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Want to know why central bankers can't solve the world's problems? Read a book

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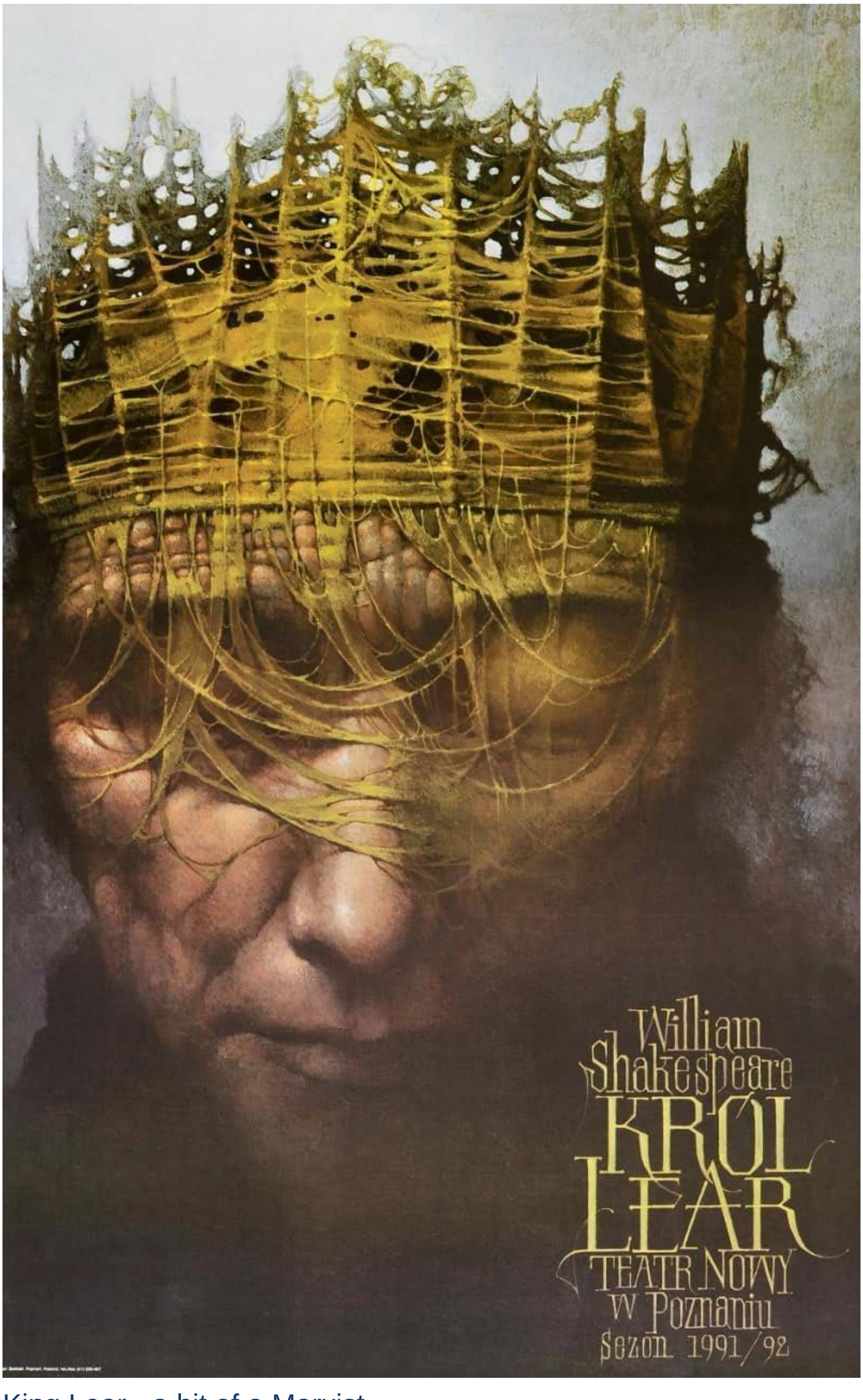
Goethe's Faust - central banking handbook?

Ever since the writer Thomas Carlyle coined his rude epithet about economics, the world of letters and the "dismal science" have circled each other warily. But in his new book about the history of the Nobel Prize, Avner Offer, a professor of economic history at Oxford University, says economics actually has more in common with literature than, say, physics.

