

Topics in Banking and Political Economy

Module 4: Politics of Central Bank Independence

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Key questions

Why are some agencies independent?

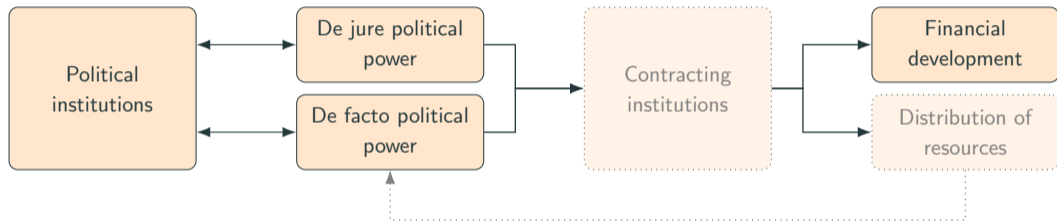
What political and institutional factors drive de jure central bank independence?

How does de facto independence interact with de jure independence?

What are the macroeconomic consequences of central bank independence (or the lack thereof)?

Is a Carbon Central Bank desirable?

Conceptual framework



Source: Lambert and Volpin (2018 [18])

**Why are some agencies
independent?**

Agency independence

Delegation of specialized missions to independent agencies:

- **Federal Reserve** safeguards price and financial stability
- **Federal Deposit Insurance Corporation** maintains stability and public confidence in the financial system
- **Environmental Protection Agency** protects human health and the environment
- ...

Independent agencies have proved better to achieve their mission than their politically controlled predecessors

Independence requires limited and mandated powers

Mission creep risks compromising independence

Officials, like all individuals, are subject to **moral hazard**:

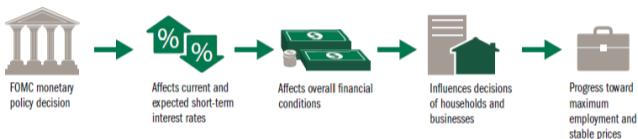
- They may exert insufficient effort
- They may make poor appointments
- They may maximize exit options to the private sector
- They may be subject to influence (lobbying, public opinion, etc.)

To make officials **accountable**, it is key to develop a sense of mission and avoid multiple missions (Tirole 2023 [22])

The Federal Reserve: a case in point

Figure 3.1. The Fed's statutory mandate: maximum employment and stable prices

The Federal Reserve conducts monetary policy in pursuit of the goals set for it by Congress. The mandated goals are considered essential to a well-functioning economy for households and businesses.



Fed Chair on accountability and transparency

"We are committed to providing clear explanations about our policies and activities. Congress has given us an important degree of independence so that we can effectively pursue our statutory goals based on objective analysis and data. We appreciate that our independence brings with it an obligation for transparency so that you and the public can hold us accountable."

Chair Jerome Powell, July 11, 2019

<https://www.federalreserve.gov/newsevents/testimony/powell20190710a.htm>

For a really great summary, click here.

Central bank independence and accountability

"Policymakers in a central bank subject to short-term political influence may face pressures to overstimulate the economy to achieve short-term output and employment gains that exceed the economy's underlying potential. Such gains may be popular at first, and thus helpful in an election campaign, but they are not sustainable and soon evaporate, leaving behind only inflationary pressures that worsen the economy's longer-term prospects. Thus, political interference in monetary policy can generate undesirable boom-bust cycles that ultimately lead to both a less stable economy and higher inflation." (p.2) | [Bernanke \(2010 \[5\]\)](#)

"I am by no means advocating unconditional independence for central banks. First, for its policy independence to be democratically legitimate, the central bank must be accountable to the public for its actions ... [T]he goals of policy should be set by the government, not by the central bank itself; and the central bank must regularly demonstrate that it is appropriately pursuing its mandated goals. Demonstrating its fidelity to its mandate in turn requires that the central bank be transparent about its economic outlook and policy strategy." (p.3) | [Bernanke \(2010 \[5\]\)](#)

Policymakers care about perceptions of independence

\There will likely also be challenges to the current operating procedures of the Federal Reserve and to its independence. We will be operating, too, in an environment in which many of the assumptions about the role of the United States in global affairs more generally that have held for more than 70 years may need to be adjusted." (p.54) | FOMC meeting transcripts (December 13{14, 2016)

\I thought Vice Chairman Dudley was right yesterday to point out that our risks are likely to involve compromises to our credibility, and that we're not really modeling those in a coherent way. Those are outside our usual modeling practice. An Administration that's willing to discard the 25-year-old precedent of White House respect for the Federal Reserve's monetary policy independence strikes me as capable of contributing to a loss of credibility." (p.114) | FOMC meeting transcripts (December 13{14, 2016)

Political pressures

Political pressures

Humphrey's Executor vs. United States

\In the two-and-a-half months since Donald Trump's inauguration, a rush of challenges to executive orders and directives have made their way through the courts and have now started to reach the justices in earnest. Alongside those orders, Trump fired the heads of several independent government agencies, experts who oversee technical matters of government including the enforcement of antitrust laws and review of federal workers' challenges to their dismissals. Although the president can remove most government officials for any reason, those positions are protected by Congress from firing without good cause, such as "malfeasance in office," and by a 1935 Supreme Court case that upheld such for-cause limits.

[...] The administration has indicated that it will ask the Supreme Court to overturn a 1935 decision, Humphrey's Executor v. United States, which would allow the president to do just that. In that decision, the court barred Franklin Delano Roosevelt from firing a Republican member of the Federal Trade Commission. The decision protects the heads of independent, multimember agencies from unjustified removal to allow the agencies to function without the threat of political retaliation." | SCOTUS Blog link, April 10, 2025

The case for central bank independence

Central bank independence (CBI)

Monetary policy is delegated to unelected officials and government influence on monetary policy is restricted

Institutional solution to:

- Political business cycles ([Alesina and Roubini 1992 \[2\]](#))
- Abuse of the central bank's money-printing powers to finance government spending ([Ricardo 1824 \[20\]](#))
- The time inconsistency problem generating inflation bias ([Kydland and Prescott 1977 \[17\]](#); [Barro and Gordon 1983 \[4\]](#))

Central bank independence (CBI)

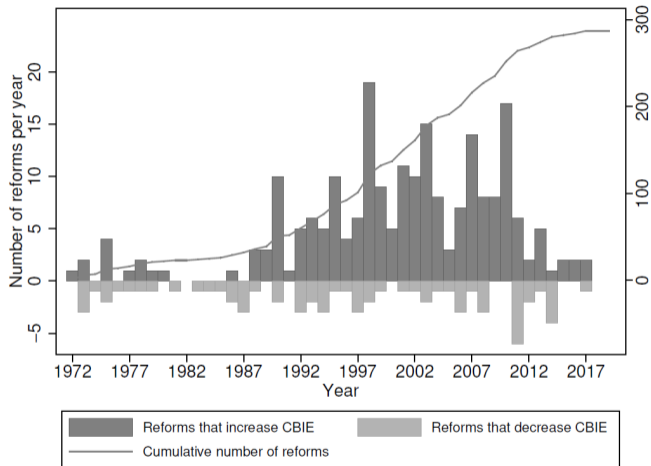
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Importance of this solution reemphasized after the **Great Recession** (Bernanke 2010 [5]) and today with global rise of **populism** (Goodhart and Lastra 2018 [13])

The rise of de jure CBI



Source: Romelli (2022 [21])

Definition of de jure CBI

"A multi-faceted and often misunderstood concept" (p.3) — Haldane (2020 [14])

From a legal perspective, CBI can be framed as:

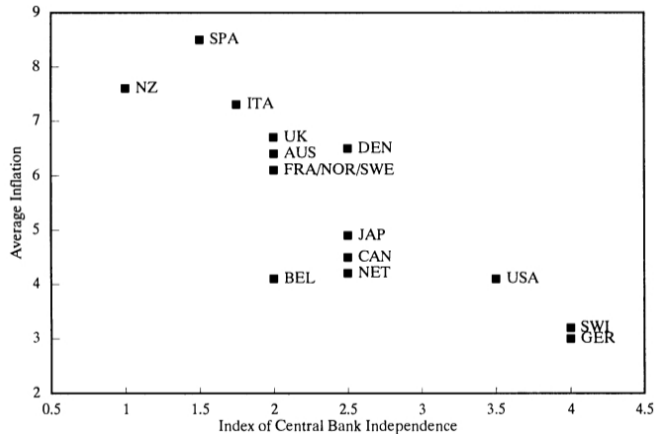
1. **Institutional** independence (e.g. legal remits and safeguards to perform tasks)
 - Target vs. instrument independence
 - Instrument independence operational independence
2. **Financial and economic** independence (e.g. sufficient resources to achieve mandate, "prohibition on monetary financing" of the government)
3. **Personal** independence (e.g. appointment procedures and legal protections to decision-making individuals)

