

It's that "vision" thing:

Why the bailouts aren't working, and why a new financial system is needed*

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Introduction

Despite the creation of a myriad of Federal Reserve (Fed) special discount window facilities, unlimited swap lending to central banks worldwide, and the creation of the Troubled Asset Relief Program (TARP), there appears to be no improvement in financial market conditions. In particular, it is widely lamented that, even with massive capital injections, the banking system is not lending to support the private sector. Comparing the current government response with those to the Great Depression in the 1930s and the Japanese crisis in the 1990s reveals surprising similarities—and the absence of at least three crucial factors. The similarities lie in the initial reliance on monetary and exchange rate policy to reflate asset prices and prevent deflation in goods prices in order to restore normal functioning of the financial system. The differences relate to the absence of (1) direct measures to support bank incomes through interest rate policy, (2) an understanding of the failures of the "modernized" financial system, and thus (3) a clear design for the shape and structure of the financial system that is to replace the current one. The third factor may be the most important deficiency related to attempts to emerge from the current crisis.

A diagnosis is more important than a cure

The prevailing diagnosis of the difficulties involved in reviving the financial system is based on the idea of a "liquidity trap." This explanation is similar to the response during the Japanese equity and real estate market bubble of the late 1980s, which was eerily similar to the recent bubble in the United States. It was evoked to explain the decision by the Bank of Japan (BoJ) to introduce, in 1999, a zero interest rate policy (known by the acronym ZIRP) in light of its failure to induce and boost lending by Japanese banks through massive increases in bank reserves. To the frustration of the BoJ (and American economists who supported its policy), Japanese banks simply accumulated the reserves without further lending. There was populist pressure against such policy from politicians whose constituents faced falling incomes due to the virtual disappearance of interest income from postal savings accounts, which were a basic source of income for seniors and retirees.

"Liquidity trap" initially referred to the creation of high-powered money by the central bank that was "trapped" on the asset side of banks' balance sheets without expanding deposit liabilities representing loans to businesses. This could be viewed as a collapse of the money multiplier, or the velocity of circulation. The interpretation was based on the framework of the quantity theory equation of exchange, which suggests that a stable ratio of reserves to deposits means an increase in reserves, leading to a multiple expansion of loans and deposits, and thus an increase in the money supply.

When Japan's central bank finally moved to introduce ZIRP in 1999, the liquidity trap became a descriptive statement rather than a theoretical explanation. If the rate of interest is zero, it cannot by definition be reduced.¹ In this version of the liquidity trap there is no

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increase in lending because it is implicitly assumed that the rate of interest at which the demand for loans equals the supply (given by the money multiplier) is negative. (Alternatively, the collapse of the IS curve produces an intersection with the LM curve at a negative interest rate.) Equilibrium is thus blocked by the positive constraint on interest rates.² Indeed, in conditions of deflation, it is possible that real interest rates would rise, pushing the economy even farther from equilibrium.

This ZIRP version of the liquidity trap led commentators such as Paul Krugman³ and Fed Chairman Ben Bernanke to propose that the BoJ carry out a policy of reserve expansion à outrance, or what is now known as “quantitative easing,” in order to produce inflation (or at least raise inflationary expectations) sufficient to drive the expected real interest rate into negative territory. Indeed, Bernanke (2000) argued that if such a policy carried on for a sufficient period of time, as a matter of logic it would inevitably lead to an increase in lending and rising prices.⁴ It was also suggested “that the BoJ should attempt to achieve substantial currency depreciation through large open-market sales of yen. Through its effects on import-price inflation . . . , on the demand for Japanese goods, and on *Public Policy* expectations, a significant yen depreciation would go a long way toward jump-starting the reflationary process in Japan” (Bernanke 2000, p. 160). This was actually attempted in July 1999 but resulted only in yen appreciation, largely because the United States was unwilling to allow the value of the dollar to rise.⁵

