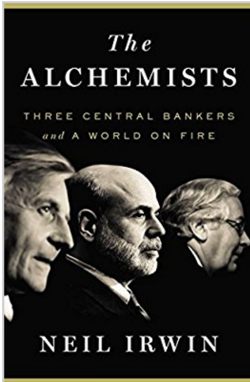

The Alchemists: Three Central Bankers and a World on Fire

By Neil Irwin

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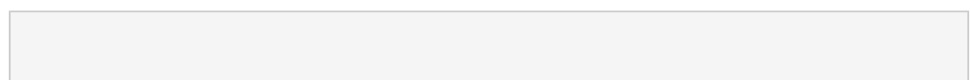
The Alchemists: Three Central Bankers and a World on Fire By Neil Irwin

When the first fissures became visible to the naked eye in August 2007, suddenly the most powerful men in the world were three men who were never elected to public office. They were the leaders of the world's three most important central banks: Ben Bernanke of the U.S. Federal Reserve, Mervyn King of the Bank of England, and Jean-Claude Trichet of the European Central Bank. Over the next five years, they and their fellow central bankers deployed trillions of dollars, pounds and euros to contain the waves of panic that threatened to bring down the global financial system, moving on a scale and with a speed that had no precedent.

Neil Irwin's *The Alchemists* is a gripping account of the most intense exercise in economic crisis management we've ever seen, a poker game in which the stakes have run into the trillions of dollars. The book begins in, of all places, Stockholm, Sweden, in the seventeenth century, where central banking had its rocky birth, and then progresses through a brisk but dazzling tutorial on how the central banker came to exert such vast influence over our world, from its troubled beginnings to the Age of Greenspan, bringing the reader into the present with a marvelous handle on how these figures and institutions became what they are – the possessors of extraordinary power over our collective fate. What they chose to do with those powers is the heart of the story Irwin tells.

Irwin covered the Fed and other central banks from the earliest days of the crisis for the *Washington Post*, enjoying privileged access to leading central bankers and people close to them. His account, based on reporting that took place in 27 cities in 11 countries, is the holistic, truly global story of the central bankers' role in the world economy we have been missing. It is a landmark reckoning with central bankers and their power, with the great financial crisis of our time, and with the history of the relationship between capitalism and the state. Definitive, revelatory, and riveting, *The Alchemists* shows us where money comes from—and where it may well be going.



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Editorial Review

Review

<u>The New York Times:</u>

"[Mr. Irwin] has provided an accessible, engrossing account of the tribulations that Mr. Bernanke, with Mervyn A. King of the Bank of England and Jean-Claude Trichet of the European Central Bank, endured in pulling the world financial system back from collapse... Mr. Irwin seems to have talked with everyone, read the right scholarly papers and interviewed important dissenters in the Fed, the European Central Bank, the Bank of England and the Bundesbank... He has a nice touch for translating central banking's mysteries, opaque and forbidding, into understandable English. He is astute in describing the internal and external politics of institutions traditionally expected to remain above politics of the usual sort."

<u>Adam S. Posen, *Foreign Affairs*, President of the Peterson Institute for International Economics and member of the Bank of England's Monetary Policy Committee from 2009 to 2012:</u>

"An excellent account...scrupulously reported and full of clear explanations of events and economic concepts....an incredibly valuable book for all economically concerned non-economists. As someone who knows well the three central bankers that the book features...I can attest that the narrative has more than just a ring of truth. It gets the individuals, the circumstances surrounding their decisions, and their motivations right and also presents them fairly. Irwin's volume will have lasting value for a wide range of audiences, including students and elected officials, but it will make its greatest contribution as a corrective to the many unfounded or simply crazy ideas about monetary policymakers' intentions and impact."

<u>The Wall Street Journal:</u>

"A detailed and fast-moving account of these perilous years. This is the crisis as told through emails, phone calls, meetings and one very fateful walk along the beach in Deauville, France."

<u>Kirkus Reviews:</u>

"The most complete and authoritative account to date of the response of the central bankers to the global financial crisis."

