

July 2013

### **Lacker Testifies on “Too Big to Fail”**

In testimony before the House Financial Services Committee on June 26, Richmond Fed President Jeff Lacker argued that the “too big to fail” problem consists of two mutually reinforcing expectations. The first is the belief among creditors of large financial institutions that these firms are protected by an implicit government guarantee against failure — making creditors less attentive to managing risks. The second is the belief among policymakers that certain financial firms are in fact “too big to fail” because their failure would be too disruptive of financial markets and economic activity. This belief leads policymakers to intervene in ways that protect creditors, strengthening creditors’ belief in an implicit guarantee. The Dodd-Frank Act does not eliminate “too big to fail,” Lacker argued. The Act’s Orderly Resolution Authority allows the discretionary use of public funds in the winding-down of distressed institutions, and gives the Federal Deposit Insurance Corp. the ability to rescue their creditors. The existence of this discretion to use public funds, in turn, seems likely to perpetuate the belief in an implicit guarantee. The act does, however, offer a path toward a more stable financial system: the so-called “living will” process.

### **Economic Outlook, June 2013**

In a June 28 speech to the Judicial Conference of the Fourth Circuit in White Sulphur Springs, W.Va., Jeff Lacker argued that low growth in real gross domestic product, which has averaged 2 percent since the end of 2009, is likely to continue beyond 2013. This outlook for GDP differs from the view of many forecasters who expect the current period of sluggish growth to be followed in the near future by a significant acceleration. Despite bright spots in housing and business investment, other factors counsel against a more optimistic outlook. These factors include lower productivity growth, lower employment growth, uncertainty about U.S. fiscal and regulatory policy, and caution on the part of consumers. Lacker also argued that highly expansive monetary policy was an appropriate response to a severe recession. Today, however, the benefit-cost trade-off associated with further monetary stimulus does not look promising. The Fed seems unable to improve real growth, despite historic levels of stimulus, perhaps due to a decline in productivity growth and other factors outside the control of monetary policy.

### **Land of Opportunity: Economic Mobility in the United States**

Income inequality has increased in recent years, while economic mobility has decreased. Many factors contribute to mobility, but for most people, advancement depends on opportunities to obtain human capital — opportunities that are not as good for children in poor families. In this Economic Brief, the authors argue that initiatives that focus on early childhood education seem to yield high returns on investment and potentially could help the United States achieve a more inclusive prosperity.

### **Learn More About What’s Happening in Our Communities**

Our quarterly newsletter looks at Main Street across the Fifth Federal Reserve District. This edition of Region at a Glance looks at how the Richmond Fed gathers and analyzes regional

economic information to support monetary policy deliberations. The Bank collects information from all corners of the Fifth District through individual surveys and interviews as well as group discussions in board meetings, industry round tables, regional forums and community events.

## **New Community Development Publications**

Our Bank's Community Development department is releasing two new publications that examine topical issues in the Fifth District. Community Pulse shares key findings from a survey conducted this spring of community development experts who identify current and emerging issues in our District. Respondents represent a broad cross-section of perspectives from across the District. 5th District Spotlight communicates key facts about community development topics using infographics. This first issue examines the unbanked population nationally and in our District.

## **The Outlook Amidst Fiscal Uncertainty**

Rick Kaglic, a regional economist based at the Charlotte branch of the Richmond Fed, recently spoke to the Santee-Lynches Regional Council of Governments in Sumter, S.C. He provided an overview of national economic conditions in the face of uncertainty in fiscal policy.

## **Economic Snapshot, July 2013**

According to recent economic reports on the Fifth District, conditions in real estate markets and for area businesses strengthened. However, the labor market softened and the unemployment rate ticked up to 7.2 percent in May.

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