Some measures from the depression era

This approach to policy echoes Irving Fisher’s proposal for dealing with the Great Depression: reflation through monetary expansion.⁶ Fed regulations then in force, however, made it difficult to carry out this policy. Notes issued by the Fed had to be backed by commercial loans and gold. The Fed could increase the money supply by discounting its member banks’ eligible assets (i.e., commercial loans), but such assets were in short supply. A change in legislation (the Glass-Steagall Act of 1932) was required in order to allow District Reserve Banks to increase the outstanding supply of Federal Reserve notes through the purchase of Treasury securities (i.e., what is now the normal policy of open market operations). Following policies consonant with the recommendations of economists such as Fisher and those from the Chicago school (to engineer a reflation by expanding the money supply), the Fed embarked on a policy of buying Treasury securities that successfully increased bank reserves. This policy was suspended after a short time, however, largely due to complaints from the banks that were among its intended beneficiaries. The basic reason was that the banks were not eager to expand lending when there were few qualified borrowers, or to see lower interest rates when their major source of income was interest on Treasury securities. Thus, the Fed’s expansionary policy rapidly reduced bank incomes to a level where they were insufficient to cover operating expenses. Abandoning the policy of monetary expansion and allowing interest rates to rise supported bank incomes, even if it subsequently led Milton Friedman and Anna J. Schwartz, in their *Monetary History of the United States* (1971), to garland the Fed with the economy’s failure because it did not produce a sustained expansion in the money supply.⁷

Monetary expansion was not the only policy supporting price “reflation.” The Roosevelt administration suspended the gold standard and devalued the dollar in the belief that these actions would also raise commodity prices and support reflation.⁸ Moreover, in 1933 the administration introduced the Agricultural Adjustment Act and the National Industrial

Recovery Act to raise prices and wages in agriculture and manufacturing, and to provide the legislative support for firms to act as a cartel and set prices. The basic idea behind this approach, which had the backing of Fisher, Jacob Viner, Herbert A. Simon, and others, was to use every means to reflate prices and incomes to precrisis levels so that debtors could meet their commitments.⁹

The Fed's response to the current crisis

It is telling that the Fed's response to the current financial crisis has been praised because it introduced ZIRP more rapidly than the Bank of Japan and embraced massive "quantitative easing." In the absence of eligible borrowers, however, the only impact of lower interest rates is lower household and bank incomes. As yet, there are no proposed measures to support bank earnings. The change in legislation that allows interest payments on Fed deposits does not offset the impact of lower incomes, since interest rates are paid at a discount to the fed funds rate. Under ZIRP, this means that the fed funds rate is effectively zero. If quantitative easing moves securities purchases toward the long end of the yield curve and reduces the benchmark rate for mortgages, it could support household disposable incomes by allowing mortgages to be refinanced at lower interest rates. It seems clear, however, that tightening loan standards means that any beneficial impact will be more than offset by the decline in interest income on household deposits.

The resulting swap arrangements by various term-lending facilities, through which the Fed exchanged impaired bank assets for Treasury securities, affected the composition and credit quality of investment portfolios while having little or no impact on bank earnings. This differs, in a fundamental way, from the policies adopted in the 1930s and those of former Fed Chairman Alan Greenspan, who "leaned against the wind." He produced a sufficient spread between short- and medium-term government security rates to allow banks to earn enough income from riding the yield curve to help restore their balance sheets.

The change in financial structure . . .

Although the New Deal policies included direct income support through unemployment insurance and direct employment through the Public Works Administration and the Civilian Conservation Corps, active Keynesian-style deficit spending in support of incomes was introduced only after the ill-fated decision in 1937 to balance the budget after the recovery was under way. On the other hand, the approach at this time included another crucial element absent from present discussions—a fundamental change in the financial structure through a series of regulatory measures and new regulatory institutions. Since the New Deal measures and institutions are well known, they need not be rehearsed here; except to note their glaring absence in the current rescue packages, along with the absence of any discussion about the desired post-crisis structure of the financial system.

Indeed, policy has changed course so frequently that there is complete uncertainty over the emergence of a (new) financial system. Despite affirmation that the government does not want to run the financial institutions and that nationalization is not an option, the aleatory approach to rescuing institutions, along with retroactively binding legislation to fix compensation in the financial sector, can only augment the uncertainty and confirm the absence of any clear strategy to reregulate and reform the financial system.

Is a key element missing from current policy?