Which dimensions are most important? Survey evidence

Variable	Weighting	Percent Scored as Critical	Variable	Weighting
8. Does the central bank have financial independence?	4.68	74%	4. Can the central bank set monetary policy independently from executive branch officials?	58%
1. Is the central bank Governor / CEO independent of executive branch officials?	4.51	62%	5. Is price stability the primary objective of the central bank?	52%
10. Are state audit bodies with oversight powers explicitly restricted to examining operational efficiency aspects of the central bank?	4.47	68%	3. Does the central bank have budgetary independence from the legislature?	51%
4. Can the central bank set monetary policy independently from executive branch officials?	4.37	64%	6. Is the central bank prohibited from long-term direct lending to the government?	50%
3. Does the central bank have budgetary independence from the legislature?	4.30	66%	9. Is the central bank restricted from lending outside the financial system?	46%
6. Is the central bank prohibited from long-term direct lending to the government?	4.29	55%	10. Are state audit bodies with oversight powers explicitly restricted to examining operational efficiency aspects of the central bank?	46%
5. Is price stability the primary objective of the central bank?	4.24	56%	8. Does the central bank have financial independence?	43%
9. Is the central bank restricted from lending outside the financial system?	4.17	59%	7. Is the central bank prohibited from short-term lending to the government?	32%
2. Is the central bank's highest governing body independent of executive branch officials?	4.15	51%	1. Is the central bank Governor / CEO independent of executive branch officials?	25%
7. Is the central bank prohibited from short-term lending to the government?	4.11	57%	2. Is the central bank's highest governing body independent of executive branch officials?	17%

Source: [Adrian, Khan and Menand \(2024 \[1\]\)](#)

Central banks and their price stability mission



Source: [Alesina and Summers \(1993 \[3\]\)](#)

Factors that correlate with changes in de jure CBI

Romelli (2022 [21]) examines the drivers of reforms in central bank design (de jure CBI)

He shows that CBI reforms follow:

1. External constraints such as obtaining an IMF loan (+) and currency union (+)
2. Inflationary episodes (+), suggestive of an endogenous reform process
3. Political events (not reported here) such as democratization (+) and populism (-)

	(1)	(2)	(3)	(4) Advanced	(5) Developing
Status quo	-0.039*** (0.014)	-0.038*** (0.014)	-0.056*** (0.018)	-0.218** (0.089)	-0.038* (0.020)
Regional pressure	0.045*** (0.017)	0.046*** (0.017)	0.042* (0.022)	-0.137 (0.088)	0.080*** (0.023)
IMF programmes	0.004*** (0.001)	0.003*** (0.001)	0.004*** (0.002)	0.007 (0.004)	0.004** (0.002)
Monetary Union	0.044*** (0.006)	0.045*** (0.006)	0.042*** (0.006)	0.044*** (0.009)	0.022 (0.014)
Financial crisis		-0.001 (0.002)	-0.001 (0.002)	-0.001 (0.004)	-0.001 (0.003)
Currency crises		-0.001 (0.002)	-0.001 (0.002)	0.008 (0.010)	-0.001 (0.003)
Sovereign debt crisis		0.006 (0.005)	0.008 (0.006)	0.006 (0.006)	0.008 (0.006)
Inflationary episodes		0.003** (0.001)	0.005** (0.002)	-0.008 (0.005)	0.005* (0.003)
Cabinet change			0.004 (0.003)	0.013* (0.007)	0.002 (0.004)
Government crisis			0.002 (0.002)	0.001 (0.003)	0.004 (0.002)
Polity _{t,j-1}			0.001 (0.000)	-0.002 (0.002)	0.001 (0.000)
Constitution _{t,j-1}			-0.009 (0.006)		-0.008 (0.007)
Government fractionalization			0.002 (0.004)	-0.017* (0.010)	0.009** (0.005)
GDP growth dummy			0.002 (0.002)	0.005* (0.003)	0.001 (0.002)
ΔEcon. globalization _{t,j-1}			0.001** (0.000)	-0.001 (0.001)	0.001** (0.000)
Debt to GDP _{t,j-1}			-0.001 (0.000)	0.001 (0.000)	-0.001 (0.000)
Observations	5,592	5,592	3,886	1,044	2,842
Number of countries	151	151	133	33	108
R-squared	0.099	0.101	0.118	0.315	0.107

Source: Romelli (2022 [21])

De jure CBI ↔ de facto CBI

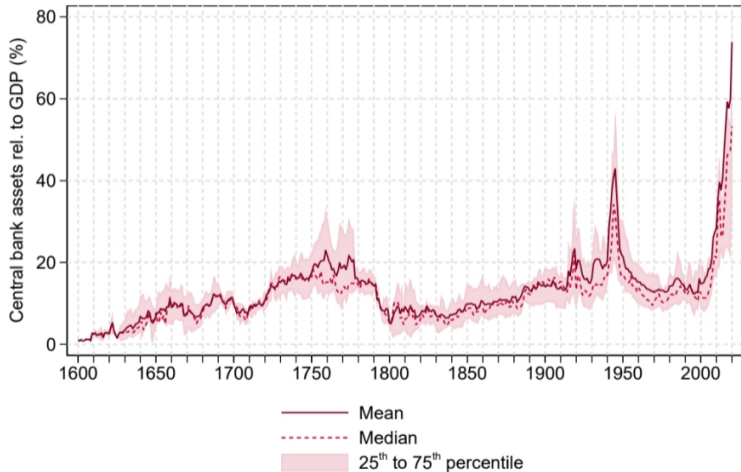
- Laws are incomplete
- Actual practice may deviate
- Reforms may give rise to a “seesaw effect”

Evidence of lost independence

Five recent studies

1. Profit concerns: [Goncharov, Ioannidou and Schmalz \(2023 \[12\]\)](#)
2. Governor appointments: [Ioannidou, Kokas, Lambert and Michaelides \(2026 \[15\]\)](#)
3. Governors' backgrounds: [Mishra and Reshef \(2019 \[19\]\)](#)
4. Governors' meetings with the President: [Drechsel \(2026 \[8\]\)](#)
5. Research production: [Fabo, Jancokova, Kempf and Pastor \(2021 \[9\]\)](#)

Central bank balance sheets larger than ever before



Source: [Ferguson, Kornejew, Schmelzing and Schularick \(2025 \[10\]\)](#)

Central bank profitability

Goncharov et al. (2023 [12]) offer a systematic analysis of whether central banks are concerned about the level or sign of their **accounting profits**

And if so, what are the likely **drivers** and **consequences** of such concerns?

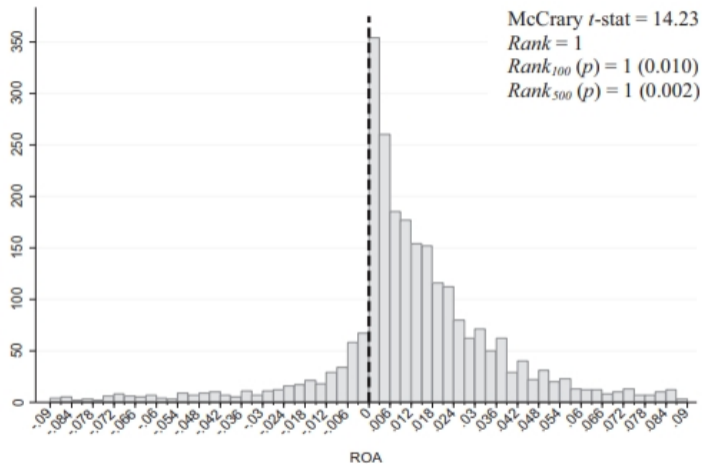
Context:

- Absent frictions, central bank accounting does not matter
- In theory, profit concerns lead to credibility problems and deviations in policy
- Profit concerns can also serve as a commitment device

How to measure preference for profits?

