CENTRAL BANK INDEPENDENCE
IN A DEVELOPING COUNTRY CONTEXT

EMİNE BEYZA SATOĞLU
105622011

İSTANBUL BİLGİ ÜNİVERSİTESİ
SOSYAL BİLİMLER ENSTİTÜSÜ
EKONOMİ YÜKSEK LİSANS PROGRAMI

PROF. DR. ASAF SAVAŞ AKAT
2008

Central Bank Independence
in a Developing Country Context

Gelişmekte Olan Bir Ülke Temelinde
Merkez Bankası Bağımsızlığı Olgusu

Emine Beyza Satoğlu
105622011

Prof. Dr. Asaf Savaş Akat : ....

Doç. Dr. Durmuş Özdemir : ....

Yrd. Doç. Dr. Koray Akay : ....

Tezin Onaylandığı Tarih : 21. 11. 2008

Toplam Sayfa Sayısı : 90

Anahtar Kelimeler (Türkçe)	Anahtar Kelimeler (İngilizce)
1) Merkez Bankası Bağımsızlığı	1) Central Bank Independence
2) Kurumlar	2)Political-Economic Institution
3) TCMB	3) CBRT
4) Para Politikası	4) Monetary Policy
5) Merkez Bankacılığı	5) Central Banking

An abstract of the Thesis of Emine Beyza Satoğlu for the degree of Master of Sciences from the Institute for Social Sciences at Istanbul Bilgi University to be taken November 2008.

ABSTRACT

This thesis primarily aims to investigate the concept of central bank independence with special references to its institutional aspects in political power configurations. Thus, following a brief introduction to the theoretical approach of the notion in an economic policy design, the institutional position of the central bank independence in terms of the power share of the actors in politics are discussed. In order to illustrate the subject, the position of the Central Bank of the Republic of Turkey is questioned.

As a consequence of the trends in global political economic understandings and the failures of the past experiences, the legal independence is granted to the CBRT. However, legal independence alone does not refer to the actual central bank independence specifically in developing countries where political environment might refer much more complexity. Similarly, despite the legal independence of the CBRT, its actual independence remained controversial due to its relations with the government and the financial actors. The expertise in Central Banking made the officials more confident in short-term policy applications, but the view on the CBRT in the long-run is distant from being an independent institution that shapes the political environment. Instead, it is exposed to the political pressures of the authority.

Istanbul Bilgi Universitesi Sosyal Bilimler Enstitüsü'nde Yüksek Lisans Derecesi için Emine Beyza Satoğlu tarafından Kasım 2008'da teslim edilen tezin kısa özeti

Bu tez Merkez Bankası Bağımsızlığı olgusunu kurumsal bir açıdan konunun siyasi ve iktisadi boyutlarına referanslar vererek ele almayı amaçlamıstır. Bu nedenle, Merkez Bankası Bağımsızlığı meselesi teorik olarak incelenmenin yaninda konu iktisadi politika tasarımlarında siyasi aktörlerin güç ilişkileri eksenine taşınmış ve MB Bağımsızlığının kurumlararası yeri paranın toplumsal rolü üzerinden tartışılmıştır. Turkiye Cumhuriyet Merkez Bankası'nın konumu ve içinde yeraldığı güncel tartışmalar bahsedilen iktisat politikası üzerinde etkin olma tartışmasının bir örneğidir.

Küresel politik-iktisat anlayışındaki dönüşümlerin bağımsızlık yönünde bir eğilim göstermesi, genel kabul gören makro teoriler ve geçmiş bağımlı Merkez Bankası modelinin olumsuz tecrübeleri sonucu TCMB'ye hukuki bağımsızlık hakkı tanınmıştır. Fakat, siyasi alanda kargaşa ihtimalinin daha fazla olduğu gelişmekte olan ülkelerde hukuki olarak bağımsızlık tanınmış olması çoğu zaman bu ülkelerin Merkez Bankalarının 'gerçekten' bağımsızlık hakkını kullanabildiği anlamına gelmemektedir. Aynı şekilde, yasal olarak bağımsızlık alanını genişletmiş olan TCMB'nin gerçekte ne kadar bağımsız olduğu hükümetle ve finansal aktörlerle süregelen ilişkilerine bakıldığında tartışmalıdır. Türkiye örneği, Merkez Bankası uzmanlarının kısa dönemli kararlarını uygulamakta bağımsızlık açısından kendilerini daha güvenli hissettiğini, ama uzun dönemli MB politikalari üretmede ve kurumsal yapısını korumada siyasi çevreleri yönlendirebilecek kadar bağımsız olmağını, hatta siyasi erkin etkisine açık olduğunu göstermektedir.

ACKNOWLEDGEMENTS

First and foremost, I would like to express my gratitude to my thesis advisor, Professor Asaf Savaş Akat for his guidance, immediate enthusiasm and support when we discussed the topic as well as his continued patience and faith in me despite the deferrals in submission of the thesis. Without his ability to necessarily balance the need to challenge and to comfort, this thesis would not have been completed.

I would also like to express my special thanks to Assoc. Prof. Dr. Durmuş Özdemir and Asst. Prof. Dr. Koray Akay for their presence on my jury and for their valuable comments. I am grateful to all the members of the Economics Department; to the faculty, whom I attended their lectures, and to my classmates who made me feel completely a part of this graduate experience.

My father and my siblings deserve thanks for both pushing and encouraging me in academic career. They also encouraged me in stressful times. Without their faith in me and prayers for me, I could not feel comfort in writing process of this thesis.

Last but not least, this study is dedicated to my dear mother, Binnaz Satoğlu, to whom I always admire for her tenancy, vigor, sense of humor and optimism. Her self-confident character exhibits the feasibility of an altruistic life without losing its individualistic attitude. She constituted her own social life with minimum expectations from the others while succeeding in being a devoted mother. I would like to thank her not only for the great moral support while I was writing this thesis, but also for the role she has undertaken in my whole life.

CONTENTS

PREFACE

The topic of this thesis has come into existence as a result of my pursuit of how economics which is a field that partially requires technical designership functions in an arena of politics that is prone to populism and where interest groups fight obviously amongst each other. I have recognized Central Banking as a field where I could discuss this issue pronouncedly. I had a preassumption without question that Central Bank Independence had vital importance at the point where economic capabilities are distinguished from the politics.

Even though I still admire the independence as a phenomenon succeeded in macroeconomic measurements, the research process made me believe that it would be a huge loss for democracy to repress monetary policy from the checks and balances of the democratic accountability while it widely and directly affects the society. However, in countries where democracy have not settled down well, due to the attitudes of politicians and populist approaches as seen in several developing countries CBI occurs in favor of democracy. Hereby, I am whole heartedly convinced that setting an institutional approach and making the Central Bank policy makers feel responsible is the best orientation.

CBI phenomenon for inflation targeting has been debated widely during the 1990's.The measurement of independence to correlate this notion with inflation and production became popular among macroeconomists. Among these debates in macroeconomic and law environment political economic analysis on this issue has been delayed in Turkey so, there are very few such studies on Turkey. Hence, in this study I have not aimed to determine indices for CBI and make macroeconomic analysis. The legal problem of this issue as well is beyond my interest except reflections of political relations. Nevertheless, I believe that the institutional economic political analysis that I have defined in this study is a contribution in this field.

INTRODUCTION

In recent years, there has been an accelerated movement towards granting more legal authority to the Central Banks: first, due to the successes of highly independent the Bundesbank and the Swiss National Bank in maintaining price stability and second, the inflationary experiences of the 1970s attributed to the governments' borrowings from the Central Banks that caused the expansionary monetary policies.

The process of globalization and openness in international markets increased the pressures on governments. In addition, the increased volatility and complexity of international financial markets resulted in more restrictions on the autonomy of national governments in economic decision-making. The political and intellectual reason behind the argument for Central Bank independence lies in the context described here as well as the lessons taken from the international monetary history.(Gökbudak, 2002, p.302)

The issues on Central Banks are intrinsically a part of the subjects of the politics due to their direct influence on specific socio-economic interest, as a result of their position in the state system and their effectiveness in building up their own images, resources and the credibility from the society to the economic policies. Similarly, the issue of granting legal independence to the Central Banks is also highly political that it means abdication of government from a very crucial power. In other words, creating an independent Central Bank is a redistribution of powers affecting macroeconomic decisions, thus the entire society.

The issue of Central Bank autonomy is also political in that any move to grant them greater autonomy would be an issue for tensions of political-economic forces, in any national context. The specific tension of these forces and the balance of power among them can be eliminated by the increasing globalization of financial markets which causes a crisis of national governance. In other words, the subject is political since it involves a redistribution of power over key areas of macroeconomic decision. (Gökbudak, 2002)

In this study, Central Bank Independence is briefly analyzed in three aspects such as functional independence, financial independence, and the institutional independence. The functional independence refers to the capability of the bank in application of monetary policy and autonomy on decision making in this regard. Financial independence defines the banks resources that exclude financial pressures. Finally the institutional independence refers the position of the Central Bank in the system of a country's institutions and procedures. In this respect, institutional independence has ties with the governmental tradition and the system of government as well as the past experiences seen in the political-economic environment of the country. In this study, the basic focus would be the position of institutional independence of CBRT to explain its effectiveness in the Turkey's political-economic system. These explanations to the notion of Central Bank Independence would deliver us to the fact that legal independence alone is not sufficient for actual independence while there are differences in each country's priorities and systems of governmental institutions.

CHAPTER ONE

INSTITUTIONS, POLITICS and CENTRAL BANKS

"Most things in life –automobiles, mistresses, cancer - are important only to those who have them. Money, in contrast, is equally important to those who have it and those who don't." Galbraith

1.1. What's money?

Money is an invention of mankind. The invention of money by the human mind is related to the capacity of human being to accord value to symbols. Money is a symbol that represents the value of goods and services. In this respect, any object accepted as money by the consent of community can be "money". Thus all money reflects socio-psychological bases beside of its economic dimension as a medium of exchange. Starting from this point to answer what the money is not a simple question. Even the great economist Galbraith, in his comprehensive book on money abstains from giving a definition and suggests, "Money is nothing more or less than what you always thought it was" (Galbraith, 1977, p.5).

However, it has significant functions;

From its emergence as a medium of exchange in a barter economy to today's modern world, money has changed its role and functions with regard to time and context.

1.1.1. Functions and Evolution of money

Money has three functions in modern economy, as being a medium of exchange, a unit of account and a store of value. (Weatherford, 1997) A *medium of exchange* is anything that is readily acceptable as payment. A *unit of account* is the standard that people uses for prices and record debts. A *store of value* provides people to transfer their wealth from the present to the future.

After categorizing money by function, the second most important categorization is with regard to the form or material from which it is made (Zelizer, 1994). How money performs its functions is always limited by the form it takes, and this can be as varied as paper, sea shells, electronic bits, portions of metal or edible commodities such as salt, rum, or cacao.

Commodity Money: From the days agriculture was discovered to the industrialization of the 19th century, money took the form of a commodity -by using the suitable commodities- with *intrinsic value.* From very early days, societies preferred *metals* as money since they served well. Copper, then silver, eventually gold was minted. Perishable (eggs, tomatoes), non-divisible (hides), difficult to transport (water) or relatively abundant (wheat) goods made bad money.

Fiat Money: Today all economies in the world have fiat money. *Fiat mone*y is used as a medium of exchange because of a government decision. Banknotes are also called "*legal tender*" due to government makes a commitment by it. Fiat money, which has negligible cost –only printing, and paper or metal- has *no intrinsic value.*

Electronic Money: Throughout the twentieth century, the volume of money flow increased greatly with the introduction of new means of payment such as credit cards, the expansion of banking activities, and the introduction of electronic communications. Thus, electronic money which enables people to carry more money in less volume has been introduced.

As the form of money changes, the definition of money becomes dynamic and changes along the history. Anthropologists have researched the different and non-economic ways that people explain money and commercial activity. By relating emotional life of the individual, they seek the role of money in the levels of satisfaction, accomplishment, and security or its role in social relations. All of these works seek a more holistic analysis of money and how it fits with the political, religious, psychological, and other cultural aspects of social life. [1]

1.1.2. Institutions and Money

After discussing its forms and functions of money, new questions such as whether it is a social institution or not would come into existence to understand what the money is.

As money has increased in importance in the globalized world economy, social scientists have begun research into the importance of money outside the economic realm. As human consciousness has evolved, the nature and function of money has evolved too. An evolutionary perspective on money traces the social and psychological changes in human attitude and collective behavior that made possible this historical development. According to Seabright, the importance of money lays its

[1] See J. Weatherford "Money: Anthropological Aspects" International Encyclopedia of the Social & Behavioral Sciences

feature that provide to narrow gulf between ingenuity of each individual and the interest of others. That is, money is a social contract. (2004, p. 70)

Within the context that highlights money as a social contract, to understand what an institution is would be a significant starting point. There are several explanations describing this term as formal establishments or organizations. However, in social sciences, in general, it can be said that institutions are structures and mechanisms of social order and cooperation governing the behavior of communities constituted by at least two people. Institutions are identified with a social purpose and permanence, transcending individual human lives and intentions, and with the making and enforcing of rules governing cooperative human behavior. (Grief, 2006) The term, institution, is commonly applied to customs and behavior patterns important to a society, as well as to particular formal organizations of government and public service.

