SEWERS OF MONEY

Going for Broke:
Confessions of a Merchant Banker
by Russell Taylor
Simon & Schuster, London £9.99 (paperback)

BANKING should be at the centre of financial confidence and economic expectations — but is it? Russell Taylor's book opens up a vista of change in the banking world that must make everyone question whether bankers continue to deserve our trust. This is a long, closely written book with pages of anecdotal detail and personal observation by a banker who has kept his files in perfect order and has a remarkable memory. There is no question but that he was also an honest banker and had many friends.

Some of the best writing covers his personal career. Once down from Oxford in 1958, he accepted a job with Mobil Oil Company as their first ever economist. By 1961 he had joined The Observer in London as their first City Editor. This experience honed his writing skills and provided some good contacts. By 1964 he had joined Hambros Bank just when the bank was exploiting the growing demand for asset-backed loans, unit trusts and the euromarkets. Later he was offered the London branch of the Bank of Sicily, a prestige position that propelled him into the middle of international banking and provided him with a big salary jump. From such a vantage point Taylor observed the underpinning of world commerce, the shoddy trading practices and crooked accounting, the costly frauds and loss of trust.

This loss of trust, he points out, is the cancer that destroys economic vitality. "Credit", we are reminded, comes from the Latin word for trust. Thus, when businessmen no longer trust their banks to make payments to suppliers, business fails.

The Great Crash on Wall Street in 1929 gave rise to some banking reforms but these passed banking risks onto taxpayers and customers. Regulating banking has proved much more complicated than politicians had planned, especially the regulation of international lending which requires greater skill than domestic banking and the cost of mistakes is heavier. Third World debt crisis of 1982 exposed the world to a banking crisis graver even than that of the 1930s. And it appears that banking 'mistakes' are happening now more frequently and on a grander scale.

One banking secret revealed is to lend customers the money they need to pay the interest on the loans that they can neither repay nor service. This way everyone can pretend that bad debts are good loans, and that losses are profits, and that dividends are not being paid out of shareholders' capital. Taylor understands well the nature of banking and knows its history. Much of this book deals with the excitement of banking and the profitable involvement in world affairs: governments always need money and bankers never refuse political honours, such as a seat in the House of Lords, or for French bankers, a senior rank within the Legion d'Honneur.

So while world prosperity demands that major banks do not fail, or losses must be made good by domestic customers, we pay for such losses either through taxes, with which governments rescue bankrupt banks, or through greater borrowing costs, lower deposit earnings and higher charges for banking services, or even through unemployment and business bankruptcy.

Technology has dragged banking from the 19th century into the 20th century in less than three decades. Countless banking jobs have been replaced by automation. Computer software is now clever enough and the hardware cheap enough to enable computers to assist banking judgement. Such technology has quickly enabled bankers to make banks into large centralised enterprises, sometimes modelled on military patterns of command. But too often destruction has followed. World wide, banks have lost trillions of other people's money. The story of Canary Wharf is just one disaster of many. Development in London's docklands defeated the Canadian Reichmann brothers and gave rise to the world's biggest commercial failure. But this was but a small part of the lending spree of the 1980s.

Taylor thinks that "Economists still do not understand the workings of the business cycle." But he may be wrong about this. Surprisingly he makes no mention of the importance of land deals or how banks fuel land speculation. The systemic flow of money into land transactions, giving rise to ever higher land prices and the hype in property values that follow, indicate that booms and busts will continue to be fuelled by the financiers.

The quality of the writing gives the reader a bumpy ride, steering as he does rapidly between one period and another, from one country to the next, from Japanese banking today, back to a situation in Norway or how Barings financed Prussia long ago. But he loves his subject and is generous with information. Robert Maxwell's dishonesty, publicly proclaimed as early as 1971, lines up with the many banks caught in his coils including

Citibank, the Swiss Bank Corporation and four English clearing banks.

Taylor suggests that bankers have much in common with sewage works: sewers link communities through the collection and disposal of their wastes. Banks link these same communities through their wealth! "Customers take their bankers and garbage collectors for granted and only notice them when the service fouls up".

Finally he supplies us with a thought for the day. He writes: "Neither banking nor plumbing is necessary for life. The world for most of its history — like the majority of its population today — did without either."

If anyone works in a bank, puts their money in a bank or, indeed, manages a bank, they should read this book.

JULIA BASTIAN

GRAPHIC MISREPRESENTATION

Educating Economists

David Colander and Reuven Brenner

University of Michigan Press, Ann Arbor

ACCORDING to the fourteen economists who contributed to this volume, the teaching of economics at North American universities is in a sad state. It had been steadily, even rapidly, deteriorating even as the numbers of those entering post-graduate study (PhD candidates) expanded.

PhD studies become, perforce, more narrow, more specialized, more theoretical. In graduate economics they have become overwhelmingly mathematical as well.

Inevitably, it is from this more 'educated' crop of economists that universities choose to hire when filling posts in departments of economics. Among the results are students increasingly turned off economics as a study, and economics majors who graduate in a mental fog. It has come to the point where the academic professionals are talking only to one another. A million a year ill-taught students are added to those affecting the countries' economic policies, and the universities are graduating students who are no use to employers. One professor is so disgusted with the state of PhD programmes in economics that he advises his best undergrads to "obtain their graduate degrees in business schools rather than the leading economics departments."

The authors' most severe criticisms of the typical grad programme in economics include:

i) Students are not given even a superficial knowledge of facts.

ii) Too many 'models' are mere speculations or unfounded opinions.

iii) Obscure vocabularies initiate and perpetuate confusion.

iv) A frequently repeated idea passes for evidence. "The result is not only that 'truth' is not taught, but worse: ...a lie is being taught — exactly, logically, and with great precision and solemnity."

v) Lack of reliability in aggregate measures, be it GNP, consumer price index, or others, is very much glossed over.

vi) Incentives to academics to publish far exceed incentives to read. The result is only linguistic confusion and little progress.

All of this sounds bad enough as a critique of PhD education, but worse is implied by the fact that most teaching of undergraduate economics is done by these same narrow PhD students, not by tenured faculty. (It costs the universities so much less to employ these near-PhDs as instructors; this is the evident rationale for the existence of 90 doctoral programmes in economics in the U.S.)

The authors, some of whom are professors of economics, and all of whom take the study of economics seriously, do not want to be too hard on academe. They offer suggestions for course improvement ranging from the simple:

> Principles of Economics could be taught with three or four graphs. If it were, it would probably teach more ideas to students than our current approach accomplishes;

to the wholesale reworking of the structure and content of economics curricula; and a list of criteria for employing teachers of undergraduate economics.

Economists are not the only social scientists (or indeed, the only scientists) who find themselves "letting their sense of reality succumb to their theories." A whole hierarchy become interested no longer in staying open minded but, on the contrary, in eliminating rival viewpoints. The latter is probably the main reason the authors, in spite of their willingness to make constructive suggestions, seem quite despairing about achieving the needed radical reform in the teaching of economics.

Even the most optimistic contributor must be counted as not very hopeful (Colander), for he includes this aside: "Given the right configuration of the stars (and a blue moon), reform is possible."

MARY RAWSON