# Monetary Policy Reform

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## Topic Pitch

#### 1. Why vote for this paper?

#### Monetary policy affects everything from the price of groceries to the stability of global markets. Yet, most students only take one economics course in their lives, and those courses often fail to teach practical and engaged literacy over the details of monetary policy. A debate topic on monetary policy reform would force students to grapple significantly with concepts like inflation, interest rates, exchange rates, and central banking in a way that has not really been done by any other topic.

Avi J. Cohen University of Toronto and Scott Wolla. Federal Reserve Bank of St. Louis. 24. "A Literacy-Targeted Approach to Teaching Monetary Policy."

Well-meaning instructors often design their courses to prepare their principles students for intermediate courses. They include models and theories that transfer to upper-level courses in the sequence, assuming that students will choose to major in economics. However, of the students who take principles, over 80 percent are one-and-done — they never take another economics course. And of those who take at least one additional course, only 2 percent go on to major in economics (Stock, 2024). The data call into question the validity of designing principles courses for future economics majors. Hansen, Salemi, and Siegfried (2002, 464) put it this way, “The Principles course fails to improve economic literacy of not only those who take it, but also those frightened away by its reputation as a technical course. The course fails because it does not teach students how to apply economics to their personal, professional, and public lives. The cost of jamming many topics into the course is that students never master the basics.” Because the principles course is the only course 80 percent of students ever take, it is essential that it provide students with the knowledge they need to think like an economist and apply that reasoning to the decisions they make every day2.

#### Monetary policy is one of the most portable and transferable areas of economic understanding. Whether students pursue careers in business, healthcare, public service, or finance, decisions made about monetary policy will influence literally everything they do. Debate should train students to interpret these forces critically. Topics about alliances and international relations are all fine but they’re intrinsic advantage areas to EVERY topic. Instead of being passive recipients of economic policy, a topic specifically about monetary policy would require that students become participants in the discourse around inflation control, dollar valuation, and the appropriate use of fiscal versus monetary tools.

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The literacy targeted approach to teaching monetary policy should focus on providing a non-economist with the tools they need to understand the economic concepts that underlie the monetary policy process and how policy changes affect the economy through decisions of consumers and producers. This understanding should be transferable to many aspects of peoples’ lives from reading the news, making economic and financial decisions, and applying the understanding to decisions made in the workplace, whether it’s in the business, finance, or healthcare industry. A good test of economic literacy, as it pertains to monetary policy, is whether a person can read and understand the FOMC statement that is published at the end of each FOMC meeting. After all, the FOMC statement serves as the official press release, it is the message the FOMC intends to transmit directly and through the news infrastructure to consumers, producers, and financial markets about the current stance of monetary policy. The FOMC statement is a key part of Fed transparency, and contributes to the effectiveness of another understated tool, forward guidance.

#### Aff ground would include changes to the unit of account (e.g., critiques or defenses of fiat currency), alterations to the monetary rule (e.g., growth targets for the money supply or shifts in interest rate policy), and even structural transformations of the monetary system itself—such as eliminating the Federal Reserve. Topical affirmatives could also propose the creation of new forms of currency (e.g., carbon-backed or CBDCs), restructure the Fed, or redefine its role altogether. In addition, affirmative teams could have advantages or some interesting mechanisms that target the effectiveness of U.S. sanctions and tariff policy, given how deeply these rely on the valuation and international role of the dollar.

#### Neg ground is great! In addition to case-specific strategies, the NEG has access to generic arguments about institutional authority (e.g., Fed vs. Congress), mandate-change disadvantages, fiscal policy CPs, and international backlash disadvantages or international actor related CPs (e.g. investigating the role of the IMF and World Bank in currency regulation compared to national central banks). The topic also provides GREAT Neg Critique ground—from critiques of monetary sovereignty to analyses of neoliberal finance and dollar imperialism.

#### Critical affirmatives can explore how monetary systems reproduce inequality across all aspects of social life. Importantly, the topic grounds debates in the monetary system that materially shapes nearly every facet of public life, from housing to healthcare and global trade and yet is rarely interrogated in accessible public discourse and even more rarely interrogated in debate rounds.

#### 2. It will require the US making a significant change

#### This topic asks students to evaluate structural reforms to how the dollar is managed---adopting Modern Monetary Theory (MMT), transitioning to a gold standard, or implementing central bank digital currencies all require deep shifts in federal policy and economic philosophy.

#### 3. Doesn’t Trump hurt the economy?

#### This is an incredibly simplistic understanding of the economy. This is a FEATURE not a BUG of the topic. Understanding how tariffs affect currency value or how Fed independence prevents monetary policy from being used politically is exactly the kind of clash we want! This resolution pushes us past surface-level policy disputes into structural analysis.

#### 4. Won’t trump just kill the fed?

#### Trump won’t likely actually reform, he’ll just call for a rate cut or firing Powell.

Ryan Bourne 24. Ryan Bourne occupies the R. Evan Scharf Chair for the Public Understanding of Economics at Cato and is the author of the recent books Economics In One Virus, and The War on Prices. He has written on numerous economic issues, including fiscal policy, inequality, minimum wages, infrastructure spending, the cost of living and rent control “There’s a Free-Market Economic Case against Donald Trump”. https://www.cato.org/commentary/theres-free-market-economic-case-against-donald-trump

Trump’s vaunted corporate tax cut had some benefits but racked up more debt, while his “deregulation” amounted to little more than tweaks to certain rules, according to Stockman. Trump’s real legacy was rubber-stamping vast spending packages driving high and rising budget deficits, even in sanguine macroeconomic conditions before the pandemic. Trump failed to make hay while the sun shone, sidestepping much-needed immigration, old-age entitlements, and monetary policy reform. Instead, he publicly pressured Jay Powell, Federal Reserve chair, to push interest rates to zero in 2019.

#### 5. Didn’t we talk about the federal reserve on the climate topic?

#### Sure---but that’s like saying we shouldn’t have a topic on healthcare reform because we read an advantage about hospitals. The Fed Aff on climate was important but it was discussed only in the context of reserve ratios and often AFF teams couldn’t fiat the full proposals in articles (like a suite of green quantitative easing, stress tests, etc.) due to the limitations of the topical mechanisms. Instead, this topic foregrounds *monetary policy itself* and how it would navigate global capitalism (or not…).

#### Also, it’s good to have some continuity! Programs with smaller coaching staffs and younger debaters benefit from ideas that have been debated before.

#### 6. Novice Accessibility?

#### This topic can work well for recruiting and retaining novices.

#### While “monetary policy” might sound intimidating at first glance, the topic’s real strength is that it allows students to explore clear, real-world questions that are easy to connect to daily life---like inflation, unemployment, or the cost of living. There is nothing more important for students to learn about than interest rates and monetary policy. These are issues students already care about, even if they don’t yet know the technical vocabulary. That opens the door for debating about learning about core economic ideas in a grounded, engaging, rather than throwing them straight into niche legal doctrine or obscure international institutions that they might not deal with after college.

#### From a coaching standpoint, the actor is well defined and the basics of neg ground is predictable it easier to build starter cases and generate pretty simple 1NCs on the Fed DA or the Cap K. This topic actually gives us a rare chance to introduce core concepts in economics, government, and even civics in a way that feels new, important, and winnable for students that are just starting out.

# Resolution Ideas

### Proposed resolution:

#### Resolved: The United States should implement a monetary policy reform regarding the United States monetary policy framework.

## Actor

### Actor considerations

#### For the proposed resolution, we suggest the United States. Why United States? We use "The United States" as the actor because it captures both Congress and the Federal Reserve, the two key institutions involved in monetary policy, without forcing an artificial restriction.

#### Using "The United States" as the actor allows affirmatives to debate reforms that:

#### Are implemented by the Fed,

#### Are mandated by Congress,

#### Or restructure the relationship between them.

#### Alternatively, the actor of the resolution could just be the Federal Reserve or. “Central Bank of the United States” which would allow the negative to have the Congress CP as core negative ground.

#### The Federal Reserve is the main actor that implements monetary policy — setting interest rates, controlling the money supply, and managing inflation. However, the Fed is independent from the federal government; it is not a Cabinet agency and does not take direct orders from the President or Congress. Its independence makes it technically separate from "the federal government" as commonly defined.

#### The Fed is the central bank of the “United States”

USA.Gov No Date “Federal Reserve System”. https://www.usa.gov/agencies/federal-reserve-system

The Federal Reserve is the central bank of the United States. It formulates and administers credit and monetary policy.

#### The actor OF monetary policy is the Federal Reserve

Federal Reserve No Date. “Monetary Policy”. https://www.federalreserve.gov/monetarypolicy.htm

Monetary policy in the United States comprises the Federal Reserve's actions and communications to promote maximum employment, stable prices, and moderate long-term interest rates--the economic goals the Congress has instructed the Federal Reserve to pursue.

#### The Fed implements monetary policy

Caitlin Clarke 24. Member of the Investopedia Financial Review Board Attorney at Law Licensed in multiple State and Federal Courts Associate General Counsel and Head of Legal, Data Privacy and Contracts. Yarilet Perez. Yarilet Perez is an experienced multimedia journalist and fact-checker with a Master of Science in Journalism. She has worked in multiple cities covering breaking news, politics, education, and more. Her expertise is in personal finance and investing, and real estate. “Monetary Policy Meaning, Types, and Tools”. https://www.investopedia.com/terms/m/monetarypolicy.asp

Monetary policy is a set of tools used by a nation's central bank to control the overall money supply and promote economic growth and employ strategies such as revising interest rates and changing bank reserve requirements.

In the United States, the Federal Reserve Bank implements monetary policy through a dual mandate to achieve maximum employment while keeping inflation in check.

#### Banking regulators in the US include the bank overall, FDIC, and OCC

Moody’s 24. US regulators release stress test scenarios for banks, https://www.moodys.com/web/en/us/insights/regulatory-news/us-regulators-release-stress-test-scenarios-for-banks.html

The U.S. regulators recently released baseline and severely adverse scenarios, along with other details, for stress testing the banks in 2024. The relevant U.S. banking regulators are the Federal Reserve Bank (FED), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC). This would be the first stress testing exercise that the banks in the US are expected to undergo after the bank crisis last year and, thus, is expected to attract higher scrutiny.

#### It can even include the SEC

J.B. Maverick 24. J.B. has a Bachelor of Science in psychology. “What Agencies Oversee U.S. Financial Institutions?”. https://www.investopedia.com/ask/answers/063015/what-are-some-major-regulatory-agencies-responsible-overseeing-financial-institutions-us.asp

There are numerous agencies assigned to regulate and oversee financial institutions and financial markets in the United States, including the Federal Reserve Board (FRB), the Federal Deposit Insurance Corp. (FDIC), and the Securities and Exchange Commission (SEC).

#### Congress, on the other hand, has the power to define and reform the monetary policy framework. Congress established the Fed’s statutory goals---the dual mandate of maximum employment and stable prices---which still guide the Fed today. Congress can amend these mandates, restructure the Fed, or impose new constraints or reporting requirements.

Federal Reserve No Date “Who owns the Federal Reserve?”. https://www.federalreserve.gov/faqs/about\_14986.htm

The Federal Reserve System is not "owned" by anyone. The Federal Reserve was created in 1913 by the Federal Reserve Act to serve as the nation's central bank. The Board of Governors in Washington, D.C., is an agency of the federal government and reports to and is directly accountable to the Congress.

The Federal Reserve derives its authority from the Congress, which created the System in 1913 with the enactment of the Federal Reserve Act. This central banking "system" has three important features: (1) a central governing board—the Federal Reserve Board of Governors; (2) a decentralized operating structure of 12 Federal Reserve Banks; and (3) a blend of public and private characteristics.

The Board—appointed by the President and confirmed by the Senate—provides general guidance for the Federal Reserve System and oversees the 12 Reserve Banks. The Board reports to and is directly accountable to the Congress but, unlike many other public agencies, it is not funded by congressional appropriations. The Chair and other staff testify before Congress, and the Board submits an extensive report—the Monetary Policy Report—on recent economic developments and its plans for monetary policy twice a year. The Board also makes public the System's independently audited financial statements, along with minutes from the FOMC meetings.

In addition, though the Congress sets the goals for monetary policy, decisions of the Board—and the Fed's monetary policy-setting body, the Federal Open Market Committee—about how to reach those goals do not require approval by the President or anyone else in the executive or legislative branches of government.

Some observers mistakenly consider the Federal Reserve to be a private entity because the Reserve Banks are organized similarly to private corporations. For instance, each of the 12 Reserve Banks operates within its own particular geographic area, or District, of the United States, and each is separately incorporated and has its own board of directors. Commercial banks that are members of the Federal Reserve System hold stock in their District's Reserve Bank. However, owning Reserve Bank stock is quite different from owning stock in a private company. The Reserve Banks are not operated for profit, and ownership of a certain amount of stock is, by law, a condition of membership in the System. In fact, the Reserve Banks are required by law to transfer net earnings to the U.S. Treasury, after providing for all necessary expenses of the Reserve Banks, legally required dividend payments, and maintaining a limited balance in a surplus fund.

#### Congress sets the prescriptive goals and the FOMC determines the stance of monetary policy.

NY Fed No Date. Federal Reserve Bank of New York. “Monetary Policy Implementation”. https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation#:~:text=The%20Federal%20Reserve%20sets%20U.S.,moderate%20long%2Dterm%20interest%20rates.

The Fed’s economic goals prescribed by Congress are to promote maximum employment, stable prices, and moderate long-term interest rates. The Federal Open Market Committee (FOMC or Committee) is responsible for monetary policy decisions to achieve these goals. The goals of maximum employment and price stability, commonly known as the “dual mandate”, create the conditions for moderate long-term interest rates. The FOMC determines the appropriate position or “stance” of monetary policy, which reflects how “accommodative” (encouraging economic growth) or “restrictive” (slowing economic growth) it should be. Once the FOMC determines the appropriate stance of policy, the Committee issues directives to the Open Market Trading Desk at the New York Fed (Desk) to implement the policy.

Monetary policy works by influencing short-term interest rates to affect the availability and cost of credit in the economy and, ultimately, the economic decisions businesses and households make. Monetary policy can also affect financial conditions more broadly as measured by financial asset prices such as stock and bond prices, longer term interest rates, and the exchange rate of the U.S. dollar against foreign currencies. This all affects economic activity and, ultimately, the Federal Reserve’s key goals of maximum employment and price stability.

#### The current mandates were set up in 1977 so are flexible as well by Congress.

CRS 25. Congressional Reesearch Service. “Introduction to U.S. Economy: Monetary Policy”. April 1, 2025. https://www.congress.gov/crs-product/IF11751.

Federal Open Market Committee

Monetary policy decisions are made by the Federal Open Market Committee (FOMC), whose voting members are the Fed’s seven governors, the New York Federal Reserve Bank president, and four other reserve bank presidents, who vote on a rotating basis. The FOMC is chaired by the Fed chair. FOMC meetings are regularly scheduled every six weeks, but the chair sometimes calls unscheduled meetings. After these meetings, the FOMC statement announcing any changes to monetary policy is released.

Statutory Goals

In 1977, the Fed was statutorily mandated to set monetary policy to promote the goals of “maximum employment, stable prices, and moderate long-term interest rates.” The first two goals are referred to as the dual mandate. The dual mandate provides the Fed with discretion on how to interpret maximum employment and stable prices and how to set monetary policy to achieve those goals. There are no formal repercussions when goals are not met.

Since 2012, the FOMC has explained how it carries out its mandate in its Statement on Longer-Run Goals. It defines stable prices as 2% inflation, measured as the annual percent change in the personal consumption expenditures price index. In the FOMC’s view, maximum employment “is not directly measurable and changes over time owing largely to nonmonetary factors that affect the structure and dynamics of the labor market.” In 2025, the Fed is conducting a review of the Statement. Some have questioned whether 2020 revisions to the Statement contributed to high post-pandemic inflation.

#### Why does “United States” solve the actor concern?

#### Even if we disallow the private bank, the Board of Governors still oversee the entire Fed and are an agency of Congress.

The Fed 24. The Federal Reserve. "Who We Are." The Federal Reserve Explained. 7-5-2024. https://www.federalreserve.gov/aboutthefed/fedexplained/who-we-are.htm

The Board of Governors—located in Washington, D.C.—is the governing body of the Federal Reserve System.

The Board

* is run by 7 members, or "governors" serving staggered 14-year terms, who are nominated by the President of the United States and confirmed in their positions by the U.S. Senate;
* includes a Chair and Vice Chair, who may be appointed for one or more additional four-year terms;
* guides the operation of the Federal Reserve System to promote the goals and fulfill the responsibilities given to the Federal Reserve by the Federal Reserve Act;
* oversees the operations of the 12 Reserve Banks and shares with them the responsibility for supervising and regulating certain financial institutions and activities; and
* is an agency of the federal government that reports to and is directly accountable to Congress.

#### The Fed is part of the government.

The Fed 16. The Federal Reserve. "Who owns the Federal Reserve?." 2016. https://www.federalreserve.gov/faqs/about\_14986.htm

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#### The Fed’s a government agency.

Sarah Foster 23. Principal Federal Reserve Reporter for Bankrate. "9 Myths About The Federal Reserve." Bankrate. 2-14-2023. https://www.bankrate.com/banking/federal-reserve/federal-reserve-misconceptions/

Myth No. 6: The Fed is privately owned

Fact: Congress set up the Fed to serve public, not private, interests

Americans often mistake the Fed as a privately-owned bank, similar to other financial institutions. To be sure, certain aspects of the Fed System mirror private companies, but Congress created the Fed to serve the public. The ultimate overseers of the Fed are Congress, even if they don’t dictate what the Fed decides to do with monetary policy.

The 12 regional reserve banks operate similarly to a private company in that they have a nine-member board of directors that selects the president and vice presidents who lead it. Yet, to implement checks and balances, the Fed’s board chooses three of those board members; the remaining six are selected by commercial banks that are members of the Fed System.

The other main pillar of the Fed — the Washington, D.C.-based board of governors — is considered an independent government agency. Congress gave the Fed a decentralized structure to ensure policymakers have a perspective on what’s going on across all corners of the country.

## Stem

### “Monetary Reform”

#### This is a defined term

Quickonomics No Date “Monetary Reform”. https://quickonomics.com/terms/monetary-reform/

Monetary reform refers to a process of changing the current monetary system to address issues like inflation, currency depreciation, and to improve economic stability and efficiency. It encompasses a broad range of measures including the overhaul of the currency system, adjustment of interest rates, regulatory changes to banking systems, and the introduction of new monetary policies. The aim of these reforms is to create a more stable and predictable economic environment that fosters growth, controls inflation, and enhances the overall efficiency of the financial system.

