The impact of the Central Bank's independence on monetary policy

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Abstract:

The central bank is the main regulator on the monetary market and as this market is a monopoly held by state, the market cannot adjust on its own, being always influenced by monetary policies. The primary purpose of this study is to highlight the importance of having independent central banks. For doing so, some points will be detailed, starting with discussions about the monetary policies, political influence monetary policies, inflation and Cantillon effect, free market of money and the ethics of money issuing and eventually, the question of either the central bank must be independent in order to answer the last question, the Federal Reserve System in the United States of America will be analyzed. On the basis of this research the conclusion that can be drawn is that, central bank should be granted freedom in drawing and implementing the monetary policies is supported.

1- INTRODUCTION

If we compare money to a good, we become realise that money would be the most consumed good in the economy. Though money is not hold for consumption, but for trade. As every other good in economy, in free markets, the market for money should be as independent as possible too. In this section we shall give more details about the evolution of central bank and its functions.

The supply of money in an economy is mainly regulated by state and controlled through the central bank. Since all money in our economy is fiat money, the central bank can adjust its quantity according to its policy.

The central bank has two main objectives: stable prices, stable inflation and maximum sustainable of output and employment. But, since the two are inversely proportional, the policies need to be adjusted in order to fit both purposes and while this is hardly attainable, the central bank used policies for enhancing each one of them.

1.1 Background

A central bank is a national bank that provides financial and banking services for its government and commercial banking system, as well as implementing the government's monetary policy and issuing currency.[1] In this sub-section further detail will be provided in this respect.

The first central bank was the Swedish Riksban . Established in 1668 as a joint stock bank, and was chartered to lend the government funds and to act as a clearing house for commerce. A few decades later in 1694, the most

[1] Oxford Dictionaries on Central Bank [online] Available at: http://www.oxforddictionaries.com/definition/english/central-bank, last accessed on 08.05.2014

famous central bank of the era, the Bank of England, was founded also as a joint stock company to manage government debt, and financing their war with France. Other central banks were set up later in Europe for the same purposes; also some were established to moderate monetary system. For example, the Banque de France was established by Napoleon in 1800 to stabilize the currency after the hyperinflation of paper money during the French Revolution, as well as to aid in government finance. Early central banks issued currency which served as medium of exchange, and they often had a monopoly over such note.[2] Every country has central banks, which influences its monetary supply and observe the inflation rate and unemployment rate, making sure this two will be at the optimum level for the economy.

Though the central banks were originally state lenders, contemporary central banks manage a broad range of public responsibilities, the first and most familiar of which is the prevention of banking crises. "This responsibility involves supplying additional cash reserves to commercial banks that face risk failure due to extraordinary reserve losses. Other responsibilities include managing the growth of national money stocks (and, indirectly, fostering economic stability by preventing wide fluctuations in general price levels, interest rates, and exchange rates), regulating commercial banks, and serving as the sponsoring government's fiscal agent—e.g., by purchasing government securities."[3]

1.2 Functions of a Central Bank

We can classify the functions of central bank as follows:

Monetary stability, which can be achieved through **monetary policies**, by means of expansionary or contractionary or by exchange rate policies, influencing the price of a currency in rapport with another one. Setting the official interest rates a central bank can manage both inflation and the exchange rate, while ensuring that this rate takes effect via a variety of policy mechanisms. These issues will be discussed in more detail in section 2.

Central banks control the nation's entire money supplies, having the possibility to issue new notes or to take them off the market. "The earliest progenitor central banks were the dominant **issuers of banknotes** and **bankers to the government**. Indeed, often these functions went hand in hand. Dominance over note issuance – which frequently resulted from privileges bestowed by governments – usually gave these central banks sufficient scale to be the natural choice for government banking business. And scale also provided the ability to lend a fraction of the issuance

[2] Bordo, Michael D., *A Brief History of Central Banks*, 2007 [online] Available at: http://www.clevelandfed.org/research/commentary/2007/12.cfm, last accessed on 08.05.2014

[3] Gladstone Wilson, John Stuart, *Encyclopaedia Britannica on Bank* , 2013 [online] Available at: http://www.britannica.com/EBchecked/topic/51892/bank/273048/How-deposit-insurance-works#toc273050, last accessed on 08.05.2014

proceeds to government. Over time, the dominant became **bankers to the banking system**. For commercial reasons, the dominant bank would occasionally lend to customer banks to cover temporary shortfalls in liquidity, an activity that brought with it a natural interest to the customer banks."[4] In this way, they became **a lender of last resort** for the commercial banks. Whenever the commercial banks are in difficulty for funds, they can approach the central bank and get credit. Usually, the central bank helps the other banks either by rediscounting bills or by way of loans and this can be done at the shortest possible notice. So, by default it also manages the country's foreign exchange and gold reserves and the Government's stock register, simply by being able to control the monetary supply.

Providing financial stability is also one of its main functions, which include "bank regulation (and/or licensing) and bank supervision, deposit insurance, the provision of safety nets through emergency liquidity assistance, provision of honest broker services, and involvement in the payment system in general."[5] Involvement in the payment system basically means oversight of this system, providing the infrastructure for it, and often involves electronic interchange between various payment systems and the central bank's settlement account system.

Central banks also provide a financial infrastructure and control the volume of credit. It is necessary to control the volume of money in order to have a stable price level. If there is too much of money in circulation, the central bank should take some money out of circulation. It can do it by increasing the bank rate. When the bank rate goes up, the rates charged by other banks go up as well. So that when the rate of interest goes up, businesses will be discouraged to borrow more money. So bank rate is considered to be one of the most powerful tools of central bank in controlling credit. Thus, the central bank can also have the function of regulating and supervising the banking industry, for providing a stable economic environment.

2- MONETARY POLICIES AND THEIR TOOLS

In this section we shall discuss monetary policies, its effects on economy and how they can be put into practice by using different tools. As previously mentioned in the first chapter, one of the most important functions of the central bank is represented by ensuring monetary stability. Figure 1 makes a classification of this task and organizes it in three categories: monetary policies, exchange rate policies and exchange controls. As seen in the figure, monetary policy represents the most important function of a central bank.

[4] Archer, David, *Issues in The Governance of Central Banks*, Bank for International Settlements Press& Communications, Switzerland, 2009, p. 19

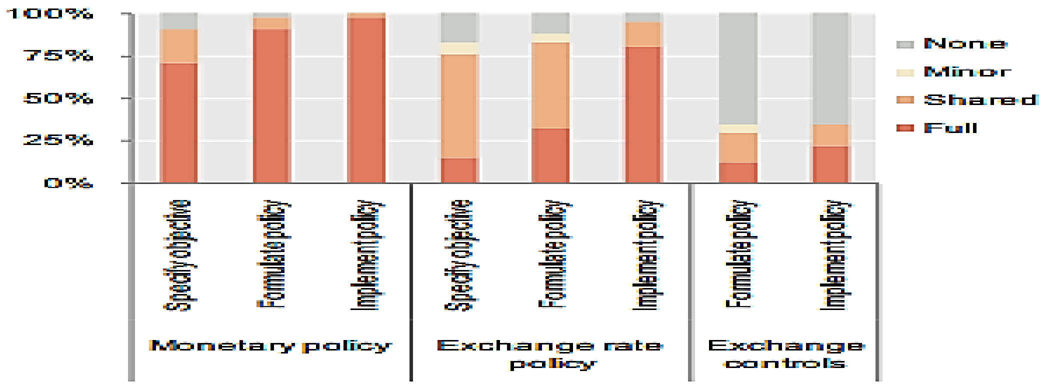
[5] Archer, David, *Issues in The Governance of Central Banks*, Bank for International Settlements Press& Communications, Switzerland, 2009, p. 34

As a definition "monetary policy is what central banks use to manage the amount of liquidity in the economy. Liquidity includes cash, credit and money market mutual funds. The important part of liquidity is credit, which includes loans, bonds, mortgages, and other agreements to repay. Central banks manage liqudity to guide economic growth. When the liquidity is high, there's more to spend and invest because loans are cheap. This spurs business growth and creates jobs. When the liquidity is tight, then loans cost a lot, and there's less to spend, slowing growth and inflation."[6] Monetary policy represents the two types of policies: expansionary and contractionary. Another important point to be mention is that the effects of monetary policies can be seen in economy after about six months since their implementation, so the central bank must properly predict the way the economy will go so that its influence to be a beneficial one for the society.

