Perry Mehrling, *The New Lombard Street: How the Fed Became the Dealer of Last Resort*, Princeton, N.J.: Princeton University Press, 2011, xii + 174 pp.

Few books have a title that captures the core of their main argument as this work by Perry Mehrling, originally published in 2011 and now available in paperback. The first part of the title, *The New Lombard Street*, is a reference to Walter Bagehot's classic *Lombard Street* (1873), an analysis of the Bank of England's role as lender of last resort in the 19th century. By adding "new" to the title, Mehrling is at once acknowledging his indebtedness to Bagehot's framework and suggesting that it needs updating. The second part of the title, *How the Fed Became the Dealer of Last Resort*, reveals what those updates consist of. Mehrling is not concerned with the Bank of England, but – following the ascent of the US economy and Wall Street in the 20th century – with the Fed. His main assertion, as the title indicates, is that in its response to the Great Recession the Fed acted not simply as a *lender* of last resort, but rather, being the ultimate provider of market liquidity, as a *dealer* of last resort. After examining the history of 20th century American finance and monetary thought through the lives of economists in his books *The Money Interest and the Public Interest* and *Fischer Black and the Revolutionary Idea of Finance*, in *The New Lombard Street* Mehrling seeks to shed light on the modern financial system and the response to the Great Recession through an institutional biography: that of the Federal Reserve[1].

With fewer than 200 pages (including notes and references), *The New Lombard Street* is remarkably concise and at the same time – due to the complex history and economic debates which it narrates – dense. Its six chapters, introduction, and conclusion are organized more thematically than chronologically, and the author's narrative is complemented by stylized balance sheets that help guide the reader along the more technical parts.

The Introduction should be read carefully, as it explains the framework that informs the entire analysis (and which is fundamental in Mehrling's economic thinking more generally): what he calls a *money view*, i.e., a perspective that can adequately explain crises such as that of 2007-8 by not abstracting from money and by emphasizing, among other elements, the timing of cash flows, the survival constraint, the instability of

[1] Perry Mehrling, *The Money Interest and the Public Interest: American Monetary Thought, 1920-1970* (Cambridge, Mass.: Harvard University Press, 1997); *Fischer Black and the Revolutionary Idea of Finance* (Hoboken, N.J.: John Wiley & Sons, 2005).

credit markets, and the role of dealers. The money view is contrasted with the two other perspectives that have prevailed in economic debate since World War II: the "economics view" (concerned with how past investments affect the current economic outlook) and the "finance view" (interested in how estimated future cash flows determine capital asset valuations today). Mehrling argues that these views have led policymakers to neglect "the Fed's historical mission to manage the balance between discipline and elasticity in the interbank payments system" (5).

Having laid down the theoretical premise that will guide his analysis, the author proceeds, in chapter one, to a comparison between Bagehot's world – based on bills of exchange, the gold standard, and the Bank of England's gradual understanding of its key role as a domestic lender of last resort – and today's world, centered on *repos*, the US dollar, the federal funds market, and – as a response to the 2008 crisis – the Fed's transformation into a *de facto* dealer of last resort. We then get to the most historical part of the book, in which Mehrling delves into American monetary policy since the mid-19th century, describing the issues with the National Banking System, the goals and outcomes of the Federal Reserve Act, and the Fed's role in the Great Depression. As Mehrling shows, the Fed's evolution was largely shaped by the "cosmic catastrophes" of the World Wars and the Great Depression (36). With those episodes, "Treasury debt… became the shiftable asset sine qua non," as the Fed was given the task of providing liquidity to the government debt market (37).

Continuing this story further into the 20th century, the author explains how monetary policy was overshadowed by fiscal policy after World War II, only to return to the fore by 1960. Mehrling pays attention not only to the Fed's institutional history, but also to the disparity between the theories espoused by academics and the principles defended by central bankers. This disparity can be observed in the dissenting views of Irving Fisher and Benjamin Strong in the 1920s and in the similar opposition between Milton Friedman's views and those of Allan Sproul and William McChesney Martin in the 1950s. Mehrling also explains how "monetary Walrasianism" came to dominate monetary thought and policy, and later explores a "road not taken" (65): that of the economist Hyman Minsky, who, drawing on central banking literature and experience, proposed his Financial Instability Hypothesis. Alas, Minsky's view did not win the day.

