A Study on Comparison of the United States and Japan Central Banks

Dinh Viet Hung[1] and Nguyen Thi Thuy Dung[2]

[1]Faculty of International Studies, Academy of Social Sciences, Vietnam
[2]Department of Transportation Economics, University of Transport Technology, Vietnam
[1]E-mail: dinhviethungtc@gmail.com, [2]E-mail: dungntt@utt.edu.vn

Abstract

A banking system is one of the important parts in organizing, executing and promoting economic growth, in which the Central Bank stays at the top. Whether the central bank operates effectively or not has a great impact not only on the interests of individual banks but also on the economic development of the country. Depending on the advent characteristics of the Central Bank, political institutions, the requirement of the economy as well as the cultural traditions of each country, the Central Bank may have different organizational models and these organizational models have a significant influence on the macroeconomic role of each central bank. The United States and Japan are the two major economic powers in the world, leading countries in reforming the banking system in general and the central bank in particular. This report aims to analyze and clarify the role of the US and Japanese central banks to compare the similarities and differences between central banks in the United States and Japan.

Keywords: Federal Reserve System, Bank of Japan, monetary policy, central banks and their policies, monetary policy committees, central bank

1. Introduction

In most countries in the world, the banking and financial system plays a vital role in promoting economic development, especially the Central Bank. In the process of their operations, central banks have always played an important role in the financial and monetary markets. They set significant interest rates; They are the primary money monopoly providers and they perform a number of important tasks and functions in the economy. The central bank can better fulfill its mission and fulfill the common goal of the national economy when properly policed and managed.

Depending on the advent characteristics of the Central Bank, political institutions, the requirement of the economy as well as the cultural traditions of each country, the Central Bank may have different organizational models and these organizational models have a significant influence on the macroeconomic role of each central bank. The United States and Japan are the two major economic powers in the world, leading countries in reforming the banking system in general and the central bank in particular. However, each country has its own policies and paths. In the United States, the Federal Reserve system consists of 12 reserve banks scattering across the country to ensure that all regions of the country have their representatives in monetary policy considerations. , and it plays a completely independent role in the government. Also in Japan, the Bank of Japan (BOJ) was founded in 1882 under the Meiji period. Monetary policy is decided by the Policy Council. But the new Banking Act which was effective in June 6, 1998, has changed this, in addition to asserting that the goal of monetary policy is to stabilize prices, it also gives BOJ the most independent level regulations. The Finance Ministry has also lost the right to oversee many of the BOJ's activities, particularly the dismissal of top officials. However, the Ministry of Finance continues to monitor the budget department of the Bank which has no relationship with monetary policy. This can limit its independence to a certain extent.

