

The Myth of the Myth of Independence: A Critique of Binder and Spindel's Appraisal of the Fed

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Updated: September 11, 2022

Abstract

The response to Desmond King's review of *The Myth of Independence* by one of the book's authors reveals one of two possible critical flaws in their thesis that the relationship between Congress and the Federal Reserve is best described as one of interdependence. Binder fails to adequately address the most important of King's critiques. This article expands on the points raised by King in a more comprehensive manner than a book review allows for, with a particular emphasis on contributing novel empirical analyses that cast further doubt on the arguments posited by Binder.

Keywords: Inequality, Federal Reserve, Monetary Politics, Financial Crisis

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Introduction

The politics of monetary policy is by no means the most popular subfield in political science. Despite having sweeping consequences on the lives of untold millions of people, monetary politics is scantily discussed in the premier journals of our field. But as the 2007-08 financial crisis showed, monetary policy is well worth investigating. Therefore, it is clear that the politics of monetary policy deserves far more investigation than our field has mustered up to this point. The research that *has* been done has not come to a consensus on the foundational question of whether or not there even *is* a politics of monetary policy in the first place. So it was curious to see that in 2018, the journal *Perspectives on Politics* published an interesting back-and-forth between two opposing sets of monetary politics scholars.

Sarah Binder and Mark Spindel are the authors of *The Myth of Independence*, which argues that the Federal Reserve has an “interdependent relationship” with Congress. Both institutions rely on each other for different things, so neither is wholly dependent on nor independent of the other. On the other hand, Desmond King and Lawrence Jacobs argue in their book, *Fed Power*, that the Federal Reserve is effectively independent of Congress and holds more institutional power than it has at any point in its history. They also argue that the Fed’s policies, under normal economic conditions, serve to worsen economic inequality by favoring financial capital over working-class Americans. The *Perspectives on Politics* article is unique in that it is structured as follows:

1. King reviews *The Myth of Independence*
2. Binder and Spindel respond to King’s review
3. Binder and Spindel reviews *Fed Power*
4. King and Lawrence respond to Binder and Spindel’s review

In their initial review, King and Lawrence summarize their main disagreements with *The Myth of Independence*, stating that the book views the Fed’s actions “as part of a dance with Congress that is largely silent about the winners and losers outside of Washington” (Binder et al. 2018, pg. 783). In contrast, King and Jacobs claim, *Fed Power* “puts the distributional consequences of the central bank’s policy front and center, along with the politics that produces them” (Binder et al. 2018, pg. 783). While conducting themselves professionally, it is clear that there are specific irreconcilable differences between the two sets of authors. Upon reading the

reviews and subsequent responses to the reviews, I believe that it is both necessary and helpful to expound on the key points made in *The Myth of Independence* and *Fed Power*. On the one hand, I agree with the above critique Binder and Spindel, and I will present evidence in subsequent sections that support the various points made by King and Jacobs. On the other hand, I consider a major point of failure that neither set of authors considers the history and politics of the Fed alongside the Treasury Department, given that both institutions worked closely together in reshaping the global economic order post-WWII (Gindin & Panitch 2013).

1 Central Bank Independence: Fact or Fiction?

1.1 Summary of King's Critiques

King criticizes Binder and Spindel's appraisal of the Fed, claiming, among other things, that they:

1. Overstate the Fed's "deference to Congress and underappreciates the Fed's will and capacity to evade legislative control" (Binder et al. 2018, pg. 783);
2. Underappreciate that the Fed "is independent of the congressional budget appropriations process" (Binder et al. 2018, pg. 783);
3. Omit any discussion of the phenomenon known as "financialization" (Binder et al. 2018, pg. 783) and;
4. Fail to recognize the clear institutional bias towards the wealthy, which can be seen in how "the Fed's selective benefits for finance and the conduct of monetary policy produce clear winners among the most affluent" (Binder et al. 2018, pg. 783).

1.2 The Fed & Congress

On its face, the question of whether the Fed depends on Congress would seem relatively straightforward. The Fed is independent of Congress, yes or no? In reality, as all four scholars point out, the quasi-governmental status of the Fed makes it challenging to study and uninteresting to most scholars (Binder & Spindel 2018). As their book's title makes clear, Binder and Spindel's main thesis concerns the independence (or lack thereof) of the Fed relative to Congress, wherein they conclude that the Fed is indeed dependent on Congress. King's first argues that Binder

and Spindel overstate the Fed's "deference to Congress and underappreciates the Fed's will and capacity to evade legislative control" (Binder et al. 2018, pg. 783). According to Binder and Spindel, the Fed always strives to be conscientious of its position relative Congress, whereby the Fed is an effective subsidiary of Congress.

This understanding of the Fed-Congress dynamic is flawed in multiple ways. For one, Binder and Spindel forget to mention that the Fed is unique among all other government institutions, in that it is "independent of the congressional budget appropriations process" (Binder et al. 2018, pg. 783), meaning that the Fed is financially self-sufficient. In addition, King claims that Binder and Spindel fail to recognize the clear institutional bias towards the wealthy, which can be seen in how "the Fed's selective benefits for finance and the conduct of monetary policy produce clear winners among the most affluent" (Binder et al. 2018, pg. 783). Taken as a whole, each of King's first three critiques address the perceived shortcomings concerning the Binder and Spindel's main thesis: The Fed is dependent on Congress concerning its power and policy instruments.

