The Logic and Limits of the Federal Reserve Act

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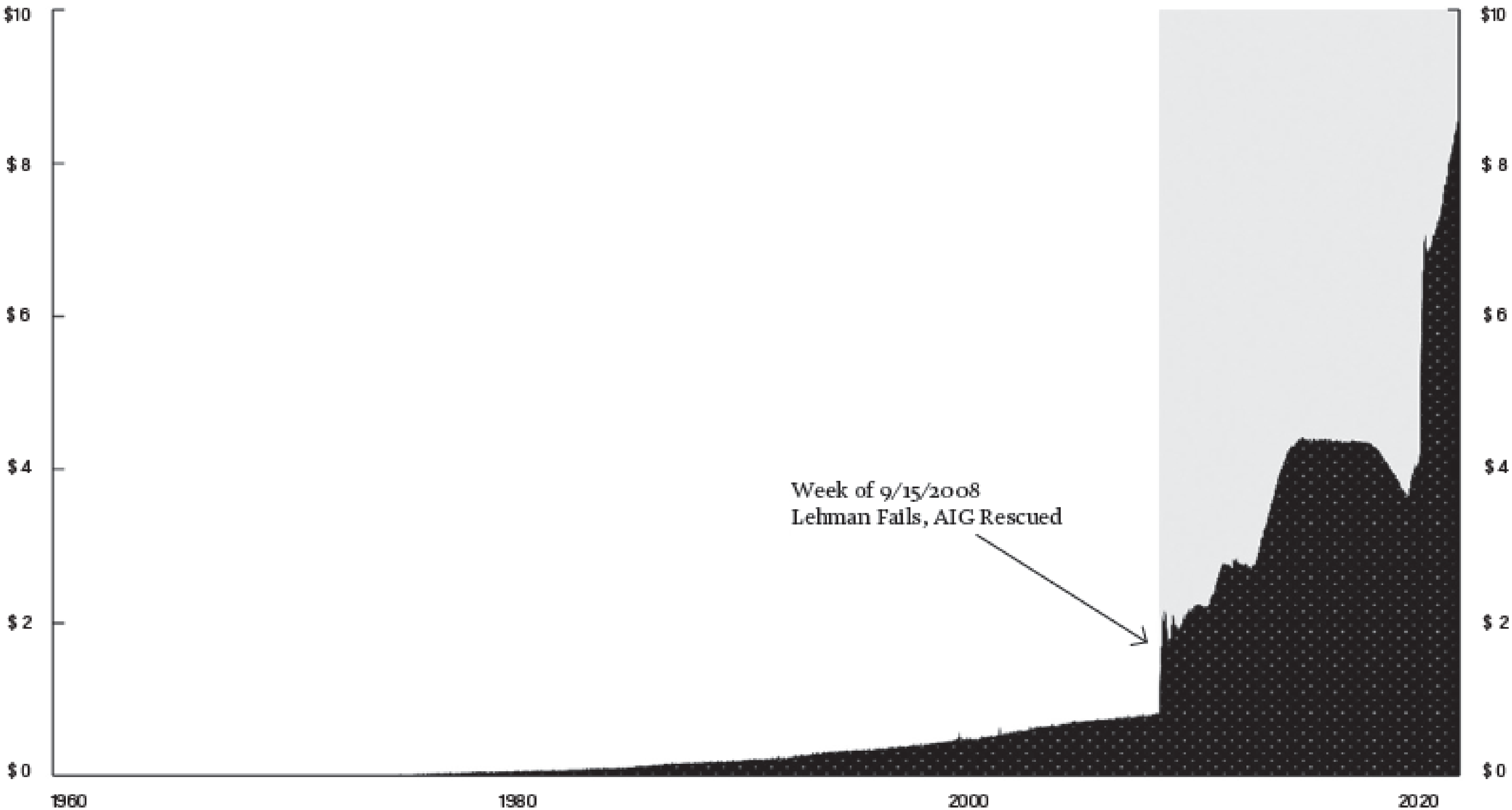
CHART 1.1

The Fed's Balance Sheet (in trillions of US$)



Source: Federal Reserve Board; Federal Reserve Bank of St. Louis

The Prevailing Paradigm

The Federal Reserve is a kitchen sink agency:

- It issues money
- It regulates banks
- It serves as an emergency lender to the economy

Recovering the Logic of the Law

- What was the Fed built for?
- How is it designed to operate?

The American Monetary Settlement

1. Delegation: publicly chartered, investor-owned banks expand the money supply (not the government).
2. Separation: bankers cannot engage in ordinary commerce and vice versa.
3. Diffusion: every community gets its own banks, with charters available to the general public on a nonpartisan basis.
4. Supervision: special government officials, empowered to stamp out “unsound” banking, oversee banks and ensure that they fulfill their public purpose.