This point is important to the issue of why banks have not increased lending despite various support packages. The U.S. banking system in the aftermath of the Financial Modernization Act (1999) was based on principles that differed radically from the system arising from the New Deal legislation. The “modernized” system was founded on intermediation by financial institutions between borrowers and capital market lenders. Encouraged by the introduction of risk-weighted capital adequacy standards, banks minimized loans held at risk on their balance sheets in order to conserve capital and to increase pure intermediary activities by maximizing fee and commission incomes. It should not be surprising that bank lending has not lately increased because banks had already ceased to lend in the new system, and losses have reduced their own capital, requiring a reduction in the size of their balance sheets. The fact that capital markets stopped buying the loans originated by banks because of a lack of transparency concerning risk meant that credit ceased for the entire system.

The second element supporting bank earnings was leverage, which was created through a series of mechanisms linked to particular institutions and instruments under the “shadow banking system.” Many of these institutions have either disappeared or sharply reduced their exposure, along with the declining market for instruments that supported the system. These developments, in concert with exhortations from regulators to reduce leverage, suppressed the availability of credit to the private sector. This result was not because banks failed to lend but rather because of the breakdown of the “modernized” financial structure created in 1999. Although current policy appears to be designed to resurrect this structure, it is unlikely to do so. In the absence of alternative approaches, re-creating the “modernized” structure would only lay the groundwork for the next crisis. The lessons of the Great Depression suggest that structural reform has to be part of any successful policy that restores financing to the productive sectors of the economy. But creating that system requires an understanding of how the current system failed.

Why the current system failed

To understand this failure, it is important to recognize how the (now collapsed) originate-and-distribute system differed from the traditional originate- and-fund system. Under the New Deal financial structure, bank loan officers would originate loans and the reserve desks would find the deposits or interbank lending needed to satisfy the statutory reserve ratio. If the system came up short, the Fed provided the reserves. For an individual bank, however, there are secondary reserve assets (i.e., liquidity cushions) when shortfalls arise from an excessively exuberant loan officer or from a decline in the quality of loans and an increase in charge-offs. Loans initially funded by creating a bank deposit liability thus represented an unfunded liability that had to be hedged by a bank’s liquidity policy. Or, as Hyman P. Minsky (2008) put it:

“Banking is not money lending; to lend, a money lender must have money. The fundamental banking activity is accepting, that is, guaranteeing that some party (that is, the borrower) is creditworthy.... A bank loan is equivalent to a bank’s buying a note that it has accepted.... When a banker vouches for creditworthiness or authorizes the

drawing of checks, he need not have uncommitted funds on hand. He would be a poor banker if he had idle funds on hand for any substantial time.... Banks make financing commitments because they can operate in financial markets to acquire funds as needed; to so operate they hold assets that are negotiable in markets and hold credit lines at other banks. The normal functioning of our enterprise system depends upon a large array of commitments to finance, which do not show up as actual funds lent or borrowed, and money markets that provide connections among financial institutions that allow these commitments to be undertaken in good faith and to be honored whenever the need arises.”

In the world of origination and securitization for the distribution of assets after 1999, there was little or no concern for holding negotiable assets against a loan commitment, no visible backup credit lines, and no need for money market connections to provide funding. The loans were sold or packaged in trusts with other loans and then sold (often presold) to another arm’s-length securities institution, which was classified as a variable interest entity and organized to issue its own capital market liabilities in order to purchase the bundles of bank-originated assets. These special purpose vehicles (or special investment vehicles) were created to ensure the nonrecourse transfer of the risk of first loss from the originating/issuing bank to the owners of the trust—the capital market investors—thus removing the loans from recourse against the issuing bank, eliminating the need to hold capital against the loans and reducing the need for secondary sources of liquidity.

Not only was the capital backing removed, the function of the reserve desk was replaced by financial engineering, which produced the structure of liabilities sold on a nonrecourse basis to the capital markets. As has now been widely noted, this replacement eliminated the loan officer’s normal due diligence process that judged the quality of the borrower and replaced it with an analysis of the capital structure of special purpose entities. No one assessed the quality of the underlying assets purchased by the entities. Even the structure’s due diligence was outsourced to private rating agencies, whose interests were those of the issuing banks who paid the fees rather than the loan officers or final buyers (see Kregel 2008).

But, more importantly, the liquidity cushion of secondary reserves, along with the access to market financing that was normally held by banks in the originate-and-fund system, disappeared in the new system. The cushion was provided through overcollateralization or credit enhancements from bond guarantee insurance companies, or through credit default swaps. The purpose was to provide investment-grade credit ratings to the senior liabilities, not to provide liquidity to the structure. Thus, the movement of loans off the banks’ balance sheets not only reduced the capital backing of outstanding loans but also eliminated the liquidity cushion behind the loans. What Minsky deemed a clear increase in financial fragility was justified on the argument that the increased risk was diffused and did not increase systemic fragility.

