There is one subject not touched upon in this book: the longer-run legacy of the monetary regime put in place to stabilize inflating economies. Bernholz favors fixed exchange rates anchored to some metal, preferably gold. These regimes have some undesirable side effects: (1) real exchange rate adjustments to shocks require national price levels to change; (2) they can be deflationary over the long run; and (3) they are not cheap to operate.

Overall, this book provides the economist with a good picture of many countries over a long time period that were affected by inflation, how they dealt with it, and what measures contributed to success. Bernholz brings a wealth of experience and knowledge to this subject.

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The Power and Independence of the Federal Reserve
Peter Conti-Brown
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Why should the president and Congress defer to the Federal Reserve on monetary policy? One of the typical justifications for central bank independence is that politicians are liable to artificially juice the economy, especially before elections, boosting economic activity through an expanded money supply in the short run but causing inflation in the medium to long run. This conflict of interests necessitates insulating central banks from political pressure. It is what Peter Conti-Brown calls the "Ulysses/punch-bowl" justification of Fed independence. Like Ulysses tied to the mast, the Fed should be shielded from the siren calls of Congress and other elected officials and left free to follow former Fed chairman William McChesney Martin's ideal of taking away "the punch bowl when the party is really heating up," that is to temper money growth in economic expansion—a move short-term-minded politicians might oppose.

Conti-Brown's *Power and Independence of the Federal Reserve* is at heart an attempt to challenge the Ulysses/punch-bowl justification for the Fed's independence. In Conti-Brown's conception, while the Ulysses/punch-bowl reasoning might accurately explain the general need for insularity from politics in the conduct of monetary policy, it

does not explain the extent and particularities of the Federal Reserve's specific power and independence. That's because the Fed, by practice and statute, does more than attempt to manage nominal income and inflation—Fed policymakers are also "recession fighters, bankers, financial regulators, bank supervisors, and protectors of financial stability."

It's worth asking at this point: Is Conti-Brown, in posing a justification of Fed independence that he himself knocks down, simply attacking a straw man? Even if the phrase "Ulysses/punch-bowl" is of Conti-Brown's own invention, it nevertheless captures a common perception of the Fed—namely, that its role in managing money specifically validates its unique autonomy compared to other government agencies.

Conti-Brown chose not to write an institutional or legal history of the Fed. Instead, he identifies a few key aspects of the Fed's structure and practical operation, which he then explores in detail. Conti-Brown attempts to use these selective inquiries to elucidate his main point: that the general need for central banks to conduct monetary policy independently from political pressure does not justify the degree to which the Fed is insulated from political oversight. He divides the book into four sections: (1) "The Federal Reserve Is a 'They' Not an 'It'"; (2) "The Five Hundred Hats of the Federal Reserve"; (3) "The Sirens of the Federal Reserve"; and (4) "The Democratic Demands of Fed Governance."

In the first section, Conti-Brown argues that none of the laws that codified the Fed's structure embodied any coherent logic regarding the need to separate monetary policy from politics. The Fed's structure is more a historical accident than intelligent design. According to Conti-Brown, the 1913 Federal Reserve Act (which established the Fed and remains the most important law shaping its structure) contained elements of influential German-American banker Paul Warburg's support for a powerful, privately managed central bank, Senator Carter Glass's preference for a decentralized set of regional banks, and President Woodrow Wilson's faith in technocratic expertise. The end result, a mix between a fully centralized and a regional system governed by a mix of public and private agents, represented this contingent melding of ideas.

In the second section, Conti-Brown discusses Fed activities that extend beyond its regulation of the money supply—the main thrust being that the Fed's oversight of the financial system occurs with

just as much independence as its monetary policymaking, even though the Ulysses/punch-bowl independence justification does not apply to it.

Financial stability has always been a large part of the Fed's activity; indeed, it was concern about financial crises that, on the surface at least, motivated the Fed's creation in 1913. Even as the Fed became primarily known for its macroeconomic stability role and the practice of what is often referred to as "conventional monetary policy," it not only maintained its original financial stability tools but also acquired new tools and regulatory functions. New Deal laws enacted the Fed's now infamous 13(3) emergency lending power, and while the simultaneous creation of deposit insurance and the FDIC is largely understood to have removed the Fed from the "front lines" of combating bank failure, the Fed has regularly provided emergency liquidity through its discount lending tools since the 1984 Continental Illinois bailout. Recently, the financial crisis and its aftermath brought the Fed's power to make loans in the name of stability in full view.

The Fed has also obtained significant financial regulatory obligations that are not part of its original function. The 1956 Bank Company Holding Act, which removed various prohibitions on both intra- and interstate branch banking, moved many bank oversight responsibilities from the Office of the Comptroller of the Currency to the Fed. The 2010 Dodd-Frank law added the monitoring of "systemic risk" to the Fed's plate by creating the Financial Stability Oversight Council (FSOC). While FSOC is a super-council composed of representatives from many financial regulatory agencies, Conti-Brown points out that the Fed's role on FSOC is that of a "first among equals." Considering the growth in both the Fed's financial regulatory duties and emergency lending, Conti-Brown asks, "Does the Ulysses/punch-bowl justification apply to these diverse, nonmonetary regulatory functions?" His answer is a resounding "no!" Yet, as he points out, Fed decisionmaking in these areas happens with the same degree of autonomy as in conventional monetary policy.

