicate each Objectivist virtue with numerous anecdotes and instances from the real world. They cite the words and actions of the men behind Polaroid, Nucor Steel, General Electric, Microsoft, Intel and other companies, linking them with the actions of characters from Rand's three major novels, *We the Living*, *The Fountainhead* and *Atlas Shrugged*. Their stated purpose is to prove to the business reader that little or no conflict exists between fiction and real life; the virtues which move her heroes and heroines are as practical and efficacious in the real world as they are in her fiction, while the vices which move her villains are no less disastrous and contemptible in real life than they are in her novels.

Hopefully, in the future, this book will become a dog-eared standard title on everyone's business bookshelf. Greiner and Kinni advise that if the business reader takes *Ayn Rand and Business* seriously, 'you will know why Ayn Rand is important in today's world and why she will continue to be influential in

the future . . . You will certainly understand why Ayn Rand matters.'

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ETHICS AS SOCIAL SCIENCE: THE MORAL PHILOSOPHY OF SOCIAL COOPERATION

Leland B. Yeager

Cheltenham: Edward Elgar, 352pp., ISBN: 1 84064 521 0, £69.95 (hb), 2001

Economics and ethics are and long have been interrelated disciplines. Both deal with normative and empirical questions and, for an undertaking in one of these fields to be successful, or so the author of this book argues, it must be accompanied by a knowledge of the relevant aspects and findings of the other field. With the publication of this book, Leland B. Yeager, a noted economist, participates in a long tradition of ethical inquiry from an economic perspective, a tradition which includes Hume, Smith, Bentham, Mill, Keynes, Hayek and others, upon whose works Yeager frequently, extensively and openly draws. The book's title accurately conveys its nominally central point: that ethics should rely heavily on the findings of the social sciences. However, the bulk of the book consists of a case for utilitarianism, which Yeager judges to be essential to the approach to ethics that he advocates. While far from groundbreaking, this work is on the whole well thought-out and worthy of attention.

Much of the beginning of the book seems to come almost verbatim from an article of Yeager's in the March 1996 issue of the *Atlantic Economic Journal*. In the first chapter the case is made that economics has a relevant place in ethical dialogues. Obviously, economists deal with matters of public and business policy, and thus can offer the positive data needed for the

formulation of such policy. Moreover, the study of economics engenders an awareness of the difference between short-run and long-run interests, which, when one uses a utilitarian ethic, is quite important to consider. Economists tend to have a good understanding of human nature and behaviour, which is necessary for ethical investigations. Clergymen, whose expertise is grounded almost exclusively in faith, have a less pertinent presence in moral and ethical discussions than do social scientists.

Of course, this conclusion depends on the utilitarian ethic to the defence of which Yeager devotes most of the remainder of the book. The general happiness, best pursued through social co-operation, should be the goal of ethical injunctions and mandates. He favours a rules or indirect utilitarianism, as opposed to act utilitarianism. This stripe of utilitarianism encourages socially useful or benign behaviour through the implementation of general rules and the cultivation of attitudes and character traits, while act utilitarianism, theoretically, calls for an appraisal (with regard to the general happiness) of the anticipated outcome of each human action prior to taking action. Needless to say, this latter approach would prove to be unwieldy at best and probably impossible, while the former, Yeager contends, is a viable method for determining policy.

Yeager moves on to address criticisms that are generally aimed at utilitarianism, addressing the issue of aggregation, the charge that indirect utilitarianism leads to a variety of immoralities and an over-emphasis on rules, as well as the allegation that such a philosophy is vacuous. He counters the Kantian duty-based ethics with a nominally utilitarian ethic of universalisability. He derives a justification for government, law and regulation from his indirect utilitarianism, addressing rival doctrines, and devoting an appendix to an attempt at refuting libertarianism and classical liberalism; in order for any society to function, the government must have the authority to use initiatory force, he argues. The last chapter is a summary of the rest of the book.

Yeager writes clearly and persuasively, making his train of thought easy to follow and is always honest about potentially weak

points in the arguments presented. The book is well-researched, and draws on many other works so that anyone unfamiliar with the ideas being discussed is still able to follow the author's arguments; in fact, this book is good reading for anyone without a broad knowledge of the writers discussed.