There are many reasons to agree with King rather than Binder and Spindel on this main point. As Waller (2018) argues, the "fundamental flaw of the book is that the authors never provide their definition of independence, so one has to guess what they believe an independent central bank looks like" (pg. 687). In addition, "the authors fail to separate the concepts of independence and accountability," which leads them "to make silly assertions, as the title of the book demonstrates" (Waller 2018, pg. 687). The difference between "accountability" and "dependence" is not merely an issue of semantics. Clarifying the meaning between the two terms is vitally important if we are to parse out the merits of Binder and Spindel's analysis. So, what do "accountability" and "dependence" mean to Binder and Spindel?

For the Fed to be accountable to Congress, the arrangement between the two institutions must give Congress the power to enact changes to Fed policy as it sees fit. One way of thinking about accountability in this context is to imagine a scenario where the Fed has done something that, for whatever reason, Congress doesn't like. And because Congress does not want the Fed to continue doing whatever it's doing that Congress dislikes, Congress passes a law that prohibits the Fed from doing that thing.

As King correctly notes, the Fed is more powerful now than at any earlier point in its history. Part of the Fed's power comes from its policy autonomy, where, for example, the Federal Open

Market Committee (FOMC) can make a decision on what to do to interest rates and announce its decision without ever interacting with someone in the entire government, let alone Congress in particular. Therefore, we must be precise in the language we use when discussing central bank independence (CBI). Is autonomy the same thing as independence? If the answer is yes, as Waller (2018) seems to think, then our work is done. If the answer is no, do we mean it in relative or absolute terms? In other words, is autonomy close to the same thing as independence, but not quite? Thus, we must clearly define the terms we use when investigating the relationship between the Fed and Congress.

Binder and Spindel believe that, for one, the mere fact that the Fed was created via legislation is sufficient proof of the Fed's dependence on Congress. They also include the handful of enacted Fed reforms passed by Congress as further evidence on this point. There's only one problem, though: Simply observing that there have been hardly more than a handful of instances since 1913 that Congress has "stepped in" to recalibrate the Fed is insufficient to confidently assert that the Fed is *dependent* on Congress. Rather, concurring with one of King's critiques, Binder and Spindel completely ignore the obvious fact that the Fed lobbies Congress for all sorts of things, not dissimilar to the behavior of private firms and special interest groups. By neglecting the capacity for active lobbying by the Fed and its allies, Binder and Spindel are unable to understand why a law like the Dodd-Frank Act of 2010 would, on the one hand, introduce some restraints on Fed action in some areas while, on the other hand, increase the Fed's power and autonomy in other areas. They treat every legislative action that concerns the Fed as external to and uninfluenced by the Fed itself, which serves to reinforce Binder and Spindel's idea that the Fed is a mere subject of Congress and not an institution that frequently interacts and coordinates with Congress and the Treasury to achieve its particular objectives.

No amount of pontificating about the very real pieces of legislation that have changed the parameters of the Fed's institutional capacity as a central bank is sufficient to demonstrate that the Fed truly, in any meaningful way, is *dependent* on Congress. Instead, they seem to find it sufficiently compelling to draw the reader's attention to the mere fact that Congress has passed laws that, on their face, succeed in holding the Fed *accountable*. But how, with a straight face, can someone say that the Fed has been effectively reigned in by legislation and successfully held accountable by Congress? As stated earlier, the Fed is the unequivocal most powerful central bank in the world, despite its history of drawing the ire of American voters,

their elected representatives, and untold millions of others around the world that have felt, and will nevertheless continue feel, the effects of Fed policy.

King cites Donald Kettl's *Leadership at the Fed* as a complement to Binder and Spindel's book, wherein both works discuss the historical dysfunctionality of Congress as an institution. That said, King asks: How are we to believe that such a dysfunctional institution as Congress can regulate the Fed in any *meaningful* sense? Further, how can it be said that the Fed has been effectively held accountable when it is more powerful now than at any point in its history?

The main thing to take away is that Congress is barely capable of handling mundane legislative business, so it's a bit of a stretch to give it the benefit of the doubt concerning its capacity to control the Fed effectively. Could it be any other way? The Fed is more technically advanced in its operations and communications than Congress. Just look at the difference in budgets between the two institutions, and it will become clear which one holds the advantage when intellectually combating the other. That said, concurring with Waller (2018), Binder and Spindel are wrong to view the fact that Congress created the Fed in 1913 as evidence that the Fed is dependent on Congress.

Binder appears to equate legislation requiring increased transparency at the Fed as verifiable proof that Congress is fully capable of holding the Fed accountable for its actions, especially its failures. To pull from an earlier quote by King, the Fed "enjoys more power and autonomy than at any time in its 100-year history" (Binder et al. 2018). So the question we should be asking ourselves is: How can it be said that the Fed has been held accountable by Congress throughout its 100-year existence despite it currently wielding more power than ever? How does an institution accrue such power while being under the control of Congress?

1.3 Inequality & the Fed

In my view, the most egregious example of Binder and Spindel missing the point is how they respond to King's claim that the Fed's post-2008 policies made income and wealth inequality worse. To highlight the degree to which they miss King's point, here are their respective stated positions:

King: Undeniably, the Fed's interventions after the 2008 Great Recession to prevent a collapse of the financial system in the United States and globally spared many from job loss and misery... it is important to avoid a false equivalency between the gains for finance and those for the general public. The Fed's policies delivered lopsided and often concealed

benefits for finance, the top 1%, and the institutional interests of the Federal Reserve Bank that enjoys more power and autonomy than at any time in its 100-year history (Binder et al. 2018, pg. 780).

