Implementing Macropuudential and Monetary Policies: The Case for Two Committees

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The Issue:

- Revival of macroprudential policy in advanced economies
- Important interactions with monetary policy
- What is the best governance structure?
  » Generally
  » Within Federal Reserve
Monetary and Macropurudential Policies

- Shared long-term goal: sustained growth
  » But different primary goals
- Both work through financial conditions
  » But different tools
  - Monetary: interest rates and central bank portfolio
  - Macropurudential: capital, liquid assets, activities, terms of lending
And Different Focus

- Macropdruental policy
  - Externalities and tail risks
  - Financial cycle
  - Particular market segments
- Monetary policy
  - Central tendency for economy
  - Business cycle
  - Broad effects
Monetary Policy and Financial Stability

- Policy “leaning”
  - But: Effectiveness? Cost?
- Cost-benefit
  - Monetary: stable prices and full employment
  - Macroprudential: financial stability
- Monetary policy: “last line of defense” for financial stability
Two-Committee Approach

- Two committees each focused on own mandate and own tools
- Facilitates accountability
- Dealing with interactions and interdependence
In the Federal Reserve

- Two committee structure
  - Board of Governors: macroprudential
  - FOMC: monetary policy
- Reinforced by reserve bank governance structure
- Potential complication: using the Fed portfolio to foster financial stability
In the United Kingdom

- Two Committees
  - Monetary Policy Committee
  - Financial Policy Committee
- Different primary objectives
  - Price stability; financial stability
- Same secondary objective
  - Support policies of the government
MPC/FPC Interactions

- Building resilience early in the recovery
- MPC forward guidance knockout
- Housing risks
Deficiencies in the United States: Where is the “Last Line of Defense?”

- Governance problems
  » Disconnect: perceived responsibility and authority
  » Coordination across Balkanized regulatory structure
  » FSOC: helpful, but limited authority and subject to political pressures
Deficiencies (2)

- Tools
  - Structural emphasis
  - Lack of real estate tools
    - Sectoral capital requirements
    - Limits on LTV and LTI
What is to be done?

- Legislation unlikely
- Stock take
  - What are the available authorities? Gaps?
  - Involve all key agencies
  - Change the conversation