As structures and mechanisms of social order among humans, institutions are one of the principal objects of study in the social sciences, including sociology, political science and economics. Institutions are a central concern for law which is the formal regime for political rule-making and enforcement. The development and functioning of institutions in society may be regarded as an instance of emergence; that is, institutions arise, develop and function in a pattern of social self-organization, which goes beyond the conscious intentions of the individual humans. For this reason, the creation and evolution of institutions is a primary topic for history especially after the rise of the role of human will in shaping structures in historical writings in the late 20th century.

Social sciences have developed different perspectives to explain institutions[2].

Sociology traditionally analyzed social institutions in terms of interlocking social roles and expectations. Social institutions created and were composed of groups of roles, or expected behaviors. The social function of the institution was executed by the fulfillment of roles. Basic biological requirements, for reproduction and care of the young, are served by the institutions of marriage and family, for example, by creating, elaborating and prescribing the behaviors expected for husband/father, wife/mother, child, etc.

In history, a distinction between eras or periods implies a major and fundamental change in the system of institutions governing a society. Political and military events are judged to be of historical significance to the extent that they are associated with changes in institutions. In European history, particular significance is attached to the long transition from the feudal institutions of the Middle Ages to the modern institutions, which govern contemporary life.

Finally, in recent years, the economists focus on a new game-theoretic approach to the institutions. Public choice theory, a branch of economics with a close relationship to political science, considers how government policy choices are made, and seeks to determine what the policy outcomes might be, in a given a particular political decision-making process and context. (Buchanan, 2003) Institutions gain importance to evaluate the context efficiently. In this purpose, Douglass North the

---

[2]For more details, see "Social sciences and institutions" in International Encyclopedia of the Social & Behavioral Sciences, Available [online] at: http://www.law.harvard.edu/faculty/shavell/pdf/12_Inter_Ency_Soc_8446.pdf

winner of the 1993 Nobel Prize, made innovative analysis of the role of institutions in the economic development of nations.

For North, institutions are structures that comprise a society's system of penalties and incentives. They're established through formal rules such as constitutions and the rule of law; and also informal restrictions such as rules of behaviour, values, beliefs, customs, religions and codes of conduct; and the combination of all of these that are enforced. He establishes that institutions are the "rules of the game", and consisting of both the formal legal rules and the informal social norms that govern individual behavior and structure social interactions. (North, 1996) The "players" of this game are corporations, cooperatives, labor unions, the media, NGOs, religious and educational institutions, judges, elected officials, political parties and policy-makers. Depending on the type of the rules of the game, players are encouraged to adopt different values and attitudes – that is, their behaviour may promote institutional change. Efficient institutions reduce transaction costs, diminish conflicts and uncertainty, encourage integrity, guarantee that property rights are protected and signed contracts are duly observed. In this view, the expansion of markets and investments is directly related to the institutional formation of a country.

According to this approach, there are two perspectives to study institutions. Firstly, how do institutions survive and evolve? In this perspective, institutions arise from Nash equilibrium of games. That is what Seabright described as "tunnel vision" for the ultimate cooperation. (2004) Secondly, how do institutions affect behaviour? In this perspective, the focus is on behaviour arising from a given set of institutional rules.

To sum up, as mechanisms of social cooperation, institutions are manifest in both objectively real, *formal* organizations, such as the National Assemblies or Central Banks, and, also, in *informal* social order and organization, reflecting human psychology, culture, habits and customs.

So, is money an institution?

*As it is seen above, s*ocial scientists often analyze the meaning of money in institutions outside of the financial and commercial realms. Such analysis examines the functions, importance, and role in noncommercial spheres of life such as its social or psychological meaning.

Money is an institution that encompasses many formal organizations, including banks and government treasury departments and stock exchanges. By these organizations it is the "institution" which guides people in their pursuit of personal economic well-being and wealth. All these webs are self-organized around the existing of *trust* emerged from people's intentions for cooperation. Powerful institutions are able to imbue a paper currency with certain value, and to persuade millions into cooperative production and trade in usage of that currency's units.

The 'meaning' of money may be found in the abstract role of money in social institutions, or it may refer to the differential impact of wealth and poverty or in the lives of individual people or groups when money is absent or abundant. The evolution of money illustrates how each new social institution creates linkages with other existing social institutions as it develops and those linkages gradually expand into complex networks of relationships.

1.2. What's Central Bank?

> *"This currency, as we manage it, is a wonderful machine. It performs its office when we issue it; it pays and clothes Troops and provides Victuals and Ammunition; and when we are obliged to issue a Quantity excessive, it pays itself off by Depreciation*."[3] Benjamin Franklin, on the mystery of money for politics

1.2.1 Central Banking

General money arose as a political creation of the state to organize and control commerce and to standardize taxation. Central Banks are institutions emerged to operate money for the public welfare and not for maximum profit and they are charged with regulating the size of a nation's money supply, the availability and cost of credit, and the foreign-exchange value of its currency. The principal objectives of a modern Central Bank in carrying out these functions are to maintain monetary and credit conditions and to contribute a high level of employment and production, and to achieve a reasonably stable level of domestic prices, and an adequate level of international reserves.

Central Banks also have other important functions. These include acting as fiscal agent of the government, supervising the operations of the commercial banking system, clearing checks, administering exchange-control systems, serving as correspondents for foreign Central Banks and official international financial institutions. Furthermore, for Central Banks of the major industrial nations participating in cooperative international currency and related arrangements designed

---

[3] Letter to Samual Cooper, April 22, 1779 in "the writings of Benjamin Franklin" Albert Henry Smyth, ed. (New York Macmillan co. , 1906), vol VII, p. 294. (Galbraith, 1975)

to help stabilize or regulate the foreign-exchange rates of the participating countries are also tasks.

The principles of Central Banking grew up in response to the recurrent British financial crises of the 19th century and were adopted in other countries. Modern market economies are subject to frequent fluctuations in output and employment. Although the causes of these fluctuations are various, there is general agreement that the ability of banks to create new money may worsen them. Although an individual bank may be cautious enough in maintaining its own liquidity position, the expansion or contraction of the money supply to which it contributes may be excessive. (Lippi, 1999) This raises the need for a disinterested outside authority able to view economic and financial developments objectively and to exert some measure of control over the activities of the banks. Despite its difficulty, a Central Bank should also be capable of acting to offset forces originating outside the economy.

Prior to the 20th century there had been no clearly defined “Central Banking” concept. For De Kock (1954), although there was a gradual evolution towards the Central Banks, a systematic and consistent technique has not been formulated. The free banking school has argued that the very existence of a Central Bank is not necessary or desirable while Cartalists argued that the issue and control of money is a natural and central aspect of sovereignty. As the state pre-empts the issue by establishing legal tender fiat money it need an institution to manage the value of that money. The institution would be a Central Bank. Historically, the second view was supported more enthusiastically. In the 20th century, while on the one hand Keynesian economics have risen; on the other hand the foundations of Central Banks have accelerated.

1.2.2 History of Central Banks

The earlier established Central Banks were founded as special commercial banks rather than as non-profit maximizing public sector institutions. However, they were in each case special since they were made the government's main banker and received monopolistic privileges. (note issue) The basis of commercial banking is the maintenance of convertibility of bank liabilities.

Table.1. Central Banking Institutions established prior to the 20th century

Bank	Founded	Monopoly note issue	Lender of last resort (decade)
Sverige Riksbank	1668	1897	1890
Bank of England	1694	1844	1870
Banque de France	1800	1848	1880
Bank of Finland	1811	1886	1890
Nederlandsche Bank	1814	1863	1870
Austrian National Bank	1816	1816	1870
Norges Bank	1816	1818	1890
Danmarks Nationalbank	1818	1818	1880
Banco de Portugal	1846	1888	1870
Belgian National Bank	1850	1850	1850
Banco de Espana	1874	1874	1910
Reichsbank	1876	1876	1880
Bank of Japan	1882	1883	1880
Banca D'Italia	1893	1926	1880

* The table excludes Central Banking institutions of the Netherlands Antilles (est.1828), Indonesia (1828), Bulgaria (1879), Romania (1880) and Serbia (1883).

Source: Capie et. al., 1994, p.6

In many of the old countries one bank gradually came to assume more and more the position of a Central Bank by enjoying the sole or the principle right of note issue and acting as the government's banker and agent. The regulations of the note issue were imposed by the State. They were not generally called as Central Banks but known as banks of issue or as national banks.

The Riksbank of Sweden which was opened in 1668 with help from Dutch businessmen was the first established Central Bank, but the Bank of England founded in 1694, was the first bank of issue to assume the position of a Central Bank and was developed in the way of recognized fundamentals of the Central Banking. Its history illustrates the evolution of the principles and techniques of the Central Banking. Successively, Bank of France was established in 1800 while Bank of Japan was founded in 1882.

At the beginning of the 20th century all the countries of the New World and China and India were still without Central Banks. The international financial conference held in 1920 at Brussels passed a resolution affecting all countries that had not yet have a Central Bank. It addressed to the importance of having a Central Bank for stability in monetary and banking system and, indeed, for the interest of world co-operation.

The following years beginning from the establishment of the South African Reserve Bank in 1921, there were foundations of Central Banks in all parts of the world. The People's Bank of China evolved its role as a Central Bank starting in about 1979 with the introduction of market reforms in that country. The European Central Bank established in 1998 is the most modern bank model and was introduced with the euro to coordinate the European National Banks.

Today, Central Banks has become a cult (Deane and Pringle, 1995, p.1) that each country or group of countries in the world posses a Central Bank, even emerging democracies in various regions of the world. Central Banking has become an entirely separate branch of banking with its distinctive functions and operations of commercial banks. Thus, Central Banks have developed their own code of rules and practices, in other words “the art of Central Banking”.

How and why the status and real influence of Central Banks have risen over the past years? According to Deane and Pringle (1995, p.2), there are three basic factors, and most importantly the economic priorities of the big powers that made monetary policy the only game of the town gave a rise of the role of the Central Banks. Secondly the initiatives to establish new Central Banks to be attached in market economies and finally the need of deregulated globalized and technologic financial markets to be regulated by an authority demonstrates why the Central Banks’ influences have increased.

1.2.3. The History of FED[4]

Due to certain influence of American macroeconomic policies over the rest of the world economies, particularly on monetary systems, in addition to its capability to demonstrate related arguments of emergence of a Central Banking, I would denote the story of how the FED (Federal Reserve Banking) has emerged.

[4] For a whole story, see FED’s webpage at: www.federalreserve.org

After Alexander Hamilton advocated the creation of a Central Bank, the First Bank of the United States was established in 1791. The capital stock of the bank was subscribed by both federal government and the private individuals. Hence, directors had also chosen by both groups. It was a nationwide bank that performed the basic banking functions. However, by influencing both American commerce and the federal government, it became frightening to many people that it expired in 1811.

In 1816 Second Bank of the United States was introduced in Congress. The Second Bank of the United States organizationally was similar to the first the charter was to run for 20 years, one-fifth of the stock was owned by the federal government and one-fifth of the directors were appointed by the President. However, similar to the first one, many citizens, politicians and businessmen perceived it as a menace to both themselves and U.S. democracy. As a result of the opposition of the President Jackson the banks lost the public support, and when the charter of the Second Bank of the United States expired in 1836, it was not renewed.

For the following decades, America's Central Banking was carried on by a mix structure of state-chartered banks with no federal regulation. However, this lack of a Central Banking authority hurt the stability of the American economy. Bank notes, issued by the individual banks, varied widely in reliability and the need for a Central Bank entity had revealed. Ultimately, the national banking legislation of the 1860s proved inadequacy of monetary policies due to the absence of a Central Banking structure.

While America's industrial economy grew and became more complex towards the end of the 19th century, the weaknesses in the banking system became critical and triggered economic depressions. After the severe depressions forcing several banks into failure in 1893 and 1907, many Americans persuaded that their banking structure was out of date and needs a major reform. During the following years, the Senate was charged with making a comprehensive study for the necessary and desirable changes to the banking system of the United States. The election of Woodrow Wilson as President in 1912 also accelerated the process on financial reform. Wilson supported this idea, for the creation of twenty or more privately controlled regional reserve banks; but also insisted upon the creation of a central board to control and coordinate the work of the regional reserve banks which would hold a portion of member banks' reserves, perform other Central Banking functions and issue currency against commercial assets and gold. The American Congress in 1913, approved that the twelve Federal Reserve banks were established to cover various districts throughout the United States operating under a supervisory board in Washington, D.C.

1.3. Central Bank as a modern institution

The modern Central Bank has had a long evolution, tracing from the establishment of the Bank of Sweden in 1668. In the process, Central Banks have become varied in authority, autonomy, functions, and instruments of action. By the rise of Keynesian policies in everywhere, there has been a vast and explicit broadening of central-bank responsibility for promoting domestic economic stability and growth and for defending the international value of the currency. There also has been increased emphasis on the interdependence of monetary and other national economic policies, especially fiscal and debt-management policies. On the other hand, a widespread belief of the need for international monetary cooperation has evolved, and Central Banks have played a major role in developing the institutional arrangements that have given form to such cooperation.

1.3.1. Macro policy objectives of Central Banks

For much of the industrialized world the gold standard has been established as the main exchange rate regime. There was a single overriding objective under this standard that to maintain the convertibility of the currency into gold and this objective is accepted as the proper basis for a stable, well-functioning, laissez-faire, financial system. By the war in 1914 waves of shock to financial markets have damaged the stability of system. Gold was withdrawn from circulation and replaced by paper money. The monetary policy authorities in each country review the objectives and under the leadership of UK, they decided to protect the status quo.

