

The Main Characteristics of Central Bank Regulation in the Light of Universal Developments

Zsolt Pfeffer*

Abstract

Central banks play a prominent role in the lives of various nations and their economies. They were created in different political, legal and economic environments in each country, their development and legal regulations were closely intertwined with state arrangements and government structures. A fundamental question arises as to what basic common characteristics can be determined in the development history of central banks. Legal sources for central banks, issues of state transformation, financial sovereignty, the financial relationship with the state or central bank independence can be mentioned as common regulatory elements and foundations that can be used to describe the special status, legal basis and role of these banks. The study presents these main issues through historical examples.

Keywords: central bank, financial sovereignty, central bank independence, National Bank of Hungary, central bank privileges

1. Introductory Thoughts	161
2. Common Characteristics of Legal Regulations	164
3. Final, Summarizing Thoughts	174

1. Introductory Thoughts

The establishment of the National Bank of Hungary (MNB) in 1924 was an important milestone in Hungarian history, as well as financial and banking history. Although the idea of an independent Hungarian banknote-issuing national bank arose much earlier, its establishment in the 1840s “[...] encountered an insurmountable obstacle on the rock bastion of the royal will, and the nation’s desire for this remained unfulfilled”. This, notwithstanding the fact that “[...] the national, *i.e.* banknote-issuing banks were already the most abundant sources of credit for people around the world at that time.”¹ The importance of such a bank can be understood when taking a look at its definition: “A central bank is a bank set up to handle government trans-

* Zsolt Pfeffer: senior lecturer, University of Pécs, pfeffer.zsolt@ajk.pte.hu.

1 Miksa Faragó, *A Kossuth-bankók kora: a szabadságharc pénzügyei*, Nyugat, Budapest, 1912, pp. 5–6.

actions, coordinate and regulate commercial banks, and most importantly, regulate the country's money supply and credit.”²

Different countries followed different paths when establishing their central banks,³ according to their historical, state development, political and financial situation. In the literature, two central bank formation models are usually distinguished: the classical path and the Prussian path. The former is characterized by a central bank that is relatively independent, but later comes under state control, while in the case of the Prussian path, the close relationship with the state is emphasized. The creation of the English, French and Swiss central banks can be classified as following the classical model, while the development of the Russian and Austrian central banks followed the Prussian path – apart from the eponymous bank.⁴ Financial, political and economic crises are particularly important in central bank establishment processes. On the one hand, “Financial crises can also encourage the establishment of central banks. For example, Sveriges Riksbank and the Bank of Japan were once expected to cope with chaotic domestic financial markets.”⁵ The founding of the Austrian National Bank in 1816 can also be mentioned in this context, since this bank “was born in the context of state bankruptcy”,⁶ while according to György Kövér, it was “typically destined for the role of a state banker”.⁷ On the other hand, in many cases, the financing needs of public finances called into being the institutions exercising central banking functions in the given country. In this respect, the Bank of England, founded in 1694, or the Banque de France, founded in 1800, can be mentioned. Budget demands aimed at ensuring the financial coverage of various war efforts were of decisive importance. “The Bank of England was thus created as a way to serve the military interests of

2 Paul Samuelson, *Közgazdaságtan*, Közgazdasági és Jogi Könyvkiadó, Budapest, 1976, p. 396.

3 See also for the (central) bank history: Sándor Matlekovits, *Nemzetgazdaságtan. A jogtanulók igényeihez igazítva*, Eggenberger, Budapest, 1874, pp. 523–536.

4 Sándor Ligeti, ‘A központi bankok önállósága a tőkésországokban’, *Közgazdasági Szemle*, Vol. 28, Issue 4, 1981, p. 454.

5 Han Miaio, *Central Bank Regulation and the Financial Crisis. A Comparative Analysis*, Palgrave Macmillan, London, 2016, p. 16.

6 Ágnes Kovácsné Sipos, *A jegybanki függetlenség fejlődéstörténetének vizsgálata a XVIII. századtól napjainkig*, Budapesti Gazdasági Főiskola, Budapest, 2014, p. 66.

