



Russell Napier's 'ideas factory' encompasses a world of financial blunders

WELCOME TO THE LIBRARY OF MISTAKES

It's not easy to find Britain's most unusual library so we asked its founder, Professor Russell Napier, to explain his goal to change the world – one mistake at a time.

WORDS LEILA JOHNSTON

There is a playful, otherworldly charm to everything about the 'Library of Mistakes' (LoM). Even its whereabouts feel like part of the game – no flâneur of Edinburgh's leafy New Town streets would ever stumble across it by chance. Duck through the gap near the coffee booth, persevere down the cobbled back road. Push on past rows of garages hosting luxury vehicles and secret enterprises, and then, just as you're about to give up, you'll see the sign. On

a fresh, white gable end, Einstein's words come at you suddenly, in large red letters: "The only thing that you absolutely have to know is the location of the library." Some may question the relevance of a physical library these days, but Einstein's words are a clue: it's about having somewhere to go. Ideas have roots in a time and place, and libraries honour stability and physicality. And for all the knowledge instantly available online, our access to true inspiration is limited. Digital shows us what we want to see 'on demand', and algorithms dutifully reinforce our echo chambers. With



serendipity on the slide, it's invigorating to be surrounded not just by knowledge but by surprises.

This is a physical collection dedicated to the consequences of human folly. It's a warning to those who think they know best, and I defy anyone to visit this library and leave without feeling gently challenged. You probably won't stick to the book you had in mind before you arrived. And you'll leave feeling more relaxed after spending time in a place that bathes you in knowledge without first demanding the right keywords.

READING THE ROOM

The space is airy, stylish and – strangely, given they only relocated to this building last spring – like it's always been here. Where a Guide Hall once stood, now there is a reference library straight out of a Carl Spitzweg painting. It's all wood panelling, cast-iron spiral staircases, and stuffed armchairs for relaxing into the deliciously musty pages of *The Pound in Your Pocket: 1870-1970*, or *OPEC: The Inside Story*, while the world rages on outside.

Every ideas factory must have its Willy Wonka, and the LoM's Keeper, Russell Napier, is a well-known name across the global finance community. In addition to the library, he's known for his books (most recently, *The Asian Financial Crisis 1995-98*, which he watched unfold first-hand) and for being particularly vocal on government-controlled price-setting he calls 'financial repression'. A self-styled finance historian, a nonconformist, and a sort of industry Cassandra, it's hard to think of anyone better placed to initiate this project.

As I sit down for tea with Russell, I notice our mugs have tulips on – a reference to a 17th-century investment bubble that saw the price of tulip bulbs in the Netherlands soar and then crash. This is just one indication of the playfulness that infuses everything here. And while there's something instantly delightful about a literal catalogue of errors, there is a very serious point to the project, too.

"The Library of Mistakes (LoM) is basically a business and financial history library," says Russell. "But we have to call it a 'library of mistakes', or no one would come. The reason it's necessary is that most people in finance don't study its



There is even a T-shirt for the place where serendipity rules

WISE WORDS

Here is a selection of thought-provoking nuggets that can be found within the 4,000 books of the Library of Mistakes.

"We see one nation suddenly seized with a fierce desire of military glory; another crazed upon a religious scruple; and neither of them recovering its senses until it has shed rivers of blood."

Extraordinary Popular Delusions and the Madness of Crowds by Charles Mackay, 1841

"In January 1996, the British Council organised a seminar entitled 'How can democracy be sustained?' The keynote speaker, Brigadier Julius Maada Bio of Sierra Leone, was unable to attend, however, as he had just overthrown his country's government in an army coup and his first decree was to cancel the forthcoming elections."

The Ultimate Book Of Heroic Failures by Stephen Pile, 2011

"When we get our history wrong, it can have far-reaching and

unexpected consequences for how we view ourselves and make sense of the world. History, whether we like it or not, has an annoying habit of being relevant."

Past Mistakes by David Mountain, 2020

"Predictive models are, increasingly, the tools we will be relying on to run our institutions, deploy our resources and manage our lives. But these models are constructed not just from data but from the choices we make about which data to pay attention to – and which to leave out. Those choices are not just about logistics, profits and efficiency. They are fundamentally moral."