However, the collapse of international monetary order in the early 1930s left Central Banks without an external objective and the fragility of the economy indicated little need to maintain domestic constraints. Finally, due to the Keynes' influence, both short and long falling nominal interest rates were used by the CBs for recovery. After the Second World War, the Keynes rhetoric extended the objectives of the Central Banks to high employment and growth. For full employment and higher production levels, monetary policy has been used and in this respect the relation of Central Banks to the governments became closer. In most cases, in practice the Central Bank became a branch of the Treasury. Furthermore, due to the Bretton-Wood's peg system, each country's external position determined whether it would tighten monetary or fiscal policies or to expand them. The shocks of the late 1960s and early 1970s –Vietnam War, OPEC- broke the system. The short-run trade off between employment and inflation along the Philips Curve had dramatically worsened. Focusing demand management for price stability became the main objective, thus, Central Banks began to use their policy instruments in this way.

1.3.2. The policy instruments of Central Banks

The control of money supply called as monetary policy is maintained by the Central Banks. Central Banks have variety of instruments for achieving their monetary objectives.

- Open Market Operations: OMOs are the most important way for most Central Banks to achieve money supply control and it refers to the purchase or sale of bonds by the CB in the bond market.
- FX Operations: In many countries, buying and selling foreign exchange is another way to control money supply.
- Changing the Reserve Ratio: Changing the reserve requirements of the banks affects to the money multiplier, thus the money supply.
- Changing the Discount rate: This is the most widely used tool for developed countries. Discount rate is the minimum interest rate for short-term loans charged by the CB for banks.

1.3.3. Why are institutions important for monetary policy?

As mentioned in the first section, institutions gain importance in academic studies of the economists. It is in the context of credibility problems that many economic policy analyses highlighted a new role for economic institutions. That institutions influence policy choices and provide a higher degree of commitment to other discretionary policies. This is not mean that institutions are immutable. But, they are slower to change than ordinary policy choices. That is, institutions have a significant role to prevent the implementation of undesirable policies, while helping to sustain the implementation of desirable ones.

As Rodrik stated, democracy is “a meta-institution for building good institutions” (1999, p.3) and its institutions perform better when they faced to shocks. In addition, for a transformation in the economic sphere to be successful stable social institutions as the institutions for macroeconomic stabilization, the institutions of conflict management, the regulatory institutions and so forth is necessary and this transformation should support the effect of the economic reforms. (Rodrik, 1999, p. 5) If the institutions are *constraints that human beings impose on themselves* (North, 1990, p. 3) and if they function to decrease the insecurity of life, then Central Bank is an institution that would function to stabilize macro economic shocks while governments need to be constrained. As known, in a sound institutional environment for Central Banks there is no worry about for discrepancy between what Central Banks claim and what they do. However, as the institutionalist Oliver Williamson has shown, because of the work of interest groups, numerous institutions are "inefficient by design". Such entities increase uncertainty and conflict, and hike the cost of transactions. Thus, avoiding inefficient institutional design would lead better performance in economic sphere, in addition to the democratic environment.

In this purpose, according to Lippi (1999) the characterization of the political “context” in Central Bank analyses is a key dimension. The political aspects of the issue can be related to the “representative-agent” problem due to the lack of perfect monitoring. In such contexts the politicians with ideological and opportunistic motives may use the monetary policy choices. The associated “time-inconsistency” problem can be overcome by setting up politically independent Central Banks.

CHAPTER TWO

CENTRAL BANK INDEPENDENCE IN THEORY AND PRACTICE

> ''*Institutions cannot absolutely prevent an undesirable outcome, nor ensure a desirable one, but the way that they allocate decision-making authority within the public sector makes some policy outcomes more probable and others less likely*.'' Cukierman et al. (1992)

2. 1. Introducing the Central Bank Independence

Until three decades ago, Central Banks were regarded as an integral part of the Government's central policy-making. The phrase, 'the Monetary Authorities', was invented and used to describe the combined operations of the Central Banks and Treasury, under the political leadership of Chancellor/Treasurer and Prime Minister. That is, the idea that a Central Bank might or should be independent of Central Government simply is a phenomenon of the 1990s in most countries.

Central Banks in a wide variety of countries, from South Africa to New Zealand, or from Japan to Turkey have already been given formal constitutional independence from the executive branch of government. Similarly, the statutes of the European Central Bank are modeled on those of the Bundesbank which is historically accepted as the most independent of all Central Banks.

Why has this support for the concept of an independent Central Bank recently occurred? For explaining this trend, in this section of our study we would relate the exercise with improving economic performance in the world, with the basic ideas which have driven the case of independence by economic theory. Before these macroeconomic inclinations, at the beginning of this section I would like to focus on measurements and definitions of Central Bank independence.

2.2 Central Bank Independence in Economic Theory

2.2.1. CBI: Definitions

CBI has been studied, defined and measured by various authors in different ways. The literature concerning this subject can be classified into two groups. One of the groups argues how to define CBI and measure it. Second group of studies focuses on the macroeconomic indicators that would demonstrate the relations between CBI indexes and macroeconomic performance. In those studies, the impacts of CBI on inflation and growth are analyzed. Therefore, we will move to different approaches to define CBI and their indexations in the following sub-section.

Most of the definitions related to the CBI seek to clarify the place of Central Banks in relations with the governments and commercial banks. To understand the nature of these relations first of all, the relations of Central Banks between the governments and the commercial banks are scrutinized. Then, we would have an overview on the indexes defining the CBI.

Governments and Central Banks

Alan Blinder in “Central Banking in Theory and Practice” (1997) defines the Central Bank independence as the Central Bank’s operational and management independence from the government. Sylvia Maxfield (1999) expands this definition by categorizing the Central Bank independence in two different phases as political Independence “FROM” the governments and secondly, the political and economic independence “TO” implement economic policies.

Independence “from” executive branch can be easily associated to the CBs relations to the governments. Governments generally have some degree of influence over even "independent" Central Banks; in this regard the aim of independence is primarily to prevent short-term interference of governments.

When the history of the relation between Central Banks and Governments is analyzed, an inherent tension (Capie, Goodhart, et. al., 1994, p.2) throughout the history of Central Banks stemmed from crashing of the desire of CBs for maintaining the value of their currency and their function as being banker to the government is generally observed. This tension is the basic determinant for the associated relationship. Central Banks have been established by an Act of government and have been designed as banker to the government. Therefore, governments have a natural desire for cheap finance from their own bank. And when the existence of the state is threatened, for instance in a war condition, governments have the incentive to force the Central Bank to give priority to their immediate needs.

The issue of the changing relationship between Central Banks and governments that intervening the independence notion of the Central Banks have been discussed by Kleineman in his “extraordinary times” article. (2001, p.48) Governments have priorities to preserve themselves as the strongest of the state. In this regard, war is the main driving factor of government expenditure. The government is almost always a large net debtor during and after a major war conditions. In these circumstances, an inflation tax whose incidence is inherently uncertain is unpopular and governments will have an incentive to prevent it.

Similarly, according to Capie et. al. (1994) the principal factors influencing government-Central Bank relations for almost two centuries were the prevailing political conditions (peace, war), the dominant political and economic philosophy of the time, as popularity of “independence” notion after the 1980s, and the exchange rate regimes. It should also be noted that in practice the nature of this relationship also depends to the personalities whatever was on text books or laws. Finally, Omer Telman (1994) by underlining that money is the instrument of economy politics by being a natural monopoly within a fiat money regime points out that the power on money cannot be transferable. For him, the relation between governments and Central Banks emerges in this context.

In order to understand the historical changes, now a brief history of the relation has been presented. In the 19th century laissez-faire, the gold standard and stable prices encouraged the appearances of independence and a considerable independence level has been allowed in those years. With the First World War, things have changed. Crises provoked government intervention. But the experience of inflation and the return to the peace of a kind brought independence back. Greater changes came under the environment of post- Second World War. After a government-controlled phase of Central Banks following more inflation, in recent years, while market solutions became more important and intervention is regarded as an old-fashioned policy, the independence of CBs became popular.

Central Banks and Commercial Banks

To shed light on CBI, the relations between Central Banks and commercial banks have to be understood as well. According to the analysis of Kisch and Elkin from the early 20th century, Central Banks are necessary for the commercial banks which would deposit their cash resources. (Capie et. al., 1994, p.63) That is to say, just as individuals choose to place their deposits in banks, banks also place their own deposits in a safe or in a "safest" bank which would be probably established by governments. This basic relation indicates to the nature of Central Banks relations to the commercial banks. Certainly, to avoid financial instability and the dangers of economic problems, some measures are applied in the evolutionary process of the relation. Thus, as a "lender of last resort" CB should supervise for financial stability and when it's necessary, they would regulate the banking system.

However, the nature of this relation also transforms by time. In the first phase, the commercial banks accepted the presence of a Central Bank as lender of last resort for the health of the banking system. Subsequently, the CBs maintain their role with very limited direct regulatory tools, due to the protected self-regulative banking system. Recently, under the environment of information technology; financial instability and high inflation rates undermined the system. Banks are faced to the difficult problems in this era. Many problems of establishing the best regulatory and supervisory structure for the financial system, with appropriate relations between CBs and commercial banks have not been resolved yet.

Freedom "TO" choose policy instruments

The "to" part of independence involves to have the willpower to choose the goals or instruments of economic policy. In this regards, political independence is the capacity "to choose the *final goal* of monetary policy", whereas economic independence is the capacity "to choose the *instruments"* with which to pursue these goals. Similarly, Walsh (1995) emphasized the difference between "goal" and "instrument" independence. "Instrument independence" is considered to be an important aspect of independence. By contrast, "goal independence" especially for inflation targeting countries is not regarded as crucial as the instrument independence.

According to Maxfield (1999), the capacity of the monetary authorities to choose the final policy goals is primarily determined by three broad elements which are:

- The procedure of appointing the members of the Central Bank governing bodies,
- The relationship between the bodies of the Central Bank and the government,
- The formal responsibilities of the Central Bank.

On the other hand, the economic independence is described by,

- The influence of the government in determining how much to borrow from the Central Bank,
- The nature of the monetary instruments under the control of the Central Bank given by two criteria: The ability of the Central Bank to determine the

monetary policy independently and the role of the Central Bank in banking supervision.

Beyond the definitions of Central Banking, for the Central Bank independence after it became very fashionable, many different definitions and measurements are proposed. Among these studies, the methodology of Lavan Mahadeva is relevant.(2000) Mahadeva constructed a direct method for understanding what independence means to the Central Bankers. His explanations relying on the answers of the Central Bankers are definitely relevant. The definition seeks to an answer to the question of what independency means to Central Banks and bankers.

To the study, for most Central Bankers, independence is the capacity to set instruments and operating procedures. That is to say, absence of factors that constrain their ability to set instruments in pursuit of objectives is the primary definition of "independence" according to the survey answers. In this respect, the answers given by them can be accounted from the most important to the lesser, respectively as follows,

- Independence in operations/ instruments/ policy implementation/ fulfillment of goals
- Existence of statutory objectives / mandate legal capacity
- Ability to set targets/ objectives/goals
- Ability to formulate policy
- Independence from political bodies in general
- No deficit finance (is stressed by Central Banks of developing countries)

- Specific rules on senior officials' terms office
- Communication without constraint

In addition to these studies emphasizing on political and economic independence, Bade and Parkins and later Cukierman studied on CBI by underlining the disparity of *legal* and *actual* independence. They invented that actual independence varies from legal independence which implies to the relations between Central Banks and governments regulated by the laws. For them, actual independence is a definition to describe informal relations among the institutions of the state. That is, sometimes the actual independence can not be the equivalent of the legal independence while in designing economic policy the political power configuration matters. Thus, the focal point in his analysis is their emphasis to distinguish de facto/ de jure as an extension of balance of power in politics.

On the other hand, Posen pointed out that in measurement of CBI there are diverse factors such as laws, instruments, targets and government deficit finance and each of these factors varies remarkably across countries, time, and circumstances. (Mahadeva, 2000, p. 117) For instance, deficit financing is the prominent factor for CBI in developing countries.

2.2.2. CBI: Indexes

This logical inference has been illustrated by using quantitative economic methods. For the purpose of a brief examination, we can categorize the indices used in quantitative analyses into four main types: [5]

[5] The categorization used in this part had been developed from various articles.

• Indices that consider legal and institutional characteristics of a Central Bank: Bade and Parkin (1982), Alesina (1988), Grilli, Masciandaro and Tabellini (GMT, 1991), and Cukierman (1992).

• Indices constructed using an estimated generalized country-specific effects variable: Eijffinger et al. (1996).

• Indices that consider the institutional framework of a Central Bank based on surveys: Cukierman (1992), Cukierman, Webb and Neyapti (CWN, 1992), Fry, Julius, Mahadeva, Rogers, and Sterne (FJMRS, 2000).

• Indices that use the average tenure of the Central Bank governor as a proxy for CBI: Cukierman (1992), CWN (1992), de Haan and Kooi (dHK, 2000), and Sturm and de Haan (SdH, 2001).

Furthermore, the main differences across the studies rest on the methods used to measure CBI, the sample of countries and the periods. Even though there are some studies that question the robustness of the results[6], all these indices justifies the agreement that a higher level of CBI results in a lower level and variance of inflation that it is also stated in macro theory section of this study.

Unfortunately, the first two types had only been computed for industrialized countries, while these two and the survey indices had only been estimated once. The turn-over ratio of the Central Bank governor (TOR) has the advantage that it can be computed for a larger set of countries and for different periods, so it becomes technically possible to use it to construct a time-varying measure of CBI.

---

[6] Schaling (1998) accounts the studies of Posen (1995); de Haan and van't Hag (1995); Fuhrer, (1997) as examples.