7 Id.

the British Empire.”⁸ The direct precursor to this was the decisive defeat suffered by the English naval fleet from King Louis XIV of France in 1690, necessitating the acquisition of funds from the state for its reconstruction.⁹ In exchange for the loans, Parliament granted the right to issue new notes and to manage government deposits, later restricting the establishment of larger banks, thereby narrowing the opportunities for competition among banks and investors.¹⁰ So, in exchange for loans and financial support, they received state-enforced competitive advantages and restrictions on competitors in services,¹¹ all the while the bank owed allegiance to the state.¹² This ‘loyalty’ was important because banking patents and privileges were granted for a specific period,¹³ thus requiring renewal from time to time until the amendments introduced by the 1844 regulation appeared.¹⁴ So initially, the ‘bank of the state’ function was dominant, in contrast with the role of the ‘bankers’ bank’.¹⁵ In this early stage, selected banks, which were competitors of commercial banks, increasingly performed commercial and modern central banking tasks. In the 18th and 19th centuries, within a state’s territory, not just one bank held the right to issue banknotes; for example, in the US, with due consideration to the absence of a federal, unified central banking structure, by the 1880s, more than two thousand banks issued banknotes, but by the turn of the century, this number had increased to fifty-six thousand.¹⁶ “The right to issue banknotes is important,

-
- 8 Scott N. Duryea & William Pitt, ‘The Bank of England, And the 1797 Suspension of Specie Payments: Central Bank War Finance During The Napoleonic Wars’, *Libertarian Papers*, Vol. 2, Art. No. 15, 2010, p. 2.
 - 9 Michael Littlewood, ‘John Tiley and the Thunder of History’ in Peter Harris & Dominic de Cogan (eds.), *Studies in the History of Tax Law*, Vol. 9, 2019, pp. 67–68.
 - 10 Duryea & Pitt 2010, pp. 2–4. See also regarding American development “The greatest source of the Bank’s power was its role as the depository of government funds. All federal revenues including those from tariff receipts and federal land sales went into the Second Bank’s vaults. This gave it an immense advantage over all other banks in the nation.” Sharon Ann Murphy, *Other People’s Money: How Banking Worked in the Early American Republic*, Johns Hopkins University Press, 2017, p. 5.
 - 11 J. Lawrence Broz & Richard S. Grossman, ‘Paying for privilege: the political economy of Bank of England charters, 1694–1844’, *Explorations in Economic History*, Vol. 41, Issue 1, 2004, pp. 50 and 58.
 - 12 Duryea & Pitt 2010, pp. 2–4.
 - 13 Id.
 - 14 Broz & Grossman 2004, pp. 50 and 58.
 - 15 Alexander Thiele, ‘The Independence of the ECB’ in Thomas Beukers *et al.*, *The New European Central Bank: Taking Stock and Looking Ahead*, Oxford University Press, Oxford, 2022, pp. 238–239.
 - 16 Kovácsné Sipos 2014, p. 237, in footnote 601.

but alone is not sufficient for the central, special position of a national bank.¹⁷ By the turn of the 20th century, a significant milestone in central banking development took place for most European central banks, wherein they enjoyed unrestricted monopolies in banknote issuance within their respective countries. Initially, central banking and commercial banking functions were not distinct; in exchange for royal privileges, selected banks assumed the role of financing the state budget.¹⁸ As the responsibilities of central banks expanded in the 19th and 20th centuries, these banks gradually transitioned from being the ‘bank of the state’ to becoming the ‘bankers bank’. This process was accelerated when they acquired the monopoly on banknote issuance. Central banks primarily became responsible for money supply and fulfilling the role of the lender of last resort, with an emphasis on maintaining price stability.¹⁹ This meant that central banks, as non-profit-seeking institutions, refrained from competing with other commercial banks in their own business activities.²⁰ Consequently, the question of central bank independence became crucial, as these tasks could be more efficiently carried out by eliminating dependencies on the government,²¹ unlike the previous role when the government relied on privately-owned banks endowed with exclusive rights and competitive advantages.

The National Bank of Hungary (MNB) was established in 1924 and celebrates its 100th anniversary in 2024. This milestone offers an opportunity to review the fundamental legal, financial, and political questions regarding the establishment of central banks, to examine whether there are common universal legal solutions and characteristics that define the establishment and operation of central banks.

2. Common Characteristics of Legal Regulations

The first common characteristic is the emergency situation leading to the establishment of the central bank. In the case of the emergence of central banks in England and France, the primary reason to establish and operate

17 Id. pp. 152–153.

18 Id. p. 262.

19 Thiele 2022, pp. 238–239.

20 Dieter Ziegler, *Zentralbankpolitische “Steinzeit”? Preußische Bank und Bank of England im Vergleich Geschichte und Gesellschaft*, Vergleichende Unternehmensgeschichte, Vol. 19, Issue 4, 1993, p. 477.

