Journal of Economics and Politics, Vol. 21, No. 1, 2014

PARTISANSHIP AND MONETARY POLICY: WHY DO ELECTED OFFICIALS ACQUIESCE TO CENTRAL BANK INDEPENDENCE?

WILLIAM DAVIS

WALSH UNIVERSITY

ABSTRACT

With the establishment of independent central banks, many governments have delegated key economic and social policy powers to an unelected bureaucrat. Democratic theory and much of the central bank literature implies that elected officials should not give up the power to affect public policy. Further, power-seeking politicians and partisan governments, particularly those of the left, should reject the sort of macroeconomic policy which typically results from independent central banks. Using a multinational cross-sectional time series data set consisting of a nearly forty year period, the analysis tests for relationships between changes in partisanship and central bank independence (CBI). Findings support the contention that partisan politicians are willing to tolerate the loss of an important policy-making tool as it increases their credibility and electability on the one hand, while improving the likelihood of success of preferred policies, paid for by the fiscal tools, which they still likely control once in office on the other.

1. Introduction

With the establishment of independent central banks across the globe, many countries have created a policy area separate from the links to partisan electoral politics. This depoliticization of monetary policy has had generally positive economic outcomes, including low interest and inflation rates.[1] Since at least the end of the Cold War, governments from developed as well as lesser developed democracies to newly democratizing and post-communist regimes have delegated the management of monetary policy to an independent agent or central bank.[2] However, in delegating these powers to a central bank bureaucrat the ability of elected officials and policy makers to utilize an effective policy tool for implementation of such policies of economic growth and employment has been severely constrained. According to much of the relevant literature, highlighted subsequently, politicians and more specifically, partisans of the left are assumed[3] to be keenly interested in their powers over employment and social policy decisions because these can directly affect future electoral success. Why then would elected politicians surrender these important policy powers to a third party?

This question has particular relevance to the United States, for example, where the Federal Reserve Bank (Fed) has increasingly become a target of scrutiny.[4] The Fed has been critiqued not only for its policies and role in the financial crisis of 2008, but as being the product of dubious constitutionality.[5] Nevertheless, support of the Federal Reserve among the press and political elites continues.[6] This paper provides a theory of central bank independence (CBI) and the inherent partisan trade-offs that account for inconsistencies between politicians as power seekers and the surrendering of their powers to central banks. Partisan politicians are willing to tolerate the loss of an important policy-making tool because it increases their credibility to the financial markets and electability to the voters, on the one hand, while improving the likelihood of success of preferred policies, paid for by the fiscal tools, which they still likely control once in office, on the other. The conclusion discusses the implications of these findings and offers some suggestions for future research.

2. Elected Officials and the Delegation of Political Power

From earliest times central banks, such as the Swedish Riksbank (1668) and the Bank of England (1694), were established as a source of financing for governments. They were also set up to deal with financial and economic crises such as the Bank of France (1800) and the Federal Reserve (1913). These banks often issued private notes which served as currency (Bordo, 2007). The power to create and lend money by these private stockholding companies, separate from the government treasury, in effect produced independence and today independence is enshrined in most central bank charters.[7]

The abdication of monetary policy-making power by elected officials, regardless of partisan stripe, is perplexing because we tend to assume that politicians are power seeking (Lasswell, 1948) and it also poses serious concerns regarding the question of democratic legitimacy. Democratic theory posits that, in democracies, elected officials need the support of their constituencies. Arguably, this principle is the cornerstone upon which the very idea of democracy rests. Lippmann (1922), for example, states that from "Plato and Aristotle through Machiavelli and Hobbes to the democratic theorists" democracy is predicated on the ideal of public policy that is responsive to the public. The delegation of policy power from elected representatives to unelected bureaucrats is unseemly from the perspective of democratic responsiveness. Policy decisions, which in effect have partisan implications, may be more legitimately left to elected legislators and executives who are closer to "the will of the people" (Boix, 1998). Nevertheless, central bank institutional regimes represent, in effect, a restraint on elected politicians' ability to manipulate monetary policy as a tool to achieve their constituents' preferred social policy outcomes (McNamara, 2002). Critics of CBI from this perspective should be expected to be from across the political partisan lines.[8] However, from a democratic responsiveness perspective, this literature does not provide definitive answers.

There may be economic policy payoffs to the institution of an independent central bank. The establishment of CBI has in effect established rules or institutionalized the kinds of outcome choices available and effectively limits policy makers' options (Alesina, Cohen & Roubini, 1997). Simmons goes so far as to suggest that "international rules of good monetary conduct have become 'legalized'" (2000, p. 573). Independent central banks are said to "insulate monetary policy from politically induced monetary volatility due to partisan or opportunistic motivations" (Alesina, Cohen & Roubini, 1997, p. 212). More broadly, compliance with International Monetary Fund (IMF) "good monetary practices," increases a governments' credibility with international markets (Simmons, 2000, p. 574).[9]

CBI has been further shown to be associated with not only inflation/price stability, but with higher economic growth as well (Alesina and Summers, 1993; Cukierman, Kalaitzidakis, Summers and Webb, 1993; Cukierman and Webb, 1994; Cukierman, Webb and Neyapti, 1992; De Long and Summers, 1992). Franzese (1999) shows that central banks are, in fact, superior when dealing with external "shocks" such as the inflationary results of the end of the Bretton Woods monetary regime, the oil crises and partisan policies. Rogoff (1985) showed that governments gained credibility and that interest rate stability is better achieved by central banks that are independent of government control. The relationship between stable or low inflation has been tested with largely similar results (Oatley, 1999a). It has been argued that in Organization for Economic Co-operation and Development (OECD) countries, CBI has resulted in increased credibility by signaling to "the markets" (Simmons, 2000; Maxfield, 1997). This is because governments with high levels of CBI signal to markets and voters alike that they will credibly maintain stable monetary rates, which in turn induces capital investment and increases prospects for future economic growth.

This range of possible central bank governance allowed by international norms of "good monetary conduct" is associated with a low inflation rate biased policy regime enforced by an independent central bank, which is traditionally integral to liberal or laissez-faire economic practices.[10] Franzese stipulates that "pro-independence" or liberal and conservative governments "will seek to institutionalize greater central bank independence when they are ascendant" (1999, p. 702). The choice of low inflation over job growth has therefore been decided by CBI and represents essentially the institutionalization of liberal or neoliberal monetary policy.[11] Delegation, or institutionalization of monetary policy through CBI, it has been pointed out, is rarely reversed (Keefer and Stasavage, 1998). Yet this arrangement is not without costs.