Example

Consider the historical example of Germany in the early 1920s, which faced hyperinflation. The German government decided to undertake monetary reform by introducing a new currency, the Rentenmark, to replace the old and nearly worthless Mark. This move was coupled with strict monetary and fiscal policies aimed at curtailing the rampant inflation. The introduction of the Rentenmark, along with a commitment to stop the excessive printing of money and to reduce government expenditures, helped stabilize the German economy and restored confidence in the financial system.

Similarly, in the 1990s, following the dissolution of the Soviet Union, many Eastern European countries implemented monetary reforms to transition from centrally planned economies to market-based systems. This often involved creating independent central banks, introducing new currencies, and adopting inflation targeting policies to ensure monetary stability and to attract foreign investment.

Why Monetary Reform Matters

Monetary reform is crucial for ensuring the smooth functioning of an economy. It can help to stabilize prices, encourage economic growth, and increase the efficiency of financial transactions. By addressing the root causes of monetary instability, such reforms can also help to avoid the economic downsides of hyperinflation, recession, and currency devaluation. Furthermore, well-implemented reforms can foster investor confidence, both domestically and internationally, by demonstrating a commitment to fiscal discipline and economic stability.

A stable monetary environment is also essential for effective long-term economic planning by both the public and private sectors. Businesses need stability to make investments and hiring decisions, while consumers need it to make spending and saving decisions. Moreover, monetary reform can play a key role in reducing poverty and inequality by creating more jobs and stabilizing prices, which disproportionately affect the poor.

Frequently Asked Questions (FAQ)

What are some common measures included in monetary reforms?

Common measures in monetary reforms can include the introduction of a new currency, restructuring the central bank, changing the monetary policy framework (e.g., from a fixed-exchange-rate system to inflation targeting), and implementing regulatory changes aimed at improving banking sector stability and efficiency. These measures are tailored to address specific issues within the economy and are often implemented in response to crises.

#### Broad interpretations exist too.

Thomas Havrilesky 95. The pressures on American monetary policy. Springer Science & Business Media, 1995.

This Chapter examines the prospects for monetary reform. As the opening quotation states, the perceived need for reform is a product of suffering. Suffering implies that the costs of the arrangements to be reformed are quite high relative to their benefits. This Chapter begins by considering three types of costs to society associated with current monetary policy arrangements. The first is the cost of inflation. The first section of this Chapter indicates that a nation's inflationary performance is directly related to the autonomy and accountability of its central bank. Thus, two possible directions for potential monetary reform would be to increase the Federal Reserve's autonomy and its accountability. Another cost of contemporary monetary policy arrangements is associated with contradictory objectives for monetary policy. The second section of this Chapter deals with contradictory policy assignments. It suggests that the explicit simplification of attainable goals for monetary policy is one way of increasing the central bank's accountability. In recent years there has been growing interest in Congress' restricting the Federal Reserve policy strategy to a single goal, price stability. Such a goal with a timetable for its attainment would certainly simplify policy. The third section of the Chapter examines the idea that monetary policy uncertainty enables the Federal Reserve to create stimulatory surprises. Therefore, uncertainty is an essential aspect of monetary policy. Unfortunately, attempts by the Federal Reserve to coverup its policy actions and by market participants to uncover them use up valuable resources. This further suggests that greater accountability Qess secrecy), which would produce less uncertainty, is a cost-reducing direction for monetary policy reform. The next section of the Chapter reviews the findings, reported in earlier Chapters, regarding political attempts to influence monetary policy and the ability of the Federal Reserve to resist these efforts. The central bank's resistance can be strengthened by increasing its autonomy and accountability

#### So do limited interpretations that includes getting rid of the government’s role in money all together!

Allan H. Meltzer 83. “MONETARY REFORM IN AN UNCERTAIN ENVIRONMENT”. https://www.cato.org/sites/cato.org/files/serials/files/cato-journal/1983/5/cj3n1-6.pdf#page=21

Interest in monetary reform has been stimulated by the combination of research and experience. Three types of reform, each with many variants, are advocated. One proposes a return to some type of gold or commodity standard under which the central bank would be obligated to buy and sell gold, or some other commodity, or basket of commodities, at a preannounced price. The second, a monetary rule, keeps the growth rate of money on a prescribed path. The third proposal, associated with Friedrich Hayek and Ludwig von Mises, eliminates the government and the central bank from the monetary system. Proposals for competitive, unregulated banking—often called “free” banking—leave control of money growth to the decisions of the public. Wealth-maximizing bankers produce the quantity and type of money that the public demands.

#### That limitation can be based around 3 overall categories---change of numeraire, immobilizing money holding, and differentiated rates.

Rudiger Dornbusch 90. Centre for Economic Policy Research. and Holger C. Wolf. "Monetary Overhang and Reforms in the 1940s." (1990).

We distinguish three basic types of monetary reform: The first is a mere change of numeraire. In this reform a new currency is issued with full unimpaired conversion of the old currency into the new one. The purpose of the conversion would be to eliminate a number of zeros. It might also help determine the wealth distribution with a view towards later taxation or to eliminate illegally acquired currency hoards.

The second kind of reform immobilizes money holding for a specified or unknown period by blocking bank accounts. The measure is in essence temporary; either the assets are subsequently unfrozen or else the measure ends in a later write-off of the frozen assets or a (forced) conversion into interest-bearing, non-marketable loans. In the latter case an upper bound on the converted assets might be set with regard to political objectives. Being forced, the interest rate on the conversion, would be at the discretion of the government, thus avoiding the difficulty that arises in a voluntary conversion, where lack of credibility translates into potentially extravagant interest rate burdens.

Decisions about write-offs have to be considered in the context of the balance sheets of financial institutions. If the assets are non-performing, because of physical destruction of collateral, loss of territory or otherwise, there is simply no reasonable way of sustaining the liabilities. Of course, the government could guarantee the liabilities and place in bank balance sheets net-worth certificates serviced out of general revenues, but this would evidently place an extravagant burden on public finance. This is one respect in which the Soviet Union and Eastern Europe today offer a special opportunity. Unlike in the case of Europe in the immediate aftermath of the war, in these countries the physical capital stock, while in a sad state, is still in existence and is in the hands of the government, as is the banking system. There is a possibility, therefore, of combining cancellation of interfirm debts, privatization of assets and monetary reform.

The third kind of monetary reform is confiscatory: currency and/or bank accounts are written off on an across-the-board conversion rate or on a differentiated basis. Here the conversion is not merely nominal but real: money balances are converted at a less favourable rate than flows such as rents or wages. A uniform conversion of all nominal assets held by the public is equivalent to a blip in the price level and thus has the same distribution effects. A more differentiated process can accommodate desired political features such as the special taxation of speculators (which hold currency) or of affluent groups (which hold government debt and large deposits).

### “Monetary Policy Framework”

#### Monetary Policy Framework “MPF” can encourage debate about the actor related to the plan and allows affs to change things like the standard of measurement, targets, rates, and Fed objectives.

David Altig et al. 20. Jeff Fuhrer, Marc P. Giannoni, and Thomas Laubach. “The Federal Reserve’s Review of Its Monetary Policy Framework: A Roadmap”. FEDS Notes. Washington: Board of Governors of the Federal Reserve System, August 27, 2020, https://doi.org/10.17016/2380-7172.2767.

In early 2019, the Federal Open Market Committee (FOMC or the Committee) launched a comprehensive review of its monetary policy framework (MPF)—the strategies, tools, and communication practices employed by the Federal Reserve to achieve its congressionally mandated goals of maximum employment and price stability. A key part of this review involved a series of memos written by the staff from around the Federal Reserve System, intended to inform the FOMC's framework discussions. This note serves as an introduction to this series and lays out the work that was presented to FOMC participants between July 2019 and January 2020.1

The framework review represented by the collection of papers described in this note should not be taken to suggest that the Federal Reserve's MPF has remained largely untouched over the decades. In fact, the framework has changed almost continuously since its inception.2 Some changes in framework arose from changes in legislation, some were adopted proactively based on improved understanding of monetary economics, and some were born out of necessity when significant flaws in the existing framework were exposed by economic events. No matter the source, change has been the constant—from the gold standard, to the use of intermediate monetary targets, to use of the interest rate as the primary instrument, and to the explicit numerical inflation objective adopted in 2012.3 The era since the Global Financial Crisis (GFC) saw an even more rapid evolution of the framework, including the use of forward guidance (FG), the adoption of balance sheet policy (BSP), and the introduction of the Summary of Economic Projections (SEP) and regular press conferences. But despite the many changes in the framework over the years, the FOMC has not adopted a regular, systematic process for reviewing its MPF until the current review started in early 2019.4

#### It’s broad but involves the legal and structural aspects that guide monetary policy.

Filiz D Unsal 22. Head of Structural Policies and Research, OECD . Chris Papageorgiou , and Hendre Garbers. “Monetary Policy Frameworks: An Index and New Evidence”. https://www.elibrary.imf.org/view/journals/001/2022/022/article-A001-en.xml

A monetary policy framework (MPF) comprises the structures in place that enable and guide the conduct of monetary policy. This encompasses both the legal basis—which shapes independence and accountability—and the design, implementation, and communication practices of monetary policy. A monetary policy framework is much broader in scope than a monetary policy regime which is a specific configuration of select elements of the MPF. For example, an inflation-targeting regime is understood to involve price stability as the primary objective, a numerical inflation target, and the use of a short-term interest rate as the policy tool. However, the MPF within which an inflation-targeting regime operates includes numerous other (design, implementation, and communication) elements, as well as legal foundations, which are all key to monetary policymaking and may all differ across countries.

The MPF plays a critical role in empowering monetary policymaking for at least two reasons. First, a well-established MPF fosters clarity by providing the frame of reference that guides sound and consistent policymaking and safeguards policy continuity. Indeed, the MPF is a useful vehicle for steering policymakers on various issues, from the legality of actions to the appropriate focus of policy discussions or the communication of decisions. Second, clarity about the way central banks conduct monetary policy aids the public in forming policy expectations, reduces uncertainty, and ultimately makes monetary policy more effective. This is key as the effects of monetary policy on the economy depend not only on current policy actions but also on the public’s expectations of how the policy will evolve. A useful approach to managing expectations is for policymakers to be clear about the objectives as well as the plans to progress towards and achieve those objectives.

#### We could also limit it to nine categories of regulations.

Richard Barth 02. International Monetary Fund. “6 The Framework of Monetary Policy”. https://www.elibrary.imf.org/display/book/9781589060944/ch06.xml#:~:text=In%20general%2C%20the%20monetary%20framework,monetary%20authorities%20conduct%20monetary%20policy.

In general, the monetary framework of a country can be classified according to the existence of institutions, announced rules, or other policy guidelines that affect how the monetary authorities conduct monetary policy. Cottarelli and Giannini (1997) identified nine basic monetary frameworks, based on announced policy rules, from a longitudinal sample of the principal monetary frameworks of 100 countries. The nine frameworks are shown in Table 6.1, listed in order of increasing discretion, defined according to two considerations: whether the monetary authority is able to set short-term interest rates independently of foreign interest rates, and whether the monetary authority can surprise the private sector by promoting unanticipated inflation, without repudiating its policy announcements.

A screen shot of a white sheet

AI-generated content may be incorrect.

The first four frameworks are completely nondiscretionary because domestic interest rates are pegged to foreign rates through arbitrage. The fifth and sixth frameworks—exchange rate pegs with capital controls (detailed in Table 6.1)—allow some short-run discretion in monetary policy; however, for countries adopting this framework and a short-term intermediate target, the announcement of this target eliminates the scope for discretionary policy. The seventh framework, inflation targeting, does not allow medium-term discretion because the central bank must announce the targeted future inflation path and allow the public to monitor its performance in attaining the target. Since countries adopting this framework typically have flexible exchange rate systems, short-term domestic monetary policy is independent of external monetary conditions.6 The eighth framework includes countries with a short-term intermediate target, such as a monetary aggregate, and includes the United States until 1993, when the Federal Reserve officially announced that it was giving less weight to monetary aggregates. Countries in this category are constrained in the short term but not the medium term, since the targets are periodically revised. The last framework is one in which the monetary authority has complete discretion. Alternative classification systems are of course possible, and it may be the case that a central bank operating under a floating exchange rate system may nevertheless be more committed to maintaining an inflation or monetary target than a central bank that operates under a fixed rate system but devalues frequently.

The data presented by Cottarelli and Giannini (1997) show that, prior to the breakdown of the Bretton Woods system, only 10 percent of the sample countries used a completely discretionary framework; 56 percent followed an exchange rate peg with some capital controls, so that an element of discretionary policy was available. From 1970 to 1994, however, countries moved increasingly toward a more discretionary framework, and by 1994, 36 percent of the countries had adopted a completely discretionary framework. An index of monetary discretion shows that, on average, the degree of discretion increased particularly strongly until the late 1980s and then stabilized. Another index calculated in the same study shows that, even in countries following disinflation programs, the trend has clearly been toward discretion.

#### There are interps that say the aff MUST deal with rates or the quantity of money.

John B. Taylor 09. “The Need to Return to a Monetary Framework” Business Economics, April 2009, Vol. 44, No. 2 (April 2009), pp. 63-72.

A wide variety of monetary policy frameworks have been discussed and debated over the years. Among frameworks that focus on the instruments of monetary policy, there are two broad types: those that focus on the interest rate and those that focus on the quantity of money. Among the latter, we have seen various quantity measures proposed, including the monetary base, several of the monetary aggregates, reserves, free reserves, and borrowed reserves. Because the overnight federal funds rate has a lower bound of zero, even a monetary policy framework that usually focuses on the in terest rate needs to make use of a quantity measure when the interest rate hits zero.

#### It may or may not require congress, but there are cards that define explicit affirmatives to the framework we have now.

Jeff Fuhrer et al. 18. All Authors are from the Federal Reserve Bank of Boston. Giovanni P. Olivei, Eric S. Rosengren, and Geoffrey MB Tootell. "Should the Federal Reserve Regularly Evaluate Its Monetary Policy Framework?." Brookings Papers on Economic Activity 2018, no. 2 (2018): 443-517.

How often have such adjustments been required? As this paper illustrates, changes have occurred quite frequently. Almost none of the elements in the current framework existed when the Federal Reserve System was founded in 1913, and most of them have been codified only very recently. These changes, though sometimes significant, did not require enabling legislation, but simply the FOMC’s agreement. In short, the history of the United States’ monetary policy framework is one of nearly continuous changes, both minute and momentous. Broadly, over the past 100 years, the monetary framework has progressed from the Gold Standard, to the Bretton Woods monetary system, to the Treasury Accord, to goal-and-instrument independence, to just instrument independence, to the formal adoption of an explicit numerical objective for price stability, to the use of balance sheet policy to augment conventional policy during the Great Recession, to the 2012 adoption of an explicit framework document that evolved to outline a symmetric and equally weighted emphasis on both aspects of the Fed’s congressionally given dual mandate.

## Other Terms Considered

### Issuance & Management

#### Broad---ensures exchange rates and interest ratres are topical.

Faster Capital No Date “Currency Issuance And Management”. https://fastercapital.com/topics/currency-issuance-and-management.html#:~:text=Currency%20issuance%20and%20management%20are,maintains%20its%20value%20and%20stability.

Currency issuance and management are among the most essential functions of a national bank as a central bank. The central bank has the responsibility to issue and manage the country's currency to ensure that it maintains its value and stability. The currency is the backbone of the economy, and any mismanagement can lead to inflation, deflation, and other economic challenges. Therefore, the central bank has to be careful and strategic in its issuance and management of currency.

1. Currency Issuance

The central bank is responsible for issuing currency on behalf of the government. It prints the currency notes and mints the coins that are then distributed to commercial banks and other financial institutions. The process of currency issuance should be transparent and accountable to maintain public confidence in the currency. The central bank should also ensure that the amount of currency issued is in line with the country's economic needs.

2. Factors Considered in Currency Issuance

Several factors are considered when issuing currency. The central bank has to monitor the supply and demand of money in the economy and adjust the currency issuance accordingly. It also has to consider the state of the economy, inflation rates, and interest rates. The central bank has to ensure that it issues enough currency to facilitate economic growth while maintaining price stability.

3. Currency Management

Currency management involves ensuring that the currency remains stable and maintains its value. The central bank has to monitor the supply and demand of money in the economy to ensure that there is no excess or shortage of currency. It also has to ensure that the currency is not counterfeited, and it remains in circulation for a reasonable period.

4. Factors Considered in Currency Management

Several factors are considered in currency management. The central bank has to monitor the exchange rate of the currency to ensure that it remains competitive in the global market. It also has to ensure that the currency is not affected by external factors such as political instability or natural disasters. The central bank has to manage the money supply to maintain price stability and prevent inflation or deflation.

5. Options for Currency Issuance and Management

There are several options for currency issuance and management. One option is to maintain a fixed exchange rate, where the central bank pegs the currency to a specific value against another currency. Another option is to adopt a floating exchange rate, where the value of the currency is determined by market forces. The central bank can also use monetary policy tools such as interest rates and reserve requirements to manage the money supply.

#### Would allow topical affs to issue alternative currencies like central bank digital currencies, gold standards, etc.

Red Compass Labs No Date. “Understanding CBDCs and Their Market Usage”. https://www.redcompasslabs.com/insights/understanding-cbdcs-and-their-market-usage/

Fiat and Commodity Currencies

A fiat currency is a type of currency that is declared as a legal tender by a government and is not backed by any physical commodity (e.g., Gold or Silver) or any financial Instrument. Legal tender means that the money is backed by the “trust” in the government that has issued it. Such legal tenders, when produced in a digital form, would refer to Digital Currency.

Unlike the Fiat currency, commodity currencies are linked to valuable commodities like Gold, Silver, grain, or even fur and other animal products. They preceded the current fiat system.

Central Banks and Currency Issuance

Central Banks are the prime monetary authority in a country that takes care of a lot of financial responsibilities. These include:

Currency Regulator or Issuer, Custodian of Cash reserves, Clearing house for transfer and settlements of payments, Lending, and Protecting depositor interests by regularly introducing policies that would enable a stable financial market in a country.

Currency Issuance refers to the act of introducing paper and coin money in the financial market. Issuance of currency is regulated by monetary policies, interest rates, and setting bank reserves. And that is one of the reasons a central bank just cannot keep on printing more money and introduce it in the market. Thus, central banks control the money in circulation to achieve economic stability and to achieve the economic objectives for the fiscal year.

Fact: Initially, countries aligned printing money with the amount of gold reserve they had, but this ended in 20th century and central banks could decide how much money to print.

### Valuation/Use

#### Valuation is determining the relative value of currency and use means how it serves as a medium of exchange, unit of account or store of value.

Yusuru Ozeki 92. & George S Tavlas. IMF. “II The Theory of International Currency Use”. https://www.elibrary.imf.org/display/book/9781557751973/ch002.xml#:~:text=an%20International%20Currency-,The%20uses%20of%20a%20currency%20in%20the%20international%20monetary%20system,of%20value%20for%20domestic%20residents.

