COMPARATIVE POLITICS

Taming the Cycles of Finance? Central Banks and the Macro-Prudential Shift in Financial Regulation.
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Matthias Thiemann*'s Taming the Cycles of Finance? Central Banks and the Macro-Prudential Shift in Financial Regulation* is a book about central banks that isn't about central bank independence. Instead, Thiemann offers a detailed account of the macroprudential turn in financial regulation that emerged in the wake of the Great Financial Crisis (GFC). The core question that the book asks and answers is: Why have central banks adopted some macroprudential policy approaches and not others? Thiemann considers potential explanatory variation across policy type, time, and place. He distinguishes between policies that seek to bolster the resilience of the financial system and those which aim to "tame" financial cycles. He examines the regulatory reaction to the GFC as well as more recent shifts related to the pandemic. Finally, he does all this in the United States, the United Kingdom, and the Eurozone. To guide his inquiry Thiemann adopts Peter Hall's classic conceptual architecture for understanding policy change, which suggests new policies must be politically, administratively, and economically viable.

The result Thiemann (p. 249) arrives at is "best described as tragic." Central banks underwent significant changes in the wake of the GFC to better understand the fragilities of the financial system. However, these seismic epistemic developments were, by and large, not translated into policy action. The consequence is that contemporary central banks are able to backstop the financial system in moments of crisis but are unable to act preemptively to regulate the system to prevent future crises. In short, central banks cannot "tame the cycles of finance," but only put a floor under them. As Thiemann (p. 21) puts it, "unable to change the structure, central banks nevertheless found it necessary to stabilize it."

The book is a treasure trove of information about a major shift in regulatory policy that is often mentioned in the scholarly literature on central banking but rarely examined in any depth. Thiemann's book is packed with detail, so much so that I have to admit that I found myself wondering at times if all of it was necessary. Of course, what might seem unnecessary to me, including much of the textual analysis and unintegrated graphical data, may feel crucial to others. The densely packed nature of the text means that there is much to find in the book, even beyond what the author emphasizes. For instance, one constantly present and yet untheorized theme in the text is the role of international financial policy-making bodies. Thiemann speaks of global policy and its binding nature on domestic institutions as if that is an obvious or well understood phenomenon, which it isn't, but presumably should be.

Detailing the processes through which the development of "macropru" took place is what makes the book such a contribution to the literature. The detail is also, I suspect, what might be alienating for those who aren't used to a scholarly terrain that uses acronyms like G-SIFI (Global Systemically Important Financial Institutions) and refers causally to things like over the counter derivatives, anticyclical haircuts, and re-hypothecation. Thiemann's book is not the place to go if you're looking to understand what macroprudential policy is. It's not until page 69 that he mentions the driving idea behind the establishment of macroprudential policy: seeking to detect and neutralize "deleterious macro-consequences derived from rational micro-action." Put simply: after the GFC policymakers realized that even if everyone within the financial system were acting rationally and according to the rules, the system itself might still be in jeopardy of collapse. Macroprudential policy was born to address that specific issue.

Most of the conceptual architecture of the book emerges from the text, rather than being explicitly articulated. This is perhaps most notable in the case of the distinction between macroprudential policies aimed at building up the resilience of the financial system and those dedicated to "taming the cycle." This distinction is never explicitly articulated or explained but is, nevertheless, the backbone of the argument. In short, there are two ways in which macroprudential policy can seek its aim of preventing the collapse of the financial system due to systemic risk. It could bolster the resilience of financial agents to weather ups and downs (build resilience), or it could attempt to dampen the volatility of the system overall (tame the cycle). The book seeks to find out why central banks more quickly and widely adopted policies aimed at resilience rather than what Thiemann calls counter cyclical policies.

Thiemann offers a complex answer, drawing on Hall's conceptual framework, the work of Sheila Jasanoff, and a commitment to what he refers to as fragmented, multidimensional analysis. While the detail and the data are all extremely interesting, I did find myself wondering if the answer to Thiemann's question was much simpler than he suggests. That is, the macroprudential policies that central banks avoided adopting—counter cyclical efforts as well as the extension of regulatory jurisdictions to shadow banks—are fundamentally and blatantly political. They require engaging in explicit credit allocation, something that central banks have tried to avoid for a very long time.

Another title for the book could have been, *What Technocrats Can't Do.* Central bankers are not meant to design or execute transformative policy. In a democratic context (such as those Thiemann discusses), that sort of policy change is reserved for the political arena. Thiemann tells a story of central bankers who learn that the system is fragile but instead of transforming it, merely backstop and repeatedly repair it. This finding is reminiscent of Manuela Moschella's (2024) in *Unexpected Revolutionaries: How Central Banks Made and Unmade Economic Orthodoxy*, a similarity that Thiemann himself notes (p. 262).

On one level, this is completely unsurprising. Technocrats are not meant to execute radical change. In fact, according to some, they are not meant to engage in political decision making at all. One could read Thiemann's entire story as one of central bankers attempting to put a political matter into a technocratic box by hunting for academic consensus, optimization tools, summary statistics, and rules-based standards on which to base their regulatory decisions. This process echoes the policy-making story told by Elizabeth Popp-Berman (*Thinking Like an Economist: How Efficiency Replaced Equality in U.S. Public Policy*, 2022) who illustrates in great detail the differentially partisan utilization of cost–benefit analysis in the United States.

Thiemann points to opposition by some politicians to the implementation of macroprudential policies as evidence of their lack of political validity. He writes in the conclusion, "overall, the limited political viability of anti-cyclical action, which did not improve post-crisis, is the biggest obstacle to an active anti-cyclical policy program for the banking sector" (p. 257). But perhaps this is too general a claim. It is easy for politicians to oppose the actions of an independent central bank, especially when the central bank wants to make it harder for people to buy houses. However, might things look different if the politicians were themselves responsible for both supporting peoples' capacity to buy houses *and* for stabilizing the financial system? Perhaps then they'd be keener to make a reasonable tradeoff between the two, or at least have to defend their reasoning on the matter. In other words, the political opposition to macroprudential policies might be more contingent, or structurally dependent, than Thiemann suggests. As things currently stand, the central bank can blame inaction on the lack of political viability and the politicians can blame the central bank for failing to secure financial stability—the buck stops nowhere.

Thiemann (p. 22) writes, "macro-prudential reform efforts…while producing knowledge about the dangers of mechanisms of financial instability, are incapable of mustering the political will to engage in preventive action." While this is undeniably true, and extremely well evidenced in the book, one wonders, is this not simply because central banks were designed not to recognize, let alone establish, political will? Or perhaps, on a more cynical reading, that political will against change is so well cemented in independent central banks that it's nearly impossible to see, let alone overcome?

What Thiemann's book so clearly and compellingly documents is that central banks face a situation in which there is "no need for evidence to justify anti-cyclical interventions in times of crisis, whereas there is extensive need for evidence to justify anti-cyclical interventions in times of booms" (p. 261). From this, he concludes transformative policy in bank regulation requires political viability. What Thiemann doesn't explicitly acknowledge is that this is all we can expect of a technocratic body designed to avoid engaging in transformative policy change. Once this observation is made explicit, Thiemann's book tees up a novel and more suggestive normative conclusion: transformative policy requires political engagement. I guess this book about central banks may be about central bank independence after all.