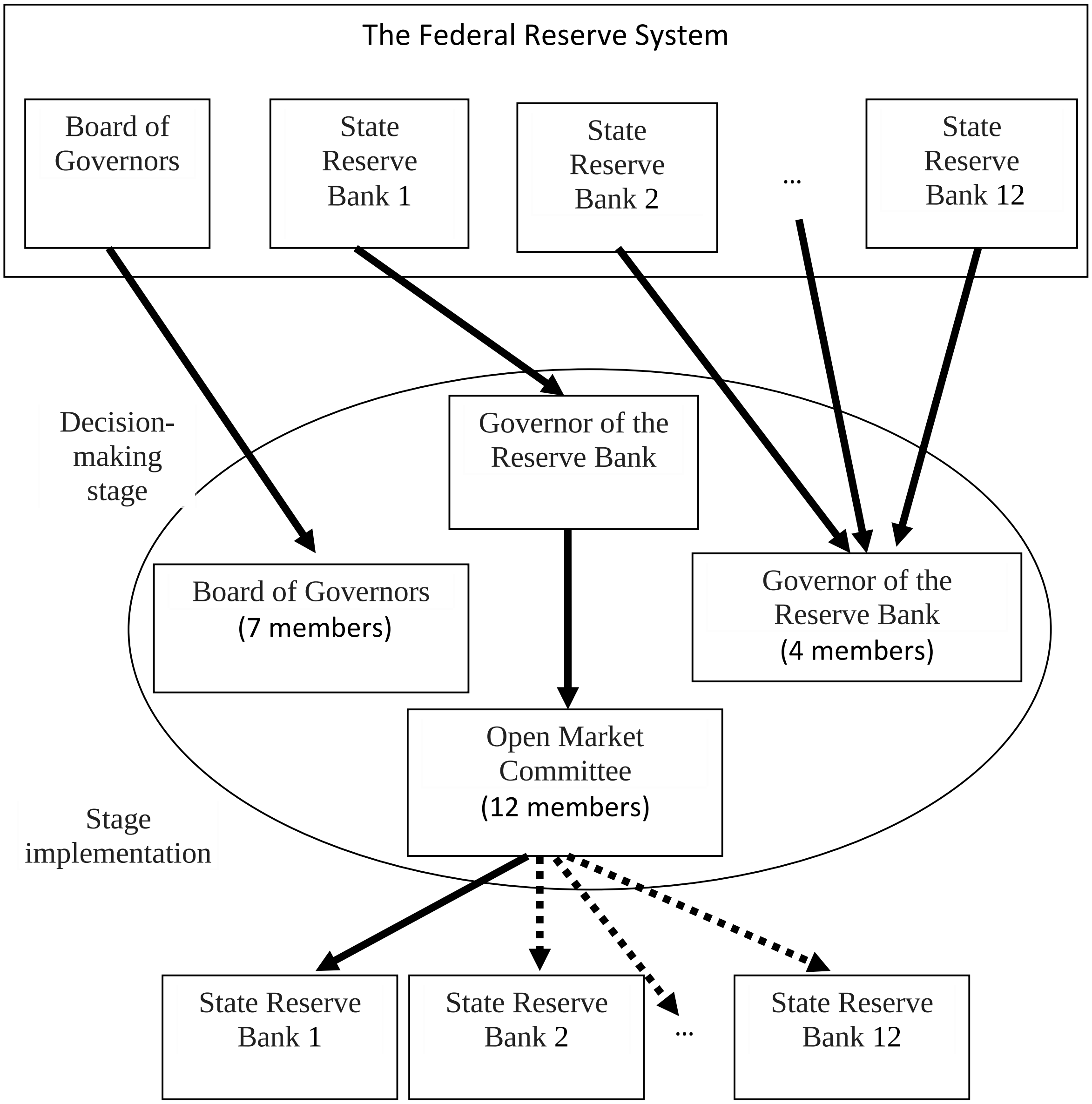
The comparision between the central banks in these two countries aims to find similarities and differences, the key determinants of successful regulation of central banks to the US and Japanese economies are crucial. This is an addition to previous research and a suggestion to improve the structural model and organization of the central banks in the world. These banks therefore can perform effectively, best serve the economic growth of the country.

2. Comparative study of the US and Japanese central bank

2.1. Institutional framework and characteristics

The Federal Reserve System is an independent organization of government, with individual aspects. The system is not a private organization and does not operate for the purpose of making money. The shares of the Federal Reserve Bank are owned by banks operating in that sector and are part of the system. This system has the authority and public purpose of the Federal Reserve Act passed by Congress in 1913. FED has the right to act independently without Congress's or the President's approvement. Members of the Board are appointed on a long-term basis which limits the influence of daily political considerations.

