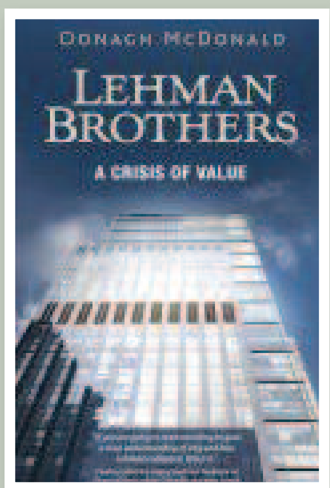
Bernanke catalogues his battles with Congress. These include his dealing with the libertarian Republican congressman Ron Paul and Paul's antithesis, the populist socialist Democratic senator, Bernie Sanders. They both held views refreshing in their "purity", without intrusion from "real world complexities".

Each had his own style: Sanders "shouted until he was red in the face", while Paul "usually rambled amiably". But Paul plainly tried even Bernanke's patience when he proposed that the Fed should be subject to a full General Accountability Office audit. His grounds for this, among other things, was a belief that Fed money had financed the Watergate break-in and facilitated Saddam Hussein's activities. Bernanke dismissed these notions as "absolutely bizarre". Paul could, however, be disarmingly honest. Before the Joint Economic Committee of Congress, Bernanke suggested to Paul that auditing seemed like an attempt to dictate to the Fed how to make monetary policy, only to be told by the congressman that "of course that is the only thing that counts". Paul later explained in his book, *End the Fed*, that auditing the Fed was the first step to abolishing it. Bernanke was, however, touched when Paul sent him a hand-written note when his father died.

Bernanke himself emerges as an engaging person, who shows how much America has changed in 50 years. The son of a Jewish pharmacist in Dillon, South Carolina, he attended a racially segregated school. He was persuaded to apply for Harvard by a local black boy, Ken Manning, who was a Harvard graduate student, who became a professor of the history of science at MIT.

Warwick Lightfoot



TITLE
Lehman Brothers: a crisis of value

AUTHOR
Oonagh McDonald

PUBLISHER
Manchester University Press (£20)

Oonagh McDonald has the knack of asking the right question. In her previous book, *Fannie Mae and Freddie Mac*, she described how the American dream of home ownership turned into a nightmare. This time she sets out to explain how so much apparent value was destroyed in the collapse of Lehman Brothers in 2008.

McDonald brings an unusual blend of skills to her analysis, as a former academic and politician who actually understands business and finance – including the more arcane areas. This means the book can be read as a primer, with helpful explanations of CDOs (collateralised debt obligations) and Repo 105, which Lehman perverted to portray borrowing as sales, hiding the extent of its leverage.

Regulators, including the SEC and the Fed, get short shrift

Her account spells out how a fragmented US regulatory framework failed to see the whole picture at rapidly growing financial conglomerates. And it suggests that Lehman, with 8,000 subsidiaries and affiliates, and 1.2 million derivative contracts, had become too complex to manage.

The main weakness is the absence of clear conclusions at the end of each chapter, and of the book itself. So you have to pick up McDonald's judgements as you go along. Some of them are clear. For instance, derivatives did not destroy value; it was the flaky assets they were derived from that were the problem.

Regulators get short shrift: "where exactly was the SEC" – or, indeed, the Federal Reserve – as investment banks took greater risks and failed to maintain sufficient capital? But, then, why was Lehman allowed to go to the wall when others were saved by takeover or, ultimately, the government?

First, Lehman had more rubbish on its balance sheet, having underwritten more mortgage-backed securities than any other firm. Under the leadership of Dick Fuld, it had deliberately set out on a "counter-cyclical growth" strategy of buying assets that others were shunning.

Second, Lehman did not just bend the rules; it blatantly cheated. On Repo 105, it broke external regulation, but it was also busting through its own risk limits – and demoting senior people who complained about this.

Third, there was a political decision to let Lehman go "for the good of the rest of the system", as the then Treasury secretary, Hank Paulson, said. What he and others failed to foresee was the ensuing cross-border contagion via the bank's myriad connections.

While Fuld's hubris is clear, and he is caricatured as the "Gorilla", the tipping point after his successful leadership of the bank through previous crises remains obscure in this account. McDonald's evidential approach and rather dry writing style are not really suited to human drama.