That more narrative part is followed by two more technical chapters which discuss some of the bases of modern finance, an understanding of which is important to fully grasp the arguments advanced later on. Stylized balance sheets (a prominent component of Mehrling's teaching,

as can be seen in his massive open online course *The Economics of Money and Banking*) are used profusely here to help visualize the financial instruments described. The reader is first introduced to the operation of currency swaps, interest rate swaps and credit default swaps. The final part of the chapter details the rise of the capital asset pricing model (CAPM), the wave of financial deregulation in the United States, and the rise of the idea that the goal of monetary policy was to make "liquidity in the real world the free good that it was in ideal theory," leading to what Mehrling considers a "systematic bias toward ease by the monetary authorities" (91). The fifth chapter shows how dealers operate and clarifies the book's title: in moments of crisis, the Fed must buy securities as a dealer of last resort – it is this "shiftability to the Fed" that guarantees market liquidity for those securities.

Finally, chapter six ("Learning from the Crisis") contains a narrative of the Great Recession and lessons from it. It is the heart of the book. A fundamental point here is how a money view analysis of the crisis differs from a non-money view analysis: whereas the latter may see the Fed merely expanding its role as lender of last resort at each stage of the crisis, a money view perspective sees an important break in September 2008, with the collapse of Lehman Brothers and AIG. That moment marks not just an important quantitative shift in the role of the Fed, but also a qualitative one: from lender to dealer of last resort. From the crisis Mehrling draws several lessons which he discusses throughout the book, not just in this chapter. He emphasizes that to properly understand the modern financial system and the crisis, a money view is necessary; that to stabilize the economy, the authorities cannot abstract from liquidity issues; and that the Fed must pay attention not only to funding liquidity, but also to market liquidity – therefore, it must act "as dealer of last resort, not just in the money market… but also in the capital market, and not just for Treasury securities… but also for private securities" (115).

The book should appeal to a variety of readers, from those interested in American monetary history and the Great Recession to those who wish to better understand the world of dealers and the role of modern central banks. Reading this book alone might lead us to easily agree with the Fed's role as dealer of last resort, so it might be worth comparing it to other works that examine the surge of central bank power in recent times. Lev Menand's *The Fed Unbound* and Lawrence Jacobs and Desmond King's *Fed Power* are good examples: these two works show the adverse side – for instance, with regard to economic inequality – of the Fed's ever-expanding role, leading one to consider

possible alternatives to Mehrling's prescriptions[2]. At any rate, *The New Lombard Street* provides a cogent framework for understanding our modern financial world, and recent events like the Covid crisis and the Fed's response to it (events which Mehrling has also examined through his money view in other texts)[3] make the book even more compelling today than when it was first released.

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[2] Lev Menand, *The Fed Unbound: Central Banking in a Time of Crisis* (New York, NY: Columbia Global Reports, 2022); Lawrence R. Jacobs and Desmond S. King, *Fed Power: How Finance Wins*, 2nd ed. (New York, NY: Oxford University Press, 2021).

[3] See: Perry Mehrling, "A Money View of the Pandemic," March 26, 2020, https://sites.bu.edu/perry/2020/03/26/a-money-view-of-the-pandemic/; "New Lombard Street, Ten Years On," May 19, 2021, https://sites.bu.edu/perry/2021/05/19/new-lombard-street-ten-years-on/; "'Where's my Swap Line?': A Money View of International Lender of Last Resort," *Jahrbuch für Wirtschaftsgeschichte / Economic History Yearbook* 63, no. 2 (2022): 559-574, https://doi.org/10.1515/jbwg-2022-0019.

A. Orlandi, *La ricchezza del debito pubblico (secoli XII-XXI)*, Bologna, il Mulino, 2022, pp. 207.

Since the 1980s, the problem of very high debt has captured the attention of scholars and politicians and debates about sustainability took place not only in Italy. At first, the debt crisis concerned several emerging economies; since the great crisis of 2007-08, it involves sovereign debt in Europe, to the point that one wonders whether it still makes sense to speak of a "great recession"[1].

[1] We are justified in using the term 'recession' if we take into account only the decline in GDP in 2009, which was on the order of 5.5% in Italy, 5.1% in Germany, 3.7% in Spain, 3.1% in France, and so on. Yet this perspective ignores measures taken to prevent production from decreasing even more. The growth of public debt with respect to GDP was roughly 24% in the Eurozone from 2008 to 2011, 32% in the entire 27-member European Union, 35% in the US and 20% in Japan. And still these figures fail to consider the surge of liquidity into the principal economies resulting from unconventional monetary policies (quantitative easing) on the part of central banks, which, among other things, sustained the value of financial assets. It has been calculated that the balance sheets of the main central banks tripled from $6 trillion in 2008 to $17.5 trillion