Figure. 2.1: Organizational structure of U.S. Federal Reserve



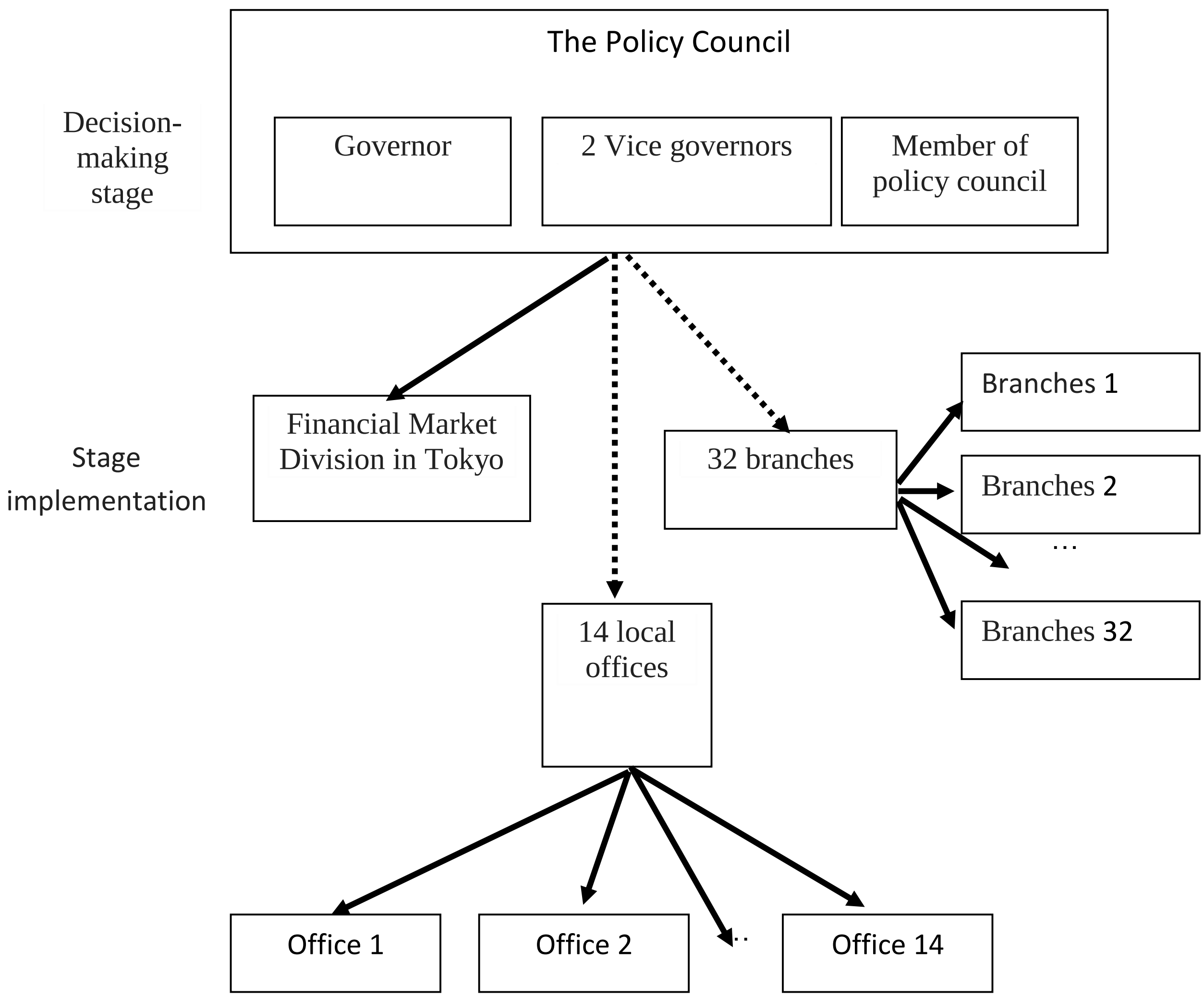
Source: Structure of U.S. Federal Reserve, https://www.federalreserve.gov

The unique institutional Structure of the FED also provides internal checks and balances, ensuring that its decisions and actions are not influenced by any part of the system. It also generates independent revenues without the expense of Congress. Congressional scrutiny could alter the FED's responsibility and control. The four major components of the FED are the Board of Governors, the Federal Open Market Committee (FOMC), the twelve Federal Reserve Banks in the region, and member banks throughout the country. The seven-member Board of Governors is the governing body of the FED, which oversees 12 regional-level Reserve Banks and helps implement the national monetary policy. Board members of the FED are appointed for a 14-year term. The Chairman and Vice Chairman of the Board perform their duties for a four-year term. These terms may be extended as long as their term in the Board has not expired.

With regard to voting rights, participation in voting by the FOMC, under the law, is more limited: all seven members of the Board of Governors of FED and the Governor of the Reserve Bank New York have the right to vote permanently, while governors in Chicago and Cleveland have to change year by year. The remaining nine reserve governors shared only four votes on an interim basis.