21 Thiele 2022, pp. 238–239.

wartime financing mechanisms. A notable feature in the case of the Bank of England is that in 1694, the securities of creditors providing loans to the crown were linked to state revenues, effectively tying up royal resources as collateral. This arrangement was facilitated by a tax law, the Tonnage Act, providing the necessary legal framework.²²

The second fundamental issue is that of legal sources. The primary legal source is legislation, which can recognize the right to issue banknotes and regulate the legal tender. The establishment of the Bank of England is interesting because, in a unique manner, its recognition occurred through a tax law (the Tonnage Act) due to its aforementioned collateral nature, making the duration of taxation important. These taxes were imposed for a period of four years, requiring the monarch (King William III) to convene Parliament for their renewal, as otherwise, he would have been left without funds. Thus, periodically, the monarch had to turn to legislature, a solution that mitigated the risk of an autocratic exercise of power. One cornerstone of modern constitutional thinking remained that the executive power was tied to the legislature in ensuring adequate financial resources.²³ The 1742 law was the first renewing act ('rechartering act') that was not associated with a tax law.²⁴ However, the starting point was a charter received by the Bank on 27 July 1694. This was subsequently confirmed by a separate law; its temporal validity was for a definite period, from 1 August 1694, to 1 August 1705,²⁵ and, as will be discussed below, it had to be periodically renewed before expiration. In addition to laws as legal sources, royal privileges and decrees were also prominent, as seen in German history in the 18th century. For instance, on 23 September 1753, Frederick the Great issued a significant charter (*Octroy für die in Berlin errichtende Giro- und Wechsel-Banque*) containing substantial privileges for a newly established bank. While initially prosperous, due to problems and merchant distrust, a royal decree on 17 December 1764, ordered the dissolution of the shareholders'

22 Anson Willis, *Our Rulers and Our Rights: or, Outlines of the United States Government; its Origin, Branches, Departments, Institutions, Officers, and Modes of Operation*, 1863, p. 224.

23 Littlewood 2019, pp. 69–70.

24 Richard S. Grossman, *Unsettled Account. The Evolution of Banking in the Industrialized World Since 1800*, Princeton University Press, Princeton, 2020, p. 172.

25 James John Wilkinson, *Relating to the Public Funds; & the Equitable & Leg Remedies with Respect to Funded Property; including the Practice by Distringas, & under the Statutes 1 & 2 Vict. c. 110*, Saunders & Benning, London, 1839, p. 33.

committee.²⁶ Consequently, the next milestone was the establishment of the Royal Bank on 17 June 1765²⁷ (*Königliche Giro- und Lehnbank*), which operated as a state institution with a complete, independent administration, while benefiting from royal guarantees and privileges.²⁸

Just as the enactment of a law can be significant, so too can its absence be noticeable and grievous for a nation. In the first half of the 19th century, both in Austria and Hungary, the banknotes of the Austrian National Bank were in circulation, although their legality was not recognized by the Hungarian Parliament, and their ‘patent was not sanctioned’. However, due to lack of sufficient strength, Hungary had to acquiesce to this situation, and this stance was ‘repaid’ by Austria by not providing adequate branch networks or redemption options in Hungary.²⁹ Financial sovereignty and prerogatives fundamentally mean that a state can freely decide, among other things, on the unit of account, the issuance of banknotes and coins,³⁰ declaring them legal tender, set penalties for counterfeiting, prohibit the use of foreign currencies within the territory, and regulate the banking system, value, and money supply.³¹ (This is just one possible approach; in the literature, the elements of financial sovereignty are defined in various ways.)³² In the absence of, or in case of a limitation of financial sovereignty, legislative powers are not fully comprehensive, and financial measures can cause serious grievances, such as the unilateral decision made by the Austrian ruler in 1811 to devalue the circulating banknotes, resulting in a reduction of their value by one-fifth. The legality of these actions was

26 *Jahrbuch für die amtliche Statistik des preussischen Staates*, Vol. 2, Statist. Bureau, 1867, p. 28.

27 László Gerő *et al.*, *Közgazdasági Enciklopédia III. kötet*, Jacini-Müller, Athenaeum Irodalmi és Nyomdai Részvénytársulat Kiadása, Budapest, 1930, pp. 33–34.

28 *Jahrbuch für die amtliche Statistik des preussischen Staates*, Vol. 2, Statist. Bureau, 1867, p. 28.

