

Political Foundations of Central Bank Independence 1789 to 2026

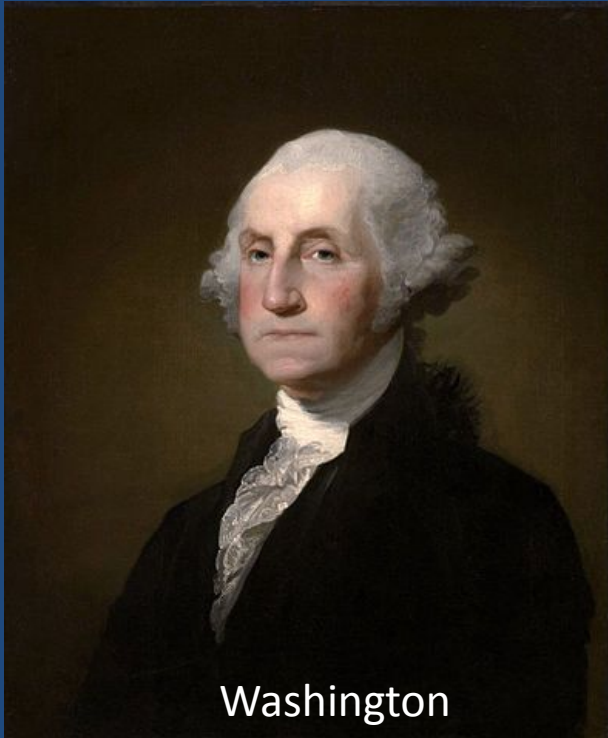
Gary Richardson

Today's Points

1. Central bank independence has deep roots
2. Political idea broader than economic concept
3. Past political debates about CBI have had huge impacts on the government's structure.
4. CBI withstood recent attacks
5. Long-run question is what this will mean for the structure of the federal government.

A Central Bank?

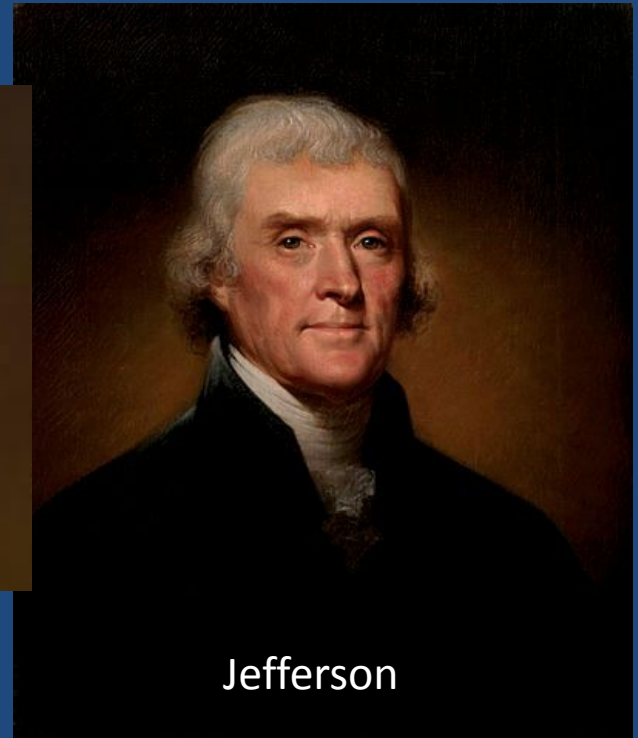
Founding fathers argued about benefits, costs, and independence of a national bank.



Washington



Hamilton



Jefferson

U.S. Constitution

Article 1, Section 8 – The Congress shall have the power to...

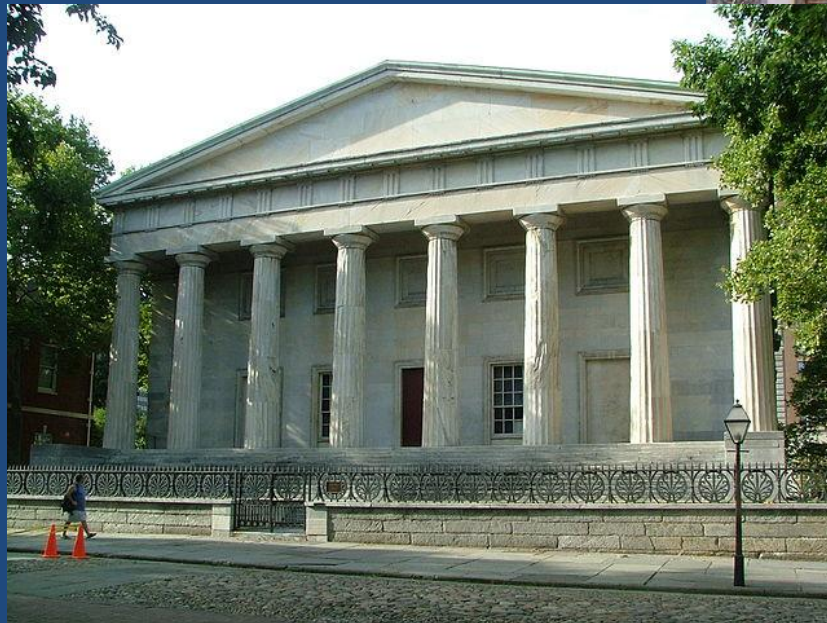
- Coin money
- Regulate commerce
- Collect taxes

Article 1, Section 10 – No State shall ...

