Alan S. Blinder Article

**Alan Blinder: Release the Trillion in Excess Reserves!! Wall Street Journal**

**<http://online.wsj.com/article/SB10000872396390444873204577537212738938798.html?mod=WSJ_Opinion_LEFTTopOpinion>**

In a remarkable op-ed in WSJ, Alan Blinder (linked above), professor of economics and public affairs at Princeton University, previously head of President Bill Clinton's Council of Economic Advisors (January 1993 - June 1994), and Vice Chairman of the Board of Governors of the Federal Reserve System from June 1994 to January 1996, is calling for the Federal Reserve to charge banks if they continue to hold their funds as excess reserves, instead of loaning them out. He writes:

“ I have two out-of-the-box suggestions to make, one in today's column and another in a companion piece soon. The simpler option is one I've been urging on the Fed for more than two years: Lower the interest rate paid on excess reserves. The basic idea is simple. If the Fed reduces the reward for holding excess reserves, banks will hold less of them—which means they will have to find something else to do with the money, such as lending it out or putting it in the capital markets.

The Fed sees this as a radical change. But remember that it paid no interest on reserves before the 2008 crisis and, not surprisingly, banks held practically no excess reserves then. In early October of that year, Congress gave the Fed authority to pay interest on reserves, which it promptly started doing. When the Fed trimmed the federal funds rate to its current 0-25 basis-point range in December 2008, it also lowered the interest rate on reserves to 25 basis points, where it has been ever since.

My suggestion is to push it lower in two stages. First, test the waters by cutting the interest on excess reserves (in Fedspeak, the "IOER") to zero. Then, if nothing goes wrong, drop it to, say, minus-25 basis points—that is, charge banks a fee for holding their money at the Fed. Doing so would provide a powerful incentive for banks to disgorge some of their idle reserves. True, most of the money would probably find its way into short-term money-market instruments such as fed funds, T-bills and commercial paper. But some would probably flow into increased lending, which is just what the economy needs.”