The establishment of CBI is perplexing nevertheless because of the highly partisan nature of electoral politics. Much of the traditional literature, Nordhaus (1975) and Hibbs (1977) for example, assert that while left-of-center governments care more about unemployment, right-of-center governments care more about controlling inflation. Quinn and Inclan (1997) link partisanship, in combination with economic structure, with a degree of capital account openness in OECD nations (as did Li and Smith, 2002). Further, Milner and Judkins (2004) link partisanship with trade openness. Since central bank charters often specifically state their powers over interest rate stability, which promotes growth, rightists are more likely to be content with central bank independence.[12] In the effort to appeal to their primary base left parties promote traditional left policies such as higher wages, more control and regulation of the economy and higher rates of employment, which can adversely affect interest rate and growth dynamics (Alvarez et al., 1991; Di Bartolomeo, 2001). Moreover, the creation of central bank institutional regimes forces financial choices which have social and therefore partisan outcomes, which has been pointed out by several studies (Garrett and Lang, 1991 and 1995; McNamara, 2002).

Monetary policy has been an instrument of partisan policy and has been an indispensable tool of most left-leaning governments in their efforts at job creation. This relationship is so strong that it is frequently an implicit assumption of many formal partisan models (Hibbs, 1977; Alesina, 1988). This is particularly so for left-of-center governments, while right-of-center governments are assumed to have a policy preference for the goals of independent central bankers, namely low interest rates and stable monetary policy, over full employment goals. Alesina et al. (1997, p. 45) state "left-wing parties are more willing to bear the costs of inflation to fight unemployment." It has been argued therefore, that the choice governments make for more central bank independence, indeed, represents a de facto repudiation of traditional left-of-center economic policy dispositions in favor of liberal monetary regimes by both left and right governments (Garrett & Lang, 1991).

Garrett and Lang (1991) pose an interesting partisan question: "Why do some governments, such as the 1974-1979 Labor government in Britain and Mitterand's government in France, initially pursue partisan policies but subsequently turn dramatically away from them?" (1991, p. 563). One likely answer is that pragmatic politicians seeking re-election will abandon a failing policy. Moreover, if independent central banks are instituted by right-of-center governments, as they had been (i.e., Germany, UK, US and many democratizing countries, etc.) why do left-of center governments, which the literature implies should reject central bank independence, not reclaim control over monetary policy when they return to power?[13] The answer suggested in the next section is that it may be that delegated monetary policy serves a partisan policy strategy.

3. Why Partisan Governments Make the Trade-off

Policy makers' attempts to manipulate markets for purposes of social policy have long been recognized for producing unintended results. Charles Lindblom (1982), for example, states that Polanyi's (1944) assessment of eighteenth century Britain "demonstrated how easily regulation of the market could derange the economy" (1982, p. 329). Lindblom argued that politicians are "induced" to maintain the market friendly status quo because the "penalty visited on them by business disincentives caused by proposed policies is that declining business activity is a threat to the party and the officials in power" (1982, p. 329). Lindblom's lament that "market systems imprison or cripple the policy-making process" provides a basis for this analysis (1982, p. 329). Central bank independence amounts to the institutionalization of low interest rate regime preferences over inflation biased or left-of-center policy. This is the result of long-term changes in policy attitudes "induced" by the corresponding "penalty" produced by a given government policy. Bipartisan acceptance is perhaps a watershed mark, demonstrating the shift away from traditional left-of-center economic policy throughout the developed democracies toward liberal tenets.[14]

For the purpose of this argument, it is assumed that politicians are political actors (Lasswell, 1948) and political parties want to represent the interests of their constituents and provide an outlet for the expression of those interests (Hibbs, 1977; Alesina, 1988; Persson and Tabellini, 2000). Also, it is important to recognize that the "left" is a fairly diverse group; it can therefore be inaccurate to paint it with a broad brush. While the left is assumed to prefer policies that provide jobs to their constituents over other economic outcomes, say stable interest rates, there is significant variation. For example, there are major differences between Democrats in the US, New Labour (or "New old Labour" of former PM Brown's faction) in the UK and French Socialists with respect to economic policy views. For example, Democrats do not share an historical association with Marxist theory with European left-of-center partisans. Additionally, while Social Democrats in Germany have specifically rejected the radical associations of their past[15] and have a long history of support for central bank independence and New Labour increased the independence of the Bank of England, French Socialists have long complained about strictures of the European Monetary Union (EMU). More recently, in addition to its monetary policy, Spain's formerly ruling Socialists relinquished a significant fiscal policy to European Union Central Bank oversight with the establishment of a debt ceiling constitutional amendment, similar to the more conservative governments of France's Gaullists and Germany's Christian Democrats.[16] Nevertheless, while many parties of the left differ in their degree of enthusiasm for CBI, once in power, many of these parties paradoxically support a policy constraint anathema to traditional left or socialist economic prescriptions.

3.1 CBI Increases Credibility and Electability

There are two primary reasons why partisans on the left reject the traditional preference for control of macroeconomic policy for aspects of liberal economic policy. First, partisan politicians are willing to tolerate this loss of an important policy-making tool because it increases their credibility and this secondly, increases their electability. Left partisans make a trade-off, which implies rejecting a long tradition of leftist macroeconomic policy for a free-market oriented neoliberal policy in order to gain acceptance of the financial markets. Many traditional policy positions of left-wing parties of the past are anathema to financial markets and result in stifled economic growth (Lindblom, 1982; Persson and Tabellini, 2000). This is typically because of the tradeoff between monetary growth, its effect on unemployment, and inflation and growth of the economy (Bleaney, 1996; Cukierman and Lippi, 1999; Stasavage, 2003). The problem for left governments here is that private industry, bankers, and investors are reluctant to invest their capital where future inflation and therefore profits are less predictable. Hence these governments suffer a credibility problem and the capital necessary for job creation goes elsewhere. By delegating monetary policy to unelected bureaucrats, politicians attract private sector investment while avoiding responsibility for any negative impact central bank policy tradeoffs may have on their voters.

There has been a general repudiation of leftist economic policies since the 1980s and particularly after 1990 and the demise of the Soviet Union. For example, the primary, though certainly not exclusive, supporters of socialist economics, which can be assumed to be antithetical to neoliberal monetary policy and central bank independence, are from the left of the political spectrum. From today's vantage point it is difficult to imagine the prestige and the influence this model once held. The demise of the Soviet Union would naturally affect a decline in statist central economic planning and therefore resistance to central bank independence would correspondingly decline. This association with the model of the former Soviet Union hurt the left's credibility and electability.

Additionally, beginning with the Thatcher reforms in the UK and Reagan reforms in the US, an apparent string of neoclassical economic turn-around or success stories began. Economic development and democratization in Chile, South Korea and the "Asian Tigers" among developing countries and the former socialist East European economies after the Cold War seemed to repudiate central economic planning. Since then numerous left-of-center governments have separated with traditional leftist economic policy. This was evident in the US during the Clinton administration's "triangulation" after 1994 (Morris 1997), Gerhard Schröder's "Neue Mitte" of the 1998 general election in Germany and as suggested by Garrett's example of Britain's Labour and New Labour after the 1990s, as well as France's early 1980's Socialists. Because of inferior performance of leftist macroeconomic policy, it necessitated a rejection of traditional leftist policy (Garrett & Lang, 1991). Despite some costs in alienating their ideological base, there are several primary benefits that governments of various partisan makeup receive with the implementation of central bank independence. Chiefly, as has been mentioned, central bank independence gives governments needed credibility.

