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High Margin Debt And Quantitative Easing

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Economist Steve Hanke of the CATO Institute recently penned an excellent critique of Ben Bernanke's time at the Federal Reserve. Many Bernanke critics have derided potentially inflationary policies of the Fed, but Hanke has been even more critical of deflationary policies that restrict access to credit, most notably the Dodd-Frank financial reform. What I particularly like about Hanke's analysis is that he focuses on both sides of the equation and how it's creating a reality that is much more complex than meets the eye.

Nothing sums up the dichotomy of Federal government and Federal Reserve policies like margin debt figures. Tight regulatory policies, such as Dodd-Frank, are limiting access to credit to middle income prospective homebuyers, which is harming residential mortgage lending. Yet, loose monetary policies, such as quantitative easing, are encouraging reckless lending in other areas.

In December 2013, NYSE margin debt was at the 5th highest monthly level since the data has been recorded. As a percentage of GDP, it is now at 2.58%, just a hair behind the 2007 peak of 2.62%, and not too far behind the all-time record set in 2000 at 2.73%.