MONETARY POLICY IN THE INTERESTS OF US GLOBAL ECONOMIC LEADERSHIP

Abduvokhidov Javohir Abduvohidovich
Senior lecturer,
Faculty of Management, Tashkent State University of Economics
https://doi.org/10.5281/zenodo.15262008

Annotation:
This article discusses the significant evolution of the United States' monetary and credit policy, particularly the Federal Reserve System's role in managing economic stability and growth. It examines the key policy shifts from the early 2000s, including the responses to inflation and the 2008–2009 financial crisis, and highlights the importance of tools such as quantitative easing (QE) and the Volcker Rule. The article explores how these changes contributed to shaping the country's financial landscape, influencing both crisis management and long-term economic strategies. Moreover, the article touches on the ongoing impact of monetary policy under different administrations, with a focus on the Fed's evolving role, interest rate policies, and regulatory actions, particularly in response to global financial challenges and political pressures. The relationship between fiscal and monetary policies, as well as the Fed's adaptation to economic conditions, is central to the narrative.

Keywords:
Monetary policy, Federal Reserve System, credit policy, quantitative easing, interest rates, economic growth, inflation, financial crisis, Volcker Rule, budget policy, US economy, recession, financial regulation, Dodd-Frank Act, economic crisis management, interest rate policy, US government debt.

Among the instruments of state regulation of the economy, which help to maintain and strengthen the leading positions of the USA in the world economy, monetary and credit policy occupies an important place. It also became the arena of significant changes in the first decades of the 21st century, formed under the influence of budget policy, and then moved to an independent mode of stimulating economic growth and strengthening its world leadership.

The radical changes that took place in budget policy at the beginning of the 21st century were accompanied by equally significant changes in monetary policy. These two directions of economic policy, acting together, created the necessary symbiosis, when measures taken in one direction received support and reinforcement in the other direction and together created an environment of changes in the environment of economic life, aimed at increasing its dynamism.

At the very beginning of the century, the FRS's policy was still subject to the inertia of the priority of fighting inflation, which had developed in the previous two decades during the period of stagflation and overcoming the crises of the early 1980s. At that time, a significant structural restructuring of the American economy based on progressive technologies was required to adapt to high prices for energy and mineral raw materials and to revise the entire macroeconomic strategy. The traditional liberal approach could not curb the increased inflation, and the fight against it shifted to monetary and credit policy, specifically to the FRS.

During those years, the high interest rate policy that Paul Volcker pursued as Chairman of the Board of Governors of the Federal Reserve System from 1979 to 1987 gained recognition. He managed to tame the forces of inflation and bring the country's monetary economy to a stable operating mode. During his tenure as head of the Federal Reserve System, the average annual inflation rate fell from a peak of 11.2% in March 1980 to 3.7% in 1987. Volcker managed to use the given level of interest rates as a kind of impenetrable ceiling or press that gradually crushed the driving forces of inflation.

Volcker's line was continued by his successors - Greenspan and Ben Bernanke until mid-2007, when the maturing of the crisis became quite obvious to the Fed leadership. It remains a fact that the FRS leadership was the first among the highest institutions of state regulation to begin implementing anti-crisis policy without waiting for the GDP to shrink and the recession to begin. From the level of 5.25% in August 2007, when the crisis processes began to unfold in the mortgage sector, the FRS interest rate was reduced in several stages to 0.0 - 0.25% in November 2008, when the beginning of the recession became obvious and the state included anti-crisis budget measures.

The 2008–2009 crisis created a turning point in monetary policy in the United States. The anti-inflationary policy had to be replaced by an anti-crisis one. The specificity of the situation was that the possibilities of acting by changing the interest rate had been exhausted – the lowest possible level had already been set and, as subsequent events showed, it had been in effect for a long time.