Freedman constructed a new measure of CBI: the probability that there will be a turnover in the Central Bank governor following a government change. CWN (1992) state that if Central Bank governors' turnovers occur either at the same time or after a change in the government, this would be an indication of a lower CBI. By putting this concept into practice, Cukierman and Webb (1995) developed a measure of political vulnerability of the CB by constructing an index that looks at the frequency of cases in which the CB governor is replaced after a political transition. This vulnerability index is closer to an index of political independence than to legal independence.

2.3. CBI and Macroeconomic Performance

> *When I ask two economists a question, I get two different answers, unless one of them is Lord Keynes, in which case I get three.* Winston Churchill

The last 10–15 years have been characterized by the presence of lower inflation in industrialized, transition and developing economies, although Turkey has caught up the trend very recently. Looking at a cross-section of 34 countries from the data gathered by Fry, it has been observed that median inflation has dropped from 8.42% in 1980–1989, to 3.28% in 1990–1999, and further stabilized to 2.51% in 2000–2003. (1996, p.257)What were the main factors behind this trend or what factors contributed to this trend in terms of monetary policy? Our concern on economic contributions of CBI is shaped around this main focal point.

The responsibility of institutions and policy arrangements, at least partially has been believed as an explanation for observed anti inflationary tendency. As stated by Cukierman (1992) "Institutions cannot absolutely prevent an undesirable outcome, nor ensure a desirable one; but the way that they allocate decision-making authority within the public sector makes some policy outcomes more probable and others less likely." The impact of Central Bank Independence to macroeconomic indicators lies in the institutional arrangements politics. In this regard, beginning from the 1980s, several authors have reported a link between the degree of Central Bank independence, and the level and variability of inflation. Likewise, in the same period, some others have reported similar findings regarding the effects of specific elements such as the role of Central Bank transparency and accountability[7], the impact of inflation targeting regimes, the legal and political environment, the adoption of specific exchange rate regimes, the effects of joining a monetary union, and other institutional arrangements are associated with policy makers' preferences for inflation stability.

To have a consensus among economists and to have an ultimate solution to solve an economic problem in most cases is not valid as stressed by Churchill, in his widely cited quotation above. In other words, in any theoretical debate in economics, the arguments from different wings are probably enriched by the hypotheses stemming from diverse data and interpretation processes of economists. However, in the case of Central Bank independence and its attributed success within the monetary policy framework, almost a consensus has emerged. That is, all these aforementioned indices tend to tell a similar story: a higher level of CBI is negatively correlated with

[7] A brief definition would be given on these terms in the following parts of the section.

the level of inflation. The speed of the belief in this institutional feature of CBI is astonishing enough that it might be due to the strength of the theory or the lack of an anti-thesis on the issue. Now we can step forward to the analyses of CB independence as an economic theory to have an understanding about this consensus of the literature on the theory and the adaptations processes of various Central Banks of the world

2.3.1. The History of the Theory

How the theory of the relation between CBI and Inflation has been developed?

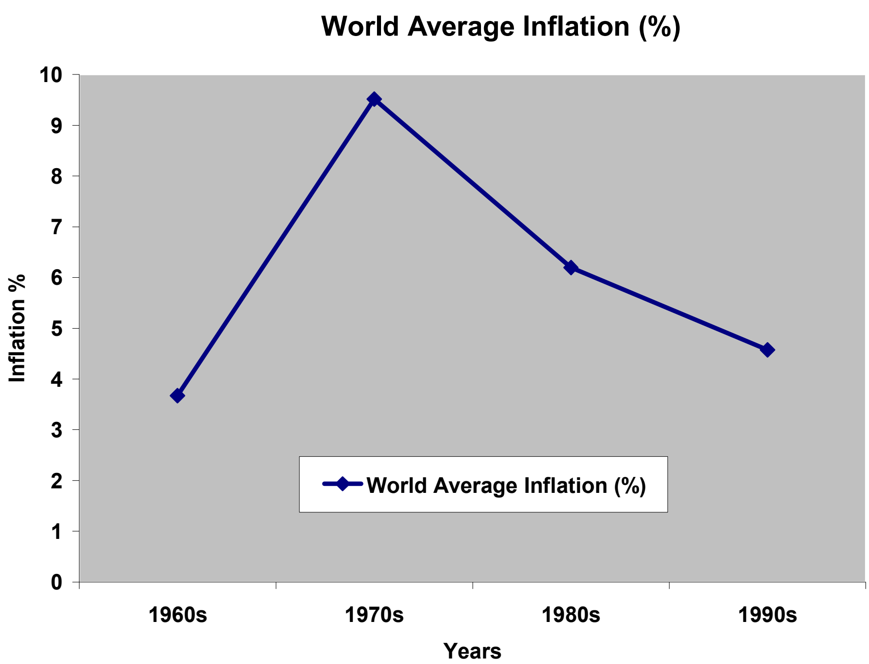
The first of the basic ideas driving for independence is the vertical Phillips curve. Bill Phillips, a New Zealand economist, by using historical British data, had discovered in the 1950s that when unemployment was high, the pressure of demand in an economy being low, then wage and price inflation had also been lower. This suggested that the authorities might be able to choose an optimal combination, or tradeoff, between inflation and unemployment in the short run. And this explains exactly what governments sought to do in the 1950s and 1960s in the post-war conditions. But in the l970s, the cost of lower unemployment, which is a higher inflation, made the rate of inflation a chronic disease of world economies with a given level of unemployment that means economies ran into stagflation.

In these circumstances, Milton Friedman then explained that the problem was that the short run Phillips curve had depended on the existing level of inflationary expectations. If the supposedly optimal level of inflation that the authorities wanted was above than the one that had been expected by the public, then the public's *real* wage and profit outcomes would have been systematically inflated. They would subsequently revise their inflationary expectations up, and at any given level of unemployment people would demand higher wage, or price, increases. In short, if the authorities tried to keep the level of unemployment below the natural rate, which is, broadly, the rate that causes workers to seek that rate of real wage increase that their own productivity increases make available, then inflation will not be constant, but will rise without limit; that means in economics, in the longer term the Phillips curve is vertical, There is no trade-off in the medium, and longer term between inflation on the one hand, and output, growth and unemployment on the other.

The experiences of the Second World War, particularly for the countries that troubled as a result of hyperinflation, as in Germany, induced the believes on independence of Central Banks. There was no doubt in German minds after the Second World War that their new Central Bank must be as independent as possible from the political pressures. Since, they had experienced the worthless paper and accused of the Government-dominated Central Bank due to the hyper inflation. The Deutsche Bundesbank, which was known for its independence, was the institution addressed by those minds. In that context, both economists and governments had worked on the basis of such an assumed trade-off between inflation and CBI. According to Freedman, the choice of the 'optimal' balance between employment and inflationary objectives was seen, and then, it became an essentially political matter. Consequently, instruments of demand management, monetary and fiscal policies, needed to be coordinated and managed to achieve that balanced outcome. However, when the concept of the medium-term vertical Phillips curve was captivated, it became apparent that one both could, and should, use monetary policy to control inflation in the medium and longer term without losing any benefits in the way of growth or employment.

But, what that implied was that governments should use monetary policy as a *medium term* instrument to control inflation, while using (quasi-automatic) fiscal stabilizers, or supply side measures, to moderate shorter term shocks and cycles. That does not correspond that the monetary policy instrument should be removed altogether from the hands of Ministers. And this is broadly what happened. Governments in the 1970s and early 1980s embraced monetary targets and medium-term financial strategies for bringing down inflation and moved to 'supply side' measures to encourage growth.

Thus, by the 1970s Central Banks became more important. 1973 OPEC crisis was the basis of the event. By the 1980s under the context of high inflation, budget deficits, and the populist policies of governments, Central Bank economists have begun to propose independence.



Freedman also asserts that this strategy had a "mixed success". In those years at Bundesbank, in UK and at the FED inflation was brought down but often at a severe short-term cost in terms of higher unemployment. (Mizen, 2003) In that time, these costs were attributed to a lack of credibility that the authorities should maintain a regime of stable prices and zero inflation. Indeed, the lack of credibility was attributed to the politicians owing to their short time horizons in monetary policies in advance of elections. The expansionary monetary policy by increasing money supply and the expansionary fiscal policy that is lowering taxes and raising expenditures, used by the politicians in a very populist manner. However, in the long term these policies do nothing to the output and employment except raising the inflation. In the short-run they works, that is, these policies contribute to the rise of employment and would provide a feel-good factor that is in turn raises the probability of re-election which is so critical for political authority for maintaining its existence. Economists regarded that notion as "time inconsistency".

Time inconsistency

Economists incorporated all the policy changes stimulated by politicians into a significant model of behaviour, termed "time-inconsistency". This term refers that the government's rhetoric would always be that its counter-be that its counter-inflationary determination was absolute. But, whenever short-term pressures really increased, or the probability of an election occurred, governments' actual actions would be to accommodate and to encourage monetary expansion as a short-term analgesic.

However, the public would soon appreciate this fake of the governments and they would therefore largely ignore and disdain the government's counter-inflationary rhetoric. When it is the case, the medium-term result would be higher inflation, no more growth, and a thoroughly cynical set of politicians and electorates.

For the meantime, the instability of the relationships between monetary growth and inflation had made the problem of credibility worse and in turn it led to the increasing unpredictability of the velocity of circulation. Previously governments could openly pre-commit themselves to a series of monetary targets, which would lead straight through to lower nominal incomes and inflation. But these monetary relationships progressively collapsed during the 1980s in almost all countries. Hence, operations to achieve stable prices reverted from being a matter of fixing in publicly announced monetary target rules. Interest rates had to be varied to try to bring inflation back to its desired rate when the interest rate adjustment would have had its full effect on expenditures and prices. For Friedman, this exercise requires technical expertise, good models of the economy, discretion, patience and long horizons, none of which government ministers as a collective, irrespective of personality, party or country, have been renowned for possessing. There is no doubt but that the popularity of the idea of an independent Central Bank has a generalized distrust of politicians of all shapes and sizes.

Thus, the theory proposed that if there was a need for a credible medium term counter inflationary policy, the solution would be an autonomous Central Bank which should have both the requisite longer time-horizon and technical expertise to achieve that objective. The correspondence of the solution for the government is to delegate the objective of achieving price stability to a separate institution. It should be noted particularly that here the hypothesis is established for an Independent Central Bank with respect to the *objectives*; for the stated autonomous Central Bank it is possible to be tied down much more rigidly to the achievement of a defined outcome. In that sense, the Central Bank is autonomous with respect to the powers used to achieve its defined objective, but it might not be *independent* to choose this objective.

But the move towards an independent or autonomous Central Bank was not only a matter of theory. A whole series of econometric/statistical tests have shown that countries with more independent Central Banks have had generally lower inflation rates as in examples of the Bundesbank for Germany and other countries that have adopted independent Central Banks such as Chile and New Zealand has led to the success in this adoption as being best performers.

Finally, but very importantly since 1989, 25 countries have upgraded the legal independence of their Central Banks that is remarkable when contrasted with the few changes occurred in the previous forty years. (Cukierman, 1998; the trends for the changes in the degree of Central Bank independence) In addition, not only the Germans were so enamored to their full independent Central Bank but also the economists believed that an independent Central Bank as Bundesbank is the best way to avoid manipulation of the macroeconomy for political purposes. That is, European Central Bank was modeled after, the German Bundesbank.

2.3.2. The literature for macro economic performance analysis

Switching to the applied analysis which would be beyond our study and necessitate further technical knowledge on the subject, I would concentrate on the literature of the theory and measures of the CBI constructed by several authors over the past 20 years for a rough analysis.

The studies on empirical evidence for CBI and Inflation Performance that indicates correlation between lower inflation and CBI are pioneered by the works of Kydland and Prescott (1977), and continued with (Barro and Gordon 1983). The relationship between inflation and Central Bank independence has also been estimated by Bade and Parkin (1982), Grilli et al. (1991), Cukierman (1992), Alesina and Summers (1993), Eijffinger and Schaling (1993), and continued with the studies of Webb and Neyapti, Franzese (1999), among many others. When we analyzed these studies upon Central Bank independence, we would see the main differences across the studies rest on the methods used to measure CBI, the sample of countries and the periods considered. Even though there are some studies that question the robustness of the results, there appears to be general agreement among economists that a higher level of CBI results in a lower level and variance of inflation.

The pioneering empirical study of Bade and Parkin written in 1987 and examined 12 countries over the years 1973-1986. They distinguished two types of government influence on Central Banks which are; financial type –budget deficits- and policy type –monetary policy deciding meetings-. Grilli, Mascandaro and Tabellini (GMT) studied five Pasific basin countries and government influence on bank appointments in 1988. Similar studies are managed by Aşesina and Summers 1991, by Cukierman 1992, Webb and Neyapti. Eijffinger-Schaling worked on government influence on appointment procedures and the relationship between government ad Central Bank on the determination of monetary policy, legal responsibilities of Central Bank, and different rankings in index for different degrees of independence in Central Banks. Many of these empirical studies find that Central Bank independence and the inflation rate are highly negatively correlated in high-income countries. The theoretical and empirical results have generally been interpreted as supporting the view that effective inflation control requires a high degree of Central Bank independence and that greater Central Bank independence is always better than less. This reasoning consequently implies that inflation is best controlled when Central Banks are granted full independence.