Governments gain needed credibility by institutionalizing a low inflation policy at the cost of delegating a "tool" for job creation (Keefer & Stasavage, 2003, p. 420). This trade-off amounts, arguably, to an abrogation of elected officials' "right" to use monetary creation as a tool of job growth. Since left-of-center governments are most likely to prefer the use of monetary policy as a tool for achieving social policy, the trade-off cost is disproportionately paid by left-wing governments (Lohman, 1992). Keefer and Stasavage confirm this same point, stating that "policy reformers" of the left "face frustration if, ... they grant policymaking authority" to institutions like the central bank (2003, p. 421). However, central bank independence is a matter of degrees and is most effective under left-wing governments because independent central banks offset inflationary job creation policies of the left (Franzese, 1999). Franzese shows that central bank independence has greater effect than often thought in mitigating the "inflationary impacts" of left governments' inflationary bias (1999, p. 699). Governments, therefore, gain when maintaining an independent monetary policy and adherence to "good monetary practices," particularly if they are of the left (Maxfield, 1997). Thus, when governments create independent central banks, they, in effect, trade their ability to use monetary policy for credibility. Furthermore, by signaling to the markets that they are prudent players, left governments gain a complicit financial partner in the markets, which want steady interest rates and a clearer expectation of future profits. This gaining of the confidence of the market, as well as the general public, perhaps helps the left governments thwart a potential alliance of powerful market and electoral groups within the opposing party.

Does gaining support of the "capitalist" markets create a risk that the left may be viewed as "selling-out," risking the possibility of core constituencies "punishing" them at the polls in the next election? Analysis of this question has produced evidence that this risk or electoral cost is minimal. It has been shown that voter constituents are unlikely to punish *their* party even when it assumes central bank policies which appear contrary to its stated goals, particularly when the role of responsibility for policy is unclear (Powell and Whitten, 1993). For example, if a party can say to its constituents that it must go along with central bank independence because of its coalitions or structural impositions created by former administrations it is unlikely that voters will prefer the party that is even more attached to the policy. In a sense the government claims its "hands are tied" and "we're better than the alternative." Furthermore, the left-right ideological dimension has been demonstrated to be the primary determinant of voter choice (Budge et al., 2001, p. 159). Partisan choices tend to be consistent because political parties tend to remain ideologically consistent (Budge et al., 2001, p. 81). The result of these developments is a policy convergence of the left and the right regarding economic policy as analyzed by previous scholarship (Garrett and Lange, 1991; Garrett, 1995, 1998; Boix, 1998; Oatley, 1999b; Clark, 2002; Franzese, 2002a). If, as Powell and Whitten (1993) suggest, left governments will not be punished by their constituencies in a later election cycle, there is no political disincentive for such a strategy.

3.2 Paying for Expensive Social Policy

A third reason for supporting central bank independence is that it improves the likelihood of success of the left's preferred social policies, paid for by the fiscal tools (taxation and debt), which they still likely control once in office. Once elected, the new government can hope for a complicit financial partner to help implement financial policy and maintain the growth economy necessary for expensive social policy. Governments that want to implement expensive social policy, to make good on election and party platforms or manifestos require a successful macroeconomic policy. Alesina, Roubini and Cohen find that central bank independence not only lowers inflation but that "growth and unemployment is not related to the degree of central bank independence" (1997, p. 218) as Rogoff (1985) feared. That is, the trade-off for growth does not mean reduced real growth. Low interest rate regimes can coexist with the growth economies left governments wish to deliver, as promised, to their constituents and accordingly tax to pay for policy. Grille, Masciandaro and Tabellini (1991) furthermore, also showed that not only does central bank independence result in lower inflation rates, but it does so with little or no cost to growth, foreshadowing Alesina et al.'s results. They conclude that "having an independent central bank is almost like having a free lunch; there are benefits but no apparent costs in terms of microeconomic performance" (1991).

Moreover, central bank independence does not result in lower levels of sustainable social payments, as was once feared by some on the left (Lohman, 1992, p. 273). Cukierman (2002) showed that, contrary to fears of neo-Keynesian welfare advocates, an independent central bank is not necessarily the end of social welfare. He stipulates that the opposite may be true, "social welfare is a monotonically increasing function of central bank independence and of the (assumed) positively related level of reputation" (2002, p. 22). Left-of-center governments therefore get credibility without the fear of reducing growth or welfare with central bank independence. Cukierman (2002) shows that social welfare is not changed by central bank independence; it is the economic basis supporting social spending that has changed. Further, Garrett and Lang (1991) calculated that despite a general move toward conservative macroeconomic policy there was not a corresponding trend in fiscal policy or spending.

The creation of a monetary policy that delivers growth and social welfare without sacrificing inflation is an enormous accomplishment for modern governments.[17] For governments of the left as well as rightist monetarists this appears to be a win-win situation. Since many social policies favored by left parties are often expensive, prudent left governments require a growing private sector from which to draw tax dollars to pay for social services promised to their constituencies. In order to achieve policy objectives, left governments need prosperous economies that result from implementation of central bank independence or the institutionalization of conservative economic policies. They then make assurances to the financial markets, or signals, that they are responsible actors and will not infringe on their interests.

This, in short, is a strategy to get elected and after election appear to be a credible financial partner and create and pay for effective policy. This seeming paradox between electoral success and economic or policy success is solved by maintaining a party platform that adheres to traditional constituency concerns while at the same time signaling their "tied hands" regarding monetary central bank independence policy to the financial markets. Left-of-center governments remain true to their traditional leftist rhetoric regarding social policy spending to appeal to their traditional power base but quietly "turn coats" with regard to monetary policy and assume traditional conservative macroeconomic policy. This accounts for Garret and Lang's (1995) finding of continued electoral success for left governments and at the same time the distancing from traditional leftist economic policy by these same parties when in government.

3.3 Hypotheses

The general phenomenon this study attempts to explain is why political partisans acquiesce to CBI. The delegation of policy power from a democratic responsiveness perspective is expected to hold across partisan lines.[18] There should therefore be little policy difference with regard to CBI along partisan lines and thus the level of central bank independence should not greatly vary to the degree that a government's ideology varies from right to left. This suggests a challenge to the claims from the literature that left governments seek to gain control over economic growth and employment policy powers and is a test of following hypothesis.

Hypothesis 1: As the left partisan composition of the government increases, central bank independence will decrease.

Moreover, with the fall of Communism, many newly democratizing governments established independent central banks after 1990. According to the alternative theory put forth here, it is expected that as partisan (left) governments increase, central bank independence should increase in contrast to claims from the literature.

Hypothesis 2: Left partisan government spending increases will positively correlate to CBI increases after the Cold War (1990).

