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The Confidence Game: How Unelected Central Bankers Are Governing the Changed World Economy

by Steven Solomon

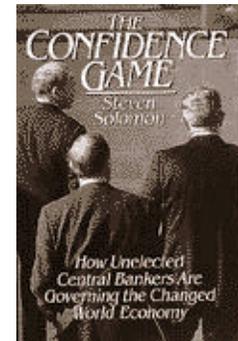
(606 pages, Simon & Schuster, \$30)

Reviewed by **Barbara Presley Noble**

In October 1987, Alan Greenspan, the newly appointed head of the Federal Reserve Board, had a tough choice. He was scheduled to give the first important speech of his term in Dallas, to the American Bankers Association, but the country's financial markets were roiling ominously and the White House wanted Mr. Greenspan in Washington, near the developing crisis. Mr. Greenspan argued, however, that failing to meet with the banking establishment would send the message that investors had a reason to panic. He caught his flight.

Through the next few days, he maintained the same eerie calm, a calm that belied the frantic negotiations that he was directing, domestically and internationally, as he steered the country safely through its most profound financial crisis since the stock market crash of 1929.

Whether or not to board a plane may not be high drama in most areas of life, but the Fed is an institution whose choice of one adverb over another in a news release can move markets. It is a fitting opening for the aptly titled "The Confidence Game: How Unelected Central Bankers Are Governing the Changed World Economy," by Steven Solomon. Serving as preternaturally omniscient high priest is but one of the new roles the heads of the Fed, the Bundesbank, the Bank of Japan and the other major central banks are called on to play in an evolving, increasingly volatile international economy that exists largely beyond the power of mere governments to control.



Basic economic relations are changing as new technologies and markets emerge; capital moves more and more freely across borders, and the relationship between goods and production is rearranged.

Mobile capital, in its classical sense, Mr. Solomon argues, has evolved into "stateless" capital, a kind of financial black hat that roves global financial networks with no allegiance to anything but its own expansion. Stateless capital, Mr. Solomon warns, is an inherently destructive force that contains, to borrow a phrase, the seeds of its own and the international markets' destruction.

The central banks are the sole institutions, in Mr. Solomon's view, capable of maintaining a global system of checks and balances. When the huge amounts of money that flow so quickly through international electronic networks destabilize markets and undermine currencies, it is the central bankers who exercise the levers and pulleys of international finance and contain--or reverse--the damage.

It was not always so. Before the 1980's, the major central banks were shadowy, behind-the-scenes presences of varying influence. The Bundesbank was a supragovernment agency that arrogated fiscal power to itself, constantly frustrating the intentions of Germany's Social Democratic governments. By contrast, Margaret Thatcher held the Bank of England at bay when it wanted to take over monetary policy, fearful that voters would think the Conservatives could not control inflation.

The Fed, which is the most open of the central banks--by German standards, it operates in a glare of O.J. Simpson-like publicity--also attracts the most open criticism. The critics range from populists who harbor the traditional American suspicions about Freemasonry and an international banking conspiracy, to occupants of the White House, whose fortunes, as George Bush discovered, may depend on the Fed's actions.

Nothing signified the testy symbiosis of Government and the Fed as clearly as when Mr. Greenspan squired Hillary Rodham Clinton to President Clinton's first State of the Union speech. His presence implied support for the Administration's deficit-reduction policies and, perhaps, his own awareness that a Democratic Congress was once again rumbling about reining in the Fed. It was a rare occasion on which the balance of power between the President and the Fed seemed to be in equipoise.

The most serious problem the new prominence of the Fed and the other central banks raises is, as Mr. Solomon acknowledges, one of accountability. At best, the alliance between central banks and the democratic institutions within which they operate is uneasy. It is, Mr. Solomon believes, bankers, not governments, who confer the financial legitimacy that encourages stateless money to stay in play. Thus fiscal virtues, not democratic values, guide the management of an international financial system that has an increasing power to influence political events.

Mr. Solomon thinks this is basically a good thing. Governments are more likely to try to use fiscal or trade policy to impose nationally self-interested policies on the world system. The demonstrable inability of elected American officials to deal with the country's deficit problems signals to Mr. Solomon cause to cede even more control to the bankers, who will do what is needed. He seems to see no problem in largely removing control of the country's purse strings to an unelected elite, as if there were no disagreement about the importance of deficits. He cites "broad middle class" support for Paul Volcker's painful counter-inflation policies in the early 1980's as evidence that Americans would be happy to have such decisions essentially taken out of their hands. His reading of the middle-class response seems generous: if he can produce more than a handful of middle-class Americans who understood it was the Fed that was making them suffer, he is a magician.

It is greatly to Mr. Solomon's credit that he takes a topic with major soporific potential and turns it into--well--to call it a page turner is probably going too far, but the story moves forward snappily, from various currency crises to the Latin debt debacle of the early 80's to the near-failure of the American banking system in the early 90's.

Occasionally, the language could use some decaffeination. One wonders if the global financial system could possibly be as constantly near implosion as "The Confidence Game" suggests. Metaphors strung carelessly together distractingly break ranks and mix. But on balance Mr. Solomon has done the remarkable: written a beach book with gravitas.