Binder & Spindel: Congress authorizes the Fed to make emergency loans to banks—not to steer aid directly to homeowners. In a crisis, monetary policy can affect the real economy by pumping credit through the clogged plumbing of the financial system. And evidence from progressive economists suggests that the Fed’s unconventional bond purchases reduced mortgage rates, making working- and middle-class Americans better-off [Binder et al. (2018), pg. 781]¹.

Insofar as the above quotes accurately and fairly represent the authors’ respective views concerning the Fed’s role in contributing to the 2008 financial crisis and the subsequent worsening of economic inequality, Binder’s response is quite lacking, to say the least. To begin, Binder and Spindel’s pointing to the fact that Fed’s (Treasury and probably also corporate) bond purchases supposedly “reduced mortgage rates, making working- and middle-class Americans better-off” is tantamount to lauding an engineer for filling a single crack on a fully broken dam.

It should also be clear that pointing to middle-class gains from Fed-induced reductions in mortgage rates does not counter the original argument at all. Increased inequality is not mutually exclusive with mortgage rate reductions. Both phenomena can simultaneously be true, for one need not necessarily benefit at the expense of the other. Binder and Spindel tried to shift the debate onto different terrain by trying to instead argue about whether or not the Fed’s policies benefit the middle- and working-class *at all*. In other words, Binder and Spindel seem to imply that you are not allowed to criticize the Fed if someone can point out how a particular Fed policy helped the working class.

Another significant problem with Binder and Spindel’s point about mortgage rates is the fact that homeownership rates dropped to historic lows from 2010 to 2016 and have only recently gotten back to pre-2008 levels (See Figure 4). And to the extent that the Fed’s bond buying *did* reduce mortgage rates, the supposed benefit to the middle and working classes pales in comparison to the gains made by the rich due to the same bond-buying policy. The top 10-percent of income earners in the US own roughly 86-percent of all corporate stocks, with the top 1-percent alone owning 32-percent (Frank 2021). Therefore, any increase in stock prices, which was the explicit and self-stated goal of quantitative easing (QE), will overwhelmingly redound to those who are already wealthy and own extensive holdings of assets.

¹I’ve done my best to fairly and accurately represent each author’s views while being concise. If anyone has issues with how I’ve represented the above exchange, I welcome any criticisms, given the subjective nature of how I chose to shorten the respective quotes.

It is difficult to believe that Binder and Spindel think that mortgage rate reductions reduced economic inequality post-2010. The most generous interpretation of their argument is simply that the Fed's post-2008 policies did not directly lead to widening inequality and may have actually helped reduce inequality via falling mortgage rates. Instead, the widening inequality post-2008 resulted from other factors and entities, not the Fed. This generous interpretation is factually wrong.

For one, there is overwhelming evidence demonstrating how QE and other actions taken by the Fed contributed, in very meaningful ways, to worsening economic inequality post-2008. In fact, it is arguably impossible to view the Fed as anything but a significant contributor to worsening income and wealth inequality in the US. Petrou (2021) presents overwhelming evidence demonstrating the causal relationship between post-2008 Fed policy and worsening inequality, making it incredibly difficult to entertain the arguments of Binder and Spindel.

Thomas Hoenig, former president of the Kansas City Fed and former member of the Federal Reserve Board of Governors, stated during and after the financial crisis that the Fed's policies, despite being necessary, always benefitted those who already owned financial assets. In other words, while working-class people indirectly may have benefitted from the Fed's efforts to stabilize the national economy, the means employed in said task disproportionately benefitted the wealthy in the short- and long-term (Leonard 2022). Further, Hoenig eventually left his position at the Kansas City Fed and joined the FDIC as Vice-Chairman. There, he sought to correct what he considered his past sins from when he was a voting member on the FOMC.

To be sure, King could have done a better job of demonstrating his claims concerning the Fed and the 2008 financial crisis by providing citations and at least a few more lines of discussion. But it is unclear if such improvements on King's part would have elicited a different response from Binder, given that the crux of their disagreement has nothing to do with the factual validity of each others' claims. Instead, they are discussing two completely different aspects of the financial crisis that can simultaneously be true. To reiterate, my issue with Binder and Spindel's response has nothing to do with the factualness of their claim, rather that they 1) underplay the severity of the crisis and 2) make it seem that the Fed's bond-buying actually *reduced* inequality rather than increased it.

Figure 3 shows that, contrary to what Binder and Spindel seem to imply, inequality in the US worsened post-2008. And to bolster King and Jacobs's argument that the Fed should have

emulated the Bank of Canada, Figure 3 also shows that the income share of their Top 1% decreased sharply from 2008 to 2013. In contrast, the income share going to the Top 1% in the US sharply *increased* post-2008. But where does the Fed come in? According to Leonard—and in stark contrast to the claims of Binder and Spindel—the Fed’s policy of “quantitative easing” (QE) did more than any other single policy “to widen the divide between the rich and the poor” (Leonard 2022, pg. 10).

It is also worth pointing out that the Fed’s chosen vehicles for intervening in the economy (capital markets, bond markets, etc.) are not neutral in their distributional consequences. In other words, income inequality is partly fueled by the Fed’s usage of various markets as the means to allocate the growing number of different financial assets it owns and wants to inject into the broader economy. This is why it is said that any effect on the national economy caused by the Fed is indirect since it has to first interact with the banking industry with the reasonable expectation that the banks’ behavior will change in some vague proportion to the benefit it received from the Fed.