About the Author

Neil Irwin is a *Washington Post* columnist and economics editor of the *Post*'s *Wonkblog* web site. From 2007 to 2012, he led coverage of the global financial crisis, recession, and aftermath as the *Post*'s beat reporter covering the Federal Reserve and other central banks. He has an MBA from Columbia University, where he was a Knight-Bagehot Fellow in Economic and Business Journalism. Irwin appears regularly on television analyzing economic topics, including on MSNBC, CNBC, and the PBS *Newshour*. He lives in Washington.

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Introduction:
Opening the Spigot

On August 9, 2007, Jean-Claude Trichet awoke at his childhood home of Saint-Malo, on the coast of Brittany, ready for a day puttering about in his motorboat and enjoying the company of his grandchildren. It was time for his summer respite after a busy year as president of the European Central Bank. Mervyn King,

the governor of the Bank of England, had also planned a leisurely Thursday: He would make his way from his ?at in London's Notting Hill neighborhood to the Kennington Oval, on the city's south side, to watch the British national cricket team play India. Ben Bernanke, the chairman of the U.S. Federal Reserve, was alone among the three men who would guide the world through the convulsions of the half decade to come in having scheduled a regular workday. His security detail was to drive him from his Capitol Hill row house to the Treasury Department, where he had an early breakfast with Secretary Henry Paulson. Bernanke would eat oatmeal. For the three men, the day would not go quite as planned.

At about 7:30 a.m., Trichet's phone rang. Francesco Papadia, the head of the ECB's markets desk, was on the line from the central bank's headquarters in Frankfurt. "We have a problem," Papadia said.

Gigantic French bank BNP Paribas had announced that it was suspending withdrawals from three investment funds it managed. The funds were invested heavily in U.S. home-mortgage-backed securities that had become nearly impossible to value. Customers' money would be locked up until the bank could ?gure out exactly how much the investments were worth. In itself, it was a tiny development: The three relatively obscure funds held only €1.6 billion in assets.

But the announcement con?rmed the worst fears of bankers across Europe. They'd been worried for weeks about the losses they were facing on U.S. home loans. Supposedly ultrasecure mortgage bonds that had traded freely earlier in 2007 had by late July hardly been trading at all. As more and more people who'd taken out risky loans to buy a house in Tampa or Cleveland or Phoenix found themselves unable to pay them back, all the assumptions on which those loans had been made started to be called into question. Maybe all those AAA-rated securities weren't really AAA after all. Had the banks poured vast sums into bonds that weren't worth what they'd seemed to be? And if BNP Paribas couldn't ?gure out how much its own funds were worth, how could any other bank know its real exposure to mortgage-backed securities?

It's not for nothing that the word "credit" derives from the Latin *creditus*, "trusted." Banks use highly rated securities as almost the equivalent of cash— whenever they need more dollars or euros, they hand the bonds over to another bank as collateral. It's one of the basic ways they ensure they have exactly the amount of money they need to meet their obligations on any given day. But when it came to those mortgage-backed securities in early August 2007, that simple exchange suddenly became complicated. The problem wasn't just that the securities were worth less than they'd been before—after all, banks can deal with losses. It's that no one knew just how much less—and whether, if one bank had lent money to another down the street in exchange for mortgage-backed securities, it would ever get paid back.

Papadia and his staff spoke regularly with treasurers at twenty major European banks known as the money market contact group, and its members had been warning for days that, as one ECB official put it, an "infarction" was imminent. That Thursday morning, it hit: After the BNP Paribas announcement, with each bank out only for itself, the usual supply of cash was fast evaporating. "Trust was shaken today," Deutsche Bank chief european economist Thomas Mayer told the *New York Times*. As one executive of a major global bank said later, "It was something none of us had experienced. It was as if your entire life you had turned the spigot and water came out. And now there was no water."

It's a more precise metaphor than it may seem, for liquidity is exactly what was disappearing in the banking system that day. No longer were euros, dollars, and pounds as easy to come by as water. History has taught again and again that when banks shut down and hoard their money, so too do the economies they serve. A banker who's unwilling to lend to other bankers is likely also to be unwilling to lend to the businesses and households that need money to build a factory or buy a house. If unchecked, the banking crisis in Europe could in? ict untold damage on the world economy. Suddenly, the European habit of taking a lengthy late summer vacation had become very inconvenient.

