

Rogoff

Reform Proposals

1.) **Make the IMF an Intl. "Lender of Last Resort"**

Based on Bank Run Analogy.

IMF gives prequalified countries access to emergency lines of credit

Cons

a.) Limited Resources

b.) Moral Hazard

c.) Credibility/Commitment

d.) Lack of Regulatory Oversight

2.) **Intl. FDIC**

Like Lender of Last Resort except create a new agency + charge countries insurance premiums

Cons

a.) Credibility

c.) How to determine premiums?

b.) Lack of Enforcement
Regulatory Oversight

3.) **Intl. Bankruptcy Court**

Designed to address "Hold-Up" problem
Prevents countries from having to liquidate assets at a loss.

Cons

a.) Lack of Sovereignty

Inability to Control Assets

4.) Create a Supra-National Regulator

For example, harmonize capital requirements

Cons

a.) Enforcement

b.) Regulatory Competition might be good!

5.) World Currency + World Central Bank

Cons

a.) World might not be "Optimum Currency Area"

b.) Currency Comp. can promote anti-inflation credibility.

6.) Capital Controls

• Outflows (Avoids tough choice between RT, ET
(Credibility + Corruption problems))

• Inflows (Require investors to post a 1-year deposit)
(Foreign investors may only be willing to lend short-term!)

7.) Stockpile Reserves

(Can be costly. Would be better to invest)

Rogoff's Plan

According to Rogoff what is the main problem with the current system?

Excessive reliance on debt finance

How should we fix it?

Promote equity finance

Remove implicit subsidies to debt

1.) Underpriced deposit insurance

2.) Bargaining on behalf of creditors helps debt holders but not equity holders