

# Historical Antecedents of Central Bank Independence

Gary Richardson

# 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 ...

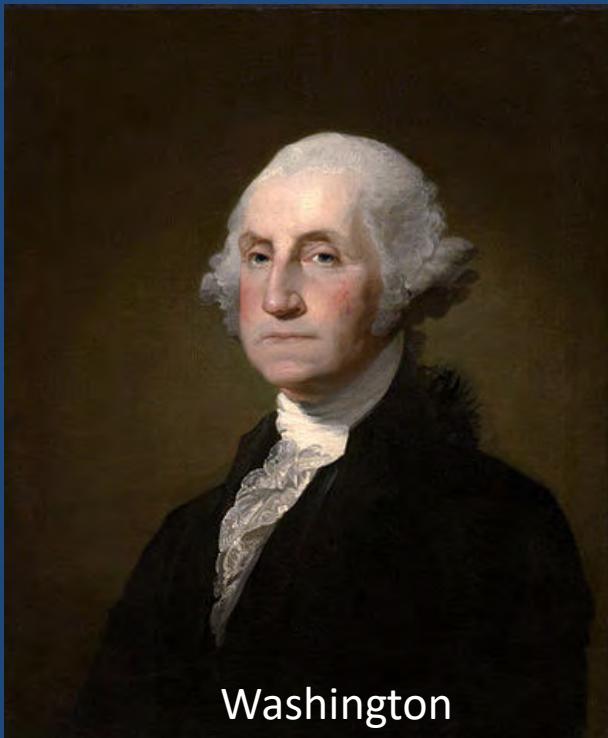
- Coin money
- Emit Bills of Credit
- Make anything but gold and silver coin a tender in payment of debts

# Fears About National Bank

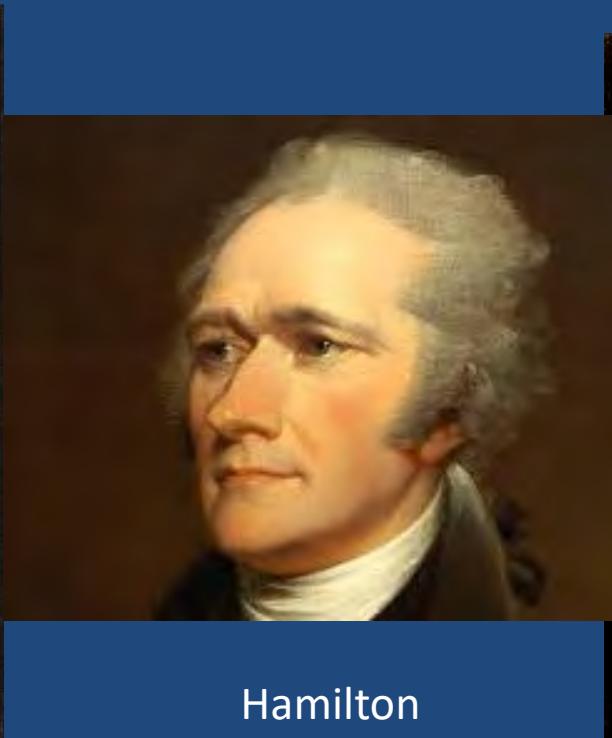
1. Inflation or deflation
2. Redistribution
3. Political Power
4. Corruption

# A Central Bank?

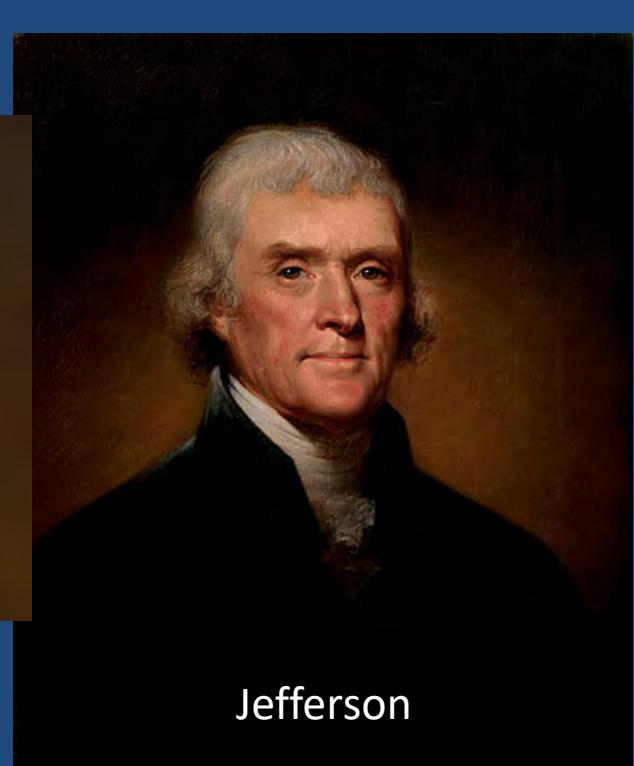
Founding fathers argued about benefits, costs, and independence of national bank.



