make small, continuous acquisitions of deferred annuities from mid-career onwards the default, thus avoiding the need to suddenly and drastically increase one's annuitization level upon retirement. These are promising ideas that should be studied with pilot experiments in the field once current regulations have been revised to facilitate their implementation.

Some of the challenges for automatic IRAs are laid out in an extremely enlightening chapter by John and Ruth Levine, who survey national retirement savings systems in Australia, Chile, New Zealand, and the United Kingdom. For example, Australia's Superannuation Guarantee (SG) system requiring employers to contribute 9 percent of employee earnings to individual retirement accounts bears similarities to the automatic IRA proposal. John and Levine report that 20 percent of SG accounts, each holding an average of $2,000, are "lost accounts" because participants who did not consolidate their accounts upon switching jobs can no longer be found. Perhaps in part due to the small average account sizes, fees on SG assets are high, averaging 1.25 percent of assets per year. On the annuitization front, John and Levine report that more than half of Chilean retirees—an impressively high proportion—choose to annuitize their retirement assets. One wonders what factors cause such high annuitization in Chile, and if they could be applied in the United States.

There are other policy proposals in *Automatic* that aim to increase the quantity of U.S. savings, especially among the economically disadvantaged, and to increase economic security during retirement. Gale, Iwry, and Walters and chapters by Ngina Chiteji, Michael Dworsky, Peter R. Orszag, Leslie E. Papke, Eric Rodriguez, and Lina Walker argue for expanding and reforming the Saver's Credit, eliminating 401(k) and IRA balances from asset tests for public assistance program eligibility, promoting financial education, and increasing government transfers to those with little to no income because of caregiving responsibilities. While enacting each of these proposals has potential benefits, their costs must be carefully considered in this era of yawning fiscal deficits. The book would have been strengthened if these proposals were accompanied by budgetary analysis such as that found in the chapter by Christopher Geissler and Benjamin H. Harris, who estimate that the fiscal impact of expanding automatic enrollment to all 401(k) plans would be modest and progressive.

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A History of the Federal Reserve. Volume 2. *Book One: 1951–1969*. By Allan H. Meltzer. Chicago and London: University of Chicago Press, 2009. Pp. xii, 682. ISBN 978–0–226–52001–8.
JEL 2010–0416

A History of the Federal Reserve. Volume 2. *Book Two: 1970–1986*. By Allan H. Meltzer. Chicago and London: University of Chicago Press, 2009. Pp. 683, 1312. ISBN 978–0–226–51994–4.
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Every now and then somebody in the economics profession produces a study so monumental as to virtually defy review. And so we have the next two volumes of Allan H. Meltzer's *A History of the Federal Reserve* (volume 2, books 1 and 2). His earlier volumes covered the years 1913–51 and now we receive a treatment of 1951–69 (book 1) and 1970–86 (book 2).

Anyone interested in the history or operating procedures of the Federal Reserve should not only use these books but indeed start with them. Along with Friedman and Schwartz's *Monetary History of the United States*, these volumes form the backbone of what we know about the Federal Reserve and American monetary policy. The reader receives comprehensive coverage of the debates of the 1950s and 1960s, the collapse of Bretton Woods, how inflation spun out of control in the 1970s, the Volcker disinflation and many other topics from these years.

Meltzer is absolutely willing and eager to immerse himself in the primary sources. The books are also impeccably documented and referenced and have beautiful type and layout. The entire production team at University of Chicago Press deserves congratulations.

It should come as no surprise that Meltzer promotes a monetarist view of the Fed. In these volumes, most of the action comes in decisions about the money supply and the rate of price inflation. These books portray the Fed as an ongoing story and a story with the same plot, repeated many times over. America prospers insofar as its central bank embraces predictable monetary policy and a rate of price inflation that is neither too high nor too low. We hit or miss this target, depending on regime, and how much we trust in broadly monetarist recipes. It is no accident that these new volumes start in the year 1951, which is essentially when the Fed regained its independence from wartime and immediate postwar operating procedures. While this appears to be a biography of a central bank, I would sooner call it the biography of an idea, namely an idea about how to regulate the money supply.

Although the two volumes cover 1,312 pages, some topics are neglected. There is relatively little on explicit public choice analyses of the Fed. The topic does surface numerous times as a particular concern, most of all in the coverage of President Nixon and Fed Chairman Arthur Burns, with 1972 serving as one of the more egregious examples of political business cycle theory. There is also plenty of discussion on how Carter and then Reagan supported the disinflation plans of Paul Volcker. Both of those sections are excellent. Still, this reader wished for a more general treatment of which options are truly on the table for the Fed, what the Fed would have to do to lose political independence, and whether the Fed responds more to the President or Congress or other interest groups altogether. It's never clear which parameters constrain the operation of the Fed, whether the Fed ever serves the interests of the "creditor class," or what the Fed has to do—under each and every administration—to keep its charter.