The uses of a currency in the international monetary system are analogous to, albeit more complex than, those of a national currency serving as a means of payment, a unit of account, and a store of value for domestic residents. The international use of a currency occurs whenever a national currency performs the functions of a medium of exchange, a unit of account, or a store of value beyond the borders of the nation that issued it (Table 1). As a means of payment, it is used to settle foreign-trade transactions and to discharge international financial obligations. As a unit of account, it is used in invoicing merchandise trade and in denominating financial instruments. International currencies are also used by official agents in expressing exchange rate relationships. As a store of value, it serves as an investment asset held by nonresidents. For example, official agents may hold international currencies and financial assets denominated in such currencies as reserve assets.

## AFF Area

### AFF Area 1: Changing from current currency model

#### Changing from current currency model is topical

CFI No Date “How is Currency Valued”. https://corporatefinanceinstitute.com/resources/economics/how-is-currency-valued/

History of Currency Value

Currency came around several hundreds of years ago as a means to replace the barter system. Early currencies were “commodity money,” meaning they derived intrinsic value from the precious metals they were made of.

However, the impracticality of commodity money created the shift towards “representative money” – money that lacks intrinsic value but is backed by its ability to be traded for a physical commodity. The most notable use of representative money is under the gold standard, where each country’s currency is tied to a fixed amount of gold.

The drawbacks of the gold standard became clear during World War I. The gold standard left little room to adjust the money supply because new money could only be issued with a new supply of gold.

In the wake of the government deficits during the war, many countries were forced to abandon the rigid gold standard to print money freely. Following World War II and the Vietnam War, representative money was officially abandoned globally in 1971.

The end of representative money ushered in our current form of currency – fiat money. Fiat money does not possess intrinsic value nor is it backed by commodities. Rather, its value is determined by supply and demand, backed by the creditworthiness of the issuing government. It eases the severity of crises compared to under representative money because the government is able to print more currency.

#### Gold standard debate exists on both sides

Bryan P. Cutsinger 20. Angelo State University, Department of Accounting, Economics, and Finance. “On the feasibility of returning to the gold standard⋆”. The Quarterly Review of Economics and Finance Volume 78, November 2020, Pages 88-97

The gold standard is back in the news following a series of announcements from the Trump Administration indicating that the President was considering candidates for the open positions on the Federal Reserve Board who are sympathetic to the idea of restoring the gold standard. Judy Shelton – the President's newest pick – recently argued that gold is “universally acknowledged as a monetary surrogate with intrinsic value” (2018, p. 387). Likewise, Herman Cain and Stephen Moore – both of whom subsequently removed themselves from consideration for the positions – have made similar comments extolling the gold standard in the past, although Moore did walk back his earlier support for gold after the President announced that he was considering him for the Federal Reserve Board ([Cain, 2012], [Moore, 2019]). That the President would nominate individuals to the Federal Reserve Board that are sympathetic to the idea of restoring the gold standard is unsurprising given that he, too, has expressed an interest in doing so (GQ, 2015).

Among most economists, however, the gold standard remains overwhelming unpopular (IGM Economic Experts Panel, 2012). The consensus view is that the gold standard is a relic of a past marred by macroeconomic instability that central banks helped to alleviate (Bernanke, 2012). Despite this consensus, there are some economists who contend that when compared against the track record of modern central banking, macroeconomic performance under the “Classical” gold standard (1879–1914) was superior in some respects and no worse in others, and that returning to the gold standard today would offer several advantages over the current fiat regime, such as lower inflation and price-level uncertainty as well as increased trade and capital flows brought on by the creation of a common currency area (Hogan, 2015; Hogan, Smith, & Aguiar-Hicks, 2018; Selgin, Lastrapes, & White, 2012; White, 2015).

Whether adopting the gold standard today would be desirable, as some contend, is secondary to whether doing so would be feasible. Indeed, the prospect of returning to such a monetary system raises several important questions that would need to be addressed prior to its implementation. What would the appropriate parity be? How much gold would it require? Is the existing gold stock sufficient to support the resumption of redeemability? How much would it cost to implement and maintain? Without answers to these questions, the case for returning to the gold standard is incomplete. The aim of this paper is to derive plausible answers to these questions in order to assess whether it would be feasible for the world's leading economies to adopt the gold standard in the near future.

#### Recent ev too advocates for it.

Robert Daugherty 3-31-25. Forbes Contributor. “The Gold Standard Would Stabilize America’s Future”. https://archive.ph/NmcYn#selection-263.0-274.0

"A gold standard would restore integrity and stability to the U.S. dollar and the international monetary system—qualities that have been sorely missing for years." — Steve Forbes, Chairman and Editor-in-Chief of Forbes Media

In a year of remarkable market volatility, one asset class has quietly outperformed all others: gold. While the NASDAQ has declined 12.2% year-to-date, gold has surged an impressive 27.2%. This striking 39.4% performance gap tells a story that many economists and policymakers are reluctant to acknowledge—that in times of economic uncertainty, investors still turn to history's most enduring store of value.

As the United States engages in increasingly contentious trade conflicts and government officials personally dabble in cryptocurrency markets, the case for returning to the monetary stability of a gold standard has never been more compelling. This shift would represent not merely a return to the past, but a forward-looking solution to modern economic challenges.

The Case for Monetary Stability

The largest proponents of returning to a gold standard include figures associated with the Austrian School of economics, free-market libertarians, and some supply-side economists. These advocates share a common belief that anchoring currency to gold could curb inflation and promote long-term economic stability.

The monetary stability argument is perhaps the most persuasive. Proponents argue that a gold standard, where currency is tied to a fixed amount of gold, would create a more predictable monetary system, significantly reducing the risk of inflation and currency devaluation that has plagued fiat currencies. When money is backed by a physical commodity with intrinsic value, the ability of central banks to expand the money supply becomes naturally constrained.

#### The AFF could be about utilizing a “carbon currency”

Josephine Victoria Yam 16. (2016). JD from Ateneo de Manila University, Commodity or Currency: How Carbon Credits Should be Traded To Achieve Environmental Integrity in Linked Cap-and-Trade Schemes (Master's thesis, University of Calgary, Calgary, Canada). Retrieved from https://prism.ucalgary.ca. doi:10.11575/PRISM/25357 <http://hdl.handle.net/11023/2971>

Carbon credits can be traded like international currencies by using a flexible carbon exchange rate to reflect their differing environmental qualities and carbon mitigation values.682 With a flexible carbon exchange rate, the standard metric of CO2e can initially be used to create distinct, transferable units of carbon credits. To make them environmentally equivalent, a flexible carbon exchange rate will compare the carbon mitigation value of carbon credits from one jurisdiction with the carbon mitigation value of another jurisdiction. For an exchange or trade to take place, a carbon exchange rate will determine the number of carbon credits from one jurisdiction that corresponds to a certain number of carbon credits from another jurisdiction so that they are environmentally equivalent. In this regard, the exchange rate functions to enable fluid carbon trading while authentically reflecting the varied environmental qualities of carbon credits.683

A carbon exchange rate serves as an adjustment mechanism to ensure that carbon credits have equivalent carbon mitigation values. Because heterogeneous carbon credits have inherently different carbon mitigation values, they are not naturally and automatically fungible. 684 Thus, the use of an exchange rate will make their carbon mitigation values equivalent relative to each other. Their carbon mitigation values are translated into equivalent levels of environmental integrity, which will provide the fungibility required to trade them in linked cap-and-trade schemes.685

Having equivalent carbon mitigation values is crucial to achieving the environmental protection goal of linked cap-and-trade schemes. This is because this type of trade will ensure that GHG reductions are real and have coherent and predictable impacts on the schemes’ environmental goals. After the exchange rate is applied, tradable carbon credits from one jurisdiction become environmentally equivalent and thus fungible with carbon credits from another jurisdiction across carbon markets. This will enable the growth of a truly global carbon market. 686

A carbon exchange rate strengthens and preserves the environmental integrity of linked carbon markets because it accurately captures the true environmental values of carbon credits.687 When linked cap-and-trade schemes enable carbon credits to trade like currencies, “[t]he fiction that all carbon units should be or could ever be equivalent is removed, and the environmental value of a unit is expressed in terms of its exchange value”.688

Indeed, an international exchange rate system resolves the imperfections in the carbon commodity trading model market caused by the CO2e metric’s limitations to recognize the heterogeneity among carbon credits. As Salzman & Ruhl note, the C02e metric’s: imperfections do not, in and of themselves, present an insurmountable barrier to efficient use of trading mechanisms in effectuating environmental policy. As in any market context, if the externalities caused by poor [metric] design can be identified, then the rules of the market itself can be manipulated to close the holes. Indeed, since environmental trading markets are creatures of regulatory construction in the first instance, further refinements of the market can be carried out directly through regulatory fiat.

Moreover, using an exchange rate to address the different mitigation values that carbon credits possess prior to trading can smooth out otherwise incompatible cap-and-trade schemes.690 Using a currency-like trading approach “would transfer the negotiation from the stringency of the target to a negotiation on the exchange rate”.691

A currency-like exchange rate for comparing and assessing heterogeneous carbon credits for carbon trading is ideal because it is comprehensive. Aldy & Hoedl explain the comparability metric principle of comprehensiveness thus:

An ideal metric would capture the entire effort actively undertaken by a country to achieve its mitigation commitment. Such a metric would clearly reflect policies and measures and exclude non-policy drivers of climate outcomes. As a result, this single measure could suffice for comparing effort among countries. 692

#### Or the AFF could create a “central bank digital currency” (CBDC) which in this administration is being debated over a “stablecoin”.

Barbara C. Matthews 25. science degree from Georgetown University and two law degrees. and Hung Tran. undergraduate and graduate degrees in Economics and Accounting from California State University, Fullerton and completed the doctoral course work in Economics at New York University. “Central bank digital currencies versus stablecoins: Divergent EU and US perspectives”. https://www.atlanticcouncil.org/blogs/econographics/central-bank-digital-currencies-versus-stablecoins-divergent-eu-and-us-perspectives/

The relationship between central bank digital currencies (CBDCs) and stablecoins will take center stage this year. New United States policies support dollar-backed stablecoins and oppose CBDCs. European policies take the opposite stance, arguing that CBDCs—including the digital euro and digital pound—provide financial stability, while cryptocurrencies and stablecoins create financial stability risks. All policymakers agree on one point: both CBDCs and stablecoins will significantly impact the global role of the US dollar.

Few were surprised, therefore, when President Trump began his second term with an executive order that prioritizes stablecoins as the preferred mechanism for safeguarding both the global role of the US dollar and financial stability. The executive order also stated that CBDCs create financial stability threats. In contrast, the monetary policy minutes from the December 2024 European Central Bank rate-setting meeting took the opposite position and proposed that crypto assets could create financial stability threats for the eurozone.

#### There’s a good debate on both sides of CBDCs

Tobi Opeyemi Amure 24. Investopedia. “What Will a U.S. Central Bank Digital Currency Look Like?”. https://www.investopedia.com/us-cbdc-6740586

The Federal Reserve has identified the advantages and disadvantages of having a CBDC in circulation. The following are some of the key benefits and risks.

Advantages

A U.S. CBDC should safely meet future needs for payment services and be free of credit risk and liquidity risk for the public.

The currency should improve cross-border payments and use underlying technology in a simplified distribution channel for payments, as well as interoperability among different jurisdictions.

It should support the dollar’s international role and benefit the public and government by contributing to reducing transaction and borrowing costs.

It should be financially inclusive, potentially helping lower transaction costs and assisting lower-income households.

It should give the public access to safe central bank funds by increasing the payment options available.

Disadvantages

A U.S. CBDC could affect the financial structure of the U.S. and alter the duties and responsibilities of the private sector and the central bank.

The safety and stability of the financial system could be compromised during the conversion process from another form of money to a CBDC. This could trigger instability and even runs on financial institutions.

The effectiveness of the nation’s monetary policy implementation could be lessened. It is unknown how a CBDC would affect the interest on reserve balances and how the Fed would use the money supply as a tool.

Privacy and data protection issues and financial crimes could threaten consumers’ privacy rights and result in the loss of assets.

Operational resilience and cybersecurity could pose problems because a CBDC is prone to the same threats as existing payment services.

### AFF Area 2: Modern Monetary Theory

#### It’s topical

Warren Mosler 25. American economist and theorist Warren Mosler is an American economist and theorist, and one of the leading voices in the field of Modern Monetary Theory (MMT). Presently, Warren resides on St. Croix, in the US Virgin Islands, where he owns and operates Valance Co., Inc. “Unraveling the Mysteries of Modern Monetary Theory with Warren Mosler”. February, 2025. https://investresolve.com/podcasts/unraveling-the-mysteries-of-modern-monetary-theory-with-warren-mosler/

Modern Monetary Theory (MMT) offers a radical and refreshing perspective on economic policy, challenging many of the traditional assumptions of classical economics. This theory, rather than focusing on fixed exchange rate policies that are no longer prevalent, emphasizes the importance of understanding the role of government in managing the money supply and interest rates in a floating exchange rate system. It asserts that government spending should precede tax collection, as it is from the government that the dollars used for tax payments originate. A fascinating aspect of MMT is its reassessment of government deficits. Instead of viewing them as inherently harmful, MMT proposes that deficits can be beneficial for the nation’s economy. The basis of this argument is the concept of sovereign currency. If a country controls its own monetary policy and issues its own currency, it can always fund its spending, effectively eliminating the necessity for borrowing from the private sector. MMT also challenges the perceived need for Treasury bonds, proposing a more streamlined approach to government financing. However, critics worry that MMT might remove the scarcity constraint, potentially leading to inflation. Despite these concerns, MMT proponents argue that a well-informed electorate would not indulge in excessive spending and would prioritize addressing unemployment over controlling inflation. A key implication of MMT is the central role it assigns to the government in currency creation. It postulates that government spending creates the currency, while taxes serve to control inflation and maintain the currency value. This alternative viewpoint on the relationship between government spending, taxation, and currency value reshapes our understanding of traditional economic models. A unique proposal by MMT for mitigating economic issues, particularly income inequality, is the introduction of a job guarantee program. This bottom-up approach aims to provide employment opportunities and introduce benefits like childcare and healthcare, offering a more equitable distribution of resources. In the world of finance, MMT questions the necessity of government securities, viewing them as the Federal Reserve Bank’s savings accounts. It suggests that these could be eliminated, simplifying the process of government spending and monetary policy. Further, MMT disputes the conventional belief that raising interest rates is an effective strategy for inflation control. To conclude, MMT provides intriguing insights that challenge classical economics, particularly the order of operations in the economy and the role of the government in currency creation. It emphasizes the importance of fiscal policy in inflation control, challenges the existing understanding of government securities, and proposes innovative solutions like a job guarantee program. While the implementation of MMT’s propositions may require significant structural changes, the potential benefits warrant serious consideration.

#### That leads to a wide variety of advantage areas from ensuring free healthcare to infrastructure, etc---see critique section for advocates. There have been lots of debate topics where MMT has featured prominently, there will be ground on both sides of this topic.

### AFF Area 3: Dual Interest Rates

#### The plan is a new mechanism for fed engagement that creates dual interest rates --- this allows a LOW rate of interest for green investment.

New Economy Brief NEB 23. New Economy Brief is a project of the Economic Change Unit, non-profit organisation which aims to support and amplify the efforts of those seeking to build a fair, sustainable and resilient economy. "Dual interest rates: unlocking green investment during monetary tightening". Green Central Banking. 8-1-2023. https://greencentralbanking.com/2023/08/01/dual-interest-rates-green-investment-inflation/

One proposal for making green investments cheaper is to have a reduced interest rate for investment in low-carbon projects. This dual interest policy is part of a wider framework called green credit guidance.

Monetary policy can “shield” green investments from interest rate hikes by offering banks refinancing at preferential rates for financing clean investments in the real economy. There is historical precedent – offering lower costs of credit played an important role in supporting Western economic and industrial policy between 1945 and 1973, and more recently in aiding the rapid development of East Asian countries.

More recently, the Bank of Japan (BoJ) has provided zero-interest financing to lenders supporting action to address climate change. The BoJ’s governor justified taking action on climate by arguing that doing so falls within the bank’s price stability and financial stability mandates. Christine Lagarde has also put green credit guidance as one of her top priorities during her presidency of the European Central Bank (ECB).

Frank van Lerven and Lukasz Krebel of the New Economics Foundation (NEF) have proposed that the UK could adopt such a scheme by repurposing the Bank of England’s term funding scheme (TFS). This currently provides cheaper credit to businesses and households, and could also provide cheaper credit to banks to lend for sustainable investments.

Van Lerven and Krebel illustrate how the policy would work in practice with accelerating investment in building retrofits. “The interest rates for the TFS green credit lines to banks could be set at 0%, or in all cases below the bank rate, to ensure lower costs of green credit. The refinancing rate could be made negative (echoing the [ECB]) on the condition that commercial lenders pass on a minimum predefined rate discount to retrofit borrowers – for example, by offering loans to households and businesses at 0% interest.”

#### This is also a broader aff that can be about things broader than green policy like on last year’s topic because you can target the rate of loans versus the rate of deposits to prevent liquidity traps.

Eric Lonergan 20. Economist and macro fund manager M&G Investment Management Limited Megan Greene Global Economist and Senior Fellow, Harvard Kennedy School Harvard Kennedy School. “Dual interest rates give central banks limitless fire power”, https://cepr.org/voxeu/columns/dual-interest-rates-give-central-banks-limitless-fire-power

When the global economy was shut down in response to the pandemic, central banks proved that their arsenals were not in fact as empty as many economists had feared. Most analysts have focused on bond purchasing programmes as the most important monetary policy development since early March 2020 (Caballero and Simsek 2020). But they are missing the most powerful tool of all: dual interest rates. We are using the term ‘dual interest rate’ to describe a central bank policy of separately targeting the interest rate on loans and the interest rate on deposits in order to provide economic stimulus (Lonergan 2020, Greene 2020). We will argue that central banks have already introduced the tools to implement this policy, and a minor version has been introduced by the ECB in its attempt to ameliorate the effects of Covid-19 (Lane 2020).

By employing dual interest rates, central banks can go beyond targeting short-term interest rates and emergency liquidity and can provide a stimulus across the economy. They can also eliminate the effective lower bound and liquidity traps, giving monetary policy unlimited force.

The constraints of the effective lower bound

Since the global crisis, when many major central banks slashed interest rates to zero or into negative territory and grew their balance sheets with asset purchases, there has been widespread concern that central banks would lack the means to stimulate aggregate demand in the face of another crisis. With inflation stubbornly low over the past decade, most central banks were unable to hike interest rates sufficiently to rely on cutting them in the next downturn to hit their various targets. They would be constrained by the 'effective lower bound’, the rate beyond which further rate cuts are counterproductive.