Gather the Executive Board, Trichet instructed Papadia. He needed to talk to the six officials from across Europe who share the collective authority to deploy the resources of the central bank—including the ability to create euros from thin air. ECB staff in Frankfurt began calling around to various villas and retreats in Spain, Italy, and Greece to arrange an emergency conference call. Trichet normally used the walled medieval port town of Saint-Malo as a retreat from the world, a place where he could enjoy the water and read poetry and philosophy. But now it would become the nerve center from which he would manage the ?rst phase of the ?rst great ?nancial crisis of the twenty-? rst century.

By 10 a.m., the full Executive Board was on the line. Trichet was emphatic: "There is only one thing we can do, which is to give liquidity." The ECB, he insisted, must ?ood the banking system with euros. He was proposing that the central bank ful?ll its traditional role as "lender of last resort," stepping in when private banks were pulling back, and using a novel means to do so. The ECB would abandon its usual practice of pumping some ?xed amount of money into the banking system and instead make an unlimited number of euros available to the banks that needed them. The technical term for what Trichet and the Executive Board did at 12:30 p.m. central European time is to offer a "? xed-rate tender with full allotment."

Translation: Come and get it, guys. We'll give you as many euros as you need at 4 percent. Some forty-nine banks took €95 billion.

The Federal Reserve Bank of New York maintains a markets desk to monitor what's going on across the world of ?nance, but during the early hours of the morning on the East Coast that Thursday, only a handful of young staffers were on duty to monitor overnight activity. It would take hours for the news to make its way to New York Fed president Timothy Geithner, who was on vacation on Cape Cod, and Bernanke, who was getting ready for his breakfast with Secretary Paulson.

At 6:49 a.m., Bernanke received an e-mail from Brian Madigan, head of the Fed's monetary affairs division, explaining that "as you've probably seen, markets have sold off again overnight" and updating him on activity in the European bond and stock markets. But Madigan hadn't yet received word of the ECB's action. It was nearly half an hour later, as Bernanke's black Cadillac sped along Independence Avenue, driven by an officer of the Federal Reserve's own police force, before the chairman received the ?rst word that the ECB had done something unusual. A 7:16, an e-mail arrived from David Skidmore, an offi cial in the Fed's press office: "Apparently Deutsche Bank had two money market funds fail and the ECB is making tender off ers for dollar-denominated assets. Glenn Somerville of Reuters, who I've been talking to, is heading to the Treasury press room early."

The details were wrong: It was BNP Paribas, not Deutsche Bank, three funds, not two, and the tender offers were denominated in euros, not dollars. But the gist was right: The ECB had intervened in markets in a way it never had before. And the most powerful man at the Fed was ?nding out about it through garbled rumors from a Reuters reporter. By the time he sat down for oatmeal with Paulson at 7:30, it was clear that something big had happened, even if no one seemed to be sure exactly what it was.

It wasn't until 8:52 a.m. that Bernanke got a more accurate update, in the form of an e-mail from Kevin Warsh, a Fed governor who often acted as the chairman's emissary to people in ?nancial markets and at other central banks. "This action by the ECB sends two signals," wrote Warsh, who had been working the phones all morning. "First, they are ready to provide liquidity to ensure the smooth operation of European money markets. Second, they are providing liquidity at their policy rate, and thus far not viewing a liquidity squeeze as a more fundamental reason to adjust its policy stance." The Americans quickly understood that Trichet

was trying to draw a bright line between what the ECB was doing for the ?nancial system and what it was doing to address any underlying weakness in the European economy as a whole.

