especially when the financial structure is fragile, the Federal Reserve is mainly a crisis-containing mechanism, rather than the agency of a conspiracy to bias income distribution.

The core of *Secrets of the Temple* is a history of the Volcker regime at the Federal Reserve. The book fails because Greider did not understand that the Volcker era was the test of an economic theory. Greider did not take the time and energy to develop an understanding of the competing economic theories so he could address this issue. After all, the reason to study history is to enable society to avoid repeating the mistakes of the past. History is an input to theory formation.

In spite of the evident shortcomings in his understanding of economics, Greider had the makings of a good, forceful, 200-page book that could have had a serious impact as it opened a public discussion of the proper use of the Federal Reserve. His text runs to 717 pages. In this case, more is clearly less.

REVIEW OF THE REVIEWS

Greider's *Secrets of the Temple*

Randall Dodd

P. G. Wodehouse's character Bertie Wooster, unlike his unperturbable manservant Jeeves, was noted for his ability to challenge the sitting high jump record if provoked in a certain way. Judging from the reviews of *Secrets of the Temple*, its author, William Greider, has apparently made a successful provocation.

A review by Ronald Bailey in *Forbes*, which calls itself the capitalist tool, finds the book that shows how the Fed is a tool of capital "silly" and a "throwback" to Bryan's cross of gold. Daniel Seligman (*Fortune*) calls Greider's ideas "nutty" and "unbelievably muddle-headed," and thinks he sounds like a Marxist. Susan Dentzer (*U.S. News & World Report*) thinks Greider is a "quasi-Marxist" whose book "distorts the issues," is "based on faulty research," and contains "a lot of dross." An anonymous author in the *Economist* calls Greider "sly" and his book a "witch-hunt." Robert Samuelson (*The New Republic*) accuses Greider of viewing monetary policy as "a giant morality tale." Others, such as Sarah Bartlett in *Business Week* and Adam Smith in *The New York Times Book Review* are more moderate in their dismissals.

It must be good stuff. Nothing arouses skepticism like a stark denial, and nothing solicits sympathy like thrashing a straw-dog. Denial and misrepresentation are the common tools of Greider's critics, all of whom pounce on his provocative thesis on inflation and easy monetary policy. They want to deny its validity. They accuse Greider of being simple-mindedly pro-inflation. The *Economist* dismissed it as "nonsense."

Not really radical

Greider's thesis may be provocative in its conclusion, but its two basic ideas are conventional and convincing.

1. Unanticipated inflation and disinflation redistribute wealth.

His critics dare not disagree with that. Greider points out who gained (workers, farmers, and manufacturing capitalists) and who lost (financial capitalists) during the inflation-prone 1970s. He provides data as well as anecdotes to support his assessment of gains and losses. His critics merely deny it. They each repeat the ubiquitous argument that "everyone" knows inflation is bad for "all Americans" and that "everyone" approved of the pain and suffering used to suppress it. Samuelson stated, "No one liked the campaign, but almost everyone approved the result." Is it equally bad for everyone? Is disinflation therefore (equally) good for everyone?

2. Easy monetary policy encourages faster rates of real economic

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growth, and workers and farmers are better off during periods of high growth.

Regarding the first part, it is conventional economic understanding that easing credit conditions, at least over the short run, stimulates economic growth. Moreover, it was conventional economic wisdom during the 1970s that a little bit of persistent inflation was a good thing. It was thought to "grease the skids." It held that the long-run Phillips curve was not vertical for moderate levels of inflation. This idea is not in vogue today, but it is hardly silly, nutty, or nonsense.

Regarding the second part, both Adam Smith (*Wealth of Nations*, Book I, Ch.9, 1776) and Karl Marx (*Wage-Labor and Capital*, 1849) agreed that workers fare best when the economy (particularly the capital stock) is growing the fastest. It reduces unemployment and drives up wages. Perhaps this is a heretical point for some, but between Smith and Marx is a broad political spectrum.

The efforts of denial also employ fear, in this case the fear of hyperinflation. Even though Greider clearly qualifies his views about the positive effects of "moderate" rates of inflation, his attackers are quick to warn of the unproductive and disastrous effects of high rates of continued inflation. How high is high? They threaten that the next step after moderate inflation is the Brazilian or Mexican or Argentinean experience. This evokes the old claim that a little democracy, and certainly too much democracy, leads to anarchy.

Perhaps misunderstood

Concerning misrepresentation, I am not going to argue that critics are deliberately distorting Greider's ideas; it is sufficient to show some of the cases where they have misread or become misled in the tome that is *Secrets of the Temple*. Literary critic Roland Barthes helped liberate us from the view that a text contains only one true interpretation, and I am not going to argue the contrary, but Barthes's argument should not be taken to mean that any argument can be supported by a text. The book is really several books woven around a central narrative of the history of struggles over monetary policy from 1978 to 1987. And weighing in at just under 800 pages, it is long enough to contain them.

- The first book is the central narrative. This includes a descriptive analysis of the causes of inflation and economic growth from 1978 to 1987.
- The second book is a history of the political struggle over the control of monetary policy dating back to Hamilton's Bank of the United States, through Jackson's abolishing the central bank and beginning the free banking era, Lincoln's issue of paper currency during the Civil War, the populist struggle for expansionary monetary policy, and up to the formation of the Federal Reserve in 1913.
- The third book is the subsequent history of the Fed.
- The fourth book is a descriptive analysis of the Fed's decision-making structure, its regulatory role, its means of conducting monetary policy, and its degree of power over the economy.
- A fifth book, which received a great deal of anti-intellectual ridicule from the critics, includes psychoanalytic and religious discussions of money in general.