Defining the effective lower bound is more of an art than a science. One input is the equilibrium real rate of interest (r\*), the real interest rate at which the economy is at full employment while inflation remains constant. Calculating r\* has always been problematic, and it is questionable if the framework is even useful at very low interest rates. What we do know is that r\* has declined considerably in recent decades (Yellen 2018). This means that central banks will reach the effective lower bound more frequently, and during these episodes it is likely that there will be significant shortfalls in output, employment, and inflation. A persistent inflation shortfall could erode inflation expectations, compounding the effective lower bound constraint as central banks are stuck with policy rates that are lower for even longer.

To escape the effective lower bound, central banks have considered (and employed) a number of approaches (Bernanke 2017). In the face of the Covid-19 crisis, most major central banks have engaged in long-term asset purchases. Other monetary authorities have intervened to directly target longer-term yields, such as yield curve control employed by the Bank of Japan. The Federal Reserve and the ECB have also launched monetary policy strategy reviews to consider changing their policy goals. The Fed and the ECB have also launched monetary policy strategy reviews to consider changing their policy goals. The Fed’s review resulted in the central bank adopting an average inflation target of 2%, so that shortfalls must be offset by overshooting the inflation target (Greene 2019a).

None of these approaches gives us confidence that central banks can meet their inflation targets and escape the effective lower bound. Quantitative easing has produced mixed results (Liberty Street Economics 2019, Williamson 2017). Yield curve control runs the risk of a central bank having to spend an extraordinary amount to pin yields in large and liquid markets and is difficult, if not impossible, to reverse. Targeting average inflation or price levels (or raising inflation targets) lacks credibility when most major central banks have largely failed to hit their inflation targets over the past decade, let alone overshoot them.

Some economists have argued that central banks could simply resort to even more negative nominal policy rates, but the likely existence of a ‘reversal rate’, a point at which further reductions in the policy rate result in monetary tightening, undermines this approach (Brunnermeier and Koby 2019).

The ECB’s institutional framework for dual interest rates

A far more effective approach to escaping the effective lower bound already exists and has been employed in Europe, to surprisingly little fanfare: dual interest rates. Central banks have always had multiple rates of interest. The main interest rate central banks typically aim to control is the rate at which commercial banks borrow and lend reserves to each other overnight. This rate is a benchmark for the pricing of all lending across the private sector, for discounting government bonds, and for remunerating deposits. Historically, central banks have focused on pushing the benchmark rate towards the policy rate using three main tools: supplying reserves to the market via open-market operations, setting an interest-on-reserves rate that represents what banks can earn on funds deposited at the central bank (providing a theoretical floor on rates), and using a discount rate at which a central bank will lend funds (against collateral) to banks (providing a theoretical ceiling on rates) (Keister 2012).

Over the last decade, central banks have developed a far more sophisticated array of interest rate-based tools. These have included tiered reserves as well as various ‘targeted lending schemes’ such as the ECB’s TLTRO schemes,1 the Bank of England’s Term Funding Scheme (TFS), and the Bank of Japan’s targeted lending programme introduced following the Fukushima emergency (Lonergan 2019a). The combination of targeted lending at interest rates below the IOR and the use of tiered reserves imply that central banks can now independently target lending rates and deposit rates. In theory, conventional monetary policy leaves the net interest income of the private sector unchanged. The effects of changes in the policy rate work through inter-temporal substitution of consumption (a price effect) or through the differential marginal propensities to consume for borrowers and lenders. By contrast, the effects of dual interest rates are unambiguously positive because the central bank can simultaneously raise the income of both borrowers and lenders. This is the equivalent of monetary rocket fuel (ECB 2020a).

So far, however, there is only one example where this approach has actually been employed. In tweaking its Targeted Longer-Term Refinancing Operation (TLTRO) programme in March 2020, the ECB adopted dual interest rates. The ECB began explicitly and separately targeting the interest rate on lending and the interest rate on deposits. As a result, the ECB funds banks at one interest rate (contingent on net new lending conditions being met) which is independent of the interest on reserves (IOR) rate. Banks can borrow under this scheme at interest rates as low as -100 basis points. Simultaneously, the interest rate on reserves (or deposits held by commercial banks at the ECB) is determined independently under the ECB’s tiered reserve system. The ECB’s ‘dual reserve system’ remunerates a portion of the commercial banks’ excess reserves at zero, and the remaining balance at the ECB’s deposit rate (currently set at -50 basis points) (ECB 2020b).

To be clear, the ECB is targeting the rate at which banks can fund lending independently of the rate at which reserves are remunerated. By continuing to cut the interest rate through the TLTRO programme, while leaving the average IOR rate unchanged, the interest rate on loans in the euro area should fall without a commensurate decline in interest income on deposits. This radical departure from monetary convention has not been lost on the ECB, as the chief economist, Philip Lane has made explicit:

“Banks can borrow at the most favourable rates we have ever offered, provided that they continue to do their job of extending credit to the private sector. An important innovation is that, by setting the minimum borrowing rate at 25 basis points below the average interest rate on the deposit facility, we are effectively lowering the funding costs in the economy without a generalised reduction in the main traditional policy rates" [italics added] (Lane 2020)

This policy could be taken much further. For example, the ECB could cut the interest rate on transfers within the TLTRO programme to -400 basis points and could extend the duration of loans to 18 months or longer. Furthermore, instead of linking preferential interest rates to net new lending (particularly when private sector balance sheets are already stretched), the ECB could link an aggressive reduction in the programme rate to the re-pricing of existing loan books. This would create a stimulus for borrowers across the economy.

Normally, a central bank has to choose whether to benefit borrowers or savers when it either hikes or cuts the main policy rate. But with dual interest rates, the central bank can provide a stimulus to borrowers while also extending one to savers at the same time. In addition to cutting the lending rate deep into negative territory, the ECB could raise the average interest rate banks receive on reserves. Tiered reserves are particularly relevant here. Under a single rate regime, raising the IOR rate raises lending rates across the economy. But under tiering (such as that which the ECB has adopted), the zero rate on a portion of excess reserves could be raised to say 2% or 3%, conditional on banks passing a share of this higher interest income on to customers.

There is no lower bound

What becomes clear is that under a dual interest rate system, monetary stimulus has no practical limit (Greene 2019b). In addition to providing a stimulus across the entire economy, dual interest rates remove the effective lower bound. Conventional negative nominal interest rates provide a stimulus for borrowers only. Negative nominal policy rates pejoratively impact depositors, pose profound challenges for financial intermediation, and run the risk in extremis of creating an incentive for the private sector to hold physical cash.

These constraints disappear once dual interest rates are employed. There is no lower bound to how far central banks can reduce the interest rate at which they can lend to banks, as the ECB has now demonstrated. By making this lending ‘targeted’ (i.e. subject to eligibility criteria), the scope for free-riding is limited if not impossible (even more so if funding terms are linked to a repricing of existing loan books, as we suggest).

The legitimate concerns about the effects of low (or negative) interest rates on depositors (highlighted in debates about the impact of monetary policy on inequality, and raised by the German Constitutional Court) are also addressed by dual interest rates. Central banks can use tiered reserves to support rates of interest on deposits. In effect, central banks can use dual interest rates to explicitly target banking sector net interest margins in the application of policies.

The monetary policy implications of these tools cannot be overstated. Where dual interest rates are employed, there can be no liquidity trap, and no reversal rate. The liquidity trap only makes sense in a world where base money creation occurs through the acquisition of an asset by the central bank, leaving the net wealth of the private sector unchanged. Under dual interest rates, the central bank is, in effect, making a money transfer to the private sector, which raises net wealth. Intriguingly, this argument was made very succinctly by Milton Friedman in his famous 1968 AER address as a reason why monetary policy can always be effective even at very low interest rates:

“This revival [in a belief in the potency of monetary policy] was strongly fostered among economists by the theoretical developments initiated by Haberler but named for Pigou that pointed out a channel – namely, changes in wealth – whereby changes in the real quantity of money can affect aggregate demand even if they do not alter interest rates. These theoretical developments did not undermine Keynes' argument against the potency of orthodox monetary measures when liquidity preference is absolute since under such circumstances the usual monetary operations involve simply substituting money for other assets without changing total wealth. But they did show how changes in the quantity of money produced in other ways could affect total spending even under such circumstances" [italics added] (Friedman 1968).

Friedman is not explicit about what he means by producing money “in other ways”. It is likely he had in mind a simple cash transfer. Relative to asset purchases, dual interest rates involve a relatively modest transfer of net income to the private sector, the effects of which can be amplified by bank lending.

Are there constraints on dual interest rates?

At first glance, dual interest rates seem too good to be true. Economists are taught that there is always a constraint. In the case of dual interest rates, the constraint is unclear. A combination of negative interest rates on targeted lending and positive interest rates on tiered reserves can deliver any level of nominal demand required to raise the inflation rates. Monetary policy is given new breath when inflation is 'too low’. The same applies when inflation is ‘too high’; the interest on tiered reserves can be set to shrink reserves in the same way as it can be set in order to expand them, and borrowing rates can be raised as well. The challenge for central banks becomes devising an optimal calibration. What is the r\* for the TLTRO programme? What average interest rate should be applied to tiered reserves?

Central bank ‘equity’ is also not a constraint. One significant difference between a policy of dual interest rates and the more ‘plain vanilla’ asset purchases by central banks (QE) is the effect on a central bank’s balance sheet. When central banks engage in asset purchases there is usually no accounting change to their equity (because they have created an accounting liability, bank reserves, and have a corresponding asset). Under dual interest rates, new operations will create negative net interest income for the central bank. It is of course true that central banks asset purchase programmes expose them to mark-to-market losses, so the distinction is somewhat semantic. Chris Sims has made a similar point, albeit to express concern over the size of central bank balance sheet and the political consequences of ‘losses’ (Sims 2016).

Even in accounting terms, central banks may have far greater equity than appears at first glance. The accounting treatment of bank reserves as ‘liabilities’ resides in the mapping of commercial bank accounting to central banks and makes little sense. No other institution can create electronic money, so we do not have accounting conventions to deal with base money. Central bank reserves are not financial liabilities in any meaningful sense. They can be created at will, and at any ‘price’ the central bank wants, and ‘default’ has no real meaning in this context.

As economists, we have typically focused on the asset side of a central bank balance sheet from the perspective of the ability to implement monetary policy through open-market operations. Even mark-to-market losses are relevant if they hinder a central bank’s ability to reverse the expansion of the monetary base. Similarly, under a single IOR regime, it is possible in the future that central banks’ net income is significantly negative. Tiered reserves limit this concern. If central banks in the future have reserves in excess of assets and need to shrink the stock of reserves while raising interest rates, an ability to charge negative interest rates on required reserves will be valuable.

### Aff Area 4: Swap Lines/Exchange Rates

#### It’s topical to regulate the currency peg and rates of exchange.

Caroline Banton 24. Caroline Banton has 6+ years of experience as a writer of business and finance articles. She also writes biographies for Story Terrace. “How Are International Exchange Rates Set?” https://www.investopedia.com/ask/answers/forex/how-forex-exchange-rates-set.asp#toc-types-of-exchange-rates

Currency prices can be determined by a floating or a fixed rate. A floating rate depends on the open market through supply and demand. If demand for the currency is high, the value will increase. If demand is low, this will drive that currency price lower.

That brings into play the economies of every nation with a floating currency. A nation's GDP, the strength of its foreign trade, and the size of its public debt all influence the value of its currency on the open market.

The currencies of most of the world's major economies were allowed to float freely following the collapse of the Bretton Woods system between 1968 and 1973. Therefore, most exchange rates are not set but are determined by ongoing trading activity in the world's currency markets.

Other nations have retained a currency peg, tying the value of their currencies to another country's currency to keep its rate stable.

#### One mech would be through swap lines. A swap line is an agreement between two central banks to exchange their currencies which is beneficial for global financial stability.

Ethan Ilzetzki 22. Department of Economics, London School of Economics. Carmen M. Reinhart, Harvard University; The World Bank. Kenneth S. Rogoff, Harvard University. “Rethinking Exchange Rate Regimes.” Handbook of International Economics, Volume 6, 2022, Pages 91–145.

Most of the cooperation literature employs New Keynesian models that focus on classical productivity or government spending shocks; there has been much less research exploring the risk premia and liquidity shocks that play an increasingly central role in applied exchange rate models, for example Gabaix and Maggiori (2015), Itskhoki and Mukhin (2020), and Lilley and Rinaldi (2020). It is also clear that in extreme events such as the global financial crisis and the pandemic, there are very direct mechanisms for cooperation outside the usual interest rate channels. Federal Reserve swap lines, for example, appear to have played a critical role in stabilizing dollar funding markets globally in both instances (see Bahaj and Reis, 2020). Further, several countries have swap lines with the European Central Bank and more than 40 central banks have signed up for swap lines with the People's Bank of China. This has been an important development that needs to be explored in much greater detail. Arguably, the expectation that such swap lines will be available in future emergencies helps remove tail risk and affects exchange rate stability even during quieter periods, although the empirical importance of this effect relative to other factors, such as reduced monetary policy uncertainty, is unclear (see Ilzetzki et al., 2020b and Stavrakeva and Tang, 2021).

#### Good ground on both sides

Fabian Pape 22. Department of Politics and International Studies, University of Warwick. “Governing Global Liquidity: Federal Reserve Swap Lines and the International Dimension of US Monetary Policy.” New Political Economy, Volume 27, Issue 3, 2022, Pages 455–472. https://doi.org/10.1080/13563467.2021.1967912.

Since the use of swap lines during the global financial crisis, the Federal Reserve is widely seen as international lender of last resort. Yet the focus on emergency liquidity assistance tends to obscure the broader significance of swap lines for US monetary governance. As this article shows, swap lines have historically played a crucial and evolving role in structuring and facilitating specific practices of offshore Eurodollar liquidity production in the interest of US monetary policy. A key contemporary example can be found in the uptake of swap lines during the Covid-19 market turmoil in early 2020: swap lines alleviated offshore dollar funding conditions to such an extent that they also triggered reverse inflows of dollar liquidity back into the US. More than simply providing a backstop to the global system, these swap interventions effectively restructured cross-border financial flows in a way that afforded the Fed greater control over domestic markets. Yet as the capacity to influence global liquidity conditions appears increasingly crucial to the Federal Reserve’s control over domestic monetary conditions, these interventions pose broader questions about its role in managing instable and evolving cross-border credit relations that link domestic and global markets.

#### But a debate exists on best policy for swaps which broadens the scope of AFF and NEG ground.

Jongho Lee 24. Department of Economics, Columbia University. “Optimal Central Bank Swap Line Policy”. https://papers.jongholee.org/OCBSL.pdf

This paper studies the optimal central bank swap line policy. Due to a pecuniary externality, there is a trade-off between ex-ante and ex-post efficiency of the swap line policy. During financial crises, the swap line policy lowers CIP deviations and prevents fire sale of source currency assets, beneficial to both recipient and source country. However, it makes recipient banks to overborrow ex-ante, sowing the seeds of financial crises. From a global welfare point of view, the ex-post efficient policy is more lenient than the ex-ante efficient policy, which implies time inconsistency. The policy mix with macroprudential policies can correct the overborrowing problem and resolve time inconsistency. Moreover, policy coordination of a cooperative Ramsey problem obtains undersupply (oversupply) of source currency provision under a realistic condition when the source country has higher (lower) bargaining power.

# NEG

## Neg Strategy

#### The benefit of this topic is depth of research around each AFF area. Negs should work on developing case negs to types of monetary policy reform.

#### Generically, the neg would be fine if they wrote two files

#### 1) The mandate of the fed and its regulation of the dollar is good and successful

#### 2) The mandate of the fed should be X other thing that the AFF

#### There’s predictable and locked in neg ground based on politics, regulatory frameworks, and broader economy disadvantages

Quickonomics No Date “Monetary Reform”. https://quickonomics.com/terms/monetary-reform/

Can monetary reforms fail, and if so, why?

Yes, monetary reforms can fail if they are not well planned or implemented. Failure can result from lack of political will, the absence of supporting fiscal measures, inadequate regulatory frameworks, or failure to address structural issues in the economy. For reforms to be successful, they must be part of a comprehensive strategy that includes structural reforms, sound fiscal policies, and effective regulatory oversight.

## Other Generics

### Fed DA

#### It’s a core DA with UQ from this month and is a net benefit to the fiscal policy CP

Norbert Michel 4-16-25. vice president and director of the Cato Institute’s Center for Monetary and Financial Alternatives. Michel leads a team of nearly one dozen scholars that develop original policy solutions to expand freedom through improving financial markets and monetary policy & Jai Kedia research fellow at the Center for Monetary and Financial Alternatives. “Reforming the Federal Reserve, Part 1: A Brief Look Back and the Way Forward”. https://www.cato.org/publications/reforming-federal-reserve-part-1-brief-look-back-way-forward

The Fed is unnecessarily enmeshed in many tasks beyond Congress’s original intent for the central bank. For example, the Fed regulates thousands of banks and other financial institutions, and it holds the reserves of all commercial banks and many other financial institutions.24 As a result, the Fed has a conflict of interest in lending to firms under its regulatory purview. Instead, Congress could require one of the other federal banking regulators, such as the Office of the Comptroller of the Currency, to execute the Fed’s regulatory functions.25 Since its creation, the Fed has also progressively taken over parts of the payments system that originated with private sector innovations such as check clearing and settlements.

The Fed has also involved itself in direct credit allocation, sometimes by creating ad hoc lending facilities or by making so-called emergency loans.26 Congress should curb the Fed’s ability to lend in this manner because the Fed can implement monetary policy without lending directly to individual firms, which, among other things, exacerbates the “too big to fail” problem and imperils the broader financial system. To fulfill its function as lender of last resort, the Fed can expand open-market operations and provide liquidity to the entire system, allowing banks to access that liquidity through the (private) federal funds market.27

These other functions can sometimes complicate the implementation of monetary policy, and they are not essential. Regardless, the Fed should not be relied on to successfully fine-tune the economy—no group of government officials should be expected to do so. In an ideal world, Congress would not have created a central bank or expanded the government’s role in money to the degree that it has. Nonetheless, within the existing monetary system, some sort of central authority remains necessary to administer the supply of base money.

Merely getting rid of the Fed without creating a new authority would be economically disruptive because it would effectively mean getting rid of the dollar. It does not follow, however, that the current arrangement is optimal even for monetary policy. For instance, restricting the Fed’s operations so that monetary policy is transparent and predictable would ensure that the Fed disrupts individuals’ economic decisions much less than it does currently, thus more closely approximating a free enterprise system. The best way for Congress to achieve this goal would be to require the Fed to follow a policy rule.28

Of course, as the several rounds of government expenditures after the COVID-19 pandemic demonstrate, even if Congress constrains the Fed with a monetary policy rule, Congress can still induce inflation through fiscal policy. Thus, Congress should enact long-term reforms that fix the nation’s unsustainable fiscal path.29 Additionally, to ensure that the Fed cannot monetize excessive debt at its own discretion, Congress should limit the size of the Fed’s balance sheet and restrict the Fed from purchasing anything other than short-term Treasury securities.