It isn't an obvious pairing. Literature's understanding of economics is, at best, patchy and simplistic. Polonius's advice in *Hamlet* to "neither a borrower nor a lender be" is well-meaning. But, taken too literally, it would undermine the entire global financial system.

Yet the literary canon, in all its vastness, does occasionally, almost accidentally, brush up against economics.

The monetary principle known as Gresham's law, which states that "bad money drives out good", is said to have been prefigured by Aristophanes in *The Frogs*. King Lear, who thought that “distribution should undo excess/and each man have enough”, was clearly a bit of an old Marxist. And when Levin isn’t mowing in the fields or moping after Kitty in *Anna Karenina* he’s voicing Leo Tolstoy’s slightly warped views on agricultural reform.



King Lear - a bit of a Marxist

But those novels that really try to grapple with economic issues – like George Orwell’s *The Road To Wigan Pier*, which discusses why many of those that might best benefit from socialism are most implacably opposed to it – either date quickly or – like Ayn Rand’s paean to capitalism *Atlas Shrugged* – are borderline unreadable.

There are rare exceptions. The second part of Johann Wolfgang von Goethe's *Faust* is essentially an extended treatise on fiat money (currencies that are deemed legal tender by governments) and the perils of expansionary monetary policies.

Mephistopheles (the devil), disguised as a court jester, advises an indebted emperor to issue promissory notes against his country's yet-to-be-discovered gold, saying: "Such paper's convenient, for rather than a lot / Of gold and silver, you know what you've got. / You've no need of bartering and exchanging, / Just drown your needs in wine and love-making."

Which sounds great. And at first it works with the emperor able to pay off his debt. But, in time, the citizens do indeed drown their needs, consumer demand skyrockets and inflation torpoedos the country's monetary system. The lesson is one of the oldest in literature: be careful what you wish for.

Goethe's cautionary tale about the alchemy by which central banks turn paper (rather than lead) into gold remains relevant at a time when many modern governments might be tempted to inflate away their massive debt piles and print money to meet spiralling spending requirements.

In 2012, Jens Weidmann, the head of the Deutsche Bundesbank, answered the title of his own speech "Did Goethe hit upon a core problem of monetary policy?" with a clear "Yes". *Faust* also illustrates that the Teutonic phobia of money creation predates hyperinflation in the Weimar Republic by at least a century. (Unfortunately, the play has little to say about helping countries in a dysfunctional monetary union to escape from a deflationary trap.)

Jens Weidmann, President of German Bundesbank and Goethe fan

But literature is best used as a model for thinking about what economics can achieve. Carlyle was both right and wrong (a trick that writers can pull off): economics is a dismal science, but that's because, as Offer hints, it isn't really a science.

Physics, for example, works to unearth the building blocks and blueprints of the universe – theories are either proved or disproved. Economics and literature have a much trickier task. They are attempting to unravel the motivations of human beings who, as CS Lewis wrote, each contain "a zoo of lusts, a bedlam of ambitions, a nursery of fears, a harem of fondled hatreds" and predict what happens when millions of these messy bundles of contradictory neuroses bump up against each other to form what we sometimes laughingly refer to as society.

As Offer said in a recent interview with *The Atlantic*, economists are smart people, many of whom have good arguments, "but they don't have decisive arguments". He adds that this is fine because "we don't let economists run our society".

Well, yes, except we kind of do. The world's central bankers have unprecedented levels of power as politicians increasingly abdicate responsibility for tackling the world's most intractable problems.

Politicians can rail against central bankers and blame them for record low interest rates that slam the savings of the poor while inflating the assets of the rich. But this ignores the role of governments in setting the mandates of their central banks and failing to adopt fiscal policies that promote productivity.

The worry is that a trend towards "scientification" and "mathiness" in economics breeds false certainty among practitioners and engenders unrealistic expectations throughout society. Why do central bankers so often get things hopelessly wrong? Well, because they're only economists.

Merely an economist?

The best in the field, like the best writers, help us to understand what’s going on and grope towards a way forward. But these insights are qualified and subjective. And the process is bound to be messy given that there isn't any agreement, nor can there be, about our ultimate destination.

Perhaps we would do well to apply a WB Yeats test to all economists and central bankers: “The best lack all conviction, while the worst / Are full of passionate intensity.” Most of the answers – in both economics are literature – are, as the newest Nobel Laureate for Literature tells us, just blowin’ in the wind.