with every conceivable safety device and mechanism of escape. We would have anticipated every hazard she might conceivably have encountered." Cox, however, won't play the game of perfect hindsight, but asks about the situation that faced the decision-makers at the time, what information they had, what beliefs they held.

Consider, for example, the famous matter of the lifeboats. There were not enough lifeboats to provide places for all the passengers and crew members, and for that decision the White Star Line was pilloried. Supposedly, the firm's decision to equip the ship with fewer than enough boats to allow everyone to be able to escape showed its disregard for the well-being of passengers and crew—putting profits before people, as anti-capitalists are so ready to chant. Cox's analysis, however, shows that this is far from the indisputable indictment of laissez faire that it is widely assumed to be.

First, there is the element of time. On a passenger liner, with large numbers of panicky civilians who don't all behave ideally, getting everyone into lifeboats and safely launching them takes a great deal of time. The *Titanic* stayed afloat for two hours and 40 minutes after the collision—longer than most ships take to sink—but still, under perfectly calm conditions, did not have enough time to launch its full complement of boats. As Cox says, "The *Titanic* literally could not have used any more lifeboats, primarily because her crews were not organized well enough to save time by launching them simultaneously."

Moreover, the *Titanic* sank under the unusual conditions of calm seas and no port or starboard list. Why does that matter? Cox points out that, "if a ship is going to sink, it may well develop a list so severe that lifeboats on one side cannot be lowered because they will hit the hull and lifeboats on the other side cannot be loaded because they are swinging too far from the deck." Therefore, the requirement to have a lifeboat place for everyone would in practice require substantially more than "enough places" because of the likelihood that not all boats could be launched.

Instead of putting more money into making certain that there was a lifeboat place for everyone, shipbuilders concentrated on trying to make each ship "its own lifeboat"; that is, making the ship so seaworthy that in the event of a disaster, it could support those aboard long enough for help to arrive. "In 1912," the author observes, "lifeboats were valued chiefly for their ability to ferry a few people at a time from a distressed liner to a rescue ship, which would use its own boats to speed the operation." Had the *Californian* come immediately to the aid of the *Titanic*—another issue that Cox tackles—there might have been few if any casualties.

A fascinating aside is that because of regulations enacted in the United States after the sinking that mandated "lifeboats for all," the liner *Eastland* capsized and sank in Chicago, killing 844 people because of its excess weight added to the top of the ship by the obligatory new lifeboats.

Among other interesting subjects, Cox dwells on the post-sinking hearings held both in Washington and London. The former consisted mainly of grandstanding by Senator William A. Smith of Michigan, whom Cox describes as "an ingenious busybody, cherishing the . . . assumption that if anything goes wrong, the United States government ought to do something about it." The hearings in London, in contrast, were held more to generate light than heat.

A valuable book, indeed. □

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Money, Greed, and Risk: Why Financial Crises and Crashes Happen

by Charles R. Morris

Times Books • 1999 • 224 pages • $25.00

Reviewed by Larry J. Sechrest

The reader of *Money, Greed, and Risk* is informed that the book's author, Charles R. Morris, has been a partner in a consulting firm, an executive with Chase Manhattan Bank, the secretary of health and human services for the state of Washington, and assis-

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tant budget director for New York City. In short, Morris has considerable experience as a manager and a bureaucrat. He is, in particular, seemingly well versed in the technical workings of various financial markets and financial instruments such as index futures, collateralized mortgage obligations, synthetic put options, and so forth. As long as Morris restricts himself to the operational details of "exotic" financial assets, the reader is likely to benefit. Unfortunately, most of the issues addressed by this book—the causes of financial crises—call for someone with an understanding of economic theory, economic history, and, especially, the perverse effects wrought by government regulation. In those areas, Morris is sadly deficient, and his book fails to enlighten.

The book is divided roughly into thirds. One part presents a survey, albeit brief, of American economic history from the early nineteenth century through the Great Depression. The emphasis is on finance, money, and banking, and it features the usual cast of characters: Nicholas Biddle, Andrew Jackson, Jay Gould, J. P. Morgan, John D. Rockefeller, Cornelius Vanderbilt, Andrew Carnegie, and the British firm Baring Brothers. According to Morris, this span of time was characterized by the "fleecing" of first British investors and then the American middle class. Greed was the motive force, and fraud was rampant.

Morris's presentation is weakened, however, by two interrelated flaws. First, he relies almost entirely on a 1957 book by Bray Hammond, which, although reissued in 1991, fails fully to reflect recent scholarship on certain key banking issues. Second, Morris's understanding of money and banking is so muddled that he (a) regards Nicholas Biddle as a genius and Andrew Jackson as a man consumed by "prejudice and ignorance," and (b) insists that a central bank represents an enormous improvement over the "chaos" of free banking.