The Federal Reserve Act

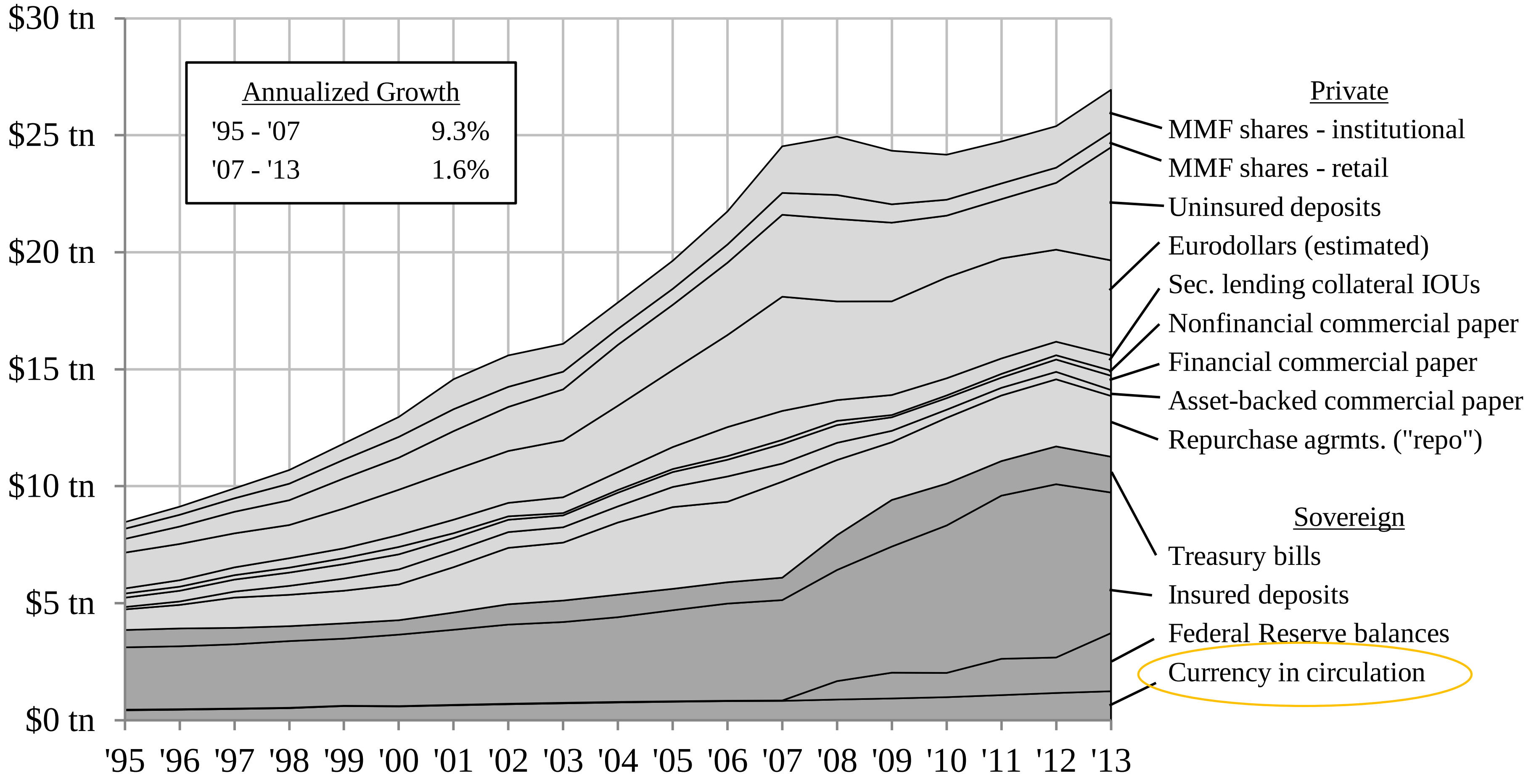
Aims to address three problems with monetary outsourcing:

1. Tendency of investor owned banks toward acute monetary contraction
2. Uneven playing field between banks in different parts of the country
3. Insufficient public accountability and control

Instruments and Institutions

1. Core of the Fed’s toolkit is for administering the banking system:
   - Payments pivot
   - Open market operations / interest on reserves
   - Discount window
   - Regulation and supervision
2. The diffusion and involvement of investor-owned banks in the FRBs reflects the AMS
3. The Board’s independence from the executive is consonant with its monetary function

Root Cause of the Fed's Big Balance Sheet: the Rise of Shadow Banking



Reconceptualizing the Debate: the High Politics of Money

- Current arrangements: private/technocratic
- Reconstructivists: public/technocratic
- The statutory scheme reflects democratic structuralist vision: public/political

Thank you!