A Macroeconomic Perspective

“Reserves for All”

- Focus on: substitution of outside for inside money
- Do not focus on: specific form

Does substitution matter?

- Does it change macroeconomic outcomes?
- If so, does inside money add social value?
- If not, can we abolish inside money ("Vollgeld")?
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- If not, can we abolish inside money (“Vollgeld”)? [No]
Neutrality

Substitution (with accompanying transfers) does not matter!

- Think of Modigliani and Miller (1958), Barro (1974) …
- Not, Diamond and Dybvig (1983)

Check

- Money as store of value
- Money as means of payment
  (Money as unit of account)
Money as store of value

- Composition of M does not affect economy’s balance sheet
- Assets, saving, investment remain the same
- Outside money does not "crowd out" more than inside money
  Government budget constraint enters private sector’s
Money as means of payment

• Suppose all inside money “backed” by reserves
  CB buys loans or accepts them as collateral

• Renders implicit LOLR guarantee explicit
  Cf. implicit/explicit debt

• CB transfers compensate for banks’ lost seignorage profits
  Render guarantee’s value explicit
Non-Neutrality

Substitution does matter!

Changed bank incentives

- Less incentives to screen (“originate-to-distribute”)?
- Stronger incentive to extend credit?

Changed CB incentives in político-economic equilibrium

- More transparency, different state variables
- Less support for (implicit) transfers …
  …which today reflect time consistency problem
Conclusion

Holding incentives—specifically of CB, politicians—constant, RFA would not change much

But these incentives would change
References