If you imagine a curious and intelligent visitor coming from the outside—say North Korea—and reading these books, it is not clear how much he or she would end up comprehending what the Fed is all about. It could be that American economists, as insiders, already share a common understanding of these broader questions and thus Meltzer feels no need to repeat such background in books focused on mining primary sources about monetary policy. Still, in light of the financial crisis of 2007–09, it is increasingly difficult to maintain the view that we all understand how and why the Fed makes even its basic decisions. Whether you consider the loose oversight leading up to the crisis, the AIG bailout, or the intermittent mild deflation we have tolerated since the crisis, plenty of critics have charged that the actions of the central bank are a mix of wrong-headed or inexplicable or perhaps evil. Ideally these volumes might provide the broader context to help adjudicate these debates but, at the end of the story, the Fed as an actual institution remains somewhat opaque.

The reader also never learns what it's actually like to work for the Fed. Who is hired and how, how did the quality staff get built up, what kinds of salaries are paid, and what is promotion based upon? We never learn what kind of "cognitive capture" operates inside the Fed and what kinds of blindnesses (and insights) are encouraged through the very fact of being there, whether at the Board of Governors or at a regional bank. Do many Fed employees make decisions with an eventual eye on a job in the private sector? The Fed is not treated as a complex organization with a life of its own but rather it is an embodiment of various philosophies of monetary policy.

There is also a relative paucity of information on bank regulation, bank oversight, the housing market, and the Fed's role in running the payments system. The savings and loan crisis of the early 1980s does not shine through as a major event, nor does the decades-long trend of deregulating the financial sector and expanding the powers of banks. How did the Fed come to care so much about the housing market? Did the Fed have any options other than to ignore the periodic insolvencies of Citibank over the last few decades? How were so many lessons from the Great Depression forgotten or unlearned? In good times, the monetary policy and financial oversight roles of the Fed are more or less separate but of course, fairly or not, everyone will be reading these books "backwards" from the vantage point of 2007–09.

I came of age in an intellectual climate by no means unsympathetic to monetarism, yet I no longer believe that money supply regulation, even if combined with price inflation targeting, is "enough." It seems that, slowly but surely, financial systems build up pressures for extreme and unwarranted risk-taking and that the previous period's successes make this subsequent risk-taking even worse. One implication is that each central bank policy triumph creates, in the longer run, a bigger bubble and a larger set of solvency problems with financial institutions. The crack-up of 2007–09 was so bad in part because Volcker and others put the American macroeconomy on such sound footing in earlier decades. It's an open question whether the financial system has long-run balance and perhaps that should induce a deeper revaluation of which Fed policies were successes and which were not. Meltzer's history instead reflects the point of view that an ongoing even keel is more or less feasible.

As many readers will do, I skipped ahead and first read the epilogue on 2007–09. Meltzer tells us early on that Bernanke expanded the Fed's balance sheet too much and bought too many illiquid instruments during 2008. He predicts that the 1970s inflation problem will return in exaggerated form, although as I am writing this review in August 2010 deflation seems like a more serious problem and the TIPS market does not forecast high price inflation. It's never clear what Meltzer's alternative scenario would look like and why he thinks Bernanke, with a background as a market-oriented economist and a clear understanding of monetarism, undertook these policies if they are such folly. He cites the moral hazard argument and the "Greenspan put" as reasons why so many banks became insolvent, but it's not clear why equity holders of these banks would have let those changes in incentives wipe them out. He does not see the Fed as the best available financial regulator and he notes that the Fed failed at this task numerous times in the past. But what is the alternative? This section raises more questions than it answers. Most of all, Meltzer never lets on that the crisis caused a "viewquake" within both monetarism and minimalist approaches to bank supervision.

In addition to its broader narrative, the books serve up many smaller gems. Meltzer emphasizes (book 1, p. 275) that the Bretton Woods agreement, once it adopted truly convertible currencies, lasted no more than ten years (1958–68). This does not augur well for the current European monetary union. Many of the other anecdotes remind the reader of current times, such as when West Germany, circa 1961, is asked to consider looser monetary and fiscal policies. The Germans were far from enthusiastic. The debates about whether the Fed should operate by purchasing longer-term securities and, thus target longer-term interest rates, were more common in the 1950s than many of us may realize. You can browse just about any five-page section in these books and find something fascinating.

What these books do well, they do very very well indeed. It is doctrine that reigns in these books, not deeper politics, colorful characters, or the broader failures of the U.S. banking system with regard to risk. It cannot be said that we have been given a comprehensive history of the Federal Reserve System. Yet these books will be read, studied, and consulted for many decades to come. Unfortunately, the author vows that no further volumes will be forthcoming.

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F International Economics

Capital Accumulation and Economic Growth in a Small Open Economy. By Stephen J. Turnovsky. CICSE Lectures in Growth and Development. Cambridge and New York: Cambridge University Press, 2009. Pp. xii, 241. $95.00. ISBN 978–0–521–76475–9. *JEL 2010–0077*

The last twenty years have witnessed a renewed interest in growth theory and an increasing focus on the economic impact of the globalization of world markets. In his latest book, *Capital Accumulation and Economic Growth in a Small Open Economy*, Stephen Turnovsky ably integrates these two themes using endogenous