

Perhaps it is time to talk about a publicly owned savings bank

[Print](#)

Published: October 19 2010 03:40 | Last updated: October 19 2010 03:40

From Dr Sumon Bhaumik.

Sir, Ben Bernanke, the Fed chairman, is [hinting at another round of quantitative easing](#). However, if the US government is unwilling to extend fiscal stimulus any further, especially after the [November 2 elections](#), purchasing government bonds will have an impact on the interest rate and the dollar, but the impact on aggregate demand is unlikely to be large.

Given the uncertainty about demand, the prospect for private corporate investment is not good either. Hence, the likelihood of a large-scale purchase of corporate bonds by the Fed and a corresponding increase in investment demand is low. Households have to be the source of the demand that triggers recovery and fends off deflation.

Perhaps it is time to think outside the box once again, and to use QE to purchase household debt, to finance (and refinance) their mortgages, credit card loans and personal loans at a lower interest rate.

It can have two effects. First, lower interest payment would give households the capability to spend more. Second, where mortgages and other forms of credit are unavailable, at least at an affordable interest rate, credit would now become available to nudge demand up.

But that leads to a bigger question. It is now evident that the financial sector is de facto a public good. It has externalities that will never be internalised by individual banks and financial institutions. Hence, there will occasionally be market failures, and the government will therefore have to step in.

If that is indeed the case, would it not be better to retain a public option permanently, in the form of a government savings bank, for example? That might lead to some inefficiencies when the going is good. But it would be a more efficient way to tackle crises than the central bank having to act like a commercial bank.

It is being argued that the crisis has brought an end to ideological orthodoxies. Having a publicly owned bank – a “proper” one, not a Lloyds (in the UK) – may be the last of those orthodoxies. But a policy debate about it should not be a bridge too far.

Sumon Bhaumik,

Economics and Strategy Group,

Aston Business School,

Birmingham, UK

Copyright The Financial Times Limited 2010. Print a single copy of this article for personal use. [Contact us](#) if you wish to print more to distribute to others.