Figure 1

Responsibility for functions related to monetary stability

Per cent of 41 central banks



Source: *BIS (2008b)*

The expansionary policy put on more money into the economy, affecting thus the supply of money and causing an increase in bond prices and lower interest rates which lead to higher levels of capital investment. The lower interest rates make domestic bonds less attractive, so the demand for domestic bonds falls and the demand for foreign bonds rise. Also the demand for domestic currency falls and the demand for foreign currency rises, causing a decrease in the exchange rate. But, a lower exchange rate causes exports to increase, imports to decrease and the balance of trade to increase.

The contractionary policy is exactly the opposite: takes money out of economy and decreases their supply, thus causing a decrease in bond prices and an increase in interest rates. Higher interest rates lead to lower the levels of capital investment. The higher interest rates make domestic bonds

[6] Amdeo, Kimberly, *Monetary Policy*, 2013 [online] Available at: http://useconomy.about.com/od/glossary/g/Monetary_policy.htm, last accessed on 08.05.2014

more attractive, so the demand for domestic bonds rises and the demand for foreign bonds fall. Also, the demand for domestic currency rises and the demand for foreign currency falls, causing an increase in the exchange rate. But, a higher exchange rate causes exports to decrease, imports to increase and the balance of trade to decrease.[7]

For putting into practice either the expansionary or the contractionary policies, there are some tools that central banks use:

- Open Market Operations
- Discount Rate
- Reserve Requirements
- Interest on Required Reserve Balances and Excess Balances
- Term Asset-Backed Securities Loan Facility
- Term Deposit Facility
- Expired Policy Tools

2.1 Open Market Operations

This is the most frequent way the central bank makes changes in the monetary supply, which involves mainly selling or buying securities. "When a central bank buys securities, it makes payment by increasing the reserve account of the seller's bank. Doing so increases the total volume of reserves that the banking system collectively holds. Conversely, when a central bank sells a security, it takes payment by reducing the reserve account of the buyer's bank. Doing so decreases the total volume of reserves."[8]

2.2 Discount Rate

The banks can borrow directly from the central bank when in need, with the commitment of paying back the sum plus the interest, otherwise said the discount rate. By setting a high discount rate, the banks will be discouraged to have a loan from the central bank, at least not until they already use up all their other alternatives; so a contractionary policy is encouraged. By setting a low discount rate, banks will be have easier access to the supply of money and can get a loan cheaper, which will encourage an expansionary policy.[9]

2.3 Reserve Requirements

Reserve requirements represent a specific percentage the commercial banks hold from their cash balances within the central bank. This affects directly the amount of money in an economy: the more reserves the central bank holds the less money in the economy also the more money in the economy.

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[7] Moffatt, Mike, *Expansionary Monetary Policy vs. Contractionary Monetary Policy* [online] Available at: http://economics.about.com/cs/money/a/policy_2.htm, last accessed on 08.05.2014

[8] Friedman, M. Benjamin, *Monetary policy*, National Bureau of Economic Research, Working Paper 8057, Cambridge, December 2000, p. 6-7

[9] Federal Reserve Bank of San Francisco [online] http://www.frbsf.org/us-monetary-policy-introduction/tools/

Since this is a very blunt move, central banks usually rather apply open market operations instead of modifying the reserve.[10]

2.4 Other Instruments

2.4.1 Interest on Required Reserve Balances and Excess Balances

Interest on required reserve goes into establishing an interest the central banks need to pay on balances maintained to satisfy reserve balance requirements and on excess balances. This has an effect on the monetary supply in the way that by raising the interest, the supply will be larger, while by lowering the interest, the supply will be smaller.

2.4.2 Term Deposit Facility

Term deposit facility is used to "manage the aggregate quantity of reserve balances held by depository institutions. Funds placed in term deposits are removed from the accounts of participating institutions for the life of the term deposit and thereby drain reserve balances from the banking system. Reserve Banks will offer term deposits through the Term Deposit Facility (TDF), and all institutions that are eligible to receive earnings on their balances at Reserve Banks may participate in the term deposit program."[11]

3- ARGUMENTS FOR CENTRAL BANK'S INDEPENDENCE

Should the central bank be independent? In this section we shall argue whether the central bank should be independent or not, taking into consideration aspects like political influence, Cantillon effect, free market, ethics of money production and sound and unsound monetary policies.

We shall go with the premise that the economy should be as free as possible as a model economy. For being able to accomplish that, the government should limit its actions as much as possible. As argued by many scholars, the influence of government should not constrain the trade-off between persons and should secure that they have the possibility of owing private properties. Misses argued in his essay "Liberty and Property" about the importance of private property with respect to the individual freedom and independence. Economy is based on the society's needs for exchanges.[12] It represents an efficient way of being able to obtain the goods and wants one need and this efficiency can be accomplished faster in a free economy; therefore, the money supply should also be in accordance with the society's demand. And, of course, the society knows its demand best so the production of money would better be at its disposal. Even so, the private production of money is hardly free or possible, since the money industry is heavily regulated. As Mises pointed out, "liberty is always

[10] *Encyclopaedia Britannica on Monetary Policy* , 2014 [online] Available at: http://www.britannica.com/EBchecked/topic/389158/monetary-policy, last accessed on 08.05.2014

[11] Federal Reserve Bank of San Francisco [online] Available at: http://www.frbsf.org/us-monetary-policy-introduction/tools/

[12] Mises, Ludwig von, *Liberty and property*, Ludwig von Mises Institute, Alabama, 1988, p.32

freedom from the government. It is the restriction of government's interference. "[13]

Why is this important of the topic at hand? Because it reflects the general state of the economy in the presence of a central bank. So we shall see arguments in the favour of central bank's independence seen from the perspective of a free market. If the market will not be free, the independence of the central bank will not matter that much, since all or most of the transactions were regulated by the state. In fact, an independence of the central bank might disturb the environment even more, for not being in accordance with all the other policies.

3.1 Sound and Unsound Monetary Policies

Along this sub-section we shall go through issues regarding the impact of different policies on economy and how this can have a sound or unsound effect. What a central bank has to choose from when dealing with this problem is either inflation or unemployment.

