

Comment on “Margins for
discretion”

Introduction

- Nice story of Norges Bank acting as crisis manager under the classical gold standard
- The NB was able to operate at the margins
- The NB saw itself as protecting the payments system and not an LLR
- A number of facilities gave it flexibility: several buffers and lines of credit

A number of problems: a) distinction between liquidity policy and LLR

- Classic CB under the gold standard to provide liquidity to the money market
- Capie (2002) on Bank of England
- Discounted paper anonymously through a frosted glass window
- Seems like NB followed such a strategy

A Number of problems: b) gold standard constraints problem not novel

- Eichengreen (1992) preceded by Thornton, Viner spelled out the problem
- Gold Standard CB couldn't print H
- One pool of gold to meet internal and external drains
- Requires credibility to work
- Internal drain lend freely
- External drain raise discount rate
- Both external and internal drain follow Bagehots rule
- Without credibility CB would be overwhelmed by capital flight

A number of Problems:c) target zones

- Bordo and MacDonald, Flandreau and Komlos show that CBs under the gold standard had flexibility to operate within gold points
- Gold points served as credible target zone
- CB could follow discretionary countercyclical policy
- Did this apply to NB?

A number of problems; d) unclear treatment of buffer facilities

- Unclear how note reserve, extra fund, lines of credit worked
- Relationship between government and NB unclear
- Monetary authorities is a better term
- Need consolidated balance sheet of the MA to determine credibility
- Recent crises like Iceland involved the MA not just the CB

A number of problems;e) clarify crisis episodes

- 1847 . NB did correct thing. Like Bank of England
- 1857. Not clear about relative roles of NB and government. MA did the right thing
- 1878 MA did the right thing
- 1899. Need to learn more about origins of the crisis
- Did it involve a government subsidy as suggested by Calomiris
- NB acted as true LLR but lifeboat operation leads to moral hazard

Confusion over terminology

- “Quantitative easing “incorrect term for nineteenth century policies
- QE used to describe unconventional monetary policies at ZLB
- Should say liquidity policy or monetary expansion
- “Bullion standard” . Was Norway on a bullion standard or a specie standard?

