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

Source: Morgan Stanley, Central Bank Directory (2004); Bank for International Settlements
Central Bank Governors' Terms of Office
(Number of Banks, World Wide)

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

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

0.0 0.1 0.2 0.3 0.4 0.5 0.6 0.7 0.8

1990 2000 2005

Share of governors

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

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

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

- China
- Korea
- Japan
- G10
- United States (US)

Year:
- 1977
- 1979
- 1981
- 1983
- 1985
- 1987
- 1989
- 1991
- 1993
- 1995
- 1997
- 1999
- 2001
- 2003

Percentages:
- 0%
- 20%
- 40%
- 60%
- 80%
- 100%
Number of bills introduced in the US Congress dealing with exchange rates

- **Senate**
- **House**

Year:
- 1993
- 1995
- 1997
- 1999
- 2001
- 2003
- 2005
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

Survey year

- A lot
- Practically none
- Don't know

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

<table>
<thead>
<tr>
<th>Rating</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>a great deal</td>
<td>37%</td>
</tr>
<tr>
<td>a fair amount</td>
<td>44%</td>
</tr>
<tr>
<td>not much</td>
<td>11%</td>
</tr>
<tr>
<td>none</td>
<td>3%</td>
</tr>
<tr>
<td>don't know</td>
<td>5%</td>
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</table>

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

- Alan Greenspan: 36%
- Democrats in Congress: 19%
- President Bush: 24%
- Not sure, none, all, other: 21%

**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”