As shown by A. W. Phillips[14], when employment raises, so does inflation, and when inflation drops, so does employment. This relation is pictured in Graph 1. Seeing an economy where let's say the employment rate will suddenly rise without any government interference. More people will get money, so the money supply put into circulation will rise too. Naturally, if the money supply rises, the enterprisers will charge more for their products and so the prices will rise too. And eventually inflation will be created; but, as mentioned before, if this happens without the government intervention, the inflation created will not be that big as the economy could not absorb it. Of the new money are not new issued notes, but rather money from savings, the economy will go up and be able to deal with the inflation created, since those money where originally in the economy too; plus, seeing that they are savings, the entrepreneur will not choose a bad time or method of doing business, since that will mean the loss of his capital. This will happen as natural event, taking place out of society's need for a change and economic enhancement. On the other hand, if the government did interfere and, say, the new jobs are parts of a governmental program, the new money put on the market will create inflation on a different scale: money that were not originally into circulation just emerged on the market. The economy might have difficulties into being able to take them in on the long run. On the short term they will create economic enhancement and will slightly increase the level of living, but on the long run, this money will backlash when they will not be able to be soaked up in economy. Eventually, if the government chooses to put more money into circulation to somehow retain the effect the previous money had, they will increase the

[13] Mises, Ludwig von, *Liberty and property*, Ludwig von Mises Institute, Alabama, 1988, p.33

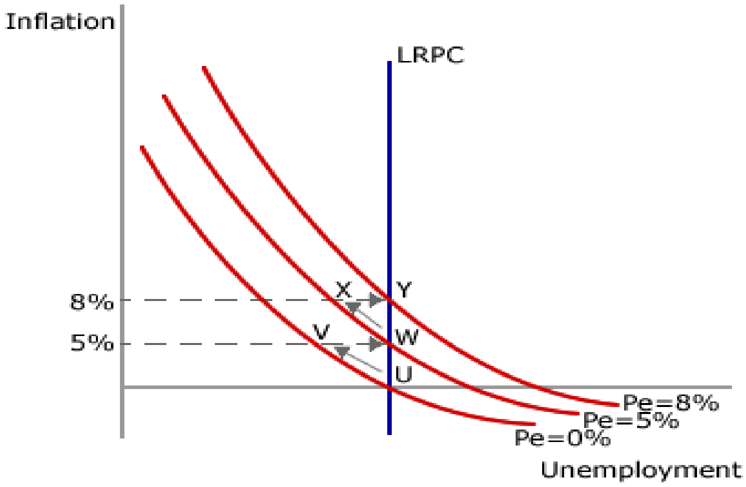
[14] Phillips, A. W., *The Relationship between Unemployment and the Rate of Change of Money Wages in the United Kingdom 1861-1957*, Economica, Vol. 15, 1925, p. 283–299

inflation even more. This inversely proportional relation between inflation and unemployment is shown on the **Phillips Curve**.

However, there were some scholars that didn't agree to A.W. Phillips theory, namely Milton Friedman[15] and J.M. Keynes[16]; they argued that after the first wave of inflation, the society will be prepared for the new one and it will be more easily absorbed into the economy. The way for this to happen will be when the society already adopted the newly printed money and adapted to the previous level of inflation. Considering there has been some money put into economy, the inflation started to rise, so eventually the wages will rise and the prices as well, but after a period of time, it can be seen that the new money are adopted by the economy and the level of living will remain the same. After this, there will be new money put into circulation, but their effects will start from where the previous point as from scratch.

As shown in Graph 1, when the unemployment drops by 5%, the inflation rises as well by 5%. In a general plan on a Short-Run Phillips Curve, this will specify the costs of having either low inflation or high employment. Starting from this, Keynes and Milton argued that on the long run this will not be a problem, because the new inflationary process will start from the point at which the new money are already accepted as part of the society.

Graph 1: Phillips Curve



Source:
http://www.bized.co.uk/virtual/usbank/economics/mpol/inflation/causes/theories4.htm

Another way of looking at monetary policies would be from the perspective of John Law he was stated: that the benefits of low unemployment, low interest rates and stable economy would outrun the cost of inflation: "The use of banks has been the best method yet practised for the increase of money. … So far as they lend they add to the money,

[15] Friedman, Milton, *The Role of Monetary Policy*, The American Economic Review, Vol. 58, 1968, pp. 1-17

[16] Keynes, John Maynard, *The General Theory of Employment, Interest and Money*, Journal of Money, Credit and Banking, Vol. 27, 1995

which brings a profit to the country by employing more people, and extending trade; they add to the money to be lent, whereby it is easier borrowed, and at less use [i.e., interest]".[17] The certain good it does, will more than balance the hazard, in two or three years it failed in payment; providing the sums lent be well secured: Merchants who had money there, might be disappointed of it at demand, but security being good and interest allowed; money would be had on a small discount, perhaps at par."[18] Law gives the talk about how money could cover the government debt and still be beneficial to the economy and society as a whole.

Law's ideas were put into practice by issuing notes against the securities of the land, in 3 ways, very briefly mentioned by Salerno[19]: "(1) by lending notes at a market rate of interest, the total loan not to exceed two-thirds of the market value of lands offered as collateral by the borrower; (2) by making loans equal to the full price of lands which were temporarily ceded to the commission until the loan was repaid and the lands redeemed;(3) by purchasing lands outright in exchange for its notes." Considering its proposal, one can see this represents inflationary policies and on the long-run it will have repercussions. Even so, it was put into practice and today too expansionary policies are quite common.

Now, because we cannot have both employment and lower levels of inflation, the central banks should have to make a choice. Would choosing employment mean a more sound policy than choosing low inflation? As argued by Mises[20], going with a lower inflation rate is always better than trying to accomplish unemployment. Assuming the economy is stagnating in a stable point and the government want to stimulate growth. By implementing expansionary monetary policies, they put more money into circulation and on the short-run the economy start expanding; but as money start circulating the economy, inflation will rise, as well as employment. For growing a stable, flourishing economy, both expansionary and contractionary policies are required; the balance between them is what keeps the economy stable, in fact. Central banks may argue that sound monetary policies will be either the expansionary or the contractionary ones, but in the end it all adds up to the state the economy is in and the specific measures that it needs. As is generally regarded that the expansionary policies are usually unsound and the contractionary ones are sound, there might be cases when having an expansionary policy can help the economy. For instance, during the 2008 crisis many people started changing their money into Swiss francs, which at the moment had a greater stability and value. On a macroeconomic scale this turned up to be a major

[17] Law, John, *Money and Trade Considered*, R&A Foulis, Glasgow, 1750, pp 36-37

[18] Law, John, *Money and Trade Considered*, R&A Foulis, Glasgow, 1750, pp. 37-38

[19] Salerno, Joseph T., *Money, Sound and Unsound*, Ludwig von Mises Institute, Alabama, 2010, p.10

[20] Mises, Ludwig von, *Economic Policy Third Edition*, Ludwig von Mises Institute, Alabama, 2006, pp. 55-57

drawback for Switzerland: as the money supply emptied form economy, their currency became even more expensive; trips to Switzerland became also more expensive, so their tourism went down, as well as all of their products; due to increasing in costs of production, the cost of all products grew as well. On the other, their citizen had the advantage of travelling abroad for cheap; this is hardly an advantage one could get, seeing that they got to this situation simply because the products in their country became more expensive.[21] In this situation an expansionary policy would have turned out to be very tolerated and accepted.

3.2 Political Influence

One of the major reasons one would argue that central banks should be independent is due to political influence. In this sub-section some point regarding the independence of a central bank apart from the governing function will be emphasised.

As stated in the previous sub- section, monetary policies can be either sound, the contractionary ones, or unsound, the expansionary ones. Having the best interest of a country on mind, the governor of the bank can choose either one of this according to the needs the economy has. But, when the central bank is dependent of political environment, the political party may not know how to correctly appreciate the need for increasing or decreasing the supply of money. Let’s say we have a country where inflation started to rise; yet, the politicians promise the people an increase in wages for all the state employees. To be able to do that, the state should either try to manage its funds in a different manner, so that there will be more money available for the wages increase, or to prepare a new wave of printing money. Seeing that inflation started to raise already, an increase in wages will only make the situation worse. Now, in case the central bank is independent, can make its own call and act in the best interest of the economy by not printing more money. On the other hand, if the central bank is not independent, the politicians can propose and enforce changes according to their own interests. If a politician is in an important position and the elections are approaching, he will want to do changes that will confer him the security of being re-elected. These changes could affect the economic sector in a strong way and there is a need for a central bank that could independently make decisions to put the economy on track. The political measures and wishes will not always follow the economic track and this could damage the economy, unless the central bank can independently do the decisions.