Despite the suggestion of a convergence on monetary policy, there is little evidence to suggest that left governments, as well as right governments, converge with regard to their rates of spending. This trend has largely continued and leads to a challenge to the second hypothesis

Hypothesis 3: Left governments' spending preferences will be negatively correlated to the level of central bank independence.

The creation of a monetary regime that delivers growth and welfare without sacrificing inflation seems to be an enormous accomplishment for the left, as well as traditional central bank independence supporters: a win-win situation. This however, is somewhat deceptive. Franzese's weighted-average model demonstrates a marked decrease in the impact of central bank anti-inflationary effect for all developed economies since 1980 (1999, p. 700). This demonstrates that "the structure of political interests pushes discretionary policy makers to pursue anti-inflationary policy anyway" (1999, p. 701). This is the result of structural trends throughout the developed democracies, that is to say, "increasing trade-openness and increasing financial-sector strength (and in some places also increasing right-partisanship and decreasing union density)" (1999, p. 701). Central bank independence is not the cause of low inflationary trends therefore, but the result. Left-of-center support for central bank independence is actually further evidence of the suggested repudiation of left-wing economic policies which are biased toward inflation. Franzese concludes, "the anti-inflation forces currently hold the political edge" (1999, p. 701).

One can assume that left-of-center parties, like all parties, represent the interests of their constituents and provide an outlet for the expression of those interests (Hibbs, 1977; Alesina, 1987; Persson and Tabellini, 2000, p. 10). In the effort to appeal to their primary base, many left parties still make appeals to traditional leftist policy proposal such as higher wages, more control and regulation of the economy and higher rates of employment. However, as has been noted, many traditional policy positions of left-wing parties of the past are anathema to financial markets and result in stifled economic growth (Persson and Tabellini, 2000, p. 286). What's more, interactions between fiscal and monetary policy can also affect interest rate and growth dynamics (see e.g. Alvarez et al., 1991 or Di Bartolomeo, 2001). A perception that the government is going to spend a great deal may fuel fears of inflation and lead the central bank to raise interest rates more than it otherwise would, producing "inducements" to return to status quo policy.

Since many social policies favored by left parties are expensive, prudent left governments seek a growing private sector from which to draw tax revenue to pay for social services promised to their constituencies. In order to achieve policy objectives then, left governments need prosperous economies brought about by implementation of central bank independence or the institutionalization of market-friendly economic policies. They then make assurances to the financial markets, or signals, that they are responsible actors and will not infringe on their interests. The primary signal is adherence to central bank independence and representing an implicit repudiation of traditional left government policy.[19]

This seeming paradox between electoral success and economic or policy success is solved by maintaining a party platform that adheres to traditional constituency concerns while at the same time signaling their "tied hands" regarding monetary central bank independence policy to the financial markets. The model is an attempt to explain that, while maintaining traditional manifesto rhetoric to appeal to their constituencies, left governments eschew traditional leftist macroeconomic policy in increasing numbers since the 1980s and especially after the Cold War. The end of the Cold War (1990) is a pivotal watershed moment in the demise of leftist monetary regimes. Therefore, there should be no major substantive differences between the policies of either left governments or right governments with regard to CBI monetary policy after 1990.

The preceding discussion leads to three additional hypotheses

Hypothesis 4: Interest rate stability will be positively correlated to the level of central bank independence.

Hypothesis 5: Unemployment will be negatively correlated to the level of central bank independence.

Hypothesis 6: Election years will be negatively correlated to the level of central bank independence.

4. Research Design and Statistical Methodology

The research method, a Panel Corrected Standard Errors regression model will allow for an analysis of the data to view changes in partisanship and central bank independence over an extensive period from 1960 to 1998. Theoretically, the literature suggests that left governments should be less likely to support central bank independence. If the model is correct the empirical data should suggest that this is not the case. Therefore it should be sufficient to measure the effect on central bank independence when governments move to a more leftist ideological makeup. That is, as leftist composition of the government increases we should not see substantial or corresponding degrees in the decreases in central bank independence.

4.1 DEPENDENT VARIABLE

Central bank independence will be the Franseze (2002) composite measure. This measure calculates the degree of freedom from political manipulation possible in order to capture the central bank's ability to pursue anti-inflationary policy without interference for 21 western democracies.[20] This measure is a scaled average of legal independence based on the methodology of characterization of independence by several analyses, including answers to survey questions completed by relevant individuals at central banks (Cukierman, 1992), a measure of economic and political central bank independence (Grilli, et al., 1991), and Bade and Parkin's (1982) index of CBI. The Cukierman and Lippi (1999) index of legal central bank independence (LVAU) was also considered but lacked the depth and variability for the purposes of this analysis.

4.2 INDEPENDENT AND CONTROL VARIABLES

The primary explanatory variable, government left-right ideology, or *Government Partisanship,* should explain if government composition affects the level of central bank independence. In 1998, Heemin Kim and Richard C. Fording proposed a comprehensive method for measuring government ideology for the corresponding countries of the CBI measure. This measure will be used to gauge an ideological left or right component of the government. The content analysis is based on the party manifestos, so it can also be deduced from this data if a government or party maintains the rhetoric of their leftist traditions and can be compared to their actions on CBI and economic policy while in office.[21] That is, do their words match their deeds?

A lagged variable is used to account for the fact that government policy with regard to budgets is not immediate because of the democratic and legislative process from budget conception to enactment. Interest rates, however, can be changed almost instantly. The budget conception to enactment may be at least a year in the process, but for simplicity and consistency the variable uses a one year lag.

These measures were checked for validity and reliability by comparing the results to previous manifesto and experts' results (i.e., Castles and Mair, 1984), such as Eurobarmeter's ideological self-placement survey data, as well as Stimson's (1998) "policy mood" indicator for the US (Kim and Fording, 1998, p. 82, 2002, p. 196). The success of these cross-validations and the utility of the ratio method measure offer a reliable tool for the analysis of the ideological dynamics' effects on parties, voters and governments over time. This measure should help explain if the partisan composition of government affects the level of central bank independence and/or spending habits. Although the literature would lead us to expect a negative relationship between left governments and CBI, the model predicts little, if any, strong relationship between *Government Partisanship* and CBI.

There are five additional variables considered here in addition to the primary explanatory variable of government ideology. I control for the end of the Cold War and an interaction term for government ideology and the Cold War, government debt spending, interest rate stability, unemployment and elections according to the theoretical expectations expressed earlier. A binary dummy post-Cold War variable serves to capture the changes brought about by the demise of the Soviet Union. Oatley's (1999a) model uses a dummy variable to capture the political differences post-1990. This makes intuitive sense since changes brought on by the end of the Cold War, including German unification, concerns about EU integration, unpopular US policy or ideological factors, as well as the interests of particular political players, had some causal relationship in post-Cold War realities. This measure will allow the model to detect if the exclusion of the socialist model as a viable alternative is responsible in part for the increase in "good monetary practice" and detect if the elimination of the socialist model as a viable alternative is responsible solely or in part for the increase in central bank independence. It may also provide support for the assumption that the decrease in government supports for policies of the left regarding macroeconomic policy is based on the loss of cache or prestige of ideological-based socialist economic dogma. The author anticipates the post-Cold War variable to be positively correlated with increasing CBI.