Greider's weaving of these books and his refusal to drop, at appropriate moments, into textbook clarity leaves his theses obscure. His critics do not want to follow what he is saying, and they are not forced to do so by a straightforward argument. The central historical narrative is praised by nearly every critic, but his development of the other themes is inadequate. This has sown the seeds of confusion, fear, and the sitting high jump record for hyperbole.

Fed power

A major point of contention is Greider's view of the extent of the Fed's power. He explains the Fed's policy mechanisms, which are essentially open-market operations and the discount window, and describes the power and the limits of those mechanisms to influence the economy. He does not think that the Fed is absolutely independent, and he does not think its power is omnipotent or its effects are omnipresent. The critics accuse him of blaming everything on the Fed or on Volcker or of generally claiming that the Fed is all-powerful.

Samuelson says he "never defines the realistic limits of the Fed's powers." In the first chapter, Greider clearly describes the Fed's limited power. In chapter 4, Greider explains that the Fed is only one factor that affects money and credit. He explains how the Fed is powerful: It can change economic incentives that affect people's behavior, and has the added advantage of being able to act quickly.

An instance of flatly misrepresenting Greider's thesis comes from Seligman who admits he has no quotes but insists on asserting that "He [Greider] plainly believes that boundless inflation is perfectly consistent with steady economic growth." He also accuses Greider, unjustly, of not understanding the relationship between interest rates and bond prices.

The general pattern is for the critics to ignore him when he qualifies his arguments, and then bash what they present as unqualified absolute positions as though they were Greider's.

Democracy is another point of contention with the critics. In the first two chapters, Greider clearly describes the limited nature of democratic control of the Fed. This also explains, to a considerable degree, the extent of its independence. Moreover, Greider describes how the Fed is most responsive to and responsible for its constituency, the banking and financial sector. In a word, financial capitalists.

Who regulates large commercial banks? The Fed. Who helped bail out the Hunts and Continental-Illinois? The Fed. Who moved in quickly when Mexico announced its inability to make debt payments to U.S. banks? The Fed. The Fed responded to banks' demands to lower inflation, not to workers' demands for lower unemployment. In chapter 18, Greider cites letters in the *Wall Street Journal* recounting a meeting between Volcker and a delegation of state legislators and farmers in February of 1985. They demanded an easier monetary policy. "Look," Volcker said, "your constituents are unhappy, mine aren't."

The critics deny it. They hold that we are all in this together, possibly equally so. They characterize him as harboring "conspiratorial formulations" and what they view as refuted populist ideas.

It seems the critics are perfectly satisfied with democracy the way it is, and find no virtue in the idea of making the control of monetary policy the responsibility of directly elected officials or the democratic political process. Some insist that the Fed is in fact a public (not secretive) and democratic institution, thus denying the need for more or alternative democratic control.

The pseudonymous Adam Smith denies Greider's view of the Fed. He thinks that ultimately the President can appoint all new Fed governors. But Greider states clearly in chapter 2 that governors are appointed for 14-year terms, and Smith should know that Presidents are limited to eight.

Some more frankly argue that it should not be more democratic, citing the difficulty the government has over setting fiscal policy. According to Samuelson, "With no agreement on what the Fed should do, practical politicians won't move to control it." Greider points out in chapter 11, "A Car with Two Drivers," that having two centers of economic policy can result in contradictory and destructive policy.

One doubts Bailey's understanding of democracy when he asks, "Is the U.S. any less a democracy because we do not hold national town meetings to determine monetary and fiscal policies?" It would be fascinating to read his review of Rousseau's *Social Contract*. He removes all doubt when he comments on the political process: "Congress can simply rewrite the laws at any time and take control of the Fed." He has evidently not read chapter 8 about the decades of political struggles and numerous financial crises that led up to the difficult legislative compromise that created the Federal Reserve System.

The question of the extent of the Fed's power has implications for assigning blame for the 1970s inflation and the 1981–83 recession. Greider argues that Volcker's tight monetary policy was primarily responsible for the recession and thus accountable for its fallout. Samuelson, who evidently shares Bertie Wooster's aunt's penchant for eating broken glass and conducting human sacrifices, disagrees: "But blaming Volcker for the suffering, as Greider does, is silly. It's like blaming generals for war. The recession's victims were dupes of the idea that a little more inflation is harmless."

The problem is style

The critics do not understand Greider's approach and style, and thus they criticize him for a lack of substance, which is actually there, while not laying proper blame on the systematic stylistic flaw that is the basis for his and their problems. The worst injustice is that many people who would gain a useful insight into the way the Fed works have been turned off by these reviews. *Forbes* entitled its review, "Read this and save $24.95."

Secrets of the Temple makes frequent use of Biblical metaphors, as do a few of Greider's critics and P. G. Wodehouse.The critics should heed the lesson of the children who jeered the prophet Elisha and were subsequently torn apart by bears. Although safe in modern offices from large, furry carnivores, a roaring 3 or 4 percent increase in interest rates could chase the critics of easy monetary policies out of their adjustable-rate-financed condominiums and into the clutches of rental housing.

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