Weapons Of Math Destruction by Cathy O'Neil, 2016

"Parker Pens alarmed its Mexican market with ads intended to read 'It won't leak in your pocket and embarrass you' because, in fact, the ad stated 'It won't leak in your pocket



and impregnate you'. The company had managed to confuse 'embarrass' with the Spanish verb 'embrazar' or 'to impregnate'."

Brand Failures by Matt Haig, 2003

"Don't wear shoes memorable enough to be recognised under a bathroom stall."

Straight To Hell by John LeFevre, 2015

"In Woody Guthrie's words, some men rob with a six-gun and others with a fountain pen. Right now the businessman or money manager need fear the well-dressed stranger bearing securities as certainly as he fears a shadow slanting out from the alley at dusk."

The Fountain Pen Conspiracy by Jonathan Kwitny, 1973

"There is plenty of data showing that women have, on average, smaller hands than men, and yet we continue to design equipment around the average male hands as if one-size-fits-men is the same as one-size-fits-all."

Invisible Women by Caroline Criado Perez, 2019

"Investors need to understand much more than the intricacies of finance and economics. Sociology, technology, psychology, political science and, most importantly, history are required to



inform the mental model of investors. The bubble triangle has been sinking investors since 1720."

Boom and Bust by William Quinn & John D Turner, 2020

"As long as there are people running the world, human emotions will continue to play the deciding role. The play of these emotions makes for wars, for bull stock markets, for bear stock markets, for tulip manias, for Mississippi schemes, for South Sea Bubbles, for dance crazes."

The Manipulators by Leslie Gould, 1966



"At Northern Mexico's Saltillo Prison, several convicts spent five months digging a tunnel to freedom. A parade of 75 convicts burst

through the floor at the end of the tunnel – into the courtroom where most of them had been sentenced."

Why Things Go Wrong by Laurence J Peter, 1985

"Imagine a speck of dust next to a planet a billion times the size of the earth. The speck of dust represents the odds in favour of your being born; the huge planet would be the odds against it. So stop sweating the small stuff. Don't be like the ingrate who got a castle as a present and worried about the mildew in the bathroom. Stop looking the gift horse in the mouth – remember that you are a Black Swan."

The Black Swan by Nassim Nicholas Taleb, 2007

'ABOUT 25 YEARS AGO, THE EFFICIENT MARKETS HYPOTHESIS TOOK OVER'

history. University is very focused on the 'mathematisation' of finance."

So a library of financial mistakes is a collection of everything that is excluded by the mathematical approach to economics – and that's a lot.

Russell lists the oft-derided soft sciences with enthusiasm: "Sociology, philosophy, politics, mass psychology, anthropology. We have a series of lectures here that show these things to be just as important to understanding financial systems as the maths."

The advantages of looking at a more complete picture of finance seem clear to me, and the library's sell-out events, online history course, popular podcast and YouTube channel suggest I'm not the only one thinking this. So why isn't there a more rounded approach to financial education?

"About 25 years ago, the 'efficient markets hypothesis' took over," Russell explains. "It agreed that all available information was in the price. But when you think about it, the definition of history is 'all available information'. We have to assume that all available information is not in the price, or what would be the point in studying history?"

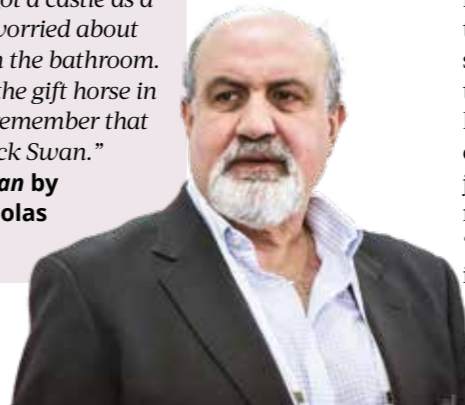
Russell believes the world is gradually getting on board with the message.

