Const Polit Econ (2013) 24:199–214
DOI 10.1007/s10602-013-9142-y

ORIGINAL PAPER

Independent central banks as a component of the separation of powers

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Published online: 8 September 2013

Abstract Citizens are strongly interested not to suffer from the damages wrought by inflation. With the development of inconvertible fiat paper money and the creation of the monopoly of central banks to issue unlimited amounts of banknotes the restrictions formerly existing because of the convertibility of notes into gold or silver at a fixed parity have been removed. As a consequence a constitutional or legal limitation of the supply of money became necessary to check the inflationary bias of politicians became necessary. This could be reached by introducing the independence of central banks from political and governmental influence as a fourth pillar of the separation of powers. The paper also discusses under which conditions monetary stability and independence of central banks can develop and under which it is threatened.

Keywords Monetary institutions · Separation of powers · Inflation

JEL Classification E5 · E63 · K10 · N1 · P16

1 Introduction

The separation of powers is besides federalism and direct democracy one of the bulwarks against the concentration of power and thus its misuse by government against the freedom and interests of the population. As James Madison expressed it in *The Federalist No.47:*

> The accumulation of all powers, legislative, executive and judiciary, in the same hands, whether of one, a few, or many, and whether hereditary, self-appointed, or elective, may justly be pronounced the very definition of tyranny. (The Federalist, p. 313)

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