Having recognized the distributional bias of Fed policy implementation, the next question we should ask ourselves is: Who benefits from the Fed operating this way? The answer: the very wealthy, those who already own assets. The Fed, in its role as a quasi-governmental institution, “operates in areas in which the wealthy possess unique, cumulative advantages” (Jacobs & King 2018, pg. 730).

1.4 The Age of Financialization

Binder and Spindel fail to demonstrate an understanding of the phenomenon known as financialization. The current section thus focuses on establishing their specific shortcomings concerning financialization, with an emphasis on the extent to which financialization has affected the overall trajectory of both the US and global economy, respectively.

But what is financialization? Epstein (2005) defines it as “the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies” (pg. 3). Why is financialization worth investigating? Moreover, why is it a mark against Binder and Spindel for not having discussed financialization in their book? To answer the first question, Davis & Kim (2015) argues and presents evidence suggesting that financialization, particularly how finance is intermediated, “shapes institutions

in fundamental ways” (pg. 204). For example, we can observe financialization in how nonfinancial corporations have rapidly increased their financial activities since the 1970s, marking “a fundamental discontinuity between the postwar economy... and the current economy,” which is focused mainly on financial indicators (Davis & Kim 2015, pg. 205).

Arguably the most sinister consequence of heightened levels of financialization is how it increases systemic risk in the broader economy. For example, increased household consumption in the US was almost entirely fueled by easy access to consumer credit and home equity, both of which were made available due to financialization, i.e., the popularizing of various debt securities in financial markets. Securitization (the creation and proliferation of financial securities) entails “taking assets with cash flows, such as mortgages held by banks, and turning them into tradable securities (bonds)” (Davis & Kim 2015, pg. 207). One of the most important consequences of securitization is how it “shifts debt from a concrete relationship with an entity (a bank) to an abstract connection to financial markets” (Davis & Kim 2015, pg. 207).

Marxist theorists argue that financialization is “the rentier class’s alternative regime of capital accumulation in the face of stagnationist tendencies of mature industrial capitalism” (Davis & Kim 2015, pg. 206).

2 A People’s History of the Fed

The scholarly treatment of the history of the Fed is one of the most curious phenomena in the social sciences. As Binder and Spindel did in *The Myth of Independence*, and as countless others have done and will continue to do, the Fed’s history is well documented. That said, the *political* history of the Fed is one of the obstacles that prevent most scholars from engaging with the Fed in recognition of what it is, that being the single most powerful and influential central bank in the world. The Fed garners the attention of the finance ministers of every country and every bank and financial asset manager. The following sections cover a series of pivotal moments in the Fed’s history that shaped its role in the US and global economy, respectively.

2.1 The Volcker Shock

To solve the ill of stagflation circa 1979, then-Fed chairman Paul Volcker raised the Federal Funds Rate to hitherto unheard heights: upwards of 20-percent. For the rest of time, this

moment would be referred to as the Volcker Shock because it hit the world economy like a bolt of lightning, and the shock of it did not let up until approximately 1981.

2.2 The Fed & the Great Financial Crisis of 2007-08

There is ample evidence to suggest that the Fed played a critical role in facilitating the housing bubble, ultimately leading to the Great Financial Crisis of 2007-08 (GFC). The GFC was the worst economic downturn in the US since the Great Depression, and the Fed helped make it happen.

2.3 Fed Action During the Eurocrisis

The Fed took on international responsibilities by directly loaning billions of dollars to struggling banks in the European Union during the Eurocrisis, which was directly caused by the US financial crisis. Tooze (2018) contains jaw-dropping illustrations of the various actions taken by the Fed to help prop up struggling and indebted central banks in Europe. The most important step taken by Fed was the currency swap-lines it created to provide dollars to European banks whose debts were primarily denominated in USD. Had the Fed not injected billions of USD into European banks, it is unclear if the EU would still exist today. Successfully intervening in the Eurocrisis further reinforced the fact that the Fed is the most powerful central bank in the world. Indeed, it is the central bank and lender of last resort for the entire world economy.

2.4 COVID-19 Fed Action

The downturn caused by the onset of the COVID-19 pandemic was and still is of ahistorical proportions. On paper, it is verifiably worse than the Great Depression, yet its felt reality does not seem to square with its factual components.

2.5 From 2020 Until Today

The Fed played an undue role in setting up the US national economy for disaster heading into 2020, with COVID-19 causing unprecedented economic and social disruption. Although no firm could have been reasonably expected to have anticipated and thus prepared for the shocks caused by a global economic downturn caused by a pandemic, the Fed's zero-percent interest

rate policy strongly encouraged companies to invest in riskier and riskier assets. Further, the virtually free money provided by ZIRP led companies to take on previously unheard-of levels of debt, which exploded in direct response to the Fed's policies.

3 What Makes the Fed Special?

Why does the Fed behave so much differently than the Bank of Canada, despite their respective home countries bearing so many meaningful similarities in national politics, culture, and history? In short, what makes the Fed so unique? I argue that the answer is to be found in the Fed's unique role as the central bank for the world economy. Such a role implies innumerable responsibilities concerning the overseeing and maintenance of the global economy, which may help explain why the Fed is so distinctly pro-finance compared to the Bank of Canada, or any other central bank for that matter.