Another point of that needs to be mentioned here is the instability that can comes with the political influence. As shown by Cukierman and Webb[22],

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[21] Dorgan, George, *Downward and Upwards Drivers of Swiss Inflation*, [online] Available at: http://snbchf.com/euro-zone-swiss-macro/drivers-swiss-inflation/, last accessed on 27.06.2014

[22] Cukierman, Alex & Webb, Steven, *Political Influence on The Central Bank- International Evidence*, Working Paper No. 114, The University of Chicago, 1995, pp. 7-12

when facing political instability, the best way for an economy to behave is consistent and follows independent policies. But as shown in their study when there is political unrest, economic downturn follows: in Argentina there is a change in governors with every political change, so even if the term for a governor is by law represented of four years, the average stay of one is of ten months. In the study made by Cukierman[23] he sets a scale of 0 (smallest level of independence) to 1 (highest level of independence) to measure the level of independence and some of his findings are illustrated in Table 2.

> "The extreme case of Argentina, though suggests that at least above some the turnover rate of central bank governors is a proxy of (lack of) actual independence. The average early turnover rate between 1950 and 1989 ranges from a minimum of 0.03 (average tenure of 33 years) in Island to a maximum of 0.93 (average tenure is about 13 months in Argentina). Turnover rates in LDCs tend to spread into a range that has not been experienced in the developed countries. The highest turnover among the developed countries is 0.2 (average tenure of 5 years) for Spain and Japan. More than have of the leased developed countries have turnover rates exceeding this.
>
> Low turnover does not necessarily imply a high level of Central Bank's independence – a relatively subservient governor may stay in office longer precisely because he does not stand up to the executive branch. This may be true for countries with exceptionally low turnover rates such as Island, Denmark, Britain and the United States. In such countries, turnover is probably unrelated to independence. On the other hand, it is very likely that above some critical turnover rate Central Bank's independence is lower the higher the rate of the Central Bank's governors. One reason is that for sufficiently high turnover rates the tenure of the Central Bank's governor is shorter than that of the executive branch. This makes the governor more susceptible to influence by the executive branch and discourages him or her for trying to implement longer term policies to lower the expected tenure. Since in most countries the electoral cycle is at least four years, it is likely that the threshold turnover is somewhere between 0.2 and 0.25 (average tenure of four to five years)."[24]

Political influence on the central bank can , therefore, be measured by looking at the probability that a central bank governor will be replaced shortly after a political change of government. The governor changes about

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[23] Cukierman, Alex, *Central Bank Independence, Political Influence and Macroeconomic Performance*, Cuadernos de Economia, Vol. 30, 1993, pp. 275

[24] Cukierman, Alex, *Central Bank Independence, Political Influence and Macroeconomic Performance*, Cuadernos de Economia, Vol. 30, 1993, pp. 275-276

half the time within six months as act of a non-constitutional or other radical change of government—a military coup or a restoration of democracy reperesents a high dependency. If the governor is less likely to change within six months following a routine change in the head of government, which represents a higher independency.

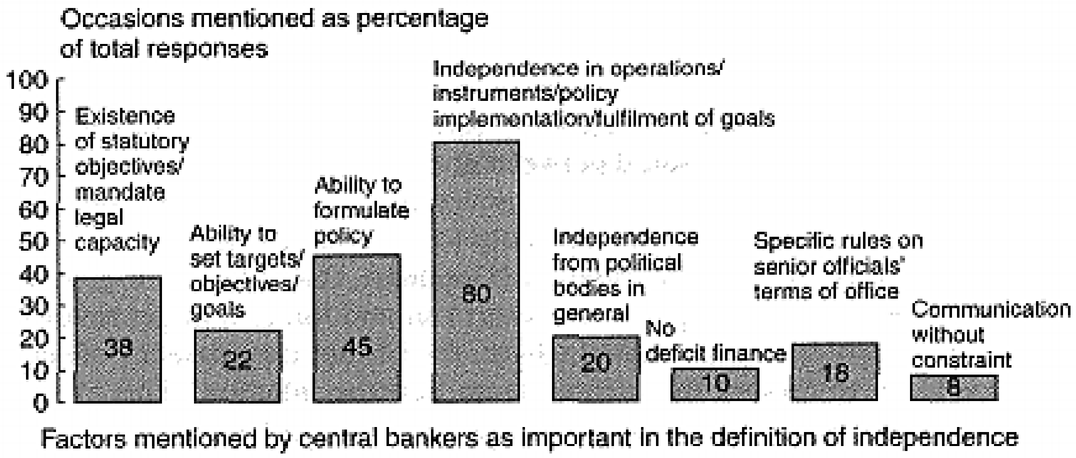
Table 2: Turnover Rates of the Central Bank's Governors

Country	Turnover
Thailand	0.10
Hungary	0.10
Honduras	0.10
South Africa	0.20
Philippines	0.20
Israel	0.20
Greece	0.20
India	0.30
Uruguay	0.30
Portugal	0.30
Pakistan	0.30
Turkey	0.40
Nicaragua	0.40
Poland	0.50
Venezuela	0.50
Singapore	0.60
Chile	0.80
Brazil	0.80
Argentina	1.00

Source: ***Adapted from table 3 of Cukierman,*** *Webb and Neyapti (1992)*

As we can see, political independence can represent more stable economies: since the governors have more time in charge of the policies, they can promote sustainable strategies and implement them; as we previously said, the effect of monetary policies are seen in the economy after at least 3 months. Without stability in turnover of governor's change this policies will always be draw to a different course of action and the economy will rumble in between inflation and unemployment according to the will of the person in charge.

Figure 2: How Central Banks Independence Is Seen



Source:
http://www.bankofengland.co.uk/education/Documents/ccbs/publications/pdf/mpfagc/section6.pdf, page 111

In Walsh[25] analyses, he sees political independence from 8 points of view: existence of statutory objectives/mandate legal capacity, ability to set targets/ objectives/ goals, independence in operations/ instruments/ policy implementation/ fulfilment of goals, independence from political bodies in general, no deficit finance, specific rules on senior officials' terms of office and communication without restrained. In his study, as seen in Figure 2, there is given greater importance to independence in operations/ instruments/ policy implementation/ fulfilment of goals and to the existence of statutory objectives, than to the ability to set targets/ objectives and ability to formulate policy.

Political independency may be the most important argument for promoting central bank's independence, because the economy can be kept more stable without the interference of different political interests, and parties.

3.3 Cantillon Effect

This sub-section which elaborates Richard Cantillon ideology, will explain the Cantillon Effect and will show how his argument represents an important issue in central bank's independency.

Richard Cantillon was an Irish-French economist from the eighteen century[26], who explained in his only remaining work "*Essai sur la nature du commerce en général"* how inflationist poilicies can disturb the economy. He argued against John Law's view and maintained the position of showing the importance of non-inflationary policies. As Jevons says, the work of Cantillon is "the cradle of political economy"[27] and Hülsmann called Cantillon a "proto-austrian"[28], since he explained the bad repercussions of inflation.

