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Remarks by

Alan Greenspan

Chairman

Board of Governors of the Federal Reserve System

at the

American Enterprise Institute Reception

for the Publication

of Allan Meltzer's

History of the Federal Reserve, Volume I

Washington, D.C.

It is a great pleasure to be part of this celebration for the publication of this remarkable book, volume I of Allan Meltzer's *History of the Federal Reserve*. As Allan notes (in his preface), this project has been nearly thirty years in the making. I understand that the first draft of his analysis of the failure of monetary policy during the 1930s (chapter 5) dates back to 1966. After what has surely been the most exhaustive examination to date of records of policy discussions at the Board of Governors and the Federal Reserve Bank of New York, Allan has provided what is, by far, the most detailed analysis of Federal Reserve policy through the Federal Reserve-Treasury Accord of 1951. The outcome is certain to be recognized as an indispensable input for monetary economists and economic historians alike.

Volume I takes us through the evolution of the Federal Reserve as an institution, from its birth as a decentralized, partly private institution with diffuse power to its later development into a central bank with semi-autonomous banks that became part of a unified system. The exposition highlights the importance of structuring a system with appropriate incentives and safeguards as a precondition for sound policymaking. But it also focuses on elements that the Federal Reserve System's founders perhaps could not have anticipated, including the early internal power struggles and the profoundly challenging economic and political events, which contributed to policy errors. Over the years we have become more knowledgeable about how the economic environment evolves. But to our predecessors, much was virgin policy territory. It is no wonder that many of their initiatives went astray.

Allan successfully weaves into the story the interaction of economic ideas with events and policy decisions and highlights how the prevalence of misperceptions and incorrect beliefs, perhaps induced by academic theories of the day, contributed to policy errors. One may not always agree with the conclusions regarding specific episodes or their interpretation, but any disagreement would not take away from one's appreciation of the perceptive description of the underlying events, debates and policy actions.

History teaches us that no matter how well intentioned economic policies and decisions may be, policymakers never can possess enough knowledge of the complexities of the economy nor sufficiently foresee changes in the economic environment to avoid error. But history can and does provide examples that can help guide policymakers away from repeating the worst mistakes of the past. Indeed, only through an understanding of historical precedents can we continue to improve our policies. In this regard, one cannot be overly appreciative of Allan's contributions in this and his other important works over the years.

I would like to end my remarks on this monumental thirty-year effort with but one request. Could we put volume II on a track that's a tad faster?