- Key idea: check for a discontinuity in profit distribution at 0

Is there a discontinuity?



Source: [Goncharov et al. \(2023 \[12\]\)](#)

What factors drive the discontinuity?

The significance and magnitude of the discontinuity varies predictably with central banks':

1. **ability** to control their reported income
2. **incentives** to avoid losses

Interestingly, de jure CBI does not fix it

The relations are **unique** to the 0-profit threshold

Multivariate Analysis

The table reports results of the OLS regression analysis using a symmetric window around the zero-profit threshold [-0.003, 0.003]. Column (3) widens this window to [-0.006, 0.006]. The dependent variable equals one if central bank i in period t reports an ROA in the small-profit interval, and zero if it reports an ROA in the small-loss interval. Detailed variable definitions and data sources are reported in the [Appendix](#). Robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels for two-tailed tests.

	Profit (1)	Profit (2)	Profit (3)
Local accounting standards	0.079 (0.060)	0.137 (0.083)	0.130** (0.062)
Central bank governor reappointable	0.169** (0.073)	0.187** (0.092)	0.177*** (0.063)
Extreme party affiliation (left or right)	0.128*** (0.031)	0.128** (0.050)	0.097** (0.041)
Publicly traded	0.067** (0.028)	0.114* (0.063)	0.133*** (0.046)
Central bank total assets to GDP	0.022 (0.049)	-0.022 (0.085)	0.011 (0.062)
High dividend payout ratios	0.143*** (0.051)	0.132* (0.068)	0.119** (0.046)
Central bank has positive equity	0.201 (0.181)	0.176 (0.194)	0.207 (0.157)
Central bank de jure independence		0.069 (0.068)	0.032 (0.056)
Do not incur interest on reserves		-0.014 (0.084)	-0.097 (0.102)
ROA volatility		1.552 (1.422)	-0.032 (1.143)
Exchange rate peg		0.072 (0.075)	0.097* (0.052)
Growth rate of nominal GDP		-0.401 (0.251)	-0.328* (0.188)
Low-income countries		0.102 (0.074)	0.105* (0.057)
Constant	0.337* (0.190)	0.192 (0.236)	0.195 (0.192)
R^2	0.11	0.14	0.15
Observations	223	168	298

Do profit concerns relate to monetary policy?

Source: [Goncharov et al. \(2023 \[12\]\)](#)

Do profit concerns relate to monetary policy?

Takeaways from [Goncharov et al. \(2023 \[12\]\)](#)

- Discontinuity suggests that losses are not (perceived to be) frictionless
- Discontinuity increases in ability and incentives to manage earnings
- Profit concerns relate to policy and may create a preference for low interest rates, at the expense of higher inflation rates

Source: [Goncharov et al. \(2023 \[12\]\)](#)

Politicians may seek to retain control over monetary policy by **getting their own people** into the top central bank jobs

Why care about the central bank governor/CEO?

- “Leaders matter” (Jones and Olken 2005 [16])
- “Managers matter” (Bertrand and Schoar 2003 [6])

Incentives to do so may be greater as de jure CBI increases

Anecdotal evidence is plentiful



\President Donald Trump has demanded that interest rates should be slashed, speculated about ring the boss of the Federal Reserve. . . India's government has replaced a capable central-bank chief with a pliant insider who has cut rates ahead of an election. . . Rather than win by force of argument, they are seeking an edge by getting their own people into the top jobs." | The Economist (April, 2019)

Governor appointments and the erosion of CBI

Have central bank governor appointments become more, or less political, following central bank legislative reforms?

- Narrative #1: + correlation
- Narrative #2: no (or -) correlation

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Research questions in [Ioannidou et al. \(2026 \[15\]\)](#)

1. Which of these two narratives better describes the data?
2. Do political appointees behave differently while in office?
3. Do political appointees lead to worse policy outcomes?

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Research questions in [Ioannidou et al. \(2026 \[15\]\)](#)

1. Which of these two narratives better describes the data? **#2**
2. Do political appointees behave differently while in office? **Yes**
3. Do political appointees lead to worse policy outcomes? **Yes**

Data on 317 governor appointments from several sources

Governor appointments:

- Biographical information [▶ Further details](#)
- Press coverage [▶ Further details](#)
- Expert opinions [▶ Further details](#)

De jure independence:

- De jure CBI indices ([Romelli 2022 \[21\]](#))
- Operational independence reforms (e.g. BoE Act of 1998)

Governor Independence (GI) index

The 3 criteria are combined as:

$$GI_{it} = \frac{1}{n} \sum_{j=1}^n C_{it}^j;$$

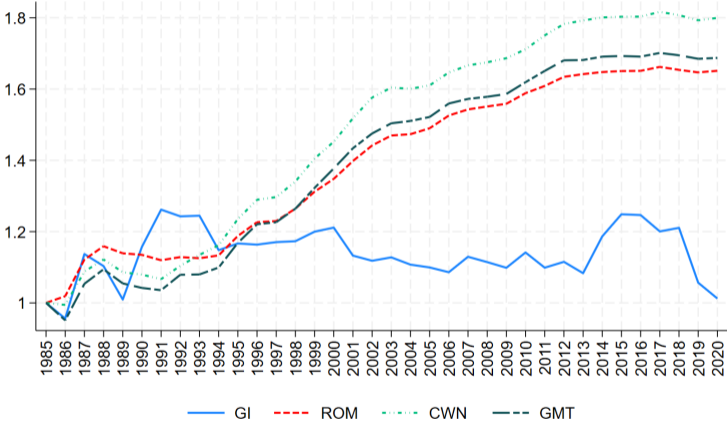
where C_{it}^j equals 1 if appointment i at t is independent according to criterion j (out of n) and 0 otherwise

Higher values / higher independence

Alternatives: GI PCA and High GI

	N	Mean	SD
Criteria			
Executive ties	296	0.446	0.498
Press	317	0.625	0.485
Experts	294	0.612	0.488
Indices			
GI	274	0.549	0.372
GI PCA	273	0.692	0.260
High GI	274	0.292	0.456

De jure CBI and GI: unconditional

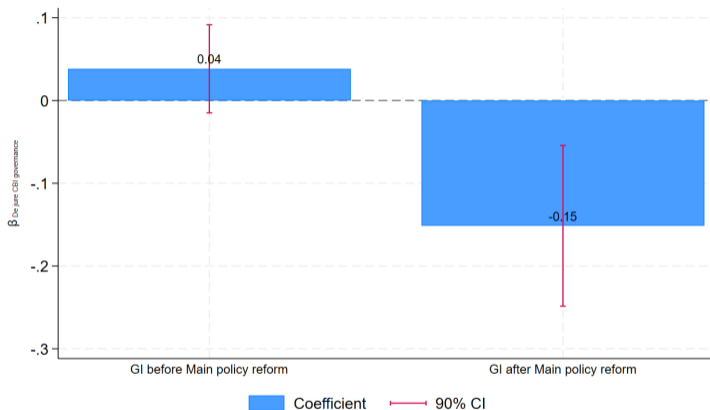


De jure CBI and GI: conditional

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent variable:	GI			Executive ties	Press	Experts	GI PCA	High GI
De jure CBI	-0.027 (0.031)	-0.047 (0.032)	0.013 (0.040)	0.022 (0.049)	-0.003 (0.043)	0.018 (0.051)	0.001 (0.028)	0.052 (0.053)
Country characteristics		YES	YES	YES	YES	YES	YES	YES
Governor characteristics		YES	YES	YES	YES	YES	YES	YES
Country FE			YES	YES	YES	YES	YES	YES
Observations	251	223	222	222	222	222	221	222
R-squared	0.005	0.122	0.468	0.397	0.441	0.567	0.443	0.348

1. Focusing only **de jure personal independence**
2. Estimating specifications separately for **developed and developing countries**
3. Estimating specifications dropping **EZ central banks**
4. Examining the role of **populism** and **external constraints**

