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The Price of Time: The Real Story of Interest by Edward Chancellor, 398 pp, Allen Lane (2022), £25.00

In the aftermath of the Global Financial Crisis (GFC) of 2008, the economic landscape changed significantly with a distinct deceleration in trend growth, increased indebtedness, greater inequality and increased asset price volatility. In the book titled "The Price of Time", Edward Chancellor provides an insightful account of the role played by interest rates, or the time value of money, in past episodes of financial crises. The message of the book is that while central banks usually resort to ultra-easy monetary policies after a speculative bubble bursts, explaining such actions as desirable for reviving economic growth while ignoring their financial implications can be costly.

The book is divided into three parts, covering 18 chapters. Part one gives a historical perspective on the concept of interest rates, tracing its evolution and how it found legitimacy under the capitalist system. The author also discusses the historical antecedents of easy monetary policy and the macroeconomic wisdom prevailing at that time. Part two examines the adverse consequences of ultra-low interest rates, which are often touted as a panacea in an economic downturn. In essence, the author examines how low interest rates influence the allocation of capital, financing of companies, distribution of wealth and level of savings. Part three examines the spillover effects of the easy monetary policy of the US on the rest of the world, particularly the developing economies.

The story of interest begins, according to the author, in third millennia BCE in Mesopotamia, where credit transactions in the form of productive loans of seeds and animals were common. Interest rates then were similar to those in the modern world, with varying rates and risk premia. Interestingly, great minds of the ancient and medieval times, from kings to religious authorities and philosophers, did not always view interest rates favourably. However, as the capitalist system matured with an expansion in trade and commerce leading to a rapid increase in credit demand, the intellectual opposition to

levying interest rates softened. It came to be viewed as the reward for foregoing current consumption for future profits.

In the next few chapters, the author takes us on a journey through the 17th century to the 20th century, highlighting the destabilising effects of an ultra-easy monetary policy. The author narrates John Law's infamous Mississippi experiment, which *via* a deceptive fiat currency system unleashed a speculative frenzy, wreaking havoc in France. The author also explores the thesis of Walter Bagehot, the most celebrated financial commentator of the Victorian era, who documented in his magnum opus "Lombard Street" (1873) how a central bank should behave during a financial crisis. While Bagehot recommended "lending freely against good collateral at a penalty rate", Chancellor bemoans the lending at low interest rates against poor quality collateral for longer time periods by modern central banks, deeming this as selective application of the Bagehotian wisdom.

The author then draws our attention to the economic landscape in the US prior to the Great Depression. Under the gold exchange standard, the Fed could pursue an 'active' monetary policy as compared to the classical gold standard. Further, the monetary order prevalent at that time was influenced by the construct of a 'natural rate' of interest, expounded by Swedish economist Knut Wicksell in his work "Interest and Prices" (1898). This was defined as the interest rate compatible with a stable price level. The 1920s were characterised by stable prices and high productivity growth, fuelled by supply side improvements; in fact, this period was called "The Roaring Twenties". Backed by this stable index of consumer prices, the Fed adopted an easy monetary policy regime.

The Fed, however, was heedless of the boom in credit due to the low interest rates, which financed stock loans and real estate mortgages, creating asset price bubbles. Eventually, to curb these speculative bubbles, the Fed raised its policy rate, which set in motion a chain of events culminating in the Wall Street crash of October 1929, sending the country into a deflationary spiral. Through these historical instances, the author builds his fundamental argument in the book: interest rates below the 'natural rate' can unleash a 'speculative inferno' which can be difficult for central banks to tame.

The focus of the second part of the book is on the developments in the 20th and 21st centuries, prominently the GFC. The author explores in detail the pitfalls of an exclusive focus on price stability, which continued to be the mainstay of the US monetary policy during these centuries. Referring to Alan Greenspan and Ben Bernanke, the author rues that for these policymakers, it was more important to keep the 'deflation bogeyman' at bay, than acting pre-emptively against asset price bubbles. As the policy rate trailed behind economic growth during 2003-08, monetary policy became as culpable as any regulatory lapse, according to the author. In response to the GFC, the Fed again slashed interest rates and acquired trillions of dollars' worth of securities. And yet, for years after the crisis, western economic growth continued to falter, leaving policymakers flummoxed.

Drawing on the research by Claudio Borio and his team at the Bank for International Settlements (BIS), Chancellor highlights four main issues arising out of low interest rates. First, it distorts the allocation of capital by promoting mal-investments. This was visible in Europe after the Eurozone crisis of 2010 and in Japan in the 1990s, where cheap credit led to 'zombification', helping loss making companies to survive and thrive. The author refers to 'unnatural selection', a sardonic distortion of Darwin's theory of natural selection, which occurs when easy monetary policy facilitates large scale investments in start-ups, most of which would be loss-making propositions in the normal course of business.

Second, low-cost debt artificially boosts stock valuations. Chancellor provides many examples of American firms which resorted to large scale buybacks and became highly leveraged, taking advantage of the differential between the cost of equity and debt. The third issue relates to the regressive impact of low interest policies on the distribution of income and wealth. As wealth gets created from stocks, it gets increasingly concentrated in the hands of the financial elite. By contrast, in the aftermath of the GFC, many lost their hard-earned savings invested in the housing sector. The author attributes the widening gap between the top 1 per cent and the rest, in part, to 'financialisation'. Importantly, this gap exacerbated after 2008 owing to the zero-interest rate policies.

Finally, low interest rates encourage households to save less and consume more, thereby increasing their indebtedness. As it can bring down the return on retirement investments, people may be forced to work beyond their retirement age. In sum, a stable price level may not preclude other distortions in the economy.

In the third part of the book, Chancellor highlights the increasing susceptibility of emerging markets to the US monetary policy. After the GFC, foreign capital poured unhindered into developing countries, leading to appreciation of their currencies. Their central banks intervened in the currency markets to prevent this appreciation and accumulated large foreign exchange reserves in the process. As these economies started overheating by early-2010, inflation started rearing its ugly head, leading to commodity price bubbles. The sensitivity of emerging markets to the US monetary policy was also evident in the 'taper tantrum' of 2013, when these economies suddenly suffered massive capital outflows, faced with a large foreign currency debt and rising interest costs.

The book also contains a discussion on the adverse effects of a low interest rate policy in China, described as financial repression by the author. Capital controls ensured that Chinese savings were invested domestically, while interest rate controls *i.e.,* keeping real interest rates negative, depressed household incomes. Low interest rates also led to a boom in investments, although the quality of investment, much like in the West, left much to be desired. Low interest rates also funnelled household savings into risky shadow banks as was the case with the western economies after the GFC.

The author calls the current trajectory of monetary policy as "the New Road to Serfdom", a spin on the title of Friedrick Hayek's seminal work critiquing central planning. In controlling interest rates, policy makers risk creating an inherently unstable financial system, according to the author.

The book begins with an interesting debate between Pierre-Joseph Proudhon and Frederic Bastiat on the legitimacy of interest rates. While Proudhon derided interest rates calling them 'theft', Bastiat argued that interest was the reward for lending and free credit was a recipe for disaster. Bastiat

differentiates between the ‘seen’ and ‘unseen’ effects of any policy. While the former are evident immediately, the latter must be foreseen. Chancellor recounts various events from economic history to reason for why he aligns with Bastiat’s view. He cautions policymakers against being oblivious to these ‘unseen’, adverse effects. Chancellor, thus, provides a compelling narrative on the role of monetary policy in various economic crises encountered till date, making this book an invigorating read for general readers and policy practitioners.

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