"I think there's more evidence every day that this stuff is important, and people are realising it. The relationship between society, politics and markets is not stable. It shifts. There's no point using a model where they never change. The time may have come; people are getting more interested as they realise there's more to markets than mathematics."

MISTAKES: HOT RIGHT NOW?

If a gradual move towards this approach to knowledge is under way, and the success of the library suggests that it is, then something must have changed. I suggest the timing of the financial crisis could be significant, that perhaps we're just far enough away from 2008 for a new generation to reflect on it as 'history' without feeling too emotionally involved for clear thinking. Russell

Far left, Ruth Dudley; above, Charles Mackay; below, Nassim Nicholas Taleb



'A SERIES OF EVOLUTIONS ARE UNDER WAY, GOING AT DIFFERENT PACES'

laughs, "well, it's always easier when it's someone else's mistakes, isn't it?"

But he agrees the crisis was a turning point in financial education. Indeed, it was part of a series of events that inspired him to raise money from donors in Edinburgh to create the original Library of Mistakes in 2014, tucked away in a tiny West End mews.

"A major moment was the Queen opening a building at the LSE in 2008," Russell says, relating how the late monarch unexpectedly spoke for the nation when she frankly asked the economists how it was possible that no one had predicted the crash. At the same time, economics students at the University of Manchester were facing questions from their families, which their education hadn't given them the answers to. So the university began to change its courses to be more reflective of what was happening in the real world.

Russell tells me that philanthropist George Soros's New York and Cambridge-based 'Institute for New Economic Thinking' (INET) was a 'starting gun' for research projects that challenge the economic orthodoxy, and events since the financial crisis have only served to further focus the mind.

"As we sit here today, we're in a hot war with Russia and a growing cold war with China," he says. "A standard degree in finance will give you no perspective on

how these huge world events affect markets. Also, the governmental responses to Covid-19 were of a type that aren't in the textbooks but they are in the history books. So I think there's been a series of triggers since 2008, and it's really governments and geopolitics that are making people think there's something else to this. There's no major revolution, but a series of evolutions are under way, going at different paces."

Sitting in this beautiful space with our tulip mugs, it's hard to think of a gentler, more British way to bring about seismic change. No shouting, no political angle, just the facts delivered with good humour. You can sit in an armchair here and feel your sins, as a human, being reflected from every wall. But it's OK, the library says. We all make mistakes.

Beyond the books, there is a collection of objects that adds to the story – a framed photo of legendary fraudster Charles Ponzi, a grainy advert for Betamax video recorders, an Enron baseball cap. Failed currencies and a Barings Bank football shirt are carefully protected behind glass. Rather than easy mockery, everything is displayed with the defiant pride of an old tattoo.

WHAT'S IN A NAME?

The library project has evolved over the years – in an organic, non-mathematical way, of course – and its impact is



The impact of Russell's brainchild is now global, with other libraries following suit

increasing. Part of the success since last year's move to the current space is down to the focus on live speakers. Talks with high-calibre thinkers and authors of new books are streamed online, and a new breed of LoM fans is emerging. Russell tells me they used to welcome an older demographic but that young people are coming to the talks much more now.

There are also now Libraries of Mistakes in India and Switzerland, plus a London library in the works, and at least five more worldwide. I can't help but wonder how well Russell's self-deprecating voice translates outside of the UK. He obliges: "I went to an

organisation in Manhattan – I won't say who – to persuade them to open one. After half an hour of listening to me, the guy said, 'this is Manhattan, we don't do mistakes'. Of course, the truth is that Manhattan is the world's greatest exporter of mistakes! It's the financial capital of the world so, if anything, it probably has more mistakes than most."

THE PERSONAL TOUCH

A strapline used by the LoM is 'Changing the world, one mistake at a time', and it might as well be 'Changing minds, one visitor at a time'. The one-at-a-time approach is powerful, it feels personal. If you book a visiting slot through the website, the librarian will do her best to ensure you have the place to yourself.

"You'll notice most of our donors are individuals," says Russell. "Individuals can cope with the word 'mistakes'." He gestures to the stage area at one end of the hall, where a long list of names is printed down the wall in cursive font.