Conclusion

The operational history of the Federal Reserve is marred with poor policy decisions. However, if the monetary system of the United States remains based on the fiat US dollar, a government entity is required to determine the amount of that currency available in circulation. Yet the Fed, with activities ranging from emergency lending to financial regulation, does far more than simply managing the supply of the monetary base.

The Fed serves the US public best when it does less, not more. The ideal Federal Reserve System would operate with more accountability, transparency, and predictability while minimizing interference in private markets. Rejecting increased government intervention in favor of expanding free enterprise is the best way to reduce needless economic uncertainty, help Americans create more economic opportunity, and improve living standards. This briefing paper is the first in a series that will examine the Fed’s various functions and propose reforms to ensure that it operates in a manner consistent with limited government and a free-market economy.

#### Reining in the Fed prevents democratic and economic collapse.

Jesse Eisinger 22. Senior editor and reporter at ProPublica. Interviewing Lev Menand, associate professor at Columbia Law School, former economist at the Federal Reserve Bank of New York. "The Fed Keeps Getting More Powerful. Is It Bad for America?." ProPublica. 8-5-2022. https://www.propublica.org/article/lev-menand-fed-unbound-interview

JE: Thanks very much for joining me. Can you summarize the thesis of your book, “The Fed Unbound: Central Banking in a Time of Crisis”?

LM: The Federal Reserve is an organization created by Congress for a limited, very important purpose to do a difficult job, which is to manage the U.S. money supply.

When you log on to a Bank of America or Citigroup account and you see a balance there, that’s the money that the Fed is managing. Those are not the same thing as green pieces of paper. And the Fed’s job is to ensure that you treat them the same, that you think of them the same. And that the amount of those Bank of America bucks is growing at a rate that is appropriate for the economy to put all of its resources to work, including all of its people.

The thesis of the book is that monetary liberalization, deregulation of the banking system and a lot of choices made during the second half of the 20th century caused the Fed to become “unbound.” Basically, what you have is the rise of a “shadow banking” system. All these financial companies that aren’t under the Fed’s purview, they start creating money. The Fed doesn’t have the tools to manage them, and then they run into problems during economic downturns, and the Fed pulls out all the stops and tries to backstop them — bail them out.

That’s the 2008 financial crisis. And that fundamental dynamic is still with us.

JE: Essentially what you’re saying is that this institution, which is about 100 years old, the Federal Reserve, was created to manage money so that when there was a financial crisis, the Fed would come in and lend to them and cushion that blow. But over time, the Fed’s mandate had grown and its power had grown and we’re trying to figure out why that happened and whether that’s a good thing or a bad thing. Is that fair enough?

LM: Fair enough.

Following the Great Depression, the Fed was very successful. We didn’t have intermittent banking panics. Every time there was a recession, people didn’t run on banks. We thought that we had solved monetary instability and financial crises until 2008. And what was 2008? It was a run on shadow banks. A whole group of financial institutions had come along and started to do what banks do. They started to create deposits of their own called different things. And they were exposed to the same run dynamics that you saw in the 19th century before the Fed was created. And the Fed decided if we don’t come in and backstop this system, it will collapse. But it was never expected that this would be how the Fed [acted]. The Fed was not designed to stabilize the shadow banking system.

JE: Let’s just back up. You’ve given a preliminary definition of shadow banking, but walk us through it. These are not bank deposits that are backstopped by the federal government, by the Federal Deposit Insurance Corp. Give us a really simple example. A money market fund is part of the shadow banking system, right? So it’s not like it’s an obscure financial system for the elite. Most middle-class Americans touch the shadow banking system.

LM: Yeah. So there are three major types of shadow banking that I talk about in the book. You mentioned one, that’s the one that ordinary Americans are most likely to have encountered. The other types are primarily wholesalers for businesses, not ordinary individuals, but basically what they all have in common is they are non-bank firms that do not have a bank charter that are trying to reproduce the bank business model. The Fed doesn’t have the same set of tools to ensure that the money market fund [and other shadow bank institutions aren’t] taking too many risks.

JE: The shadow banking system is huge, right?

LM: In 2007, which was the peak of the shadow banking system, a peak we will eventually return to if further reforms are not made, it’s estimated that there were about $15 trillion of shadow bank-issued money instruments against $7 or $8 trillion of bank deposits and less than $1 trillion of government-issued cash.

In the aftermath, the shadow banking system got a lot smaller because we had a lot of major shadow banks fail like Lehman Brothers. And then over the last 10 to 15 years, it has grown again.

So now we’re back where the banking system is much bigger. There’s $18 trillion of deposits. And the shadow banking system is probably around the same size, maybe slightly smaller. It’s very hard to estimate the size, well, because it’s in the shadows.

JE: You say that this is in the shadows, which is another way of saying it’s not fully regulated. So we had a financial crisis in 2008. You write that they essentially have two failures coming out of this. One is to not recognize the true nature of the crisis. They think of it as a 100-year flood rather than a fundamental aspect of structural fragility. And then the second thing is that we pass a sweeping financial reform, the Dodd-Frank act, that touches every corner of the financial system and yet is, I think your view would be, woefully inadequate. What does the Fed do right? What does the Fed do wrong?

LM: So a stable and, in fact, growing money supply is an absolutely critical precondition for the sorts of economies that we live in today. If the money supply shrinks rapidly, our entire economic structure falls apart. People owe each other money. And if the amount of money in circulation starts to shrink rapidly, because the entities that have issued it are failing, then debtors can’t pay back their debts and they start defaulting. That turns into a vicious cycle.

You can think of the failure of banks a bit like the failure of power plants. If the Long Island Power Authority just shut down and stopped working, it would be very hard for any business on Long Island to continue to produce goods and services. The Fed and Congress ultimately stepped in to bail out and prevent the further collapse of this grid. Now that was necessary, otherwise we would have ended up in a great depression of the same scale or probably a larger, worse depression than in the ’30s.

So the Fed’s hand in 2008 was more or less forced. If we wanted to continue to operate this economy, we were held hostage by the players that were providing the infrastructure upon which the economy was operating. Where things went wrong was a failure to grapple with the deep problems with continuing to have an economy in which the public and households and businesses are at the mercy of unregulated power plants that are able to basically profit off economic activity during good times, and then hold the entire society as it were hostage for public support during bad times. We ended up making some changes but not addressing that fundamental problem.

Today we continue to have a dynamic where a very large financial sector is profiting off implicit and explicit public backstops and is fundamentally fragile in its design.

The pandemic was exactly such a shock. The lesson that the Fed learned from 2008 was to offer even more public support for the financial sector, even faster. And in one respect that was successful. But the dynamics of that, the implications for all of the rest of us of having this government agency making $3 trillion available for a bunch of financial firms that aren’t operating in the public interest, this is deeply troubling. It’s a dynamic that will eventually lead to either the failure of our democracy or the failure of our economy.

JE: A dynamic leading to a failure of our democracy seems pretty dire and significant. I want to obviously explore that in a second and explore the implications of this, the quiet crash, the silent crash of March 2020. In some ways the Fed never stops bailing out the economy throughout that period from late 2008 through to March of 2020.

LM: I do think in critical respects, we are still living in a 2008 financial crisis world. The acute phase of that crisis ended in early 2009, but we have not recovered from the damage.

The last 15 years are characterized by anemic growth, worsening inequality that is in part a byproduct of the Fed’s effort to juice economic growth, which disproportionately enriches asset owners. [We have] a financial sector that is not investing in expanding the productivity of the American economy.

We didn’t actually use this period to invest in expanding capacity. And we continue to have a financial system that is fragile.

By the time 2009 comes around, you have a financial system that is very weakened. Fed officials launch a program called quantitative easing. That’s initially targeted at the housing market. And so they go and buy hundreds of billions of dollars of mortgage-backed securities.

JE: “Quantitative easing” is this wonky phrase, but there are two things about it. One is the Fed is buying securities and it didn’t used to do that; it used to just move short-term interest rates up and down. And then the second thing is it’s buying assets to help certain sectors of the economy. It’s a dramatic change that’s happening here with the Fed, right?

LM: Yeah. Look, the Fed is operationally a bank. It’s supposed to be a bank just for banks. And it’s generally the way that it operated from the Second World War up to the 2008 crisis was to adjust the constraints on bank balance sheets.

Then there are subsequent rounds of QE where the Fed buys Treasury securities, the federal government’s debt, in an effort to bring down longer-term interest rates in the economy and further juice economic activity. So there’s not sufficient fiscal stimulus and the economy is coming back very slowly. And the Fed has moved its interest rates down to zero so that the banks can expand their balance sheets, but they’re not expanding their balance sheets at a rate sufficient to allow the economy to rebound.

The mechanism by which QE works is to increase asset prices. So you have a booming stock market, a booming government debt market, a booming housing market, even though you have an economy, an underlying economy that is still weaker than it was before the 2008 crisis.

It’s a troubling way in my view to do economic policy. It might be the ninth-best approach. It’s making one group of people who are already very well off even more well off. It is a very unhealthy place for society to be.

JE: My friend, Chris Leonard, has written a book called “The Lords of Easy Money” about how the Federal Reserve “broke the economy.” Here in this interregnum between crises, what you’re saying is that the Fed was flooding the markets with purchasing power that was stimulating the asset markets and it was flowing to the wealthiest people, asset holders already. And we got something that looked like bubbles too, right? We get the crypto markets, we get NFTs, we get SPACs. The Fed in some ways is trapped into this because governments around the world are not spending wisely. They’re not helping the Fed out. They’re not helping the economy. In fact, they’re counterproductive. They’re embracing austerity.

LM: Yeah. The failure of the fiscal authorities of legislatures in the United States and also in Europe to address economic weakness is a source of the pressure and the motivation on the Fed to experiment with massive asset purchases as an alternative approach to avoiding an even weaker economy.

We need to recognize this was a very bad policy mix that we ended up in, to inject huge amounts of liquidity into the financial system as opposed to, say, writing people checks or helping keep people in their homes or investing in infrastructure the way that Chinese government does.

There’s so many other ways to manage economic weakness. But if your approach is not to do any of those things and actually to restrict the amount of money available to governments and state and local governments to spend, and to cause layoffs of public-sector employment, if you’re not going to do any of those things and you just want to flush the financial system full of liquidity, one of the problems you’re going to have is that you’re going to get bubbles in financial markets.

JE: So let’s go back to March of 2020. It’s poorly understood. Because in some ways the government and the Fed have learned from this critique that you’re leveling. The Fed does a bunch of things it had never done before, even in the financial crisis of 2008.

LM: Yeah. In part the lesson they took from 2008 was never let things get so bad that we have a failure of a major firm like Lehman Brothers, because that’s a disaster. And so when things started to deteriorate in March of 2020, when there was just a run on the shadow banking system, just like there was in 2008, the Fed stepped in quickly.

It expanded its own balance sheet enormously, very rapidly. It didn’t do anything like this in 2008. This was a shock-and-awe approach to suggest to anybody running on a shadow bank that there was no need to run, that the Fed could take all the assets onto its own balance sheet, that there wasn’t going to be a repeat of Lehman Brothers.

With some encouragement from Congress, it also sets up facilities to lend to ordinary businesses and to state and local governments. But the actual dynamic, when you look at it carefully, is they’re getting breadcrumbs and these additional programs are helping to legitimize the much, much larger and fundamentally problematic lending programs for the financial sector.

JE: Our politics are calcified. Our political system is subject to numerous veto points. The Fed in contrast is a committee run by one guy, Jerome Powell. A defender of the Fed would say: “Look, they can act very quickly. Yes, it goes through the financial system, which helps financiers and asset holders and the wealthy disproportionately, but eventually it trickles down and saves the economy. Your criticism really is with the political system, not the Federal Reserve.”

LM: There is this dynamic in which the more the Federal Reserve tries to use its financial system-based tools to respond to economic problems, the more pressure it takes off the political system to produce legislative solutions that are more egalitarian and more effective at solving these same problems. A key predicate of this is our democracy doesn’t work, that our politics don’t work, that fundamentally legislators can’t make good policy, that we need to rely on a couple of unelected technocratic experts to make policy that most Americans don’t understand that benefits the financial sector disproportionately, and that’s the best we can do as a society and a polity.

I reject the idea that’s the best we can do.

We are dooming ourselves to very bad dynamics over time, a declining economy really, and potentially a declining society. To reinvigorate our economy and our society, we have to move beyond our reliance on central bank medicine and to revive a meaningful economic, legislative agenda and politics. And one thing that’s encouraging in this regard is that the last couple of years you’ve seen some of that. You’ve seen the legislature act in ways that it did not act between 2008 and 2020, reflecting some sense that mistakes were made during that period.

JE: Now we have a very interesting and troubling period because we have the Fed confronting something much more traditional. We have an overheated economy. What do you think about the Fed’s job right now? Is the Fed doing the right thing? Is this a product of the shadow banking systems frailty or is this completely separate?

LM: I think it’s important to recognize that the current inflationary dynamic is primarily a supply-side shock. The pandemic just scrambled the normal patterns of demand for goods and services, and we ended up with shortages in certain important goods and services, which caused prices to rise.

Then we have spiking commodity and energy prices due to geopolitical conflict and also due to the pandemic in various ways. The driving factors of this inflationary dynamic are not loose financial conditions.

Here again, we stand the risk of over-relying on the Fed to solve a set of problems that require action by the government through a variety of other tools. So it’s certainly the case that some amount of interest rate hiking is necessary. Interest rates were too low and should be hiked. But the big question is should they continue to be hiked to the point where they choke off the whole overall economy, to shrink the overall economy so that it can match up in size with the amount of oil and natural gas that’s currently being produced and the amount of key goods and services that are coming through our supply chains?

We don’t need the Fed to tighten to such an extent that it induces a recession. Instead, we need other government policies targeted at supplying more of the goods and services that are experiencing this shock. It would be very unfortunate if because of the high price of oil and gas, we cause people to lose jobs all across the economy.

I am cautiously optimistic that policymakers understand this now better than they have. We will be better off tolerating some amount of inflation for some period of time while the economy adjusts to an enormous shock rather than overreacting and trying to eliminate that inflation by creating a certainty of high unemployment and a bad investment outlook and climate for the economy going forward.

JE: It’s so frustrating. The Fed functions through the financial system disproportionately helping the wealthy. It creates asset bubbles all throughout the economy. It then starts to tighten. And in doing so, it disincentivizes companies from investing and growing while courting a recession that will throw millions of average people out of work after those millions of average people have only barely begun to benefit from a decade of loose financial conditions by having their wages grow.

LM: Let me just add one more piece that will really make your head explode. There’s a very good chance that to the extent the Fed follows through on aggressive tightening in the coming months, that it leads to financial instability. And so at the same time, as you have the Fed pursuing policies that push up unemployment, weaken the labor market and reduce business investment, the Fed may well find itself standing up all of its emergency facilities again to support the shadow banking system.

JE: Essentially because they created bubbles and now…

LM: The shock of removing them, yes, is going to cause a run dynamic in the shadow banking system. It could happen at any point really.

JE: Well, that was where I was going to end this conversation, which is: Do you think we’re headed for another financial crisis? Because the fundamental fragility of the economy — the shadow banking system — has not been dealt with, and you have a Fed that is using these very blunt tools.

LM: I think it’s entirely possible. Part of the problem we have is it’s very hard for officials or academic observers and even market participants to have a handle on the balance sheet strength of financial institutions that fund themselves in the [shadow banking system]. And so it’s difficult to anticipate when a run might happen.

The Fed needs to be very cautious. It’s not actually dealing with a financial system that can necessarily go to that speed and absorb that shock. We’re in a very uncertain and risky time from an economic and financial perspective right now. Everybody should be on high alert and people should demand that their Congress try to tackle these issues and think about these problems, because it’ll be much better to start moderating now than to wait for another big crash, to put in place safeguards and structures that are necessary for a healthy economy and flourishing society going forward.

#### The links are to the concentration of power in the Fed which work against any aff.

Jeff Sommer 24. Times columnist. "The Perils of the Fed’s Vast Bond Holdings." New York Times. 5-3-2024. https://www.nytimes.com/2024/05/03/business/federal-reserve-markets-turmoil.html

The Federal Reserve is engaged in a colossal transformation of the financial economy. Yet scarcely anyone is noticing.

What it’s doing is like walking a herd of elephants through Midtown Manhattan without attracting much attention. That used to happen in New York in the wee hours — when the circus came to town and elephants walked over the city’s bridges and through its tunnels to Madison Square Garden.

I’m not talking about the Fed’s decisions on short-term interest rates, which get the headlines when the central bank meets, as it did on Wednesday. The Fed kept those rates steady — and fairly high — at about 5.33 percent, in a frustrating battle to subdue inflation.

I’m talking about a remarkably ambitious and poorly understood Fed project known as quantitative tightening — Q.T. for short. That refers to the Fed’s reduction of the Treasury bonds and mortgage-backed securities on its mammoth balance sheet.

The central bank said on Wednesday that it would start slowing the pace of this asset paring in June, to $60 billion a month from a maximum reduction of $95 billion a month. It’s not selling securities, just quietly eliminating some as they mature, without reinvesting the proceeds.

These may look like big numbers. Yet on a comparative basis, they are piddling.

Consider that the central bank’s assets peaked two years ago at almost $9 trillion. That sum is roughly one-third of all the goods and services — the gross domestic product — produced in the United States in one year. Now, after much careful effort, the Fed has cut that total to about $7.4 trillion.

Yes, it has removed about $1.6 trillion from its coffers. But even after two years of quantitative tightening, the amount of bonds and securities that the Fed still retains is stupendous.

This is mind-boggling stuff, but a basic understanding of quantitative tightening is important for several reasons:

* The policy is affecting financial markets now and making living conditions harder for millions of people — putting upward pressure on the Treasury and mortgage markets and a host of related interest rates, effectively supplementing the monetary tightening that the Fed put in place by raising the short-term federal funds rate.
* Quantitative tightening is a perilous operation. Earlier attempts — notably, in 2019 — disrupted financial markets. That could happen again if the Fed is too hasty.
* If the Fed acts as slowly as current plans project, it will own trillions in securities for years to come. An experiment begun in the 2008 financial crisis is becoming permanent, endowing the Fed — and whoever controls it — with vast expanded powers.
* The slow pace of quantitative tightening is partly responsible for the Fed’s inability to contribute to the national budget.

That’s because the Fed has also raised interest rates, which move in the opposite direction of bond prices. With its own policies, the Fed has reduced the value of its asset holdings. And by now it has inflicted more than $133.3 billion of losses on itself.

Unlike Silicon Valley Bank, which became insolvent last year, the Fed can survive paper losses — but it can’t help the U.S. government reduce staggering deficits.

