

The Future of Central Bank Cooperation

(An Outsider's Perspective)

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What are the conditions under which cooperation is likely to take place?

- Economic explanations: *inefficiencies*.
- Political science explanations:
 - ◆ Power
 - ◆ Interests
 - ◆ Institutions
 - ◆ Qualities of and constraints on central bankers

What is cooperation?

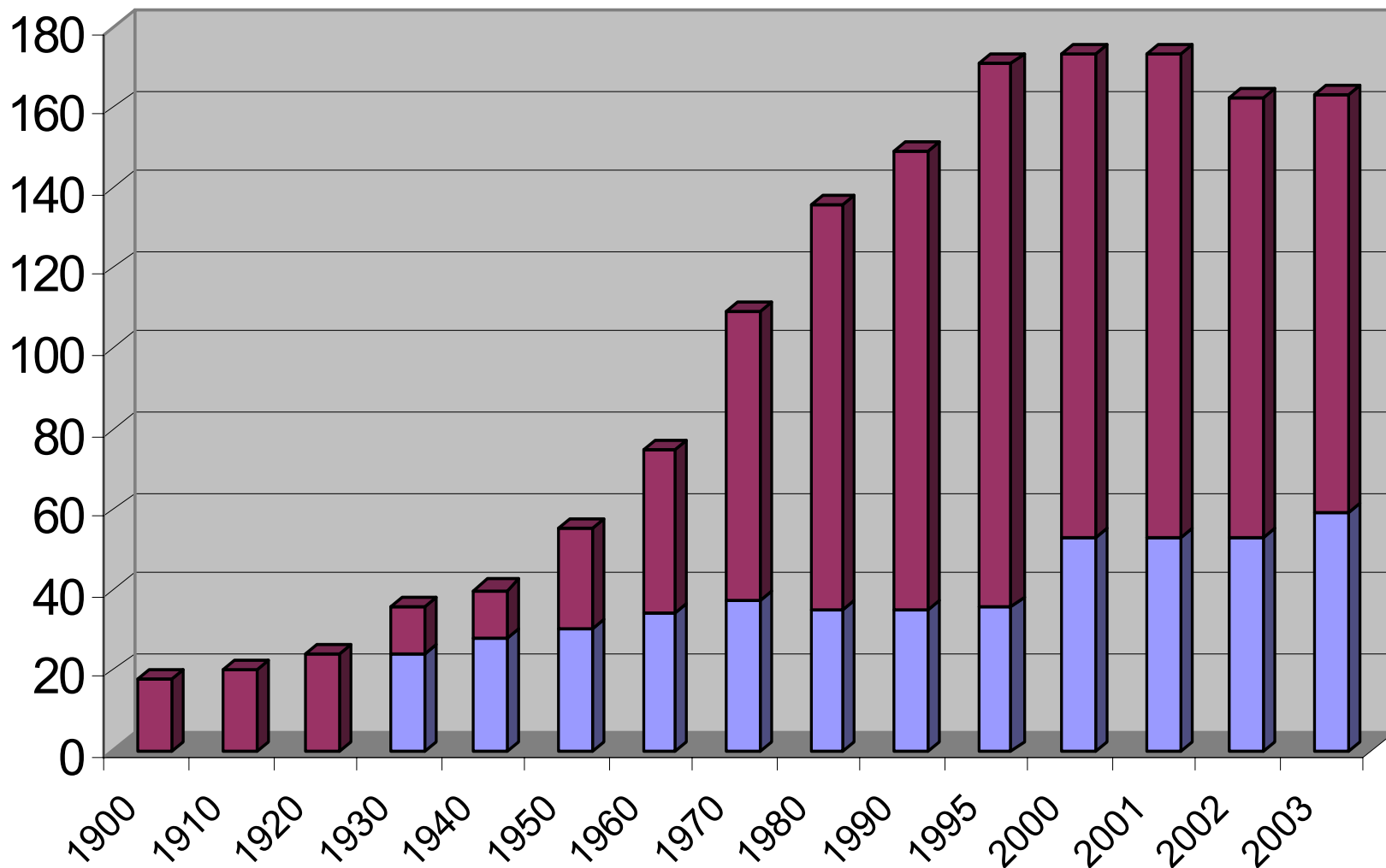
- Joint operation or action
- A continuum from “shallow” to “deep”
- Deep cooperation:
 - ◆ policy adjustments that differ from those that would have been taken unilaterally
 - ◆ policies taken specifically to address a collective good or mutual interest

Overview:

- Players and institutions
- Information sharing
- Regulatory coordination
- Macro-management