Following Oatley's (1999a) precedent, an interactive term is used to detect if there are differences between government partisanship and post-1990 due to the changes brought on by the fall of the Soviet Union. It may also provide support for the assumption that the decrease in government support for policies of the Left regarding macroeconomic policy is based on the loss of cache or prestige of socialist economic policy. Control variables for election year cycles and debt spending balance are also included. This should capture the pre-election year fiscal spending predicted by Hibbs' model of partisanship (1977) and accounts for any effect of budget balances on rates of interest in keeping with Oatley's (1999a) precedent. Other control variables, including debt spending, interest rates, unemployment and election cycles as control variables, as well as spending and interest rates are from the Franzese (2002a) data. By adding these variables to the equation it can be assessed if any relationship of the primary "causal" variables is spurious and give direction as to the real causal factors.

4.3 MODEL

The following is the general form of the completed model:

$$\textbf{CBI} = \beta ot + \beta 1\text{Government Partisanship-1} + \beta 2\text{Post1990} + \beta 3\text{Post1990} * \text{Government Partisanship-1} + \beta 4\text{Debt Spending} + \beta 5\text{Interest Rates} + \beta 6\text{Unemployment} + \beta 7\text{ElectionYear } t + e$$

Where: *CBI* = index of central bank independence. *Government Partisanship(t-1)* = A one year lag of median government ideology of the government in power *Left* or *Right* as measured by the Kim and Fording method using MRG data. Post'90 = The post-Cold War period dummy, coded 0s up to 1990 and 1s thereafter. *Post1990*Government Partisanship-1* = interaction term. *Debt Spending* = average annual change in government debt spending. *Interest Rates* = Long term interest rates stability. *Unemployment* = rates of unemployment. *Election Yeart* = whether or not an election was held in a particular year.

The empirical test should provide evidence supporting the contentions discussed previously. Therefore, the model expects to find, in contradiction to what the literature on this topic would lead us to predict, no substantial reduction in central bank independence when the partisan composition of the government increases (i.e., in particular, when leftist governments assume office). The model also expect this to hold true despite left-partisan promises as measured by this analysis of party manifestos within the Kim and Fording ideology measure.

4.4 METHOD

The first step in the modeling of this time series implies the identification of a possible trend between the dependent variable and the corresponding independent variable lag. While an Ordinary Least Squares (OLS) model has some precedent (i.e., Oatley, 1999a, p. 1014), a panel corrected model with standard errors is used for this study. The use of pooled panel data as the dependent variable may produce spurious results if the data is non-stationary. The Phillips-Perron method, conducted under the null hypothesis of stationarity, was used to test for stationarity in the time series regression, as per Beck and Katz (1995). Gujarati (2003) states that this test is essentially the same as the Augmented Dickey Fuller (ADF) test but allows for the analysis without adding lagged difference terms. This lagging of difference terms reduces the N one year, and since a lagged independent variable is already used, which further causes a loss of one year, this method is preferable. Analyses were performed and the results indicate that the potential problem of nonstationary series is not present in the analysis. [22]

The model utilizes a first order auto regressive scheme (AR1) with tests for auto correlation and heteroscedasticity. In order to minimize the potential statistical problems, such as bias in the estimation of standard error, autocorrelation or heteroskedasticity, Prais-Winsten transformed regression with Prais-Winsten specified Robust Standard Errors is used.[23] Because of the iterative process used in a Prais-Winsten regression there is no need to use a lagged dependent variable. This offers a simplified modeling of the relationship between a lagged *Government Partisanship* variable and the effect on the CBI variable according to the theory posited here. A Durbin-Watson test was used to detect possible autocorrelation[24] and no such problems were found with the models.

While admittedly studies of this type can have certain spatial as well as small N difficulties, typical for single country time series, it nevertheless should show the trends and relationships which have taken shape since unification in 1990, and may be important for this analysis. Therefore a thirty-seven-year period from 1960 to 1998 should be sufficient to indicate trends and divergence from them.

4.5 Results

The results here are robust to alternative specifications and estimation techniques. For example, using stabilized variance by a square root transformation, as well as a natural log transformation of the dependent variables, were not substantively different than the OLS models with robust standard errors. This is in line with the results of similar analyses (i.e., Oatley, 1999, p. 1014).

Table 1 presents the statistical results and Table 2 presents a results summary for the model, where the *Government Partisanship* measure is regressed on the index of *CBI*, including Cold War, interaction and control variables. The theory developed here did not have a specific prediction regarding the intercept, the expected value of *CBI* when all the independent values are held constant at their theoretical values of zero. The *Partisanship* variable represents the expected change in the value of *CBI* for a one unit increase in *Government Partisanship* when the other variables are held constant at zero. Although it is positively correlated at .0014 to *CBI,* which is contrary to accepted theory in much of the literature, it is not significant at the 95% level.[25] The results thus appear to be what had been expected according to the theory put forth here: the analysis finds no support for the contention that left governments reject CBI. While this was expected from a democratic responsiveness perspective, the analysis cannot definitively explain why partisans accept CBI. In any event, the coefficient of the *Partisanship* variable is not substantively important in and of itself but only when it is viewed in the context of the conditionality imposed upon it by the other constitutive variables.

The effect of the Cold War period in explaining the relationship between government partisanship and CBI policy is demonstrated by the *post-Cold War* variable. The coefficient for this variable represents the expected change in the value of the dependent variable *CBI* when its value takes on a 1 and when the *Government Partisanship* is held constant. In accordance to the theory put forth here, the positive coefficient estimate of .09 and its significance (t = 4.59) supports the supposition that the existence or absence of the Cold War was a major factor in determining relationship between the government partisanship of the OECD countries and the dependent variable *CBI*.

The Government *Partisanship*Post-CW*, is an interactive variable comprised of the product of Government *Partisanship* and the *post-Cold War* variable, was designed to express the expected change in the relationship between Government *Partisanship* and *CBI* when the Cold War was over (i.e., when the *post-Cold War* variable moves from 0 to 1). According to the theory put forth here, this should have had the effect of reducing the strength of the link between government partisanship and the *CBI* dependent variable.[26] The interaction term is positive as expected and is significant. This tells us, that in the post-Cold War period, the government ideology relationship to CBI becomes increasingly positive. This is also significant at the 95% level. Substantively, during the Cold War, the effect of increasing *Left* government ideology is difficult to assess based on the results here, but after 1990 it is clear that regardless of the ideological make-up of the government, both left and right governments became increasingly amenable to CBI.

