

hours while the average Toyota worker has an actual working time of 2,323 hours. There are a variety of shift systems in the European car industry with a trend toward the introduction of new ones that depart from the standard two shift system while in Japan there is a fairly rigid pattern of using it. In both chapters there is a detailed discussion of the implications of these alternative situations.

To conclude, this book is a valuable reference for researchers interested in capital utilization or shift-work. For the general economist who wants to learn about these topics, however, this book is of limited use, because it has serious gaps in coverage and inconsistent treatment of what it covers across different chapters. Indeed, it is full of traps for those who are easily confused or in a hurry.

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The future of central banking: The tercentenary symposium of the Bank of England. By FORREST CAPIE, CHARLES GOODHART, STANLEY FISCHER, AND NORBERT SCHNADT. Cambridge; New York and Melbourne: Cambridge University Press, 1994. Pp. xiv, 362. \$49.95. ISBN 0-521-49634-9. JEL 95-1499

This is one of those rare books that attains the status of a classic merely by the circumstances from which it comes. It is the proceedings of the 300th birthday of the world's most famous central bank, a symposium attended by 130 governors or former central bank governors, numerous academic specialists, and other distinguished guests including the Prime Minister.

The core of the book consists of two long academic papers. The first, by Capie, Goodhart, and Schnadt, covers the history of central banking in four parts: the evolution of macroeconomic objectives, relations with the government, relations with commercial banks, and recurring debates such as rules versus discretion and free banking. The paper (almost 100 pages by itself) has two long appendices (totaling more than 100 pages) of comparative histories of 32 central banks describing the motivation for founding, evolution of objectives, independence, and operating procedures.

The second paper, by Stanley Fischer, is an overview of a host of analytical issues that currently concern macroeconomists and central bankers. Fischer concludes with a series of recommendations for how a central bank should be run. His final words assert dramatically that "On her 300th birthday, it is time to allow the [Bank of England] to take on the responsibilities of independence." The Bank of England was not then and is still not free of the Treasury.

The most interesting discussions in the book relate to central bank independence. To my mind, three issues regarding independence are particularly important for the future of central banking. Two of these are discussed thoroughly; unfortunately, as I explain below, the third is not.

First, an independent central bank has no choice but to take charge of its own public relations. It seems clear that a central bank should announce its policy actions immediately so that the public can have as much information as possible on which to base its decisions. But financial markets, the media, and the public at large have become intensely interested in just about everything central bankers say, to the point that some feel that the policy deliberations themselves should be open to the public. My own feeling is that this is not desirable (without a sufficient delay) because it would inhibit the give and take that needs to be part of tactical decision making.

Fortunately, opening the deliberations is not necessary. If central banks had a thoroughly credible commitment to low inflation, then the public would no more be interested in the technical details of managing that commitment than it was in everyday matters of central banking during the low-inflation 1950s and early 60s.

A central bank's public-information effort ought to be aimed at building credibility for its commitment to low inflation. The Bank of England's *Inflation Report* does this well, implicitly making the Bank justify actions to fight unemployment against the consequences for inflation.

This brings us to the second point: a goal-independent central bank (to use Fischer's language, p. 292) unrestrained by a legislative

mandate is a deficient mechanism for maintaining low inflation. Unbridled discretion only makes credibility for low inflation more fragile—the bank being more vulnerable to conflicting internal and external pressures. Thus, Fischer's main recommendation is that the legislature should mandate its central bank to establish a low one to three percent average rate of inflation, with a secondary concern for stabilizing employment and output.

I think it is fair to say that, with some variants, a mandate for low inflation is supported by a majority of mainstream professional macroeconomists. The convergence of professional thinking on monetary policy in recent years is truly extraordinary and has helped to encourage the widening circle of low-inflation policies followed around the world today.

The glaring unresolved question in the book is whether and on what terms an independent central bank should participate in exchange rate policy led by the Treasury. The Capie et al. paper begins by stating that "the main objective of central banks, over the centuries, has been the maintenance of the (internal and external) value of the currency . . ." The informed reader aware that a central bank has only one policy instrument—the monetary base—wonders where the balance of opinion in the book will come out on resolving conflicts between stabilizing the price level and the exchange rate.

Oddly enough, the long discussion in Capie et al. on the relationship between the central bank and the Treasury ignores this issue entirely. Fischer mentions in passing that

exchange rate and foreign reserve management can hardly be divorced from interest rate determination [i.e., monetary policy], though the Treasury frequently shares or is responsible for these tasks. (p. 264)

Without much further discussion, Fischer concludes his paper with a paragraph pointing out that "monetary and exchange rate policies cannot be independent . . ." While elsewhere he gives priority to domestic price stability, he stops short of addressing the potential for conflict between the central bank and the Treasury in a flexible exchange rate system.

However, Richard Erb, Deputy Managing Director of the International Monetary Fund,

asks about just that problem. Noting the growing trend toward independent central banks and the fact that most Treasuries retain control over exchange rate policy, Erb asks for suggestions on resolving situations where the Treasury's exchange rate policy is inconsistent with the underlying monetary policy followed by the central bank (p. 257). Unfortunately, the book reports only a brief inadequate response.

The question is raised once more near the end of the symposium by Karl-Otto Pohl, former President of the Deutsche Bundesbank. He begins by describing how the statute for a new European Central Bank (to manage a European monetary union) exhibits many of the features deemed desirable by symposium participants. He then points out that

the only issue where we could not reach a consensus, especially not with our governments, was the role of exchange rates . . . after long discussions we established that the central bank is responsible for exchange rate policy, i.e., interventions in the market, and that this exchange rate policy should not contradict the main objective, namely defending price stability—which it very often does in practice . . . (p. 346)

My one regret is that the symposium did not more fully address the tension between exchange rate policy and independent monetary policy. The question was and continues to be of more than academic interest. On June 25, 1994, less than a month after the symposium was held, headlines appeared around the world such as the one in *The New York Times* declaring that "16 Central Banks are Thwarted in Huge Effort to Prop Up Dollar."

Whether it succeeds or not, a central bank's participation in foreign exchange operations with its Treasury (especially in highly publicized internationally coordinated operations) creates doubt about whether monetary policy will support domestic or external objectives. Broadus and Goodfriend (1996) contains an extended analysis of the problems created for monetary policy by the Federal Reserve's participation in foreign exchange operations with the U.S. Treasury.

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