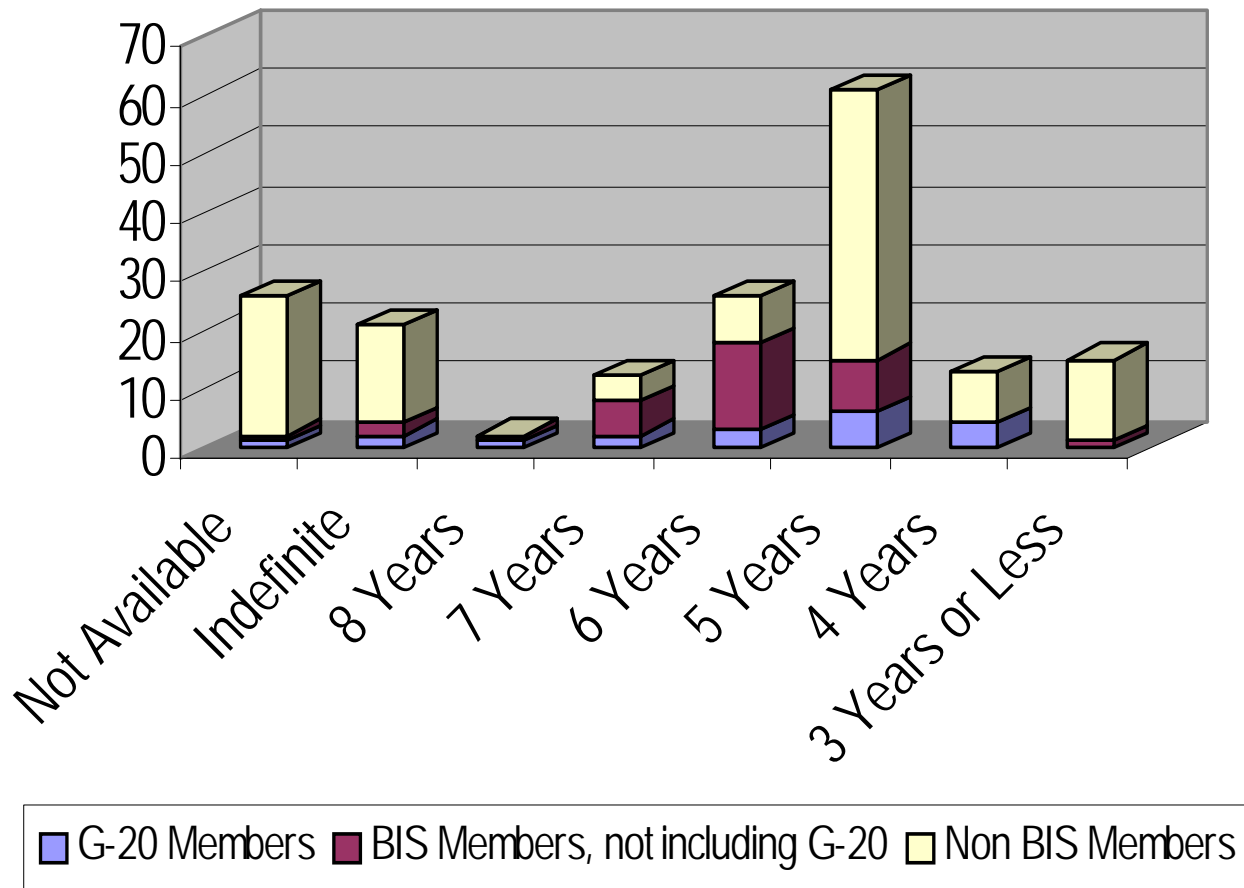
Number of Central Banks, 1900-2003

■ BIS Members ■ Other



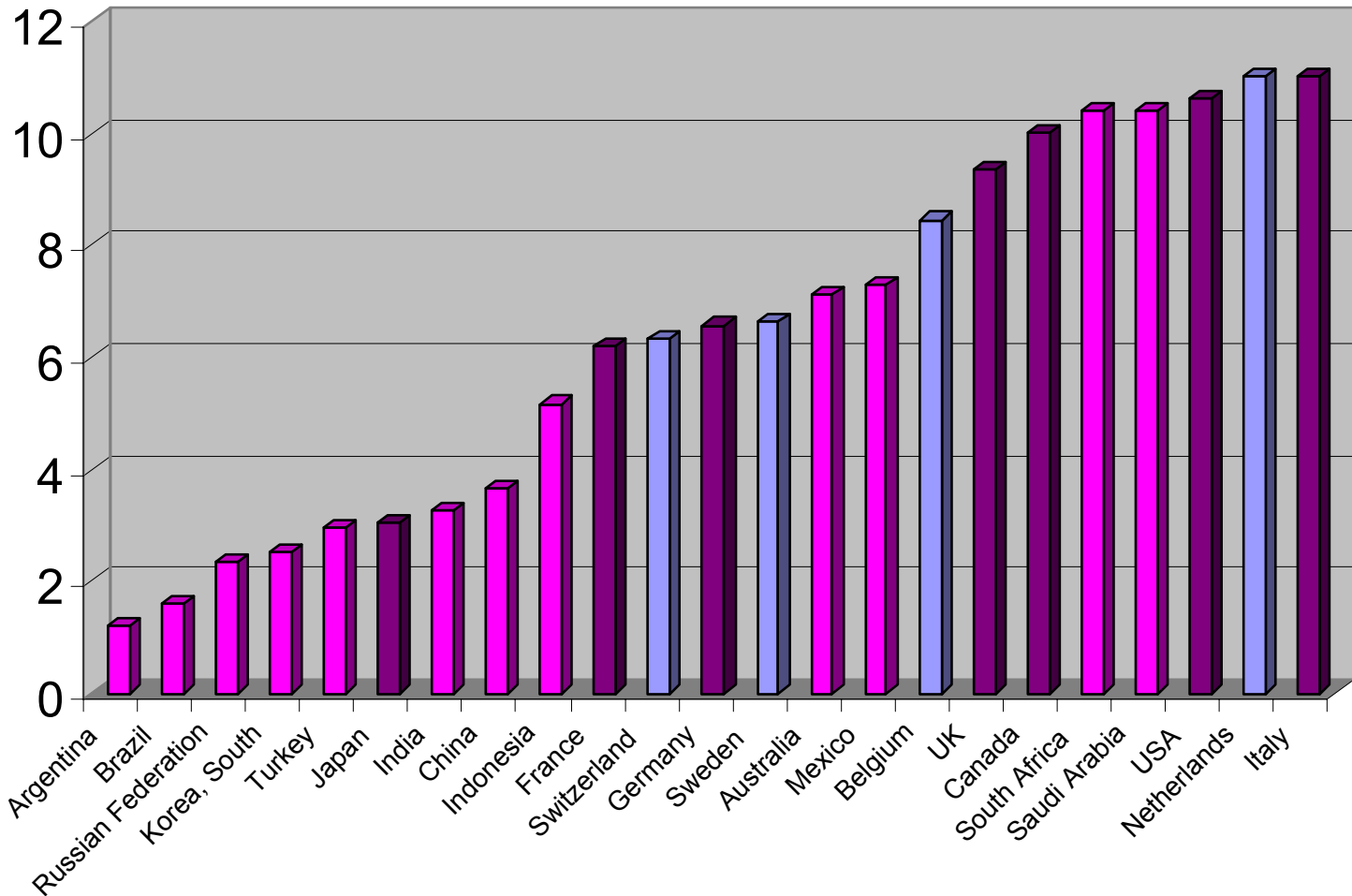
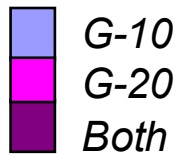
Source: Morgan Stanley, Central Bank Directory (2004); Bank for International Settlements

Central Bank Governors' Terms of Office (Number of Banks, World Wide)