While the effect of a one unit increase in the control variables for debt spending, interest rates, unemployment and election years, holding all other variables constant, resulted in some effects on *CBI,* these effects were not significant. The spending relationship expected here cannot be definitively demonstrated. This may be because a difference between left and right governments' spending is not discernible. That is, left and right governments spend equally. The lack of significant results suggests that such a relationship should be further examined. The measure of election year politics, particularly tailoring policy or a boost in fiscal stimuli or other benefits to the voters, which are often peculiar to election years (Hibbs, 1977, 1992), was not significant. Additionally, events and circumstances, which might be turned to an advantage and electoral success, such as the Iraq crisis for the US or the European floods in 2002 should be captured in such a variable. The relatively low probability of significance makes ascertaining its substantive importance difficult and these hypotheses are not supported.[27]

5. Conclusion

This paper has been an attempt to show the paradoxical relationship between partisan ideology and corresponding support for central bank independence. These results help to explain the paradoxical relationship between the left-partisan ideology and corresponding support for "good" or liberal monetary practices. Although Democratic theory would suggest both left and right partisan governments should reject an independent central bank, they both acquiesce for economic and electoral benefits.

Why do partisan politicians allow an unelected institution to assume an important tool for the implementation of such policies as economic growth and employment? While the right is acquiescent to CBI because it institutionalizes its preferred economic policies, these findings support the contention that there are three primary reasons why the left has rejected traditional leftist macroeconomic policy in favor of CBI. First, a CBI acquiescent policy gains acceptance of the financial markets and, therefore, credibility. Second, market credibility helps achieve electability. Third, a successful macroeconomic policy better allows governments that want to implement expensive redistributive social policy and achieve maximum employment to make good on electoral promises. A successful macroeconomic policy is one that pays the bills and this is one criterion where traditional leftist economic policy has repeatedly failed. Because of inferior performance, most left-leaning parties have adopted what Simmons called "international rules of good monetary conduct."

These data and results moreover show support for the partisan convergence hypothesis. Oatley (1999b) recognized that it was too early to make judgments about partisan assumptions and relationships which were in place for decades. He therefore attributed the initial results, which suggested a partisan convergence, to the recession in the early 1990s, as well as EU integration pressures among several OECD member states. This study was an attempt to clarify these uncertainties with the advantage of time and more complete data. These results provide convincing empirical support to suggest that, at the very least, the traditional relationships studied have been disrupted for a significant period and that this is attributable to a partisan convergence from left to right with regard to monetary policy.

This study also has policy implications. Critics who claim that the US is moving toward a social democratic model at a time when the social democracies of Europe are continuing to move toward fiscal conservatism may be heartened by these results.[28] If these critiques are correct US policy makers can expect to be "induced" to return to the status quo by the corresponding "penalty" of reduced economic activity, as Lindblom (1982) expected. Lindblom however, was highly critical of this "market as prison" or what later scholars more favorably referred to as the "institutionalization" [29] of good economic behavior0.[30] What happens when words become deeds and rhetoric designed to please constituents, in fact defines policy makers' preferences, preferences which are impervious to market inducements? The dynamics outlined in this analysis may be an effect of the ending of the Cold War. Newly-freed Eastern European governments, rejecting the command economy forced upon them for so long, may have aspired to adopt all the attributes of western democracy, including CBI. It remains to be seen if these results have relevance to recent governments' behavior or the current US attempts to grapple with existing economic crises. The relatively short temporal period and the pooled data may blur country specific idiosyncrasies. As these data do not cover up to the present period, new and better data collections efforts and comprehensive process-tracing case studies must therefore, be launched. Further analyses will be needed to assess if these findings are an established trend or an anomaly to long established partisan patterns.

REFERENCES

Alesina, A. (1988). "Macroeconomics and Politics." In S. Fisher, ed. *NBER Macroeconomic Annual.* Cambridge, MA: MIT Press, 131–230.

Alesina, A., Cohen, G. and Roubini, N. (1997). *"Political cycles and Macroeconomy*." Cambridge, MA: MIT Press.

Alesina, A. and Summers, L. H. (1993). "Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence." *Journal of Money, Credit and Banking* 25 (2), 151–62.

Alvarez, M. R., Garrett, G. and Lange, P. (1991). "Government partisanship, labour organization and macroeconomic performance." *American Political Science Review* 85, 539–56.

Beck, N. and Katz, J. (1995). "What to do (and what not to do) with Time Series Cross-Section Data in Comparative Politics." *American Political Science Review* 89, 634–47.

Bade, R. and Parkin, M. (1982). "Central Bank Laws and Monetary Policy." Working Paper, Department of Economics at the University of Western Ontario.

Bleaney, M. (1996). "Central bank independence, wage-bargaining structure, and macroeconomic performance in OECD countries." *Oxford Economic Papers*, 48, 20–38.

Boix, C. (1998). *Political Parties, Growth and Equality*. Cambridge, UK: Cambridge University Press.

Bordo, M. (2007). "Economic Commentary: A brief history of central banks." Federal Reserve Bank of Cleveland, December. Accessed at http://www.clevelandfed.org/research/commentary/2007/12.cfm.

Budge, I., Klingemann, H., Volkens, A., Bara, J. and Tanenbaum, E. (Eds.) (2001). *Mapping Policy Preferences: Estimates for Parties, Electors, and Governments, 1945–1998.* Oxford, UK: Oxford University Press.

Castles, F. G., and Mair, P. (1984). "Left-Right Political Scales: Some 'Expert' Judgements." *European Journal of Political Research* 12 (1): 147–57.

Clark, W. R. (2002). *Capitalism Not Globalism: Capital Mobility, Central Bank Independence, and Political Control of the Economy*. Ann Arbor: University of Michigan Press.

Cukierman, A. and Lippi, F. (1999). "Central bank independence, centralization of wage bargaining, inflation and unemployment." *European Economic Review* 43, 1395–434.

Cukierman, A. (2002). "Does a Higher Sacrifice Ratio Mean that Central Bank Independence is Excessive?" *Annals of Economics and Finance* 3 (May), 1–25.

Cukierman, A., Kalaitzidakis, P., Summers, L. and Webb, S. (1993). "Central Bank Independence, Growth, Investment and Real Rates." Carnegie-Rochester Conference on Public Policy, Autumn.

Cukierman, A., Webb, S. and Neyapti, B. (1992). "Measuring the Independence of Central Banks and Its Effect on Policy Outcomes." *World Bank Economic Review* 6 (3), 353–98.

Cukierman, A. and Webb, S. (1994). "Political Influence on the Central Bank: International Evidence." Discussion Paper 1994-100, Tilburg University, Center for Economic Research.

DeLong, J. B. and Summers, L. H. (1992). "Macroeconomic policy and long-run growth." *Economic Review* (fourth quarter), 5–29.

Di Bartolomeo, G. (2001). "Partisanship, corporatism and economic performance." Faculty of Applied Economics UFSIA-RUCA, University of Antwerp, Working Paper n. 4.

Evans-Pritchard, A. (2011). "Germany slams 'stupid' US plans to boost EU rescue fund." *Telegraph*, September 27. Accessed at http://www.telegraph.co.uk/finance/financialcrisis/8793010/Germany-slams-stupid-US-plans-to-boost-EU-rescue-fund.html.

