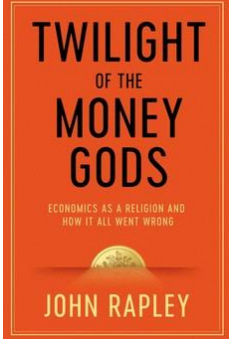


The Central Bank of Barbados Book Review Series seek to highlight publications which offer useful insights and analysis on topics related to finance, economic development, and other issues relevant to small island developing economies. The views expressed are those of the author(s) and do not necessarily represent those of the Central Bank of Barbados.

	<u>TWILIGHT OF THE MONEY GODS: ECONOMICS AS A RELIGION AND HOW IT ALL WENT WRONG</u>
	Author: John Rapley
	Publisher: Simon & Schuster UK (13 July 2017)
	ISBN: 9781471152740
	<i>Book Review contributed by Avinash Persaud</i>

If you asked economists before 2008 why we can't just print money to pay for the things we need, they would scoff and tell you that money doesn't grow on trees. Then they would invoke Germany's inter-war hyper-inflation as proof of the doctrine that more money only leads to higher prices. However, between 2008 to today, the world's major central banks printed \$12trn between them while the inflation needle hardly moved and many continued to be worried about the perils of deflation. This begs some heretical questions. If there are circumstances in which central banks can print money without causing inflation for a decade or more, why not print money and give it to the poor who are more likely to spend in a recession than bankers are to lend? Why not print money to finance infrastructure that will create future value? Quantitative easing is a Lutheran moment for Church of Economic Science.

In his brilliantly titled "Twilight of the Money Gods" published by Simon Schuster earlier this year, John Rapley prosecutes the case that economics is a religion, not a science. He argues that much of what counts as economic theory is doctrine, supported by a story or belief, not evidence. Economists would counter, that they follow Karl Popper's philosophy of science. They establish hypotheses and use data to refute them. Economists cast away refuted theories and add to the canon of theory those validated by the data.

Mr. Rapley argues in lucid, high-paced prose, that this is just a veil and that such a methodology cannot work when you are studying human behavior. Belief, he argues, changes behaviour, making prophecies self-fulfilling. If enough people believe that bitcoin is valuable, then it will rise in value. We assume that scientific theories are shaped by reality; but the economic reality can be shaped by a belief in economic theories. For instance, the wealthy, sponsor ideas around the idea that attempts to chasten the wealthy will inevitably cause economic instability and weakness. If a government gets elected with radical ideas, the wealthy and powerful send their capital abroad, thereby causing markets to crash, giving an impression of instability and

weakness. Consequently, Rapley argues, economic analysis is hopelessly conditional and contestable. The high priests of economics justify their exalted position as the most influential courtiers by pretensions of science, not science, he writes.

This fundamental critique of economics is a must read for all. Rapley is a historian of ideas, reveals vast knowledge and is a master of powerful imagery. But is he right? Darwin's theory of evolution was contorted into a doctrine of survival of the fittest, that in the eyes of the perpetrators gave scientific backing to Empire. Was this corruption of evolutionary science a sign it was not scientific?

In criticising economic science, Rapley states that "Maximising our gain is not always our principal motive for action, nor is it clear that the endless accumulation of wealth always makes us happier. And when we do make decisions, especially those having to do with matters of principle, we seem not to engage in the sort of calculus that orthodox economic models take as a given. The truth is, in much of our daily life we just don't fit the model all that well." That is a poor caricature of economics. If economists thought all that mattered was maximising one thing, differential algebra would not have come to dominate the economic discourse. Economic models have diminishing returns, all manner of constraints to the optimisation of well-being and also self-fulfilling booms and crashes.

Popper's test of science is its ability to make predictions that can be falsified with data. Economic models predicted that left to their own devices private firms would pollute the air and sea. Using taxes to force the market to price carbon to slow global warming is an application of a hundred-year-old economic antidote to private self-interest. Economists were predicting dire consequences for failing to do so before there was such a thing as climate science. Freer trade has caused the greatest shifts in income distribution around the world in the history of humanity, with many winners and quite a few losers – just as economics predicted. The architects of the Chinese and Indian growth miracles would argue that their countries moved closer to the precepts of economics not departed from it. In 2008 the North Atlantic countries could easily have followed the path of the 1930s – a financial crash, then a deep depression that only ended with a bloody war. It didn't happen because of economic policy: fiscal stimulus, no new trade tariffs and the printing of cash. The world is back to genuflecting at the high priests of economics. If 2008 was the twilight for the money gods, the night was short.

By the 1960s, the link between smoking tobacco and lung cancer had been proved. The tobacco companies were able to fund science and scientists to muddle the picture for the public and politicians. It took a further 20 years before we got the taxes and bans that curbed smoking and lung cancer. The equivalents of tobacco companies in economics are greater in number and more powerful. Even the hardest sciences can be corrupted by their funding. Rapley has done an important service to describe this pattern in economics, but I do not believe it is reason enough to abandon scientific pursuit in economics.