A second part of the book focuses quite closely on the financial innovations of the past 30 years and the many problems they allegedly have caused. Here the reader will be introduced to the "junk bond king" Michael Milken (in a chapter titled "Mephistopheles"); Howard Rubin, the exploiter of GNMA "strips"; notorious "inside trader" Ivan Boesky; the brain trust behind Long Term Capital Management; and "corporate raider" T. Boone Pickens, among others. Even though Morris seems to recognize that recent financial developments, such as corporate takeovers and derivative assets, have increased efficiency and improved the management of risk, he nonetheless portrays the innovators as being "offensively" greedy and generally sleazy. And he retains that sort of language even though, for example, he grants that the legal charges against Milken were based on ambiguous and contradictory evidence and were therefore unconvincing.

The third part of the book presents Morris's ideas about the necessity of relying on governments to regulate financial markets. Such a position is a predictable outgrowth of certain of his expressed beliefs. For example, he asserts that "the average investor probably is a fool," and that recently even financial "gurus" often haven't had "a clue to what was going on in their own businesses." Economists cannot be relied on either. According to Morris, they can neither figure out the cause of the Great Depression nor offer any helpful advice to nations experiencing currency crises. Wrong and wrong.

Worse still, in his opinion economists are entirely too wedded to free markets and too skeptical of "enlightened" regulatory structures. As far as he is concerned, financial markets were not safe "until the whole panoply of regulatory mechanisms and information requirements were in place." His core claim is that, unless they are reined in by regulators, financial innovators will always brutally exploit the populace, thereby creating periodic crises. This he believes to be the dominant theme in economic history.

I have three fundamental criticisms of this book. First, Morris is oblivious to a large and growing body of scholarship that demonstrates (conclusively, in my opinion) that all systemic problems in monetary and financial markets have, in fact, been caused by various government regulations. Prohibitions on bank branching, the forced segmentation of financial services, legal tender laws, and the

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"moral hazard" of deposit insurance are some of the more obvious examples. Fraud and corruption, except where protected by statute, have played a very minor role. Second, he offers no explanation of why some financial innovations, such as credit cards, NOW accounts, and ATMs, have not precipitated crises. Finally, the manner of presentation is shrill and sensationalistic. There is too much hyperbole, too many pejorative terms, and too little scholarship.

All in all, *Money, Greed, and Risk* is one of those much-hyped books that it's best to avoid. □

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Public Finance and Public Choice: Two Contrasting Visions of the State

by James M. Buchanan and Richard A. Musgrave

MIT Press • 1999 • 272 pages • $27.50

Reviewed by Mark Skousen

So there I was in the late '60s, an undergraduate economics major at BYU, a very conservative institution. My introductory textbook was Paul Samuelson's *Economics*; my history of economic thought textbook was Robert Heilbroner's *The Worldly Philosophers*; and for my public finance course we used *The Theory of Public Finance* by Richard A. Musgrave. In other words, my "conservative" BYU professors were all using the most Keynesian of textbooks. No Friedman, no Hayek, no Mises.

Musgrave, a Harvard professor, argued the need for a triumvirate government: (1) to provide public goods that the private sector couldn't; (2) to redistribute wealth and institute social justice; and (3) to stabilize an inherently unstable capitalist economy. That "mainstream" interventionist theory was taught with hardly a ripple of skepticism.

Fortunately, much has changed since I graduated. Friedman, Hayek, and Buchanan have won Nobel Prizes in economics, and the textbooks are filled with market solutions and anti-Keynesian alternatives, including monetarism, privatization, and public choice. Even Samuelson highlights the "public choice" work of Buchanan and Gordon Tullock in his latest textbook. (I can't let this paragraph end without expressing my outrage that Tullock did not share the Nobel Prize with Buchanan in 1986; even Buchanan admits that Tullock was the "catalyst" behind public choice theory.)

The fact that Buchanan, not Musgrave, won a Nobel is telling. Musgrave is in his late eighties. Most of his books are out of print, and he remains an unabashed Keynesian. Still, the influence of his approach to the task of the state is pervasive, since the best that free-market economists have done is to help slow the growth of government, not reverse it.

Public Finance and Public Choice is a script of the papers and comments presented at a 1998 conference in Germany by Buchanan and Musgrave. In their debates, Musgrave defended social insurance, progressive taxation, and the growth of the public sector as the "price we pay for civilization." Buchanan blamed democratic politics for a "bloated" public sector, "with governments faced with open-ended entitlement claims," resulting in "moral depravity." He wants to constrain government through constitutional rules and limitations and describes their differences thus: "Musgrave trusts politicians; we distrust politicians."

Musgrave responded: "Is the state of our civilization really that bad? . . . There is much that should go on the credit side of the ledger. The taming of unbridled capitalism and the injection of social responsibility that began with the New Deal. . . . Socializing the capitalist system . . . was needed for its own survival and for building a good society." He also mentioned the "enormous gains" by blacks and women in the twentieth century, apparently assuming that those groups could have made no "gains" were it not for government intervention.

The two professors' exchange on the extent of justifiable government activity is enlightening, but I have two complaints about the book. First, Buchanan and Musgrave assume the reader has a great deal of economic sophisti-

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