Richmond Fed eBrief

February 2013

'Economics and the Federal Reserve After the Crisis'

In a speech to students and faculty at Franklin & Marshall College on February 12, Jeff Lacker, president of the Richmond Fed, provided his assessment of policy responses to the financial crisis that began to unfold in 2007. Federal support to troubled financial institutions has been commonplace since the early 1970s, resulting in a large portion of the financial sector being protected by the federal financial safety net. The response to the financial crisis further expanded the expectation of support for troubled institutions and slowed down needed market corrections. Lacker believes that the Fed and other policymaking bodies should strive to reduce the scope of the safety net and to clarify issues surrounding the failure of financial firms.

How to Stop Bailouts for Good

In a February 7 American Banker article, Jeff Lacker stated the need to end constructive ambiguity by adjusting expectations "over time through clear statements well in advance of any distress." Lacker argued that establishing credibility that policymakers will not aid troubled large financial firms would require such actions as guiding a firm through the bankruptcy process without taxpayers funds.

The Dangers of the Fed Conducting Credit Policy

In the current issue of Region Focus, Jeff Lacker discusses why he dissented as a voting member of the FOMC in 2012, citing three reasons: the language the Fed has used in its "forward guidance" statements; continued expansion of the Fed's balance sheet, which he believes is unlikely to stimulate the economy much without also raising inflation; and the Fed's decision to expand the balance sheet by purchasing mortgage-backed securities instead of U.S. Treasury securities. The last action, he argues, risks distorting credit allocation. If such purchases are going to be made at all, they should be made with specific authorization from Congress.

The Risk of Short-Term Fiscal Fixes

John Weinberg, the Richmond Fed's director of research, recently offered his views on the importance of dealing with the country's fiscal issues. The government will be able to continue to borrow at reasonable rates only as long as financial markets believe that debt can be repaid from future surpluses and future borrowing capacity. Market expectations can change quickly, Weinberg notes, making it prudent for policymakers to promptly address mounting fiscal imbalances with credible, long-term solutions. Making adjustments after expectations have already turned would almost certainly be costlier and far more painful.

Revenue Breakdown

U.S. fiscal policy has changed substantially over the past 100 years, including the level of government expenditures as a share of the economy and the sources used to fund that spending.

Why Do Debit Card Networks Charge Percentage Fees?

Why do debit card networks base their fees on a percentage of transaction amounts when the marginal cost of executing a transaction does not vary by amount? Research suggests that this type of fee structure, a linear ad valorem fee, maximizes profits for card networks by allowing price discrimination. Also, because percentage fees make card usage more economical for lower-value transactions, such a fee structure tends to increase social welfare.

A Wallet in Every Phone

A survey released in March 2012 by the Federal Reserve Board of Governors noted that only 25 percent of consumers expressed interest in using their mobile phones as a payment device at the point of sale. Why is that, and will mobile payments ever take off in this country?

Financing Activities of CDFIs

The current issue of 5th District Footprint looks at financing activities of community development financial institutions in the Fifth Federal Reserve District.

Industry Roundtable Summit Offers Economic Perspective

Our second annual Industry Roundtable Summit, held in February, provided a perspective on economic trends across major sectors of the Fifth Federal Reserve District and national economies and their implications for 2013.

Fifth District Labor Markets Mixed in December

According to the latest Regional Update from the Federal Reserve Bank of Richmond, payrolls generally increased in December, but unemployment rates also rose in most parts of the Fifth Federal Reserve District.

Economic Snapshot, February 2013

According to the most recent data, overall economic conditions in the Fifth Federal Reserve District changed little in the last month. While employment increased somewhat, activity in the housing market and among area businesses was mixed.

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