I can't entirely agree with King and Jacobs on the role of "social learning" in explaining the divergences between the Fed and the Bank of Canada (**king2018b?**, pg. 169). Such an explanation leans too much on the idea that the Fed seeks power for power's sake rather than pursuing more influence as part of a grand imperial project largely in concert with the Treasury (Gindin & Panitch 2013). While it may be correct to say that the Canadian government has formally imbued its central bank with the primary goal of maintaining economic stability, such an observation does not help us understand why this political route was available in the first place, especially when re-examining the historical contexts that allowed the Fed to accrue more power and autonomy in the US and globally.

The general defect in King and Jacobs's various discussions of Canada and the Bank of Canada is that they do not include any meaningful insight into the histories of either entity. In other words, the authors paint recent Canadian political and economic developments in a positive light without providing any historical context for how such developments came to be in the first place. Such a discussion is vital if we are to understand the disparities between the Fed and the Bank of Canada, for example.

In order to truly understand the relationship between Congress and the Fed, one must view the Fed as an institutional framework that is more than just a collection of regional banks and a few policy-making boards. Instead, it is more useful to consider the thousands of pro-Fed

researchers, lobbyists, and business organization members as “part of” the Fed. While many people do not literally get their paychecks from the Fed, there is a figurative army that stands at the Fed’s beck and call, waiting to be deployed in service of finance. This army is not limited to the US. Instead, those who stand at the ready to defend the Fed can be found in every corner of the earth, as finance has no national loyalties.

Even further is the need to consider the mutualistic and well-coordinated relationship between the Fed and the Treasury Department. It is wrong to think that requiring specific Fed actions to be approved by the Treasury Secretary is a win for restraining the Fed.

4 Unholy Trinity: The Fed, IMF, and World Bank

Both *The Myth of Independence* and *Fed Power* are entirely silent on the economic history of the Fed collaborating with the International Monetary Fund (IMF) and the World Bank. This is a major failing on the part of all four authors, given that the tripartite collaborations are well documented and consequences widely felt. In addition, neither book mentions the Council on Foreign Relations (CFR), which played an invaluable role in the creation of the “Washington Consensus” (Shoup 2018; Stiglitz & Schoenfelder 2003; Williamson 2004).

5 Empirical Analyses

5.1 The Fed vs. Other Central Banks

5.1.1 Theory & Hypotheses

I expect that the data will show that the Fed has been more influential on global economic conditions than any other country’s central banking authority. To that end, it should go without saying that such a finding would have dire implications for the state of American and global democracy.

5.1.2 Data & Methods

Same as the above analysis, I employ data from the OECD, World Inequality Database, and Penn World Tables to empirically test my hypotheses.

5.1.3 Results

These are the results.

5.2 Central Banking Independence & Inequality

To see which book's thesis holds up better under scrutiny, I have created an empirical model designed to capture the significant contributors to income inequality. The first question of interest concerns the role of financial capital assets in worsening income inequality.

There is a large body of literature that examines the various social and political phenomena caused by inequality. Still, less work has been done to explain what causes inequality in the first place. There has also been a significant amount of research on the role of the Fed in causing the financial crisis. I will dispense with an overview of the literature concerning both topics.

5.2.1 Theory & Hypotheses

My primary variable of interest is the “average real internal rate of return on capital” (IRR) taken from the latest version of the Penn World Tables, which is designed to be “a proxy for the (expected) real returns to capital” (Inklaar, Woltjer, & Albarrán 2019). According to one of the dataset's companion documents, The IRR of a national economy is equal to the sum of GDP minus labor income (LABOR) minus natural resource rents (NR) divided by total capital stock (CAP) (Inklaar, Woltjer, & Albarrán 2019, pg. 45):

$$IRR = \frac{GDP - LABOR - NR}{CAP}$$

The idea behind using IRR as my primary variable is relatively simple. Because research has well documented that capital and wealth ownership are major contributors to income inequality, the average rate of return on said capital should directly affect inequality levels. In other words, because income from capital is necessarily variable in nature, the rate of return on it should directly relate to observed changes in inequality.

- **H1:** As the ratio of private wealth to net national income *increases* as a share of GDP, income inequality will *increase*.
- **H2:** As union density *increases*, income inequality will *decrease*.
- **H3:** As the real rate of return on capital *increases*, inequality will *increase*.

5.2.2 Methods

Following the recommendations of Nathaniel Beck and Jonathan Katz, I have employed a time-series panel study of 24 OECD countries that applies panel-corrected standard errors (PCSE) in the final analysis. Each model's economic variables are measured as a percentage of its respective country's GDP.

5.2.3 Results

?? shows, across multiple model specifications, that a one unit increase in financial assets (as a share of GDP) is associated with, on average and all things being equal, between a 0.204 and 1.346 unit increase in income inequality, depending on how inequality is measured. The main takeaway from this table is that several things appear to affect income inequality, regardless of how it is estimated.

5.3 The Washington Consensus

5.3.1 Theory & Hypotheses

I expect that the data will show that the Washington Consensus led to the following two phenomena:

1. Economic growth in the US, and to a lesser extent in Western European countries.
2. Intense socioeconomic harm on many developing countries that were subjected to its programs.

5.3.2 Data & Methods

Same as the above analysis, I employ data from the OECD, World Inequality Database, and Penn World Tables to empirically test my hypotheses.

5.3.3 Results

These are the results.