In the third section, Conti-Brown analyzes the Fed's governance structure and its relations with other branches of government. Administrative agencies are generally subject to oversight by the legislative and executive branches through the appointment and confirmation of senior-level officials and the budget appropriations process. As with other agencies, the president appoints and the

Senate confirms the Fed chair and other senior staff, namely the Board of Governors. However, some members of the Federal Open Market Committee (FOMC)—the body that oversees and votes on the Fed's buying and selling of securities—are not appointed or confirmed. The FOMC consists of 12 members, the 7 governors, of which one is the chair, and 5 of the 12 presidents of the regional Federal Reserve Banks. These presidents serve one-year terms on a rotating basis, and, despite their important role in crafting and approving monetary policy, they are appointed by each reserve bank's private board of directors (the president of the New York Fed is a permanent voting member of the FOMC). Every other official at a federal agency with equivalent responsibility is subject to presidential appointment and congressional confirmation. Also distinguishing the Fed's oversight is that, unlike most other agencies, the Fed does not receive funding through the annual congressional appropriations process. Instead, its budget comes from interest earned on the financial assets it holds for the purposes of conducting monetary policy.

There is much to commend in *The Power and Independence of the Federal Reserve.* Conti-Brown brings a sharp toolset for his institutional analysis approach: a law degree, a soon-to-be-completed doctorate in history, and, based on the bibliography, wide reading in the political science and legal literature on American administrative agencies and bureaucracy. Even knowledgeable readers who know the facts might find some of the analytical points novel and insightful.

There is more concrete value in his work besides originality and interestingness. Thinking of the Fed's function as historically contingent and seeing its structure through the lens of governance broadens the discussion beyond presentist and minimalist conversations about the level of interest rates. The book will hopefully provoke thought among readers who are frequently concerned about Fed policy but take its structure and power as an unalterable given. Last but not least, his main point, that the potentially corrosive influence of politics on monetary policy does not justify the Fed's particular insularity and discretion is true and worth noting.

Conti-Brown strays from solid ground in the fourth and final section, however, which includes reform proposals. That's because he desires, even after showing that Fed insularity as it currently exists is not justified, to "provide more accountability without compromising that crucial insulation of monetary policy from partisan politics." Maintaining day-to-day insularity while fostering democratic

accountability might sound nice on paper, but it falsely assumes a dichotomy between democracy and politics. It is ultimately a buzzword idea that does not substantively address the problems with Fed governance that Conti-Brown successfully explicates.

Conti-Brown proposes two sets of major reforms to ensure "a central bank that will protect the currency from the winds of electoral politics, without losing the benefits of democratic legitimacy." These are altering the term lengths of the Fed Chair and other members of the Board of Governors and increasing the number of Fed staff subject to the presidential appointment process.

The suggested changes to term lengths make sense, and there is a case to be made for increasing the number of key positions (the regional bank presidents especially) subject to appointment and review. But Conti-Brown does not show that increasing the scope and frequency of presidential appointments and congressional confirmations will have the effect of fostering greater democratic accountability. While it is true that the president and legislators with the respective duties of appointing and confirming bureaucratic officials are elected representatives, whether the politically controlled appointment process democratically justifies broad grants of discretion to unelected officials is very much a matter of open debate among administrative law scholars. Scholars who see agency discretion as democratically justified make plain that the appointment power is just one of a host of tools available to government's three main branches to control the bureaucratic "fourth branch"—tools like budget setting, judicial review, and the ability (of Congress) to call punitive hearings, mandate information disclosure, and even write legislation that revises a specific power delegation. Fed actions are notably subject to much less strict standards of judicial review than any other agency, and the Fed's ability to fund itself through monetary policy is of course unique as well.

Conti-Brown doesn't propose any changes to judicial review of the Fed or the Fed's funding mechanism, nor does he support any current legislative proposals designed to increase Fed transparency or limit its discretion. Moreover, Conti-Brown does not engage with the points made by skeptics of the political control justification. Scholars point out that the technical nature of the matters dealt with by agencies means that regulators often have a knowledge-based upper hand over congressional overseers and that the voting public puts little pressure on elected officials regarding administrative concerns. It is

presumptuous for Conti-Brown to slap the democratic accountability label on his reform proposals without considering these well-worn and important debates about the effectiveness of the appointment process and the other various levers of control possessed by the three branches in providing democratic legitimacy for the policies made by agencies with wide statutory discretion.[1]

Furthermore, even if the increased use of appointments led to a Fed with power that was better justified on democratic grounds, would that Fed still be as insulated from politics? There is no wide chasm between electoral politics and democracy, and any increase in democratic accountability would thereby correspond with an increase in the importance of "day-to-day politics" to Fed governance. Conti-Brown actually unwittingly demonstrates this when discussing unfilled spots on the Board of Governors during the Obama administration. He mentions the case of MIT economist Peter Diamond, a 2011 Obama appointee rejected by the Senate. "His rejection is inexcusable and may be the most egregious example of politics over substance in the history of Fed appointments," according to Conti-Brown. Yet, for better or worse, it is reasonable to assume that increasing the use of appointments would lead to more political fighting over appointees. And it is difficult to draw a line between reasonable vetting and political pettiness; seemingly low-brow confirmation debates and hearings often serve as an important site for hashing out ideological disputes and reaching pluralistic compromise.

