

Historical Antecedents of Central Bank Independence

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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 ...

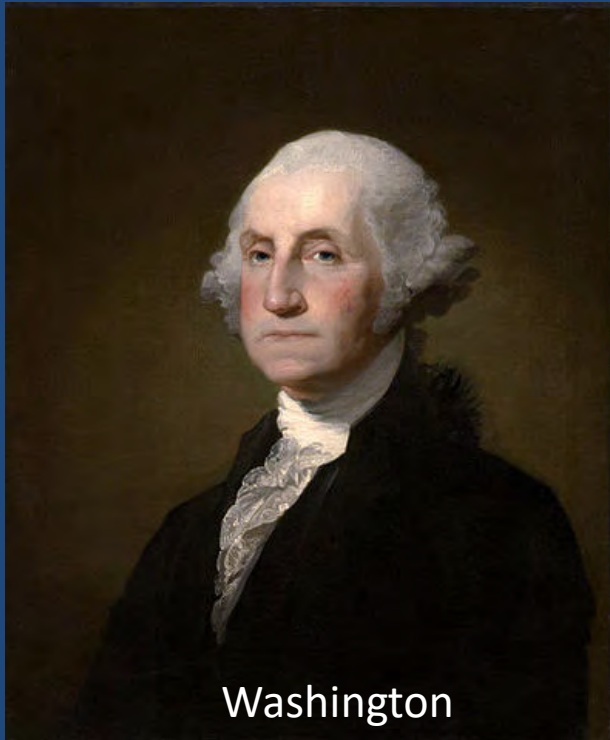
- Coin money
- Emit Bills of Credit
- Make anything but gold and silver coin a tender in payment of debts

Fears About National Bank

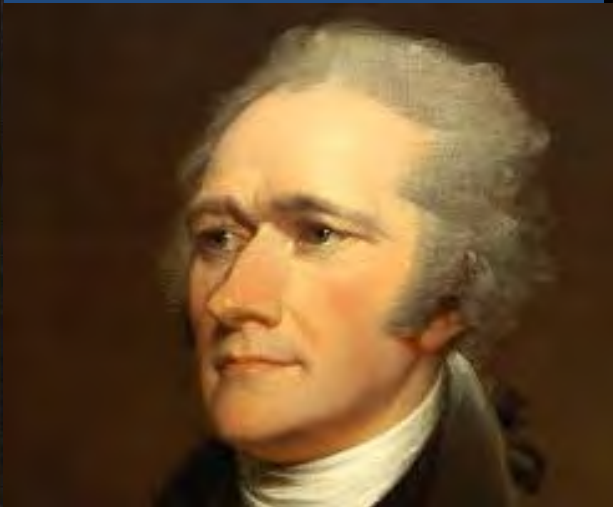
1. Inflation or deflation
2. Redistribution
3. Political Power
4. Corruption

A Central Bank?

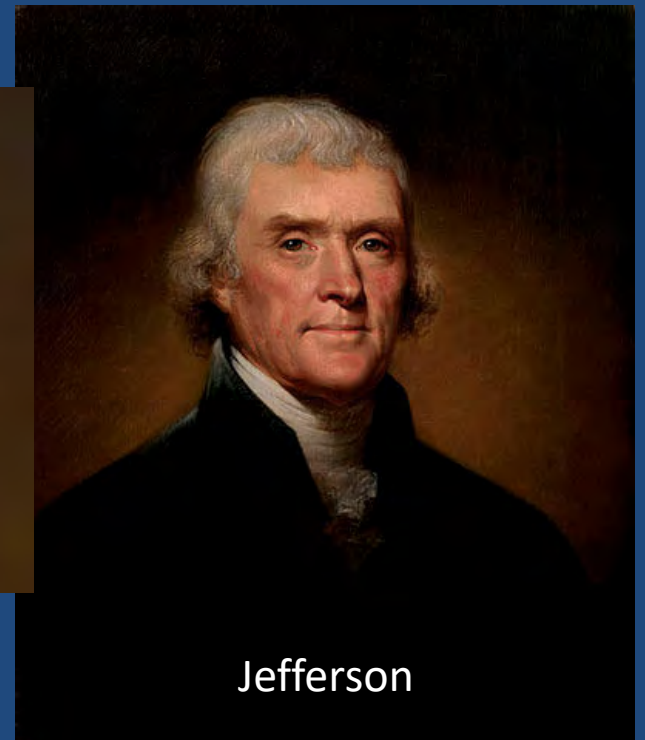
Founding fathers argued about benefits, costs, and independence of national bank.



