

259 Views | 38 CrossRef citations to date | 3 Altmetric

Original Articles

Asset-based reserve requirements: reasserting domestic monetary control in an era of financial innovation and instability

Thomas I. Palley

Pages 43-58 | Published online: 13 Oct 2010

Cite this article <https://doi.org/10.1080/0953825032000145454>

Sample our
Politics & International
Relations Journals

>> [Sign in here](#) to start your access to the latest two volumes for 14 days

Full Article | Figures & data | References | Citations | Metrics

Reprints & Permissions

Read this article

Abstract

This paper discusses the impact of asset-based reserve requirements on the regulatory and microeconomic aspects of the banking system. It makes a case for asset-based reserve requirements at the level of the financial intermediaries. Finally, it argues that ABRs should be applied to all financial intermediaries.

...d upon
...ft in
...financial
...c and
...policy
...of recent
...o target
...time when
...economic
...rmediaries.
...system of

We Care About Your Privacy

We and our 847 partners store and/or access information on a device, such as unique IDs in cookies to process personal data. You may accept or manage your choices by clicking below, including your right to object where legitimate interest is used, or at any time in the privacy policy page. These choices will be signaled to our partners and will not affect browsing data. [Privacy Policy](#)

We and our partners process data to provide:

- Use precise geolocation data. Actively scan device characteristics for identification. Store and/or access information on a device. Personalised advertising and content, advertising and content measurement, audience research and services development.

List of Partners (vendors)

I Accept

Essential Only

Show Purpose



Notes

Correspondence Address: Thomas I. Palley, Open Society Institute, 1120 Nineteenth Street NW, 8th Floor, Washington, DC 20036, USA. Email: tpalley@osi-dc.org

Having government bonds qualify would increase the demand for bonds and lower the interest rate paid by government. Qualifying bonds could be restricted to short-term issues, or could be both short-term and long-term issues.

These capital requirements were established under the 1988 Basle Capital Accords negotiation through the Bank for International Settlements.

The old system of functional regulation was another form of balance sheet regulation. Rather than linking asset and liability compositions, it prevented financial intermediaries from holding certain types of asset and liability by restricting lines of business they could enter.

This proposal has recently been advanced by D'Arista & Griffith-Jones ([1998](#)) and represents a specific application of ABRRs.

Some asset categories might be zero-rated.

The assumption of constant marginal costs means that the size of the individual firm is

indeterm

margina

loan sup

of lendin

the patt

exampl

follo

deposit

implies a

number

deposits



when rising
n market
h the extent
tion that
t regime. An
s the
 D_i^2 . Total
s. This
 a_2 . The
gate level of

If the monetary authority is targeting the monetary base, there will be a similar effect on the structure of rates. The one difference is that the 'general level' of rates would shift up and down as the federal funds rate varied with fluctuations in the demand base. However, it is now widely agreed that central banks in fact target short-term interest rates and allow monetary quantities to adjust endogenously ([Friedman, 2000](#); [Goodhart, 1989](#); [Blinder, 1998](#)).

If investment is a positive function of consumption spending, then raising rates to dampen consumption spending will also reduce investment spending. While this is true, it remains the case that ABRR can still be used to diminish the impact of monetary policy tightening on investment spending by twisting the structure of interest rates so as to raise consumption loan interest rates and lower investment loan interest rates.

Capital requirements have allocative properties that are similar to ABRRs. Since shareholder capital is the most expensive type of capital, they tend to discourage banks from accumulating assets that carry high capital requirements. There is now discussion of making capital requirements more subject to activist discretionary change, and using them to manage the financial business cycle. Their big drawback relative to ABRRs is their pro-cyclical character.

This issue has been recently raised by Friedman ([1999](#)).

Related Research Data

The e

Source

The C

Source

The C

S

Fin

Europ

Source

Linkin



t the

People also read

Recommended articles

Cited by
38

Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

Open access


- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Help and information

- Help and contact
- Newsroom
- All journals
- Books

Keep up to date

Register to receive personalised research and resources by email

 Sign me up



Copyright

Accessib

Register
5 How