29 Miksa Faragó, *A Kossuth-bankók kora: a szabadságharc pénzügyei*, Nyugat, Budapest, 1912, pp. 6 and 12.

30 “Clearly the only person who can declare tokens to be ‘legal tender’ is the individual who can compel everyone to obey the rules. We call this person ‘the sovereign’ (or if it is an institution we call the institution the ‘sovereign power.’” Julia Hoyle & Geoffrey Whitehead, *Elements of Banking: Made Simple*, Heinemann, London, 1987, p. 13.

31 Christoph W. Herrmann, ‘Play Money? Contemporary Perspectives on Monetary Sovereignty’ in Rebecca Adler-Nissen & Thomas Gammeltoft-Hansen, *Sovereignty Games: Instrumentalizing State Sovereignty in Europe and Beyond*, Springer, 2008, p. 67.

32 See e.g. Gábor Horváth, ‘Monetáris szuverenitás és digitális jegybankpénz’, *Pénzügyi Szemle*, 2022/4, pp. 540–544.

questionable as they were carried out without the knowledge and consent of the estates. Although the king has the prerogative of coinage, the right to issue bad banknotes is not included. The government's devaluation system amounted to nothing more than a tax increase lacking legal legitimacy, as it disregarded the constitutional right of the estates to offer or refuse tax concessions.³³

Generally, constitutions institutionalize central banks, which may contain the most important relevant rules – including independence where applicable – but legally, this is not indispensable. However, if a constitution contains overly detailed rules for banks and the monetary system, and these are further detailed in separate laws, this may result in confusion rather than improvement³⁴ of bank relations. Therefore, it must be carefully considered which provisions should actually be formulated at the constitutional level, if the constitutional power deems it justified to incorporate them into the constitution's text at all. Yet, even constitutional protection does not provide a complete guarantee, especially regarding independence, as law and reality can diverge; hence, efforts must be continuously made to maintain independence. As Kenneth Rogoff put it,

“As anyone who has worked at a central bank understands, central bank independence is rarely granted by constitutional decree, and even where it is, the letter of the law has little meaning if political support is lacking. In reality, central bank independence is fragile, and something that has to be earned every day. [...] To maintain their relevance, and to protect the independence of monetary policy during a period of growing populism, central bankers cannot afford to sit on their laurels.”³⁵

In the case of the European Central Bank, there is also a ‘constitutional’ basis to be examined, as it may be argued that the relevant European Union treaty could be considered a constitution in formal, substantive, and subjective terms.³⁶

33 Gyula Kautz, *A nemzetgazdasági eszmék fejlődési története és befolyása a közviszonyokra Magyarországon*, Heckenast Gusztáv, Pest, 1868 (reprint 1987), pp. 194 and 202.

34 Iván Szentiványi, *Bankjog*, Közgazdasági és Jogi Könyvkiadó, Budapest, 1988, p. 51.

35 Kenneth Rogoff, *Is This the Beginning of the End of Central Bank Independence?*, The Group of Thirty, Washington D.C., 2019, p. 19.

36 Philip Brentford, ‘Constitutional Aspects of the Independence of the European Central Bank’, *International and Comparative Law Quarterly*, Vol. 47, Issue 1, 1998, pp. 75–79.

Among legal sources, another significant legal feature is the temporal limitation of authority. In English legal development, the original law set the duration of privileges for 11 years, with the government having the option to decide, with a one-year notice period, to repay the loan and withdraw the privileges. However, this did not occur, and accordingly, between 1694 and the last Continuance Act in 1844, Parliament renewed them nine times. The obligation to renew resulted in periodic renegotiation, ensuring that the parties remained mutual 'hostages' to each other.³⁷ Interesting conclusions can be drawn from the fact of how much earlier before the expiration of privileges they accepted the extension. Out of the nine occasions, four were accepted one year or less before the expiration, while in other cases, longer periods remained (five, eight, eleven, twelve, or nineteen years). Therefore, if the privileges were not renewed before expiration, the bank lost its status as a central bank, but could continue to operate as a private bank. For example, the First Bank of the United States was authorized for 20 years in 1791, but there was debate over its extension, and it was ultimately not renewed and expired in 1811. Similarly, the Second Bank of the United States received rights for 20 years³⁸ in 1816, but these were not renewed in 1836, it thus operated as a private corporation until its dissolution in 1841.³⁹

