demonstrates vividly and tragically the economic and political folly of attempts to improve the human lot through social engineering involving extensive government intervention in the economy.

In the reviewer's opinion, Boettke to a considerable degree has created straw men, i.e., the "standard view" and the "usual interpretation" of Soviet economic history. In fact, there are a variety of views, many of which are eclectic. These approaches generally take the position that complex historical events, such as War Communism, are best explained by a complex of interacting factors, including the ideologies of the political leadership. The author's contribution is to bring the powerful insights of Austrian economics, most notably those of Mises and Hayek, to bear on the interpretation and explanation of the failure of Soviet-type political and economic systems to meet the aspirations of their peoples. That spectacular failure does indeed show that Mises was right about the dismal fate that awaits societies that attempt to replace markets and private property with central planning and state property.

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The New Art of Central Banking
M. L. Burstein
New York: New York University Press, 1991, 244 pp.

Rarely have I read a book on monetary theory and macroeconomics with such pleasure and delight. Meyer Louis Burstein is one of the most provocative monetary economists of our era, and *The New Art of Central Banking* is his best work to date. I recommend this book strongly to all those who are looking for something different, and who see economics as an art, not merely a science.

Building on an earlier essay, "Beyond the Banking Principle," Burstein considers a financially innovated world where bank assets are liquid. Extrapolating from current trends, loans are funded by securities rather than deposits. Banks as we know them no longer exist. Payment and account bookkeeping services are separate from capital markets. Exchange media bear interest, and the unit of account is a tabular standard.

Most modern theories of free banking (e.g., Selgin, White), in contrast, provide the same models for 20th-century free banking as for 18th-and 19th-century free banking. One reads these works without knowing which century is being considered. Furthermore, these models of free banking do not arise through financial innovation, but instead require the unlikely case of a government willing to give up its power over financial institutions and money.

Deregulation prevails in Burstein's world, but not through conscious design. Burstein notes that "spontaneous evolution may leave nothing to regulate." This book provides an important model for advocates of

deregulation who do not trust the government to cede power. Financial innovation may succeed where political action fails.

Burstein also emphasizes the institution-bound nature of Keynesian economics. In a financially innovated world, Keynes is no longer applicable. Interest on money means that the LM curve can no longer be located. The IS–LM diagram loses meaning, both as a guide to policy and as an economic portrait. The demand for liquidity does not influence real rates of return, as current moneys are no longer needed to be liquid. Say's Law rules. Open market operations have no effects. Money does not differ from return-bearing assets, and swapping the two is simply a wash. Nor is there seignorage. The central bank is simply swapping one kind of paper for another and trading on spreads. Burstein's early influences were Clower and Keynes; now he is closer to Wallace, Black, and Fama.[1]

Burstein also presents a market-oriented plan for European currency reform, resembling Roland Vaubel's "parallel standard." European currencies should compete, not only against each other, but also against an ECU basket. Many other topics are considered in the book as well. Scattered throughout are instructive comments on monetary history, history of thought, and monetary "problems"—for example, is a community wealthier on net if asset prices rise?

Burstein does not write like an ordinary economist. His books have interjections, conjectures, puns, codas, plots, subplots, and distractions. Unexplained references abound, as they do in T. S. Eliot poems. The reader must put many of the pieces together. Some readers will find this annoying, others delightful. *The New Art of Central Banking,* however, is the most readable of Burstein's books. (His 1986 book *Modern Monetary Theory* is virtually atonal.)

Burstein's style and world-view are well illustrated by the following quotation from Chapter 4 (p. 97):

> The paradise of the demonetized giro can be confused with the inferno of barter exchange. Of course, barter exchange is excruciatingly constrained by its double-coincidence constraint: classical monetary exchange is much more fruitful than barter. But computerized direct-debit schemae, eliminating intermediate substances (such as coins crossing palms), do not entail barter. They simply cut out a costly step in the trading process.
>
> The innovated clearing network is operated by data-processing specialists who do not give or receive credit: the famous hybrid role of the banking system—operation of the clearing network with counters ("deposits") it supplies and which in turn are residues of its lending—is abandoned. Banks of issue are no more. And most bankers will welcome the end of their chequery role: it is a low-margin, boring business now that "interest on money" has destroyed the huge mass of zero-interest, or sub-market-rate,

[1]Those with a law and economics background may also recognize Burstein's name. Approximately 30 years ago, he wrote the seminal articles on tying and full-line forcing. See his 1988 collection of essays *Studies in Banking Theory, Financial History, and Vertical Control.*

> deposits that once backed the clearing system. All pretext of *regulation* of banks is dismissed.
>
> There are plangent implications for the theory of money and finance. Market yields are determined invariantly against whatever remains of monetary phenomena. Concomitant adoption of [a tabular] standard, explained in Ch. 2, locks in this result. Prof. Knight's Cruosnia plant becomes a quite-plausible generalization of praxis instead of a problematically illuminating phantasy. And the "Wicksell business" crumbles: only real (often implicit) interest rates remain, and are explained by theories of real economic action. Classical economists believed that economics should turn out this way.

Burstein's work reminds one of the Beethoven performances of Toscanini and Schnabel. Not all the t's are crossed, and not all the i's are dotted. But after listening (reading), one never approaches other performances (books) in quite the same way.

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The Rationale of Central Banking and the Free Banking Alternative
Vera C. Lutz
Indianapolis: Liberty Press, 1990, 214 pp.

The Rationale of Central Banking was written as a Ph.D. dissertation under Friedrich Hayek at the London School of Economics and first published in 1936. The book covers the development of central banking and the controversies surrounding it in Britain, France, Germany, and the United States. Vera Smith later married the German economist Friedrich Lutz, and the couple moved to the United States just before the outbreak of the Second World War. After the war they settled in Switzerland, and Vera Smith Lutz died there in 1976. *The Rationale of Central Banking* challenged the prevailing view that took the necessity of central banking for granted, and its influence was therefore relatively limited until that conventional wisdom itself began to crack. Economists slowly realized that many of the issues that arise once one ceases to take central banking for granted had already been dealt with by Vera Smith, and her book had a major influence shaping the emerging body of modern free-banking thought in the late 1970s and afterwards. The book has been long out-of-print and difficult to obtain, so the new edition by Liberty classics is very timely and should encourage more people to read it. The new edition has a slightly modified (and, in my opinion, more appropriate) title—*The Rationale of Central Banking and the Free Banking Alternative*—but the text is basically the same. The new version also includes an introduction by Leland Yeager that is a model of clarity, and not only summarizes Vera Smith's life and career, but also provides a concise perspective on the book itself and its place in free-banking thought.

Smith's main theme was a simple one—"A central bank is not a natural product of banking development. It is imposed from outside or comes