particular, they use tables to trace the development of important private and regulatory innovations in financial services since the turn of the century. They even include information about the sources of these developments—i.e., they identify the depository that was the first to find its way through the regulatory morass and, thus, provide new products and services. Cargill and Garcia also use a table to sort federal and state regulatory agency responsibilities for the many types of regulations applying to a wide range of depository institutions. Finally, the authors provide an excellent bibliography for the student or other reader interested in pursuing further any of the ideas presented.

In short, the Cargill and Garcia book is timely and complete, providing readers confused by the rapidly changing financial services environment a description of the current state of affairs as well as an explanation of how we got here. It is unfortunate that the very nature of its topic may cause the book to be rapidly dated as financial markets and their regulatory environment continue to evolve. The contribution provided by conceptually connecting the structural and monetary sides of Federal Reserve and depository institutions should continue to be of value, however. And while it may bother some readers that the authors implicitly accept a positive role for a central authority in controlling the money supply, given the overall tone and contribution of the book, this is a relatively minor point.

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Inside the Fed: Making Monetary Policy
William C. Melton
Homewood, Ill.: Dow Jones-Irwin, 1984, 226 pp.

William Melton has given us an excellent account of Fed policymaking. His book is written in an uncontrived, forthright, fast-paced, easy flowing style, and was a pleasure to read. After reading it, I knew that I had effortlessly acquired some new insights into the Fed and its conduct of monetary policy.

The author's contribution to the literature derives from his unusually rich experience—four years at the Federal Reserve Bank of New York, a sometime academic, a Fed-watcher at a major New York bank, and now Vice President and Senior Economist at IDS/American Express. The book makes two major contributions. First, it describes and analyzes the interplay between practical and academic issues in the conduct of monetary policy. In particular, the author offers (particularly in Chapters 7 and 8 and in the Appendix) some fascinating insights into the interface between the Federal Reserve and the money markets. Second, the book conveys the Fed's overriding concern for the safety and stability of the financial system. Four vignettes on Fed lender of last resort activities in recent crises illustrate that concern.

Although this book is not intended to be scholarly, academics, professional economists, and students can all benefit from it. Fed-watchers that lack the range and depth of the author's experience may derive useful information on the way in which those inside the Fed think and act. The Fed can be hard to divine for those who have not served as part of its supportive brotherhood. Working for the Fed is like being educated at an Ivy League school. It is not just the academic training that is valuable, but also the initiation into the Fed's standards of professional conduct and its ways of thinking. Moreover, the New York Fed is the best training ground for future Fed-watchers, because it is the agent that implements monetary policy through open market operations. Melton's broad overview and synthesis may also be useful to some Fed economists, particularly those tucked away from the mainstream of policy debate at a regional bank or in some minor tributary at the Board.

The book primarily focuses on domestic policy, but it does contain one chapter (Chapter 11) devoted to international issues. Several chapters describe, and bring the reader up-to-date on, changes in the structure and function of the Federal Reserve. The importance of U.S. financial history and the emphasis on regional interests explain the Fed's cumbersome structure with its 12 unequal decentralized regional banks and the unifying tendencies of the Board, all of which culminate in the Federal Open Market Committee. The interplay between the Board and staff in formulating monetary policy, the limited role of the regional banks, and the execution of prescribed policies by the "Desk" in New York are effectively portrayed in Chapters 3, 7, and 8.

Two long-standing academic debates are also revisited. The first involves the controversy between advocates of "rule-adhering monetarism" and the "flexible response pragmatists." The second addresses the question of the relative importance of monetary and fiscal policy.

In reviewing the recent struggles between monetarists and pragmatists for policy control at the Fed, Melton begins in Chapter 3 by briefly describing the evolution of Fed policy away from concentration on credit and the availability doctrine toward an emphasis on M1 as the intermediate target and control over the supply of nonborrowed reserves as the policy instrument. The impact of academic writers as well as growing Federal Reserve and congressional dissatisfaction with the inflationary policies of the 1960s and 1970s set the stage for the major policy departure of October 1979. Chapter 4's insider description of the "Saturday Night Special" is interesting history that will help students of policy better understand the significance of that well-known event.

The book also provides some useful insights into events leading to another, unpublicized shift in policy in October 1982—the abandonment of M1 as the target and nonborrowed reserves as the instrument. In this reviewer's estimation, the major deficiency of this book is the author's failure to appreciate the full significance of this second change. October 1979 had never heralded monetarism, but the 1982 policy shift took the

Fed away from intermediate targeting and back to a policy of stabilizing interest rates, thus departing further from monetarist principles than is ever recognized by this author.