So, the central bank's legal status and privileges depended on the government's decision and were valid essentially for a specified duration. It is worth noting that such regulatory models based on a definite period existed in the 20th century, also during the interwar period. In Hungary, for example, the establishment of the National Bank of Hungary was for a period of 20 years according to Act IV of 1924. This Act granted the patent, *i.e.* the exclusive right to issue banknotes, whose extension was requested by the National Bank of Hungary assembly in 1938. Therefore, the Hungarian Parliament (the National Assembly) passed the relevant law⁴⁰ in that year, considering that

37 Broz & Grossman 2004, p. 58.

38 On the constitutionality of this, *see* the US Supreme Court in *McCulloch v Maryland*, 17 U.S. 316 (1819).

39 Michael Coblenz, 'The Fight Goes on Forever: Limited Government and the First Bank of the United States', *Southern Illinois University Law Journal*, Vol. 39, 2015, pp. 407–441; *see also* Cynthia Clark (ed.), *The American Economy: Essays and primary source documents*, ABC-Clio, Oxford, 2003, pp. 22–23.

40 Act XXV of 1938 on the amendment of Act V of 1924, detailed explanation attached to Article 1.

“Generally, an essential prerequisite for a successful central bank policy is the systematic planning and determination of leadership for an extended period, which cannot be achieved if there is uncertainty as to whether the central bank can continue its operations after the expiration of the initial privilege.”⁴¹

One cornerstone and the ‘Holy Grail’⁴² of central bank regulation is central bank independence, which has a vast literature, considering that “The history of central banks is the history of various conflicts with governments.”⁴³ According to Csontos, “[f]rom an economic perspective, central bank independence first and foremost means that the central bank does not have to perform fiscal or quasi-fiscal tasks,” but it does not mean that “the central bank can do whatever it pleases,”⁴⁴ as state within a state situations can lead to anomalies.⁴⁵ Accordingly, the theoretical starting point for central bank independence is that the government transfers certain economic policy (financial policy) powers to a financial institution (bank) it selects or creates, and in order to prevent short-term, politically motivated, but later harmful, government economic policies with inflationary consequences, it ensures the legal and political conditions for the central bank’s independence. The question of central bank independence has a specific history, it is possible to examine in which areas what rights are granted to central banks by the legal regulations.⁴⁶ The question of central bank independence cannot be examined without considering the political and ideological environment. For example, the communist systems (parties) exhibit tendencies of power concentration which naturally seals the fate of central bank independence, and is supported by the necessary ideological argumentation. Iván Szentiványi wrote in 1977 in line with the spirit of the time, “[i]n the case

41 Act V of 1924 on the establishment and patent of the Magyar Nemzeti Bank, Act XXV of 1938 on the amendment and addition of Act V of 1924.

42 Paul Wachtel & Mario I. Blejer, ‘A Fresh Look at Central Bank Independence’, *Cato Journal*, Vol. 40, Issue 1, 2020, pp. 118–119.

43 Sándor Ligeti, ‘A központi bankok önállósága a tőkésországokban’, *Közgazdasági Szemle*, Vol. 28, Issue 4, 1981, p. 454.

44 László Csontos, ‘Mire szolgál és mit jelent a jegybank függetlensége?’, *Beszélő*, Vol. 5, Issue 1, 1996, p. 49.

45 See e.g. about the German situation after World War I: Carl-Ludwig Holtfrerich, ‘Monetary policy in Germany since 1948: national tradition, international best practice ideology?’ in Jean-Philippe Touffut (ed.), *Central Banks as Economic Institutions*, Edward Elgar Publishing, Cheltenham, 2008, p. 24.

46 Kovácsné Sipos 2014, pp. 261–272.

of central banks... it is common for supervision and control to be the responsibility of the highest state administrative authority (Cabinet or its equivalent).⁴⁷ Vladimir Lenin expressed that the financial oligarchy uses monetary circulation to intensify the exploitation of the working masses, devalues real wages through excessive money issuance, and the working class has no means to prevent this. His words were summarized as:

“In the central banks of modern capitalist states, a handful of capitalists act at their whims. They engage in all sorts of possible and impossible machinations with money to increase their profits.”⁴⁸