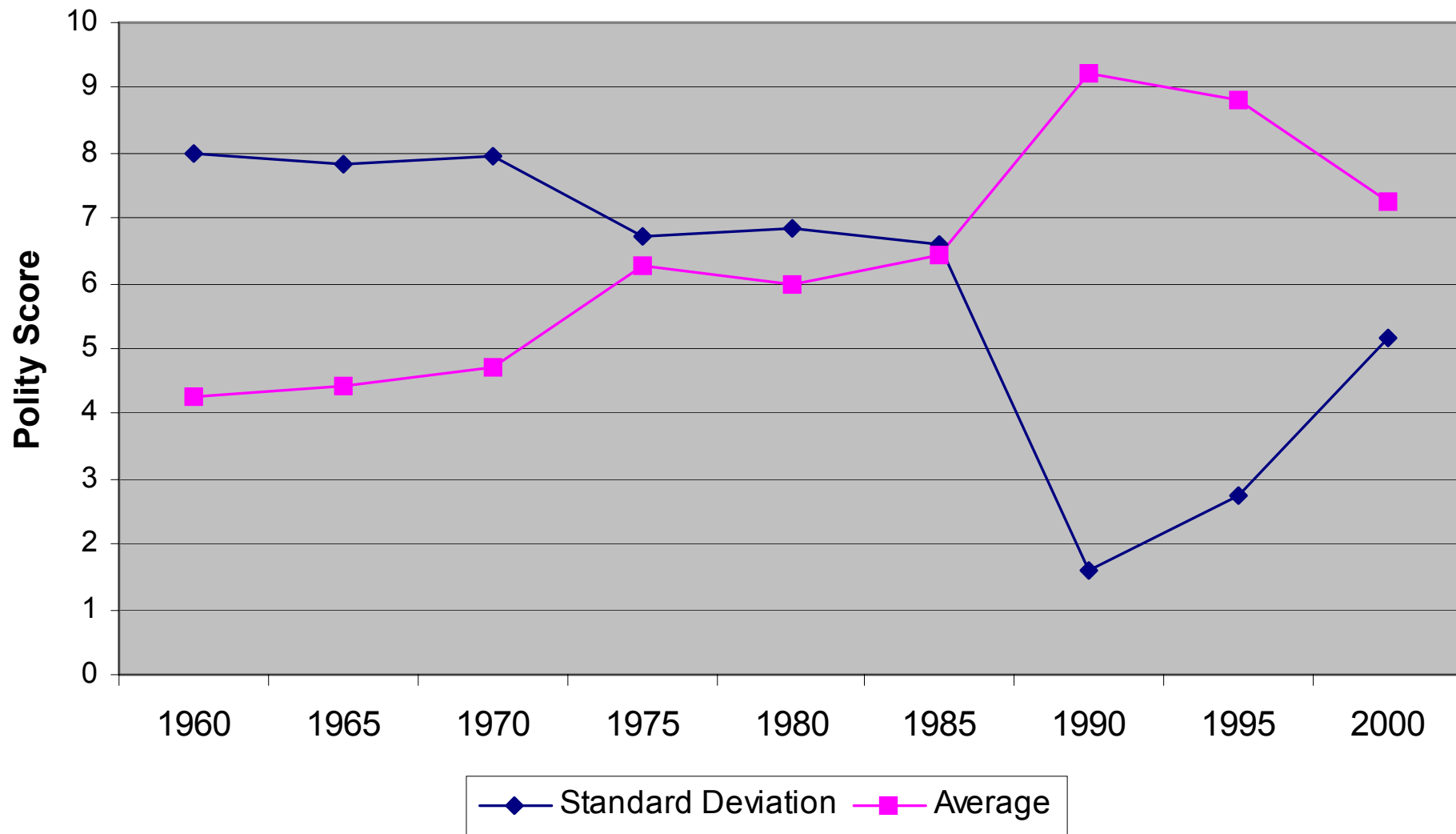
Data current as of 2004. Source: Morgan Stanley, Central Bank Directory (2004); Bank for International Settlements.

Average Tenure in Office, Governors of G-10 and G-20 Countries (post-war period)

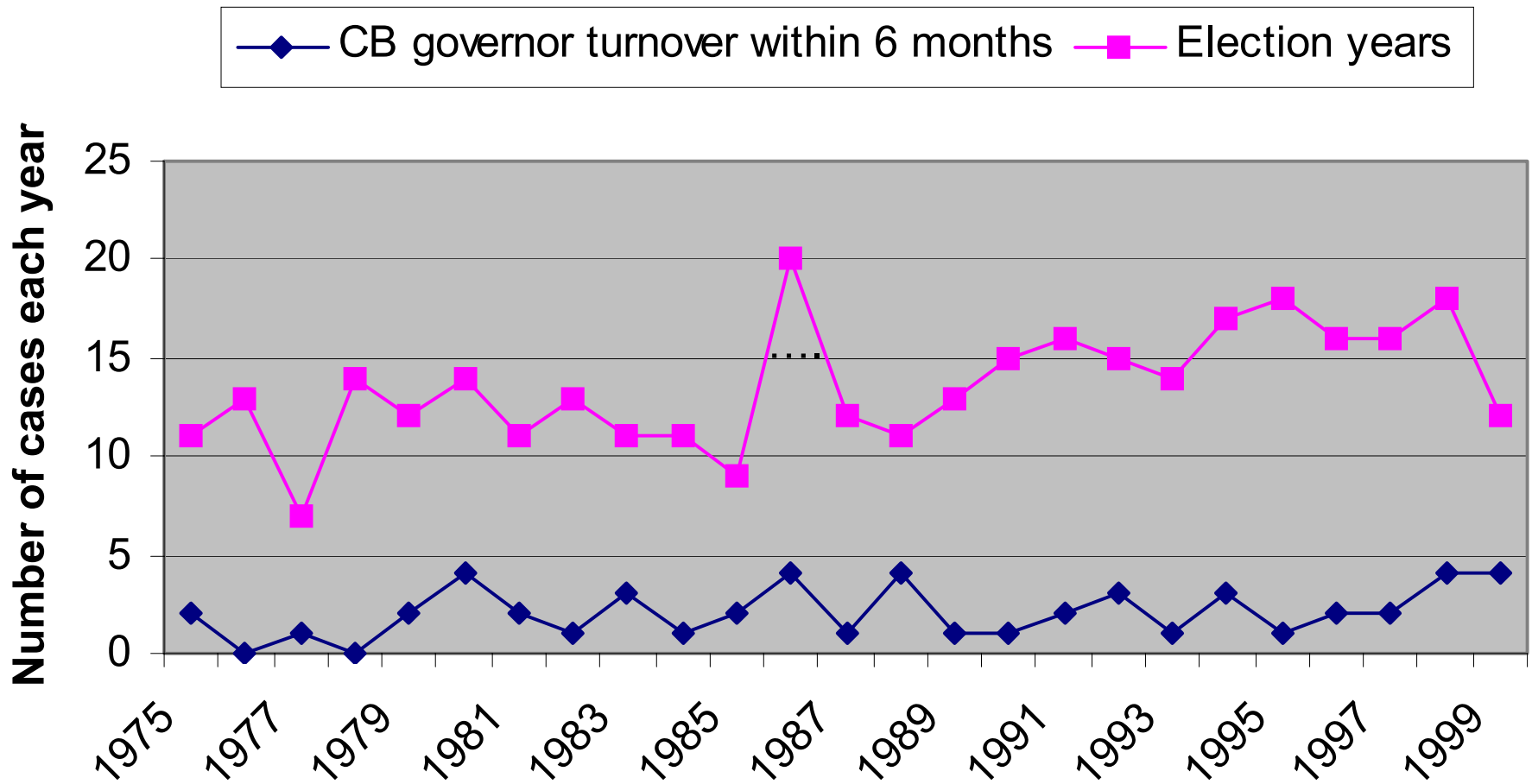


Source: Morgan Stanley, Central Bank Directory (2004)

Democratization in BIS Member Countries (excluding: Bosnia & Herzegovina, Hong Kong, Iceland, and Serbia & Montenegro)