The empirical result of GMT for the period 1960-1992 indicates that there is a significant negative relationship between the average rate of inflation and CBI. (Capie et. al., 1994, p. 295) This relationship is very robust for the industrialized countries. According to the Cukierman et al. analysis that covers 72 countries there is a slightly positive relationship between inflation and legal CBI. For this groups Cukierman find that inflation is positively and significantly correlated with the rate of turnover of Central Bank governors. The relative contrast between the results for the industrialized countries and the larger group must be due to the difference between the actual and legal independence.

The most striking result of the empirical work is that CBI seems to have no adverse consequences. GMT and Alesina and Summers 1993 show that the improved inflation performance associated with increased CBI for industrialized countries does not cause a cost in growth.

According to Cukierman, the legal position of the Central Bank is hardly relevant to inflation performance: if a country is inflation averse then it will have low inflation whatever the legal status of the Central Bank. But, if the country is not inflation averse, then the political system will always be able to get around the legal status of the Central Bank

Posen (1998) conclude that it was not independence that produced low inflation, but rather the institutional, political and historical influences which lay behind independence. In his view, independence without these would prove either transitory or ineffective. Independence is no more than a symbol that have combined to make low inflation desirable.

Capie, Mills and Wood (1994) looked at longer run of evidence while Briault, Haldan and King (1996) by different approaches reached the same conclusion that independence lowered inflation. That is, in the case of CBI as we mentioned before there exists a significant agreement. Furthermore, International organizations such as the World Bank, the BIS and the IMF are strong supporters of Central Bank independence.

Lohmann (1992) is a notable exception. Lohmann finds that when output disturbances are sufficiently large, it is to the government's benefit to restrict the Central Bank's independence. She therefore recommends that the Central Bank should be granted full independence under ''normal'' conditions and only have this independence curtailed in times of economic exigency.

As we mentioned above, there exists convincing evidence suggesting that a more independent Central Bank is associated with a lower level and, possibly, a smaller variance of inflation. The main theoretical argument is that CBI contributes to reducing (and even eliminating) the inflation-bias problem, whenever the appointed Central Bank governor has a particularly high aversion to inflation. It is therefore logical to infer that a higher level of CBI should be associated with a higher preference for inflation stability.

2.4. Central Bank Independence and Democracy

The arguments questioning CBI mostly stem from the idea that checks and balances have key importance in democracy that the origin of sovereignty for each agent stems from even indirectly in the public voting. Thus, Jean-Claude Trichet clarifies that "in a democracy, I believe that an independent institution should both listen and explain itself." (Deane and Pringle, 1995, p.14)

The democratic legitimacy of CBI lays in the question where the actual position of Central Banks in democracies is (Kleinmann, 2001) and whether an "independent" Central Bank is appropriate in a democracy or not. If so, should an independent fiscal authority also be created?

Maxfield (1999) calls the attention of the readers for the trend toward Central Bank independence (CBI) and related debates on this issue. In the first place, she compares the arguments of the advocates and proponents of CBI. On the one side, proponents of CBI as U.S. congress members and some of the academicians argues that due to their powerful decision-maker position in the "distribution of power and wealth", CBI is undemocratic, contrarily Central Bankers -for instance Carlos Ciampi from Italy- respond this argument by underlining the importance of a sound currency to establish a strong and efficient democracy. In addition, it is also argued that an autonomous Central Bank can be *more* democratically accountable than a dependent Central Bank. Ironically both sides of the debate argue to preserve or to increase their existing power in shaping the policy to be more influential in monetary policy design.

Another criticism on CBI focuses on the execution problems in governing. It is claimed that policy making ultimately is a matter of one authority that would coordinate the others. For William Grieder, coordination would not emerge when there are two drivers in a car. The advocates of the argument also demonstrated the negative correlation between CBI and political business cycles.

One other popular critique of proponents of CBI emphasizes the conservative attitudes of Central Bankers on the main target policy. In most cases, they are more sensitive on "low-inflation, high-income" policies than the public. However, the advocates claim the role of independence in growth policies.

At this point, to expand our analysis on emerging market economies would assist in understanding Turkey. Among the very few studies on these countries, Maxfield outcomes are similar to the Cukierman and his colleague's findings and points out the positive correlation between CBI and growth unlike developed markets. Even in a worst case scenario, the profits of CBI would omit the costs of structural problems regarding to the "wage bargaining system" of that country. For industrialized countries with strong unionization, CBI has become crucial to fight against inflation. That is, if the Central Bank were more independent, inflation would be lower.

However, these results must be revised for developing countries. The low inflation achieved in the developing countries as in Korea has been experienced under a dependent Central Bank in accordance with the absence of a strong unionization. As a matter of fact, Brazil and Mexico with more established wage-bargaining systems were subjected to the high inflation. That is, the relation between CBI and union structure has not clearly understood yet. Furthermore, the argument against CBI do not addressing the political economic circumstances of these countries. As has been in Korea (1987-88) and in Mexico (1993), the regulations towards CBI against despotic governments might serve for liberal democracy by restraining the power of dictatorships.

2.5. Remarks on Transparency, Accountability, and Credibility

Before giving an end to our discussion, to avoid confusions in understanding the subject, the basic terms in Central Bank Independence literature in meanings, at first I would begin with the definitions of some basic terms within the framework of the institutional arrangements of Central Banks and would let a broader understanding for Central Bank independence. The following terms related to the CBs are generally used in control mechanisms of CBI.

Transparency: Central Bank transparency could be defined as the absence of asymmetric information between monetary policymakers and other economic agents. This means that it reduces uncertainty and this is often believed to be beneficial (although it need not be)[8]. Furthermore, transparency may affect the incentives that policymakers face to manipulate private sector beliefs through signaling and reputation building. (Petra M. Geraats, 1999)

Accountability: Accountability which has become increasingly important as more and more countries delegate the conduct of monetary policy to independent Central Banks. Clearly, some degree of transparency is a necessary condition for accountability, but it does not suffice. In his comparison, Geraats compares transparency and accountability Transparency refers to mere information disclosure, but accountability also involves bearing responsibility for monetary policy actions and possibly facing repercussions when policy appears deficient. So, accountability directly affects the Central Bank's incentives, whereas incentive effects of transparency only operate indirectly through private sector expectations.

Accountability may explain why transparency is a relatively recent phenomenon that only emerged after Central Bank independence took hold. Thus, it is not surprising that there appears to be a strong, positive relation between Central Bank independence and transparency across countries. However, there is less empirical support for the conjecture that this is due to accountability. Quite to the contrary, there is no cross-country relationship between Central Bank independence and accountability, and there is only a small positive association between accountability and other aspects of transparency.

[8] Although the importance of Central Bank independence relatively has long been recognized in the academic literature, research in favor of transparency of monetary policy is relatively new and largely seems a response to the new best practice in Central Banking.

Credibility: a monetary policymaker would be concerned about credibility, since credibility concerns people's beliefs about what policymakers will do in the future, not their appraisal of what policymakers have delivered so far. In this respect, Central Bank credibility plays a pivotal role in much of the modern literature on monetary policy, yet it is difficult to measure or even assess objectively. Nobel prize winners Edward Prescott and Finn Kydland introduced the idea of a "time inconsistency problem" into the macroeconomics to represent the fact that policymakers sometimes have an incentive to say one thing, but later they do something else. One solution to the time inconsistency problem is for policymakers to develop a reputation for credibility by recognizing that the long term benefits of having reputation exceed the short-run costs.

CHAPTER THREE

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY (CBRT)

3.1.The History

The Central Bank of the Republic of Turkey (CBRT) (*Türkiye Cumhuriyet Merkez Bankası - "TCMB"*) is the Central Bank of Turkey and is founded as a joint stock company on October 1931 and opened officially on January 1932.

In the Ottoman Empire, the Treasury operations, money and credit transactions and the trade in gold and foreign currencies were executed in varying degrees by the Treasury, the Mint, jewelers, money lenders, foundations and guilds. In 1856, the "Ottoman Bank" was established jointly with French and English capital and in 1863, it partly had the functions of contemporary Central Banking after becoming a state bank under the name of "Imperial Ottoman Bank." The Imperial Ottoman Bank enjoyed the right and monopoly of issuing banknotes.

Even though the Republican administration extended the period of privilege of the Ottoman Bank until 1935, the preparations had been undertaken to set up a Central Bank since 1926. The Law on the Central Bank of the Republic of Turkey No: 1715 was enacted on June 11, 1930. According to the Law No: 1715[9], the basic aim of the Bank was defined as to support economic development of the country. In order to fulfill this aim from 1930 to 1950s, the Bank was given the following duties:

-To set rediscount ratios and to regulate money markets,

-To execute Treasury operations,

[9] See details online at CBRT's webpage, www.tcmb.gov.tr

-To take, jointly with the Government, all measures to protect the value of Turkish currency.

With the introduction of economic development plans in Turkey in the 1960s, several changes were made in the Central Bank Law No: 1715. For the same purpose, the Law No: 1211, which was enacted on January 26, 1970, redefined the duties and responsibilities of the Central Bank of the Republic of Turkey so as to implement the money and credit policy within the framework of development plans.

The 1980s were the years in all around the world when the liberal economic approaches are recognized and the state's role in market diminished in size. One other aspect regarding to the shifts in the markets was the rising of the financial sector. This meant that while state and its bank was leaving its direct role in economy, Central Banking became critical and much more complex in its role in banking sector as a last of resort and as a result of the lessons taken from the inflationary outcomes of the former developmentalist policies, Central Banks began to pursue anti-inflationist policies. In Turkey, the story was also very similar that the 1980s became turning point. On the other hand, Turkey experienced financial bottlenecks at the end of the 1980s as a result of the growth of the public sector deficit that financed through borrowing and monetary expansion.

In 1989, Turkish Lira became convertible that its value is determined by the market. As extension of such policies the 1980s and the 1990s several legislations are amended in the law on CBRT to attain anti-inflationary environment.

The final legislations on the laws are made in 2001 after another financial crisis in Turkey which revealed the necessity of new institutional reforms in economic fields. To this legislation an instrument independency has been pointed out and the law (MERK -TC Merkez Bankasi Kanunu/ Central Bank of Republic of Turkey Law, 2001) provide more independence to the bank.

According to the legislation enacted in April 2001 (Article 4, Law no. 4651[10]),

"The primary objective of the Bank shall be to achieve and maintain price stability. The Bank shall determine on its own discretion the monetary policy that it shall implement and the monetary policy instruments that it is going to use in order to achieve and maintain price stability."

To the same legislation, fundamental duties of the Bank are as follows:

- To carry out open market operations
- To protect the value of Turkish Lira and to establish the exchange rate policy
- To determine the reserve requirements and liquidity requirement
- To manage the gold and FX reserves of the country
- To regulate the volume and circulation of Turkish Lira
- To ensure stability in the financial system and monitor the financial markets

Fundamental powers of the Bank are:

- The exclusive right to issue banknotes in Turkey
- The right to determine of the inflation target together and implementation of monetary policy
- The privilege to grant advance to the Savings Deposits Insurance Fund
- The role of lender of the last resort

[10] See details in www.tcmb.gov.tr

- The power to request necessary information from financial institutions

As long as the main approaches of the current monetary policy were summarized, it can be claimed that current monetary program of Turkey is based on four major rules and adopted to two principles. Rules are the follows: 1) Public sector will not be supported by Central Bank credits 2) Liquidity for markets will be created only by foreign currency purchases and open market operations 3) Transparency and credibility will be appreciated. And 4) Predictionary approaches will be adopted for determination of interest and currency rates. Principles are 1) Monetary policy itself is not enough to decrease inflation but can be affective within macro politics which are supported by fiscal policies and structural reforms and 2) this should be accorded with the fiscal discipline in markets and payment system.

Based on these major rules and principles, basic instruments of monetary policies are short term interest rates, open market operations, reserve requirements and overnight repo.

Serdengecti says that Central Banks should be independent and it could be attained through democratic processes. In other words, it is the society which would make the Central Bank independent. The Central Bank then aims to provide price stability and prosperity of the people. The notion of independence has to be embraced by all classes and members of the society. Subsequently, Sureyya Serdengecti discusses the *independence* of the *target.* “Central Banks in the world aim not the goal-independence but target-independence. It has to be clarified whether targets will be determined autonomously or together with political will. Independence of the instruments that will be used for applying monetary policies is very important for independence of Central Banks." Responding to the criticisms on the target dependence of the Central Bank in European Union's progress reports, Serdengecti mentions that "they criticize us for not having target independence and determining the targets with the government. European Central Bank does have target independence because they cannot determine a target by consulting to twelve other countries. We only need to consult with one government. The situation in England and Switzerland is very much like ours." (2005)

As seen in the law on CB, the implementation of monetary policy is a duty for CB but constitutionally it is stated that (1980 Turkish Constitution, Article 167) the state takes measures which performs and improves the sound functioning of the money credit, capital goods and services. Thus, constitutionally the goal independence is not given to the Central Bank, in other words its ground is the instrument independence and the given objective for CBRT is the price stability.

Price stability can not be maintained by itself in the market. Leaving aside the external shocks, there are two factors menacing the price stability. First, the political decision makers force the economic conditions by over capacity usage in order to increase economic activities. Such a policy is unsustainable. Second, the attitudes of the governments to finance budget deficits by using Central Bank's sources. As a result, although in short term growth and employment expansion have been achieved, the long term cost would be high inflation, low and volatile growth and employment. Thus, the price stability can only be achieved through the implementation of the long term, stable and decisive policies. However, in general, political authorities stemming from the nature of the politics have short term insights. At this point, Central Banks have longer term policies regardless of the political authority in order to control inflation, price stability, then to attain full employment and sustainable growth. Such an independent structure, provides grounds to the Central Banks not to implement policies against the price stability and to warn political authorities when it seems necessary.