Washington



Hamilton



Jefferson

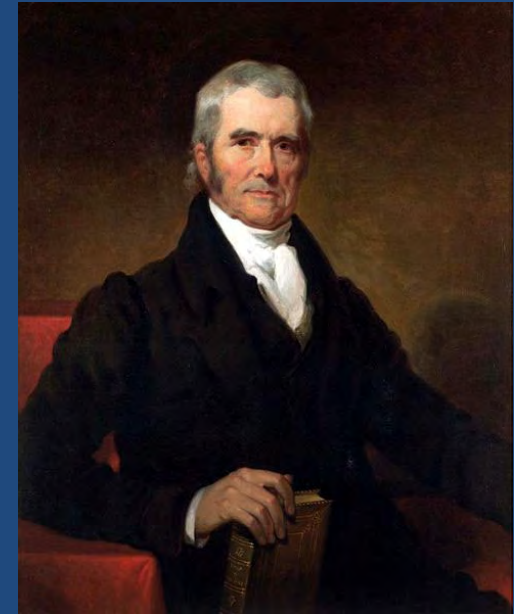
Proto-Central Banks

Bank of the United States
1816-1836



Bank of the United States
1791-1811

McCulloch v Maryland



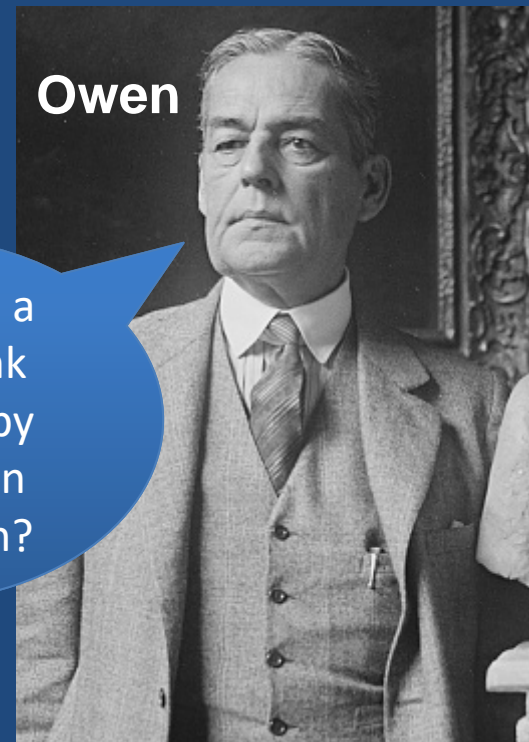
19th Century Solutions

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

Debates Over Federal Reserve Act, 1913



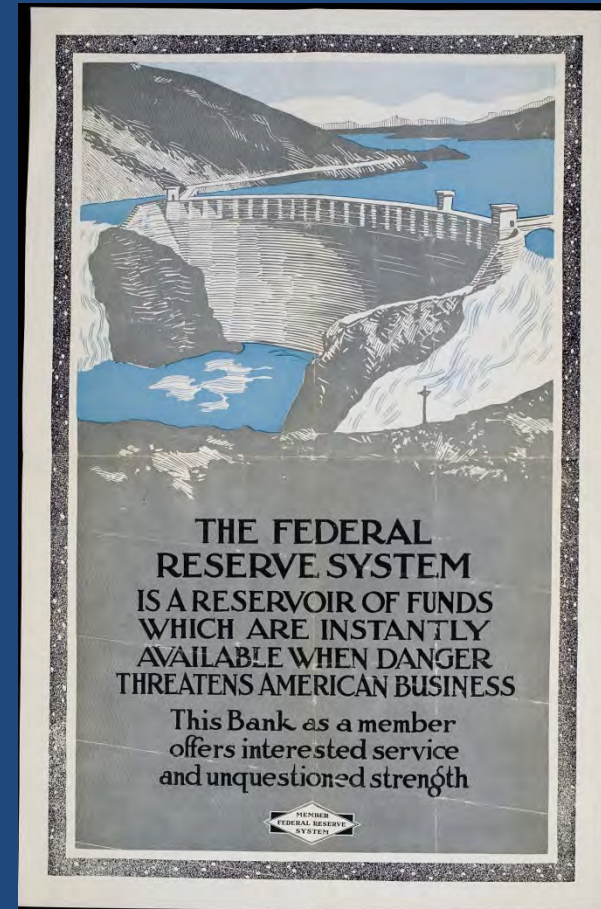
We created regional
reserve banks
controlled by their
communities?



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

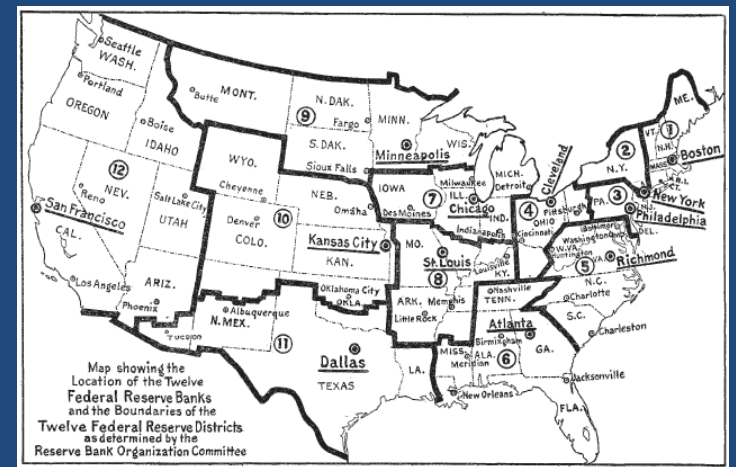
Fears About Federal Reserve

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



Solutions in 1913

1. Quasi-Private Structure
2. Regional Reserve Banks
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

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

Reformulation in 1935

- Monetary policy (more) centralized under
- FOMC
 - Bank presidents
 - Chooses own chair
- Board of Governors
 - For cause
 - Long fixed terms