Quantitative Easing

Q.T. is the inverse of an unorthodox approach to monetary policy known as quantitative easing, adopted by the Fed when Ben S. Bernanke was chair. After the collapse of Lehman Brothers in September 2008, the economy and the markets crashed. Trying urgently to give the economy a stimulative jolt, the Fed lowered interest rates to nearly zero, but that wasn’t enough.

Those were desperate times, and the Fed improvised. Expanding on a program that the Bank of Japan started in 2001, the Fed began large-scale buying of Treasury bonds and mortgage-backed securities.

The idea, as Mr. Bernanke said in his book “21st Century Monetary Policy,” was “to influence private-sector decisions, which don’t usually depend directly on Treasury yields.” The Fed, he added, “expected that lower yields in the Treasury market would result in lower yields elsewhere — for example, on residential and commercial mortgages and corporate bonds.”

In addition, Fed policymakers expected that “lower long-term, private-sector interest rates should stimulate business investment and consumer spending on new cars and houses,” Mr. Bernanke said. “Lower long-term interest rates would also increase the prices of other financial assets, such as stocks, and weaken the dollar, easing financial conditions more broadly.”

All of those things happened.

But what started as a temporary expedient evolved into a regular part of the Fed’s toolbox, one that the Fed has used too frequently, some economists say.

“The analogy is a terrible one, but what the Fed has done is engender an addiction,” Raghuram Rajan, a finance professor at the University of Chicago, said in an interview.

Mr. Rajan, who is a former governor of the Reserve Bank of India and chief economist of the International Monetary Fund, said that U.S. banks had become “addicted to the easy liquidity” associated with the Fed’s expansionary policies, and that weaning them off this flood of money had proved excruciatingly difficult.

It’s revealing to look back at early official Fed commentary. In February 2010, in a statement before the House Committee on Financial Services, Mr. Bernanke said, “The Federal Reserve anticipates that it will eventually return to an operating framework with much lower reserve balances than at present.” His statement was labeled “Federal Reserve’s exit strategy.”

But the Fed never exited its quantitative easing strategy. In fact, Fed records show that when Mr. Bernanke testified in 2010 about an eventual end to quantitative easing, the central bank’s balance sheet contained less than $2.3 trillion in assets. Fourteen years later, the Fed holds more than three times that total, even after its most ambitious “tightening” round to date.

Why Tightening Is Tough

Crises happened, the economy faltered and the Fed engaged in multiple rounds of quantitative easing under Mr. Bernanke and his successors, Janet L. Yellen and Jerome H. Powell, the current Fed chair.

All tried quantitative tightening — which, in early Fed planning, appeared to mean a reversal of the Fed’s active intervention in the bond and mortgage markets, a radical reduction in its holdings and a return to pre-crisis operations. In his 2010 testimony, for example, Mr. Bernanke said the Fed could eventually sell the assets it purchased.

But all these years later, it has not done so. When it is not in emergency-response mode and is trying to return to something resembling “normal,” it has allowed maturing bonds and other securities to slowly “run off” or “roll off,” instead of reinvesting the proceeds, which would maintain the size of its asset stash.

It’s moving at an excruciating pace. A report in April by a group within the New York Federal Reserve Bank projected that even with continued quantitative tightening, the assets on the overall Fed balance sheet will fall no lower than $6 trillion in the next few years — and then begin rising again.

In the past, when the Fed even hinted that it might swiftly shed assets, financial markets buckled. In a news conference on Wednesday, Mr. Powell alluded to the 2019 quantitative tightening effort that led to chaos in the money markets — and an about-face by the central bank. The Fed is now slowing the already stately pace of balance sheet roll-off precisely “so that it doesn’t lead to financial turmoil as it did the last time,” he said.

Simply put, the Fed’s balance sheet has assets on one side and liabilities on the other — and they must balance. When it buys assets, it creates bank reserves out of thin air, and it has been paying banks to keep those reserves deposited at the Fed. The reserves are available for emergencies as well as for routine operations. In periods of quantitative tightening, like this one, both the assets and the reserves shrink — and that has periodically caused major dislocations.

So far in this round, the Fed has been managing the process deftly. Scarcely anyone has noticed it drain more than a trillion dollars from the financial system. Yet by concentrating so much financial firepower in its own hands, the Fed may be assuring that the potential for major flare-ups, and even worse, will always loom.

#### Links exist to discretion too.

Norbert Michael 22, vice president and director of the Cato Institute’s Center for Monetary and Financial Alternatives, 10/26/2022, "Monetary Policy That Holds the Fed Accountable," https://www.cato.org/publications/section-5-monetary-policy-holds-fed-accountable

Congress created the Federal Reserve in 1913 to put an end to financial crises and severe recessions. But some of the nation’s worst economic crises have occurred since then, and recessions haven’t become shorter or less frequent. The U.S. economy suffered its most severe bout of deflation during the early 1930s and endured its highest peacetime inflation rates in the late 1970s—and is again enduring high peacetime inflation rates today. Despite the Fed’s failures, Congress has tended to further expand its discretionary powers.

So long as Congress is inclined to delegate responsibility for conducting monetary policy and limiting financial instability to the Fed, there is much it can and should do to improve the Fed’s performance. For instance, Congress can narrow and clarify the Fed’s legislative mandate and require that the Fed implement rules‐​based monetary policy. It can also level the current privileged position that the U.S. dollar holds in competition with other potential means of payment so that the Fed faces competitive pressure to preserve, and perhaps enhance, the dollar’s attractiveness as both a domestic and an international exchange medium.

The Problem

Good monetary policy helps America’s workers, retirees, and savers by ensuring that the economy does not stall because of an insufficient supply of money. It also helps Americans by safeguarding against excessive money creation that can increase inflation and promote unsustainable booms. To manage the money supply responsibly, the Fed should strive to maintain a stable flow of total spending—enough to keep general business earnings from either racing ahead of, or falling short of, the costs of producing current output. To conduct monetary policy responsibly, the Fed also should supply money in a manner that avoids favoring specific firms, industries, or sectors of the economy over others. If it were to conduct policy in this manner, the Fed would place only the smallest possible footprint on economic activity, avoiding as much as possible any tendency to influence the profits and losses of specific enterprises, favor government over private investment, create moral hazard problems, or transfer financial risks to taxpayers. Finally, the Fed should conduct monetary policy in a transparent manner, with real accountability to citizens through their elected representatives. Throughout much of its history, the Fed has failed to meet these requirements, and Congress has failed by not compelling it to meet them.

The so‐​called dual mandate calls for the Fed to achieve both “price stability” and “maximum employment.” Because the Fed is also responsible for achieving financial stability, it really operates under a triple mandate.1 All three mandates are ill‐​defined, and depending on how they are defined, they may also conflict with one another. Consequently, the Fed enjoys enormous discretion in interpreting and performing its duties, and Congress often lacks any means for holding the Fed accountable for fulfilling its responsibilities. Furthermore, because both the behavior of the price level and the extent of employment depend not only on the Fed’s decisions but on factors beyond its control, it is unreasonable to blame the Fed for every instance in which these factors vary from some ideal. At the very least, therefore, Congress could improve monetary policy by holding the Fed responsible for the behavior of variables over which it exercises substantial control.

More narrowly, the Fed’s price stability mandate is problematic because changes in the price level can also reflect changes in the scarcity of real goods and services. In other words, changes in the price level or in unemployment may not be evidence of poor Fed performance. In an economy experiencing rapid productivity growth, for instance, a low and perhaps even negative rate of inflation reflects rapidly falling costs and makes it easier for everyone to reap the benefits of those falling costs. Adverse supply shocks, on the other hand—like those caused by a war or the COVID-19 pandemic and related government shutdowns—cause prices to rise even when the demand for goods is not growing rapidly. A central bank that tightens monetary policy to check such supply‐​side based inflation only adds insult to injury because it provides even less money to purchase even scarcer items.

Separately, the excessive amount of discretion that Congress has bestowed on the Fed has allowed it to alter its operating framework in a manner that has seen its balance sheet grow to roughly 10 times its pre‐​2008 size (see Figure 5). The Fed’s new operating framework, known as a “floor” system—has provided banks with a new risk‐​free investment choice, at a relatively high rate of return, thus causing banks to hold more funds as reserves. As interest rates rise, the Fed will have to pay larger and larger interest payments to banks to control inflation, an arrangement that increases the Fed’s political risk and threatens its operational independence.

The new floor system also divorces the Fed’s monetary policy stance from the size of the Fed’s balance sheet by allowing the Fed to purchase as many assets as it would like, all while paying firms to hold on to the excess cash that these purchases create. This framework can all too easily allow the Fed to be a pawn of the Treasury Department. Put differently, the Fed’s status quo operating system increases the risk that the Fed’s quantitative easing (QE) powers will be abused for non‐​macroeconomic purposes, such as the funding of backdoor government spending.

#### Allowing the fed to run rampant is the problem.

Matt Stoller 23. research director at the American Economic Liberties Project. "Federal Reserve Independence Is the Problem." American Prospect. 3-22-2023. https://prospect.org/economy/2023-04-06-federal-reserve-independence-problem/

So why does the Biden administration stay silent about how high finance works in America? There’s no law that says they must, and there’s also no evidence that keeping politicians silent about monetary policy is good for the economy. Indeed, from 1935 to 1950, when the president directly ran monetary policy, inequality collapsed, the economy boomed, and inflation was kept low despite economy-wide mobilization to fight World War II. But since the 1980s, we’ve had a weird 40-year tradition of what is known as “Fed independence,” whereby politicians are supposed to leave the Fed and its destructive economists alone. As far as I can tell, there is no reason for this choice, except that Wall Street likes it when high finance is considered apolitical.

A hands-off policy toward any entity that makes core political-economy decisions is problematic. But we’ve seen how this deference is especially damaging in real time, primarily because the Fed has done such a bad job recently. Take the collapse of Silicon Valley Bank. SVB was regulated by the San Francisco Federal Reserve Bank, and examiners at the SF Fed didn’t act on the bank’s serious problems until the fall of the bank was imminent. This is despite public reporting in The Wall Street Journal about the hole in the bank’s balance sheet months earlier. The SF Fed examiners reportedly wrote several stern letters to SVB executives about the risks they were taking, and the executives threw them in the trash, and everyone went on with their lives until the bank collapsed.

The incompetence of the Fed examiners is quite obvious. The incompetence of the FOMC, which gave the orders to have its banks march to the tune of higher interest rates, and never bothered to care about whether the banks could handle it, is worse.

The closer you get to the facts, the more incompetent the Fed looks. Supervisors should never have allowed a bank funded with between 90 and 100 percent uninsured “hot money” deposits by venture capitalists to bet on unhedged long-term bonds. And you didn’t need to be a genius to get this fact. Everyone in Silicon Valley knew that SVB was insolvent; it was pretty much an open secret. Fed supervisors knew it, and so did the FOMC. They took no action.

And though the Fed might feel independent of politics, politics is not independent of the Fed.

In 2018, the Fed, along with its banking allies, wrote and lobbied for a bill, S. 2155, that didn’t quite take away its regulatory authority so much as give it the political cover to relax regulatory requirements over large regional banks. SVB lobbied for this legislation, but the prime actor here was the Fed itself. The general counsel of the Fed, Mark Van Der Weide, helped author S. 2155, and Fed Chair Jay Powell testified in favor of it. Janet Yellen, the former Fed chair and current Treasury secretary, supported it as well. Just a few months after Donald Trump signed S. 2155 into law, SVB announced a $500 million stock buyback program. And a few months after that, SVB began taking in huge deposits and making the bets that would lead to its undoing.

In 2019, the Fed wrote aggressive rules rolling back obligations on large regional banks. At the time, opponents of the legislation that triggered the rewrite predicted that removing requirements would lead to a blowup, but Fed officials (with one exception) nonetheless condescended to everyone who warned of too much risk in the system. Nellie Liang, who ran the Federal Reserve’s financial stability division for six years, responded to the bill by saying, “meh,” and from her temporary perch at the Brookings Institution, “It’s fine … I’m not upset about it.”

The Fed has announced it will investigate itself, which is, frankly, a very Fed thing to do. We will probably find out a few more relevant facts, as the Fed discovers that though the Fed could have done a bit better, the Fed’s stringent internal reform program that the Fed oversees will fix the problem. Don’t worry, the Fed is on it, even if the Fed is the problem. But because of deference from the White House and the Democrats in the name of Fed independence, no one will propose any real fixes. The Fed will promise to regulate banks a bit more, but of course, there’s no reason to assume the Fed will even realize what went wrong. The same liberals who scoff at self-regulation when it comes to big corporations will be just fine with self-regulation at the Fed.

But it’s not just liberals who defer in such an ugly manner to a small set of central bankers. There is a robust discussion of administrative law inside the conservative Federalist Society, and on the Supreme Court. The court created a framework called the “major questions doctrine” to rein in the administrative state, ostensibly out of fear that government agencies will inevitably wield power outside their legal remit, unless the courts step in. It’s hard to imagine more of an extreme misuse of government authority than the Federal Reserve’s choice over a weekend to restructure the banking system, using the vague term “systemic risk exception” to justify an end run around congressional prohibitions on bailouts. Yet the conservative movement, which screams in rage at the mildest environmental rule, is utterly silent when it comes to economy-wide unauthorized Fed actions.

Indeed, the Fed routinely violates its legal authority. The only challenge to the Fed in the courts was when AIG’s former CEO Hank Greenberg got a judge to rule that the Fed acted illegally to bail out his company and demand an equity stake, but the judge still couldn’t bring himself to award damages or constrain the Fed in any way. I have yet to see any outcry from the conservative legal movement, who are in many ways the twins of legal liberals who believe in Federal Reserve independence.

There are many changes we could and should make to stop the Fed from acting as lawlessly and recklessly as it does. Congress could pass legislation that has been introduced to strip the Fed of regulatory authority and make the central bank susceptible to FOIA. It could get rid of the way that private bankers elect their own regulators. (Yes, this is a thing.) It could demand an audit of the FOMC to see why the generals of monetary policy weren’t paying attention to whether the orders they were giving (higher rates to quash inflation!) could even be followed by the army (higher rates will destroy the banks!). It could, and probably should, have the president or Congress directly set monetary policy, as FDR did when he led the country to defeat the Nazis.

I could write thousands of words besmirching Fed decisions and noting there are serious institutional-design problems at the organization that has so much power over our economy. Many Fed critics do so, and they often seem crazy. But it is actually true that a weird, secretive, and unaccountable institution runs our society. It’s time for the White House, and both parties, to stop acting like they are elected to be ornaments. The Fed isn’t independent. It’s just out of control. And until we start talking about it as a malevolent political agent, we won’t be able to address the rotten policy discourse at the center of our economy.

#### So is a hedge fund DA

Farshid Abdi 24. Texas A&M University. Yong Chen, Department of Finance, Texas A&M University. Botao Wu, CUHK Business School, The Chinese University of Hong Kong. “Monetary Policy and Hedge Funds' Reaching for Beta.” October 31, 2024. SSRN Working Paper. https://ssrn.com/abstract=5115891.

We uncover that hedge funds adjust their exposure to the equity market in response to monetary policy. Hedge funds decrease (increase) their exposure to the equity market following expansionary (contractionary) monetary policy in the previous month. Hedge funds with stronger response to monetary policy have higher gross and risk-adjusted returns. Hedge funds with higher measures of skills react to monetary policy more strongly. We explain these findings using the Fed Information Effect channel of government communication and rule out some other explanations: Hedge funds utilize the information in the FOMC announcements to update their predictions about the future of the market.

### AT: UQ “Trump is trying to fire Powell”

#### I don’t think this is a slayer to this DA. The idea of “independence” in and of itself is a red herring.

Peter Conti-Brown 4-18-25. financial historian at the University of Pennsylvania's Wharton School. “Is Trump threatening the Fed's independence with attacks on Fed Chair Jerome Powell?” https://www.npr.org/2025/04/18/nx-s1-5368036/is-trump-threatening-the-feds-independence-with-attacks-on-fed-chair-jerome-powell

FADEL: Trump allies argue that the president should have more authority over independent agencies. They exist under the executive branch. What are your thoughts on that argument?

CONTI-BROWN: I think the idea of independence is a bit of a red herring. The Federal Reserve is not independent. It's insulated. The president has enormous power to influence the direction of the Fed, and that comes when Jay Powell's term ends, one year from now, and he gets to select the next Fed chair. But it shouldn't come before.

#### Powell standing UP to the president and Bessent rejecting is UQ for the NEG!

Colby Smith 4-19. covers the Federal Reserve and the U.S. economy for The Times. Jonathan Swan is a White House reporter for The Times, covering the administration of Donald J. Trump. Maggie Haberman is a White House correspondent for The Times, reporting on President Trump. “Risk of Financial Panic Tempers Trump on Firing Powell”. https://www.nytimes.com/2025/04/18/business/trump-powell-fed-markets.html

Last week, Mr. Bessent, who described the Fed’s independence as a “jewel box that’s got to be preserved,” said the White House would begin interviewing candidates this fall to replace Mr. Powell. Mr. Trump had nominated Mr. Powell in his first presidential term, and President Joseph R. Biden Jr. renominated him. Mr. Powell’s term as chair officially ends May 2026, although his term as a governor runs through 2028, suggesting that he could stay on the Fed’s Board of Governors if he wanted to. Mr. Trump will first be able to fill a vacancy in January, when the term expires for Adriana Kugler, a sitting governor.

The president has already appointed Michelle Bowman, a current governor, to be the next vice chair for supervision in charge of regulating Wall Street. That position became available in February after Michael Barr, who stayed on as a governor, stepped down from the position to avoid a protracted legal battle with Mr. Trump that he worried would hurt the central bank.

Kevin Warsh, a former Fed governor with close ties to Mr. Bessent, is seen as a leading contender to serve as the next chair. During the transition, Mr. Trump was interested in the idea of making Mr. Warsh, whom he had considered for Fed chair in his first term, his Treasury secretary. The president also considered installing him as Fed chair to replace Mr. Powell before the end of his term, according to people briefed on his thinking. At the time, Mr. Trump inquired about his legal rights to fire Mr. Powell, and what the broader effects of such a move would be.

Mr. Powell has been emphatic that the law does not permit a president to remove the chair of the central bank nor meddle directly with the institution. The Federal Reserve Act says members of the Fed’s seven-strong Board of Governors can be removed only “for cause,” which is interpreted as serious misconduct and other violations.

When asked by reporters on Friday about the possibility of firing Mr. Powell, Kevin Hassett, the director of the National Economic Council, said, “The president and his team will continue to study that matter.” Later in the day, Mr. Trump again pushed the Fed chair to lower rates but didn’t discuss his future.

The Fed’s independence from the White House has historically been seen as crucial to the stability of the economy and the global financial system. Congress granted the central bank this status to ensure it could make policy decisions related to the economy and the banking system free from political interference.