"But the word is a problem for institutions. They shy away from these associations. Still, it's a good name. People like it, it gets attention."

If the library is to result in fewer business and financial mistakes in the future, it will have to reach individuals with their hands on important levers. There is a course for investors, run

HATS OFF TO FREDDY

"We have a Captain's hat from Laker Airlines. In the 1970s, the air industry was a complete monopoly. A guy called Freddy Laker decided that he would attempt to break the monopoly by flying across the Atlantic with Laker Airlines. He had almost no chance of success; it was an oligopoly – and in the end they did destroy him. But he had a damn good go, and I was lucky enough to get a hat."



TROUBLE BREWING

"I was in the Bahamas recently. My mate runs a brewery there called the Pirate Republic. Sam Bankman-Fried asked them to make a beer for FTX. We have an empty tin here in the collection; it's called Disruptor IPA, with the slogan 'brewed by pirates, for pirates', so we wondered if it would be claimed as evidence."

alongside the LoM, which Russell credits with "probably more impact than the library". It's been running for 18 years, so a whole generation of mistake-makers have been through it, and you can find a link to it on the LoM website.

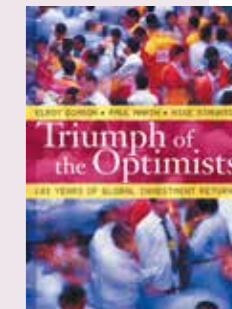
THE INVISIBLE HAND

When I ask Russell which mistakes he thinks we're making right now, he responds immediately. "The biggest thing in the whole of our society is the role of price. When I was a boy, we let the market decide the price of more things. The markets aren't perfect, but on the whole they're better than governments at setting prices. Price being determined by supply and demand, according to Adam Smith's invisible hand, is a good way to allocate resources, and we're going the other way now."

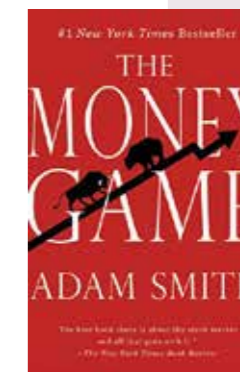
The history books have a warning here. Russell reflects on resource scarcity and cites Venezuela's hyperinflation crisis. "We're moving slowly in that direction. I think that's a huge mistake, I can't see any way back from that." I can't help but laugh in surprise at the bleakness. "Well," he says, quietly setting down the tulip mug. "You did ask."

PRESCRIBED READING FROM THE KEEPER OF THE LIBRARY OF MISTAKES

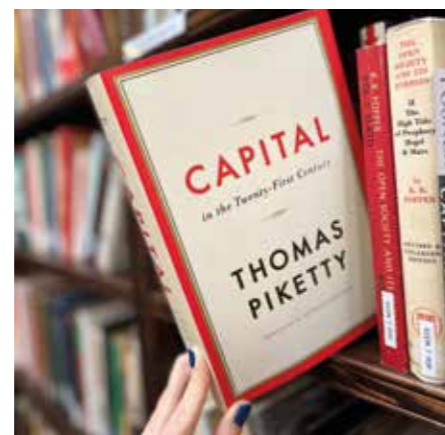
- ◆ *The Anguish of Central Banking*. It's a 1979 book by Arthur F Burns and is more interesting than it may sound.
- ◆ For the titles alone, I would recommend *The Popular History of Taxation* and Hjalmar Schacht's *My First 76 Years*.



- ◆ The book that I recommend everybody to read is *Triumph of the Optimists* by Elroy Dimson, Paul Marsh and Mike Staunton, which gives the history of returns. It calibrates you to what is possible.
- ◆ The most entertaining book about finance is *The Money Game* by Adam Smith – not that one, but the pen name for a guy called George Goodman. It's a fictionalised account of the tech boom of the sixties.



Written before decimalisation, Wilsher charts the fortunes of the humble quid



Piketty analyses data from 20 countries to find economic and social patterns



Dip into the enlightening history of the oil industry with Terzian's OPEC inside story