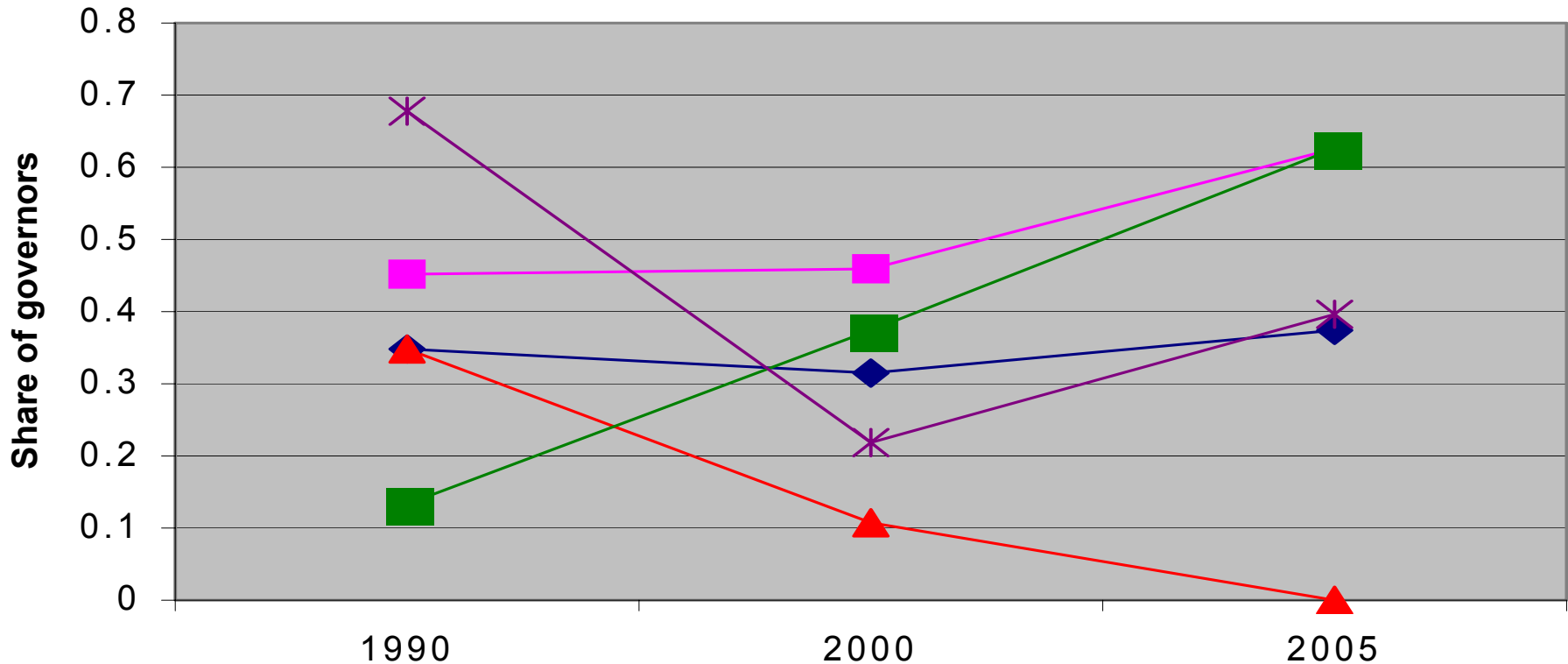
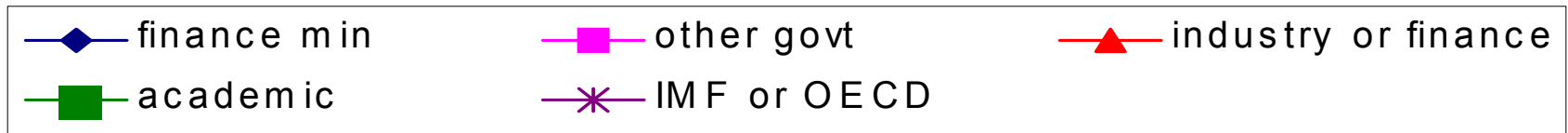


Elections and CB Governor Turnover (BIS members Only)



Source: Polity IV database

Background of G-10 Central Bank Governors, 1990, 2000 and 2005



Sum of Standard Deviations:

