

From: James Spriggs  
Subject: Reserve Requirements of Depository Institutions

---

Comments:

Thursday, December 31, 2009

Dear Ladies and Gentlemen of the Federal Reserve System:

The proposed regulation to allow Federal Reserve Banks to accept term deposits is unnecessary and, if enacted, it should not be used. Thus in the interest of simplicity, it should not be enacted.

The purpose of allowing term deposits would be to "drain reserves, if necessary". That is, to tighten money when you think that money is too loose. However, if money were truly too loose, then some of the financial assets which you hold as reserve assets (collateral for your dollar-denominated obligations) would be over-priced. In that case, you could tighten money by selling such over-priced assets.

The strategy of selling over-priced reserve assets dominates (in the game theory sense) the strategy of accepting term deposits because the sales would make a profit for the Federal Reserve Banks while accepting term deposits would result in a loss (since you would have to pay interest at a higher rate than on excess reserves generally to compensate the depositor for his loss of flexibility).

Yours truly,  
James Richard Spriggs