

Macro Roundup Article

Headline: [Small Bank Thoughts John Cochrane](#)

Article Link: <https://johnhcochrane.blogspot.com/2023/03/small-bank-thoughts.html>

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Tweet: .@JohnHCochrane notes that SVB failure is a feature of Fed policy, not a bug as "constricting credit" and "tightening financial conditions" are the mechanisms through which monetary policy addresses inflation.

Summary: There is much commentary that bank troubles will interfere with the Fed's plan to lower inflation by raising rates. Actually, this is a feature not a bug. The main mechanism by which, in the Fed's view, raising interest rates slows the economy and lowers inflation is by "constricting credit," "tightening financial conditions," lowering borrowing that finances investment and consumer durables purchases. The Fed didn't want runs, no, but it wants the result. If you don't like that, well, we need to think of other ways to contain inflation, like taking the fiscal gasoline off the fire.

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