Also worth mentioning is the "Volcker Rule", named after the aforementioned former FRS Chairman Paul Volcker, which was created in response to the 2008-2009 crisis and prohibits banks from engaging in certain investment activities on their accounts involving short-term trading in securities, derivatives, and commodity futures. The rule is intended to prevent speculative investments and protect bank customers.

New phenomena in the monetary policy of the Federal Reserve System emerged during the counteraction to the crisis of 2008-2009, where a new field of action was prepared for monetary policy: replenishment of monetary resources withdrawn from the credit market to the state budget to cover the deficit by borrowing. Here, the necessary actions were dictated by the course of events. During these years, the well-known "crowding-out effect" arose in the country's credit market, when the state ousted other borrowers from the credit market: corporations, consumers, the mortgage sector and other small participants. The mechanism here is simple: since the state offers the most reliable bonds, it only needs to raise the interest rate to attract monetary resources in the required amounts. However, the state has to remember about paying interest, and therefore it tries to resort to this method rarely, preferring to call on monetary policy to establish low interest rates in the credit market.

The massive budget spending programs adopted in 2008–2009 led to the virtual devastation of the credit market. To illustrate the crowding-out effect in 2008–2009, we present data on the distribution of borrowings in the US credit market in those years.

Table 2.1. Distribution of borrowings in the US credit market in the period 2006-2010, billion dollars.

Year	All	Population*	Business**	Federal government
2006	2412	1179	896	183

2007	2513	862	1222	237
2008	1902	33	578	1239
2009	1022	-233	-298	1444
2010	1458	-263	36	1580

Source.Financial Accounts of the United States. June 9, 2011. P.8

*Note: Some participants are omitted. *Including households and consumer credit. **Including corporations and small businesses.*

The data in Table 2.1 show how radically the picture of the US credit market changed during the crisis years compared to the two previous relatively normal years. It is clear that in 2008–2009, while economic actors reduced borrowing and continued to repay previously taken loans, the federal government sharply increased borrowing to finance increased deficits and completely absorbed the available resources of the credit market, attracting additional funds from abroad and at the expense of negative payments on previous borrowings.

Under these conditions, the Federal Reserve System found itself in a situation where there was a lack of opportunities to replenish banks' liquidity through traditional lending methods within the limits of the required reserve ratio, as well as a reduction in the interest rate. It was necessary to introduce monetary resources of a larger scale into economic circulation, and for this purpose it was necessary to use other instruments of monetary policy. Thus, a system of measures for replenishing the economy with monetary resources was formed, which received the name "quantitative easing".

The Federal Reserve System implemented quantitative easing programs (Quantitative Easing), which became a new word in the arsenal of monetary policy not only in the United States, but also in European countries and some Asian countries. The Federal Reserve System decided to replenish the resources of financial institutions by buying up some of their government bonds and mortgage-backed securities so that they could offer businesses, in addition to low interest rates, a sufficient amount of monetary resources when, under the influence of stimulating measures, businesses turn to banks for a loan.

It is noteworthy that already in the first series of purchases under the QE1 program in late 2008 and early 2009, the FRS tried to identify the effect of purchases of different types of bonds. Treasury bonds were purchased for $300 billion, agency bonds for $175 billion, and mortgage-backed debt securities for $1,250 billion, which, in the course of these and counter transactions, led to an increase in the amount of credit institutions' reserve accounts at the FRS by $1,200 billion.

If the first quantitative easing program gave the impression of an emergency measure under the pressure of extraordinary circumstances, then subsequent events showed that a new line in monetary credit policy had opened: the implementation of large-scale programs of replenishing the economy with monetary resources to stimulate growth and progressive transformations in the economy. The main feature of quantitative easing programs was their scale and long-term nature. Practice has shown that specially organized money emission is possible, it does not cause inflation and should not be feared.