What she does do well is to apply an independent mind to some of the concepts implicated in the crisis.

For once, fair value accounting – valuing assets according to their current market price – gets an open-minded hearing.

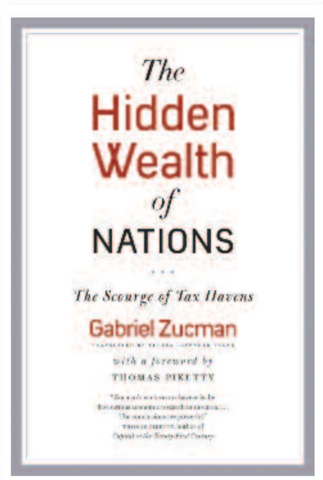
She is harder on the efficient market hypothesis, especially US economist Eugene Fama's original contention that any point-in-time price will be a good estimate of an asset's intrinsic value. After describing the toing and froing of academic debate, McDonald's own view is as good as any: "The price is simply the price that people will pay for a share at any one time". The idea that it represents permanent or intrinsic value is a "chimera".

Her (justifiably) harshest criticism is reserved for mathematical models, fed with inadequate data and divorced from the real world.

> Lehman's Dick Fuld is caricatured as 'the Gorilla'

Her last book pinned the blame for the subprime crisis on misguided public policy. This time the thesis is more complex and more like AJP Taylor's view of the first world war – that the protagonists stumbled into it.

Jane Fuller



TITLE
The hidden wealth of nations

AUTHOR
Gabriel Zucman

PUBLISHER
University of Chicago Press (£14)

Mention Switzerland, the British Virgin Islands or Jersey in conversation and they are likely to provoke contradictory reactions: Alpine villages, sun-kissed beaches and world-famous cows on the one hand, and "havens" for the tax-dodging wealthy on the other. While there is no denying the former, the latter is a stereotype past its sell-by date – however much it continues to make for good headlines. Alas, the economist Gabriel Zucman's book, *The hidden wealth of nations: the scourge of tax havens*, once more casts international finance centres (IFCs) as villains.

Zucman's calculations of $7.6tn of value in offshore centres are not far off those of Capgemini and the Boston Consulting Group, helpfully debunking some of the wilder figures claimed by "reformers", notably US economist James Henry and the Tax Justice Network, who weigh in with estimates of $21tn to $32tn. But Zucman joins them with his assertion that $200bn of tax is evaded annually.

His "evidence" is that 80 per cent of Swiss bank account-holders subject to the European Savings Directive opt to pay a 35 per cent "retention" tax, rather than exchange information, and that their deposits, therefore, must be "hidden". He then applies this assumption to all global offshore holdings.

But it was this very concern over suspected misuse of Swiss bank accounts that led the UK to negotiate an agreement with Swiss authorities to review all UK-owned accounts, hoping to recover £3bn in tax. The reality is that HMRC's own most recent figures place the amount expected to be recovered at less than a third of its original estimate, having overstated the scale of suspected tax evasion by a considerable margin.

A further weakness in Zucman's argument is that most centres do not offer a retention tax, and those that do are generally transitioning to full automatic information exchange, the new international standard. In fact, more than 90 countries will adopt full automatic information exchange by 2017.

Citing the highly regarded book, *Global shell games*, Zucman alleges widespread tax evasion through the use of shell companies. However, he omits to mention that Jersey, one of his examples, was commended in this same study as a model of transparency, capturing ultimate beneficial ownership information at point of incorporation to guard against the misuse of Jersey companies.

> Zucman overlooks how IFCs can benefit the global economy

Frustratingly, Zucman joins the chorus of offshore finance critics who deliberately overlook the ways in which IFCs benefit the wider global economy. In Jersey's case, such benefits were first revealed in the UK government's Foot Review in 2009, which showed that offshore financial centres make a huge contribution to the City of London's market liquidity, in turn helping UK banks to finance the wider economy.

Richard Gordon and Andrew P Morriss's study, *Moving money*, found that such criticisms were routinely based upon incomplete data, exacerbating misconceptions about how money actually flowed around the global financial system. They illustrated how attacks on IFCs routinely overlook the fact that most tax evasion and avoidance actually occurs onshore. In highlighting this inconvenient truth, they reveal that offshore centres have much to teach