

“Central Bank Independence, Financial Reform and Financial Stability”

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Monetary Policy

Two propositions:

1. “Too much” political influence → Easy money
2. Easy money → Financial instability

True?

Monetary Policy (cont'd)

“Starting in 2003-05, [the Fed] held interest rates too low for too long and thereby encouraged excessive risk-taking and the housing boom.”

– John Taylor (2012)

“[O]nly a small portion of the increase in house prices earlier this decade can be attributed to the stance of U.S. monetary policy.”

– Ben Bernanke (2010)

Lender of Last Resort

Power	2008	Post-Dodd Frank
Liquidity (Fed)	Fed discretion	
MMF Guarantee (Treasury)	Treasury discretion	
Bank Guarantees (FDIC)	Agency discretion	
Capital	Congressional action	

Dodd-Frank: Carving Back Emergency Powers

Power	2008	Post-Dodd Frank
Liquidity (Fed)	Fed discretion	“Broad based” + Treasury approval
MMF Guarantee (Treasury)	Treasury discretion	Nonexistent
Bank Guarantees (FDIC)	Agency discretion	Congressional action
Capital	Congressional action	Unchanged

Dodd-Frank: Resolution Authority

“Three keys”

- 2/3 of Federal Reserve Board
- 2/3 of FDIC Board
- Treasury Secretary in consultation with the President

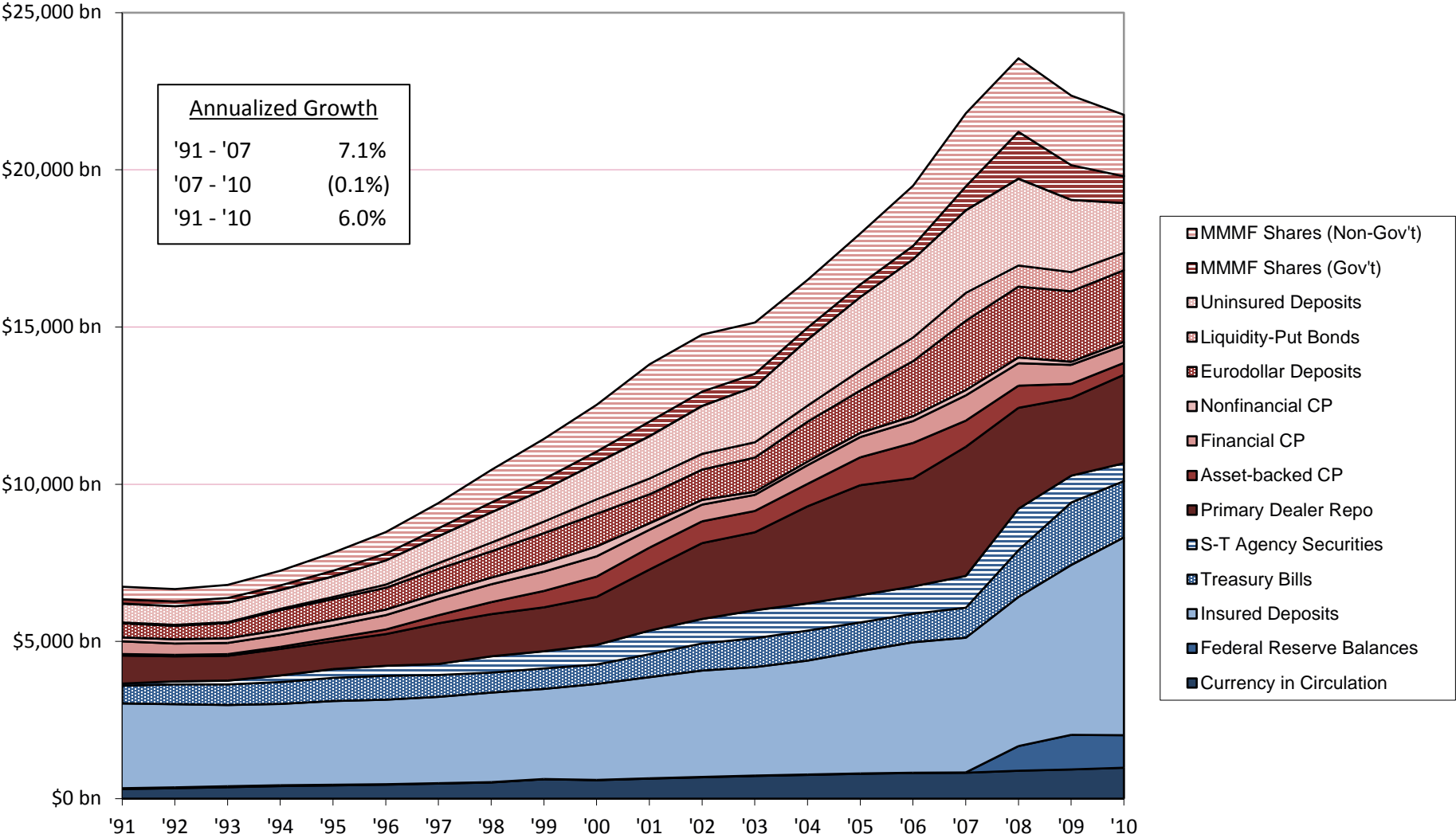
Funding issues

- Treasury provides funding – not Fed
- Executive branch discretion
- Debt ceiling
- Clawback