2.77

2.23

2.28

Source: Author's research; internet and various biographical sources

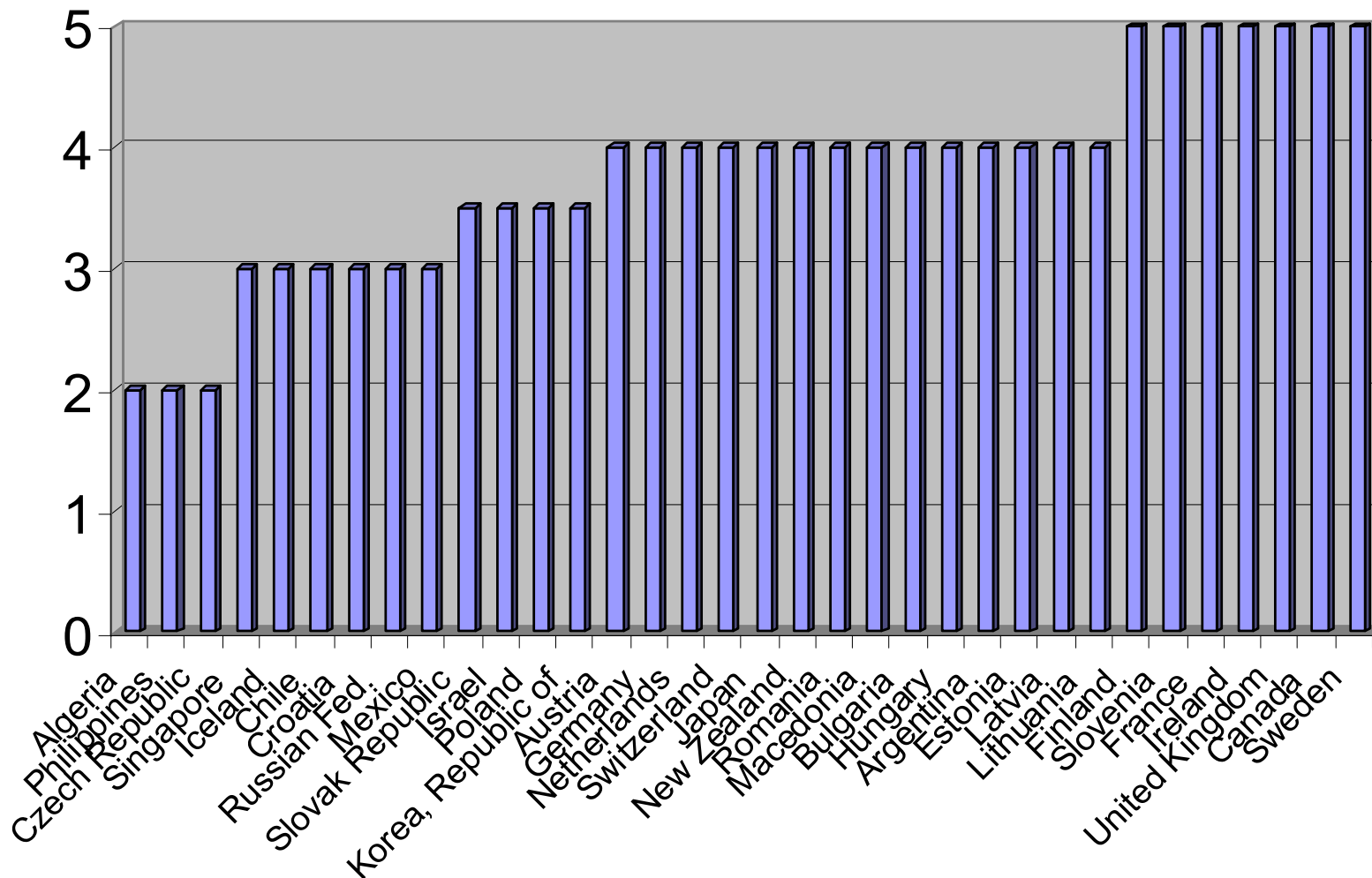
Information Sharing

- New normative framework: central bank transparency

Transparency in Banking Policy & Supervision

Not reporting: Australia, Brazil, China, Greece, Turkey, India, Italy, Norway, Portugal, South Africa, Spain, United States, Euro Area

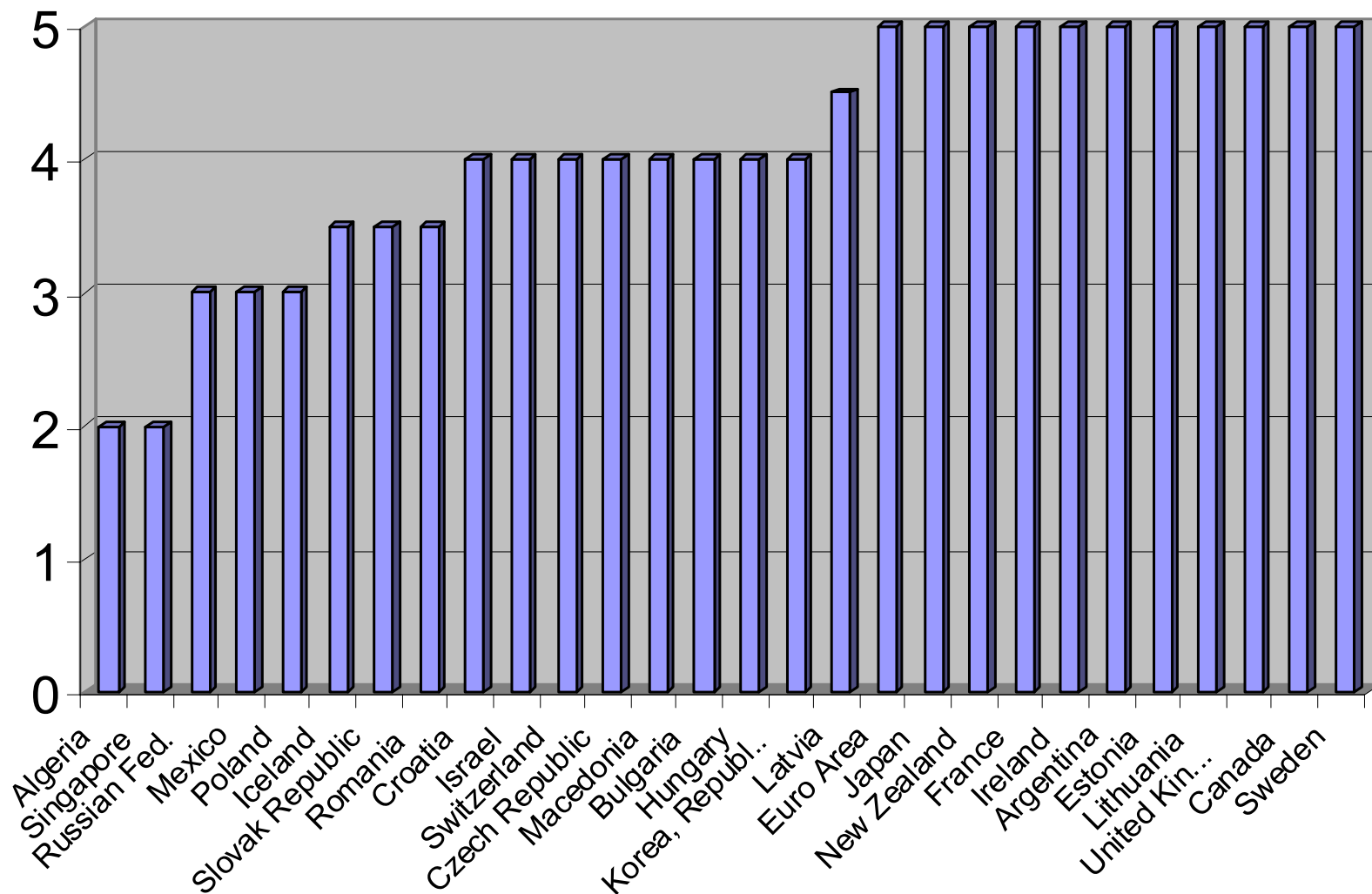
1=poor, 2=many shortcomings, 3=some shortcomings, 4=good, 5=excellent



Monetary Policy Transparency

Not Reporting: Australia, Austria, Brazil, Chile, China, Finland, Germany, Greece, India, Italy, Netherlands, Norway, Philippines, Portugal, Slovenia, South Africa, Spain, Turkey, United States