In his work, Cantillon explained the way inflation spreads in economy: when the state is printing money, they are not uniformly distributed to the whole population; they are given to a certain sector the government wishes to support. Therefore, they are the first to receive the money and use them at the highest possible value, which is the current value of money from that specific economy. Let's say that the government will like to support the banking sector; banks will be the first to receive the money and they will enjoy the benefit of gaining the most from the value of the newly printed money. As soon as banks will start paying their suppliers, employees or lend money and put the newly printed money into movement, they start to spread them through the economy; society will eventually realise the that more money are available and prices will start to rise, thus inflation will

[25] Walsh, Carl, *Optimal Contracts for Central Bankers,* American Economic Review, Vol. 85, 1995 pp. 150-167

[26] Holcombe, Randal G. *15 Great Austrian Economist*, Ludwig von Mises Insitute, Alabama, 1999, p.5

[27] Jevons, William Stanley *Richard Cantillon and the Nationality of Political Economy*, The Contemporary Review, Vol. XXXIX, January/June 188, London, p.64

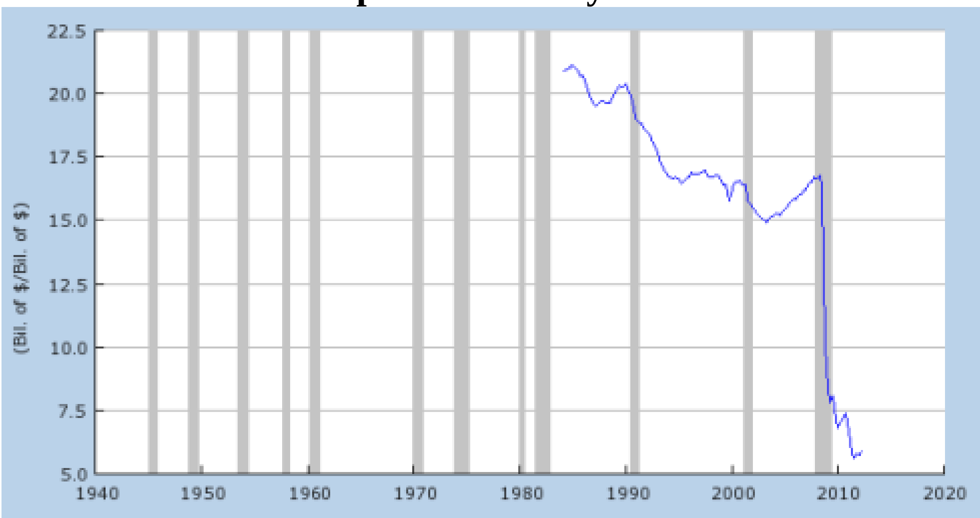
[28] Hülsmann, Jorg Guido *More on Cantillon as a Proto-Austrian*, Journal des Economistes et des Etudes Humaines, Vol. 11, 2001

start to take of; in the meantime, the money continue to spread even more, but when inflation started their value began to drop as well; those whose will receive the money second will have some benefits over the new printing that the economy got, but not as much as those who received them first.
The point he makes is that in the end, those who will receive the money last will not benefit over receiving them at all; on the contrary, if the bank printed too much and the level of inflation is incredibly high, receiving the money may not make any difference at all; also, there are people that might never get to receive the newly printed money and they will also lose from the inflationist policy of the government. Eventually prices will stabilize again, but at a higher level and the benefits of the printed money are only on short term; on long term they have a negative impact on economy, facilitating inflation and depreciation of currency.
One can see this effect on monetary base and monetary supply in the economy, when the new money are put into circulation and the monetary supply increases over the monetary base, thus creating debt in the national budget on the long run.
Also, Cantillon didn't fail to mention the importance of factors of decision of the agents on the market. "In Cantillon's work, the dynamic path of adjustment of relative prices, output, the interest rate, and specie flows depends on the expectations of agents in the various markets. This emphasis on expectations presages much of modern monetary theory. It is unclear exactly how expectations are formed in his scheme but the frequent examples of agents catching on slowly suggest that they are formed adaptively. Moreover, the repeated examples of people being fooled suggest that the availability and cost of information is an important aspect of Cantillon's scheme. Such an emphasis antecedes modern macro theories of disequilibrium."[29] Bordo emphasizes that in Cantillon's model the agents on the market and the factors of decision are maybe the most important. He draws a conclusion with regards to the whole paper and the expectations of the consumer seem to get the highest place in an hierarchy.
The "rapidity of circulation of money,"[30] is also one of the points mentioned by Cantillon that can be of importance to the topic at hand. What it is significant for is precisely the fact that when money spread faster, they can produce inflation or help into unemployment faster.
On the other hand, if money were to be distributed equally to the population, the inflationary effect might never appear, because people have different want and needs and they will spend the money accordingly, as

[29] Bordo, Michael D., "*Some Aspects of The Monetary Economics of Richard Cantillon*", Journal of Monetary Economics, Vol. 12, 1983, pp. 235- 258
[30] Richard Cantillon, Essai sur la Nature du Commerce en Général, ed. and trans.Henry Higgs (New York: Augustus M. Kelley, Bookseller, [1931] 1964), pp. 127–49

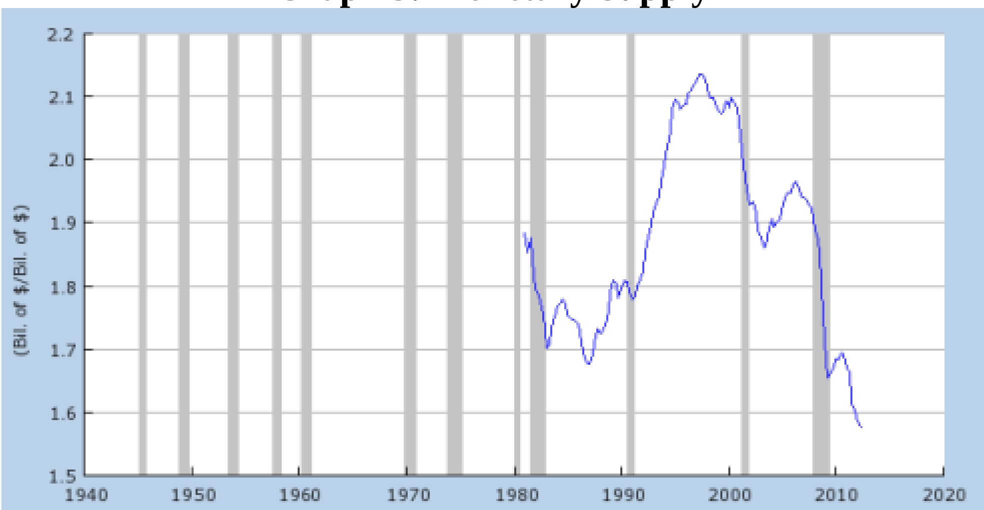
Mises[31] pointed out. If the bank will increase the amount everyone will posses by a certain amount, the inflation will be cancelled, mostly due to the fact that everyone will choose to do different expenses with the newly printed money. Their value will most probably remain the same and everyone will benefit from the printing of money, as opposed to the way in which money are printed and given to a certain industry, as previously said by Cantillon. Though, printing money just for handing over to people is not one of the purposes of the central bank so sustaining a certain sector will eventually lead to inflation, especially if the bank cannot make a good prediction with regards to how much to print.

Graph 2: Monetary Base



Source: *research.stlouisfed.org 2012*

Graph 3: Monetary Supply



Source: *research.stlouisfed.org 2012*

This way the Cantillon Effect can bring a difference to the way money are perceived by the society according to the way they spread. As an independent central bank this effect can be a turndown in case of printing more money, simply because their benefits may not exceed its cost.

[31] Mises, Ludwig von, *Theory of Money and Credi*, Yale University Press, 1953, p. 178

4- HOW INDEPENDENT CENTRAL BANKS ARE- FED

Most of the world's banks are not independent, though there are some that are said to be. In this chapter we will look at Federal Reserve System of United States of America and observe if the degree of independence is actually as it is said to be.

