Stiglitz slams ‘unconscionable’ central bank independence

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Joseph Stiglitz, a Nobel Prize-winning economist, has attacked the principle of central bank independence, saying central banks have too much financial power to remain as unelected bodies.

Delivering a speech at an event organised by the Reserve Bank of India, Stiglitz said central banks suffered from an inherent conflict of interest, drawing many of their top managers from the banks they were supposed to be regulating. By contrast, the consumers affected by banks’ misconduct were excluded from the decision-making process.

“Delegating the conduct of monetary policy and regulations to those who come from and reflect the interests of the financial market is going to result in policies that are not necessarily and weren’t in society’s broader interests,” he said.

Furthermore, Stiglitz said the financial crisis had pushed central banks into “quasi-fiscal” policy-making. “The loans by the Fed and European Central Bank to banks at low interest rates… was, in effect, a gift worth tens of billions of dollars,” he said. “It is unconscionable that such power over the purse be given to a non-elected body.”

Stiglitz’s comments follow widespread clashes between central banks and governments regarding independence during the past few months.

In Japan, Shinzo Abe, the newly elected prime minister, has put pressure on the Bank of Japan to make further efforts at monetary easing. Four days after Abe’s election on December 16, the central bank decided to expand its programme of asset purchases by around ¥10 trillion ($113 billion). A representative from the Ministry of Finance also attends the central bank’s monetary policy meetings.

Central banks in Europe have also crossed swords with their governments over the issue of independence. The Hungarian government abandoned plans to apply a financial transaction tax to the National Bank of Hungary in October 2012 after the European Commission and International Monetary Fund intervened, saying the tax would impinge on the central bank’s independence.

In August, National Bank of Serbia governor Dejan Šoškić and vice-governor Bojan Marković resigned in protest at the passage of a law allowing the government to reappoint the entire senior management within a 90-day period.

“This is likely to have long-term repercussions for the credibility of monetary policy,” Marković said, complaining that the law’s hasty passage – enacted in just three days – undermined independence even more than its substance. Jorgovanka Tabaković, a member of the country’s ruling coalition, became the new governor.