After breakfast, Bernanke went to his office at the white marble Eccles Building in Washington's Foggy Bottom neighborhood. At 11 a.m., he met with a man named Lewis Ranieri, looking to pick his brain. In the 1980s, as a bond trader at investment bank Salomon Brothers, Ranieri had played a crucial role in developing the very concept of mortgage-backed securities. In other words, he'd more or less invented the markets that were now imploding. At 2 p.m., Bernanke met with Raymond Dalio and others from the world of ? nance. Dalio managed the world's largest hedge fund, Bridgewater Associates, with $120 billion under its control. He'd developed a sophisticated model for understanding what was happening with credit extension in the economy, and Bernanke hoped to learn from Dalio's analysis and perhaps incorporate it into the Fed's own understanding of what was causing the ?nancial and economic upheaval.

Later that afternoon, Bernanke's inner circle of advisers, including both Warsh and Madigan, gathered on the leather couch and chairs in the chairman's ornate workspace overlooking the National Mall. Geithner dialed in from Cape Cod, where he kept his cell phone to his ear as he paced in and out of his old family retreat. Fed vice chairman Don Kohn called in from his car en route to a wedding in New Hampshire. Market specialists were on speakerphone from New York, whose Federal Reserve branch had pumped $24 billion into the markets that morning as part of its routine efforts to keep short-term interest rates at the Fed's official target. American banks weren't having the same liquidity problems that their European counterparts were, so there was no apparent need for an intervention along the lines of what Trichet had done. It had been a brutal day in the U.S. markets, though, with the Dow Jones Industrial Average down 387 points, nearly 3 percent.

Bernanke was eager to signal to the world that the Fed was on the same page as the ECB, ready to stand behind the ?nancial system as needed. Perhaps a statement saying as much was in order, he argued. Geithner, who often favored taking the most aggressive steps possible to bolster markets in crisis, wanted to begin discussing cutting interest rates to try to counteract the tightening of credit in the economy. But on that day at least, the group agreed that such an action was premature. A statement it would be.

Bernanke and his advisers talked about its language, and his communications aide, Michelle Smith, typed it up back at her office. She e-mailed him at

5:37 p.m. with a draft of what the Fed would tell the world the next morning at 8 a.m. It was a mere seventy-eight words, and stated that "in current circumstances, depository institutions may experience unusual funding needs because of dislocations in money and credit markets," and that "the Federal Reserve is providing liquidity to facilitate the orderly functioning of ? nancial markets."

Bernanke and the Fed, in other words, were ready to open the spigot as well.

At the Kennington Oval that Thursday, it was an up-and-down day for England that ended poorly for the home team. India scored 316 runs and lost four wickets on the ?rst day of a ?ve-day match. Mervyn King had left instructions with his staff that he not be disturbed except in an emergency, which created an interesting dilemma for the markets staff of the Bank of England, ensconced in its fortresslike headquarters on Threadneedle Street in the City of London. Was the ECB's surprising injection of money into the banking system in fact an emergency?

When staff ers ?nally decided that the answer was yes and called him, King was less worried about any

action the Bank of England might take than whether the ECB was generating more panic by intervening instead of simply standing by. Just the day before, in a press conference, he'd described the tightening of the credit markets as "a welcome development, as a more realistic appraisal of risks is being seen." He was privately dismissive of Trichet's action, telling con?dants that his old friend Jean-Claude had overreacted. The intervention, King argued, could prevent a necessary and overdue market correction. The banking system was simply counteracting years of excess, and Britain could easily weather whatever came next.

Among the leaders of the world's great central banks, King would remain the deepest skeptic of the severity of the emerging crisis for more than a year to come. One of the most accomplished British economists of his generation, he believed in the purity of markets and was reluctant to intervene even when they seemed to be going haywire. The so-called King of Threadneedle Street was also supremely con?dent of his own views and analysis and quick to challenge anyone who disagreed—even when that someone was the most powerful central banker in continental Europe. A son of the working class in a country acutely sensitive to class divisions, King had used his extraordinary intellect and deep-seated competitive streak to claw his way into the nation's ruling class. After joining the Bank of England as chief economist in the early 1990s, a time when the credibility of the institution was at a low point, he reshaped it in his image: rigorous in its analysis, theoretical in its approach, unsparing in its dismissiveness toward employees or departments that didn't meet his high standards or share his predispositions.