Quantitative easing procedures differ significantly from direct deficit lending by the central bank, which is prohibited by law. In this situation, the central bank acts as a secondary market, which, by buying up securities, transforms the accumulation function contained in them into universal deposit money capable of performing all functions. In the form of

quantitative easing programs, the Federal Reserve System has received a monetary policy instrument that can be used without waiting for crisis events and matching the size and intensity of its use with the results of past actions and the characteristics of the current situation.

The subsequent series of bond purchases under the FRS's programs that followed the first one each had its own characteristics. This allowed the Fed to test the capabilities and effectiveness of different approaches in implementing this policy line.

The lack of dynamism in economic growth after the end of the recession prompted the FRS to conduct a new round (Quantitative Easing 2 – QE2) from November 2010 to the end of June 2011. During this time, $600 billion was injected into the economy by buying up government bonds from banks in the amount of $75 billion monthly. This time, the effect of measured, uniform injections was tested. And again, the results obtained did not satisfy the FRS leadership.

The continuation of stagnation gave grounds to try a stepwise replenishment of liquidity by replacing the terms of bonds. In September 2011, the "Twist" program was launched for $400 billion to replace long-term bonds in the assets of credit institutions with short-term ones148. The peculiarity of this operation consisted in replacing some bonds with others on the balance sheet of the Federal Reserve System without changing the final aggregate indicators and without issuing new money.

Based on the US economic indicators for the first half of 2012, the Fed leadership decided that further stimulus measures were needed. The Twist program was extended until the end of 2012 and increased by $267 billion compared to the initial project.

But this time, too, there was no sustained dynamic economic growth. In September 2012, the FRS launched its third quantitative easing program (QE 3), returning to a measured replenishment of the money supply. The monthly volume of purchases of Treasury bonds was $45 billion, and mortgage securities - $40 billion. At first, the program was designed for several months, but in fact it lasted until the end of October 2014 with a slight decrease in the amounts of purchases. The total volume of bond buybacks and replenishment of the economy with money amounted to approximately 4.5 trillion dollars.

In subsequent years, the main circumstance that analysts paid attention to was the absence of inflation as a result of such a massive emission of money under the said programs. This was partly due to the moderate growth rates of the economy, which, despite prolonged stimulation, did not show the desired dynamism. However, it seems that the mechanisms of interaction between the banking system and the Federal Reserve System, i.e. the mechanisms of monetary and credit policy proper, played a significant role in the fact that inflation was avoided. The fact is that when banks receive funds from the Federal Reserve System, they are credited to the reserve accounts of these banks, and thus, until they are used, this money is stored as reserves without movement.

An important feature of the quantitative easing programs was the lack of precise estimates of the size of the required replenishment - each time the FRS acted by trial and error, relying on the knowledge and experience of its specialists. As a result, out of the total amount of FRS liabilities of $4,510 billion at the end of the first quarter of 2015, $2,437 billion remained in the reserve accounts of depository institutions, which meant that the size of the replenishment of the economy with monetary resources clearly exceeded current needs and almost half of these funds remained in reserve accounts without movement by the end of the

programs151. On October 29, 2014, the Federal Open Market Committee (FOMC) of the Fed announced the end of QE 3.

The experience of quantitative easing policy during the 2008–2009 crisis and in subsequent years allowed the FRS to gain a fairly firm grip on the system of anti-crisis measures, which also contain the potential to stimulate the economy. When the wave of the coronavirus pandemic reached the United States in March 2020 and Congress approved a $1.9 trillion economic aid program, the FRS adopted its own program, which contained a package of solid measures in the same direction.

On March 15, 2020, the US Federal Reserve launched a large quantitative easing program QE4 for $500 billion, mortgage-backed securities - for $200 billion. At the same time, the FRS cut the key interest rate to zero and announced its readiness to provide the market with $1.5 trillion in short-term liquidity through repo transactions. The FRS's confidence in its strength and capabilities was evidenced by the fact that just a few days later (March 23, 2020), the FRS announced its readiness to buy mortgage and treasury securities without restrictions - in the amount that would be necessary to support liquidity and ensure the smooth functioning of the market. This was not only a statement of intent to clarify its policy, but also a message to the market and society that the Fed is not afraid of the growth of the national debt and is confident in the correctness of its quantitative easing policy.