Franzese, R. J. (1999). "Partially Independent Central Banks, Politically Responsive Governments, and Inflation." *American Journal of Political Science* 43 (3), 681–706.

Franzese, R. J. (2002a). "Electoral and Partisan Cycles in Economic Policies and Outcomes." *Annual Review of Political Science* 5, 369–421.

Franzese, R. J. (2002b). *Macroeconomic Policies of Developed Democracies.* Cambridge, UK: Cambridge University Press.

Galli, E. and Padovano, F. (1999). "Corporatist vs. decentralized governance and economic growth." *Journal for Institutional Innovation, Development and Transition* 3, 31–41.

Garrett, G. (1998). *Partisan Politics in the Global Economy*. New York: Cambridge University Press.
Garrett, G. and Lange, P. (1991). "Political Responses To Interdependence: What's "Left" For The Left?" *International Organization* 45, 539–64.
Garrett, G. and Lange, P. (1995). "Internationalization, Institutions and Political Change," *International Organization* 49, 627–55.
Gordon, P. and Barro, D. (1993). "Rules, Discretion and Reputation in A Model of Monetary Policy." *Journal of Monetary Economics* 12, 101–21.
Grilli, V., Masciandro, D. and Tabellini, G. (1991). "Political and monetary institutions and public financial policies in the industrial countries," *Economic Policy* 13, 341–92.
Gujarati, D. N. (2003). *Basic Econometrics*, 4th ed. New York: McGraw Hill.
Hibbs, D. A. (1977). "Political parties and macroeconomic policy." *American Political Science Review* 71, 1467–487.
Hibbs, D. A. (1992). "Partisan theory after fifteen years." *European Journal of Political Economy* 8, 361–73.
Keefer, P. and Stasavage, D. (1998). "When does Delegation Improve Credibility? Central Bank Independence and Separation of Powers." *The Centre for the Study of African Economies Working Paper Series*, Paper 82.
Keefer, P. and Stasavage, D. (2003). "Bureaucratic Delegation and Political Institutions: When Are Independent Central Banks Irrelevant?" World Bank Policy Research Working Paper 2356.
Kim, H. and Fording, R. C. (2002). "Government Partisanship in Western Democracies, 1945–1998." *European Journal of Political Research* 41, 165–84.
Kydland, F. E. and Prescott, E. C. (1977). "Rules Rather than Discretion: The Inconsistency of Optimal Plans." *Journal of Political Economy* 85, 473–91.
Lasswell, H. D. (1948). *Power and Personality*. New York: W. W. Norton.
Li, Q. and Smith, D. L. (2002). "Testing Alternative Explanations of Capital Control Liberalization." *Review of Policy Research* 19, 28–52.
Lindblom, C. E. (1982). "The Market as Prison." *Journal of Politics* 44 (2), 324–36.
Lippmann, W. (1922). *Public Opinion.* New York: Macmillan.
Lohmann, S. (1992). "Optimal Commitment in Monetary Policy: Credibility Versus Flexibility." *American Economic Review* 82, 273–286.
Maxfield, S. (1997). *Gatekeepers of Growth: The International Political Economy of Central Banking in Developing Countries*. Princeton, NJ: Princeton University Press.
McNamara, K. R. (2002). "Rational Fictions: Central Bank Independence and the Social Logic of Delegation." *West European Politics* 25, 47–76.
Miller, M. (2009). "Obama wants to move the center left." *Wall Street Journal,* February 24. Accessed at http://online.wsj.com/article/SB123544280120155761.html.
Milner, H. V. and Judkins, B. (2004). "Partisanship, Trade Policy, and Globalization: Is There a Left–Right Divide on Trade Policy?" *International Studies Quarterly* 48, 95–120.
Morris, D. (1997). *Behind the Oval Office*. Random House: New York, 79–88.
Nordhaus, W. (1975). "The Political Business Cycle." *Review of Economic Studies* 42, 169–90.
Oatley, T. (1999a). "Central Bank Independence and Inflation: Corporatism, partisanship, and alternative indices of central bank Independence." *Public Choice* 98, 399–413.
Oatley, T. (1999b). "How Constraining is Capital Mobility? The Partisan Hypothesis in an Open Econony." *American Journal of Political Science* 43,1003–27.
Persson, T. and Tabellini, G. (2000). *Political Economics: Explaining Economic Policy*. Cambridge, MA: MIT Press, 12, 97–99, 397–453.
Petruno, T. (2008). "Federal Reserve's 'approval' rating lags even the IRS." *Los Angeles Times*, July 27.
Polanyi, K. (1944). *The Great Transformation*. Beacon Hill: Boston.
Powell, G. and Whitten, G. (1993). "A Cross-National Analysis of Economic Voting—Taking Account of the Political Context." *American Journal of Political Science* 37, 391–414.

Quinn, D. P. and Inclán, C. (1997). “The Origins of Financial Openness: A Study of Current and Capital Account Liberalization.” *American Journal of Political Science* 41, 771–813.
Rogoff, K. (1985). “The optimal degree of commitment to an intermediate monetary target.” *Quarterly Journal of Economics* 100, 1169–90.
Simmons, B. A. (2000). “The Legalization of International Monetary Affairs,” *International Organization* 54 (3), 573–602.
Stasavage, D. (2003). “Transparency, Democratic Accountability, and the Economic Consequences of Monetary Institutions.” *American Journal of Political Science* 47 (3), 389–402.
Stimson, J. A. (1998). *Public Opinion in America: Moods, Cycles, and Swings*, 2nd ed. Boulder: Westview Press.

TABLE 1: THE EFFECT OF GOVERNMENT PARTISANSHIP ON CBI

Variable	**CBI** **Coefficient** **(Standard Errors)**
Lagged Government Partisanship	.0014 (.018)
Post-1990	.089*** (.02)
Govt.* Post-1990	.0006** (.0003)
Debt Spending	-.47 (.31)
Inflation	-.006 (.006)
Unemployment	.02 (.14)
Election Year	.025 (.03)
Prais-Winsten AR(1) regression using robust standard errors.+ N = 36 ***P-value = 0.01 R-squared = 0.6589 **P-value = 0.05 Prob > F = 0.0000 *P-value = 0.10	

+ Durbin-Watson statistic (original) 0.906475

Durbin-Watson statistic (transformed) 1.725360

TABLE 2: SUMMARY OF RESULTS

Hypothesis and Independent Variable	**Expected Effect on CBI**	**Finding**
1: Partisanship	Negative/ No Effect	Not Significant
2: Post-Cold War	Positive	Positive - Significant
3:Partisanship*Post-1990 period	Positive	Positive - Significant
4: Spending	Negative	Not Significant
5: Inflation	Negative	Not Significant
6: Unemployment	Negative	Not Significant
7. Election Year	Negative	Not Significant

APPENDIX: GOVERNMENT PARTISANSHIP MEASURE

The measure is created by compiling data on each political party manifesto (Manifesto Research Group hereafter MRG) data for each country in the analysis. Content analysis is used to determine the left-right mapping of party documents for each election for the countries in question. This is accomplished through a rigorous comparison of traditional content analysis as well as computer-assisted content analysis of the manifestos for agreement on the specific units of analysis (Budge et al., 2001, p. 90). By counting specific phrases within sentences they compile a number for and against an ideological left or right position comprising a percentage of the total. They are subtracted from each other to create the value (Ideology = (% IDLeft - % IDRight) – 100%). The government measure is comprised of the ideology measure for the government members of each ruling party as a weighted proportion of the actual government cabinet posts for each particular party IDParty = (IDLeft – IDRight) / (IDLeft – IDRight) thereby creating a ratio measure instead of the subtractive method of the MRG/CMP (Kim and Fording, 2002, p. 191, Budge et al, 2001, p. 169).