4.1 History of The Federal Reserve System

In this sub-section we shall present the history of FED, as it is officially recorded.[32]

<< 1775-1791: To finance the American Revolution, the Continental Congress printed the new nation's first paper money. Known as "continentals," the fiat money notes were issued in such quantities they led to inflation, which, though mild at first, rapidly accelerated as the war progressed. Eventually, people lost faith in the notes. In 1791-1811 in this period the government attempt to create a central banking system, at the urging of then Treasury Secretary Alexander Hamilton, Congress established the First Bank of the United States, headquartered in Philadelphia, in 1791. It was the largest corporation in the country and was dominated over banking and money interests. Many agrarian minded Americans uncomfortable with the idea of a large and powerful bank opposed it. When the bank's 20-year charter expired in 1811 Congress refused to renew it by one vote. In 1816-1836 there is a second try that also fails, by 1816, the political climate was once again inclined toward the idea of a central bank; by a narrow margin, Congress agreed to charter the Second Bank of the United States. But when Andrew Jackson, a central bank foe, was elected president in 1828, he vowed to kill it. His attack on its banker-controlled power touched a popular nerve with Americans, and when the Second Bank's charter expired in 1836, it was not renewed. Seeing this, in 1836-1865 was a time of free banking when state-chartered banks and unchartered "free banks" took hold during this period, issuing their own notes, redeemable in gold or specie. Banks also began offering demand deposits to enhance commerce. In response to a rising volume of check transactions, the New York Clearinghouse Association was established in 1853 to provide a way for the city's banks to exchange checks and settle accounts. Eventually, in 1863 was given the National Banking Act, during the Civil War, providing for nationally chartered banks, whose circulating notes had to be backed by U.S. government securities. An amendment to the act required taxation on state bank notes but not national bank notes, effectively creating a uniform currency for the nation. Despite taxation on their notes, state banks continued to flourish due to the growing popularity of demand deposits, which had taken hold during the Free Banking Era.

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[32] History of The Federal Reserve [online] Available at: http://www.federalreserveeducation.org/about-the-fed/history/, last accessed on 27.06.2014

In the period of 1873-1907, although the National Banking Act of 1863 established some measure of currency stability for the growing nation, bank runs and financial panics continued to plague the economy. In 1893, a banking panic triggered the worst depression the United States had ever seen, and the economy stabilized only after the intervention of financial mogul J.P. Morgan. It was clear that the nation's banking and financial system needed serious attention. 1907 turned out to be a very bad year for business, with a bout of speculation on Wall Street ended in failure, triggering a particularly severe banking panic. J.P. Morgan was again called upon to avert disaster. By this time, most Americans were calling for reform of the banking system, but the structure of that reform was cause for deep division among the country's citizens. Conservatives and powerful "money trusts" in the big eastern cities were vehemently opposed by "progressives." But there was a growing consensus among all Americans that a central banking authority was needed to ensure a healthy banking system and provide for an elastic currency. Aldrich-Vreeland Act of 1908, passed as an immediate response to the panic of 1907, provided for emergency currency issue during crises. It also established the national Monetary Commission to search for a long-term solution to the nation's banking and financial problems. Under the leadership of Senator Nelson Aldrich, the commission developed a banker-controlled plan. William Jennings Bryan and other progressives fiercely attacked the plan; they wanted a central bank under public, not banker, control. The 1912 election of Democrat Woodrow Wilson killed the Republican Aldrich plan, but the stage was set for the emergence of a decentralized central bank.

In 1913 The Federal Reserve System is born, when President Woodrow Wilson signed the Federal Reserve Act into law, it stood as a classic example of compromise—a decentralized central bank that balanced the competing interests of private banks and populist sentiment, an act that came at the proposal of Glass-Willis.

1914-1919: When World War I broke out in mid-1914, U.S. banks continued to operate normally, thanks to the emergency currency issued under the Aldrich-Vreeland Act of 1908. But the greater impact in the United States came from the Reserve Banks' ability to discount bankers' acceptances. Through this mechanism, the United States aided the flow of trade goods to Europe, indirectly helping to finance the war until 1917, when the United States officially declared war on Germany and financing the own war effort became paramount. Following World War I, Benjamin Strong, head of the New York Fed from 1914 to his death in 1928, recognized that gold no longer served as the central factor in controlling credit. Strong's aggressive action to stem a recession in 1923 through a large purchase of government securities gave clear evidence of the power of open market operations to influence the availability of credit in the banking system. During the 1920s, the Fed began using open market operations as a monetary policy tool. During his tenure, Strong also elevated the stature of the Fed by promoting relations with other central banks, especially the Bank of England. But in 1929-1933 the market crashed and the during the Great Depression; from 1930 to 1933, nearly 10,000 banks failed, and by March 1933, newly inaugurated President Franklin Delano Roosevelt declared a bank holiday, while government officials grappled with ways to remedy the nation's economic woes. Many people blamed the Fed for failing to stem speculative lending that led to the crash, and some also argued that inadequate understanding of monetary economics kept the Fed from pursuing policies that could have lessened the depth of the Depression. In reaction to the Great Depression, Congress passed the Banking Act of 1933, better known as the Glass-Steagall Act, calling for the separation of commercial and investment banking and requiring use of government securities as collateral for Federal Reserve notes. The Act also established the Federal Deposit Insurance Corporation (FDIC), placed open market operations under the Fed and required bank holding companies to be examined by the Fed, a practice that was to have profound future implications, as holding companies became a prevalent structure for banks over time. Also, as part of the massive reforms taking place, Roosevelt recalled all gold and silver certificates, effectively ending the gold and any other metallic standard. Following World War II, the Employment Act added the goal of promising maximum employment to the list of the Fed's responsibilities. In 1956 the Bank Holding Company Act named the Fed as the regulator of bank holding companies owning more than one bank, and in 1978 the Humphrey-Hawkins Act required the Fed chairman to report to Congress twice annually on monetary policy goals and objectives. The Federal Reserve System formally committed to maintaining a low interest rate peg on government bonds in 1942 after the United States entered World War II. It did so at the request of the Treasury to allow the federal government to engage in cheaper debt financing of the war. To maintain the pegged rate, the Fed was forced to give up control of the size of its portfolio as well as the money stock. Conflict between the Treasury and the Fed came to the fore when the Treasury directed the central bank to maintain the peg after the start of the Korean War in 1950.

President Harry Truman and Secretary of the Treasury John Snyder were both strong supporters of the low interest rate peg. The President felt that it was his duty to protect patriotic citizens by not lowering the value of the bonds that they had purchased during the war. Unlike Truman and Snyder, the Federal Reserve was focused on the need to contain inflationary pressures in the economy caused by the intensification of the Korean War. Many on the Board of Governors, including Marriner Eccles, understood that the forced obligation to maintain the low peg on interest rates produced an excessive monetary expansion that caused inflation. After a fierce debate between the Fed and the Treasury for control over interest rates and U.S. monetary policy, their dispute was settled resulting in an agreement known as the Treasury-Fed Accord. This eliminated the obligation of the Fed to monetize the debt of the Treasury at a fixed rate and became essential to the independence of central banking and how monetary policy is pursued by the Federal Reserve today.

The 1970s saw inflation skyrocket as producer and consumer prices rose, oil prices soared and the federal deficit more than doubled. By August 1979, when Paul Volcker was sworn in as Fed chairman, drastic action was needed to break inflation's stranglehold on the U.S. economy. Volcker's leadership as Fed chairman during the 1980s, though painful in the short term, was successful overall in bringing double-digit inflation under control. The Monetary Control Act of 1980 required the Fed to price its financial services competitively against private sector providers and to establish reserve requirements for all eligible financial institutions. The act marks the beginning of a period of modern banking industry reforms. Following its passage, interstate banking proliferated, and banks began offering interest-paying accounts and instruments to attract customers from brokerage firms. Barriers to insurance activities, however, proved more difficult to circumvent. Nonetheless, momentum for change was steady, and by 1999 the Gramm-Leach-Bliley Act was passed, in essence, overturning the Glass-Steagall Act of 1933 and allowing banks to offer a menu of financial services, including investment banking and insurance.

