

*A History of the Federal Reserve: Volume 1, 1913 – 1951.* By Allan H. Meltzer. Chicago: University of Chicago Press, 2003. Pp. xiii, 600.

Allan Meltzer's *A History of the Federal Reserve: Volume 1, 1913-1951* relies primarily on archival materials and manuscript collections to construct a sweeping narrative of the founding and operation of Federal Reserve monetary policy during the first 38 years of its existence. With the exception of an initial chapter on central banking theory and practice, the book chronologically recounts the founding of the system and its early years (chapter 3), Federal Reserve monetary policy in the 1920s (chapter 4), the Great Depression (chapter 5), the influence of the Treasury and gold inflows in the 1930s (chapter 6), and its operation in the years following World War II (chapter 7). Since the major chapters are long (averaging around 150 pages each), many scholars will find the book more accessible by focusing on individual episodes. The useful concluding sections at the end of each chapter are helpful for those wishing to move forward in time and still maintain some of the continuity of the author's argument.

Of course, Meltzer's tome is not the first history of US monetary policy. There are notable precursors including Milton Friedman and Anna Schwartz's *A Monetary History of the United States 1867 – 1960* (Princeton: Princeton University Press, 1960). (In only 60 more pages, they cover an additional 55 years of monetary history.) Nor is this the first book to describe the birth of the Fed and its early years of operation. Since Meltzer's book follows well-trodden ground, one may well ask what is new and different about this account?

One of its significant contributions is the second chapter, which provides a lucid and thorough account of the evolution of thought on monetary policy. This chapter explains how eighteenth- and nineteenth-century thinkers such as Henry Thornton and Walter Bagehot had already developed ideas that are regarded as main tenets of modern central banking (i.e., operating as a lender of last resort, the effects of money on prices, interest rates, and exchange rates, and the distinction between real and nominal interest rates). But this material is also crucial to one of Meltzer's central arguments: during the first four decades of its existence, the Fed deviated in important ways from the prescriptions and wisdom offered in these early tracts, and as a result, committed many policy mistakes. As Meltzer emphasizes, a unique brand of US central banking emerged in the first few decades of the twentieth century that was in part a response to the peculiar institutional design of the Fed (and the resulting awkward power-sharing arrangement between the Board and the reserve banks), and the authorizing legislation (which led Fed officials to develop monetary policy around the quality rather than the quantity of credit – the so-called real bills doctrine).

Much of what readers encounter in this book has a tenor similar to Friedman and Schwartz's book, but there are notable differences, perhaps none more important than Meltzer's observation that Fed policymaking relied on a particular strand of the real bills doctrine developed by Winfield Riefler and W. Randolph Burgess. According to their view, credit should grow at the same rate as output in the long run (as dictated by the real bills doctrine), but open market operations should be used to control the volume of

member bank borrowing and market interest rates. Meltzer argues that the Riefler-Burgess doctrine permeated Fed policymaking beginning in the early 1920s, and influenced their decisions through the 1950s. Adherence to this view led the Fed to conclude, for example, that lack of member borrowing and low nominal interest rates in the early 1930s meant that additional purchases of government securities were unnecessary and would only expand credit on speculative assets. Viewing Fed decisionmaking through the lens of the Riefler-Burgess doctrine helps to demystify Fed behavior (such as why the head of the New York Federal Reserve Bank, George Harrison, did not advocate expansionary open market operations during the Depression). However, there are points in the narrative where alternative views are perhaps dismissed too easily, such as the role of *international* cooperation in constraining Fed decision making during the Great Depression, or the impact of the stock market in transmitting the Depression – dismissed without reference to research emphasizing that variability in stock prices affected aggregate spending (Christina Romer, “The Great Crash and the Onset of the Great Depression,” *Quarterly Journal of Economics*, 105 [1990]: 597-624).

As the title suggests and as the first sentence of the book states, Meltzer views his primary task as writing “the biography of an institution.” Perhaps the biggest disappointment is that the book focuses narrowly on Federal Reserve monetary policy and does not provide a historical account of the Fed’s other functions. In particular, the Fed’s role as a supervisor and regulator of the banking system is not thoroughly investigated, and as a result, an important part of the early history of the Fed is largely ignored. Regulation is mentioned in passing (as it relates to monetary policy or to crises such as the bank failures of the 1930s), but the treatment is often cursory. For example, the Fed’s power struggle with the Office of the Comptroller of the Currency and state banking systems over the expansion of the Fed’s role as a regulator and supervisor receives little attention. Moreover, the Fed’s influence on the structure of the banking system (via prudential regulations that discouraged membership during the system’s early operation and then in the 1930s when it gained control over bankholding companies) is largely neglected. A more thorough treatment of its role as a supervisor and regulator in the early years would also shed light on why the Fed is still an active participant in regulating the banking system today (especially since the creation of the Federal Deposit Insurance Corporation). Nevertheless, since this is the first of two volumes, there is certainly scope to remedy these omissions in the next volume, which, if as carefully constructed as this one, will further deepen our understanding of this critical institution.

Kris James Mitchener, *Santa Clara University*