Another viewpoint worth quoting is that of Yevgeny Preobrazhensky, who stated that banknote printing is like a “machine gun in the capable hands of finance, with which one can fire at the backside of the bourgeois order.”⁴⁹ However, even in democratic states, interventionist intentions are not unheard of – despite being prohibited by legal regulations. For example, during election campaigns, various requests may arise from the government, especially if high unemployment rates are negatively impacting the candidate’s (re)election chances. According to evidence from the so-called Nixon tapes, Richard Nixon, the President of the US, exerted pressure on Arthur Burns, the then-chairman of the Federal Reserve System, to pursue an expansionary (stimulative for the economy, but inflationary) monetary policy before the 1972 election. It seems that the pressure worked, and “Nixon was re-elected, but as they say, the rest is history.”⁵⁰ All of this is related to the fact that politicians are interested in gaining and maintaining voter trust to achieve reelection. Various welfare expenditures, tax cuts, and investments increase prosperity, but a demand shock not only boosts economic performance but also inflation. Thus, long-term interest in price

47 Id. p. 30.

48 Genrikh Abramovich Kozlov, *A pénz és a pénzforgalom elmélete*, Pénzügyminisztériumi Lap- és Könyvkiadó Vállalat, Budapest, 1951, p. 75.

49 Niall Ferguson, *A pénz felemelkedése. A világ pénzügyi történelme*, Scolar Kiadó, Budapest, 2010, p. 109.

50 Jerry L. Jordan & William J. Luther, ‘Central bank independence and the Federal Reserve’s new operating regime’, *The Quarterly Review of Economics and Finance*, Vol. 84, May 2022, p. 511. See e.g. Nixon’s statement below “I know there’s the myth of the autonomous Fed [...] [short laugh] and when you go up for confirmation some Senator may ask you about your friendship with the President. Appearances are going to be important, so you can call Ehrlichman to get messages to me, and he’ll call you.” Christina Parajon Skinner, ‘Central Bank Activism’, *Duke Law Journal*, Vol. 71, Issue 2, 2021, p. 310.

stability is not aligned with short-term political interests, which justifies entrusting the issue of price stability to an institution outside the government structure, namely, the central bank.⁵¹ Additionally, theories and research on the political business cycle describe the phenomenon where politicians make various short-term decisions aligned with electoral cycles to secure their reelection. William Nordhaus and Edward Tufte, for example, assume that voters are naive, with short memories, where the past and future don't matter when voting, instead, it is current economic events that are decisive. Therefore, the later inflationary effects of a political decision are irrelevant, as the price must be paid after the elections anyway.⁵² (In this context, mention can also be made of partisan and opportunistic theories.)⁵³ Thus, it is necessary to distinguish between legal regulation and political possibilities and objectives outside the legal framework. Mention must also be made of state structures, as the legal status of central banks fundamentally aligns with state frameworks, depending on them. Accordingly, federal states and supranational entities (such as the EU) may have their own central banks or organizations fulfilling such functions. When a new state or joint entity is formed, it is necessary to address the central bank issue in line with the changes to financial sovereignty. For example, after the Austro-Hungarian Compromise of 1867, a new situation arose with the birth of the Austro-Hungarian Monarchy, which also determined the structure, tasks, and fate of the future joint central bank. The Compromise left the central bank issue open, so the privilege of the Austrian National Bank remained intact, but the economic union in the Monarchy would have not have allowed for the establishment of independent central banks. Consequently, in 1878, a joint central bank with a dualistic structure was established through the reorganization of the patented Austrian National Bank.⁵⁴ Accordingly, Act XXV of 1878 on the establishment and patenting of the Austro-Hungarian Bank, Section 1 declared:

“Without prejudice to the right vested in each state of the Austro-Hungarian Monarchy to establish independent central banks, and mutually

51 Péter Bihari, 'A jegybanki függetlenség és elszámoltathatóság a válság előtt és után', *Közgazdasági Szemle*, Vol. 64, June 2017, pp. 574–577.

52 Thomas D. Willett, *Political Business Cycles: The Political Economy of Money, Inflation, and Unemployment*, Duke University Press, 1988, p. 373.

53 See e.g. Brian Snowdon & Howard R. Vane, *Modern Macroeconomics: Its Origins, Development and Current State*, Edward Elgar Publishing, Cheltenham, 2005, pp. 536–537.

54 Kovácsné Sipos 2014, pp. 67–69.

recognized, without being used for the next 10 years, the establishment of an Austro-Hungarian bank is decided for the period from 1 July 1878, to 31 December 1887.”