In the 1990s, two months after Alan Greenspan took office as the Fed chairman, the stock market crashed on October 19, 1987. In 2003, the Federal Reserve changed its discount window operations so as to have rates at the window set above the prevailing Fed Funds rate and provides rationing of loans to banks through interest rates. During the early 2000s, low mortgage rates and expanded access to credit made homeownership possible for more people, increasing the demand for housing and driving up house prices. The housing boom got a boost from increased securitization of mortgages—a process in which mortgages were bundled together into securities that were traded in financial markets. Securitization of riskier mortgages expanded rapidly, including subprime mortgages made to borrowers with poor credit records.>>

4.2 Structure of FED

In this sub-section we shall present the structure of the Federal Reseve System, as it is officially described.[33]

Board of Governors

[33] *The Structure of The Federal System*, [online], Available at: http://www.federalreserveeducation.org/about-the-fed/structure-and-functions/, last accessed on 27.06.2014

<< The Board of Governors, located in Washington, D.C., provides the leadership for the System. The Board of Governors, also known as the Federal Reserve Board, is the national component of the Federal Reserve System. The board consists of the seven governors, appointed by the president and confirmed by the Senate. Governors serve 14-year, staggered terms to ensure stability and continuity over time. The chairman and vice-chairman are appointed to four-year terms and may be reappointed subject to term limitations. Among the responsibilities of the Board of Governors are to guide monetary policy action, to analyze domestic and international economic and financial conditions, and to lead committees that study current issues, such as consumer banking laws and electronic commerce. The Board also exercises broad supervisory control over the financial services industry, administers certain consumer protection regulations, and oversees the nation's payments system. The Board oversees the activities of Reserve Banks, approving the appointments of their presidents and some members of their boards of directors. The Board sets reserve requirements for depository institutions and approves changes in discount rates recommended by Reserve Banks. The Board's most important responsibility is participating in the Federal Open Market Committee (FOMC), which conducts our nation's monetary policy; the seven governors comprise the voting majority of the FOMC with the other five votes coming from Reserve Bank presidents. Board members are called to testify before Congress, and they maintain regular contact with other government organizations as well. The chairman reports twice a year to Congress on the Fed's monetary policy objectives, testifies on numerous other issues, and meets periodically with the Secretary of the Treasury. The Board funds its operations by assessing the Federal Reserve Banks rather than through Congressional appropriation. Its financial accounts are audited annually by a public accounting firm, and these accounts are also subject to audit by the General Accounting Office.

Federal Reserve Banks

A network of 12 Federal Reserve Banks and 25 branches make up the Federal Reserve System under the general oversight of the Board of Governors. Reserve Banks are the operating arms of the central bank. Each of the 12 Reserve Banks serves its region of the country, and all but one has other offices within their Districts to help provide services to depository institutions and the public. The Banks are named after the locations of their headquarters-Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas and San Francisco. The Reserve Banks serve banks, the U.S. Treasury, and, indirectly, the public. A Reserve Bank is often called a "banker's bank," storing currency and coin, and processing checks and electronic payments. Reserve Banks also supervise commercial banks in their regions. As the bank for the U.S. government, Reserve Banks handle the Treasury's payments, sell government securities and assist with the Treasury's cash management and investment activities. Reserve Banks conduct research on regional, national and international economic issues. Research plays a critical role in bringing broad economic perspectives to the national policymaking arena and supports Reserve Bank presidents who all attend meetings of the Federal Open Market Committee (FOMC). Each Reserve Bank's board of directors oversees the management and activities of the District bank. Reflecting the diverse interests of each District, these directors contribute local business experience, community involvement and leadership. The board imparts a private-sector perspective to the Reserve Bank. Each board appoints the president and first vice president of the Reserve Bank, subject to the approval of the Board of Governors. All member banks hold stock in Reserve Banks and receive dividends. Unlike stockholders in a public company, banks cannot sell or trade their Fed stock. Reserve Banks interact directly with banks in their Districts through examinations and financial services and bring important regional perspectives that help the entire Federal Reserve System do its job more effectively.

Member Banks

Approximately 38 percent of the 8,039 commercial banks in the United States are members of the Federal Reserve System. National banks must be members; state-chartered banks may join if they meet certain requirements. The member banks are stockholders of the Reserve Bank in their District and as such, are required to hold 3 percent of their capital as stock in their Reserve Banks.

Other Depository Institutions/American People

In addition to the approximately 3,000 member banks, about 17,000 other depository institutions provide the American people checkable deposits and other banking services. These depository institutions include nonmember commercial banks, savings banks, savings and loan associations, and credit unions. Although not formally part of the Federal Reserve System, these institutions are subject to System regulations, including reserve requirements, and have access to System payments services.

Federal Open Market Committee

The Federal Open Market Committee, or FOMC, is the Fed's monetary policymaking body. It is responsible for formulation of a policy designed to promote stable prices and economic growth. Simply put, the FOMC manages the nation's money supply. The voting members of the FOMC are the Board of Governors, the president of the Federal Reserve Bank of New York and presidents of four other Reserve Banks, who serve on a rotating basis. All Reserve Bank presidents participate in FOMC policy discussions. The chairman of the Board of Governors chairs the FOMC. The FOMC typically meets eight times a year in Washington, D.C. At each meeting, the committee discusses the outlook for the U.S. economy and monetary policy options. The FOMC is an example of the interdependence built into the Fed's structure. It combines the expertise of the Board of Governors and the 12 Reserve Banks. Regional input from Reserve Bank directors and advisory groups brings the private sector perspective to the FOMC and provides grassroots input for monetary policy decisions.

Advisory Councils

Three statutory advisory councils - the Federal Advisory Council, the Consumer Advisory Council, and the Thrift Institutions Advisory Council - advise the Board on matters of current interest. These councils whose members are drawn from each of the 12 Federal Reserve Districts, meet two to four times a year. The individual Reserve Banks have advisory committees as well, including thrift institutions advisory committees, small business and agricultural advisory committees. Moreover, officials from all Reserve Banks meet periodically in various committees. >>

4.3 The Independence of FED

Even though the FED should operate at the guiding of the Board of Governors and the adjacent bodies, there are cases when the Government may to get involved. As Posner[34] writes: “In fact the Federal Reserve is not completely independent from politics. Unlike the Supreme Court, its independence is not dictated by the Constitution. The United States did not have a central bank when the Constitution was promulgated, and the Constitution didn’t require the creation of one. The Federal Reserve dates only from 1911, and before then experiments with central banking in the United States had been sporadic. The Federal Reserve’s independence—which is a function of the long terms of the members of the Federal Reserve Board (14 years, though the chairman’s term is only four years, albeit renewable), the fact that they cannot be removed before the expiration of their terms, the fact that the Federal Reserve is self-financed rather than financed by annual congressional appropriations, and the fact that the members of the Open Market Committee (the organ of the Federal Reserve that controls the money supply) include presidents of the local federal reserve banks, who are chosen by private banks rather than by the President—is a gift of Congress; and what Congress has given, Congress can take back. Hence Federal Reserve chairmen and members can’t just thumb their nose at Congress.” Thus, he argues that the FED is less independent than it was supposed to.

