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The Cato Institute on monetary reform

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The **Cato Institute** has put out a new paper on reforming our financial system. Here are their recommendations on monetary policy:

Narrow the Fed's statutory mandate. Congress should replace the Fed's dual mandate with a single stable spending mandate. The mandate would require the Fed to maintain a stable, if steadily rising, level of total spending on goods and services or, in other words, a stable dollar value of national income. Congress should also repeal the financial stability mandates that it gave to the Fed in Title I of the Dodd–Frank Act.

Require the Fed to follow a policy rule. Congress should require the Fed to implement a simple rule that Congress can easily monitor and use to hold the Fed accountable. The rule should require the Fed to commit itself to maintaining a specific growth rate for nominal gross domestic product (NGDP), a popular measure of total spending. The specific rate, as well as other details, might be left to Fed officials to decide, but most experts would place the desirable growth rate of NGDP somewhere in the range of 3–5 percent.

Shrink the Fed's balance sheet and reestablish a "scarce" reserve regime. In a scarce reserve regime, instead of holding substantial reserve balances, banks would economize on reserves. To make up for temporary reserve shortages, banks would turn to either the private repo market or the Fed's Standing Repo Facility. To ensure that the Fed returns to a scarce reserve regime, Congress should insist that the Fed follow the 2006 Financial Services Regulatory Relief Act, a law that stipulates that the rate of interest the Fed pays on reserve balances should not exceed "the general level of short-term interest rates."

Those are basically my views, although I'd prefer to leave the Congressional monetary policy mandate as it is and have the Fed make the decision as to how best to fulfill the mandate. Let a different agency handle financial stability.

But the specific **monetary policy** proposals of Cato are sound, and would dramatically improve policy. All I would add is that the NGDP target definitely needs to be a level target, to minimize the risk of policy producing the sort of NGDP undershoot seen in 2008-09, or the overshoot seen in 2021-22. The biggest problem with current monetary policy is the lack of level targeting.