This is not to say that increasing the use of appointments would end the Fed's ability to set monetary policy independent of day-to-day political pressure. But Conti-Brown's unwarranted distinction between politics and democratic accountability leads him to reject, in the name of protecting it from pernicious day-to-day political influence, a key reform that would increase the Fed's democratic accountability.

[1]See Jodi Short, "The Political Turn in American Administrative Law: Power, Rationality, and Reasons," *Duke Law Journal* 61 (2012): 1812–81 for an explanation of the political control model, and see Mark Seidenfeld, "The Role of Politics in a Deliberative Model of the Administrative State," *George Washington Law Review* 81 (2013): 1403–16 for a review of the literature supporting the model, and 1416–24 for a review of literature critiquing it.

That proposal is for continual GAO audits of the Fed. Iterations on this idea have been proposed in Congress since the 1970s. It seems that increasing the amount of information about the Fed's activities would foster accountability. Conti-Brown agrees that information disclosure is good in principle, but worries "that members of Congress will use cherry picked quotes and facts about the Fed's policies from the annual GAO audit to score political points and seek to influence the Fed by confusing the public and making the Fed appear more sinister or partisan than it is." Conti-Brown's mix of paeans to democratic accountability with skepticism of day-to-day politics shows his proposal's theoretical incoherence. An attempt to "have more accountability and more insulation" (as Conti-Brown puts it) is an attempt to have cake and eat it too.

I sympathize with Conti-Brown's train of thought though. The Ulysses/punch-bowl idea does not justify the Fed's structure, and human history is riddled with politicians and other sovereign authorities ruining their countries' currency. Is there a way to structure our monetary institutions in a manner congruent with our liberal democratic government that does not increase the risk of 1970s inflation? There is, and it is revealed by a better reading of the Homeric Ulysses and the sirens story, which Conti-Brown should have considered more closely. Ulysses had his men chain him to the mast of his ship when faced with the temptation of the siren calls. Ulysses could not escape the influence of the sirens, so he enabled a mechanism, a rule, to ensure that short-term temptations would not veer him off course. Likewise, strict, unalterable monetary rules (Ulysses instructed his men to kill him if he attempted to break his chains) are the best mechanism for preventing the Fed from being led astray by politics, other distracting influences, or simply the limits of its own knowledge.

Conti-Brown briefly mentions and rejects proposals to legislate or constitutionalize a monetary rule. His logic is that such rules are antidemocratic; if voters would like to have the famous Taylor rule used, for example, they should simply clamor for John Taylor to be appointed Fed chair. Aside from overlooking that the economic advantages of monetary rules relate to them being truly binding, Conti-Brown errs by using democratic legitimacy as the only grounds to judge the efficacy of Fed governance reform. The problem of unjustified Fed insularity is a problem of liberal principles, of rule of law, and constitutional governance. It would have behooved

Conti-Brown, given his critical discussion of independence, to engage with the literature on liberalism and sound money, on rule of law and monetary constitutions, and on the knowledge problem and the failures of central bank technocracy.

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Politics as a Peculiar Business: Insights from a Theory of Entangled Political Economy
Richard E. Wagner
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Over the past few decades, insights from complexity theory and networking analysis have increasingly infused the social sciences. A complex economics perspective stresses the interactional processes between heterogeneous individuals, fallible yet capable of seeking exchange advantages and whose actions unfold in both time and space.

Despite the growing popularity of complexity approaches in economics, it is reasonable to suggest the subdisciplines of public finance and public-sector economics have been, and still remain, largely immune to process-oriented thinking.

The exclusion of complex systems approaches from public economics is illustrated by how fiscal policy action is treated in most textbooks. Convention paints the comparative static portrait of an omniscient, benevolent planner aloofly injecting tax and subsidy interventions into markets, which allegedly fail to achieve optimal resource allocations or desirable distributional outcomes.

The work of George Mason University economist Richard Wagner directly challenges that orthodoxy. He emphasizes an evolutionary political economy wherein commingled economic and political actors all interact on the same social plane. Wagner's new book, *Politics as a Peculiar Business*, is the latest in his longstanding attempts to illustrate an alternative approach to fiscal theorizing and political economy.

What is most refreshing about *Politics as a Peculiar Business* is the intellectual honesty with which Wagner depicts economic and political life in the contemporary age. Breaking down the conventional vision of bifurcated economic and political spheres, he sees a