financial world are 'this time is different', for it almost certainly isn't. Financial crises frequently occur following a period of widespread delusion that something has changed to make the old rules – about how much debt is safe to hold, or how high share and property prices should go, or how dangerous inflation might be – obsolete. This is not to say that economic behaviour never changes: the disinflation that began in the 1980s, for example, was a genuinely new phenomenon, subsequently reinforced by the entry into fairly free world trade of giants China and India and by the widespread adoption in developed countries of strict monetary controls by independent or semi-independent central banks.

This did, for quite a while, hold down inflation and thus bend the old rules about how fast growth could be, or how low unemployment could fall, without causing prices to rise. But the point is that such phenomena did not change the rules forever. The false belief that they had done so contributed to a vast credit boom, to financial innovation that hid banks' true exposures, to a long rise in property prices, and to the extension of debt to portions of the population that were not well equipped to manage it. The result has been the turmoil we have all been living through since the credit crunch began in mid-2007.

Aftershock: Reshaping the World Economy After the Crisis
Philippe Legrain. London: Little, Brown, 2010. £12.99. 436 pp.

Many of the books about the economic crisis have been descriptions of the dramatic events at Lehman Brothers, say, or of what it was like to be the US treasury secretary at the time of the crash; others have consisted mainly of recriminations about the folly of the capitalist system and open global markets, or of how macroeconomic policy was mismanaged. Rarer have been books that take a constructive approach, proposing an agenda for how things could be improved in the future. Philippe Legrain's is one of these rare few.

Legrain is a former journalist who once wrote for the *Economist* (and therefore once worked for me) and a former special adviser to the director-general of the World Trade Organisation. As both roles suggest, he is an enthusiast for globalisation and for liberal economics in particular. His two previous books, *Open World: The Truth about Globalisation* and *Immigrants: Your Country Needs Them*, are both paeans to open markets and open borders. Given that the 2007–09 economic crisis has been truly global, characterised by a huge drop in world trade and by financial contagion on both sides of the Atlantic, you might expect him to be a bit defensive about the system he previously praised. Not a bit of it: in *Aftershock*, he argues that the crisis showed only that the system has been badly managed and not that anything is fundamentally wrong. He goes on to propose several ways in which it could be improved.

His principal suggestion is now uncontroversial among economists, though it has yet to be fully implemented by governments in either America or Europe: much tighter regulation of banks to force them to hold more capital as a cushion against shocks, to increase their capital when times are good, and to conduct all securities transactions transparently through public exchanges rather than in private. All this is intended to raise the cost of risky activities, and thus to discourage them, as well as to make the whole financial system more open to scrutiny and assessment. The most disturbing aspect of the crisis has been the extent of what is now known as the 'shadow banking system', and the vastness of the 'off balance sheet' holdings of securities by the banks.

Legrain's second proposal is less familiar and more radical: that governments desperate to reduce their budget deficits and get their debts under control should not raise taxes on income and employment, as many are wont to do, but rather on land values. This is an old idea, of which even Winston Churchill was fond, but one that has been too easily pushed aside by property-owning lobbies and, in the post-1945 era, by farmers. Unlike taxes on income and employment, land taxes do not deter hard work, and given that land is immobile, it cannot emigrate to Switzerland. The trick is to set a rate low enough to avoid mass land sales but high enough to generate sufficient revenue. Given that one of the main causes of this crisis has been excessive investment in property, in scores of countries, this ought surely to be an appealing idea.

Misadventures of the Most Favored Nations: Clashing Egos, Inflated Ambitions, and the Great Shambles of the World Trade System
Paul Blustein. New York and London: PublicAffairs, 2009.
£16.99/$27.95. 344 pp.

Global governance is a perennial topic for international conferences, and one that inflates great hopes that life on our planet could readily be improved if only countries would cooperate to resolve issues as varied as maritime safety, environmental degradation, overseas investment, financial regulation, monetary stability, defence and security, nuclear proliferation and trade. Of all the entities set up to achieve such cooperation, the one with the greatest claim to having established a successful formula for global governance, addressing a topic that affects virtually every country and indeed every person, is the World Trade Organisation (WTO). And yet Paul Blustein, formerly a senior journalist