justification for enhanced interrogation, of unethical behavior: "When Bush-administration lawyers . . . argued that waterboarding and the like didn't legally constitute torture, they were not simply mistaken about the conclusions warranted by statute, treaty, and case law, they were engaging in illegitimate and unethical forms of legal argumentation, ignoring and selectively misreading various relevant texts in order to reach a predetermined conclusion."

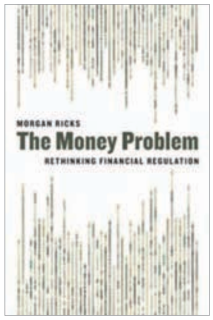
Brooks uses the same sports metaphor that General Michael Hayden, former director of both the National Security Agency and the Central Intelligence Agency, does in his recent book *Playing to the Edge: American Intelligence in the Age of Terror*—but their conclusions are different. She accuses the Bush lawyers of "cheating" by crossing the "line," while Hayden argues that national-security law requires us to get as close to the line as possible without crossing it. We should, he said, "have chalk on our cleats" but not go out of bounds. In Hayden's view, Yoo's job was to determine where the line between torture and not-torture lay. Brooks's view is shaped by a law-enforcement perspective, while the Yoo-Hayden view is informed by a national-security perspective. The main problem with Brooks's legal perspective is that she takes her bearings from international humanitarian law rather than the Constitution. Superseding the Constitution and American law with a purported international legal consensus is dangerously wrong.

There is a final irony here. If the military has become the "all-purpose tool" that Brooks laments, people like her are largely to blame. She, after all, embraces the use of the military for humanitarian purposes. The military's resistance to such missions in the early 1990s sparked a civil–military debate that still resonates today.

These reservations aside, Rosa Brooks has written an important and insightful book. As retired Marine general James Mattis has observed about *How War Became Everything*: "It's as if we have been sleep walking into this new world and Rosa has turned on a flashlight to show what we are doing and where we are going." **NR**

Cash Value

DAVID BECKWORTH



The Money Problem: Rethinking Financial Regulation, by Morgan Ricks (Chicago, 336 pp., $45)

It has been almost a decade since the outbreak of the Great Recession, and its causes are still being debated. This uncertainty over why it occurred does not bode well for the prevention of future recessions. Fortunately, former Treasury official Morgan Ricks's new book provides a fresh take on the crisis that sharpens our understanding of it. It does so by looking at the design of our monetary system and considering its implications for financial stability. This novel approach is useful not only for thinking about the prevention of future recessions, but also for better understanding what exactly money is.

Ricks begins the book by arguing that the reason we still have financial crises is that monetary assets are still susceptible to bank runs. This susceptibility was realized in 2007–08 during a massive bank run that, according to Ricks, triggered the Great Recession. This observation may seem odd to some observers, since there were no bank runs by households and small businesses during this time, of the kind that there had been during the Great Depression. This focus on retail investors, however, overlooks the fact that institutional investors, such as corporate treasurers, pension managers, and money-market-fund managers, *did* run on their banks in 2007. So to truly understand the origins of the crisis, one has to understand this part of the monetary system.

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Ricks notes that institutional investors, like retail investors, desire monetary assets that can readily provide purchasing power when needed. Retail investors can turn to checking accounts, savings accounts, time deposits, and money-market accounts provided by their banks. These options are not practical for institutional investors, given the large sums of money with which they transact. Consequently, they turn to such assets as a repurchase agreement ("repo"), asset-backed commercial paper, and euro-dollars issued by large financial firms on Wall Street.

To illustrate how these institutional money assets are similar to retail money assets, it is useful to compare the workings of a checking account with those of a repo. A retail investor, such as an individual who deposits funds into a checking account, has a monetary asset he can quickly turn into purchasing power. From the bank's perspective, the deposit is a short-term, fixed-value dollar liability.

An institutional investor, such as a corporate treasurer, can similarly put funds into a repo, a short-term loan to a financial firm that typically gets rolled over every night. Since the loan gets rolled over regularly, the investor can quickly turn the repo into purchasing power. It too, then, is effectively a monetary asset for the institutional investor. From the financial firm's perspective, the repo is a short-term, fixed-value dollar liability.