The weakest link in the system was that a large portion of the subprime and Alt-A loans, many of which were written with optional adjustable rates, were programmed to become insolvent at their reset date if the collateral could not be sold at a profit. To simplify, the secondary liquidity once held by the banks’ reserves of Treasury securities (the safest assets traded in the most liquid market) or other easily negotiable instruments was replaced by the secondhand real estate market—one of the least liquid and most fragmented markets in the financial system.

There was an additional perverse impact. Bond insurers and issuers of credit default swaps who provided credit enhancement to these structures were even less capitalized, and had even lower liquidity cushions, than the structures they insured. As real estate prices declined and it became clear that the nonrated equity and lower-rated intermediate-liability tranches of securitized structures would be impaired, questions arose about the creditworthiness of the AA and AAA senior tranches. In response, rating agencies began to downgrade their ratings. This meant that the sellers of credit default swap protection had to provide additional margin to the buyers of credit protection, while the increased exposure of monoline insurers meant that they also had to increase their margin payments. This affected a whole series of other assets whose ratings were determined by their respective bond insurers. Thus, the institutions that provided liquidity insurance to the structured investment vehicles also created an additional demand for liquidity in a system that had more or less eliminated all of the traditional liquidity cushions.

AIG–Financial Products Corporation provides the extreme example by writing credit default swaps with virtually no hedging and minimum margins because its parent company had a triple-A rating. Downgrades led to additional margin payments that soon outstripped the net worth of the parent holding company.¹⁰ In normal circumstances, a liquidity crisis creates the need to sell position in order to make position, and this response leads to insolvency. In the current crisis, the recognition that the securitized structures were insolvent set off a rush for liquidity that engulfed the entire system.

At the same time, rising loan-to-value ratios and the failure to verify borrowers' income meant that the liquidity cushion (normally provided by the borrower's home equity and other wealth, as well as income) all but disappeared. When house prices stopped rising, it implied insolvency for the borrowers and the special-purpose entities holding the mortgage as collateral, as well as the liquidity provided by overcollateralization. But the structures never possessed a liquidity cushion in the traditional sense of liquid assets that are sold in the market. It is not surprising, therefore, that it was difficult to find reliable market prices for the collateral and for the liabilities of the mortgage securitizations. Equally important, households had no liquidity cushion other than the real estate market—meaning insolvency for borrowers on or before their mortgage reset date.

If the price readjustment had been restricted to the buyers of liabilities associated with securitized mortgage entities and the underlying subprime borrowers, the financial collapse would have produced a loss of wealth for the entities and borrowers alone, and would possibly have lessened the wealth effect on consumption and economic activity—in other words, there would have been a short slump. But the current slump will not be short.

Banks had warehoused or held investment-grade senior liabilities. They, along with other financial institutions, provided liquidity guarantees to the entities (often on a highly leveraged basis). When the securitized entities became insolvent, there was a direct and negative impact on banks, because the entities had to provide additional margins or the losses had to be taken against bank capital when there were no secondary reserve cushions. In combination with the demand for liquidity to provide margin on credit enhancements, these circumstances produced what Fisher and Minsky called a “debt deflation”—that is, it became necessary to sell position to make position. In a market where there are only sellers, however, there is by definition no liquidity or market price. It was impossible to value the assets of financial institutions or the institutions' creditworthiness as counterparties. Thus, not only

private sector lending came to a halt, but lending amongst financial institutions (which normally supports liquidity) also came to a halt. This result was simply exacerbated by the response of the Fed to Bear Stearns, Lehman Brothers, and AIG when there was no clearly enunciated principle to determine who would receive support and who would be allowed to fail. Even a secured loan is lost in bankruptcy, so the threat that every institution is a potential Lehman Brothers means that banks will not lend to one another, leaving the entire provision of liquidity to the Fed as the only secure borrower. The problem is not that the banks are not lending; it is that they are lending only to the Fed.

