

## Can Central Bankers Save the World?

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“E ven the most practical man of affairs is usually in the thrall of the ideas of some long-dead economist,” John Maynard Keynes famously said. Thankfully, Ben Bernanke, the chairman of the US Federal Reserve and a former economics professor who had studied Keynes and the Great Depression, has been one of those practical men. Bernanke responded immediately to the financial meltdown five years ago by making the Fed the lender of last resort—in effect, creating money to keep the economy functioning as the entire financial system spasmed—as Keynes would counsel.

*The Alchemists* is the story of how Bernanke and the heads of the two other central banks deeply involved in maintaining the Western financial system during the Great Recession—Jean-Claude Trichet of the European Central Bank and Mervyn King of the Bank of England—acted together and separately to address the crisis. “The three men didn’t know it yet,” Neil Irwin writes, “but they were in the early stages of what would become perhaps the world’s most important partnership.”

Irwin, a *Washington Post* economics columnist, also provides a history of central banking. He takes the reader to seventeenth-century Sweden, where the king decided to engage in a bit of “financial innovation”—creating a central bank in which the copper plates used as currency were stored, and then lent out. The king and his central banker, an expatriate Dutchman named Johan Palmstruch, also came up with the idea of using paper receipts to stand for the copper plates’ value. Thus was born the use of paper money in Europe.

The idea of central banks under state control and backed by the state’s guarantee spread to England and elsewhere. But *The Alchemists* makes clear that central banks since have had a mixed record and can wreak havoc. Irwin

describes for example, the hyperinflation spawned by Germany’s Reichsbank following World War I.

An understanding of how central bankers can go wrong informs his discussion of the Great Depression. The Wall Street crash itself was not enough to spread depression worldwide: “It required the help of a series of analytical misunderstandings and outright failures by the world’s central bankers.” These errors included, in the United States, not injecting liquidity into the economy.

By the 1990s and early 2000s, however, “the Great Moderation” arrived, a period in which monetary authorities tamed inflation and also appeared able to “contain the impact of any adverse event that might come along, whether a financial crisis in fast-growing Asian economies or a popped stock market bubble in the United States.” The downside: “In a seemingly riskless world, investors were willing to take all the more risk.” Complacency fathered today’s Great Recession.

While this history of central banking is informative, it feels tacked on and is thinly written. The bulk of *The Alchemists*, which is about how central bankers have managed the still ongoing crisis, is more substantive and engaging. Sharply drawn portraits and concise, lucid, and considered explanations and judgments capture the thinking and actions of officials confronting a potential catastrophe.

Irwin makes the case that Bernanke, Trichet, and King played oversized roles in preventing the Great Recession from becoming Great Depression II. He also observes that “central bankers in modern democracies end up playing a role that is bigger than their official responsibilities would suggest.”

Yet, ultimately, politics and politicians still play the larger role in determining how a country’s economic policies are formed and implemented. And neither the alchemists nor the politicians have found a solution to the economic malaise that continues to plague the West. ■

**The Alchemists: Three Central Bankers and a World on Fire**  
by Neil Irwin. Penguin, 2013.