3.2. Organization of CBRT

According to the Article 13 of Law No.4651 of April 25, 2001;

Governing bodies of the Bank are as follows:

a) General Assembly,

b) Board,

c) Monetary Policy Committee,

d) Auditing Committee,

e) Office of the Governor,

f) Executive Committee.

The duties and powers of the General Assembly is defined that it examines the annual report submitted by the Board and the report of the Auditing Committee. (Article 15)

The Board is composed of the Governor and six members to be elected by the General Assembly (Article 19) and the members of the Board are required to have received a higher education and to have acquired knowledge and experience in banking or in the fields of economics and finance. The term of office of Board members would be three years. One third of Board members shall be renewed each year. Members who are to leave the Board at the end of the first and second years shall be designated by drawing names. Members whose terms of office have terminated may be reelected. (Article 20) the Duties and Powers of the Board are basically to "take decisions concerning monetary policy that may be implemented and monetary policy instruments which may be utilized in compliance with the monetary policy strategy and inflation target, and to set forth regulations and to take decisions for, the replacement of banknotes in circulation, as well as their withdrawal from circulation and their destruction." (Article 22)

The Monetary Policy Committee is composed of Vice Governors, a member to be elected by and from among the Board members and a member to be appointed by a joint decree on the recommendation of the Governor and acts under the chairmanship of the Governor. The Monetary Policy basically determines the principles and strategy of monetary policy in order to achieve and maintain price stability, determine the inflation target together with the Government within the framework of the monetary policy strategy.

3.3. The story of the Independence of CBRT

When CBRT was established, it was a joint stock in order to isolate it from the political pressures. However, throughout the years after the Second World War, the Central Bank became the financer for public sector. As mentioned above, the 1980s were critical in terms of the shifts in the global understanding of Central Banking which also affected the policies in Turkey.

24 January 1980 Stabilization Program aimed that the share of the Central Bank of the Republic of Turkey in the financial system was to be lowered to enable the financial system in performing its functions soundly. However, the process after the 1980 indicated that the regulations could not achieved a sound financial system

due to the monetization of the rapidly increasing government deficit. Commonly, in order to finance these deficits, governments used the CBRT sources that in turn caused to the enormous growing of the balance sheet of the CBRT. In other words, the role and the share of the Bank became much more prominent in the financial system. In addition, the post-1980 growth policies and then the populisms of the governments are financed by borrowing from the CBRT which made the achievement of the sound credit policies of the Bank difficult.

According to Gökbudak, the changes in organizational structure of the CBRT which pursued the employment of qualified staffs after 1984 provided greater expertise and research to the Bank. In taking decisions, the personnel benefited from institutional independence and bear a great responsibility. The main idea behind this motivation was the belief that only technically qualified executives can remove the influence of political actors in decision making. On the other hand, this expertise served to the independence that according to Goodman (1992) Central Banks enjoys from a monopoly on expertise possessing a powerful tool in policy disputes. He states that in the short run this expertise enables independent Central Banks to set policies different from those desired by the government without risk of losing their independence. However, in the long run, realizing their vulnerability to political threats, Central Bankers accept the accommodation of political demands as a means of preventing more complete and durable political control.

The introductions of institutional changes continued throughout the 1980s. In 1985 CBRT began to the sale of the Treasury papers (the auction system), in 1986 the interbank money market has been established and in 1987 open market operations has come into practice. The following two years at the end of the 1980s the gold market and the foreign exchange market began to operations. All these reforms and regulations are adopted to contribute the autonomy to the CBRT and the necessary instruments to use in a market economy. In this regard, 1989 was a crucial year that the convertibility of the Turkish lira is provided and the value of it has started to be determined by the market variables.

The rules to govern “the operations between the Treasury and the CBRT” are determined in 1989. This agreement put a limitation to the borrowings of Treasury from the CBRT. By Gökbudak, this agreement is regarded significant in terms of independence in protection of the national currency. Since Central Banks needs a relative detachment from the Treasury.

Similarly, the 1990 monetary program provided another step forward the autonomy of the CBRT. The program announced that; (Gökbudak, 2002, p. 11)

- CB should not be a part of policies aiming at creating employment.
- It should not be a means of incentive policies.
- Its medium term objective must be to provide stability of the domestic and external value of TL.
- Inflation would be controlled.

However, the announcement of the monetary program would not perform price stability due to the financing of the public sector deficits through monetization.

Throughout the 1990s the Turkish economy was shaped by high and chronic fiscal deficits, high inflation rates and a weak institutional environment. The economic crisis in Turkey in 2001 was not only the lowest point of the period, but also a major turning point for Turkish economy. Since then a reform agenda under four main categories began to be implemented to reach better economic governance: (1) Monetary policy, (2) Fiscal policy, (3) Financial stability and (4) Structural reforms.

The responsibilities of Central Bank have evolved parallel to the conditions of Turkish economics and alterations in its structure. In the first Turkish Republic Central Bank Law which reflected the stagflation of 1930's, the basic duty of Turkish Republic Central Bank was determined as to support the economic development of Turkish state. Accordingly, determining the rediscount rates, improving the financial markets and protecting the value of Turkish Lira together with government are amongst the duties of Central Bank. In the following years, Turkish Republic Central Bank Law has been amended mainly to facilitate financing public deficit and such amendments enabled treasury and State Economic Enterprises to have credits from the Central Bank. However, in recent years with the significance of liberal policies and inflation becoming the major problem for economics, the basic principle of the Central Bank has been maintaining the price stability which in practice means restriction of the credits for public sector rather than supporting the economic development. This change has been more significant with two major factors. The first factor is the gradual reduction of credits from the Central Bank to the government down to 3% of the annual increase in total budget revenues in 5 years time period after approval of a legislation in 1994 in the parliament. Before the reduction the treasury was supported by an opportunity of 15% of total budget revenue increase. From that date forward the idea of independence of Turkish Republic Central Bank likewise other modern Central Banks has been popularized.

Second factor is the authorization of the Central Bank with restriction and arrest of public finance as well as determination of short term interest rates in 1997 following a protocol between the Central Bank and Treasury.

Central Bank independence that was granted by Law in 2001 was the key step on the monetary policy side. Introduction of the free-floating exchange rate regime in 2001 and formal inflation targeting regime in 2006 can be classified as the other two key steps providing expanding sphere of independence of CBRT. According to Durmus Yilmaz, the Governor of CBRT, in the absence of independence, the Central Bank of Turkey would not be able to focus on its primary objective of price stability. (2008) The inflation targets became the new anchor instead of exchange rates and the Central Bank has started using overnight interest rates as the main policy tool to reach these targets.

Establishment of the Banking Regulation and Supervision Agency, successful implementation of The Banking Sector Restructuring Program and the New Banking Law that brought the legal framework with best international practices were also the milestones of legal and institutional reform in the financial sector.

3.3.1. Indexation and the Place of CBRT compared to European Central Banks

In general, the reason for measuring CBI quantitatively by using various indicators is to find correlations between the levels of CBI in each country and its macroeconomic performance. Similarly, the level of Central Bank independence with regard to the political economic bases has measured rarely in Turkey. Instead most of the literature on independence of Central Bank of the Turkish Republic focused on the relation between CBI and macroeconomic indicators such as inflation, and production. Among very few studies on measurement Kum and Atik measured the economic and political independence of CBRT by using the indicators of Grilli, Mascriandro and Tabellini to compare the independence index with that of EU countries. Their analysis based on the final version of the CB Law which is amended in 2001. They calculated the index for political and economic independence as 3 and 5, respectively (for the values 1 to 6 where 1 is the least independent while 6 demonstrates to the highest independency). The measure resulted in that Turkish Central Bank has not a huge lack of independency compared to EU countries. (Kum and Atik P.11) The table below indicates this comparison that there are volatile measurements for the various countries in Europe in terms of political independence.

According to the table below, Belgium, Portugal and England have the lowest and Holland and Germany have the highest level of independency, while Turkey laid at an average level in terms of political independence. The criteria of index for political independence are on appointments, government relations, and legal status and CBRT performs well at the first two criteria while its relative failure in legal legislations.

Table 2. Comparison of Political Independence Turkish and European Countries Central Banks

Countries	**Appointments**				**Government Relations**		**Legal Status**		**Index for Political Independence**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Austria						*	*	*	3
Belgium				*					1
Denmark		*				*	*		3
France		*		*					2
Germany		*		*	*	*	*	*	6
Greece			*					*	2
Ireland		*				*	*		3
Italy	*	*	*		*				4
Holland		*		*	*	*	*	*	6
Portugal					*				1
Spain				*	*				2
England					*				1
Turkey	*		*		*				3

Tha data for EU member countries are based on the period before EMU.

Source: Hakan Kum, Hayriye Atik, "Türkiye Cumhuriyeti Merkez Bankası' nın Bagımsızlıgı: Avrupa Birligi Ülkeleri ile Bir Karsılastırma", www.iibf.erciyes.edu.tr

Table 3. Comparison of Economic Independence Turkish and European Countries Central Banks

Countries	**Financing Budget Deficit**					**Monetary Instruments**		**Index for Economic Independence**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
Austria			*	*	*	*	**	6
Belgium		*		*	*	*	**	6
Denmark		*			*	*	**	7
France				*	*	*	**	5
Germany	*	*	*	*	*	*	*	7
Greece				*		*		2
Ireland		*	*	*		*		4
Italy				*				1
Holland	*		*		*	*	*	5
Portugal				*		*		2
Spain			*	*			*	3
England	*	*	*	*		*		5
Turkey	*	*		*	*	*		5

*Tha data for EU member countries are based on the period before EMU.

Source: Hakan Kum, Hayriye Atik, “Türkiye Cumhuriyeti Merkez Bankası’ nın Bagımsızlıgı: Avrupa Birligi Ülkeleri ile Bir Karsılastırma”, **www.iibf.erciyes.edu.tr**

The table for indexation of economic independency (1-7) indicates that Turkey has better performance in economic independence compared to the political independece that even some EU member countries such as Greece, Spain, Ireland and Portugal have lower indexes compared to Turkey.

Similarly, Sandra Dvorsky (2005) compared the changes in the CB’s legal status of the southeastern EU countries in the accession process (Bulgaria, Macedonia and Turkey) to compare their adaptation to the Article 109 of the Maastricht Treaty: *“Each Member State shall ensure, at the latest at the date of the establishment of the ESCB, that its national legislation including the statutes of its national Central Bank is compatible with this Treaty and the Statute of the ESCB.”* and she conclude after the amendments in 2001 Turkey is not in a backward status in terms of legal independence.

The results obtained from the indexes lead that there are further steps to be taken in terms of political independence although the reasonable index measurements of CBRT, particularly as far as the actual independency which has not been concerned in measurements.

Certainly the indexation measured in these studies does not indicate the actual independence of the Central Banks. The practices and the institutional formations would illustrate the level of actual independency. Beyond the regulations and the shifts in the CBRT law towards institutionally more autonomous and independent CB, the law itself could not provide the necessary power to the CBRT especially where there exist instabilities and difficulties in macroeconomic structure.

3.4. Relations between the Bank and the Government and Relevant Duties

The relationships and possible conflicts between monetary and fiscal policy authorities stemming from the public debt management and Central Bank credit to government constitute the linkages between the Central Bank and the Government.

When legal limits on Central Bank credits to governments are established, this does not necessarily mean that the Central Banks will be independent from pressure coming from governments which pursue borrowing alternatives. The legal limits may not be clearly defined or they do not include all possible forms of government debt with the Central Bank. The experiences seen in the 1980s and early 1990s exemplify such a conflict between fiscal and monetary agencies that cost very highly to Turkey and make new legislations on CBI necessary.

The Central Bank and the government have usual relations while the bank acts as Financial and Economic Advisor, Fiscal Agent and Treasurer. According to the Article 41 (As amended by Law No. 3291 of May 28, 1986) the bank is the financial and economic advisor of the government and submits its opinions concerning money and credit policy which are requested by the Government. Secondly, it might act as the fiscal agent of the government in the international financial and economic relations of the State. Moreover, the Bank is the treasurer of the Government.

However, the changes that were provided with the new law enacted in April 2001 emphasized that the primary objective of the Central Bank of the Republic of Turkey was to achieve and maintain price stability. The Central Bank of the Republic of Turkey was prohibited to grant advance and extend credit to the Treasury and public institutions. The Central Bank was also prohibited to purchase debt instruments issued by the Treasury and public institutions in the primary market. Terms of office of vice governors were extended from 3 years to 5 years. According to the former Central Bank Law of 1970, Governors could not be excused from office before the expiration of their terms. With the new law, this rule also became applicable to Vice Governors. Thus, accordance was attained with the second paragraph of the Article 14 of European Central Banks' System Status. Transparency and accountability in determination and implementation of monetary policies were also enhanced.

- Legal and Actual Independency

According to Mahfi Egilmez, social support is important in opposing to the politicians. Moreover, the ability of Central Bank to make decisions against the market players is not just a legal issue. For instance, Federal Reserve, in comparison to Turkish Republic Central Bank has less legal power however it can make more independent decisions than CBRT. The key of the difference lays between the legal and actual independence. In this regard, institutional legacy of a country along with the Chairman's personal qualities also play a crucial role. Therefore, I attempt to understand the actual position of the CBRT in the matrix of political powers from the view of the current debates. The following discussions would provide at least an idea where the independence of the CBRT lays.