In previous years, King had deemphasized regulating the banks, which he viewed as a messy, legalistic business compared to the elegant, intellectual work of shaping monetary policy. He even seemed to disdain bankers personally, and was privately contemptuous of their views. "Financial stability became a downplayed part of the institution," said Kate Barker, a member of the Bank of England's Monetary Policy Committee from 2001 to 2010. "[King predecessor] Eddie [George] was sorry to lose the ?nancial-stability role, but I don't think Mervyn was initially very interested in it."

Indeed, on that chaotic Thursday, King left it to Deputy Governor Rachel Lomax to represent the bank in conference calls with his counterparts across the world. Later on, King would put himself as close to the front lines of the battle against panic as anyone. But on day one, his arrogance left him in the grandstands.

The leaders of the three major Western central banks were in diff erent worlds—far apart physically, as was usually the case, but also disconnected in their analysis of the problem facing the world economy and what, if anything, they should do about it. To Trichet, the problem was a banking panic, a one-off moment of market uncertainty. To King, it was a necessary corrective to a long period of banking excess. To Bernanke, it was a more deeply intertwined set of risks to the banking system and the overall economy. He came to this view partly because the United States was ground zero for the housing downturn and bad mortgage lending that spurred Europe's problems. But it was also a matter of Bernanke's academic training. A leading scholar of the Great Depression, the chairman had theorized that the era was so troubled economically because of what he called the "?nancial accelerator": Bank failures fueled economic weakness, which fueled even more bank failures, which in turn fueled further economic weakness. He was determined, if it became necessary, to use every tool at the Fed's disposal to halt this vicious cycle.

It was sheer luck that the Federal Reserve had a chairman so well prepared for the moment. Bernanke's academic training as a monetary economist, particularly as a scholar of the Depression, hadn't come up in his interview with President George W. Bush in the summer of 2005, when the native of tiny Dillon, South Carolina, was being considered to replace legendary Fed chair Alan Greenspan. But that background would in?uence his every action from that August Thursday on. Bernanke seemed almost haunted by the fear that he would make the same mistakes central bankers did in the 1920s and '30s, which left mass human misery in their wake.

Whatever their perceptions or prejudices, central bankers all have an awesome power: the ability to create and destroy money. Why is a piece of paper with Andrew Jackson's face on it worth twenty dollars? Why can that piece of paper be exchanged for a hot meal or a couple of tickets to a movie? It's only a slight exaggeration to answer, "Because Ben Bernanke says so." The bill may have the U.S. treasury secretary's signature on it, but at the top it reads, "Federal Reserve Note." Central bankers uphold one end of a grand bargain that has evolved over the past 350 years. Democracies grant these secretive technocrats control over their nations' economies; in exchange, they ask only for a stable currency and sustained prosperity (something that is easier said than achieved). Central bankers determine whether people can get jobs, whether their savings are secure, and, ultimately, whether their nation prospers or fails.

Over two continents, ?ve years, thousands of conference calls, and trillions of dollars, euros, and pounds deployed to rescue the world ? nancial system, central bankers would take the primary role in grappling with the global panic that began in earnest on August 9, 2007. They would act with a speed and on a scale that presidents and parliaments could never seem to muster. Over the next half decade, Jean-Claude Trichet, Ben Bernanke, and Mervyn King would create the world to come.

Ever since the ?rst central banker set up shop in seventeenth-century Sweden, offering paper notes as a more convenient alternative to the forty-pound copper plates that had been the currency of what was then a great empire, money has been an abstract idea as much as a physical object. The alchemists of medieval times never did ?gure out a way to create gold from tin, but as it turned out, it didn't matter. A central bank, imbued with power from the state and a printing press, had the same power. With that power, it creates the very underpinnings of modernity. As surely as electric utilities and sewer systems make modern cities possible, the ?ow of money enabled by the central banks makes a modern economy possible. By standing in the way of ?nancial collapse, they've enabled the gigantic, long-term investments that permit us to light our homes, ?y in jumbo jets, and place a phone call to nearly anyone on earth from nearly anywhere on earth.

