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November 28, 2014 5:50 pm

Best books of 2014: Economics



Martin Wolf Author alerts

A round-up of the titles to remember

Fragile by Design: The Political Origins of Banking Crises and Scarce Credit, by Charles Calomiris and Stephen Haber, Princeton, RRP£24.95/\$35

We get the banking systems we deserve or, more precisely, that our political systems choose. The US has had 12 systemic banking crises since 1840, while Canada has had none. Better awareness of how the political forces work might lead to superior bargains. But this informative book does not leave the reader optimistic. It is hard to shift bad political equilibria.

...

Microeconomics: A Very Short Introduction, by Avinash Dixit, OUP, RRP£7.99/\$11.95

Macroeconomics – the study of the economy as a whole – has got a bad reputation recently. But Dixit demonstrates in this accessible book that economists do at least know a great deal more than nothing about microeconomics: the study of markets, both their successes and their failures.

...

Political Order and Political Decay: From the Industrial Revolution to the Globalisation of Democracy, by Francis Fukuyama, Profile, RRP£25/ Farrar, Straus and Giroux, RRP\$35

In the second of two masterly volumes, Fukuyama shows how the difficult balance between the state, the rule of law and democratic accountability emerged, then developed and, more recently, started to decay in the west. This is a work of political science, not of economics narrowly defined. But the issues Fukuyama raises are of profound concern to economists, too, because economic institutions affect and are, in turn, affected by the political systems in which they operate.

...

Stress Test: Reflections on Financial Crises, by Timothy Geithner, Random House Business, RRP£25/ Crown, RRP\$35

Geithner was president of the Federal Reserve Bank of New York and then Treasury secretary through the worst years of the financial crisis. His book offers a lively account of what this felt like. Geithner also argues that the way the US handled the crisis, particularly its use of stress tests, is a model for the future. Sadly, he also believes that crises are sure to recur.

...

How to Speak Money, by John Lanchester, Faber, RRP£17.99/ WW Norton, RRP\$26.95

Most people have little idea what economists and financiers are talking about. Lanchester, a bestselling author, has decided to remedy this by writing a provocative and personal reference book. His definitions are not always correct but they almost always offer an amusing start.

...

Thrive: The Power of Evidence-based Psychological Therapies, by Richard Layard and David Clark, Allen Lane, RRP£20

In this important book, the authors – one an economist, the other a psychologist – demonstrate both the human and economic costs of mental illnesses. These are far and away the most destructive set of ailments to fall on the young and middle-aged. Yet mental illnesses remain undertreated, if not altogether ignored, by health systems. The case the authors make for ending this neglect is unanswerable.

...

European Spring: Why Our Economies and Politics are in a Mess and How to Put Them Right, by Philippe Legrain, *CB Books*, RRP£12.99

This is a splendid book on the European malaise. Legrain argues compellingly that policy makers' response to that crisis was and remains a disaster. He warns that the eurozone is still far from healthy and that the German example, which members are supposed to follow, is a delusion. He notes, too, that the UK's recovery is built on sand.

...

House of Debt: How They (and You) Caused the Great Recession, and How We Can Prevent it from Happening Again, by Atif Mian and Amir Sufi, *Chicago*, RRP£18/\$26

Professors Mian and Sufi argue that "economic disasters are almost always preceded by a large increase in household debt". It is debatable whether this is a universal truth. But it is certainly true of the financial crisis of 2007-08. The authors argue, persuasively, for a shift from traditional debt towards contracts that share losses between the suppliers and users of finance.

...

War: What is it Good for? The Role of Conflict in Civilisation, from Primates to Robots, by Ian Morris, *Profile*, RRP£25/*Farrar, Straus and Giroux*, RRP\$30

Morris argues that war may bring peace, prosperity and progress. This is not always the case. Some war is simply destructive. But through war, more powerful and effective states emerge and these in turn have produced the security that then allows people to become more productive. The thesis is disturbingly persuasive. In a nuclear age, however, it is clear that the great powers will have to try something else.

...

Capital in the Twenty-First Century, by Thomas Piketty, translated by Arthur Goldhammer, *Harvard*, RRP£29.95/*Belknap Press*, RRP\$39.95

This was the blockbuster success of 2014 and was named the Financial Times and McKinsey Business Book of the Year. Despite the controversies surrounding it, the book throws much light upon one of the most important questions in economics: what determines the distribution of income and wealth. With an abundance of data and some simple and powerful theories, Piketty has made an immensely important contribution to the public debate.

...

The Dollar Trap: How the US Dollar Tightened its Grip on Global Finance, by Eswar Prasad, *Princeton*, RRP£24.95/\$35

It is by now the conventional wisdom that the dollar's primacy is coming to an end, with the Chinese renminbi the imminent successor. Prasad rejects this view. The role of the dollar as a unit of account and medium of exchange is indeed likely to be eroded, he agrees. But, he argues – to my mind, convincingly – the dollar's role as a store of value has if anything been strengthened by the crisis.

...

The Euro Trap: On Bursting Bubbles, Budgets and Beliefs, by Hans-Werner Sinn, *OUP*, RRP£25/\$45

Sinn is the best-known and most trenchant German critic of the way in which the eurozone has managed – or, in his view, mismanaged – the crisis. He rightly identifies the roots of the crisis in the huge divergences in competitiveness that emerged in the years leading up to it. This view from Germany shows just how difficult it will be to make the eurozone work successfully, even if one disagrees with some of the conclusions (which I do).

Printed from: <http://www.ft.com/cms/s/0/cd6bec74-7677-11e4-a704-00144feabdc0.html>

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