News Release

THE FEDERAL RESERVE BANK of ST. LOUIS

DOES AN INDEPENDENT CENTRAL BANK BENEFIT THE ECONOMY?

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ST. LOUIS -- In recent years, many countries have adopted legislation to remove their central banks from government control. Why has the idea of central bank independence become so popular? What are the economic benefits?

In the article "Central Bank Independence and Economic Performance," which appears in the current issue of the Review, the Federal Reserve Bank of St. Louis' bimonthly research journal, Economist Patricia S. Pollard studies whether countries with independent central banks are better off economically than countries whose central banks are subject to government control.

(more)

Many believe that if a country creates an independent central bank they will enjoy lower rates of inflation. The evidence of this, however, is mixed.

"What we do know is that if both the central bank and the government are committed to improved economic performance, it is likely the goal will be met," says Pollard. "This may explain why Germany and Japan have low inflation even though the German Bundesbank is viewed as independent, and the Bank of Japan is seen as subject to government control."

"When it comes down to it, countries with an aversion to inflation may create an independent central bank, but it may be this aversion--and not the independence of the central bank--that is the primary causal factor behind low inflation," adds Pollard.

Other articles in this issue include "Does the Exchange Rate Regime Affect the Economy?" by Economists Terence C. Mills and Geoffrey E. Wood, and "Hypothesis Testing with Near-Unit Roots: The Case of Long-Run Purchasing-Power Parity," by Michael J. Dueker.

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