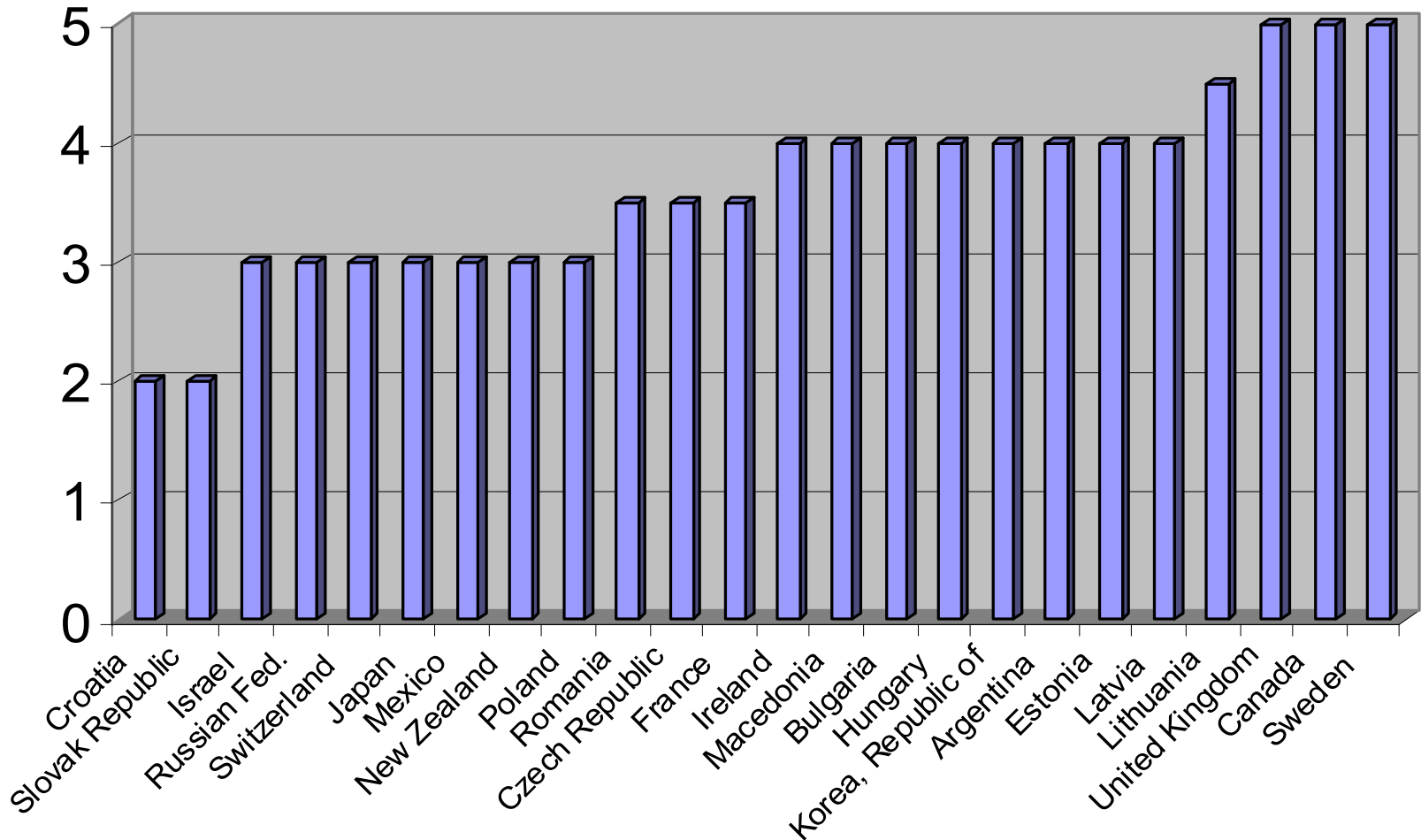
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Data Dissemination

Not Reporting: Algeria, Australia, Austria, Chile, China, Finland, Germany, Greece, Iceland, India, Italy, Netherlands, Norway, Portugal, Philippines, Singapore, Slovenia, South Africa, Spain, Turkey, United States, Euro Area

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Global Financial Stability

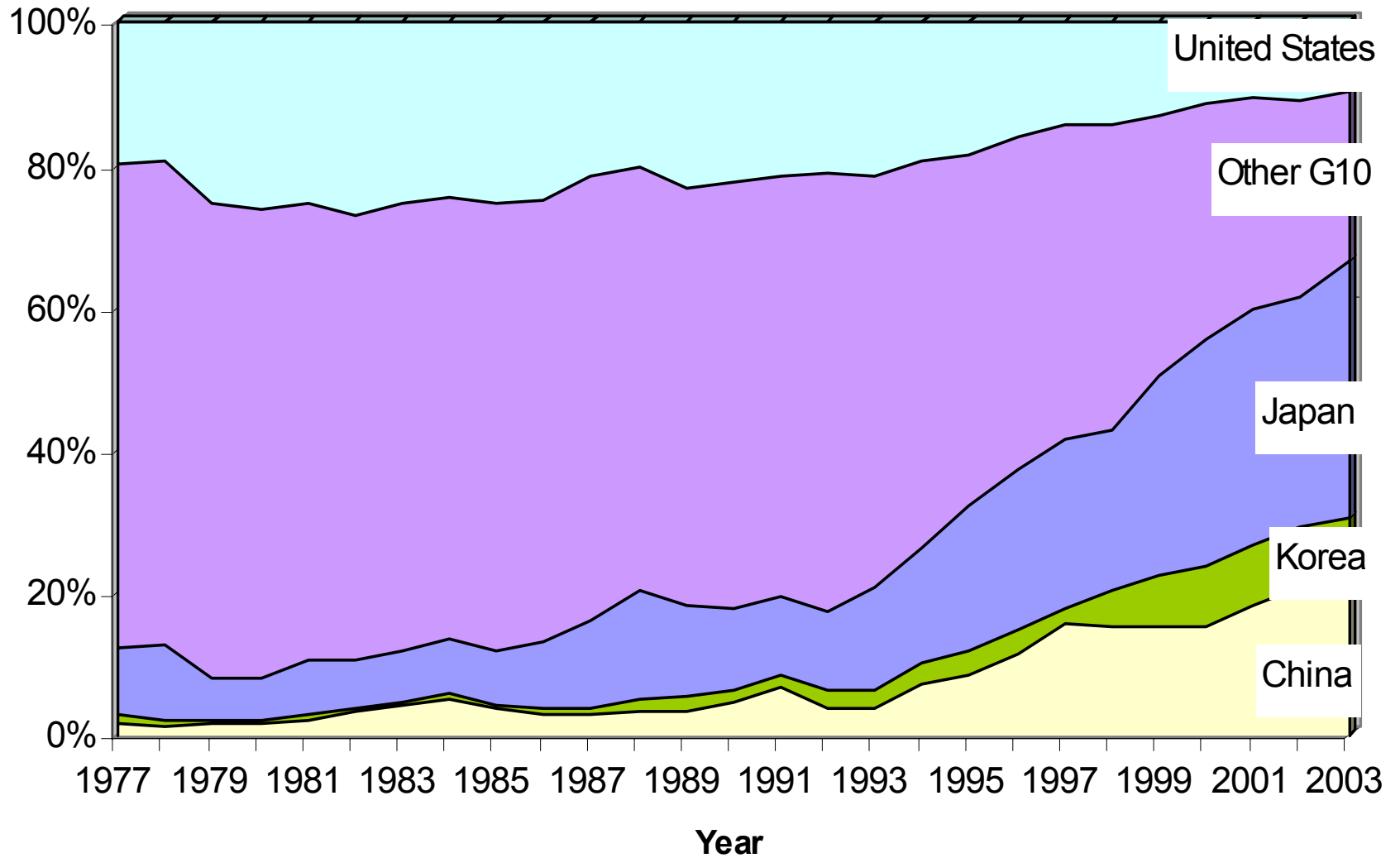
- Liberalization, integration, and consolidation will intensify
- Relative success of the Basle Accords and the Basle “process”
- Why? A coordination problem in a competitive environment with information asymmetries
- Remaining problems

The future of Macro- management: exchange rates and monetary policy coordination: how viable?

