

survey of all points of view" (p. xviii), as acknowledged by the authors. And, given their seminal contributions to the new endogenous growth theory, it comes as no surprise that they do not hide their "preference for the Schumpeterian model" (p. xviii), which is used more systematically than the others in their analysis of the growth process and in their discussion of the growth enhancing policy.

There is also a certain carelessness of the presentation, making this book less than perfect, such as missing entries in the references (for example, the text refers to Aghion, Alesina, and Trebbi (2007) on page 407, and again on page 415, but such an entry is not included in the reference list), and typographical errors (for instance, on page xvii, we see C. Jones (1998), but in the reference list it shows up as Jones, C. (1998); on page 408, it says "democracy is measured using the Polity 4 civil rights and political rights indicators," but it is Freedom House, not Polity 4, that provides civil rights and political rights measures of democracy).

Despite its shortcomings, this work provides a well integrated approach to the analysis of growth process. It is a thoughtful and useful book, and it offers the reader an enjoyable read. This book is highly recommended as a textbook for graduate students or undergraduates in advanced courses, but it should also be read by anyone interested in learning more about growth theory and policy.

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Inside the Fed: Monetary Policy and Its Management, Martin Through Greenspan To Bernanke by Stephen H. Axilrod. Cambridge, MA: The MIT Press. 2009. Cloth: ISBN 13: 978 0 262 01249 2, \$24.95. 213 pages.

In March 2008, hoping to avoid a systemic meltdown of the financial markets, the Board of Governors of the Federal Reserve System approved a \$30 billion line of credit to orchestrate the takeover of Bear Stearns, the nation's fifth largest investment bank. The Fed also announced that it was extending its Discount Window lending to aid other Wall Street firms. These moves ushered in a new era, and expanded the role of the Federal Reserve in the functioning of the financial markets. Of course, seismic shifts do not happen without controversy, and this one is no different. While critics are concerned that the Fed's extensive efforts over the past year have encouraged excessive risk-taking, distorted market prices and jeopardized its independence, proponents of the increasing interventions believe the Fed has helped to ease severe liquidity strains and considerably improved the interbank lending markets.

The ramifications of this series of Fed actions cannot yet be known. It is clear, however, that the Fed will be front and center in the national consciousness for years to come. Against this backdrop comes Stephen Axilrod's recent book, *Inside the Fed: Monetary Policy and its Management, Martin Through Greenspan to Bernanke*. In *Inside the*

Fed, Mr. Axilrod, a monetary expert who advised the Board of Governors for more than thirty years, recounts his experience in a well-written, candid and introspective style. Mr. Axilrod displays a keen awareness of the importance of interpersonal relationships, an impressive organizational intelligence and a fine ability to synthesize difficult principles of economics into concise lessons. In fact, the book reads as one part autobiography, one part economics blog. All the while, the author keeps the attention of his audience with a refreshing pace and a pleasant ability to tell stories.

Our peek into this curious institution begins with the “membership problem” days of Chairman Bill Martin. Even saddled with a growing number of member banks withdrawing from the Fed System and a somewhat listless and incoherent mission, the Martin Fed managed real achievement – entering the forecasting game, introducing “modern economics into the policy process” and establishing the supremacy of the Federal Funds Rate as its target interest rate. It is clear that Mr. Axilrod admired Chairman Martin, but retained a certain reticence. Comparing the Chairman’s time at the helm to his tennis game, Mr. Axilrod notes that his “[a]rtistry compensated, up to a point, for certain inherent physical weaknesses.”

The next two personalities to occupy the Chairman’s office do not fare as well in the author’s account. The tenures of Arthur Burns and Bill Miller sailed into strong inflationary headwinds, and it is clear that Mr. Axilrod laments the fact that each was limited in his ability to tack the Fed’s sails into the storm. Each of these Chairmen presided over a period characterized by intensifying inflation and a further erosion of Fed credibility. The central bank’s frustration during the period is obvious from the author’s tone. The Governors and Fed staff struggled during this period – to control the growth of money, to quiet the effects of oil-price shocks, to fend off certain political forces and to respond to innovations in the banking markets that altered historical relationships of measurement.

Enter Paul Volcker, and to hear Mr. Axilrod tell the story, “[i]t was an exciting period, and, as heightened by Volcker’s artistic performance, it can also be called a glamorous time.” Mr. Axilrod’s admiration for the Herculean inflation-fighting efforts of Chairman Volcker is obvious. The author lays the credit for defeating inflation squarely on the broad shoulders of Chairman Volcker, commenting that the era represented “one of the few instances in [his] opinion where a dramatic shift in policy approach could be attributed to a particular person’s presence rather than mainly to or just to circumstances.”

The discussion of the Volcker era is *Inside the Fed* at its best, with Mr. Axilrod offering a fair and lucid appraisal of the execution of “Practical Monetarism” and its intellectual underpinnings. Along the way, there is a fine presentation of the risks of the policy and its stresses and pains – economic and political. This section of the book also highlights the chief frustration for a discerning reader. While Mr. Axilrod trumpets the wisdom of a deliberate central bank, tempered by the notion that monetary policymakers are conservative – and they should be – by their nature, the author’s hero followed no such prescription. Chairman Volcker, instead, had a penchant for the dramatic, possessing the technical proficiency, personality, confidence and “artistry” to deal inflation its deathblow. Mr. Axilrod does not

attempt to provide his recipe for when such a bold and daring policy should be undertaken. The absence of such a roadmap does have ramifications for the book's overall applicability to today's troubles.

Mr. Axilrod's tenure at the Fed ended with his transition to the private sector and a "more active and dynamic kind of world" toward the end of the Volcker years. For the final third of the book then, we are treated to his view on the Greenspan era and the early days of the Bernanke Chairmanship through the lens of an outsider looking in. It is no coincidence (and a tribute to Mr. Axilrod's professionalism) then, that this part of the book also offers a transition in our view of the author himself – from loyal, even-handed staffer with a balanced and sober presentation to an unbridled economist free to express his world view and economic philosophy. Mr. Axilrod wants to like Chairman Greenspan but holds him accountable for keeping money too easy for too long, failing to be bold enough to raise margin requirements during the "irrational exuberance" of the tech bubble and reflexively resisting regulation of markets.

Finally, Mr. Axilrod touches briefly on today's economic problems and their root causes. Although he never says it directly, Mr. Axilrod seems to imply that today's economy is more difficult than ever to understand and to manage. The interconnectivity of the world's economies, the developments and innovations in markets and the technological advancement over the past few decades have added a degree of difficulty to economic forecasting and policymaking. While the pace of change has accelerated and the numbers are bigger now than ever, Mr. Axilrod's lessons are based in economic principles that should stand the test of time.

Overall, while not for novices – and requiring a certain working knowledge of economics and markets – Mr. Axilrod's *Inside the Fed* is an impressive account of the better than thirty years of development in policy, technology and markets that set the stage for today's Fed. His contribution to the dialogue should only grow in importance in the coming years – as the Fed looks to its first principles to guide it through increasingly choppy waters.

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China's Rise: Challenges and Opportunities, by C. Fred Bergsten, Charles Freeman, Nicholas R. Lardy, and Derek J. Mitchell. Washington, D.C.: Peterson Institute for International Economics. September 2008. Hardcover: ISBN 978 088132 417 4, \$21.56. 256 pages.

China has been the world's most dynamic and fastest growing economy over the past 30 years. Its rise to the often claimed economic superpower status has both dazzled the world and alarmed the West. This book, written by prominent researchers who have published extensively in their areas of expertise, intends to provide an