In modern times, when the amount of money exchanged electronically dwarfs the volume of commerce that takes place with paper money, even the physical work of printing paper dollars and euros is something of a sideline for the central banks. The actual work of creating or destroying money in modern times is as banal as it is powerful: A handful of midlevel workers sit at computers on the ninth ?oor of the New York Fed building in lower Manhattan, or on Threadneedle Street in the City of London, or at the German Bundesbank in Frankfurt, and buy or sell securities with a stroke of their keyboards. They are carrying out orders of policy-setting committees led by their central bankers. When they buy bonds, it is with money that previously did not exist; when they sell, those dollars or pounds or euros cease to exist.

Frequently, words alone are enough. To the layperson, the phrase "additional policy accommodation may be warranted" might seem either insigni?cant or unintelligible. But it's likely to inspire convulsive joy on the trading ?oors of Wall Street, London, and Hong Kong when spoken by the Bank of England governor or the ECB president or the Fed chairman: It's the central banker's way of saying he'll soon be ?ooding the world with pounds or euros or dollars.

Within an instant of the phrase's hitting ?nancial newswires, the stock market will typically rally, making a retiree in Liverpool wealthier. The price of oil will usually bounce upward, making it more expensive for a truck driver in Stuttgart to ply his trade. And the cost of borrowing money will probably fall, making it cheaper for a young couple in St. Louis to buy a house. Sometimes it doesn't even take a full sentence, but a single word. When in 2006 a CNBC journalist at a weekend social event asked Bernanke whether markets had interpreted him correctly a couple of days before, he replied, "No," believing he was off the record.

After she reported the conversation on Monday, the Dow Jones Industrial Average fell eighty-?ve points within minutes.

To a degree that's rare among high public officials, central bankers feel connected to the long thread of history. The successes of their predecessors made the world as we know it. The Bank of England played a crucial, if often overlooked, role in creating the stable ?nancial system that allowed Britain to rule vast swaths of the world in the nineteenth century. The creation of the Federal Reserve enabled New York to supplant London as the world's ?nancial capital in the years after World War I, enabling the rise of the United States as global superpower and setting the stage for a generation of prosperity that followed the Second World War. The (belated) achievement of the Fed and other world central banks in defeating the in?ation of the 1970s laid the groundwork for a quarter century of stable prices and global prosperity—one that started crashing down on August 9, 2007.

They are also, of course, keenly aware of central banking's past failures, of which the Great Depression is only one. The actions of Bernanke and Trichet and King on that day in 2007—and on many days that would follow—were shaped by their knowledge of, for example, the collapse of Overend & Gurney in 1866. The mighty British bank's failure sparked a panic so great that the streets of the City of London were mobbed with depositors scrambling to take their money out of other ?nancial institutions. Thanks to the recent invention of the electric telegraph, the panic soon spread to the countryside, and even to the far corners of the empire. Facing a freeze-up in the money markets, the Bank of England, as the writer and public intellectual Walter Bagehot famously wrote at the time, lent "to merchants, to minor bankers, to 'this man and that man,' " and thus stopped the run—though not the destructive economic downturn of its aftermath. What the ECB did on August 9, 2007, was an updated, electronic version of that same strategy, and Trichet, Bernanke, and King often invoked Bagehot's words as a model for their own crisis response almost 150 years later.

Bernanke and other Fed officials understood all too well the United States' aversion to the type of centralized political control embodied by a central bank. The lack of a central bank in the nineteenth century had meant that banking panics were an almost constant feature of the American economy. Even farmers' predictable need for cash each harvest season routinely brought the nation to the brink of ?nancial shutdown. Yet the battle to establish the institution that Bernanke would one day lead was exceedingly bitter. The compromises needed to gain Congress's support resulted in an unwieldy structure that would be a challenge to lead, especially as those old arguments against centralized power reemerged a century later.

The men who led the global economy in the crisis that began in 2007 had come of age in the 1970s, when central bankers were so fearful of an economic downturn—and the political authorities—that they allowed prices to escalate out of control. "I knew that I would be accepted in the future only if I suppressed my will and yielded completely—even though it was wrong at law and morally—to his authority," wrote Fed chief Arthur Burns in his diary in 1971. "He" in this case was Richard Nixon, who insisted that Burns keep interest rates low and the U.S. economy humming in the run-up to the 1972 election. Prices rose so fast that steakhouses had to use stickers to update their menus according to that week's cost for beef. Central bankers have been vigilant about in?ation ever since—for better and, especially in the 2000s, for worse, when some saw in?ationary ghosts where there were none.