Conclusion

Binder and Spindel fail to effectively refute any of King and Jacobs's criticisms of their book, *The Myth of Independence*. Instead, they reinforce the validity of King and Jacobs's criticisms by intentionally refusing or failing to provide any comprehensive counter-arguments, only ones that touch on one particular *aspect* of each complaint. Thus, it is difficult, if not impossible, to find Binder and Spindel's thesis credible when they have shown that they are either unwilling or incapable of defending their claims. That said, I have shown that *Fed Power* also has important shortcomings, mainly in its inattention to the main driving force behind why the world of finance and banking transformed so rapidly starting in the 1970s.

I have argued that the real internal rate of return on capital investments (IRR) is the best explanation for a myriad of changes in the global economy, including but not limited to banking and finance. Many scholarly and private research works correctly identify that things have significantly changed over time concerning the global economy. Still, scant few researchers explain as to what fueled said change.

Profit-seeking behavior is one of the defining characteristics of the capitalist mode of production, so it is sufficient to say excessive profit-seeking is to blame for why virtually all advanced economies have shifted away from physical production toward finance. Instead, movement in a country's IRR reflects either the bearish or bullish state of its economy, which affects the behavior of private firms and individual investors. In other words, as has already been explained, a falling IRR corresponds to increasing pressure on capital to realize profits, which ultimately manifests in increasingly aggressive and speculative investment strategies by firms and investors alike.

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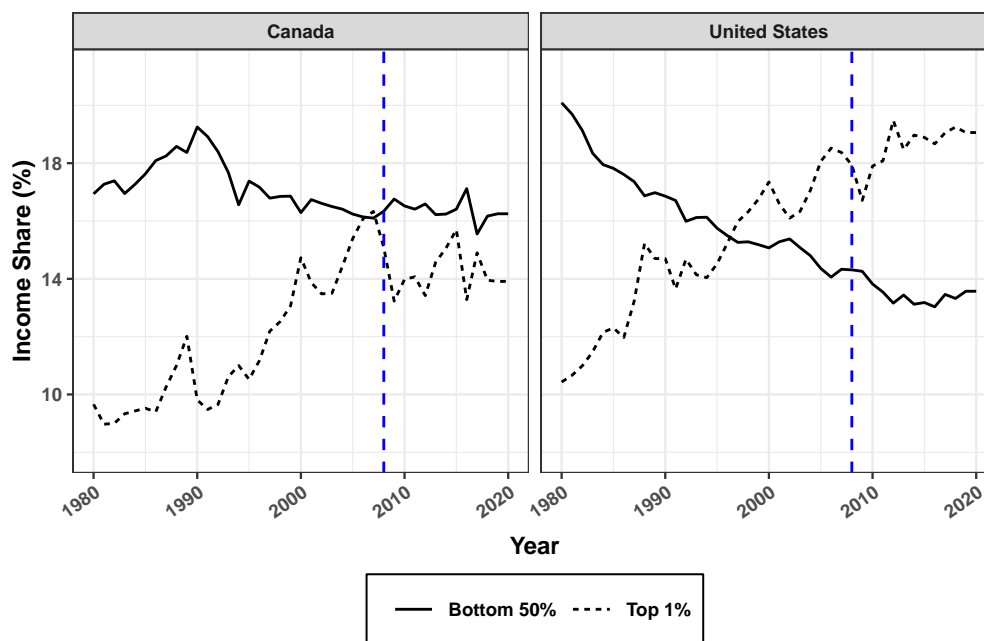
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Figures & Tables



Data source(s): World Inequality Database

Figure 1: Share of National Income (%)