3.5.Recent Debates

3.5.1. Appointments

As mentioned in the history of the CBRT, the CBI has its legal status in recent years. From the previous theoretical and practical analysis it is known that legal independence does not correspond to actual independence, particularly in developing countries where the practices of laws take even further times. Therefore, in Turkey for internalization of the independency of Central Bank would take times and the debates on the issue indicate to this fact. For instance, the process of the appointment of the new Governor of the CBRT in 2006 became a publicly controversial issue and it would be beneficial to analyze the legal procedures on these appointments.

The Article 25 as amended in 1990 states that the Governor would be appointed for a term of five years by a decree of the Council of Ministers and may be reappointed at the expiration of this term. The Governor shall be required to have received a higher education and to have acquired knowledge and experience in the fields of finance, economics and banking.

As previously stated, according to the 2001 amendments; the term of office of Board members would be three years. One third of Board members shall be renewed each year. Members who are to leave the Board at the end of the first and second years shall be designated by drawing names. Members whose terms of office have terminated may be reelected. (Article 20)

Likewise, according to article 29 (as amended in 2001) Four Vice Governors shall be appointed to assist the Governor. Vice Governors shall be appointed by a joint decree for a period of five years on the recommendation of the Governor from among persons who have received a bachelors or a masters degree and acquired adequate knowledge and experience in one of the fields of law, finance, economics, business administration and banking and have worked in their professions for at least ten years. Vice Governors may be reappointed at the expiration of this term. Monetary Policy Committee membership finishes when the term of office of the Governor, Vice Governor and the Board member comes to an end. The member is appointed by a joint decree and the term of office of this member is five years. (Article 22/A)

Ali Babacan, ex-Minister of Economy expressed the criteria for the appointments as follows: “We are focusing on education and technical competence in people who also have our complete confidence.” Because of politics, there have been continuous delays in appointing the Governor and vice governors. These delays cause small scale crisis, however, Ali Babacan responds by saying “Previous governments also went through similar stages”. The conclusion that can be drawn here is “this is seen as a political issue and therefore the delays and controversies in our appointments are natural.”

The following table illustrates the frequency of the change in the Governorship of the Bank and the terms in office were given. As seen in the table, in the instable political economic environment of the end of the 1980s and the 1990s in the ten years from 1984 to 1995, four governors were charged with.

Table 4. Governors of CBRT and their terms of office

Names	The term of office (**)
Selahattin ÇAM	1931-1938
A. Kemal Zaim SUNEL	1938-1949
Mehmet Sadi BEKTER	1949-1950
Osman Nuri GÖVER	1951-1953
Mustafa Nail GİDEL	1953-1960
Memduh AYTÜR	1960
İbrahim Münir MOSTAR	1960-1962
Ziyaettin KAYLA	1963-1966
Mehmet Naim TALU	1967-1971
Mehduh GÜPGÜPOĞLU	1972-1975
Cafer Tayyar SADIKLAR	1976-1978
İ.Hakkı AYDINOĞLU	1978-1981
Osman ŞIKLAR	1981-1984
Yavuz CANEVİ	1984-1986
Dr. Rüşdü SARACOGLU	1987-1993
Dr. N.Bülent GÜLTEKİN	1993-1994
Şakir Yaman TÖRÜNER	1994-1995
Süleyman Gazi ERÇEL	1996-2001
N.Süreyya SERDENGEÇTİ	2001-2006
Durmuş YILMAZ	18 isan 2006 -

The other issue is the election/appointment of Board Members and General Assembly of the Central Bank. The members are inclined to be influenced by the government because of the duration of their appointments/memberships and this has been criticized in EU Progress reports. Indeed, as of 2005, all board members are replaced since 2002 elections. This also brings up the political influence issue in internal appointments/promotions. In addition, according to Ugur Gurses, while experienced staff is pacified, the newly appointed people took active positions. The result is the loss of credibility of the Central Bank.

To rectify this situation, board membership term has to be extended like in Europe and their reappointment has to be banned, hence cutting of their dependence on politics. In European Central Bank, these memberships are for eight years and since reappointment is not possible, there is no anxiety for the members to get on well with the politicians.

3.5.2. Istanbul & Ankara

According to the Article 2 of MERK as amended by Law No.3098 of December 6, 1984, the head office of the Central Bank is in Ankara. In recent years, one of the debates regarding to the CBI aroused from the attempts to move the headquarters of CBRT from Ankara to Istanbul. As stated above, according to the related legislation No: 1211, CBRT was founded in Ankara. However, the governments intended to change its location not only because their believes that this move would contribute to Istanbul in being a finance center, but also they claim that the move would help to the independence of the bank by restricting the pressures of the government intensified in capital city. Although the argument is controversial, Tietmeyer (1994) justifies that geographical location has key importance in Central Bank's independence. For him, the geographical distance between the site of Federal Government (Bonn) and the site of the Bundesbank (Frankfurt) is one factor of independence achieved by this bank. Such a location prevented strong informal channels of influence between government and the Central Bankers. Therefore, the Bundesbank remained in Frankfurt even when the government should have moved to Berlin. In Turkey, Mahfi Egilmez believes that settling the Central Bank in Istanbul might contribute to the actual independence of the Bank by isolating it from the political pressures and the bureaucratic atmosphere .(Radikal, 8/8/06)

However, opponents of the argument claim that in a highly globalized world where communicative tools annulled the authority of the geography, it is meaningless to move the Central Bank from one province to another. For Gurses, the issue has two dimensions; one is an economic debate while the second dimension should be management of the decision making process. The decision has to be evaluated within instrument independence and the Central Bank should make decisions based on its own researches and reports. (09/08/2006) He also regarded the subject of being odd that the issue has been discussed by everyone except the respondent Central Bank which this situation lowers its credibility. (16/01/2008) The case seems as a power demonstration since its against the will of the Central Bank or without its knowledge. (16/01/2008) "You are independent, unless you obey my orders" is the way how the government evaluated the position of the CB. (09/10/2006)

It is significant that at the debates the Governor and the members of the CBRT remained passive. Therefore, the style of the speeches of the Prime Minister Erdogan, the representative of the political authority, has been evaluated as an extension of attitudes to limit the independent institutions. (14/01/2008 Gurses, Berksoy) He clearly expressed that the government made their decision on this subject. Likewise, Durmus Yilmaz acts recessively and for instance he says “we have to obey the decisions of the Parliament regardless of what we really wanted to.” (2008)

Asaf Savas Akat expands the debate on the question of the pressure from the financial groups by claiming that under the communicative tools and transportation facilities of today, this debate is no longer challenging. (15 January 2008) It is certain that as the banker of the banks, Central Bank would face more pressures from the financial agents in Istanbul which planned to be a center for finance.

3.5.3. Communication and Transparency

Communication tools of the Central Bank have played a key role in explaining the price developments and the monetary policy outlook to the public and also in managing expectations. For Durmus Yilmaz, the Governor of the CBRT, the Bank’s communication policy has become more effective over time with the introduction of new communication tools, such as the quarterly inflation reports since 2006, the bi-annual financial stability report since 2005 and the monthly price development reports since July 2006. (Speech, April 2008) In addition, a summary of Monetary Policy Committee meetings are published on the website within 8 business days following the Committee meeting, simultaneously in English and Turkish. However, Ugur Gurses criticized the banks communication tools in a qualitative approach. To him, the new communicative tolls, the reports, are all confusing in their contents and always have sentences to interpret differently. (“Iletisim”, Radikal, 08.2007) Making hesitant statements in Monetary Policy Committee reports and announcements because of the executives who want to politically align with the government are the mistakes of the communications policy. Ugur Gurses criticizes the insufficient communication efforts of the Central Bank and argues that he can see an apolitical shadow cast on the texts prepared by the Central Bank. (Radikal, 18/06/2007) Similarly, Taner Berksoy says that it is necessary to read between lines of the reports published by the Central Bank to understand their real intentions. (17/06/2006) According to Gurses, while Central Bank is firm about their policies against public, they constantly feel the need to be diplomatically while advising to the government. (01/11/2006)

CONCLUSION

> *If men were angels, no governments would be necessary. If angels were to govern men, neither external nor internal controls on government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself. A dependence on the people is no doubt the primary control on the government: but experience has taught mankind the necessity of auxiliary precautions.* The Federalist Papers, No. 51

Among a number of reasons for studying on Central Bank Independence, two of which were worth to be leaded: The great consensus which could be seen occasionally in the field of economics and more enthusiastically the power configurations emerged within political economic and institutional understandings of money. Therefore, the dimensions of money and the Central Banking concerned at the latter have become the subjects of the first chapter of this study while the former macroeconomic analyses have been scrutinized in the second chapter and consequently, both of which have been exhibited in the context of the Central Bank of the Turkish Republic. In this study, CBI is evaluated within its political economic dimensions beyond being a monetary policy preference.

Strengthening the fact that Central Banks are intrinsically political agencies, the past experiences make it evident that granting greater autonomy to Central Banks depends on the particular constellation of political-economic forces, in any given national context. The specific constellation of these forces and the balance of power among them are structured by the inherited institutional organization of the state system as well as the increasing globalization of financial markets and related crisis of national governance. Thus, the development of the idea of Central Banking and the institutional features of the 'money' discussed in the first chapter of the study. In this regard, the vital importance of the legal legislations and basis has been emphasized for a sound economic order. Since, the theories of macroeconomics, its political predictions and suggestions would not work in an inappropriate legal and institutional structure.

A criticism of CBI focuses on the sovereignty of the states. The independence given to the Central Banks has been interpreted as the loss of independence for the nation states due to the unavoidability of the implementation of contradictory policies while there exist international agents. Such criticisms are reflected by anti capitalist side to the CBI. In this view, the CBI has been evaluated as a new stage of the diminishing role of the state in capitalist world economy. For Öncü and Köse, nation states lost their sovereignty by transferring their control over money to the capitalists groups and international capitalist institutions. (Öncü and Köse, 2005) If money is a political and social contact as well as a medium of exchange, then, a government which transmitted their political control on their money would mean to lose the fundamental principles of their sovereignty.

However, the change in the understanding of the national governance such as the ascent of more market-oriented policies along with the lessons taken from global financial developments after the Second World War have been reflected to the macro theory that gave a rise to the confidence for the necessity of the new monetary approaches such as the necessity of technical capabilities as well as the independence of the monetary agents. The second chapter of the study dealt with concerning arguments debated within the macro theory stems from anti-inflationary policy demands for Central Bank independence and the historical development of these theories.

Experiences from the history enabled thoughts on independence of governmental agents to stand in the forefront. The process of globalization and market orientation limited the uncontrolled power of the national governments. Furthermore, the increased volatility and complexity of international financial markets gave a rise to the more restrictions on the decisional autonomy of national governments. This has been a major factor in providing both the intellectual rationale for and political impetus behind the argument for Central Bank independence. Similar to the world trends, in Turkey, as in several countries, implementing increased independence reforms has occurred EU accession process of the country also made future Central Bank reforms necessary on the basis of transparency.

The difference of monetary policy outstands by its nature; first it requires a very long time for its gestation, which is longer than politicians' time horizons, and second, the "technology" of this policy and its technical characteristics are not well understood by politicians or the public. The "technology" of monetary policy makes it generally subject to abuse. More specifically, politicians are inclined to make use of the ease of expanding the money supply for its costless short-run term gains, however, it often results the long and uncertain lags till the costs become apparent. These characteristics of monetary policy imply that better outcomes may be achieved by putting decision making control in the hands of an independent monetary authority.

The evident proves that aforementioned abuse of monetary instruments more clearly draws the characteristics of the relations between the governments and monetary agents in developing countries. Due to the fact that in many developing countries, monetary policy has been dominated by fiscal pressures, governments tend to finance their deficits through borrowing from the Central Bank at zero cost. In this regard, the evidence proves that the more a government uses the country's financial system to finance its deficit, the less independent will be the Central Bank. As the CBRT experience exhibits, for a monetary target, the Central Bank of an open economy seeks domestic credit contradiction. Whenever, there is inflationary government expansions, the Central Bank could operate by squeezing the private sector. When actual independency is matter, the reason why the credits to the private sector are reduced would be announced by the bank in order to punish the government. Hence, an independent Central Bank may exert indirect pressures on the government and would stand as an auxiliary precaution for the control of the government. However, the observations from the CBRT and the debates over it verify that there are steps to be taken in the pursuit of actual independence which would remove the veils of politician on decisions of the Central Bankers even though a long way has been covered along with the amendments in legal independence during EU accession period.

Central Banks which are also stated institutions promoting domestic economic stability also act as politically to build up their own image and resources in order to increase its political support within government and society through raising its credibility. Therefore, the study at hand emphasized that though Central Bank independence is widely accepted on economic grounds, its political status is more problematic. A vast literature on the macroeconomic theory, specifically on the Central Bank Independence, it has been concluded that the issue remains political in that the move towards greater autonomy and full "independence" involves a redistribution of power over key areas of macroeconomic decision. Hence, according to the political economy approach, the current interest in Central Bank independence may not only be symptom of an emergent crisis of governance but also of an emergent crisis of democracy. (Drazen, 2002)

The tension of the coexistence of Central Bank independence within democratic system has been widely argued. This is a tension between making policy responsive to the popular will, seen as fundamental to democracy; and insulating policy from the popular will, seen as essential to good monetary policy as argued in macro theory. In other words, there exists a crucial contradiction between the politics of insulation represented by the notion of Central Bank "independence" and the politics of accountability which claimed base to democratic systems of government. Incidentally, this study argued that the conflict between popular sovereignty and policymaker independence is not unique to monetary policy; contrarily it characterizes most policymaking in a democracy. Moreover, institutions that are associated with democracies have been created specifically to address such conflicts. In this regard, as emphasized that money is an institution which would be contractual in transactions, shapes the roles of the sides in societies, we lead to the crucial position of the Central Banking and its political significance.