- The role of economic theory: “one’s house in order”
- Effectiveness of (& need for) currency interventions: Disparate evidence
- CB mandate: price stability

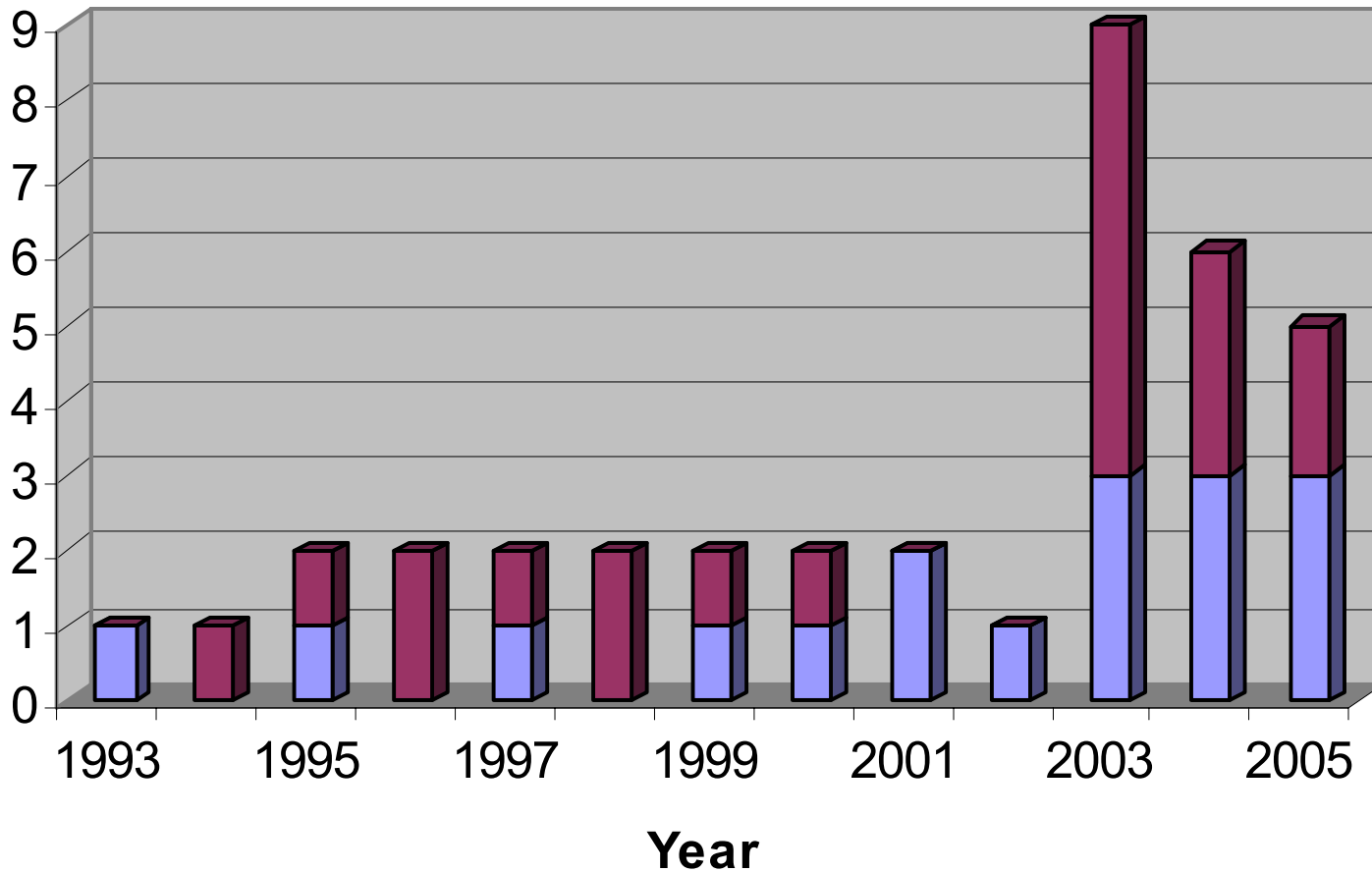
The problem of China: A
coordinated move to flexibility?

Share of Reserves Held by the Major Economies



Number of bills introduced in the US Congress dealing with exchange rates

Senate House



Conclusions

■ Challenges:

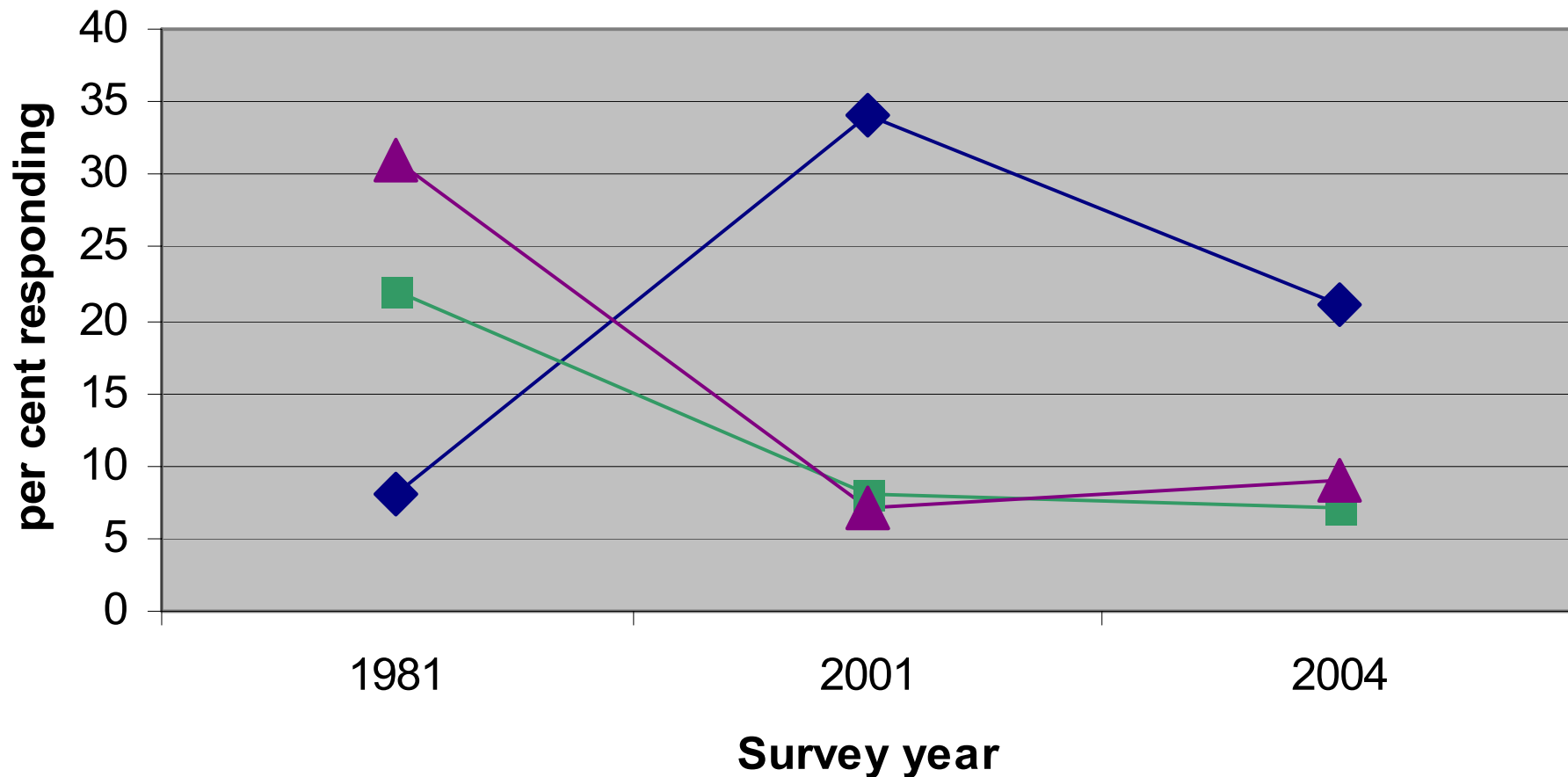
- ◆ Continued financial liberalization, integration, consolidation
- ◆ Imbalances; institutionalization of Asian cooperation