Along with QE programs, another important trend in US monetary policy after the 2008–2009 crisis was the change in the Fed's interest rate policy, which is a system for operationally managing the behavior of interest rates on the market. This mechanism is based on the FRS's recommended federal funds rate, at which banks should conduct transactions with each other from their reserve accounts. At the same time, the FRS's discount rate is set 0.25–0.5% higher, at which it can provide loans to commercial banks in the event of a refusal from their partners. Thus, this rate forms a ceiling above which banks cannot raise their rates and are forced to follow the established guidelines.

Changes in the Fed rate are usually carried out to preemptively counteract crisis phenomena or stimulate growth. As can be seen from Fig. 2.1, over the past 20 years, there have been two gradual increases and then sharp decreases in the interest rate down to zero levels (in 2004–2006 and in 2016–2019). At the same time, low Fed rates have ceased to be an episodic phenomenon and have become an important instrument of its monetary policy.

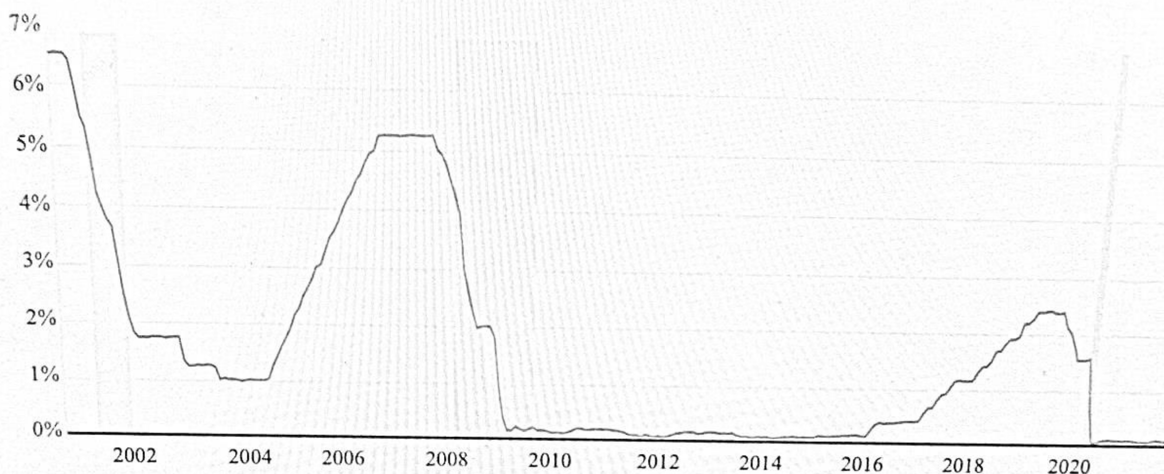

Figure 2.1. US Federal Funds Effective Rate 2000–2021, in %.

Source: *Board of Governors of the Federal Reserve System // URL: https://www.federalreserve.gov*

With inflation at 2%, real interest rates have turned negative in the last decade, reducing the yield on term bank deposits. This, in turn, has encouraged investors to keep minimum funds in deposits and to be more active in the high-yield securities market. Low interest rate policies have thus successfully stimulated overall economic activity in a weak environment.

For banks, such a policy means an incentive to change their role in the financial system from a player making a profit to an intermediary in moving monetary resources into the economy. This approach correlates with the provisions of the Dodd-Frank Act, which determined the monetary policy of the United States after the global financial crisis.

The Wall Street Reform and Consumer Protection Act, named after its sponsors, Democratic Senators Kenneth Dodd and Benjamin Frank, was signed into law on July 21, 2010. The law significantly changed the activities of existing financial supervisory agencies and created several new agencies to reduce risks and protect taxpayers. At the center of the new regulatory system is the Financial Stability Oversight Council, which is tasked with identifying existing risks and taking steps to mitigate them. Another new agency, the Office of Financial Research, is tasked with coordinating data collection and research aimed at developing tools for monitoring and assessing financial risks.