- Coin money
- Emit Bills of Credit
- Make anything but gold and silver coin a tender in payment of debts

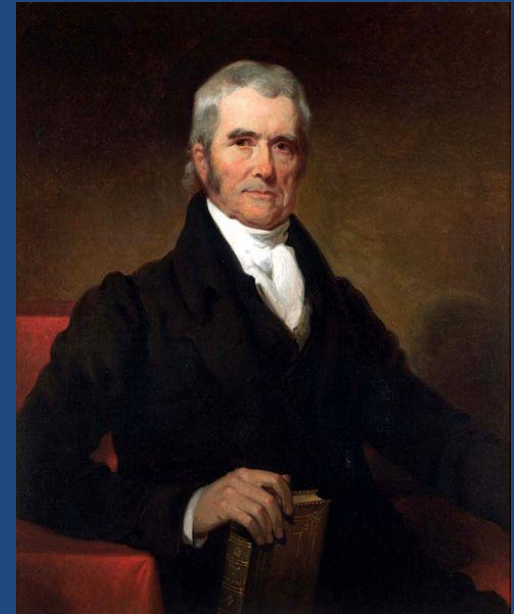
Proto-Central Banks

Bank of the United States
1816-1836



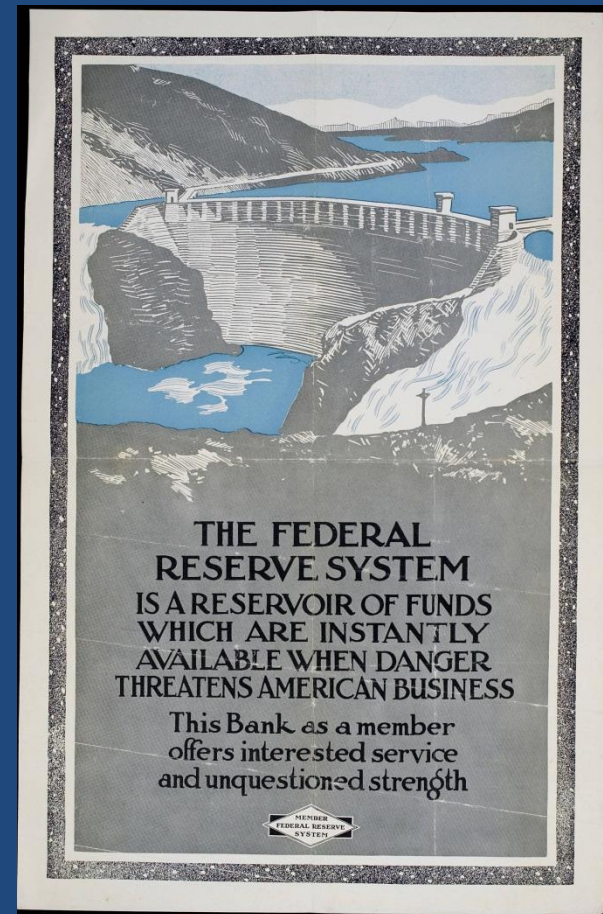
Bank of the United States
1791-1811

McCulloch v Maryland

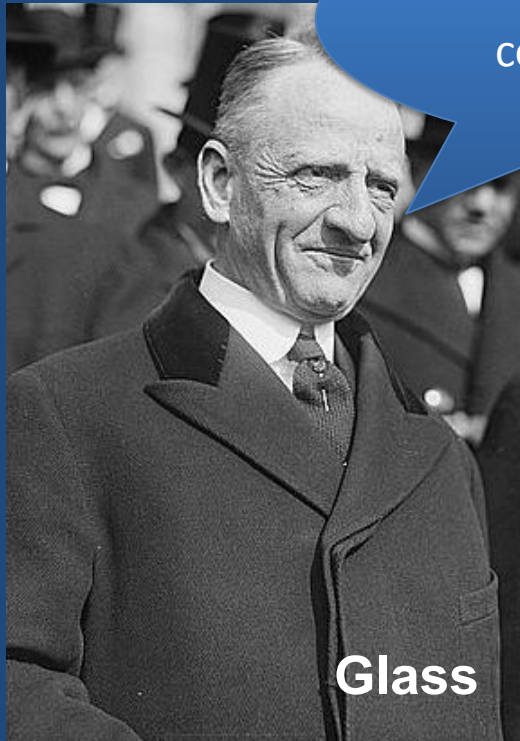


Fears About Central Banks

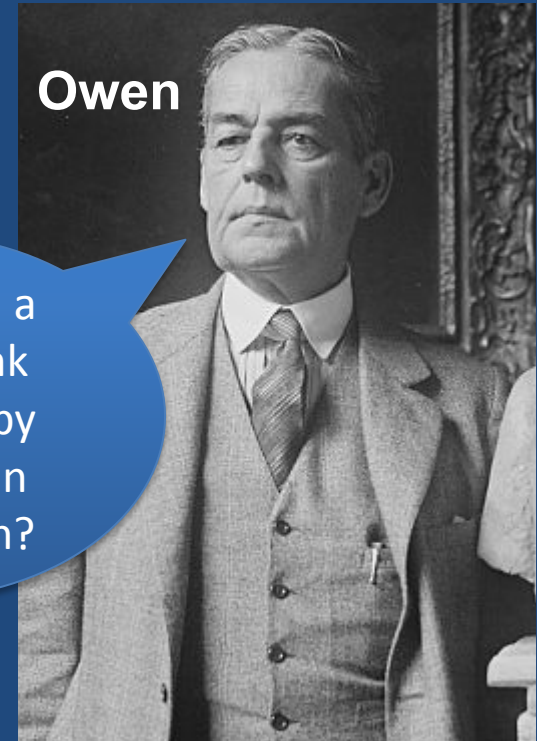
1. Inflation or deflation
2. Redistribution
3. Political Power
4. Corruption



Debates Over Federal Reserve Act, 1913



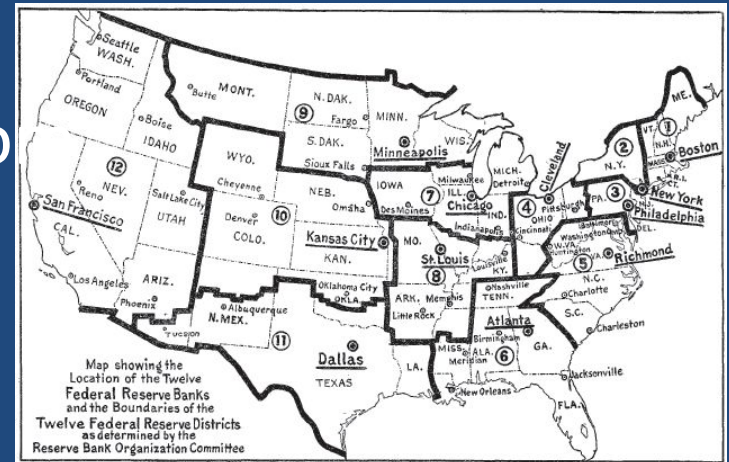
We created regional reserve banks controlled by their communities?



We created a central bank controlled by the Board in Washington?

Solutions in 1913

1. Quasi-Private
2. Regional
3. Insulation of Policymakers from Politicians
4. Limited Powers
5. Limited Corporate Lifespan
6. Federal Supervision But Not Control



"Decision of the Reserve Bank Organizing April 2, 1914"
(http://fraser.stlouisfed.org/docs/historical/nara/nara_rg082_e02_b2664_04.pdf)

Independence – Political Definition

- Policymakers pursue the public interest as defined by Congress
- Independent of all other influences
 - President
 - Other politicians
 - Personal interests
 - Other private interests
 - Banking and business interests

Reformulation in 1935