While the bailout of financial institutions has prevented insolvency from turning into bankruptcy, it has done little to increase the willingness or ability of banks to lend to private businesses or to one another. This circumstance is independent of the decline in qualified borrowers that stems from the sharp decline in overall economic activity. The crisis has destroyed the “modernized” lending mechanism based on leveraged securitization for the private sector (financial and business)—and there is not another mechanism to take its place.

Yet a clear road map for a new financial system is more important than a replacement mechanism that removes impaired assets from bank balance sheets. The Roosevelt administration designed a new system in a very short space of time (1933–35). Nearly the same amount of time has passed since the outbreak of instability in the mortgage markets (in the spring of 2007), but there is no clear vision of what the “New Deal” will be for the financial system. It is also clear that policy attempts to return prices to precrisis levels and save the existing system have not worked. Indeed, they probably cannot work. The prevailing approach to resolving the crisis relies on the notion that if impaired assets are held long enough, they will recover in value, so that commitments can be met and banks can return to their old ways by tightening their limits on leverage and on some financial products (such as credit default swaps).

The final lesson from the New Deal

The current response to the financial crisis does not appear to acknowledge the importance of the negative impact of low interest rates on incomes, while accepting Fisher’s idea for a resolution through ZIRP and quantitative easing in order to restore asset and goods prices (an idea resurrected by Krugman and Bernanke during the Japanese crisis). These policies did not work in the United States in the 1930s or in Japan in the 1990s. This approach to a “return to normalcy,” however, explains the absence of the most important aspect of the New Deal—a rapid assessment of financial system failures and the introduction of a new financial structure that corrects these failures.

In the 1930s, there was a firm belief that commercial bank affiliates dealing in capital market businesses were a major cause of the problem, and that Glass-Steagall simply got rid of the affiliates. Today’s insistence on restoring asset values and removing “impaired” assets from the balance sheets of institutions (and restoring them to health) suggests that these institutions will be able to generate incomes much as they have in the past. This seems to be an impossible outcome, and it leaves one final aspect of the crisis’s resolution that is associated with the New Deal and Japan’s lost decade.

Despite widespread opinion to the contrary, President Roosevelt ran on a platform that accused Herbert Hoover of being a profligate spendthrift, and he promised to balance the

budget in both his first and second election campaigns. It is somewhat ironic that President Reagan ran his campaigns on quotations drawn from Roosevelt's speeches in support of balanced budgets. As noted above, it was Fisher, not John Maynard Keynes, who dictated New Deal policy. Keynesian-style deficit spending was adopted only in an emergency after tax increases introduced in 1935–36 (which look disturbingly similar to those discussed by the Obama administration) produced a downturn in 1937. Discussion of the current stimulus bill has centered on the ability of spending to create employment. But, as important as increasing employment may be, the initial focus of government expenditures should be to provide income and cover losses sustained by banks and households. This recommendation is based on the fact that, if the above analysis is correct (i.e., the basic problem is a financial system that has attempted to function with reduced liquidity cushions and has virtually eliminated liquidity), then a lack of liquidity is causing the productive sector to contract due to a lack of financing. However, increasing incomes would cover losses and resolve the liquidity problem. If the level of government expenditure is sufficiently high and stable to provide full employment, system liquidity would be provided automatically via stable income and sales receipts (assuring that debts could be liquidated through the sale of assets). The best way to reduce liquidity demands is to ensure that the cash flows of firms and household incomes are fully employed.

The basic difference is whether liquidity and prices can be restored through an increase in high-powered money at zero interest rates or through added government spending that increases incomes, expenditures, and profits. Whether or not restoration comes from employment creation is unimportant in the first instance, but it is important that it comes in terms of increasing incomes for banks or households, since, in the absence of write-offs, only increased earnings can restore balance sheets. This was the point made by Keynes when he recommended that it would be sufficient to bury jars full of banknotes and allow people to dig them up. When banks have sufficient income, they can restore capital and recommence lending, and when households have sufficient income to pay down their debts, they can recommence spending.

Until now, only the Fed has been willing to operate on the banks' balance sheets by swapping one asset for another—transactions that do not increase bank earnings. As noted earlier, "leaning against the wind" subterfuges such as those supported by Greenspan in the 1990s can do this. The best way, however, is to increase incomes sufficiently, so that households can meet their debt service on loans out of income and firms have sufficient income to meet their borrowing needs. As Keynes noted, one of the simplest ways to offset liquidity preference (i.e., to hold cash rather than lend it to finance productive enterprise) is to increase the earnings of households and businesses. Building hospitals and bridges would be nice, but if it is impossible to convince politicians that this is a good thing, then we have to support employment of "banknote-jar archeologists."