However, this did not mean that there were no positions supporting the establishment of an independent Hungarian central bank (for example Kálmán Széll or Béla Földes could be mentioned in this context).⁵⁵ However, if a country ceases to exist (breaks up), then it is naturally necessary to reconsider the question of the central bank as well. After the dissolution of the Austro-Hungarian Monarchy in 1918, history also moved on from the Austro-Hungarian Bank, making it necessary for Hungary to establish its own independent financial system, which eventually took place in 1924. Another example is the German development. The establishment of German unity in 1871 led to the founding of the Reichsbank in 1875,⁵⁶ but as a result of the division following World War II, new central bank structures were established in both German states. In the Western Zone, *the Bank deutscher Länder (BdL)* was established in 1948,⁵⁷ which was succeeded by the Deutsche Bundesbank in 1957.⁵⁸ The German Democratic Republic (GDR) had its own financial system, so after the fall of the Berlin Wall in 1989, the central bank of the GDR (*Staatsbank der DDR*) also had to be reorganized to meet the requirements of the two-tier banking system. The central bank of the GDR operated under this name from 1968 (formed from the *Deutsche Notenbank*); it carried out money issuance according to political objectives, refinanced financial institutions, managed the accounts of state-owned enterprises and the state, and also performed supervisory tasks. The two-tier banking system based on the West German orientation was introduced on 1 April 1990, and the *Deutsche Kreditbank* was established with the involvement of the *Staatsbank*, relying on its offices and employees.⁵⁹ The agreement establishing the Economic and Social Union

55 Id. p. 71.

56 See German Bank Act of 30 January 1875, *Journal of the Statistical Society of London*, Vol. 38, Issue 2, June 1875, pp. 267–282.

57 Ralph Michael Wrobel, ‘Deutsche Bundesbank als Modell Aus Politik und Zeitgeschichte’, *D-Mark*, 2018/27, pp. 24–25.

58 Id.

59 Hasko Hüning *et al.*, *Finanzmetropole Berlin Strategien Betrieblicher Transformation*, Springer-Verlag, 2013, pp. 245–247.

(Währungs-, Wirtschafts- und Sozialunion), abbreviated as WWSUVtr,⁶⁰ brought about fundamental changes, as the exercise of central banking functions shifted to the West German side from 1 July 1990 (the introduction of the Deutsche Mark as the common currency),⁶¹ in accordance with the legislative obligation stipulated in the WWSUVtr (the cessation of central banking functions). The WWSUVtr specifically regulated the rights of the Bundesbank, which the GDR was required to provide within its territory (for example, the GDR's agencies, especially the police, were required to protect the branches of the Bundesbank, ensure freedom of movement, document traffic, and provide the possibility of carrying service weapons for its employees). The history, operation, and nomenclature of the German central banks were not only dependent on economic and financial circumstances but also closely intertwined with the fate of German statehood.⁶² The power and organization of German, and other countries' central banks were also influenced by pre-war and wartime German territorial expansion. For example, in 1938, the National Bank of Bohemia and Moravia was established from the Czechoslovak National Bank, and accordingly, the fate of the Austrian National Bank was sealed with its incorporation into the German Reich and the extension of laws pertaining to the Reichsbank. Following the war, the affected countries had to take necessary steps to restore their central banks in light of their regained sovereignty.⁶³

The demise of the former Soviet central bank, the Gosbank, and the establishment of the Central Bank of the Russian Federation are remnants of the last days of the Soviet Union. Maintaining financial sovereignty in the 15 Soviet member republics became more and more difficult. In 1990, for example, Estonia and Lithuania decided to establish their own central banks. Russia declared its sovereignty on 12 June 1990, and shortly after, the Russian Supreme Soviet decided to establish an independent central bank. The Soviet and Russian central banks operated in parallel and in competition with each other, each bank could decide which jurisdiction

60 Vertrag über die Schaffung einer Währungs-, Wirtschafts- und Sozialunion zwischen der Bundesrepublik Deutschland und der Deutschen Demokratischen Republik. See Gesetzblatt der Deutschen Demokratischen Republik, Teil I, Nr. 34, 1990, pp. 331–351.

61 Holger-René Bruckhoff, *Zur Entwicklung der Zentralbanken und der Bankaufsicht in Deutschland und in den Niederlanden*, Peter Lang GmbH, Frankfurt am Main, 2010, pp. 41–42.