A “seesaw” effect

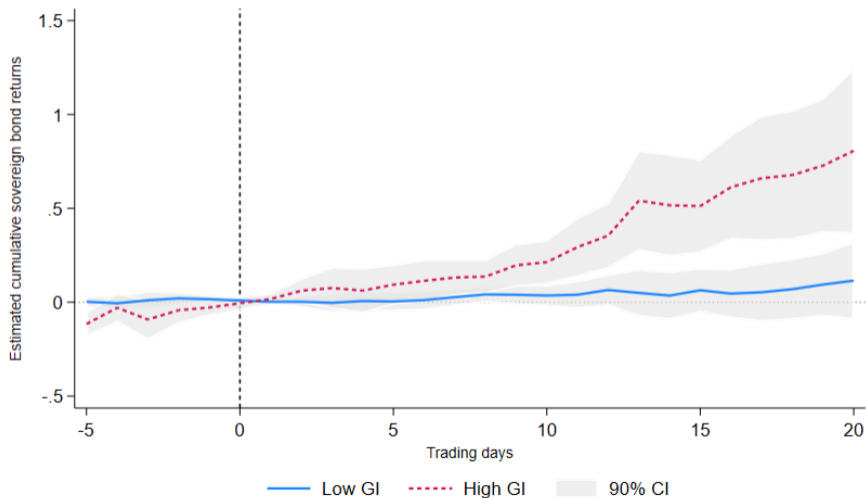


$$GI_{i;c;t} = \beta_1 \text{ de jure CBI governance}_{c;t} + \beta_2 \text{ de jure CBI governance}_{c;t} \text{ Main policy reform}_{c;t} \\ + \beta_3 \text{ Main policy reform}_{c;t} + \gamma \mathbf{X}_{c;t} + \delta \mathbf{Z}_{i;c;t} + \alpha_c + \varepsilon_{i;c;t}$$

Governor independence in office

1. Financial market reactions / **expected** conduct of monetary policy
2. Expert assessments / **perceived** conduct of monetary policy
3. Monetary policy communication / **actual** conduct of monetary policy

Sovereign bond returns



FX market reactions

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Dependent variables:	FX returns [-3,+3]			FX returns [-5,+5]			FX returns [-10,+10]		
High GI	-0.107 (0.087)	-0.117 (0.087)	-0.133 (0.108)	-0.105 (0.087)	-0.112 (0.087)	-0.123 (0.112)	-0.102 (0.087)	-0.111 (0.086)	-0.118 (0.110)
Country characteristics		YES	YES		YES	YES		YES	YES
Governor characteristics		YES	YES		YES	YES		YES	YES
Country FE			YES			YES			YES
Observations	91	84	66	91	84	66	91	84	66
R-squared	0.031	0.173	0.577	0.029	0.185	0.574	0.028	0.177	0.575

Expert assessments

	(1)	(2)	(3)	(4)
Dependent variable:	Experts (hindsight)			
High GI	0.296*** (0.045)	0.291*** (0.051)	0.254*** (0.045)	
High GI (excluding Experts)				0.172*** (0.035)
Country characteristics		YES	YES	YES
Governor characteristics		YES	YES	YES
Country FE			YES	YES
Observations	274	241	239	239
R-squared	0.177	0.312	0.680	0.645

Monetary policy communication

	(1)	(2)	(3)
Dependent variable:	Δ Transparency index		
High GI tenure	1.118*** (0.262)	0.727*** (0.244)	0.298** (0.131)
Country characteristics		YES	YES
Governor characteristics		YES	YES
Year FE		YES	YES
Country FE			YES
Observations	762	657	657
R-squared	0.024	0.305	0.918

* Results robust using LP and SCM estimations

Governor independence and inflation outcomes

[Alesina and Summers \(1993 \[3\]\)](#) provide early evidence that de jure CBI is associated with lower inflation rates

Later studies found this relationship is not robust (e.g. [Haldane 2020 \[14\]](#))

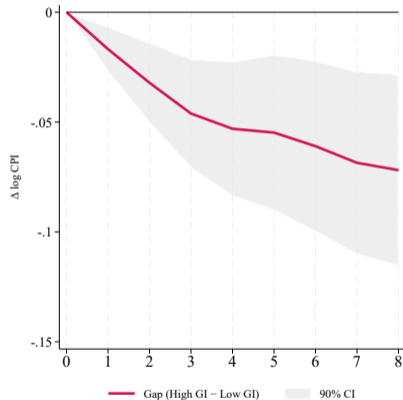
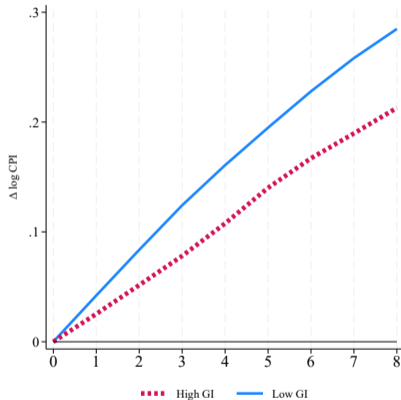
A possible explanation is that legal reforms do not guarantee de facto independence

To test this, [Ioannidou et al. \(2026 \[15\]\)](#) rely on their GI index to examine inflation outcomes using similar strategies than [Funke, Schularick and Trebesch \(2023 \[11\]\)](#)

Panel estimates

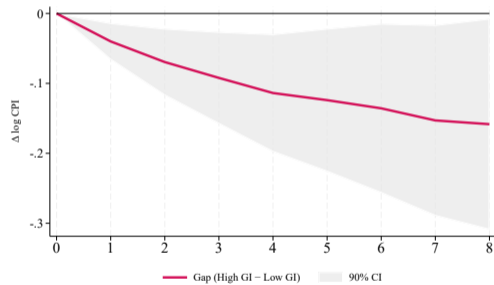
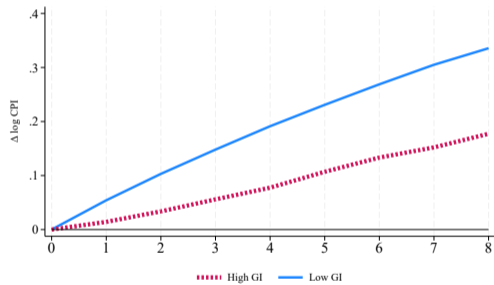
	(1)	(2)	(3)	(4)	(5)	(6)
Dependent variable:	Inflation					
Sample:	All countries			Non-EZ countries		
High GI tenure	-0.037*** (0.006)	-0.032*** (0.006)	-0.028*** (0.007)	-0.053*** (0.012)	-0.022** (0.010)	-0.022** (0.010)
De jure CBI		-0.017*** (0.005)	-0.002 (0.004)	-0.009 (0.006)	0.006 (0.015)	0.007 (0.018)
Government stability			-0.026*** (0.007)	-0.027*** (0.007)	-0.015** (0.006)	-0.018** (0.007)
IMF program			-0.029** (0.013)	-0.010 (0.009)	-0.002 (0.015)	-0.010 (0.018)
Early replacement			0.038*** (0.012)	0.036*** (0.012)	0.015 (0.020)	0.028 (0.028)
PhD degree			-0.030*** (0.011)	-0.022** (0.011)	-0.013 (0.009)	-0.006 (0.011)
Advanced related degree			0.040*** (0.011)	0.041*** (0.012)	0.029*** (0.010)	0.030** (0.014)
Central bank			-0.025*** (0.010)	-0.027*** (0.010)	-0.024 (0.020)	-0.037 (0.030)
International organization			0.007 (0.013)	0.010 (0.013)	0.021 (0.018)	0.034 (0.028)
Academic institution			0.028*** (0.009)	0.034*** (0.010)	0.014 (0.018)	0.021 (0.023)
Financial sector			-0.010 (0.009)	-0.008 (0.008)	-0.018 (0.022)	-0.022 (0.026)
Government advisory body			-0.022*** (0.004)	-0.027*** (0.005)	0.013 (0.009)	0.016 (0.012)
Inflation target				-0.045*** (0.014)	-0.085*** (0.032)	-0.077** (0.033)
High GI tenure Inflation target				0.062*** (0.018)	0.031 (0.024)	0.036 (0.023)
Year FE			YES	YES	YES	YES
Country FE					YES	YES
Observations	1,399	1,355	1,144	1,144	1,143	958
R-squared	0.009	0.020	0.114	0.127	0.323	0.324