The fear is that Mr. Trump will seek to erode that protection. Already, he has issued an executive order that seeks to exert authority over how the Fed oversees Wall Street. Monetary policy decisions were exempted, but the expansive nature of the order has raised questions about how long that separation will last.

### Dollar Bad DA

#### If the aff wins “independence totally shattered”, which I don’t think will happen. The effect of the current lack of independence would be lack of confidence in the US economy which would cause dollar flight, the NEG could argue that dollar flight is good and that the AFF’s restoring of the dollar is bad.

Paula Arias 24. Paula Arias is a research analyst in the IMF’s Strategy, Policy, and Review Department (SPR) Front Office. Before joining the IMF, she was a Senior Macroeconomic Analyst at the Inter-American Development Bank (IDB), where she focused on debt and external sustainability assessments for borrowing countries, and policy research on debt for Latin America and the Caribbean. She has also worked as an economic consultant for the private sector. She holds an MSc in Economics from the London School of Economics and Political Science (LSE).International Monetary Fund, Robin Koepke "Fed Rate Cuts May Help Revive Bond Flows to Emerging, Developing Economies". IMF. 9-4-2024. https://www.imf.org/en/Blogs/Articles/2024/09/05/fed-rate-cuts-may-help-revive-bond-flows-to-emerging-developing-economies

Capital flows to emerging market and developing economies went through several boom-bust cycles in recent decades, often partly driven by external developments such as monetary policy decisions in major advanced economies. During the recent global monetary tightening, inflows to many emerging market and developing countries proved relatively resilient, benefitting from robust policy frameworks and healthy international reserves. However, some of the most vulnerable countries were disproportionately affected by higher external borrowing costs, as illustrated by a sharp slowdown in Eurobond issuance.

Eurobonds are international debt instruments issued by countries in a currency different from their own, typically the US dollar or the euro. Eurobonds are primarily used by higher risk emerging market and developing countries because they avoid the limitations of their often less-developed domestic capital markets, allowing borrowers to access foreign capital and diversify their funding sources. But unlike local currency bonds, Eurobonds involve exchange rate risk for the borrower, and their interest rates are particularly sensitive to monetary policy settings for the currency of issuance.

The Chart of the Week highlights the sharp slowdown of Eurobond net issuance by emerging market and developing economies, which fell to an annual $40 billion in 2022-23, down 70 percent relative to the prior two years. During this period, 26 of 75 countries saw net Eurobond outflows, totaling $58 billion (including countries like Bolivia and Mongolia). These outflows resulted from maturing Eurobonds exceeding new issuance, rather than outright sales by global investors.

The reduction in Eurobond flows reflected a combination of tightening external financial conditions and pre-existing vulnerabilities in affected economies, such as fiscal and external sustainability challenges. Some countries with more robust fundamentals and policy frameworks were able to substitute foreign currency issuance with local currency debt, funded in part by domestic investors. Many countries responded by cutting investment to reduce imports, weighing on economic growth. Many countries also drew on their reserve buffers, which could reduce their ability to withstand future shocks.

#### Strong dollar is really bad for EMs.

Pablo Druck et al. 15. Nicolas E. Magud, and Rodrigo Mariscal, IMF Economists, “Collateral Damage: Dollar Strength and Emerging Markets’ Growth”

We document, using data for 1970–2014, that during periods of U.S. dollar appreciation, real GDP growth in emerging markets slows down. Symmetrically, U.S. dollar depreciations are associated with growth in emerging markets. We argue that the role of the multilateral value of the dollar can be directly tied to these different growth patterns. The main transmission channel is through an income effect owing to the impact of the U.S. dollar on global commodity prices.2 As the dollar appreciates, dollar commodity prices tend to fall. In turn, weaker commodity prices depress domestic demand via lower real (dollar) income. Thus, real GDP in emerging markets decelerates. Moreover, we show that these effects hold despite any potential expenditure-switching effect resulting from the relative currency depreciation of emerging market economies when the U.S. dollar appreciates. We also show that despite controlling for the effects of the U.S. real exchange rate appreciation and real GDP growth, an increase in the U.S. interest rate further reduces growth in emerging markets. All these effects are stronger in countries with more rigid exchange rate regimes. Finally, although net commodity exporters are affected the most, countries that rely on importing capital or inputs for domestic production will also be affected—though marginally less. Therefore, at the time of writing, emerging markets’ growth is likely to remain subdued reflecting, in part, the expected persistence of the strong dollar and the anticipated increased in the U.S. interest rates.

### Dollar Good DA

#### The aff could claim to weaken the dollar by switching to a different standard, that’s easily impact turn-able

Joseph Brusuelas 24. Chief Economist and Principal, RSM US LLP. “Why a strong dollar is in America’s best interests”. https://realeconomy.rsmus.com/why-a-strong-dollar-is-in-americas-best-interests/

A strong dollar is good for the American economy. Not only does a strong dollar mean that there is a healthy demand for American-made goods and services, but, perhaps more important, it’s also a show of confidence in the U.S. government and financial institutions.

Like any asset, the dollar’s value is based on its demand. When demand increases, whether for trade purposes or financial transactions, the value increases.

Now, with an economy outperforming its peers, the United States has become a magnet for global investors looking for better returns, a dynamic that will continue even as interest rates ease later this year.

The United States has benefited from a profound shift in global capital flows, mopping up more than 30% of these flows. Before the pandemic, that figure was 18%.

This shift has boosted the dollar, which we think will continue as the global economy adjusts to higher inflation and higher interest rates.

Other factors driving the dollar higher have been trade and spending: the nearshoring of global supply chains; the adoption of industrial policies that nurture nascent technologies; and a rise in American defense spending.

Although policies like these can lead to higher prices for households, they also lead to a stronger dollar, which can dampen those higher prices as imported goods become cheaper.

In the end, the strong dollar is a benefit for the America’s real economy. As Robert Rubin, the U.S. Treasury secretary in the 1990s, famously said, “A strong dollar is in our national interest.” We think we are in a similar time.

### Fiscal Policy CP

#### The CP is clearly competitive, but there is a good debate on both sides on the impact of particular variables: equities, bonds, cash, property and whether fiscal policy can effect those inderctly in the same way.

PIMCO No Date “Learning how Monetary and Fiscal Policies Affect Markets”. https://www.pimco.com/au/en/resources/education/learning-how-monetary-and-fiscal-policies-affect-markets

What are monetary policy and fiscal policy?

Monetary policy refers to the management of interest rates and employment, typically by a country’s central bank. Fiscal policy refers to the levers that a government can pull to stimulate or slow down an economy. These levers include government spending and taxation.

The core objective of both monetary policy and fiscal policy is to build a productive and robust economy over the long term. Ideally, this means an economy that enjoys sustainable growth, low unemployment, and price stability.

A country's central bank seeks to achieve these objectives using a number of monetary policy tools, which regulate the supply of money. For example, in the United States, the Federal Reserve sets monetary policy goals, which includes maintaining inflation around a targeted band of 2%.

How does monetary policy affect markets?

Monetary policy is often described as either expansionary or contractionary.

Expansionary policy is used when the economy is weak and inflation is low. To increase the supply of money in circulation and encourage businesses and consumers to spend more, a central bank may lower interest rates with a goal of supporting growth in the economy.

Conversely, when the economy is overheated, as characterized by unsustainably high growth and high inflation, a central bank will deploy contractionary policy. This may involve increasing interest rates to discourage spending by businesses and consumers.

When an economy is performing well, a central bank would most likely keep interest rates on hold at their current levels.

Because of all the other factors that influence market performance, such as geopolitical events or where the economy is in the business cycle, it’s not possible to predict with certainty how financial markets will respond to changes in monetary policy. However, the table below offers some generalizations about how different segments of the investment markets have typically responded in the past.

Investments and monetary policy

|  |  |
| --- | --- |
| Equities (short-term response) | The short-term performance of equities in response to a rate change largely depends on whether the change was expected. If a change in interest rates was expected – regardless of whether interest rates are increased or decreased – the market should remain relatively flat. An unexpected change may generate stepped-up volatility and a short-term decline. |
| Equities (longer-term response) | Over the longer run, equity markets typically rally as interest rates fall because the market sees lower interest rates as a catalyst for growth. Conversely, when interest rates are rising, equity markets may cool. This is because higher rates may lead to higher debt expenses or reduced revenue for a company if demand for its products falls, which could mean lower profits and less growth. |
| Bonds | In a falling interest rate environment, bond prices rise, owing to the inverse relationship between bonds and interest rates. Low interest rates usually mean it’s easier and more attractive for companies to borrow money, and many will issue bonds as a way of doing so. This creates demand for higher yielding bonds, which in turn pushes up prices. The same is true in reverse, with higher interest rates pushing bond prices down. |
| Cash | Low interest rates reduce the interest paid to cash investors, which causes the return from cash equivalents and cash portfolios to decline. When interest rates are perceived as likely to go up, investors – depending on their risk tolerance and the shape of the yield curve – may see cash investments as more attractive. |
| Property | Of course, demographics and relative supply and demand must always be factored into real estate markets. But low interest rates often drive up the prices of real assets, such as property, as more people look to borrow money, which increases demand. Conversely, higher interest rates mean higher borrowing costs, which may mean fewer people will borrow to invest in property. |

How does fiscal policy impact markets?

The two key levers of fiscal policy are government spending and taxes. Changes in fiscal policy sometimes have a less direct impact on investment markets than is typically seen with shifts in monetary policy. Policy debates may sometimes affect market prices in advance of policy implementation, but the full ripple effects of fiscal policy decisions may not affect markets until much later.

The table below offers some generalizations about how equity markets have typically responded to changes in fiscal policy.

Fiscal policy and the equity markets

|  |  |
| --- | --- |
| Tax changes | Generally speaking, an increase in taxes tends to dampen economic growth by reducing consumer spending and company profits. In turn, this would lead to a fall in the equity market.  If taxes are lowered, consumers have more money to spend and companies have higher profits, supporting an increase in the equity market. |
| Spending | Different industries will respond differently, of course, but equity markets generally respond positively to increases in government spending in anticipation that economic activity will pick up. The reverse is true if a government cuts spending. |

Bond markets, generally, tend to be more attuned to monetary than fiscal policy, although some spending policies – a large infrastructure project, for example, may be financed by a large bond issue, and thus have a noteworthy impact on local or regional markets. Fiscal policy may have an indirect impact: higher growth expectations tend to lead to higher bond yields, and vice versa.

#### There’s ev to distinguish the two AND make arguments about which is better for goal of monetary policy itself.

Celso J. Costa 22. State University of Ponta Grossa, Brazil. Alejandro C. Garcia-Cintado, State University of Ponta Grossa, Brazil; Pablo de Olavide University, Spain. Karlo Marques Junior, State University of Ponta Grossa, Brazil. “A Modern Approach to Monetary and Fiscal Policy.” International Review of Economics Education, Volume 39, March 2022, 100232.

This paper puts forth a systematic approach to teaching fiscal-monetary interactions that follows the view of one of the fathers of the Fiscal Theory of the Price Level (FTPL), Eric Leeper. The main advantage of this setup is its simplicity, which makes it particularly suited for undergraduates and non-specialists. It relies on a two-graph device to show that fiscal and monetary policies always get determined simultaneously and that their effects on the economy always depend on one another’s behavior. It is straightforward to see that in a conventional monetarist world (Regime M), the central bank succeeds in controling inflation so long as the fiscal authority does its job of ensuring that public debt does not grow too much. By contrast, in an alternative fiscal-dominant regime (Regime F), fiscal policy determines the price level (and inflation) in the short run, and the optimal monetary stance is holding the policy rate constant, since if the central bank otherwise tries to fight back fiscally determined inflation, it will worsen fiscal sustainability and increase future inflation.

### International Actors Role

#### The international actor question is important too

Quickonomics No Date “Monetary Reform”. https://quickonomics.com/terms/monetary-reform/

What role do international organizations play in monetary reform?

International organizations like the International Monetary Fund (IMF) and the World Bank play significant roles in advising countries on monetary reform, providing financial support for reform initiatives, and facilitating the exchange of best practices. These organizations often assist countries facing balance of payments crises or seeking to improve their monetary systems by offering technical assistance, policy advice, and sometimes conditional financial aid to implement reforms.

#### The IMF CP would fine and generic NEG ground---good recent ev exists about the importance of the IMF re-asserting itself in new areas to counter the rise of the AIIB and BRICs.

S Ezeanyika 24. Department of Political Science Faculty of Social Sciences Imo State University, Owerri, Imo State, Nigeria I Opurum Department of Political Science Alvan Ikoku Federal University of Education Owerri, Imo State, Nigeria J U Adigwe Development Studies Research Group (DESREG) Imo State University, Owerri, Imo State, Nigeria2024. Survival of International Institutions in a Dynamic Global System: A Case Study of the International Monetary Fund. Administratio Publica, 32(1), pp.234-250.

The IMF has been facing many challenges over the years, and it is on a survival path. Nevertheless, it has managed to reinvent itself consistently by finding new roles to play and filling gaps to remain relevant. According to the rational-choice theory, the IMF has been strategic in performing essential functions because bureaucracies are capable of taking themselves to where their founders did not intend to go, to survive (Jonsson & Tallberg 2001). Keohane’s contractualism theory explains the IMF’s survival and persistence despite members’ dissatisfaction, thanks to high replacement costs, valuable institutional assets, and secretariat officials. Creating a new institution outweighs the cost of maintaining the existing IMF (Keohane 1984; Jonsson & Tallberg 2001; Gray 2018; Dijkstra & Debre 2022).

The classic rationalist explains the IMF’s survival through demand and supply. Since the IMF’s supply is perceived to be failing and its demand is in decline, its survival is at risk (Abbot & Snidal 1998; Dijkstra & Debre 2022). The challenge to the IMF’s survival is described by the HST, which sees China’s counter-hegemonic institutionalism strategy as a way of reducing the US’s hegemonic institutional influence. China participates actively in the IMF and facilitates the creation of alternative competitive institutions like the BRICS and the AIIB to challenge the existing hegemonic institutional order that has the IMF as a hegemonic financial institution (Ikenberry & Lim 2017; Rae 2017).

The IMF faces significant challenges in the form of rising competitive institutions such as AIIB and BRICS, which threaten its survival in an increasingly evolving international world order. While the AIIB and BRICS may not have global reach yet, they have already taken away much influence from the IMF. If countries continue to subscribe to these alternative institutions, the IMF may become obsolete. The IMF has a long history of adapting to challenges in the global economy. As a bureaucracy of over 3000 staff, it has constantly reinvented itself to embrace and weather challenges better than most other international institutions.

#### It would work as a DA too since the Aff may displace the role of the IMF as a new shaper of international monetary policy.

Kanad Bagchi 24. "Depoliticizing money: how the International Monetary Fund transformed central banking." Journal of International Economic Law 27, no. 1 (2024): 166-185.

Perhaps the starting point for reorienting central banking needs to begin by revisiting the Fund’s legal mandate under its original Articles of Agreement (AOA), given that it plays a decisive role in shaping domestic monetary policy frameworks. The consensus at that time was for the IMF to remain clear of ‘domestic social and political policies of members’, including control over prices.139 Keynes, one of the principal architects of the BWS, was himself critical of any international organization that would have the authority to interfere with internal economic policies—‘There should be the least possible interference with internal national policies, and the plan should not wander from the international terrain’.140 Thus, promoting ‘price stability’, a domestic objective, was not part of the Fund’s legal mandate. One finds no mention of price stability in either the purposes of the Fund (Article 1), or as part of the obligations of its members (Article 8). Instead, the Fund was specifically granted authority to contribute towards the ‘promotion and maintenance of high levels of employment and…the development of the productive resources’.141

Even when the original BWS collapsed in the 1970s and revised Article IV142 granted the Fund with the mandate for ‘price stability’, it came with significant riders. First, Fund surveillance would extend to ensuring member states pursuing policies that promote ‘reasonable price stability’. Moreover, the obligation to promote price stability ought not to transpire in isolation, but simultaneously with fostering ‘orderly economic growth’. Important discussions arose during the drafting and negotiations of this clause. Worry, especially from developing countries, stemmed from the potential if not actual IMF practice of prioritizing price stability over economic growth. To dampen such fears, Article IV stated that both ‘orderly economic growth’ and ‘reasonable price stability’ had to be achieved ‘with due regard to its [member states] circumstances’. The Fund explained this clause in its 1976 Report on the Proposed Second Amendment. In it, the Fund stated categorically that the clause was a way to accommodate ‘differing economic needs and circumstances of members and…the priorities they choose in the pursuit of their objectives’.143

This further explains the particularities of the language used in Article IV. Obligation to foster reasonable price stability was only a best-efforts clause. Member states had to ‘endeavor to direct’ their domestic economic and financial policy towards price stability. This led Joseph Gold, IMF’s general council and later consultant, to characterize the same as a ‘soft’ obligation.144 The Fund understood the revised Article IV as a compromise such that ‘members should not have to give up a significant degree of sovereignty concerning policies that, while they may have an international impact, are of a domestic nature’.145

This brings me briefly to my second point. ‘Soft’ instruments of monetary governance, especially the Fund’s growing infrastructure of surveillance and how that shapes monetary policy frameworks requires renewed attention. As we encountered in Section ‘IMF and the global institutionalization of price stability and central bank independence’, a big chunk of the Fund’s authority relies on non-binding technical advice and standard setting. In this, guidance notes, policy papers, Article IV Surveillance Reports are instruments through which legal authority is exercised. These instruments propagate cognitive frameworks and scientific knowledge, disseminate information, and form crucial sources of market and peer review, making non-compliance undesirable. To put it differently, internal legal rules, procedural adaptation, and soft frameworks of monetary coordination where the politics of money meets the law create various contested possibilities.

CONCLUSION

In this paper, I have argued for acknowledging and recognizing central banks as social institutions, such that money cannot be isolated from broader societal and political goals. This is precisely how central banking was historically perceived.146 Yet, with the emergence of marketbased finance, central banks became guardians of price stability and synonymous with a decontextualized and technical approach to monetary policy making. Indeed, not all economists and central bankers perceived their role as neutral or apolitical, and contestations around central banking mandates continued to transpire. Yet, the overwhelming force of mainstream monetarism and the role of powerful institutions such as the Federal Reserve and IMF put those contestations to the background.

However, the contemporary crisis of capitalism has uncovered central banks’ highly political role and the intimate connection between capital interests and monetary policy. Thus, calls for repoliticizing and reorienting central banks towards explicit public purposes have captured the popular imagination. This raises the thorny question of what central banks’ proper role should be. My argument is not that price stability and CBI are not important objectives and that central banks should stop pursuing them. On the contrary, these concepts prevent governments and central banks from subverting the monetary system. Yet, that cannot mean central banks and monetary policy remain oblivious to other social goals such as inequality and poverty. As the GFC has shown, central banks possess tremendous power and intervene in various ways outside their traditional price stability function.

