Reassessing Central Bank Independence

Ulysses and the Sirens. John William Waterhouse. 1891.

Prompt for Discussion

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For much of the past century, central banks have been considered independent establishments within government: subordinate to the core governing institutions—such as legislatures and courts—but insulated from day-to-day influence and ordinary oversight. This generally entails administrative independence, budgetary autonomy, tenure in office, and little to no judicial review of monetary policy actions. A longstanding consensus among economists and legal scholars alike has justified this arrangement, emphasizing that elected officials must be restrained from pursuing excessively expansionary monetary policies to the detriment of the longer-term health of the economy.

But the legitimacy of Central Bank Independence ("CBI") is now under pressure. Recent interventions by Adam Tooze and others have challenged the idea that there is a social consensus around the core role of central banks, and, to the extent there is, that central banks have ever been particularly good at charting policy consistent with that consensus. The record of the last forty years suggests a persistent disinflationary bias on the part of central bank policy makers, and possibly a tie between central bank independence and increased inequality. Central banks have also repeatedly rolled back oversight of financial institutions and adopted policies that have bolstered their returns. In 2008, central banks presided over a monetary contraction reminiscent of the 1930s. Would more politically accountable central banks have been better for most people, even if they delivered more inflation and smaller, less liquid financial markets?

Paul Tucker offers a carefully reasoned defense of CBI in his recent book Unelected Power. But, even as Tucker himself points out, CBI is consistent with democratic self-government only in narrow circumstances: where there is a social consensus around the tradeoffs between monetary expansion and other macroeconomic variables like unemployment, and where central banks confine themselves to implementing that consensus.

At the same time, central banks have begun pursuing policy initiatives less connected to monetary stability. Calls are growing for central bankers to address social emergencies from climate change to racial inequity (by buying mortgage debt in low-income communities, assembling a portfolio of "green" bonds, adopting "green risk weights" for assessing bank balance sheets, e.g.). Can institutions engaged in such work be justifiably insulated from ongoing political oversight?

This roundtable will explore these questions, and consider the history, theory, practice, and future of CBI. What does independence mean for a central bank, and who, exactly, does it insulate the bank from? Are independent central banks still desirable? Were they ever? If not, what should their status be? What role (if any) should private forces play in central bank governance? What about finance ministries? Chief executives? Legislatures, courts, and other governing institutions? And how, if at all, does a central bank’s mandate factor in?

Contributions

July 20, 2021
Independence from What?
Stefan Eich, Georgetown University

July 14, 2021
Two Blades, One Scissors: Central Bank Independence with (Some) Central Bank Allocation
Robert Hockett, Cornell Law School

July 6, 2021
Boots on the Rails: The National Security State, Racial Subordination, & the Myth of “Instrument Independence”
Raul Carrillo, LPE Project and Yale Law School

May 29, 2021
Independence: Executive Pressure and Central Bank Activism
Christina Parajon Skinner, University of Pennsylvania – The Wharton School