LP estimates

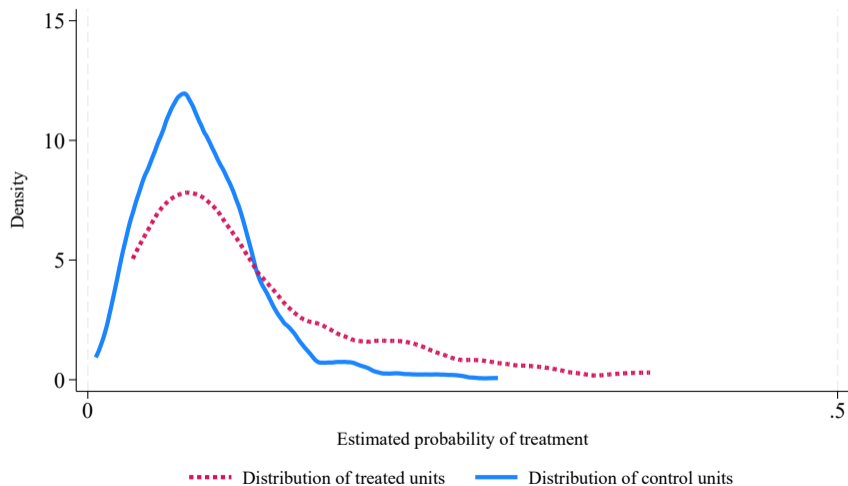


$$h\text{CPI}_{c;t+h} = \beta_H^h \cdot \text{High GI}_{c;t} + \beta_L^h \cdot \text{Low GI}_{c;t} + \sum_{j=1}^h \gamma_j^h \cdot \mathbf{X}_{c;t-j} + \delta^h \cdot \mathbf{Z}_{l;c;t} + \alpha_c^h + \varepsilon_{c;t}^h$$

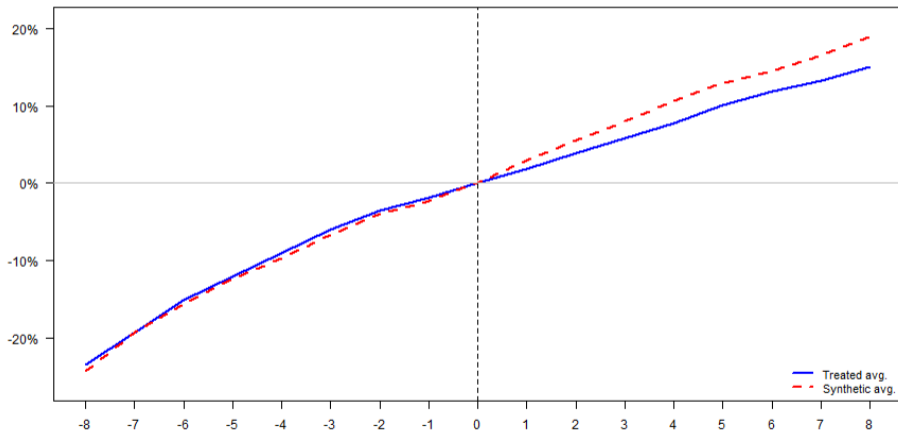
IPWRA LP estimates



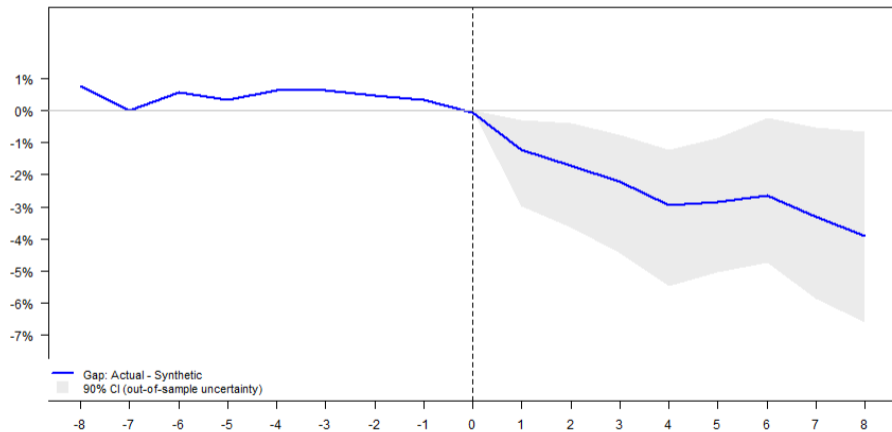
First-stage logit prediction



SCM baseline estimates



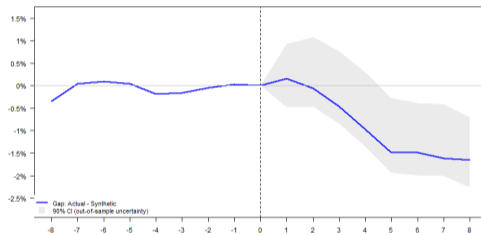
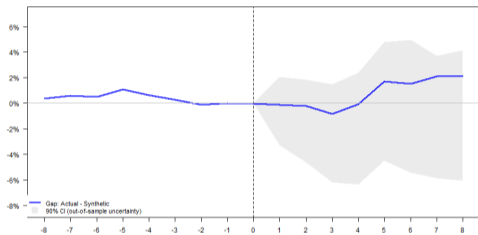
SCM baseline estimates (gap)



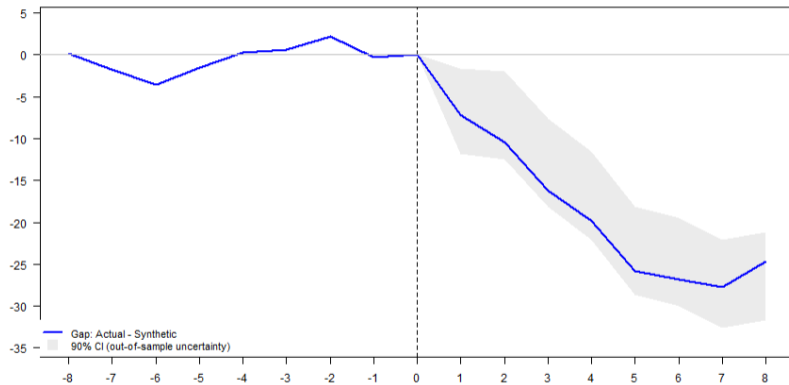
Robustness tests for SCM

1. Country placebos
2. Penalized SCM
3. Partially pooled SCM
4. Alternative coding of events
5. Alternative estimation windows

Real GDP and unemployment



Public debt



Governor appointment, de jure CBI and the macroeconomy: main takeaway

The findings of [Ioannidou et al. \(2026 \[15\]\)](#) illustrate that de jure CBI is not sufficient to guarantee that central banks are not captured by political interests ! **The selection of governors matters**

"Trustees [governors] must be loyal to their mandate, not to their principal [government]. This creates a double-layered problem. First, in the usual way, candidates to take on the role of trustee might pose as something they are not in order to get the trappings and/or power of the job. Second, the principal making the appointment has incentives to appoint an ally whose loyalty is to them, not to the mandate. The two hazards are linked, potentially deterring well-qualified candidates from applying at all, in an appointments-process manifestation of what is known as adverse selection." (p.88) | [Tucker \(2019 \[23\]\)](#)

Further evidence from around the world

Research question in [Mishra and Reshef \(2019 \[19\]\)](#)

Are appointed governors with experience in the financial sector associated with financial deregulation?

Governors' background also matters

Key result of [Mishra and Reshef \(2019 \[19\]\)](#)

Having a governor with finance experience increases the annual rate of financial deregulation by 50%

Historical evidence from the U.S.