ENDNOTES

[1] The 2008 monetary crisis notwithstanding, there is a strong correlation between central bank independence and lower levels of inflation (Alesina and Summers, 1993).

[2] Article II of the Federal Reserve Act (1913) gives the CB powers over monetary as well as employment policy.

[3] Approval of the Federal Reserve was the lowest of nine government agencies included in a Gallup survey with 30 percent of respondents viewing the Fed's response to the 2008 crisis as excellent or good (Gallop Poll of July 27, 2008. http://www.gallup.com/poll/121886/CDC-Tops-Agency-Ratings-Federal-Reserve-Board-Lowest.aspx#1). See Tom Petruno "Federal Reserve's 'approval' rating lags even the IRS" *Los Angeles Times*, July 27, 2008.

[4] Approval of the Federal Reserve was the lowest of nine government agencies included in a Gallup survey with 30 percent of respondents viewing the Fed's response to the 2008 crisis as excellent or good (Gallop Poll of July 27, 2008. http://www.gallup.com/poll/121886/CDC-Tops-Agency-Ratings-Federal-Reserve-Board-Lowest.aspx#1). See Petruno (2008).

[5] And to some degree employment policy as the Federal Reserve System in the US is unique among central banks with its full employment mandate. Also, admittedly most criticism is on the fringes of partisan divide, examples include Representatives Ron Paul's (2009) *End the Fed* and Dennis Kucinich http://www.youtube.com/watch?v=-r_-QRKyu6g; http://video.google.com/videoplay?docid=-2864340017700873183. The H.R.1207 - Federal Reserve Transparency Act introduced by Congressman Ron Paul on February 26, 2009, which would have given Congress' General Accounting Office the right to audit the Federal Reserve's monetary policy was altered to such an extent that Paul voted against it.

[6] *Time* named Ben Bernanke "Man of the Year for 2009." See also H.R.1207 – of 2011 has been put forth by Rep. Barney Frank, would concentrate power in Washington by stripping the twelve regional Fed board members from interest rate setting votes. As of this writing the bill has failed to attract a co-sponsor.

[7] Ben Bernanke gives a succinct account of the rationale for modern central bank independence in his remarks to the Institute for Monetary and Economic Studies International Conference, Bank of Japan, Tokyo, Japan, May 25, 2010.

[8] See footnotes 4 and 5, which suggest this is indeed the case.

[9] Such as the 1977 IMF Articles of Agreement VII, which bound members to IMF exchange rate rules (Simmons, 2000).

[10] For the purposes of my argument, I use the term liberal in the classical liberal economic sense. This would include Smith-Ricardian liberalism through to Milton Friedman and the Neoliberal-Washington consensus.

[11] There is a wealth of scholarship on this topic. Please see Kydland and Prescott (1977), Barro and Gordon (1983), Rogoff (1985), Grille, Masciandaro & Tabellini (1991) and Franzese (1999) for some excellent examples.

[12] See section 2a of the Federal Reserve Act, http://www.federalreserve.gov/aboutthefed/section2a.htm.

[13] Recent electoral success of left parties in Latin America has shown that, and Venezuela's Chavez's attempts at controlling the central bank notwithstanding, CBI has remained remarkably resilient. Also, CBI, once granted, is enormously difficult to rescind. Structural impediments may therefore render preferences of subsequent governments irrelevant. See also Evans-Pritchard (2011).

[14] Despite what some critics of Barack Obama view as a move to the left. See Miller (2009).

[15] The Social Democratic Party at the Bad Goedesberg Conference, November 15, 1959, formally rejected Marxist economic analysis, policy and dogma.

[16] See Goebel (2011).

[17] Despite sovereign debt concerns.

[18] See footnotes 4 and 5.

[19] For purposes of parsimony, this characterization of signaling is admittedly a bit simplistic. Sometimes, state mandated increasing wages and other "irresponsible" policies can reassure markets by fostering social peace and employer-worker agreements. Signaling, either to constituents or markets, in other words, has real effects, some of which can be beneficial—it doesn't just "distort" "responsible" economic policies. Further, the very notion of CBI is a politically generated concept—"liberal" does not mean policy "neutral."

[20] The twenty-one countries included in the data set (Franzese, 2002a) are Austria, Belgium, Canada, Denmark, France, Finland, Germany, Greece, Ireland, Israel, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the U.K. and the U.S.A. All partisanship data included in the data set for these countries are listed in Budge el al. (2001).

[21] See Appendix for details on the variable calculation.

[22] See Table 1. Regression models which compensate for potential serial correlation with lagged variables were also tested; however the lagged variables are not significant at the 95% level, so I believe there is no serial correlation problem in the models.

[23] Models based on first differences (AR1) rather than lagged dependent variables have certain advantages for small N time series and in this analysis generally produced substantively identical results as the OLS model. Prais-Winsten fits a linear regression of dependent variable on independent variables that is corrected for first-order serially-correlated residuals using the Prais-Winsten (1954) transformed regression estimator, the Cochrane-Orcutt (1949) transformed regression estimator, or a version of the search method suggested by Hildreth-Lu (1960), using multiple iterations, according to Stata 8.

[24] The tests indicate no such problems with the models.

[25] See Table 1.

[26] The marginal effects of the variables in a multiplicative interaction models must be properly highlighted in order for a substantive interpretation of the regression results to be meaningful (Friedrich, 1982; Brambor, Clark, and Golder, 2005: 11). The correct marginal effect of the primary explanatory variable is calculated as: $\beta 1 + \beta 3 * Z$ ($\beta 1 + \beta 3 * CWt$ in my case). This means that the coefficient of my *Partisanship* variable is not substantively important in and of itself but only when it is viewed in the context of the conditionality imposed upon it by the other constitutive variable. It is the coefficient of Partisanship plus the coefficient of *Partisanship*ColdWar* which is substantively interesting.

[27] I.e., Hibbs (1977).

[28] See footnote 12.

[29] See footnote 10.

[30] Lindblom, while not promoting a command economy, was highly critical of classical liberals such as Hayek and Friedman (1982: 332).