Post-1979 criticism of the short-term volatility of both money and interest rates, concern for the international debt crisis, fears about the increasing number of insolvencies in the financial sector, and the severity of the 1981–82 recession, caused the Fed to change its operating procedures in October 1982. It began to monitor borrowed reserves in an effort to stabilize interest rates. Moreover, while appearing to target M2, M3, and Benjamin Friedman's credit aggregate, and continuing to express concern about inflation so as not to lose the expectational war, the Fed had, in fact, marched away from rules right into the camp of the pragmatist school.[1]

By the summer of 1984, fears that deflation would deteriorate into depression had abated, interest rates had become less volatile, and M1 velocity was reassuringly returning toward its trend. The stage was set for a resumption of the 1979 experiment.[2] Melton's lack of emphasis on the October 1982 change in operating procedures suggests that he took such a resumption for granted. A shift back toward the policies announced in 1979 might be expected to be more successful this time because one of the obstacles to monetary control—lagged reserve accounting—was replaced by almost contemporaneous accounting in February 1984. Consequently, in July, the Fed announced its intention to give M1 more weight again in policy formation, but the replay did not take place.

Late in 1985, we are once again concerned about, and unable to satisfactorily explain, the recurring decline in M1 velocity. Moreover, the relationships of M2, M3, and total domestic nonfinancial debt to GNP are also off-track. Consequently, if Melton were writing his book today, I suspect he would give even more attention to Paul Spindt's MQ money index. I anticipate that this index will soon be utilized in the monetary policy report to Congress, for MQ's velocity is better behaved than M1's. Moreover, under the Humphrey-Hawkins Act, the Fed needs to present to Congress some intermediate target that will rationalize its 1985 sustained disregard of M1 growth.

At this point, I should mention my partial disappointment with the Appendix, which might have, but did not, provide a self-contained, technical analysis of open market operations. The author does mention Milton Friedman's sharp criticism of the Fed for unnecessarily churning

[1]See Thomas F. Cargill and Gillian G. Garcia, *Financial Reform in the 1980s* (Stanford, Calif.: Hoover Institution Press, 1985), and Frank E. Morris, "Rules Plus Discretion in Monetary Policy—An Appraisal of Our Experience Since October 1979," Federal Reserve Bank of Boston, *New England Economic Review* (September/October 1985): 3–8.

[2]Gillian Garcia, "The Right Rabbit: Which Intermediate Target Should the Fed Pursue?" Federal Reserve Bank of Chicago, *Economic Perspectives* (May/June 1984): 15–31.

the Treasury bill markets, but the issues are not examined with the depth they deserve.[3]

The second long-standing academic debate addressed concerns the relative importance of monetary and fiscal policy. Given the size and duration of the deficit, Melton might have made an interesting contribution on the Treasury-Fed interplay (Chapter 9). That he does not, may result from the fact that he does not appear to have had inside-the-Treasury experience to match his inside-the-Fed qualifications.

The author's contribution on crises (Chapter 10) is a valuable one. The writer successfully conveys the Fed's conditioned reflex to avoid, or contain, crises. The Fed's generally cautious stance on most policy issues can best be understood in the light of the burden it feels from its lender of last resort responsibilities. This chapter presents four case studies on the Fed's handling of the Penn Central, Franklin National, Hunt Silver, and Drysdale Government Securities market crises. Given the spate of insolvencies currently occurring among depository institutions, and the rapidly growing yet poorly understood risk exposures in other sections of the financial markets, I anticipate that academic economists, historians, politicians, practitioners, and public policy scholars will soon be closely examining the Fed's lender of last resort role.

In short, I recommend the book to a wide readership. It stands high in the return-to-effort rankings among economic policy texts.

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Competition Policy and the Professions
Organization for Economic Cooperation and Development
Paris: OECD, 1985, 112 pp.

This small book reminds us that medieval standards are alive and well in the practice of the liberal professions in the countries of Western Europe, the United States, and Japan.

The book is a report produced by the OECD's Committee of Experts on Restrictive Business Practices on the relationship between competition policy and the professions. The Committee assigned a Working Party the mission of describing the characteristics of the liberal professions in the member countries of the OECD, comparing the provisions of law as they apply to competition in professional practice, studying the forms of self-regulation in the professions, and examining whether professional self-regulation was compatible with the promotion of competition.

The book deals mainly with the professions of medicine, the law, and architecture, although reference is occasionally made to engineering, veterinary practice and other professions. The information it contains was largely derived from responses to questionnaires sent to the govern-

[3]Milton Friedman, "Monetary Policy: Theory and Practice," *Journal of Money, Credit and Banking* 14 (February 1982): 98–118.