Washington



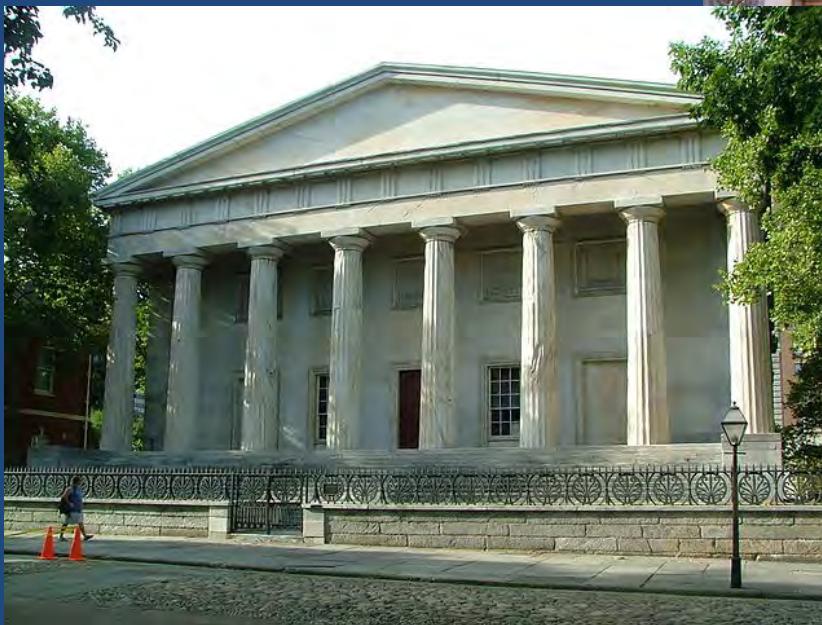
Hamilton



Jefferson

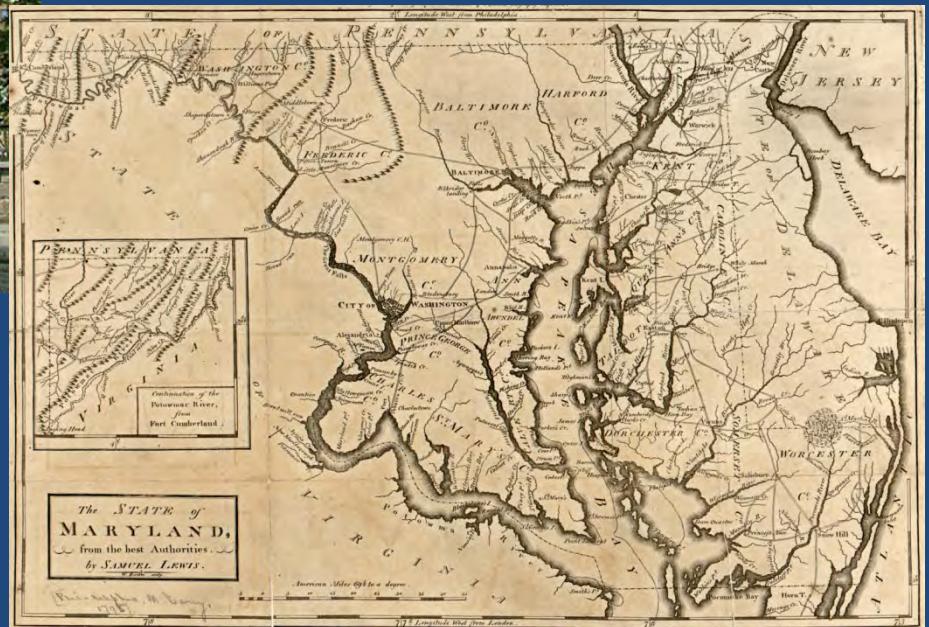
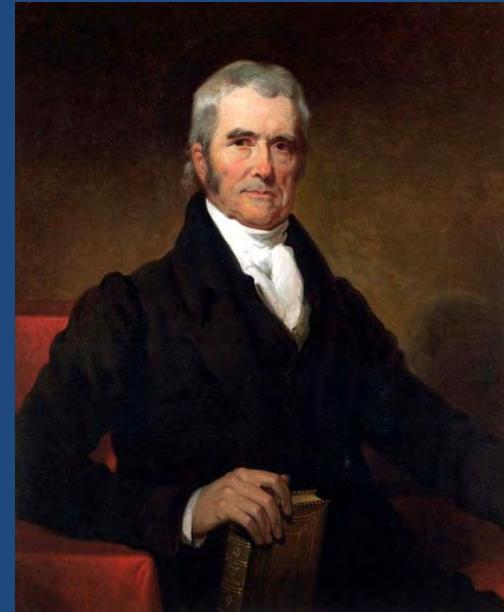
# Proto-Central Banks

