

*I have been tackling some more significant glossary entries in between some heavier research and thinking which is going on in the day job right now . This is one on central banks, which is a matter of some significance in modern economics for the reasons I note in the post:*

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Central banks are created by governments to:

- \* Issue currency;
- \* Operate as a reserve bank i.e. to be the banker to the commercial banks operating within a jurisdiction;
- \* Regulate some or all of the financial sector within the jurisdiction, and at a minimum its commercial banks and other major financial institutions;
- \* Manage monetary policy (both conventional monetary policy and unconventional monetary policy).

Most central banks are structured to be institutionally independent of the government that appoints the members of its Board and key committees, but almost all governments also retain powers to overrule the central bank and its decision making if they deem it appropriate. This provision is included in The Bank of England Act 1998. The degree to which independence is constrained as a result is always open to question. The existence of such rules does undoubtedly allow a government to exert pressure on supposedly independent central bankers.

Central banks have existed for hundreds of years. The Bank of England was created in 1694. Their usefulness cannot be doubted.

The idea that central banks should be independent is much more recent and is a neoliberal construct. The neoliberal arguments for independent central banks include:

- \* Elected governments cannot be trusted to control inflation because the measures required to do so are electorally unpopular and so will not be implemented.

Independent central bankers have to implement such measures instead.

- \* Central bankers have to impose discipline government spending because elected

politicians cannot be trusted to do so.

\* Politicians cannot set interest rates reliably.

The argument is that democratically elected politicians fail markets to appease people and so must not be allowed to do so. The whole argument opposes democratic accountability in government.