■ Cooperative resources

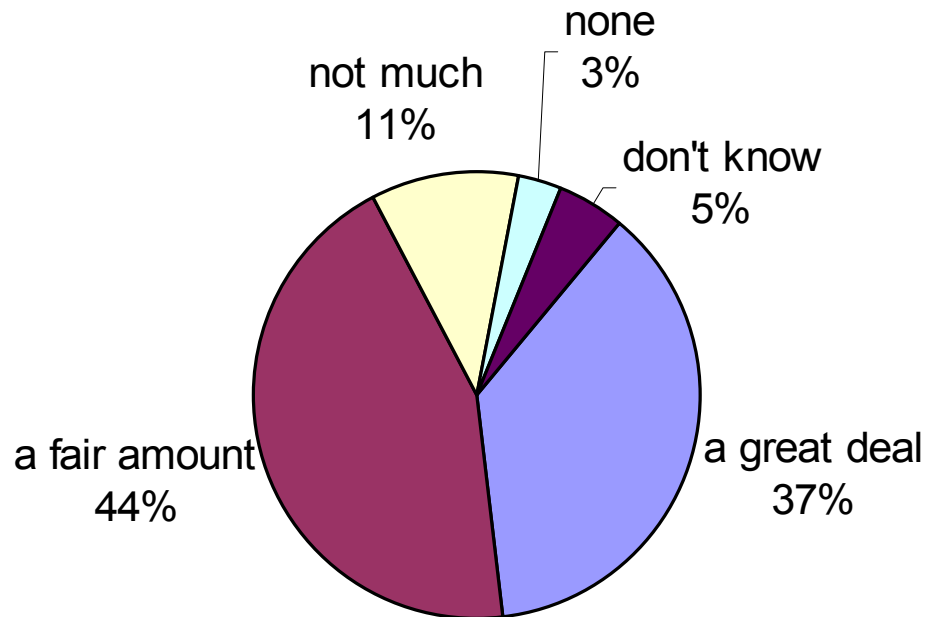
- ◆ Information
- ◆ Prestige

US public confidence in Federal Reserve's ability to solve the economy's problems

—◆— A lot —■— practically none —▲— don't know

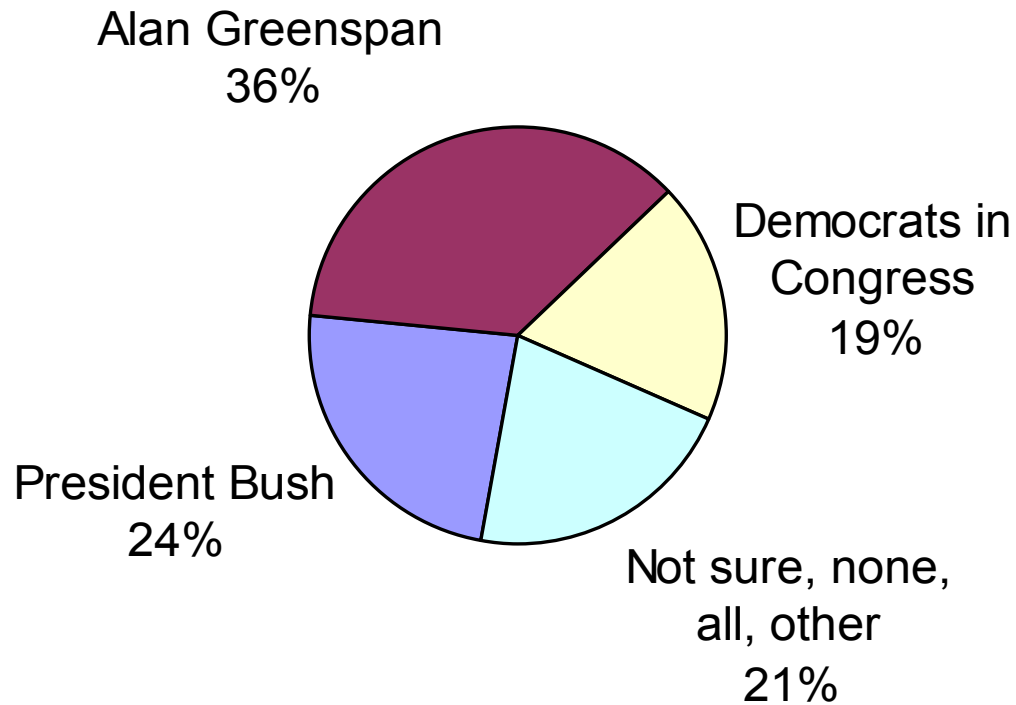


How much Americans credit the Federal Reserve for good economic performance, September 2000



QUESTION: For each of the following, please indicate how much credit, if any, they deserve for the positive state of the economy in the past few years. How about...the Federal Reserve? US Gallup poll, 1 Sept. 2000

Who Americans trust to set economic policy, May 2003



QUESTION: Who do you trust the most when it comes to setting economic policy? Opinion dynamics poll, May 22, 2003

Conclusions

- Challenges:
 - ◆ Continued financial liberalization, integration, consolidation
 - ◆ Imbalances; institutionalization of Asian cooperation
- Cooperative resources
 - ◆ Information
 - ◆ Independence
 - ◆ Experience
 - ◆ “Prestige”

