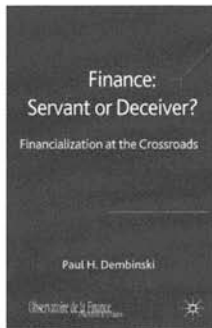


Title: **Finance: Servant or Deceiver? Financialization at the Crossroads**

Author: **Paul H. Dembinski**

Publisher: **Palgrave Macmillan (£60)**



Paul Dembinski is professor of economics at Fribourg University. His book's principal message is that we should all be more realistic about our life-time consumption and we are probably too materialistic. It is not a chance or accident that one of the encomiums for the book reproduced on the dust jacket is from the Rev Justin Welby, the Dean of Liverpool Cathedral, who says the book offers an "ethically driven critique of the false path down which western economies have travelled".

Dembinski draws widely on religion, philosophy and history and provides a convenient summary of the principal monotheistic religions' approach to usury. Having read much of the literature on religion and the rise of capitalism, and the handicap that Catholic societies had because of the Church's attitude to usury, I often wondered when, and precisely how, the Church became reconciled to it. The answer? Papal Encyclical *Vix Pervenit* issued by Benedict XIV in 1745.

The first part of the book is a complaint about modern economics, the mathematicised character of economic modelling and the lack of realism. Dembinski argues that, as a result, many economists end up being unable to see the wood for the trees. There is plainly something in this. Yet the neo-classical framework, albeit brittle in its assumptions, is a very powerful analytical tool. People such as Gary Becker and Judge Richard Posner use it to examine all sorts of things such as education, gender and race discrimination, and

crime. They have given us compelling and interesting analysis. Leaving financial markets aside, it is the compelling character of this analysis that has led to the intellectual imperialism of economics: its application to areas normally considered off-limits to economists.

Dembinski offers a powerful critique of both corporate monopoly power and the way that financial intuitions have failed in their elementary fiduciary responsibilities. He illustrates how modern corporations fundamentally intrude on consumer sovereignty. Consumers are pressed to buy things, say a washing machine, and then also to make service-related or often insurance-related payments on the purchase because the machines suffer from built-in obsolescence. The principal framework of analysis for approaching these things is the work done by Joseph Stiglitz, for which he got the Nobel Prize, and which explores adverse selection and asymmetries of price information in markets.

There is no doubt that this manifesto is rather churchy. It aims to offer a life of greater meaning and to overcome people's sense of ethical helplessness. It repeatedly refers to the "Golden Years" 1945-1973, as though everything was just dandy and takes no account of the accumulating structural economic challenges and their culmination in an inflation crisis.

Dembinski makes a curious point. He asserts that economists today failed to identify the defects in financial markets in the same way that they failed to notice the failures of command or socialist economies. Apart from overtly Marxist economists such as Maurice Dobbs, most of the economists who looked at them identified what worked "after a fashion" and highlighted their flaws, irrationalities and failures. I am sure that Dembinski is right when he says the real and manifest failures of Soviet planning were better told in novels and travellers' tales than by economists.

Warwick Lightfoot