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J. Lawrence Broz. *The International Origins of the Federal Reserve System.* Ithaca: Cornell University Press, 1997. xiii + 269 pp. $35.00 (cloth), ISBN 978-0-8014-3332-0.

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Why was the Federal Reserve System established?- The common view is that the Fed was established as a public good to correct deficiencies in the U.S. banking and payments system that made the system inefficient and prone to crises. Reform proponents blamed crises on the nation's "inelastic currency"–stocks of currency and bank reserves that did not adjust with seasonal or cyclical fluctuations in demand, let alone in response to bank runs. Other proponents of reform pointed to the difficulty of making inter-regional payments, citing long delays and high costs associated with the clearing of checks and drafts. Still other reformers decried the concentration of bank reserves in the central money markets and the investment of correspondent balances in stock market call loans. A less important goal of reformers, the traditional view argues, was to promote use of the dollar in international trade and finance.

J. Lawrence Broz argues that the goal of promoting the dollar as an international currency was in fact the primary consideration of reform proponents, and that reform was achieved only by alignment of strong private interests for promoting international usage of the dollar with the general public interest of improving the stability of the U.S. payments system. The establishment of the Federal Reserve System thus fits a "joint products" model, in which institutional change produces a public good, but occurs only because of the efforts of a narrow interest group seeking private gain.

The United States' share of world exports, particularly of manufactured goods, rose during the last decades of the nineteenth century, and by the early twentieth century the Untied States enjoyed an increasingly persistent current account surplus. Despite these gains, the dollar was not used widely in international commerce because, Broz contends, U.S. banks were prohibited from issuing bankers acceptances to finance international trade and the U.S. lacked a central bank with the power to create liquidity as needed by re-discounting commercial paper. Because the dollar was not an international currency, American exporters faced exchange risk and high transactions costs, while American banks were largely shut out of the market for financing international transactions. A coalition of leading bankers and manufacturers thus developed with the goal of enhancing the dollar's role as an international currency by reforming American banking laws and institutions.

For the dollar to be acceptable to international markets, the stability and efficiency of the U.S. banking and payments system had to be enhanced. Thus, the interests of large U.S. banks and exporters aligned with the public interest generally. The creation of the Federal Reserve System, Broz argues, was an institutional reform that was consistent with both sets of interests. Various alternatives for improving the domestic payments system, such as adoption of nationwide branch banking, were insufficient to meet the interests of internationally-oriented bankers and businessmen, and hence failed to inspire a strong coalition to push for their adoption.

Broz points to two features of the Federal Reserve Act that were crucial for gaining acceptance of the dollar for international payments. First, the act permitted U.S. banks to issue bankers acceptances to finance foreign trade. Second, the act established facilities to re-discount acceptances and other commercial paper, thereby adding depth and liquidity to the U.S. money market. Other features of the legislation directly benefiting large banks included a reduction of reserve requirements and authority for banks with capital of at least $1 million to establish foreign branches. The legislation thereby solved, apparently, the problems of an inelastic currency and an inefficient payments system, while promoting the dollar's use as an international currency.

While the fundamental reforms embedded in the Federal Reserve Act provided the key ingredients for promoting the dollar as an international currency, specific features of the Act reflected give and take among various private and public interests. Banks outside the central money market, for example, were strong proponents of a

currency backed by commercial paper, while New York City bankers by and large preferred a currency backed by government bonds. Banks outside New York City also favored a decentralized system that limited the ability of New York City banks to dominate. Bankers in general and many in Congress favored a system controlled by banks themselves, but the Wilson Administration, and especially William Jennings Bryan, pushed for strong public oversight in the form of a Federal Reserve Board. The Federal Reserve System was the product of compromise at every stage and detail.

Broz supports his study of the origins of the Federal Reserve by examining how well the founding of other central banks fit his joint products model. The central banks he considers are the Bank of England, and the First and Second Banks of the United States. In contrast to the Federal Reserve, each of these banks was created in part for government revenue. In exchange for providing loans on favorable terms to the government, the owners of the banks were granted certain monopoly privileges. The Bank of England was given a monopoly over note issuance, while the First and Second Banks of the United States profited as the government's fiscal agents, as well as from their unique ability to branch nationwide. Broz argues persuasively that the Bank of England survived, while the two U.S. banks did not because in the United States federalism created a potent political opposition that could be exploited by private enemies of the central bank. While Andrew Jackson's militant "hard money" philosophy explains his opposition to the Second Bank, Wall Street bankers also sought to kill the Bank on the grounds that its monopoly position as the government's fiscal agent gave the Bank advantages that state-chartered banks did not have.

I find little to quibble with Broz's explanation of the origins of the Federal Reserve System. Clearly the most ardent proponents of establishing a central bank, especially the New York bankers, sought to establish a major international money market in the United States and to promote the dollar in international commerce and finance. There was, however, strong opposition to the establishment of a "central bank," particularly one dominated by New York bankers, and key players in shaping the Federal Reserve Act, such as Carter Glass, William Jennings Bryan, and Woodrow Wilson, sought to limit the influence on the System of New York banks. Nonetheless, Broz has persuaded me that establishment of the Federal Reserve required the ongoing support of leading banks and others who sought to firmly establish the U.S. dollar as an international currency. I highly recommend this book for anyone interested in either the history of the Federal Reserve or other central banks, or for those interested in the origins of institutions and institutional change more broadly.

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