An important element of the law was the so-called Volcker Rule, which limits banks' ability to invest their own depositors' funds in hedge funds and other high-risk operations to 3% of their capital. In addition, the Dodd-Frank Act provides for a special regime for the liquidation of large financial institutions with the participation of the US government in order to avoid panic and the sale of assets at a reduced price, and also provides for the personal liability of top managers whose actions led to the collapse of the company. The act also seriously limited speculative activity, prohibiting US residents from most transactions on the over-the-counter market, including metals, currencies and financial instruments.

The Dodd-Frank Act is rightfully considered one of the main achievements of the Democrats' monetary policy during the Obama presidency. Research by the Bipartisan Policy Center shows that it significantly increased financial stability and consumer protection. At the same time, this initiative met with fierce resistance from Republicans, who believed that it created obstacles for small banks and reduced the availability of credit. As a result, already during the Trump presidency in 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act was adopted, which significantly limited the Dodd-Frank Act and weakened the Volcker Rule.

At the same time, D. Trump had a difficult relationship with the Federal Reserve System due to the independent federal agency's reluctance to follow the president's instructions in the field of monetary policy. Thus, raising the key interest rate to 2.5% in 2017-2019 caused open discontent in D. Trump, who allowed himself to call the Chairman of the Board of Governors of the Federal Reserve System, whom he himself appointed, J. Powell, an "enemy of the United States." However, after returning to the policy of negative rates, the ex-president immediately stated that the head of the Federal Reserve System began to "justify his hopes."

J. Powell's independence in decision-making and the Fed's quick response to the crisis caused by the pandemic were the main reasons for President J. Biden's decision to nominate

him for a second term, which began in February 2022.153 This move drew criticism from the left wing of the Democratic Party, which considers Republican Powell to be Trump's nominee and a supporter of liberalizing the regulation of the country's financial system.

At the same time, Biden's desire to strengthen oversight of Wall Street is evidenced by his choice of Democrat L. Brainard for the position of Vice Chair of the Board of Governors of the Federal Reserve System, as well as his attempt to nominate the controversial S. Omarova for the position of financial controller in the US Treasury Department. A native of Kazakhstan and a graduate of Moscow State University, she is known for her radical views on strengthening the state's presence in the financial system, and her candidacy has caused serious concern in Republican circles.

Even if there is a certain shift towards the left in American monetary policy during the presidency of J.Biden, it is unlikely that any drastic changes should be expected from the very conservative and continuous strategy of the Federal Reserve, at least as long as the economy is experiencing stable growth and relatively high employment.

References:

1.Federal Reserve System. “Volcker Rule.” URL: https://www.federalreserve.gov/supervisionreg/volcker-rule.htm.
2.The Federal Reserve's Policy Actions during the Financial Crisis and Lessons for the Future. Vice Chairman Donald L. Kohn. Speech At the Carleton University, Ottawa, Canada. May 13, 2010 .
3.Bernanke Makes Case for More Bond Buying / The Mesh Report. January 26, 2012.
4.Программа «количественного смягчения» ФРС: QE 1, QE 2, QE 3, QE 4. http://global-finances.ru/frs-ssha-kolichestvennoe-smyagchenie-e/ 20 августа 2021 г. Обращение
5.Financial Accounts of the United States, June 11, 2015/ L109. P.85.
6.Trump said that the head of the Federal Reserve began to justify his hopes / TACC, July 1, 2020 // URL: https://tass.ru/ekonomika/8864589
7.Biden to re-nominate Jerome Powell to head Fed / RIA Novosti, November 22, 2021 // URL: https://ria.ru/20211122/pauell-1760213981.html