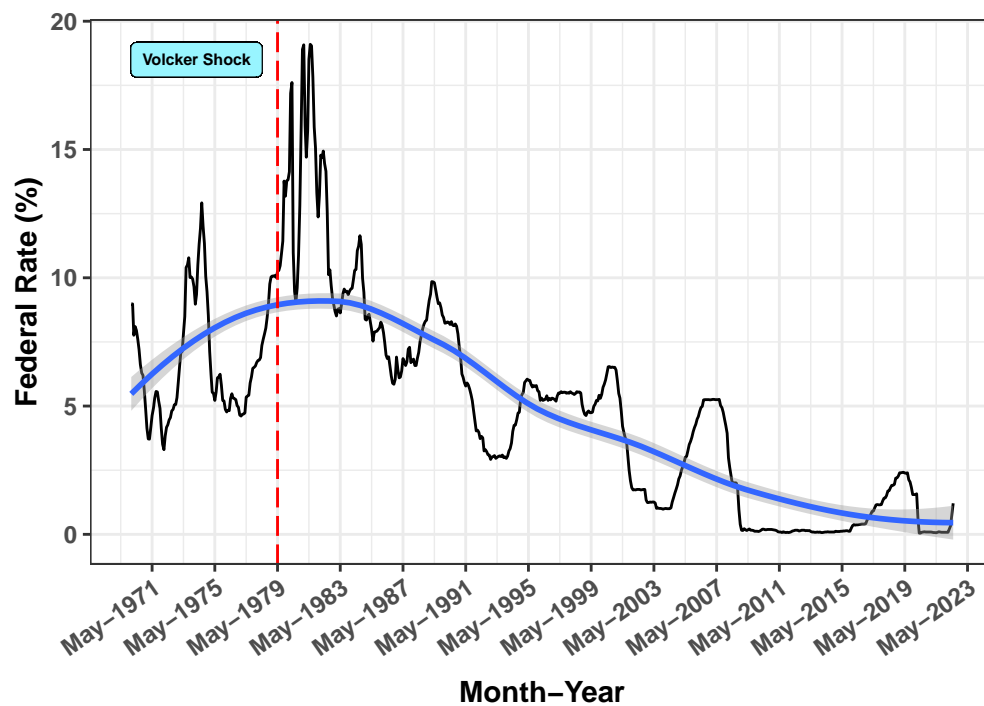
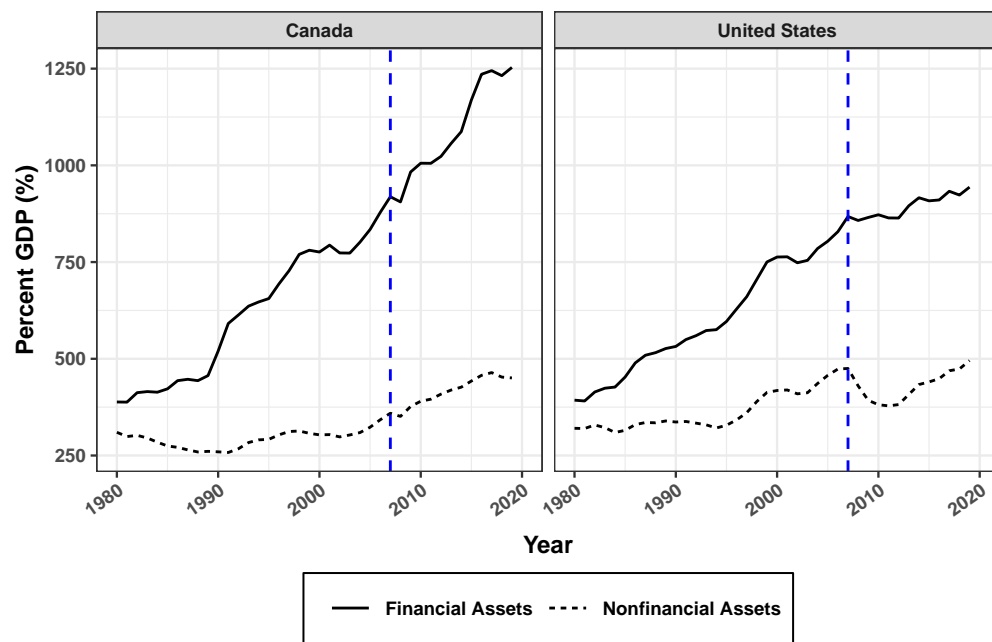


Figure 2: Effective Federal Funds Rate (%)



Data source(s): World Inequality Database & Penn World Table 10.0

Figure 3: Cross-National Comparison of Capital Investments (% of GDP)