During the Great Depression in the 1930s, bank runs were on retail money assets. During the Great Recession of 2007–09, bank runs were on institutional money assets. In both cases, fears that financial firms would default on their short-term, fixed-value dollar liabilities caused investors to withdraw funds. These pressures forced banks and other financial firms to scale back their money-creating activities. As a result, the money supply tanked and the economy was pushed into a recession.

But one would not know this fact about the Great Recession unless one looked at a broad measure of the money supply that included both retail and institutional money assets. One such measure is the M4 money-supply measurement produced by the Center for Financial Stability. During the crisis, it fell more than $2 trillion. Most observers, however, look at narrow measures such as the M2 money supply, which measures only retail assets. It was relatively stable throughout the crisis. Ricks contends that this outdated view of money not only creates false impressions about the stability of the money supply but also limits the scope of Federal Deposit Insurance Corporation coverage and its ability to prevent bank runs.

One of Ricks's main points is that the threat of systemic financial crisis will continue as long as bank-run-induced falls in the money supply remain possible. He makes a convincing case that pursuing such other fixes as macroprudential regulation, avoiding excessive debt growth, and better management of asset-price growth will not by themselves solve the problem. He also shows that fixes such as going to 100 percent reserve banking or insisting on significantly higher capital requirements might be counterproductive and actually reduce the money supply below its optimal amount.

Ricks proposes a provocative solution that he believes would prevent the disruptive bank runs from wreaking havoc on the money supply. First, he would restrict all monetary-asset creation—or the issuance of short-term, fixed-value liabilities—to properly chartered banks. That would eliminate most of the money creation being done by financial firms for institutional investors. In the M4 money supply, for example, institutional money assets created by this "shadow banking" system are currently about $6 trillion, compared with roughly $1.5 trillion in institutional money assets that are created by the federal government (i.e., Treasury bills). This means a sizable number of financial firms in the shadow-banking system would have to become chartered banks or quit issuing short-term, fixed-value liabilities. Though it is not entirely clear in the book, the financial firms' becoming chartered banks seems the most likely outcome under Ricks's plan. (If they got out of the business of issuing these liabilities, the result would be a vast reduction in the money supply.)

Second, Ricks would extend FDIC protection to all these new chartered banks and thus effectively cover all the M4 money assets. This would arguably stop all bank runs and thereby prevent the collapse of the money supply. Since this would eliminate most, if not all, of the financial-stability concerns, Ricks would also scale down and simplify other banking regulations.

This proposal is controversial, because it would considerably extend the scope of federal insurance coverage. As Ricks notes, however, the bailout of the shadow-banking system during the crisis suggests there already is an implicit government backstop; his proposals would simply make it explicit. Still, they would expand a messy bureaucracy and possibly create new problems. Ricks, however, believes that even this would be preferable to having another systemic financial crisis. He points to the savings-and-loans crisis of the 1980s: It was expensive and messy, but it did not cause a financial crisis or a recession, because there was deposit insurance.

One question his book does not address is whether better monetary policy could be a solution to the bank panics. The central argument of the book is that runs on money assets lead to banking panics that, in turn, create recessions. Runs on money assets, though, are simply money-demand shocks. Consequently, a monetary policy that better responded to money-demand shocks might be an easier and cleaner fix than expanding the FDIC. The financial panic of 2007–09, however, suggests that implementing this solution might be easier said than done.

Overall, *The Money Problem* makes an important contribution to our understanding of the Great Recession by focusing on the monetary nature of the financial panic. It deserves to be widely read.

NR

ELEGY TO AN ORANGE IN PHOENIX, OR A MODERN WOMAN

Fooled, briefly, by its own blossom
Into believing it belongs in the barren
World it was brought to and has sought to
Make its own, the winsome
Thing lifts and cocks its slight heron
Head through a soft slipknot of
Dust and loose clay,

And grows, taking warmth into itself
Certain that the seeds
It was born with will infallibly root,
Whatever the soil coating the earthy shelf
They find themselves (and their needs)
Upon. It is easy to impute
Kindness to a warm day.

Ripe fruit is a treasure if it is scarce
And if warmth passes, but in easy days
It is merely a change of color.
The sweet thing falls on sparse
Need, and lies alone on the clays
Of a strange land, where rats gnaw her
Pips and slink away.

Precious poignant thing!
Like the petulant, matchless rhyme it is
At the end of a fruitful line—
Who will catch it gently, this beautiful excess
Which, like the Plague,
Now even the swollen rats regret?

—JANE SCHARL