Bank of the United States  
1816-1836



Bank of the United States  
1791-1811

# McCulloch v Maryland



# 19<sup>th</sup> Century Solutions

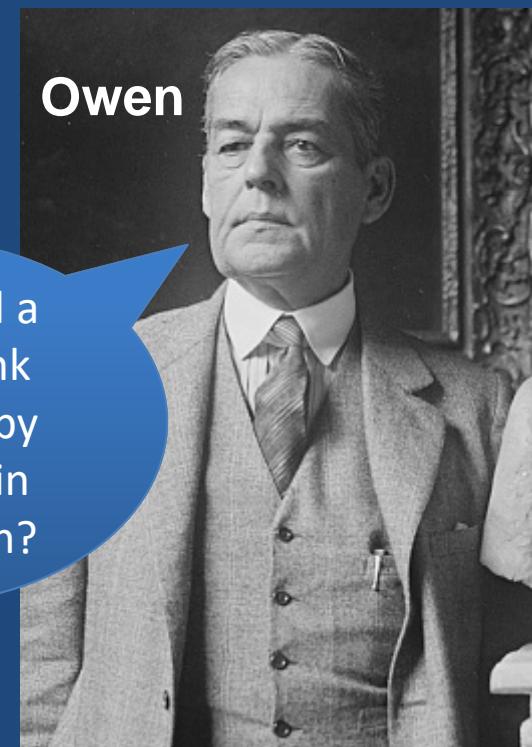
1. Quasi-Private Structure
2. Insulation of Policymakers from Politicians
3. Limited Powers
4. Federal Supervision But Not Control
5. Limited Corporate Lifespan

# Debates Over Federal Reserve Act, 1913



Glass

We created regional  
reserve banks  
controlled by their  
communities?

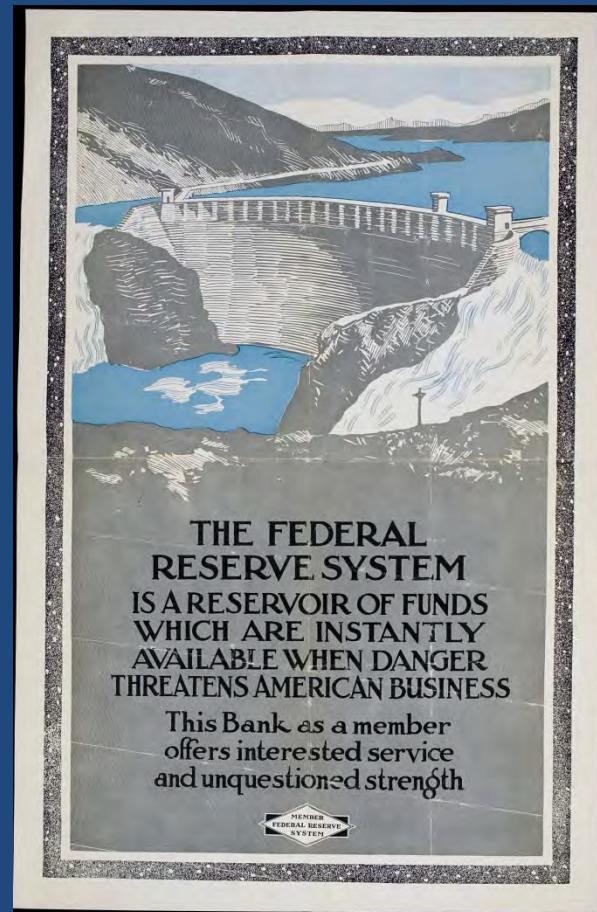


Owen

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

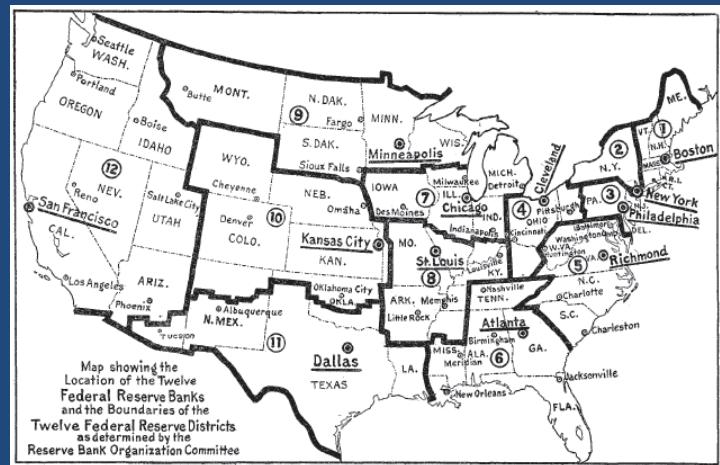
# Fears About Federal Reserve

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](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