62 See e.g. James J. Sheehan, *German history, 1770–1866*, Clarendon Press, Oxford, 1989, pp. 14–24.

63 Kovácsné Sipos 2014, pp. 204 and 207.

they wished to fall under, and the chaotic situation was intensified by the fact that in December 1990, a few days apart, the Soviet and Russian legislatures adopted contradictory laws on central banks. The law declared Gosbank's independence from administrative authorities and its accountability to the legislature, while Russian law also provided for the central bank's independence from the government without recognizing the jurisdiction of any Soviet central body. Boris Yeltsin's advisor, Boris Fyodorov considered Western models as guiding principles when creating the law. The law was passed extremely quickly by the Russian legislature, and it was a '*coup de grâce*' to the Soviet Union, as the Gosbank was considered a symbol of Russian sovereignty. The Soviet and Russian central banks operated in parallel until August 1991 (the coup); Gosbank ceased to exist on December 20, 1991. Boris Yeltsin wanted to pass legislation on the subordination of the Central Bank of the Russian Federation in November 1991, but the bank vehemently protested (foreign investor confidence and the need for stability were considered important). Finally, the Russian Supreme Soviet unanimously prevented this plan, however, the issue of the bank's independence was followed by continuous debates and conflicts.⁶⁴

3. Final, Summarizing Thoughts

In universal history, there are numerous political and economic reasons as to why the need or idea for establishing a central bank emerged at a particular time. Legal sources, governmental frameworks, independence, the question of financial sovereignty, or the roles played in state finances have followed different paths. Crises, bankruptcies, transformations of sovereignty, credit demands, and the stabilization of the financial environment are the key drivers that shape the conditions for the establishment and operation of central banks. We must not forget the 'national' character, as the 'central' bank is also 'national' in nature. Accordingly, it is necessary to imbue the descriptors referring to the central banks' significance in a country's life and its place in state affairs with content.

The National Bank of Hungary has been operating continuously for 100 years, experiencing and surviving various political systems. In general, it can be said that both the different governments and the National Bank

64 Juliet Johnson, *Priests of Prosperity: How Central Bankers Transformed the Postcommunist World*, Cornell University Press, 2016, New York, pp. 70–77.

of Hungary itself had to find their place within changing systems: during the interwar period, under communist dictatorship, amid the political and economic transformations of the regime change, or on the path to EU accession. Fulfilling this task has been marked by periods of war, or political and economic crises.

Independent central banks can also be considered a fourth branch of power, as they are responsible for areas of economic policy that traditionally belonged to the government for a long time.⁶⁵ However, there are also approaches that deny the recognition of independent central banks as a separate branch of power. According to Paul Tucker, although central banks are isolated from daily politics, they cannot be considered an independent branch alongside the legislature, the executive, and the judiciary, as they are subordinate to them. Their decisions can be challenged in courts, their rules can be overridden by law, and the law regarding their independence can be changed or revoked. (He mentions the European Central Bank as an exception, as its rules are governed by an internationally binding treaty that can only be amended unanimously.⁶⁶) However, he acknowledges that in some countries, central banks can be considered as one of the ‘non-elected powers’ just like judges, generals, or where they exist: established churches.⁶⁷ Therefore, it may be the case that a central bank is so independent that it exceeds the socially optimal level.⁶⁸ To illustrate how significant the management of finances can be as a source of power, it is sufficient to quote the words of the founder of the banking dynasty, Amschel Mayer Rothschild (1744–1812): “Give me control of a nation’s money supply, and I care not who makes its laws!”⁶⁹ Andrew Jackson, the American president, also expressed concerns about a central bank endowed with excessive power, stating that:

65 Ireneusz Kras, ‘Independence of Central Bank as a Basis for Institutional Politics of Monetary Policy’, *Polish Political Science Yearbook*, Vol. 41, 2012, p. 446.

66 Paul Tucker, *Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State*, Princeton University Press, 2018, pp. 18–19.

67 Id. p. 3.

68 Guy Debelle & Stanley Fischer, ‘How Independent Should a Central Bank Be?’ in Jeffrey C. Fuhrer (ed.), *Goals, Guidelines, and Constraints Facing Monetary Policy-makers*, Federal Reserve Bank of Boston, Boston, Conference Series No. 38, 1994, p. 196.

69 Holger Lang, *Die (r)evolutionäre Weiterentwicklung unseres Geld- und Finanzsystems zur Überwindung der aktuellen Geld- und Finanzkrise*, BoD – Books on Demand, 2012, p. 137.

“Controlling our currency, receiving our public moneys, and holding thousands of our citizens in dependence, it would be more formidable and dangerous than the naval and military power of the enemy.”⁷⁰

70 Andrew Jackson, ‘Veto Message, July 10, 1832’ in George Rogers & Editor Taylor, *Jackson versus Biddle: The Struggle over the Second Bank of the United States*, D.C. Heath and Company, Boston, 1949, pp. 11–12.