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US BANK DEREGULATION IN HISTORICAL PERSPECTIVE

Charles W. Calomiris

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Economists generally assume, explicitly or implicitly, that individuals are utility maximisers. Not, notice, that they always succeed in maximising utility, but rather that they consistently try to make themselves and their families as well off as they can, given their tastes, their abilities, the costs of gaining information and of transacting, and so on. That kind of behaviour is taken to be a deep-seated human characteristic, and presumably therefore holds for all times and all places unless the assumption is for some reason explicitly abandoned. Accordingly, then, applied economists should be great users of historical data. Not only would they get an abundance of data, but the past could be a laboratory in which to examine the effects of various laws, regulations and institutions on the behaviour of the economy in all its aspects. Surprisingly – astonishingly – very few economists pay much heed to history, often dismissing results derived from it as being based on ‘old data’. (Occasionally one even encounters the phrase ‘data from the past’ – I look forward with interest to seeing data from the future.)

Charles Calomiris is one of the comparatively few economists who does not neglect data from far in the past. He uses data

not only to understand the past, but to illuminate the present and to give policy advice which would improve future conditions. This book shows just how wise he is to pursue that approach, and how much others who neglect it are missing. He examines US banking history and the history of US banking regulation, and arrives at fascinating conclusions which should be of interest to anyone concerned with present-day banking and its regulation.

This book could in fact serve as a text, not comprehensive but certainly wide in its coverage, on US banking history, on bank regulation, and on the political economy of regulation. I shall touch on all these three aspects.

There are six chapters in the book. In the first, banking instability is defined, and the existence of it traced primarily to the structure of the banking industry. Instability, he notes, is a twofold concept. It can mean a ‘propensity for panics’ or a ‘propensity for insolvency’ (p. 3). ‘Panics involve contractions of bank deposits and lending by all banks’. Failure, by contrast, involves receivership or insolvency of individual banks. There have been panics with few failures; and failures have occurred without leading to panics.

The key structural aspect which makes banking systems unstable is the absence of branch banking. Calomiris traces the persistent failure of branching to develop in the US (in contrast to, for example, the UK) to regulation. One could well ask at this point why regulation, surely designed to protect the customer and thus to bring stability to the banking industry, did the opposite. This question is answered. But before that, what are the other topics in the book?

Chapter 2 examines what causes banking panics. (Causes not in the sense of making the system prone to panics, but rather in the sense of what triggers them in a given system.) The authors of the chapter (it is co-authored with Gary Gorton) contrast two theories – random withdrawal and ‘asymmetric information’. The first results from sudden demands for cash, the second from an increased belief that because of the state of the economy banks have become more likely to fail. The balance of evidence

seems to tilt towards believing the first, but the chapter concludes with some suggestions for further exploration of the second. This is worth noting, for it highlights the scrupulous care with which the data are tested and the results summarised; the book also teaches by example.

There are then chapters on the origin of federal deposit insurance (which, having had many advocates for over 40 years, was enacted after the Great Crash and the bank failures which, quite coincidentally, followed it); the losses the US has suffered as a result of not having ‘universal banks’ but insisting on separating commercial and investment banking; how the fall in the costs of issuing shares over time is the result not of regulator-enforced competition but rather of falls in marketing costs; and, in the final chapter, an examination of the fairly rapid emergence, as a result of both long-run competitive pressures and short-run performance problems, of universal banking in the US.

The book thus covers a good number of aspects of US banking, and the interaction with it of US banking regulation. It shows, as the above summary outlines, how banking evolution and regulatory evolution have gone on together in a process of continual interaction.

What has not yet been discussed in this review is why regulation can often be harmful to what it claims to help, the ‘public interest’. That theme is implicitly addressed in every chapter, and there is explicit discussion of it in the book’s fascinating introduction. The central argument is that regulation is often the result of lobbying by ‘concentrated minorities’. That is why banking regulation – the protection of failure-prone unit banks, for example – often assisted particular narrow interest groups rather than the general public. There is also a revealing discussion of the current competition for regulatory territory between various regulatory agencies in the USA. Calomiris shows how ‘inertia’ serves to raise rewards to lobbying, by making it hard to organise the groups necessary to undo legislated harm. (At this point Calomiris quotes Thomas Jefferson to help make his point; the range of references in this book is wide!)