Drechsel (2026 [8]) studies historical interactions and political pressure on the e
Federal Reserve

He obtains schedules of all presidents until 2016 (Trump and Biden schedules not
public yet)

He then identifies meetings between presidents and Fed officials ! one measure of
potential external pressure

He constructs an index to quantify effects on inflation and other macroeconomic
outcomes

Presidential schedules

THE WHITE HOUSE		THE DAILY DIARY OF PRESIDENT JIMMY CARTER	
LOCATION		DATE/Mo./Day/Yr.	
SHOREHAM HOTEL		JULY 19, 1980	
WASHINGTON, D.C.		TIME DAY	
		9:25 a.m. SATURDAY	
TIME	From To	Priority	ACTIVITY
9:30			The President went to the offstage announcement area.
9:32	9:38		The President went to the podium inside the Regency Ballroom.
9:44			The President addressed approximately 1,200 guests attending the presentation.
9:49	9:53		The President presented the Medal of Honor to Lt. Col. Urban.
9:54			The President returned to his motorcade. He was escorted by Secretary Alexander.
10:11	10:33		The President motored from the Shoreham Hotel to the South Grounds of the White House.
10:37	10:38	P	The President returned to the Oval Office.
10:40		P	The President met with Chairman of the Board of Governors of the Federal Reserve System, Paul A. Volcker.
10:44			The President talked with the First Lady.
10:52	10:57	P	The President telephoned his daughter, Amy Carter. The call was not completed.
10:59			The President went to the doctor's office.
11:00			The President talked with Amy Carter.
11:02	11:50		The President returned to the Oval Office. Enroute, he greeted: Richard I. Queen, released U.S. Hostage Harold Queen, father, resident of Lincolnville Beach, Maine Mrs. Harold (Jeanne) Queen Alexander Queen, brother Warren M. Christopher, Deputy Secretary of State.
11:08	11:50		The Presidential party went to the Oval Office.
11:13	11:14		The President met with: Mr. Queen Mr. and Mrs. Harold Queen Mr. Alexander Queen Deputy Secretary Christopher The First Lady

Basic statistics:

- 857 personal interactions from 1933 to 2016
- Average length 53 minutes
- 92% with Fed chair, 8% with other Fed officials
- 36% are 1-on-1 interactions
- 11% are on Saturdays or Sundays
- Enormous variation through time...

President-Fed interaction count through time

Source: [Drechsel \(2026 \[8\]\)](#)

Highlights

- Clinton: 6 interactions in 8 years; Nixon: 160 interactions in 5.5 years
- Second half of 1971: Nixon speaks with Burns on average every 5 days
- But personal interactions do not necessarily capture political pressure

Source: [Drechsel \(2026 \[8\]\)](#)

Nixon's appointment of Arthur Burns



Nixon during Arthur Burns' swearing-in ceremony in 1970:

\I respect his independence. However, I hope that { independently { he will conclude that my views are the ones that should be followed."

Some quotes from Arthur Burns' diary

"I am convinced the President will do anything to be reelected." (March 1971)

"I watched his face, as he spoke, with a feeling of dismay; for his features became twisted and what I saw was uncontrolled cruelty." (July 1971)

"I got a stern letter from the President urging me start expanding the money supply and predicting disaster if this didn't happen." (October 1971)

"President at this meeting again expressed his concern about the money supply. I reminded him that I was looking after that properly." (November 1971)

Political pressure shock has macroeconomic consequences

Takeaways from Drechsel (2026 [8])

When the President pressures the Fed to ease monetary policy:

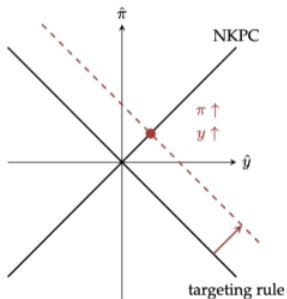
1. inflation and inflation expectations increase gradually and strongly
2. insignificant response of real economic activity
3. transmission is different from typical monetary policy expansion

50% as much pressure as Nixon, for six months, raises U.S. price level by 7% over the following decade

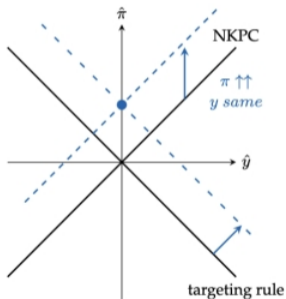
Theoretical discussion: simple new Keynesian arithmetic

! Why do the inflationary effects of political pressure occur without an increase in real economic activity?

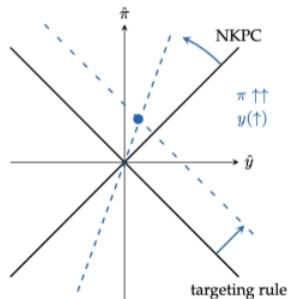
(a) Pure monetary expansion



(b) With NKPC shift



(c) With NKPC steepening



Fabo et al. (2021 [9]) compare research on the effectiveness of quantitative easing (QE) by central bank researchers and academic economists

They also survey central banks to understand research process

Central banks evaluating their own policies:

"The good news is that, by most accounts, QE appears to have succeeded at boosting growth and lifting inflation. Martin Weale, a member of the BoE's interest-rate setting Monetary Policy Committee, found asset purchases worth 1% of national income boosted UK gross domestic product by about 0.18% and inflation by 0.3%. A study by John Williams, president of the San Francisco Federal Reserve, concluded that asset purchases had reduced the US unemployment rate by 1.5 percentage points by late 2012 and helped the economy avoid deflation." | *The Financial Times* (January 20, 2015)

All articles on macroeconomic effects of unconventional monetary policies in U.S., U.K., or Euro area written before July 2018

Search for forty terms on Google Scholar and Repec IDEAS

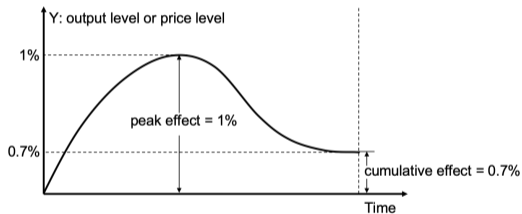
- Select all papers on first 10 pages of search results in both portals
- Paper must quantify the effect of QE on either output or inflation
- Examine papers cited by, and papers that cite, these papers (2 rounds)

Final sample: 54 articles (“shades”), 137 authors (116 unique)

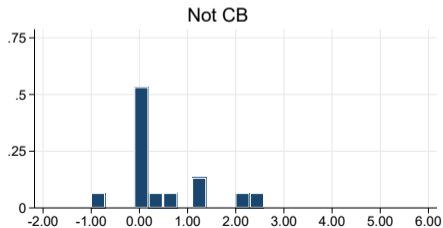
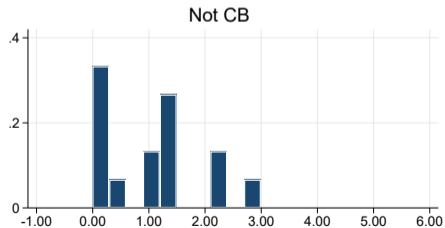
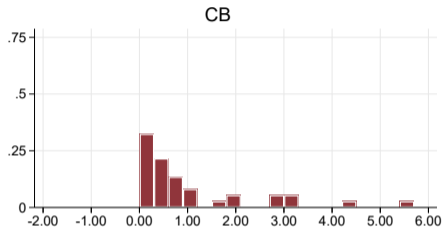
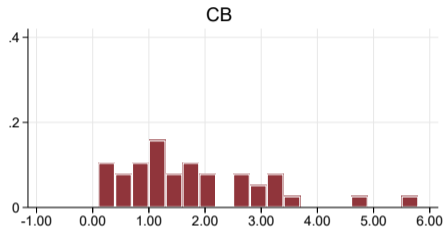
- 60% of authors are affiliated with a central bank

Main outcome variables

- **Peak effect** of QE program studied on the output (or price) level
- **Cumulative effect** of QE program studied on the output (or price) level
- **Standardized effects**, where QE shock is standardized to 1% of GDP level prior to QE
- Statistical and economic **significance**



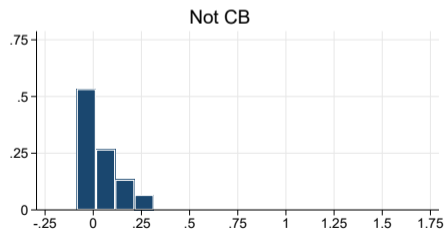
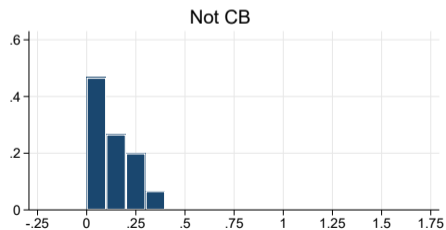
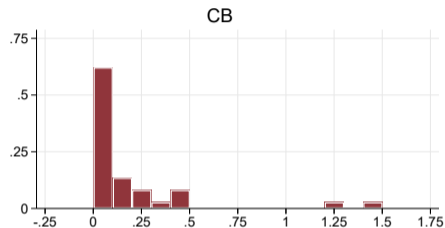
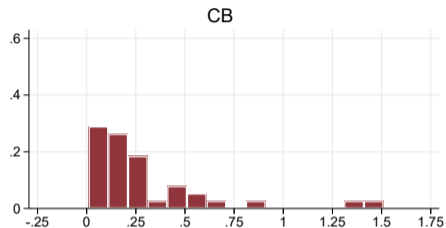
Do central bankers find larger effects on output?