For the BOJ, the highest decision-making body is the Policy Council (Figure 2.2). The council consists of the governor, two deputy governors and six appointed members. Each of these nine members is appointed by the Cabinet for five years, and their meetings must be approved by the Board of Appraisal. Policy Council members elect the Chairman of the Policy Council. Since September 2006, the Governor of the Bank of Japan has also been appointed Chairman of the Policy Council. Policy Council determines by majority vote. BOJ operates as a headquarters rather than a federal system of central banks, and is responsible for 32 local branches (LBs) and 14 local offices (LOs).)

Figure 2.2: Organizational structure of the Bank of Japan



Source: Structure of The Bank of Japan, https://www.boj.or.jp

In both Central banks, monetary policy is now being decided by the collective, the president will create unity, meet in the meetings and make decisions, different opinions (if any) are stated. Outcome and conclusion by majority vote, if necessary. Therefore, individual members are allowed to express their opinions and not always accept the decision of the group. In the United States, monetary policy will be determined by the consistency of both the Board of Governors and the FOMC, formally acting by a majority of votes. In fact, both the Board of Governors and the FOMC act as collective committees. In contrast, the BOJ Policy Board operates in a more personal way than the two above FED boards.

In addition to monetary policy functions, both Central banks perform a wide range of functions and tasks (Table 2.2), which are largely the same, although there are some changes based on weak Other factors (one of which is historical) (Gerdesmeier, Mongelli và Roffia, 2007).

Table 2.1: Duties of FED and BOJ

Duties	**FED**	**BOJ**
Identification and implementation of monetary policy	Yes	Yes
Release paper money	Yes	Yes
Performing foreign exchange activities	Yes	Yes
Hold and manage official reserves	Yes	Yes
Acting as a financial agency for the government	Yes	Yes
Promote the stability of the financial system	Yes	Yes
Bank supervision	Yes	On the basis of contract
Promotes the smooth operation of the payment system	Yes	Yes
Collection of statistical information	Yes	Yes
Participate in meetings of international monetary organizations	Yes	Yes

Source: BOJ (2016a); Gerdesmeier, Mongelli and Roffia (2007) and Pollard (2003).

2.2. Monetary policy objective

For the FED, the objective of this agency is *"The Federal Reserve System Board and the Federal Open Market Committee will maintain long-term growth of monetary and credit corporations commensurate with potential. The long-term goal of the country is to increase productivity in order to promote efficiency, with the aim of increasing employment, ensuring a stable price and long-term interest rates*" (Federal Reserve Act, 2A.1). In this regard, it is recognized that although the US Congress has not yet given clear mandates to pursue low inflation, the Fed wants the public to be aware of the benefits of low inflation and the need to avoid (Goodfriend, 1999). Thus, the FED's policymakers seem to give out at least one criterion for performing the task of inflation.

For the BOJ, the main objective is to maintain price stability in the implementation of monetary policy; the second is that the payment system operates stably and pays through the measure as the last lender. In both cases, the purpose is to maintain the stability of the financial system, thereby laying the foundations for economic development (BOJ, 2003a). On March 9, 2006, the BOJ issued a new framework for the implementation of monetary policy and revisited its orientation of price stability to ensure that the decision to abandon the loosening regime quantification is better understood.

2.3. Degree of independence

In many countries, the gradual shift of responsibility from a central banker to a monetary policy committee coincides with the Central bank's empowerment (Blinder, 2004). The independence of the central bank is a multifaceted concept with many factors, including: *Independence of individuals*, relating to the influence of government during the appointment process, term of office, and dismissal procedures; *Financial independence*, related to the separation of government and central bank finance, as well as the establishment of a bank's budget; *The Functional independence*, called policy independence, and related autonomy in the formulation and implementation of monetary policy. This is reflected more clearly in the independence of the objectives and in the tools.

Although the FED has considerable independence, it is thought to be slightly lower than the Eurosystems. The US Constitution gives the Congress the power to "monetize and adjust its value." Congress then delegated this responsibility to the FED, however, in principle Congress may withdraw at any time. Congress's intention in forming the Federal Reserve Act is to separate political pressure from monetary policy. There are a number of terms designed to ensure the independence of the FED. For example, the FED is independent of other branches and agencies of the government; self-financing and therefore not within the budget of Congress. The provisions of seven members of the Board of Governors are appointed by the President and passed by the Senate, spanning several terms of president and congress, as a full term of fourteen years. In fact, this may take longer, but members may not be re-appointed, but may be dismissed before the deadline. President and Vice President of the Board of Directors nominated by the President among the governors expected and approved by the Senate. They serve four-year terms and can be re-appointed as president or vice president until the end of his governor's term.

