The Daily Dish

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Get ready to export. The European Union is ratcheting up pressure on the administration to lift the ban on crude oil and natural gas exports in the upcoming TTIP trade deal. So far the U.S. has resisted adding an energy chapter to the deal, but the renewed interest from European nations to find an energy source outside of Russia could change that. With another way to lift the ban, Senator Murkowski's bill is picking up some steam with endorsements from both Oklahoma Senators Lankford and Inhofe.

Once again, China owns more U.S. debt than any other country. Though total foreign holdings did decrease, China still owns $1.261 trillion of U.S. debt. Japan fell back to the second spot with $1.227 trillion in holdings. In just the first two months of the year, total sales of U.S. assets to foreign governments were $10.4 billion.

Eakinomics: The Fed as Fireman

Senators David Vitter and Elizabeth Warren have introduced bipartisan legislation restricting the Federal Reserve's ability to act as a lender of last resort without Congressional approval. Specifically, the bill requires that a Fed emergency-lending program encompass at least five or more institutions. Interest on the loans would be pegged at least five percentage points above the rate on comparable Treasury securities. Both requirements could be waived by a vote of Congress. Alternatively, any Fed lending program that does not adhere to these requirements would expire within 30 days without Congressional approval.

This is a bad idea. Ben Bernanke compared it to "shutting down the fire department to encourage fire safety."

Remember that Dodd-Frank has already restricted the Fed's powers to act as lender-of-last-resort, a step away from the original vision of the Fed, which was created in 1913 in the aftermath of the recession that followed the bank runs of 1907. This ability of the Fed to intervene as lender of last resort was crucial in the financial crisis. After the fall of Lehman Brothers in 2008, financial markets experienced the 21st century version of an old-fashioned bank run. The Fed followed the oldest rule of central banking: lend against any reasonable collateral and flood markets with liquidity. The Fed's actions were the single most important policy action in stopping the downturn.

The financial system is the blood supply without which the Main Street economy cannot function. The panic and fear generate a contagion that threatens everyone in the economy; not just the big banks and financial markets. In the aftermath of the crisis, the Fed lending became unpopular. While it can be labeled a bailout, history tells us that the Fed uses such authority relatively rarely and to positive effect. No further restrictions should handicap its ability to do so.

From the Forum

Week in Regulation by Sam Batkins, AAF Director of Regulatory Policy