But no specters of the past loomed larger for Trichet, Bernanke, and King than the missteps taken by the central bankers of 1920s and '30s. It was then that the Reichsbank of Germany printed money on a massive scale to fund the nation's government, so much so that people needed wheelbarrows to carry cash to the grocery store and would buy bicycles or pianos to hold value that reichsmarks couldn't. That hyperin?ation led to the desperate circumstances that allowed the Nazis to gain support. What came next would enable their rise to power.

The Great Depression was at its core a failure of central banking. Just a few blocks away from the building in Basel, Switzerland, where the central bankers of the early twenty-?rst century drank good wine and plotted their response to the contemporary crisis, the central bankers of the early 1930s met in a hotel and found far less to agree upon. Blinkered by nationalistic distrust, a misguided commitment to keep their currencies tied to gold, and the lack of a common understanding of how economies work, they concluded that the global economic crisis of 1931 was beyond their ability to combat. Even the technological limits of communication in that era—transatlantic phone calls were accomplished with great difficulty, and jet travel wasn't yet an option—stood in the way of men like the Reichsbank's Hjalmar Schacht and the Bank of England's Montagu Norman. Their shortcomings led millions of people into dire poverty and created a fertile environment for World War II.

The European currency union that Trichet led—and which in a later phase of the crisis he would take extraordinary steps to try to preserve—was itself a direct result of that con?ict. Born in Lyon in 1942, during the German occupation of his homeland, the ECB president grew up in a country rebuilding after the devastations of occupation and war. Like other postwar leaders, he was so intent on creating a continent where armed con?ict might never break out again that he made a uni? ed Europe the mission of his lifetime. The euro was their crown jewel, the physical embodiment of that effort—and an accomplishment that the great global crisis of the twenty-?rst century would eventually threaten to destroy.

The partnership between Trichet, Bernanke, and King was one between men of different backgrounds, temperaments, and intellectual proclivities— differences that would loom large in the events yet to unfold. Beginning that Thursday, the three men atop the central banks of the major Western powers could only look to each other to ?nd ways to see beyond those differences.

When they took their respective jobs—in 2003 for Trichet and King, in 2006 for Bernanke—they joined a brotherhood of uncommon intimacy. The world's top central bankers meet in person frequently—at an economic conference each summer in Jackson Hole, Wyoming, on the sidelines of countless global summits, and, most signi?cantly, six times a year in Basel, where they take brief refuge from the politics, personal attacks, and hard choices that come with doing a job most people don't quite seem to understand and more than a few regard as sinister.

They speak the same language, literally and ?guratively: All speak good English and are deeply versed in the discourse of economics. Foreign ministers, ?nance ministers, and defense ministers may have cordial relations with their counterparts from other nations. Some may even become friends. But none of those leaders have the same sustained, intimate exposure as the central bankers to the personalities and thinking, idiosyncrasies and blind spots of their international colleagues. Central bankers understand more deeply than perhaps anyone else where other countries are coming from. They share a closeness unheard of elsewhere in international relations, knowing with great con?dence that what is said at the table in Basel will stay there.

There were some older connections between the leaders of the ECB, the Fed, and the Bank of England, too: King and Bernanke had shared an office suite as young faculty members at MIT; Trichet and King had met when King was a student at Cambridge and Trichet, a young civil servant, had gone abroad to study the British tax system. But the panic that began that August day in 2007 would test their bonds as well as their ability to come together to guide the global economy toward prosperity.

Mankind had given them incredible power. Now was the time to show that they had learned history's lessons. As the consequences of a generation of bad lending and rising debt started to unfold, this committee

of three knew better than anyone just how high the price of failure could be.

To understand fully how these three men came to wield such incredible power, one ?rst must know where central banks came from to begin with. That story starts, of all places, in Sweden, a very long time ago.

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