For the BOJ, the law was amended in 1997 to ensure the independence of the central bank. The law stipulates that "The Bank of Japan's control over monetary control must be respected." To ensure this independence, members of the Policy Committee can not be dismissed because they have different opinions with the government and the government can not ask the Bank to take any specific policy action or move forward. Take on any specific business activity. At the same time, it is important that the Bank's monetary policy aligns with the basic economic policy framework of the government. Therefore, BOJ will "always maintain close contact with the government and exchange views fully." The Law of the Bank of Japan also allows government representatives to attend the Monetary Policy Committee meetings to make views and to submit proposals or request the Board to postpone the vote on the measures monetary policy. However, government representatives can not vote for monetary policy decisions.

Some differences between the two Central banks also exist in the exchange rate policy. In the US, foreign exchange policy is in the hands of the Ministry of Finance. In Japan, foreign exchange interventions are decided by the Ministry of Finance. The BOJ implements these interventions as a government agent and uses government funds.

2.4. Accountability, transparency and communication

Accountability

In order to maintain legitimacy, an independent central bank must be accountable to democratic organizations and the public for their actions in pursuing their mission.

The Fed is responsible to Congress, which may amend the Federal Reserve at any time. The FED must report once a year to the Speaker of the House of Representatives and twice a year on the monetary policy plan to Congressional committees. Fed officials also testify to Congress when asked.

BOJ has various reporting obligations and outlines its business (BOJ, 2014). Similar to the FED's six-month report on monetary policy for the National Assembly, the BOJ submits reports on monetary control and monetary policy twice a year. The BOJ Governor or a designated representative must be present at the request of Congress to explain BOJ policies, business practices, and balance sheet information. In addition, the BOJ Governor regularly holds press conferences after monetary policy meetings to explain policy decisions. Minutes of the meeting are also available, though only in Japanese.

Since the introduction of a new framework for the implementation of monetary policy (as mentioned in subsection 2.2), the BOJ examines economic activity and prices from two perspectives. Firstly, based on the economic outlook and price expectations over the next one to two years. Secondly, based on long-term orientation, planning and risks directly related to the implementation of monetary policy (BOJ, 2016). The results of this analysis will also be reflected in future publications such as Economic Outlook and Price.

Transparency

Transparency is a concept that is closely related to accountability. Transparency of monetary policy can be defined as the extent to which central banks publish information relating to the policy-making process. According to Blinder (2004), such information should be clear, profound and open. Eijffinger and Geraats (2002) distinguish between five categories of transparency: Political transparency, refers to the openness of policy objectives and the clarity of the official objectives of monetary policy; Economic transparency, focusing on economic information used for monetary policy (including economic data, policy models and forecasts); Transparency of procedures, reflecting how monetary policy decisions are made. This includes a clear monetary policy or policy that describes monetary policy; Policy transparency , means that policy decisions need to be published promptly and must include an explanation of the decision along with a policy trend or future policy action; Transparency of operations, involving the implementation of central bank policy actions.

According to Trichet (2004), the FEED stresses the need to ensure the transparency of decision-making and of analyzes conducted by the "research department". Moreover, transparency also characterizes the FED in explaining the economic forecasts provided to the public and to market participants, with all decisions released in real time.

At the BOJ, the Policy Department publicly announced any decisions that had been passed, including the principles for monetary market operations and the Bank's assessment of economic and financial development. The BOJ, like the FED, released the minutes of the MPM about a month after the meeting, and published a detailed record of the discussions ten years after each meeting. Other issues decided at Policy Committee meetings are presented in the BOJ Policy Board's Monthly Report.