# Critiques

## NEG

#### This would be the best K topic in the history of topics.

#### 1. Obviously, the Capitalism K is excellent and has unique links!

Martin Sokol 22. Department of Geography, Trinity College Dublin, Ireland EPA: Economy and Space 2023, Vol. 55(5) 1305–1324 © The Author(s) 2022 “Financialisation, central banks and ‘new’ state capitalism: The case of the US Federal Reserve, the European Central Bank and the Bank of England”

Monetary policies are not usually considered as part of the repertoire of ‘state capitalism’. However, unconventional monetary operations performed by central banks in recent years make this exclusion increasingly problematic. This paper thus explores whether recent central bank interventions should be considered manifestations of ‘new’ state capitalism. Analysis focuses on the actions of three central banks from the advanced capitalist core in the West – the US Federal Reserve, the European Central Bank and the Bank of England. By mobilising the ‘financial chains’ perspective, this paper highlights the fact that, under financialisation, contemporary central banks have assumed a pivotal role in shaping Western capitalism and its uneven geographies. Through these recent unconventional interventions, central banks have in effect become ‘creators’ or ‘generators’ of (financial) capital. As such, their role in shaping uneven economic geographies across space (well beyond their official territorial boundaries) has expanded. Spatial ramifications of central banks’ capital-generating operations could thus fit easily within the framework of ‘uneven and combined state capitalism’. The possibility of considering the unconventional operations of central banks as state capitalist could also go hand in hand with a modified definition of state capitalism. Indeed, the rubric of state capitalism could potentially be enlarged to include configurations of capitalism where the state plays a particularly strong role not only as promoter, supervisor and owner of capital but also as a ‘generator’ of capital. This capital-generating role appears to be essential for the survival of contemporary capitalism.

#### 2. Money and slavery are intrinsically linked---the history of money cannot be de-linked from its origins in the slave trade and antiblackness.

Sara-Maria Sorentino 23. The University of Alabama, Money, slavery, myth. Environment and Planning D, 42(3), 338-357.

The article engages relays between the origins of money and origins of slavery, using Marxist reconstructions of “substance” in order to approach the negative zone of anti-blackness. In one move, I read money and slavery as two sides of the same coin: expressions of anxieties concerning equivalences that cannot be in reality (money) and inequalities that persist in democratic life (slavery). In another, I continue to argue that slavery exerts an important role in the story of capitalism, not only as a past index for a “mode of production,” but more importantly in encrypting a certain monetary form of domination that translates the realization of commensurability. While there have been connections drawn between the origin of freedom in slavery, the origin of subjectivity in the money-form, and the origin of money in slavery, the vanishing mediator in this triad is blackness, a negative substance whose flexible uses and appearances are driven towards its own actualized disappearance in scenes of racial violence. If money masks the impossibility of commensurability, and labor and race ground the conditions for commensurability exemplified in freedom, slavery marks the space of incommensurability itself. In the line from Aristotle to Marx, the slave can serve as the first non-substantialist origin story for exchange.

#### 3. Imperialism K is great!

William Duncan Martin 22. Departments of Economics and Political Science Union College. “U. S. Monetary Policy as a Hegemonic Tool in Emerging Markets”. https://digitalworks.union.edu/cgi/viewcontent.cgi?article=3655&context=theses

Like most countries, Argentina has a lexicon of colloquialisms that are not common in the remaining Spanish-speaking world. Arguably the most emblematic phrase is el Gil. In its harshest form, it means the idiot, whereas in its kindest regard it is the naive fool. Regardless of who or how it's expressed, it's something no one in contemporary Argentine culture wants to be, let alone a title for any sovereign country in today's globalized economy that attempts to adjust its own conditions to the international market. Similarly, verbalizing el Gil, Reich (2015, 2018), and Wendy Brown (2015), argue that, when faced with volatile markets, technocrats in Washington solely push their agenda during the legislative process, with the intent to protect their seat in office and the health of the U.S. economy. In that, Stiglitz (2010) highlights that during domestic recessionary periods, the U.S. drives amplification in the global economy. During this time, Washington officials often exercise countercyclical policy that yields the most considerable returns on investment. The two further extend the claim that U.S. policymakers and their respective bureaucratic institutions fail to properly remedy global market conditions, as they myopically address the domestic needs of the U.S. economy without considering its potential spillover. My thesis interrogates the U.S. political-military hegemony, in the context of the U.S. Federal Reserve and how its negligible nearsighted policy moves limit the economic austerity of countries considered emerging market economies. Correspondingly, in the context of U.S. hegemony my thesis adds further to the claim that a globalized free-market economy is a pejorative term due to the capitalistic tendencies of Washington policymakers that curb autonomous legislation in international finance.

1.1 U.S. Financial Hegemony

Over the past few decades, through increased globalization of the global economy, emerging market economies have become more dependent on the conditions of the U.S. financial system. Washington's repressive influence is established following Bretton Woods in 1944 and is catalyzed further under the current increase in globalized trade and the industrialization of nations. For economists and professionals connected to global capital markets, the U.S. is perhaps the most well-known centerpiece that establishes international benchmarks for guiding macroeconomic conditions.

#### 4. Debates can center around the issue of monetary power in shaping the colonization of Palestine.

Serena Merrino 21. School of Finance and Management, SOAS University of London, “Currency and settler colonialism: the Palestinian case”. REVIEW OF INTERNATIONAL POLITICAL ECONOMY 2021, VOL. 28, NO. 6, 1729–1750

This paper aims to shed new light on the international dimension of monetary power by exploring currency policy as a systematic tool of settler colonialism. The latter is defined as a mode of domination whereby an exogenous hegemonic power aims to displace and dispossess the native society in order to establish a new permanent homeland. These arguments are developed by exploring the case of Israeli currency circulation in the occupied Palestinian territories. To this purpose, the heterodox critique of the classical theory of money is employed to provide a fresh geopolitical reading of the origins, evolution, implications, and continued viability of a so-called ‘settler currency.’ It is found that Israel’s settler colonial project has been expedited by the enforced shekelization of the oPt, in that the latter not only acts as a barrier to industrialization and economic liberation in line with other hegemonic institutions, but also offers a sophisticated tool for coercion that directly assists the hegemon’s political ends. It follows that a settler colonial currency represents a multifaceted vehicle that facilitates the settler state’s reproduction.

#### 5. Critiques of gender normativity as well

Jo Aurelio Giardini 23. postdoctoral fellow with the Program for the Study of Women, Gender, and Sexuality, and with the Winston Tabb Special Collections Research Center at Johns Hopkins University “Trans Life and the Critique of Political Economy.” TSQ: Transgender Studies Quarterly, Volume 10, Issue 1, February 2023, Pages 48–53.

As trans people emerge as a constituent of mass culture, and as transphobia is wielded to further fracture a demobilized Left, it is increasingly necessary to grapple with the relationship between trans life and the economic structures that enable and exploit us. Critical attention to capitalism, in its emergence and in its contemporary dominance, gives us the means to contest the immiseration and precarity forced on many trans people, and to imagine broader coalitions in the fight to live without fetters on our collective exploration of bodily capacity and freedom. In their introduction to an issue of TSQ on “trans political economy” (TPE) in 2017, Vik Lewis and Dan Irving (2017: 8) assert that “TPE critiques a political economy orthodoxy that occupies a privileged position on the left, particularly in Northern-dominant spaces, such as world-systems approaches and singular Marxist approaches.” Marxist approaches are deemed “additive,” seeking to insert trans people into “economic categories such as ‘the working class,’ ‘the precariat,’ ‘consumers,’ or ‘reproductive labor(ers)’ that are naturalized as preexisting classifications” (8). Lewis and Irving seek, nobly, to understand the particularities of trans peoples in their global contributions to economic processes, but in this pursuit they do a grave disservice to much Marxist analysis, which seeks not to collapse all subjects into a particular set of categories but, rather, to understand how the reproduction of capitalist value as socially constituted depends on the necessity of people selling their labor power, and the fact that this labor power is rendered commensurable as abstract labor. A critical edge of Marxist theory attempts to emphasize that Karl Marx's work is not merely a theory of political economy but also a critique of political economy, which can help us recognize how this rendering occurs through divisions of labor, ossifying relations of race, sex, class, and ability. As articulated by geographer Neil Smith ([1984] 2008), nature itself is “produced” under capitalism,1 to appear as a sphere cleaved from the social.2 The work of Marxist analysis is not to affirm these separations, or chart new ones, but to apprehend how these divisions, and the relations that undergird them, can be contested, transformed, abolished.3 Thirty years have passed since Leslie Feinberg (1992) published hir pamphlet Transgender Liberation: A Movement Whose Time Has Come, a “Marxist view of when and why transgender oppression arose” (back cover). A renewed attention to Marxist critique can provide tools for charting the flourishing of trans life and the forces that work to dispossess it. It gives us multiscalar routes to challenge the role of labor in the naturalizing of sex and gender, and to chart the uneven yet interconnected global management of sexual diversity.

## AFF

#### Each of the above examples could be AFFs if the AFF wanted to not defend the resolution, but there are also topical AFFs that engage in critical literature.

#### 1. AFFs could deal with the democratization of money.

Jan Kregel 19. Ph.D. from Rutgers University “Democratizing Money”. Working Paper No. 928 May 13, 2019

In the Western interpretation of democracy, governments exist in order to manage relations of property, with absence of property ownership leading to exclusion from participation in governance and, in many cases, absence of equal treatment before the law. Democratizing money will therefore ensure equal opportunity to the ownership of property, and thus full participation in the democratic governance of society, as well as equal access to the banking system, which finances the creation of capital via the creation of money. If the divergence between capital and labor—between rich and poor—is explained by the monopoly access of capitalists to finance, then reducing this divergence is crucially dependent on the democratization of money. Though the role of money and finance in determining inequality between capital and labor transcends any particular understanding of the process by which the creation of money leads to inequity, specific proposals for the democratization of money will depend on the explanation of how money comes into existence and how it supports capital accumulation.

#### That can solve some of the colonialism problems, but isn’t perfect. Those imperfections are neg ground!

Colleen Schneider 24. Institute for Ecological Economics, Vienna University of Economics and Business (WU Wien), Vienna, Austria Michael Miessa Institute for Ecological Economics, Vienna University of Economics and Business. “Democratizing the monetary provisioning system to enable social-ecological transformation”. Sustainability: Science, Practice and Policy 20, no. 1 (2024): 2344305.

More generally, framing the monetary system as a system of provisioning requires one to consider its relation to the social whole, and its embedding within the broader social relations of capitalism. Further research based on our approach of framing money as a democratized system of provisioning could address how the monetary provisioning system reflects the underlying energetic and material base of an economic system, for example how oil fuels the capitalist productive system, and how this underlying materiality co-shapes developments in prices and changes in the availability of money alongside political systems. These avenues could carry forward the exploration of the role of the monetary provisioning system in shaping the conditions necessary to realize a SET. While the monetary system plays a key and central role, it is, however, only one among many critical systems of provisioning. Changing the monetary provisioning system is not a panacea for social and ecological ills. However, it is of vital importance to recognize the ways in which the monetary provisioning system can reinforce and lock in path dependencies that will co-shape social developments for decades or centuries.

#### 2. AFF can overhaul the entire monetary system---there’s lots of lit on it.

Aaron Wistar 23. editorial assistant at Harvard University Press. He received a PhD in history of consciousness at University of California, Santa Cruz.” We Can Take Monetary Policy Out of the Hands of Technocrats”. https://jacobin.com/2023/04/moral-economies-of-money-book-review-jakob-feinig-monetary-policy-us-history-federal-reserve-democracy

Consequently, a new pedagogy of money started to arise: one based on the idea that fiscal spending and money issuance should be rigidly separated. Modulation of the supply of credit gradually came to be seen as a technical question, categorically distinguished from the political question of credit allocation.

World War I, Feinig astutely points out, became the first major armed conflict in which the US government did not issue some new kind of currency to fund the war effort. Instead, Treasury Secretary William McAdoo launched a publicity campaign to educate the public about war bonds and the necessity of saving. Wars, McAdoo told the public, were financed by individuals, who paid taxes and saved in the form of bonds. No mention was made of banks or monetary institutions.

Likewise, President Franklin Roosevelt was determined to prevent the return of greenback politics. During the Great Depression, some seventeen thousand World War I veterans marched on Washington to demand an early payment of a deferred bonus they had been granted for their military service. When sympathetic representatives in Congress passed legislation that would allow the Treasury to pay the soldiers in new currency that it issued directly — that is, in greenbacks — Roosevelt swiftly vetoed the bill.

Echoing Madison, he argued that meeting the claims of the so-called Bonus Army would only “raise similar demands for the payment of claims of other groups.” In the end, “Every candidate for election [would] be called upon in the name of patriotism to support general pension legislation for all veterans.” What the United States needed was a firm hand to maintain monetary discipline, not an enabler of populist demands on the currency.

This is the legacy we are left with today. The twentieth century has been marked by a profound demobilization around the money question. There have been moments to be sure — the farmers who drove their tractors to Washington to demand an easing of credit conditions in the late 1970s, or the contractors who mailed two-by-fours to Paul Volcker to protest the Fed-induced slowdown in construction — but these have been the exception rather than the rule.

Feinig’s book gives us an invaluable historical account of how we got here. Still, we cannot simply transplant the monetary populism of the eighteenth or nineteenth centuries to the twenty-first. As Feinig takes pains to point out, to the extent that these movements embodied “democratic” values, it was usually the democracy of white male smallholders, shot through with the politics of settler colonialism and white grievance.

Whether a liberatory form of monetary populism can gain traction today — one that claims money for the people without defining “the people” against a conspiracy of Jewish bankers or racialized freeloaders — is anyone’s guess. There is no shortage of serious left-liberal proposals for overhauling the monetary system. But these have yet to translate into a popular movement that could compete with the sheer institutional inertia of a system that teaches people to think of monetary policy as a technical problem, divorced from the political world of taxation, spending, and redistribution.

#### 3. An example of a Topical K aff is an aff that depoliticizes money around a new vision for what the world should look like.

Tim Barker 21. is a graduate student in American history “A Socialist Primer on Monetary Policy and Inflation”. https://jacobin.com/2021/09/socialist-primer-monetary-policy-inflation-federal-reserve-volcker-shock-class-tim-barker-interview

Re-politicizing money — or to put it a different way, forcing people to recognize that money has always been politicized — is hugely important for the left, not just as an intellectual project, but as a practical one. We can think about that by going back to the gold standard. What led to the end of the gold standard, which, throughout the late nineteenth century and into the twenties, was a fairly effective way of fighting inflation, at the expense of workers? What brought that to an end?

According to the most mainstream account, which is Barry Eichengreen’s Golden Fetters, the gold standard ended because of political pressures, particularly the growth of labor unions and the mobilization for World War I between 1914 and 1918. This empowered workers by leading to a tight labor market in a lot of places, but also because workers had sacrificed so much in the war, so that it was harder for their governments to say, “We’re going to make you pay the cost of adjustments in the money supply.”

The years around World War I also saw the extension of universal suffrage for the first time in a lot of the capitalist world. There was a big extension of who could vote. An economic historian like Eichengreen is very clear that the expansion of democracy in the form of voting rights, but also in trade unions, made the gold standard untenable. The gold standard did not come to an end because of intellectual arguments, although those play a key role in the way the process works. It was ended because of political and social pressures.

Then it stands to reason that if we want to reshape the rules of money and the politics of money today, it will happen through similar kinds of movements and pressures, but those movements and pressures have to be guided by some vision of what the problem is and what the solution would be.

You and I have discussed that we both are somewhat outsiders to this world of monetary economics, and are by no means experts. It’s really important that people try to start to think about it. We have examples from history of times of extraordinary popular participation in this kind of discourse.

If you go back and look at populist newspapers from the 1880s and 1890s, you’ll see that there were millions of ordinary Americans — farmers, industrial workers, housewives — reading and debating about monetary policy. A very popular pamphlet on this topic, called Coin’s Financial School, countless numbers of copies.

We should not be fatalistic about the idea that this has to be an esoteric topic. There have been moments where it was a hugely popular initiative, and we should hope for and build a movement in which we have a mass, collective democratic discourse about monetary policy, instead of leaving it to the so-called experts.

#### 4. Same with MMT which offers good, topical AFF ground to address issues like violence against trans people

Money on the Left 21. “Modern Monetary Theory and The Trans Agenda (Essay)”. https://moneyontheleft.org/2021/07/30/modern-monetary-theory-and-the-trans-agenda/

As a function of a repressive cis gender binary regime, trans people must daily confront tremendous hardships and challenges. They face extraordinarily high rates of unemployment, for example, often recorded at around three to four times the rate for cis people. Trans persons also suffer from meager wages, lower levels of college attainment on average, and extremely high rates of poverty. Due to social and institutional discrimination, a large proportion of trans people are involved in the Sex Work (SW) industry. The criminalization and stigmatization of this precarious line of work exposes trans people to high degrees of financial and bodily risk, contributing greatly to the high rates of violence perpetrated against the trans community.

For this reason, decriminalizing SW is an essential part of any trans liberation agenda. It is undeniable, however, that a significant portion of trans participation in SW is tied to discrimination elsewhere, and so justice for trans sex workers cannot be taken in isolation. If trans people are going to achieve liberation, it will mean provisioning lives we want to lead—including those of us who happily participate in SW.

The issue of discrimination at the point of access to social goods can be viewed as a matter of equal protection under the law, and for this the solution is simple: pass statutes that make it illegal to discriminate on the basis of gender identity. While this is of course a long Civil Rights fight, a good start would be passing the Equality Act, which would immediately alleviate explicit discrimination as a concern by making it illegal at the federal level. The Equality Act was passed by the House for the second time on February 25, 2021 and is awaiting a vote in the Senate.

Still, the trans agenda must go further. A comprehensive policy platform could fill a tome, of course, and it would be good to develop such an agenda in the future. Here, however, I would like to focus on two key policies–a Federal Job Guarantee (FJG) and, below, Medicare for All–which are only realizable if we embrace the radical implications of MMT.

The MMT lens implores us to look at the world in an expansive and generative way, rejecting binary and zero-sum thinking at the level of fiscal provisioning. The fundamental insight of MMT is that money is not a private commodity that must be taken from the market via taxation in order to fund the public sector. To the contrary, governments create money to finance their operations, and taxation is simply one tool among many to manage the shape and distribution of monetary demand (as well as ensure a common denomination. Money’s role in mediating access to and participation in social provisioning is a limitless public resource, which can be used however we want and across any time horizon.

For this reason, the monetary agency of the Federal government to name and finance public priorities can be mobilized at any time to create a public option for employment. If designed and fought for as a fully inclusive and trans affirming program, a FJG would not only establish a wage-and-benefits floor for the entire economy and begin to challenge and change the social meaning of work. It would also create an inalienable foundation to both support and further facilitate trans liberation, while buttressing trans resilience against hostile employment authorities.