Federal Reserve (FED)

versus

European Central Bank (ECB)
Overview

• History
• Members
• Organization
• Goals
• Tools
• Government Dependence
• Dollar value versus the Euro
Formation of the Fed

• The third central banking system in the United States’ history

• Panic of 1907 – The Banker’s Panic

• Aldrich Plan

• Federal Reserve Act of 1913
ECB HISTORY

3 STAGES (mirroring the 3 stages of the EMU):

• 1990 – Council of Governors of the central banks of the EEC – advisory role

• 1994 – European Monetary Institute with 2 tasks:
  • Strengthen central bank cooperation and monetary policy coordination
  • Make preparations for the establishment of the European System of Central Banks (ESCB), the single monetary policy and the creation of a single currency

• 1998 – European Central Bank
History of The European Central Bank continued

• Officially established on June 1st, 1998.
• Headquarters are located in Frankfurt, Germany.
• President is Jean-Claude Trichet.
• 15 Member countries: Belgium, Germany, Ireland, Greece, Spain, France, Italy, Luxembourg, The Netherlands, Austria, Portugal, Slovenia, Finland, Cyprus and Malta.
• Currency: Euro (EUR), €
• Exchange rate: €1 = $??
Federal Reserve Structure

• The Board of Governors
  • Seven Members Appointed by the President
  • Serve fourteen year terms

• The Federal Open Market Committee
  • The seven members of the Board of Governors
  • Five representatives from the regional Federal Reserve Banks serve one-year terms on a rotating basis

• The Federal Reserve Banks
• The member banks
Organization of ECB

- **European Central Bank.** The ECB was established as the core of the Euro-system and the ESCB. The ECB has legal personality under public international law.

- **Euro-system.** The Euro-system comprises the ECB and the NCBs of those countries that have adopted the euro. The Euro-system and the ESCB will co-exist as long as there are EU Member States outside the euro area.

- **European System of Central Banks.** The ESCB comprises the ECB and the national central banks (NCBs) of all EU Member States whether they have adopted the euro or not.
The Board of Governors

- Chairman, Vice-Chairman and five other members
- All members are appointed by the President and confirmed by the Senate.
- Currently there are only five Governors because appointments are staggered.
- All five took office during George W. Bush Presidency

Responsibilities: Adjust the discount rate and the reserve requirements, which is rarely done since it is very costly to administer.
Executive Board of the ECB

- President, Vice-President and four other members
- All members are appointed by common accord of the Heads of State or Government of the euro area countries.

**Responsibilities:** to implement monetary policy for the euro area in accordance with the guidelines specified and decisions taken by the Governing Council.
Federal Open Market Committee

• Consists of
  – Seven Members of the Board of Governors
  – President of the Federal Reserve Bank of New York
  – Four remaining Bank Presidents serve one year terms on a rotating basis

• Hold eight meetings throughout the year

• Responsibilities
  – Open Market Operations
  – Buying and Selling of Treasury Securities
The Governing Council of the ECB

• Main decision-making body of the ECB
• Consists of
  – Six members of the Executive Board
  – The governors of the national central banks (NCBs) from the 13 euro area countries

• Responsibilities
  – To adopt the guidelines and take the decisions necessary to ensure the performance of the tasks entrusted to the Euro-system
  – To formulate monetary policy for the euro area
## Goals of Each

<table>
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<th>FED Goals</th>
<th>ECB Goals</th>
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<tr>
<td>Promote Stable Prices</td>
<td>Maintain price stability:</td>
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<td>Sustainable Economic Growth</td>
<td>• safeguarding the value of the euro</td>
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<td>Maximize Employment</td>
<td>• low positive inflation rates close to 2%</td>
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<td>Support General Economic Policies of the</td>
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<td>European Union States</td>
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<td>Ensure an Open-Market Economy</td>
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Monetary Policy of The ECB

- Price Stability is the main goal of The ECB’s Monetary Policy. Why?
  - Leads to less fluctuation of the price level.
  - Reduces Inflation Risk Premium.
  - Helps eliminate the real economic costs affected by distorted inflation.
Powers of Each

- Open Market Operations
- Discount Rate/Standing Facility
- Reserve Requirement
Independence of Each

FED
- Independent government agency
- Reports four times a year to Congress
- President can remove a member
- Should the FED be more independent?

ECB
- High level of independence
- European Institutions have no authority over ECB
- Lack of transparency
- Is the ECB really accountable for its decisions?
Dollar vs. Euro

$1.16 per Euro
Initial Rate

$1.47 per Euro
as of 1:40PM