As last words on the independence notion of the Central Banks, I would like to mention the quoted statement at the beginning of this section explaining the nature of the governmental agents by underlining why the checks and balances are significant in a democratic system. Thus, Central Bank independence as macro theory addressed would contribute to the economic well being as well as to the sound distribution of the power in a state, however, it is the fact that each autonomy in a democracy should provide confidence through accountability and transparency. Consequently, in a democratic system Central Banks cannot be fully independent. Legislative and constitutional amendments would always change the status of Central Banks and its independence with regard to the realm of the monetary thought of the time in additions to the political and economic environment as well as personal capabilities of the managers would affect to the formation of Central Banks. The main point here would be the institutional establishment and their strength which provide confidence for the agents in a political economic structure. Such a confidence is the outcome of the credible institutions in town.

BIBLIOGRAPHY

Akat, Asaf Savaş. “MB tasinmali mi?,” *Vatan*, 15.01.08

“Siyaset ekonomi, vs.,” *Vatan*, 27.07.06

“MB Bagimsizligi,” *Vatan*, 15.06.06

Alesina, Alberto and Lawrence H. Summers. "Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence," *Journal of Money, Credit and Banking*, Vol. 25, No. 2, May, 1993.

Bade, R. and M. Parkin. "Central Bank Laws and Monetary Policy", Departrment of Economics, Discussion Paper, University of Western Ontorio, 1987

Baker W. “What is money? Asocial structural interpretation.” In MizruchiM S, Schwartz M (eds.) *Intercorporate Relations*. pp. 109–44 (Cambridge University Press, Cambridge, UK, 1987)

Bakır, Caner. *Merkezdeki banka : Türkiye Cumhuriyet Merkez Bankası ve uluslararası bir karşılaştırma*. (İstanbul : İstanbul Bilgi Üniversitesi, 2007).

Berksoy, Taner. “Merkez kredibilite kaybına uğradı,” *Radikal*, 03/05/2008

“Merkez Bankası ve üçlem,” *Radikal*, 21/04/2007

“Merkez ters köşede yakalandı,” *Radikal*, 08/07/2006

“Merkez'i anlamak,” *Radikal*, 17/06/2006

Bernhard, William. *Banking on reform : political parties and Central Bank independence in the industrial democracies*. (Ann Arbor : University of Michigan Press, 2002).

Berument, Hakan and Bilin Neyaptı. “Türkiye Cumhuriyet Merkez Bankası Ne Kadar Bağımsız?", *İktisat İşletme ve Finans*, No: 14/165, December, 1999.

Blinder Alan S. *Central Banking in Theory and Practic*e. (Cambridge, Mass.: MIT Press, 1999, 1998).

Buchanan, J. M. *Liberty, Market and the State*, (Hertfordshire: Wheatshe of Harvester, 1986).

Capie, Forrest H. and Geoffrey E., Wood Terence, C. Mills [et al.]. *The future of Central Banking : the tercentenary symposium of the Bank of England.* "Symposium on the Future of Central Banking, held at the Barbican Centre on 9 June 1994" (Cambridge [England]; New York, NY : Cambridge University Press, 1994).

Clark, William Roberts. *Capitalism, not Globalism: capital mobility, Central Bank independence, and the political control of the economy*. (Ann Arbor : University of Michigan Press, 2005).

Cukierman, Alex. *Central Bank strategy, credibility, and independence: theory and evidence*. (Cambridge, Mass.: MIT Press, 1992).

"Central Bank Independence and Monetary Control," *The Economic Journal*, Vol. 104, No. 427, November, 1994, p. 1442.

Cukierman, Alex; Steven B. Webb and Bilin Neyaptı, "Measuring the Independence of Central Banks and It's Effect on Policy Outcomes" *The World Bank Economic Review*, Vol: 6, No: 3, September, 1992.

Deane, Marjorie and Robert Pringle. *The Central Banks. (*Viking Adult; 2nd edition, February 1, 1995).

De Kock, M.H. *Central Banking*. (London: Staples Press, 1954).

Doyle K (ed.) *The Meanings of Money*. (Sage Publications, Newbury Park, CA,1992).

Drazen, Allan. "Central Bank Independence, Democracy, and Dolarization." *Journal of Applied Economics, Vol. V, No. 1 (May 2002), 1-17*

Dvorsky, Sandra. *Comparing Central Bank legislation in Southeastern Europe: selected cases Central Bank independence in Bulgaria, Macedonia and Turkey.* October 21, 2005. Available [online] at: http://www.oenb.at/en/img/05_dvorsky_tcm16-33027.pdf

Eğilmez, Mahfi. "Bağımsız Merkez Bankası," *Radikal*, 22.04.2001

"Siyaset ve Ekonomi," *Radikal*, 07.05.2001

"Yeni Anayasa Taslağı," *Radikal*, 18.09.2007
"Merkez Bankası nerede olmalı? ," *Radikal*, 08/08/2006
"Merkez Bankası bağımsız olmalı mı? ," *Radikal*, 10/03/2005

Eijfinger S. and E. Schaling, "Central Bank Independence In Twelve Industrial Countries" *Banco Nazionale De Lavoro Quartery Review*, 1993.

Fry, Maxwell J., Charles A.E. Goodhart and Alvaro Almeida. *Central Banking in developing countries : objectives, activities and independence*. (London ; New York : Routledge, 1996).

Galbraith John Kenneth. *Money, whence it came, where it went*. (Boston : Houghton Mifflin, 1975).

Geraats, Petra M. Political Pressures and Monetary Mystique. Cesifo Working Paper, No. 1999, Category 6: Monetary Policy and International Finance May 2007. Available [online] at: http://www.SSRN.com/abstract=993010

Germirli, Nüket. *Measuring Central Bank Independence*. (MA Thesis, Bogazici University, 1994)

Goodman, John B. "The Politics of Central Bank Independence," *Comparative Politics*, Vol. 23, No. 3, April, 1991, s. 329.

Gökbudak, N. "Central Bank Independence, the Bundesbank Experience and the Central Bank of the Republic of Turkey." (Master's Thesis, Middle East Technical University, Ankara, Turkey, 1995).

Grief, Avner. *Institutions and the Path to the Modern Economy*. (Cambridge ; New York: Cambridge University Press, 2006)

Grilli, Vittorio, Donato Maciandaro and Guido Tabellini. "Political and Monetary Institutions and Public Financial Policies in the Industrial Countries", *Economic Policy*, Vol. 13, October, 1991.

Günsoy, Bülent. “Hukuksal Yapı ve İktisadi Başarı: TCMB Örneği.” *İ.Ü.Siyasal Bilgiler Fakültesi Dergisi,* No: 23-24 (Ekim 2000-Mart 2001).

Gürses, Uğur. “Merkeze yaklaşma! ,” *Radikal*, 18/06/2007

“'Araç bağımsızlığı' edebiyatı,” *Radikal*, 08/10/2007

“İstanbul nasıl finans merkezi olur? ,” *Radikal*, 14/12/2007

“TCMB, AKP'nin 'alamadığı' belde mi? ,” *Radikal*, 14/01/2008

“Taşınma konusu nasıl tartışılıyor? ,” *Radikal*, 16/01/2008

“Merkez Bankası 'sert yaptı'! ,” *Radikal*, 01/11/2006

“'Bağımsızsın ama dediğimi yap'! ,” *Radikal*, 09/10/2006

“Başkanın bağımsızlık resti,” *Radikal*, 11/09/2006

“'Merkez olma' kriterleri! ,” *Radikal*, 18/09/2006

“'Taşıma problemi'! ,” *Radikal*, 09/08/2006

“'Bırak da ben karar vereyim! ,” *Radikal*,'07/08/2006

“Kaldığı yerden devaM,” *Radikal*, 12/07/2006

“Bağımsız 'dur(m)uş',” *Radikal*, 26/05/2006

“Pahalı bir 'ders'! ,” *Radikal*, 10/05/2006

“Bağımsızlık ve duruş,” *Radikal*, 08/02/2006

“Parasal otoritenin bağımsızlığı!,” *Radikal*, 11/11/2005

“TCMB ve TCDD arasındaki fark!,” *Radikal*, 02/12/2002

İktisadi Araştırmalar Vakfı. *Devlet-merkez bankası ilişkileri: Seminer*. (İstanbul : İktisadi Araştırmalar Vakfı, 1995).

Kazgan Haydar, Murat Öztürk and Murat Koraltürk. *Türkiye Cumhuriyet Merkez Bankası*. (Ankara: TCMB; 2000).

Kleineman Jan. (editor) *Central Bank independence : the economic foundations, the constitutional implications and democratic accountability*. (The Hague ; Boston : Kluwer Law International ; Stockholm: Norstedts Juridik, 2001).

Krause, Stefan and Méndez, Fabio. "Institutions, arrangements and preferences for inflation stability: Evidence and lessons from a panel data analysis," *Journal of Macroeconomics, Elsevier*, vol. 30(1), p. 282-307, March 2008.

Kum, Hakan and Hayriye Atik, “Türkiye Cumhuriyeti Merkez Bankası’ nın Bagımsızlıgı: Avrupa Birligi Ülkeleri ile Bir Karsılastırma”, www.iibf.erciyes.edu.tr ; "Central Bank Independence in Turkey and A Comparison with The European Union Countries", METU International Conference of Economics, September 8-11, 1999

Kumcu, Ercan. “Bağımsız Kurumların Bağımsızlığı,” *Hürriyet*, 03. 04. 2002

Leaman, Jeremy. *The Bundesbank myth : towards a critique of Central Bank independence*. (Houndmills, Basingstoke, Hampshire; New York : Palgrave, 2001).

Lippi, Francesco. *Central Bank independence, targets, and credibility: political and economic aspects of delegation arrangements for monetary policy* (Northampton, Mass., USA: Edward Elgar, 1999).

Mahadeva, Lavan and Gabriel Sterne. *Monetary policy frameworks in a global context*. (London ; New York: Routledge, 2000).

Maxfield, Sylvia. “Brief History of Central Bank Independence in Developing Countries” in Andreas Schedler, Larry Diamond and Marc F. Plattner. (editors) *The Self-Restraining state: power and Accountability in new Democracies*. (Boulder, Colo.: Lynne Rienner Publishers, 1999).

Mizen, Paul. (Editor) *Central Banking, monetary theory and practice : essays in honour of Charles Goodhart.* (Cheltenham, UK; Northampton, MA : Edward Elgar, 2003).

Öncü Ahmet and Ahmet Köse. “Para ve Merkez Bankası: Bağımsız bir Merkez Bankası mümkün mü?, ” *Evrensel Gazetesi*, 02.02.2005.

Özdemir, Mehmet. *Cumhuriyet'ten bugüne Türkiye Cumhuriyet Merkez Bankasi. (*Ankara: TCMB ; 1997).

Özlale Umit and Kivilcim Metin Özcan “Does time inconsistency problem apply for Turkish monetary policy?” Bilkent University, Department of Economics, January 20, 2003. Available [online] at: http://www.econ.metu.edu.tr/oldsite/web/newsemi/abs/metinozcan.pdf

Posen, Adam. “Central Bank Independence and Disinflationary Credibility: A missing link?” *Oxford Economic Papers* 50 (1998), p. 335-359.

Schaling, Eric. *Institutions and monetary policy: credibility, flexibility, and Central Bank independence* (Aldershot, Hants, UK ; Brookfield, Vt., US : E. Elgar, 1995, 1998).

Schedler, Andreas, Larry Diamond and Marc F. Plattner. (editors) *The Self-Restraining state: power and accountability in new democracies*. (Boulder, Colo.: Lynne Rienner Publishers, 1999).

Schuler, Kurt. *Should developing countries have Central Banks? : currency quality and monetary systems in 155 countries* (London : Institute of Economic Affairs, 1996).

Seabright, Paul. *The Company of Strangers: A natural history of economic life*. (Princeton, N.J. : Princeton University Press, 2004).

Telman, Ö.Turgut. *Merkez Bankalarının Bağımsızlığı* (İstanbul : Güray Matbaası, 1994).

Tietmeyer, H. "The Role of An Independent Central Bank in Europe," in Patrick Downes and Reza Vaez-Zadeh (eds.) *The Evolving Role of Central Banks*, International Monetary Fund Central Banking Department, seminar on Central Banking, Washington, D.C., (November 5- 15), 1994*, p.* 176-189.

Toniolo, Gianni. (editor) *Central Banks' independence in historical perspective*. (Berlin ; New York : W. de Gruyter, 1988).

Türel,Oktar. “T.C. Merkez Bankası’na Yeni Yasal Çerçeve: 4651 Sayılı Kanun Üzerine Değerlendirmeler” Mülkiye Dergisi, Temmuz-Ağustos, 2001.

Walsh, Carl E. "Central Bank Strategies, Credibility and Independence," *Journal of Monetary Economics,* Vol. 32, 1993.

Weatherford, J. *The History of Money*. (NewYork: Crown Books, 1997).

White, Lawrence H. *The Theory of Monetary Institutions*. (Malden, Mass.: Blackwell, 1999).

www.tcmb.gov.tr

Yılmaz, Durmus. *Conference on Current Issues in Economic Governance Opening Remarks* Ankara: April 2, 2008. Available [online] at: www.tcmb.gov.tr

Zelizer, V. A. *The Social Meaning of Money*. (New York: Basic Books, 1994).