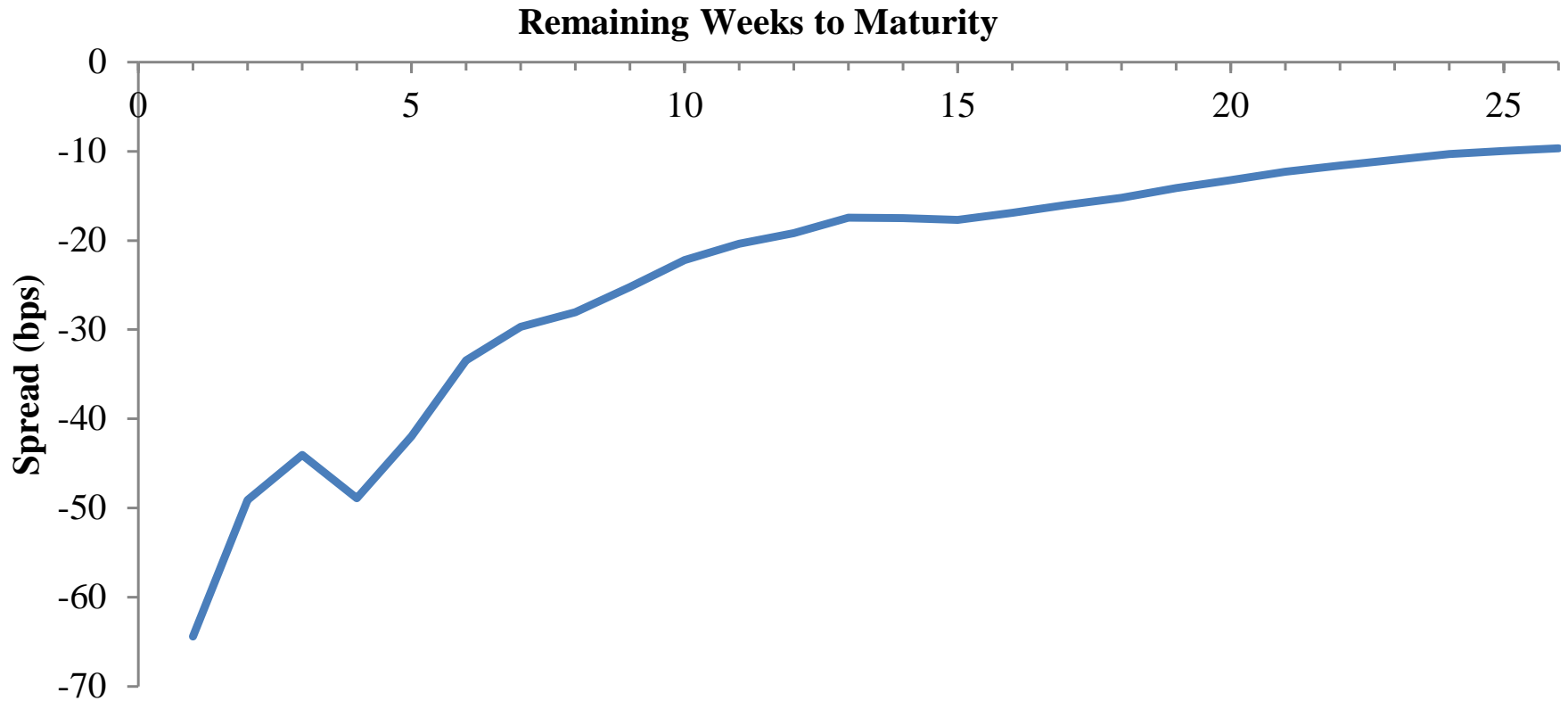
Revamped Emergency Powers: Will They Work?

- New political and process constraint on LOLR
- Technical issues with resolution authority
- Accountability ... at what cost? Less political cover
- Other approaches?

“Money-Like” Instruments



A Picture of “Moneyness”



Greenwood, Hanson & Stein (2010)

Standing Behind Money-Like Instruments

<i>Private Money-Claim Category</i>	<i>Emergency Policy Measures</i>
Money market mutual fund “shares”	<ul style="list-style-type: none"> MMMF Guarantee (Treasury) Money Market Investor Funding Facility (Fed)
Uninsured Deposits	<ul style="list-style-type: none"> Transaction Account Guarantee (FDIC) Term Auction Facility (Fed) Deposit insurance limit increase (EESA¹)
Liquidity-Put Bonds	N/A
Eurodollar Deposits	Central Bank Liquidity Swaps (Fed)
Financial Commercial Paper Nonfinancial Commercial Paper	<ul style="list-style-type: none"> Temporary Liquidity Guarantee Program (FDIC) Commercial Paper Funding Facility (Fed)
Asset-Backed Commercial Paper	ABCP MMMF Liquidity Facility (Fed)
Primary Dealer Repo	<ul style="list-style-type: none"> Primary Dealer Credit Facility (Fed) Term Securities Lending Facility (Fed)

Private / Total Short-Term IOUs