2.5. Monetary policy strategy

Policy formulation, is the strategy to "maximize the probability of achieving the price stability goals and the maximum sustainable economic growth rate we associate with it." It is also emphasized that such cost-benefit analysis is considered part of the monetary policy decision-making process. This approach really coincides with the fact that the FED has repeatedly stressed the importance of uncertainty over monetary policy decisions (Issing, 2002 and Greenspan, 2004).

Regarding the monetary policy strategy, the FED put forward: "A monetary policy approach called a decision restriction can be identified by two simple and flexible principles. *First*, the central bank must establish a strong commitment to keep inflation low and stable. *Second*, given that inflation is kept low, stable, and to the extent possible, if the FED is uncertain about the structure of the economy and the effects of monetary policy, the real Monetary policy should try to limit cyclical fluctuations (Bernanke, 2003b). These quotes seem to indicate some similarities in the interpretation of respective monetary policy strategies.

After the stabilization of currency demand was broken in the early 1990s, the FED began to pursue a multi-pronged approach (Ruckriegel and Seitz, 2002), attaching importance to monetary factors but using a series of financial and economic indicators in evaluating policy strategies (Greenspan, 1993). While some commentators argue that the "just-do-it" strategy (Mishkin, 2003) points to this approach, FED officials call the "stitch- in-time "(Blinder, 1995). In the second half of the 1990s, the FED faced a growing number of studies suggesting that relatively simple monetary policy measures (linking interest rates with inflation and output gaps) can reasonably describe the way monetary policy. These rules also coincide with the special emphasis that some FED officials offer real and real interest rates. FED officials have discussed the inflation target as a strategic option in different occasions.

Just like the FED, the BOJ has also refused to adopt a strategy aimed at inflation targeting. This does not mean refuting but rather reflecting doubts about the suitability of this strategy in the abnormal condition of the Japanese economy. Since the second half of the 1980s, the Japanese economy has undergone a tremendous period of fluctuation after the appearance, expansion and finally the boom of the asset bubble. This led to instability in monetary demand in the mid-1990s, due to significant changes in the borrowing of financial institutions by borrowers and lending behavior. of financial institutions.

After the BOJ's policy of loosening monetary policy and the extremely low short-term interest rates, the change in funds between various financial assets has caused instability in the relationship between securities and economic activity, so the monetary union is declining. At this point, the "zero rate policy" is adopted to avoid further deterioration, prevent deflation and prevent the spread of the entire financial system. With these changes, the BOJ argues that the value of different financial assets, real economic variables, price developments, and fundraising behaviors of firms and households the family is more accurate and detailed (BOJ, 2016a).

However, based on the relative "singularity" of money as a variable, monetary stocks are still considered an important and useful information and continue to be carefully monitored by the BOJ. Started in March 2006, the BOJ reviewed the basis of the definition of annual price stability. The degree of inflation that Policy Council members understand is the expression of price stability from medium to long term, which is a change in the consumer price index (CPI) from 0% to 2% per year. In addition, economic activity and prices are analyzed based on two criteria of time to assess risk for price stability: short-term and long-term vision.

3. Conclusion

This report examines the differences between the FED and the BOJ. Although there are a number of different legal tasks and conditions, there is a common similarity between institutional arrangements and monetary frameworks as well as the use of tools. The Central banks of the world have also developed in an independent, transparent manner and have adopted monetary policy committees in their development. This has contributed to reducing the differences between the two institutions, which is also a trend that can be observed among other Central banks.

However, there are some real differences in how the monetary policy committees operate. For example, when making monetary policy decisions, the Board of Governors of the FED is formally acting with a simple majority vote. In fact, the Board of Governors and the FOMC act as collective committees. In contrast, the BOJ Policy Committee operates in a more personal way than the Fed. The BOJ has revised its framework by quantifying its price stability goals in the medium and long term and by setting a more accurate target for Policy Committee members. There are also some differences in the media strategy, though overall the financial market sentiment seems to be high for both the Fed (monetary policy trends and economic outlooks).

Changes to Central bank operations (especially more independent and transparent tendencies) and changes in the overall financial and economic environment during the past two decades have reduced significant difference between monetary authorities. Specifically, on the monetary policy strategy, the Fed has many indicators of price stability and employment, and the BOJ has many indicators and focuses on money and financial assets. On targets, the FED has many targets and the BOJ focuses on inflation.

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