

COMPARISON BETWEEN THE ECB AND THE US FEDERAL RESERVE*В.В. Финова, 2 курс**Научный руководитель – В.Г. Мартынович, преподаватель**Полесский государственный университет*

Why do we need the European Central Bank if there is the Federal Reserve? After all, the Federal Reserve is an independent federal agency to perform the functions of the central bank and exercise centralized control over the commercial banking system of the United States of America. To understand whether you still need the Central Bank or not, we propose to consider its differences from the Federal Reserve System.

The Federal Reserve is the central bank of the United States of America. Its mandate is to conduct monetary policy with the intention of maximizing employment and stabilizing prices [1]. Its domain is exclusively concerned with the economy and the currency of the United States. The reserve was created by an act of the Congress.

The European Central Bank was created by the Maastricht Treaty, which introduced the common currency, the euro, among the signatories of the agreement [2]. That was a subset of the European Union members, and included only those countries who chose to adopt the common currency. The Eurozone is today composed of 19 out of the 28 member states of the European Union.

The FED was created in 1913 when the ECB started to decide on monetary policy in 1999. This fundamental difference brings about the differences in prospecting between the two institutions. Indeed, it takes time for the central bank to develop its internal organization and its monetary policy framework.

The next stage of our work is to consider to what extent the FED and the ECB have similarities and differences. The basic similarities between the FED and the ECB will take: a structure, independence from political influence and a decision-making style. Objectives, tools and appointment of policy makers are different in the FED and ECB systems. After that we would like to take a closer look at these similarities and differences [3].

The first similarity is the structure. The Federal Reserve has a total of 19 participants. The Board of governors includes 7 members. The Federal Open Market Committee (FOMC) consists of 12 members: 7 Board Governors, the President of New York Fed, and 4 of the 11 other reserve banks Fed Presidents on rotating basis. The ECB Governing Council consists of 23 members: the ECB Executive Board (6 members) and the Governors of the 17 NCBs of the Eurosystem.

The following similarity between the European Central Bank and the US Federal Reserve is independence from political influence. Twice a year, the FED reports back to the Congress about the evolution and short terms perspectives of monetary policy. There is frequent hearing of the Board of governors by the two Houses of Congress. Moreover, the FOMS publish their minutes six to eight weeks after the meeting.

The Maastricht Treaty makes sure the ECB reports back to the European council and Parliament Once per year. However, despite an effort in 1999 by the president of the ECB to increase the transparency including giving a press conference, the ECB refuses to communicate its minutes. We can see that the FED is more transparent than the ECB.

In addition, the third main similarity is a decision-making style. The FED and the ECB make decisions consensually, with the President assuming the role of moderator.

After considering the similarities between the European Central Bank and the US Federal Reserve, it is necessary to analyse their differences which include their objectives, tools and the appointment of policy makers.

The Central Bank is in charge of running the monetary policy of a state (FED) or economic zone (the ECB). To be more precise the Central Bank has to:

- make sure of price stability;
- insure the growth;

- contribute to unemployment decrease.
In the FED and ESB's statute we find these objectives but the priority is different:
- the FED has to insure the growth as long as inflation is not a problem;
- the ECB has its unique mandate to constrain the inflation then insure the growth and contributes to decrease unemployment.

In addition, the FED and the ECB have different tools. The FED reckons that the rate of the inflation has to be “close to 2 percent”, so that there is price stability. As for the ECB, it is more objective and it stipulates that the rate of inflation has to be “lower than 2 percent”.

To fix the interest rate while the ECB is based on the monetary aggregate M3, which includes M1 and M2 aggregate, the FED relies only on the monetary aggregate M1 and M2.

The last difference is the appointment of policy makers. At the European Central Bank, the President and Governing Council members are appointed by national governments for 8 years.

In the US Federal Reserve, Governors and the Chairman are appointed by the President and approved by the Congress. Moreover, the Governor is elected for a 14-year term, and the Chairman for a 4-year term. Bank Presidents are selected by Bank directors.

In conclusion, we should add that the European Central Bank is rule-based, i.e. one response to every economic situation. The main qualities of the ECB should include consistency, plausibility, predictable and a quick decision-making process.

The Federal Reserve is discretionary, i.e. come to a decision case-by-case. The main qualities of the FED are the flexibility and the best reaction.

Central banking is often described as an art, not a science. As a result, there is no blueprint for the structure and operations of a central bank. Although the structures of the Federal Reserve System and the ECB are similar, there are many differences in the way they operate. As you can see, the ECB is more decentralized than the Federal Reserve, with more tasks left to the national central banks. Even the conduct of monetary policy is more decentralized [4].

Список использованных источников

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