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What are economists for ?

"Most economists, it seems, believe strongly in their own superior intelligence and take themselves far too seriously. In his open letter of 22 July 2001 to Joseph Stiglitz, Kenneth Rogoff identified this problem. "One of my favourite stories from that era is a lunch with you and our former colleague, Carl Shapiro, at which the two of you started discussing whether Paul Volcker merited your vote for a tenured appointment at Princeton. At one point, you turned to me and said, "*Ken, you used to work for Volcker at the Fed. Tell me, is he really smart ?*" I responded something to the effect of, "*Well, he was arguably the greatest Federal Reserve Chairman of the twentieth century*." To which you replied, "*But is he smart like us ?"*

- Satyajit Das.

What are days for, asked Philip Larkin. His answer: they are where we live. Where can we live but days ?

"Ah, solving that question

Brings the priest and the doctor

In their long coats

Running over the fields."

What is economics for, we might then ask, given the conspicuous failure of the profession either to warn of the looming financial crisis ahead of time, or to identify any meaningful practical solutions once the crisis took hold. J.K.Galbraith gave one of the better responses:

"Economics is extremely useful as a form of employment for economists."

But P.J. O'Rourke's definition is probably better: economics being an entire scientific discipline of not knowing what the hell you're talking about. And there's some debate over the use of that adjective scientific.

It's that adjective scientific that gives rise to the essential problem with economics. It isn't a science, or at least it isn't a science that any decent scientist would recognise. Eric Beinhocker's excellent 'The Origin of Wealth' tells us that modern economics was born out of the Frenchman Léon Walras' singular failure to achieve anything with his life. Having failed dismally and

respectively at mathematics, engineering, journalism and banking, he elected thereafter to steal and misapply scientific principles from the world of physics to the nascent sphere of economics. And the rest is history. As computer programmers might have it: garbage in, garbage out.

The philosopher Karl Popper identified falsification (or 'testability') as the criterion that distinguishes between scientific and unscientific theory. Galileo called his own experimental tests ***cimenti***, or 'trials by ordeal'. Any scientific theory can be tested by experience – by observation or experiment. Try telling that to an economist. So we get a 'profession' that promotes 'theories' like the Capital Asset Pricing Model and advocates policies like 'quantitative easing' and that awards Nobel Prizes to people like Paul Krugman.

Here is an alternative definition of an economist. An economist is a sponsored clown jester in the employ of either a bank or a government (these days, there is not much between the two), whose sole purpose is to toe the party line. If the party is a bank, the party line is that banks need to be supported by the rest of society at any cost, even if that cost is a multi-year depression. If the party is a government, the party line is just keep paying your taxes and shut up.

To my knowledge there is only one sensible economic school, namely that of the so-called Austrians. The reason it is sensible is because it recognises the limitations of economic theory, and because it acknowledges the primacy of the individual, especially the entrepreneur, the fundamental wealth-creating force in the modern economy. The workings of 'the market' cannot be modelled with any precision because the market is ***us***. This would also explain why behavioural economics has a rational appeal in a world choked with dry and inappropriate theorizing.

Unfortunately for those of us with a purist's approach to the business of investing, 'the market' is rapidly becoming something of an endangered species. Your mission, should you choose to accept it, is to try and identify ***any*** asset of significance that isn't experiencing huge and artificial distortion to its price by forces that we might term 'the monetary authorities' and their huge and daunting printing presses. Inasmuch as participating in 'the market' is a game, it's a game of water polo with a blue whale as referee.

But there's the 'nice-to-have' market, and then there's the 'market-as-currently-exists', with all its attendant monetary debauchery and artificial, bad bank-perpetuating stimulus. We may not want to be starting the investment journey from here, but we do not have the choice. Amid all the stimulus and the QE and the LTRO, the bubbles denoting investment insanity are more than usually visible. They are, more to the point, wearing high visibility jackets, sounding klaxons, and wearing garishly coloured T-shirts and party hats announcing 'We are a giant bubble !' They include, but are by no means limited, to:

- 10 year UK Gilts yielding 2%
- 10 year German Bunds yielding 1.75%
- 10 year US Treasuries yielding 2%.

At the same time,

- UK CPI stands at 3.4%. Conventional Gilt buyers are losing money in real terms.
- Euro zone CPI stands at 2.3%. Bund buyers are losing money in real terms.
- US CPI stands at 2.7%. Treasury bond buyers are losing money in real terms.

Alternatively, whoever is piling into this horrible rubbish and appreciates income might want to consider instead the following FTSE 100 stock, here anonymized:

- It's in a broadly defensive sector
- It has an Altman Z score (our preferred balance sheet sanity check) of over 4
- It has a price / earnings ratio of 6
- It has an indicated gross dividend yield of 7%.

The fixed coupon government bonds above have no chance of protecting an investor from inflation. The common stock above has at least a fighting chance, but in the meantime offers a gross yield more than three times higher than any of them. We may be wrong, but by comparison to the poisonous trash currently trading in the government bond markets, the stock look more like an ***opportunity***.

Pop quiz. Without Googling, which former economist described quantitative easing in January 2009 as "the Robert Mugabe school of economics" – and by March 2009 had held true to a prevailing spirit of intellectual consistency and acknowledged that "directly increasing the amount of money flowing into the economy is now the only clear option" ? Clue: in 2008 he announced that "the Government must not compromise the independence of the Bank of England by telling it to slash interest rates". The following month, he called on the Chancellor to urge the Bank of England to make "a large cut in interest rates".

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