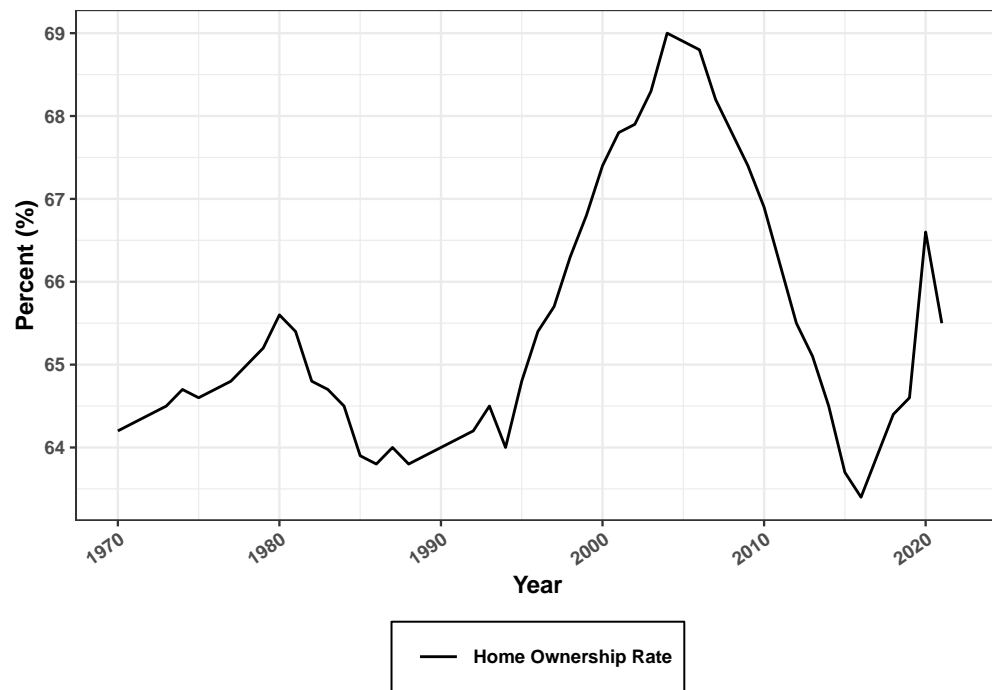
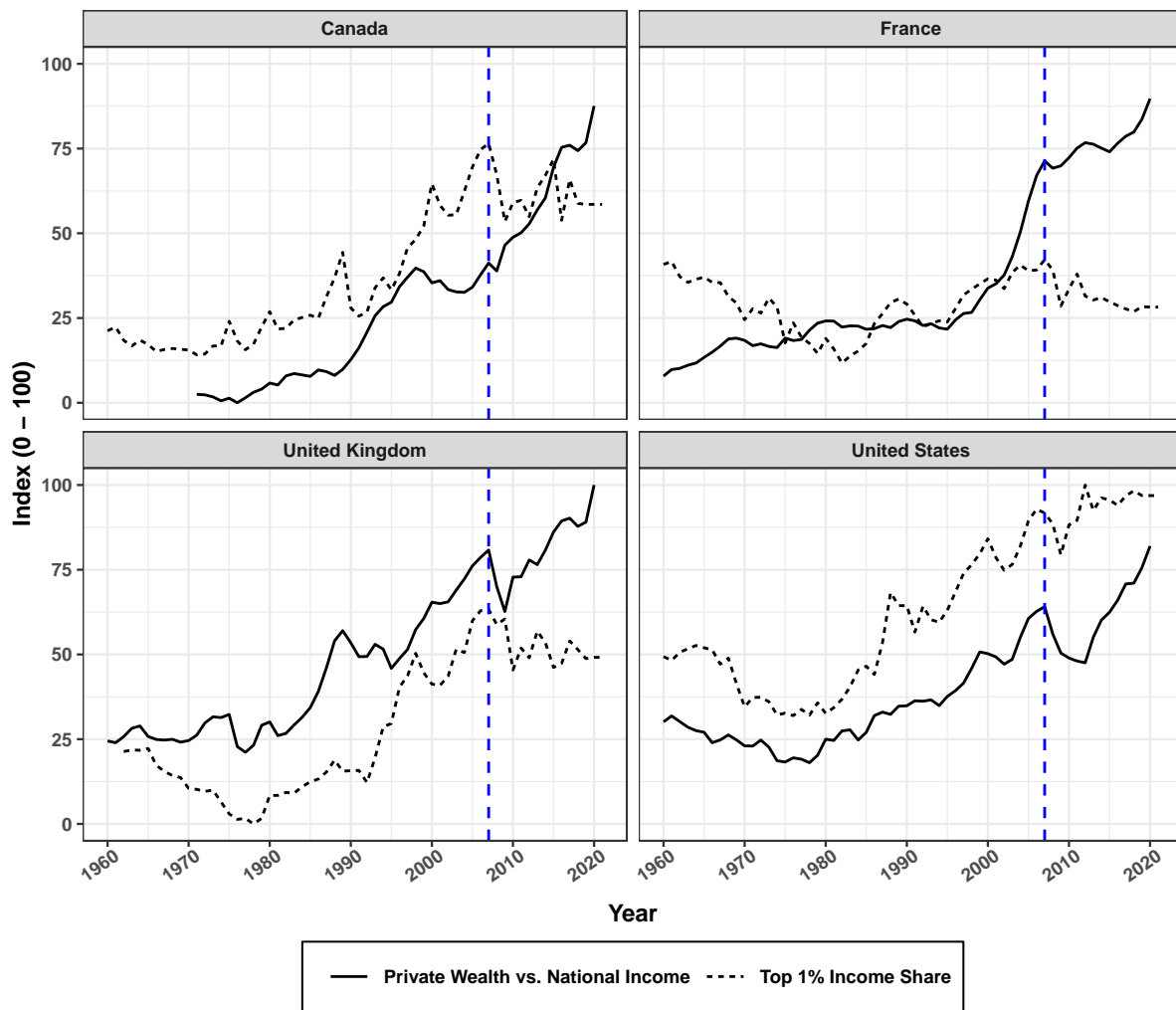


Figure 4: Home Ownership Rate (%)



Data source(s): World Inequality Database & Penn World Table 10.0

Figure 5: Comparing Wealth Ownership & Income Inequality

Table 1: 90-10 Income Ratio

Country	Annual Percent Change (%)				
	2009	2010	2011	2012	2013
Canada	2.84	-0.48	0.00	0.94	-1.44
Germany	-2.79	-1.13	1.12	9.17	1.08
France	1.11	5.36	0.00	0.56	-6.84
United Kingdom	5.13	-15.38	-0.55	4.23	6.65
United States	2.06	6.73	0.52	6.89	-6.84

Data Source(s): World Inequality Database

Table 2: Top 10% Share of National Income

Country	Annual Percent Change (%)				
	2009	2010	2011	2012	2013
Canada	-3.59	2.17	0.35	-1.18	2.43
Germany	1.32	-1.53	0.27	-1.27	3.81
France	-4.66	1.62	1.92	-2.61	-0.43
United Kingdom	4.18	-11.14	2.53	2.55	5.66
United States	-2.59	3.24	0.88	2.87	-1.47

Data Source(s): World Inequality Database

Table 3: Top 1% Share of National Income

Country	Annual Percent Change (%)				
	2009	2010	2011	2012	2013
Canada	-13.98	5.36	0.64	-4.84	7.89
Germany	-3.70	-0.86	-0.55	-1.67	3.97
France	-14.47	6.44	5.29	-8.46	-1.58
United Kingdom	1.55	-16.63	6.68	-3.09	7.74
United States	-7.36	6.65	1.00	7.19	-5.47

Data Source(s): World Inequality Database

Table 4: Bottom 50% Share of National Income

Country	Annual Percent Change (%)				
	2009	2010	2011	2012	2013
Canada	2.51	-1.45	-0.67	1.08	-2.28
Germany	0.10	1.04	-1.15	-0.63	-3.89
France	2.59	-1.68	-0.96	1.58	0.76
United Kingdom	-5.65	10.93	-1.59	-3.60	-2.83
United States	-0.35	-3.18	-2.07	-2.89	2.08

Data Source(s): World Inequality Database