Peak effect on output

Cumulative effect on output

Do central bankers find larger effects on output?



Standardized peak effect on output

Standardized cumulative effect on output

Do central bankers find larger effects on output and inflation?

Source: [Fabo et al. \(2021 \[9\]\)](#)

Do central bankers find larger effects on output and inflation?

Main results of [Fabo et al. \(2021 \[9\]\)](#)

Compared to no CB authors, studies on output with all CB authors find:

1. 0.723 ppt larger peak effect (46% of the mean effect)
2. 0.512 ppt larger cumulative effect (59% of the mean effect)

Compared to no CB authors, studies on inflation with all CB authors find:

1. 1.279 ppt larger peak effect (90% of the mean effect)
2. 1.394 ppt larger cumulative effect (157% of the mean effect)

Consistent results for standardized effects on output and inflation

Are central bankers more likely to find significant effects?

Source: [Fabo et al. \(2021 \[9\]\)](#)

Are central bankers more likely to find significant effects?

Other results of [Fabo et al. \(2021 \[9\]\)](#)

- Compared to no CB authors, studies with all CB authors are 36.6 ppt more likely to find a statistically significant effect of QE on output
- Statistically insignificant differences for the effect on inflation

Source: [Fabo et al. \(2021 \[9\]\)](#)

Central bank studies:

- use more positive language in the paper's abstract
- are less likely to use conservative (95%) confidence levels
- are more likely to use DSGE models

Similar results if:

- conditioned on published papers only or use WLS with citations
- controlled for QE program studied

Opposite effects on output for Bundesbank authors

Why do central bankers find more positive effects of QE?

1. Career outcomes (tested directly)
2. Research process (tested via survey)

Are authors who find larger effects of QE more likely promoted?

Source: [Fabo et al. \(2021 \[9\]\)](#)

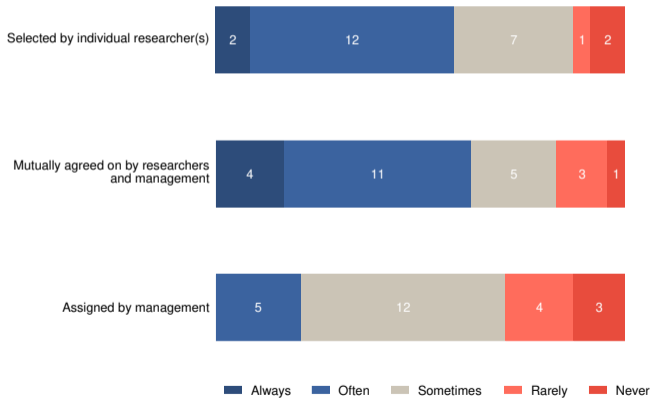
Are authors who find larger effects of QE more likely promoted?

Other key results of [Fabo et al. \(2021 \[9\]\)](#)

- Authors who find larger QE effects on output experience more favorable career outcomes: a one-SD increase in output effect) " by 0.6 ranks (scale 1-6)
- Insignificant effects for inflation

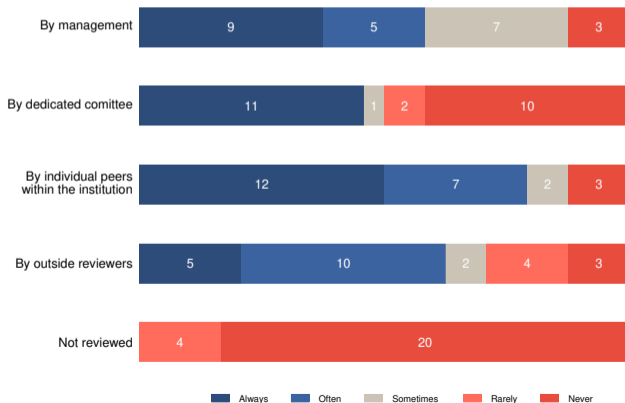
Survey question #1

1. How are research topics selected in your central bank?



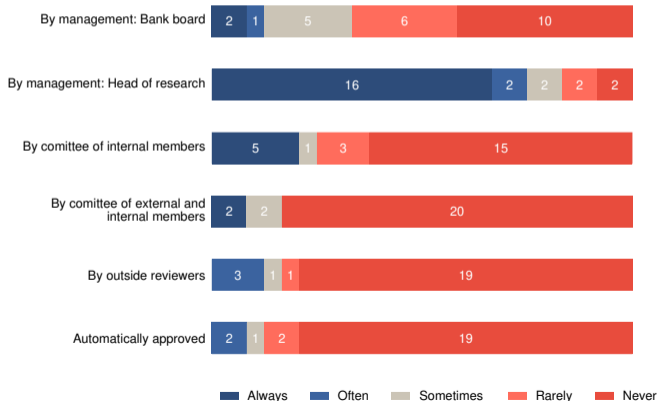
Survey question #2

2. How are draft research papers reviewed / commented on in your institution, prior to their public distribution?



Survey question #3

3. How are your institution's draft research papers approved for public distribution?



Survey question #4

4. *What criteria can lead to papers being rejected?*

Survey question #4

4. *What criteria can lead to papers being rejected?*

Takeaways from [Fabo et al. \(2021 \[9\]\)](#)

- Central bankers are more optimistic than academics in their assessments of the effectiveness of QE
- Potential mechanism: incentives at central banks

The case for a Carbon Central Bank

Should central banks appoint themselves to take on climate policy?

To what extent does **greening monetary and financial policies** jeopardize CBI?

Green central banks raise issues:

- Democratic mandate (implicit/explicit)
- Allocation of responsibility
- Multiplicity of missions
- Instrument efficiency
- **External pressures**

Is a Carbon Central Bank desirable?

Countries have solved inflation problem by creating independent central banks with a clear mission

Carbon pricing is a necessary policy (Blanchard, Gollier and Tirole 2023 [7])

But time inconsistency problem (as with central banking)

Is the establishment of a Carbon Central Bank (via international treaty) an institutional solution? If so, is its building politically feasible?



Conclusion

Summary

Mission-oriented agencies are narrow in scope but highly effective

Independent central banks are a case in point: they have proved more effective at taming inflation and regulating banks than politically controlled predecessors

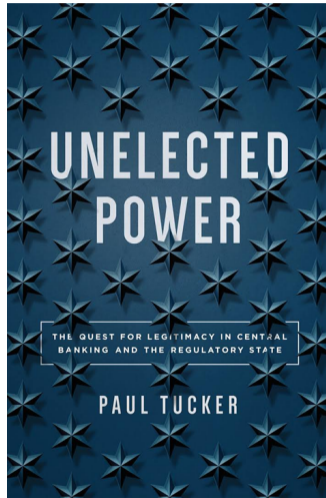
De jure independence alone is insufficient to prevent capture: **de facto power matters**

Political interference may arise through:

- governor appointments
- governor's backgrounds (e.g. private sector experience)
- external pressures (e.g. private meetings with the President)
- internal pressures (e.g. management involvement in research production)

A **Carbon Central Bank** may be desirable, but it remains vulnerable to political capture

A must read



Source: [Tucker \(2019 \[23\]\)](#)

