

Pronounced political business cycle

Business



Eliminating the Fed's independence will make them subject to political pressure. They will be involved in the plight of the government in pursuing expansionary fiscal policy which will bring about more pronounced political business cycle. If they are not independent, the monetary and fiscal policy will probably be subject to the political drive of expanding the economy to favor the politicians. Does the independence of the Fed leave it completely unaccountable for its actions?

This is absolutely false, the Fed is given the mandate of making monetary policy, and there is a need for it to be independent, so as not to allow some unnecessary influence, but the legislation in congress has the right and power to change its current structure and remove the independence. Since the Fed has a role, whenever a poor performance is reported, then it will be necessary to have a closer look at their structure and then make some adjustment.

Also since there are people at the helms of affairs in the Fed, any time they are involved in any deal that will tarnish their image and make them to lose people confidence, will result in the Fed losing its legitimacy and independence. Does the independence of the Fed mean that it takes the long view and not the short? This is very uncertain; their independence will help them in taking a long view since they are not directly involved in the outcome of the election.

However, since all of them are human, they can be influenced by political demands. Also, since the Fed is not fully accountable, they might be involved in some shady businesses. Thus, we cannot emphatically say that there because of their independence.

Reference:

Chirag Mehta, (2001). Independence of the Fed - Final Research Paper:
<http://chir.ag/papers/ind-fed-final.shtml>. retrieval date: May 20, 2009.