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The Federal Reserve: A New History. *By Robert L. Hetzel.* Chicago: University of Chicago Press, 2022. xvii + 688pp. Cloth, $45.00. ISBN: 978-226-82165-8.
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Reviewed by Wyatt Wells

Accounts of monetary policy often develop into intellectual histories. The financial system is staggeringly complex, with a vast number of moving parts that interact in many ways, and it touches on the production and distribution of goods and services at almost every turn. Anyone seeking to navigate the field—policymaker or scholar—must have a mental map or quickly becomes lost. Robert Hetzel's *The Federal Reserve: A New History* provides an extensive account of the thinking that has guided monetary policy in the United States over the last 110 years.

The Federal Reserve Act of 1913 became obsolete almost as soon as it went into effect. Its authors assumed that the gold standard would guide monetary policy, with the supply of the precious metal determining the volume of money and credit. With the outbreak of World War I, the United States experienced a huge inflow of gold that the new Federal Reserve "sterilized," or took out of circulation. In theory, the country returned to the gold standard soon after the war, with the dollar again convertible into the precious metal, but Hetzel argues that this was an illusion because the country's immense reserve of the precious metal freed monetary policy from constraint. Instead, the Fed relied on the "real bills" doctrine to guide policy, focusing on short-term credits backed by goods. Ideally, this approach would limit the supply of money to what the country needed for ongoing business and prevent "speculation." The concept was deeply flawed. During a boom, rising prices allowed borrowers to secure larger loans against such paper, and the reverse occurred in a downturn. A policy based on the real bills doctrine reinforced rather than dampened the swings in economic activity. Hetzel agrees with scholars like Alan Meltzer that the Fed's focus on real bills allowed the massive contraction of money and credit during the Great Depression.

Hetzel's analysis of "speculation" adds a new dimension to this issue. In the 1920s and 1930s, the Fed's leaders believed that speculative bubbles that left business overextended created depression—an opinion shared by most economists. Only by preventing such booms could the country avoid depression. Unfortunately, the Fed had no clear definition of speculation and often found it in ordinary signs of prosperity like increases in employment and investment. The eagerness to crush any and all signs of speculation, Hetzel insists, made the Fed "an economic doomsday machine" (p. 115). Misplaced fear of speculation accounted not only for the 1929-33 downturn but also those of 1920-21 and 1937-38.

During World War II and for several years thereafter, the Treasury took over monetary policy to finance the government's huge deficits. When the Fed regained its autonomy in 1951, it had to develop new operating procedures. Under the leadership of William McChesney Martin, who chaired the Fed from 1951 to 1970, the central bank "leaned against the wind." It raised interest rates when the economy expanded faster than its long-run average and reduced them when growth fell short of this mark. The Fed continued to express its policy in terms reminiscent of the real bills doctrine, but Hetzel contends that it did so because, for political reasons, Martin refused to admit that the central bank ever sought slower growth. Overall, the results were good, with stable prices and solid growth between 1951 and 1965.

The second half of the 1960s saw what Hetzel considers a disastrous shift. Economists and government officials imagined a trade-off between inflation and unemployment (the Phillip's Curve), and monetary policy sought to strike a balance between the two. In practice, the Fed only raised interest rates after inflation accelerated, which in practice was too late. Then, to contain prices, it had to raise rates so much that it created a recession, which created irresistible pressure for lower rates, and the cycle began anew. This "stop-go" policy ratcheted up both inflation *and* unemployment during the 1970s.

Paul Volcker and Alan Greenspan, who between them led the Fed from 1979 to 2006, developed a new approach. Record-high interest rates imposed in 1980 to halt inflation created a severe recession. In 1982, the Fed relented, permitting recovery, but it subsequently took pre-emptive action against any threat of rising prices. It focused on long-term interest rates, which are sensitive to expectations of inflation, swiftly raising short-term rates if they advanced. Such action gradually convinced the population that the Fed would not allow prices to increase, and inflation remained low during the recovery. This policy yielded stable prices and solid growth into the new millennium.

Hetzel attributes the 2008 financial crisis to bad government policy. Starting in the 1990s Washington gradually relaxed rules for home mortgages, allowing borrowers to float ever-more-dubious loans. Lenders extended credit because twenty years of bank bailouts had convinced them that the government would rescue them if too many loans went bad—what economists call "moral hazard." After the housing bubble began to deflate in 2007, the Fed allowed the money supply to fall sharply, with expansion resuming only in 2009. Hetzel is quite critical of the various rescue packages the federal government extended to the financial sector, which he contends reinforced moral hazard, laying the foundation for future crises.

Hetzel ends with a discussion of Federal Reserve policy during the pandemic. After reviewing the many initiatives the Fed took during the lockdown to prop up specific interests, he contends that the central bank could have secured the same ends simply by lending generously through its discount window. We cannot know the outcome of such a policy, but Hetzel makes a strong argument that the central bank should adopt such general measures before turning to specific ones because the latter inevitably involve favoritism. Finally, Hetzel notes the huge increase in the money supply during the pandemic and anticipates that, unless somehow unwound, it would translate into higher prices—which it has.

Hetzel tackles complex, contentious issues. For instance, economists agree that the Fed performed miserably between 1929 and 1933. Yet did the central bank create the Great Depression, or did it simply fail to use its extensive powers to contain a disaster that originated elsewhere? Hetzel comes at these questions with assumptions that he readily acknowledges. Free market capitalism, he believes, can sort out most of its own problems as long as the financial framework is stable. He is skeptical of speculative bubbles, seeing the crashes associated with them often as the product of misguided monetary policy. Though sympathetic to monetarist economics, he believes that no reliable measure of money exists today. These assumptions are controversial. Strong opinions do not preclude subtlety, however. For instance, Hetzel agrees with Milton Friedman that inflation is ultimately a monetary phenomenon, but he also believes that, if the central bank has credibility—if people believe it will take strong measures against rising prices—managing inflation becomes much easier.

Throughout this volume, Hetzel argues that the Federal Reserve needs an explicit rule for monetary policy. In the complicated world of finance, only such a rule can provide coherence, and in a democracy, the public should know what it is. The central bank, he believes, should aim for inflation between zero and 2 percent, excluding volatile commodity prices, and it should raise interest rates when the growth of output exceeds the economy's long-term potential and cut them when the reverse is true.

Historians will find parts of this volume slow going. Hetzel sometimes relies on complex mathematical calculations beyond the grasp of non-specialists. At points, his prose is repetitive—a good editor probably could have eliminated 100 pages. That said, Hetzel has produced an important study that will richly profit readers interested in economic policy.

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Inside IBM: Lessons of a Corporate Culture in Action. *By James W. Cortada*. New York: Columbia University Press, 2023. 458 pp. Hardcover, $45.00. ISBN: 978-0-231-21300-4.
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Reviewed by David Stebenne

James Cortada, a professionally trained historian who worked at IBM for many years, is the author of several fine books about the data processing industry and IBM. His latest is a kind of follow up to his previous one, which was a comprehensive history of that firm. In this new book, Cortada focuses on explaining what IBM's corporate culture was and its lessons for business executives today. IBM is, of course, a much studied company, and Cortada seeks to expand on that earlier work and to correct what he sees are its omissions, errors, and simplifications.

*Inside IBM* does a very good job of explaining the major tenets (often referred to inside IBM as "the Basic Beliefs") of IBM's culture, such as "respect for the individual," a commitment to outstanding "customer service," and pursuing "excellence" in all that IBM did (p. 45). Related to those core principles was what he refers to as "the Grand Bargain," in which an IBM employee's willingness to accept frequent corporate transfers and long hours, plus a wide ranging code of