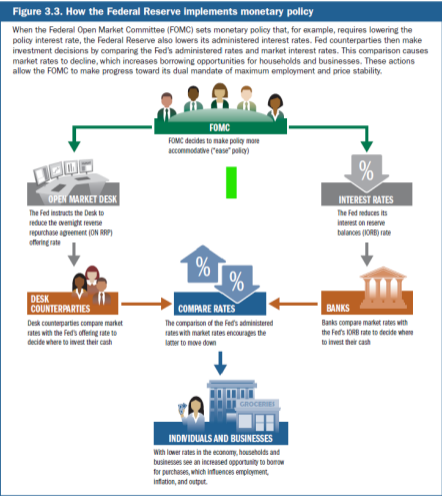
Thank You

thomaslambert.org

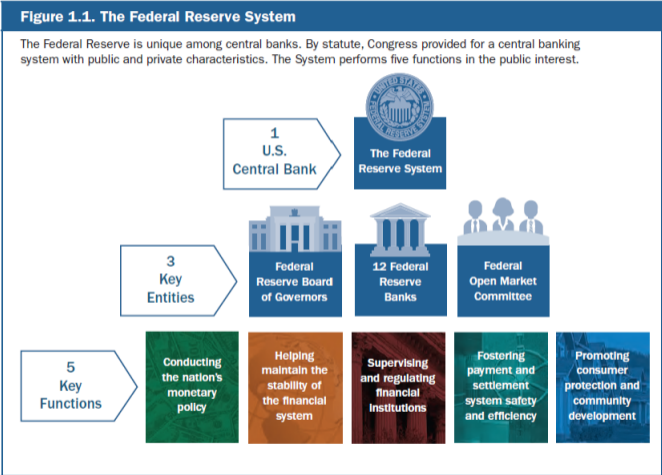
poleconfin.org

Appendix

Open market operations



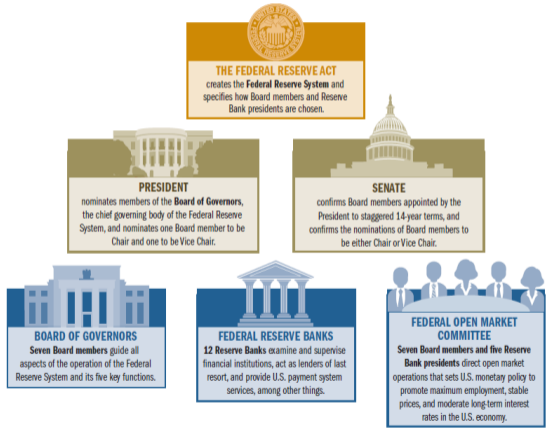
The Federal Reserve System



The Federal Reserve

Figure 2.1. How the Federal Reserve operates within the U.S. government framework

A statutory framework established by Congress guides the operation of the Federal Reserve System.



Institutional characteristics of de jure CBI indices

Criteria	GMT	CWN	ROM
Governor and Central Bank Board			
Who appoints the governor	*	*	*
Term of office of governor	*	*	*
Reappointment option for governor			*
Dismissal of governor		*	*
Governor allowed to hold another office in government		*	*
Qualification requirements for governor			*
Who appoints the board members	*		*
Term of office of board members	*		*
Reappointment option for board members			*
Dismissal of board members			*
Board Members allowed to hold another office in government			*
Qualification requirements for board members			*
Staggering term of office for board members			*
Government representatives in the board	*		*
Monetary Policy and Conflicts Resolution			
Who formulates monetary policy	*	*	*
Central bank responsible to fix key policy rates	*		*
Banking sector supervision	*		*
Central bank role in government's budget and/or debt	*		*
Final authority in monetary policy	*	*	*
Objectives			
Central bank's statutory goals	*	*	*

Institutional characteristics of de jure CBI indices (cont'd)

Alan Blinder about the Fed's future independence

I certainly believe that Trump will try to undermine Fed independence. Whether he'll succeed is another question. **One thing we know he can do, because it's perfectly legal, is replace Jay Powell. He will. End of sentence.** What is worrisome to me is who he will replace him with. You may remember Arthur Burns, who was the Fed chair during the Nixon administration. Burns led the Fed to do Richard Nixon's bidding to a considerable degree, helping him get re-elected in 1972. We paid the inflationary piper after that election, and after the price controls came off. Burns, at least, was a smart and experienced economist, who was just much too political. **Trump could easily put in somebody who basically knows nothing about the job and could take orders from the White House.**" | Alan S. Blinder, "The stars look like they're aligning for a soft landing", The Financial Times (September 13, 2024)

	N	Mean	S.D.
Employment tie	298	0.268	0.444
Ideological tie	295	0.447	0.498
Family tie	300	0.030	0.171

* They also collect information on succession, education, and experience used as controls.

Press coverage

Factiva search:

- ^ All major English-speaking newspapers
- ^ 3 months around appointment
- ^ Article must contain terms pertaining to appointment

Human reading:

- ^ Check if article about appointment
- ^ Identification of passages suggesting political interference during appointment

Human judgement:

- ^ Overall tone of the press
- ^ Score (Yes/No)

Expert opinions: survey

Expertise and relative objectivity:

- ^ Specialization in Macro and Finance
- ^ Affiliation to university, national research, or policy institutions (not a central bank)
- ^ >2 decades of experience
- ^ With or without Anglo-Saxon training
- ^ RePEc database and lists of NBER and CEPR affiliates

Survey:

- ^ Sent to 587 academics (on average 10 per country)
- ^ Via email on February 7, 2020 (3 reminders)
- ^ Confidential agreement
- ^ 289 responses received (b/w 3 and 8 per country)

Expert opinions: questionnaire

Academics receive a survey specific for their country of origin

Same 2 questions for each governor:

- ^ In your opinion, **at the time of the appointment**, was [...] a politically independent central bank governor?
- ^ In your opinion, **with the benefit of hindsight**, was [...] a politically independent central bank governor?

Answers: "Yes", "No", or "I do not know" (+ comment)

Construction of balance statistic $[-1,1]$ to determine political interference
pesaran2006survey

Expert opinions: output

M. T. Adrian, M. A. Khan, and L. Menand.

A new measure of central bank independence.

Working Paper, 2024.

A. Alesina and N. Roubini.

Political cycles in OECD economies.

Review of Economic Studies, 59(4):663{688, 1992.

A. Alesina and L. H. Summers.

Central bank independence and macroeconomic performance: Some comparative evidence.

Journal of Money, Credit and Banking, 25(2):151{162, 1993.

R. J. Barro and D. B. Gordon.

Rules, discretion and reputation in a model of monetary policy.

Journal of Monetary Economics, 12(1):101{121, 1983.

B. S. Bernanke.

Central bank independence, transparency, and accountability.

In Speech at the Institute for Monetary and Economic Studies International Conference, Bank of Japan, Tokyo, Japan, May, volume 25, 2010.

M. Bertrand and A. Schoar.

Managing with style: The effect of managers on firm policies.

Quarterly Journal of Economics, 118(4):1169{1208, 2003.

O. Blanchard, C. Gollier, and J. Tirole.

The portfolio of economic policies needed to fight climate change.

Annual Review of Economics, 15(1):689{722, 2023.

T. Drechsel.

Political pressure on the Fed.

Review of Economic Studies, page rdag030, 2026.

B. Fabo, M. Jarociková, E. Kempf, and L. Pastor.

Fifty shades of qe: Comparing findings of central bankers and academics.

Journal of Monetary Economics, 120:1{20, 2021.

N. Ferguson, M. Kornejew, P. Schmelzing, and M. Schularick.
The safety net: Central bank balance sheets and financial crises,
1587-2020.

Working Paper, 2025.

M. Funke, M. Schularick, and C. Trebesch.

Populist leaders and the economy.

American Economic Review, 113(12):3249{3288, 2023.

I. Goncharov, V. Ioannidou, and M. C. Schmalz.

(why) do central banks care about their profits?

The Journal of Finance, 78(5):2991{3045, 2023.

C. Goodhart and R. Lastra.

Populism and central bank independence.

Open Economies Review, 29:49{68, 2018.

A. Haldane.

What has central bank independence ever done for us?

Keynote Speech at the UCL Economists' Society Economics Conference, 2020.

V. Ioannidou, S. Kokas, T. Lambert, and A. Michaelides.

(In)dependent central banks.

Working Paper, 2026.

B. F. Jones and B. A. Olken.



Do leaders matter? National leadership and growth since World War II.
Quarterly Journal of Economics, 120(3):835{864, 2005.



F. E. Kydland and E. C. Prescott.

Rules rather than discretion: The inconsistency of optimal plans.
Journal of Political Economy, 85(3):473{491, 1977.

T. Lambert and P. Volpin.

Endogenous political institutions and financial development.
In Handbook of Finance and Development. Edward Elgar Publishing, 2018.

-  P. Mishra and A. Reshef.
How do central bank governors matter? Regulation and the financial sector.
Journal of Money, Credit and Banking, 51(2-3):369–402, 2019.
-  D. Ricardo.
Plan for the Establishment of a National Bank.
J. Murray, 1824.
-  D. Romelli.
The political economy of reforms in central bank design: Evidence from a new dataset.
Economic Policy, 37(112):641–688, 2022.

-  J. Tirole.
Socially responsible agencies.
Competition Law & Policy Debate, 7(4):171–177, 2023.
-  P. Tucker.
Unelected power: The quest for legitimacy in central banking and the regulatory state.
Princeton University Press, 2019.