[34] Posner, Richard, *Should Central Banks Be Politically Independent?*, [online] Available at: http://www.becker-posner-blog.com/2010/05/should-central-banks-be-politically-independent-posner.html, 2010, last accessed on 27.06.2014

O'Driscoll Jr.[35] also argues that the Federal Reserve System's independence is rather a mirage than a reality; moreover, he shows how precisely by the acts that were supposed to transform the central bank form a dependent institution into an independent one the effect is exactly reverse: "The modern meaning of Fed independence came about as a consequence of war finance during World War II. The central bank had agreed to support the price of government bonds by pegging interest rates. Post-war recovery brought on the risk of inflation, and the Korean War increased inflation fears. But the bond-support program tied the bank's hands in fighting inflation, because it could not raise interest rates. The Fed, in short, could not conduct monetary policy independent of fiscal policy. It had to finance the government's deficit at fixed interest rates. In 1951, the Fed and Treasury reached an accord in which the Fed got back the power to run a monetary policy independent of fiscal policy. And that is the historically correct and economically sensible meaning of independence: It is the Fed's policy that is independent. But not even the policy is really independent, because the policy goals are governed by the Full Employment Act of 1946 (later amended). As a result of that law, the Fed ended up with the operational freedom to implement a policy of macroeconomic stability — full employment and price stability as mandated by law. Today, however one parses the term, the Federal Reserve is not now independent. It has voluntarily relinquished the very independence it secured in 1951 by entering into a modern version of the bond support program. That is what the so-called zero interest rate policy amounts to, reinforced by the quantitative easing implemented through QE1 and QE2.The Fed is committed to holding interest rates at a very low level by purchasing as much Treasury debt as necessary to maintain those interest rates. That is precisely the position the Fed found itself in before the 1951 accord."

Thus, we can conclude that even the institutions that we know as most independent can prove to be not.

5- ARGUMENTS AGAINST CENTRAL BANK'S INDEPENDENCE

In this section we shall see arguments against central bank's independence. As previously discussed in section 3, there are sound monetary policies, that is non-inflationary ones, and unsound monetary policies, the inflationary ones. As seen in Table 3, there are cases when a bank can be dependent and non-inflationary, having the benefit if the economy at mind. At the same time, one can have an independent and inflationary bank. Even though most of the time inflation is correlated with dependence, as see in Table 3 it is possible to also have cases when non-inflationary measures

[35] O'Driscoll Jr., Gerald P, *Why the Fed Is Not Independent*, [online], Available at: http://www.cato.org/publications/commentary/why-fed-is-not-independent, 2011, last accessed on 27.06.2014

can be taken be dependent institutions. There are people to argue that a dependent central bank can be better to an economy than an independent one, especially because they argue further on that monetary policies should be in accordance with all other governmental policies.

Their point is that by being able to coordinate the supply on money in economy, other non-monetary purposes may be achieved; this hardly ever happens, though, because the government will take into consideration the best interest of people in mind, but on the short-run, so they will be more inclined to promoting unemployment strategies than non-inflationary ones. By having certain levels of independency the bank's governor can stand is ground and adopt the policy necessary for the economy, for instance in United States of America's case, when Paul Volker ended the high levels of inflation seen during the 1970s and early 1980s by adopting high rates and drastic policies to with president Reagan didn't agree but they turned out to be the best solution for the economy; in this particular case, if the central bank would have been a dependent institution the policy adopted may not have been as efficient, because Volker's acts were not in the best interest of the people on the short-run and politicians often fail to see the long run benefits.

Figure 3: Central Bank: Dependent/Independent

Central Bank	Dependent	Independent
Inflationary	Dependent and Inflationary	Independent but Inflationary
Non-Inflationary	Dependent and Non-Inflationary	Independent and Non-Inflationary

Source: author's own conception

A point that can be seen in Cantillon line of thought about why central bank's can be independent is that the quantity of money may not be perceived as increasing or decreasing, especially if there is a great commerce in the country: "It is also usually the case that the increase or decrease of money in a state is not perceived because it comes into a state from foreign countries by such imperceptible means and proportions that it is impossible to know exactly the quantity which enters or leaves the state."[36]

6- CONCLUSIONS

As seen through the paper the central bank is an institution that regulated the entire monetary supply of a country's currency. In this respect they apply monetary policies using specific tool, like open market operations, and can create either inflation or diminish unemployment, according to the situation at hand.

[36] Cantillon, Richard *Essai sur la nature du commerce en général,* Macmillan for the Royal Economic Society, London, 1971 : "Il arrive aussi d'ordinaire qu'on ne s'apperçoit pas de l'augmentation ou de la diminution de l'argent effectif dans un Etat, parcequ'il s'écoule chez l'Etranger, ou qu'il est introduit dans l'Etat, par des voies & des proportions si insensibles, qu'il est impossible de savoir au juste la quantité qui entre dans l'Etat, ni celle qui en sort."

Central banks can stimulate growth and decrease inflation or unemployment, though as we seen, inflation and unemployment are mutually exclusive. In this respect a state-dependent central bank might be tempted to take a course of action that will decrease unemployment of the short-run, but on the long run it can create inflation and if not stopped at time may lead to a depression. To be able to stop that depression strict measures should be taken, but the state, again, might be inclined to pursue unemployment measures and print more money, which will increase inflation even more. Post-war Germany is a very good example of how much inflation a bank can create.

In order for the economy to prosper and work accordingly, unemployment and inflation measures should be interlined and changed as soon as this levels increase too much. In independent institutions this policies can be draw in accordance to the actual economic context. Which is why the central bank should act as an independent institution.

Central banks are misunderstood by the general public, because even though decreasing inflations represents a step ahead for the economy, this will also increase unemployment, which people will prefer not to happen. Politicians will most generally be in accordance to people's need in the short run, that is the need for employment and neglect the long run effects of inflations. As seen proven by Cantillon, money printing can help the first beneficiary and be in disadvantage of the last ones. This kind of unsound policies will only add up to the inflationist process and create an economic drawback on long term.

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أثر استقلالية البنك المركزي على السياسة النقدية

م. د. حيدر علي محمد الدليمي

المستخلص:

نتيجة للدور المؤثر الذي تؤديه البنوك المركزية في عملية الاستقرار النقدي في الاقتصاد، لذا فأن موضوع استقلالية البنوك المركزية تُعد من أكثر الموضوعات التي حظيت باهتمام وعناية كتّاب النقدية، فضلاً عن تسارع التطورات الاقتصادية والنقدية على الساحة الدولية والمحلية التي تحّتم دوراً أكبر للسياسات النقدية في تنظيم عملية الاستقرار الاقتصادي.

فالبنك المركزي هو الجهة الرئيسية والمنظمة للسوق النقدية، وبما أن هذا السوق محتكر من قبل الدولة، لذا فانه لا يمكن ضبط السوق على مستوى متوازن لأنه متأثر بسياسات الدولة النقدية.

الغرض الرئيسي من هذه الدراسة هو تسليط الضوء على أهمية وجود البنوك المركزية المستقلة، وسنتناول في هذا البحث جملة من النقاط التي سنقوم بشرحها، أبتدأً بنقاشات حول السياسات النقدية، ثم تأثير السياسة على السياسات النقدية، أثر ارتفاع التضخم، السوق الحرة للنقود، وسلوك إنتاج النقود.

وأخيراً نطرح السؤال التالي: هل من الضروري أن يكون البنك المركزي مستقلاً ؟ للإجابة على هذا السؤال سوف يتم تحليل نظام الاحتياطي الفيدرالي في الولايات المتحدة، وعلى أساس هذا التحليل ستكون الخاتمة التي يمكن ان نستنتجها وهي: ان البنك المركزي ينبغي ان يمنح الحرية والاستقلالية له لرسم وتنفيذ السياسات النقدية.