According to Keynes, "It is not quite correct that I attach primary importance to the rate of interest.... I should regard state intervention to encourage investment as probably a more important factor than low rates of interest taken in isolation." However, as Minsky pointed out, there is a better way to solve both the liquidity and the income problem, while also providing full employment: by channeling government expenditure through an employer-of-last-resort program. This would directly increase incomes without creating the additional financial layering associated with more investment expenditure. Indeed, one of the major causes of our current difficulties was that household consumption was not financed by real wages that rose in step with productivity but rather by increased

household borrowing that fueled higher financial sector incomes. In simple terms, the current crisis could have been avoided if increased household consumption had been financed through wage increases and if financial institutions had used their earnings to augment bank capital rather than employee bonuses. In addition to financial reform that underwrites productive investment and increases labor productivity, policies are needed to ensure that increased productivity is reflected in increased real wages for households and financial system earnings are directed more toward capital than toward labor. The current system has failed because it was built on an incentive system that did just the opposite.

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Notes

¹ This is not the way that Keynes explained the liquidity trap. For Keynes, the liquidity trap was a price relation—the failure of the central bank to bring about a reduction in market interest rates by increasing the supply of money. It was thus an expression of absolute or complete liquidity preference. The public was willing to hold as much cash as the central bank would create at a constant interest rate. Keynes's explanation was linked to expectations of the future course of interest rates. If investors believe that interest rates have fallen so low that they may rise by more than the square of the currently prevailing rate, then the loss in value of a coupon security would more than offset the coupon yield. In such conditions, it would be rational to sell securities at the current interest rate and hold on to the money.

² Although the interbank deposit bid rate was negative for some periods in 1998 due to the perceived risk of insolvency of Japanese banks and the preference for holding deposits in foreign banks operating in Japan.

³ His best-known article on the subject is Krugman (1998).

⁴ “The general argument that the monetary authorities can increase aggregate demand and prices, even if the nominal interest rate is zero, is as follows: Money, unlike other forms of government debt, pays zero interest and has infinite maturity. The monetary authorities can issue as much money as they like. Hence, if the price level were truly independent of money issuance, then the monetary authorities could use the money they create to acquire indefinite quantities of goods and assets. This is manifestly impossible in equilibrium. Therefore money issuance must ultimately raise the price level, even if nominal interest rates are bounded at zero. This is an elementary argument, but, as we will see, it is quite corrosive of claims of monetary impotence” (Bernanke 2000).

⁵ According to Richard Koo (2003), then U.S. Treasury Secretary Lawrence Summers actively opposed the move after the Bank of Japan had spent three trillion yen without clearing the move with the United States. The attempt to intervene in the exchange markets did, however, earn Eisuke Sakakibara, Japan’s former vice minister for international finance, the title “Mr. Yen.”

⁶ Fisher was in step with Chicago economists, who also favored an increase in the money supply as the basis for a recovery of prices, but they diverged from Fisher and argued that this could take place only through an increase in demand for loans for productive purposes. It would require public deficit spending to generate this demand. See Davis (1968).

⁷ Epstein and Ferguson (1984) also note that differences in condition across Federal Reserve Districts and concerns over the gold backing of currency and foreign deposits were also a consideration in the change in policy.

⁸ This is undoubtedly the source of subsequent recommendations made to Japan in the 1990s and a plausible explanation of the clear decision by the United States to abandon its strong dollar policy. Market strategist Frank Veneroso (2008) clearly outlines the similarities between Bernanke’s policy recommendations for Japan and the conduct of Fed policy in this crisis, in particular drawing dire conclusions for the value of the dollar.

⁹ . Fisher’s position was supported by recognition of the impact of deflation on the real value of debt that could create an incentive to sell despite falling prices, and a process that Fisher called a “debt deflation.”

¹⁰ AIG’s difficulties were exacerbated by the fact that premiums were extremely low, thus high volume was required to reap high profits. This encouraged the extension of credit default swaps to institutions that were interested in the instruments not to hedge risks but simply to speculate—so-called “naked” positions, which were (implicitly) another form of leverage in the system.

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