- Monetary policy (more) centralized under FOMC
=> greater concern about Presidential influence
- FOMC
 - Bank presidents
 - Chooses own chair
- Board of Governors
 - For cause
 - Long fixed terms

Reformulation in 1977

- Clarify mandate
 - 1977: promote "maximum employment, stable prices, and moderate long-term interest rates"
 - 1946: promote "maximum employment, production, and purchasing power"
- Require Fed's leaders to regularly discuss the mandate with Congress

Why the Ongoing Discussion?

- Central bank mandates are difficult to write
- Optimal mandate could be
 - Complicated and state contingent
 - Change as economy and polity evolve
 - Unknown
- Translation into legal language can be imprecise
- Uncertainty about interpretation in Courts

Political Idea Underlying Independence from the President

1. Fed's leaders taught to follow the law and report to Congress
2. President unable to change Fed's leaders or leadership structure without consent of
 - A. Senate
 - B. Senate and House
 - C. Supreme Court
 - D. All of the above

Recent Attacks

Impulse

President tried to influence/seize levers of monetary policy.

Response

1. Board of Governors did their jobs
2. Senate did little
3. Supreme Court did little
4. System worked as designed

What Comes Next?

1. Board of Governors
2. Federal Open Market Committee
3. Senate
4. Supreme Court