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Citation for published version:

Digital Object Identifier (DOI):
10.1515/ael-2022-0063

Link:
Link to publication record in Edinburgh Research Explorer

Document Version:
Publisher's PDF, also known as Version of record

Published In:
Accounting, Economics, and Law: A Convivium

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Nathan Coombs*

The Democratic Dangers of Central Bank Planning

https://doi.org/10.1515/ael-2022-0063
Published online February 3, 2023

Abstract: Eric Monnet makes the case that central banks should introduce welfare-oriented credit policies and suggests legitimating these new powers through the establishment of deliberative credit councils. In this article, I argue that Monnet fails to consider how his model of central bank planning might insulate rather than democratize central banking. With low trust in experts and no society-wide consensus about how best to respond to wicked problems such as climate change, the principal danger is that Monnet’s credit councils may allow political actors to pursue agendas they do not feel they can get past electorates. Indeed, political actors may see shaping central banks’ credit policies as preferable to engaging the contentious fiscal policy domain precisely because the effects of credit policies cannot be easily held to account by voters. I suggest that credit councils are unlikely to provide a democratic channel for redressing these problems because they will inevitably privilege the voices of experts from the financial sector, industry, and (non-) governmental organisations – a de facto epistocracy – over the lay publics subject to their decisions.

Keywords: central banks, economic planning, democracy, epistocracy, legitimacy, technocracy

JEL Classification: E02, E42, E58, G18, G28

Table of Contents
1 Introduction
2 Specificities of the Present
3 Who are the Credit Councillors?
4 The Danger of Epistemic Disempowerment
5 Conclusion
References

*Corresponding author: Nathan Coombs, School of Social and Political Science, University of Edinburgh, Edinburgh, UK, E-mail: nathan.coombs@ed.ac.uk. https://orcid.org/0000-0002-7319-1181

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1 Introduction

Eric Monnet has done a great service to central banking studies. Expanding upon his historical research into postwar ‘credit policy’ at the Banque de France (Monnet, 2018), Monnet has taken an ascendent view in the social studies of central banking – that post-financial crisis, multiple-mandate central banking should be repurposed for progressive goals – and expertly built out the case for this programme.

Monnet’s argument echoes the inevitabilism of revolutionaries and reformers from Marx to Mannheim. The challenges facing society cannot be addressed within a disorganised, neoliberal economy. Only concerted state action can re-embed markets in protective institutions. Through the cunning of reason, the increasingly expansive role played by central banks in the macrofinancial management of the economy following the 2008 financial crisis has already laid the groundwork for the shift. In breaking from the narrow strictures of inflation targeting and engaging in macro-prudential governance and monetary financing of public debt (Bowman et al., 2012; Coombs & Thiemann, 2022), an older model of central banking has been revived in practice if not yet in principle. Formally institutionalising a Polanyian, welfarist approach would allow central banks to play a decisive role in addressing pressing issues of public interest.

These points are argued lucidly, but are not necessarily original (see Braun, 2021; Quinn et al., 2019; Smolenska and van’t Klooster, 2022). Monnet’s distinctive contribution lies with attempting to show how welfare-oriented central bank planning can be squared with the democratic imperative. The dilemma faced by critics who wish to repurpose central banks for social democratic goals is on the one hand, the force of their critique derives from how monetary policy has been sequestered from democratic control in the era of central bank independence, and on the other, that affording these institutions power over credit-allocation in the economy threatens to entrench technocracy at the commanding heights of state economic governance. To borrow Tucker’s (2018) terms, what is to legitimate the decisions of these great ‘unelected powers’?

Monnet’s answer is that although he wishes to see parliaments play a more active role in shaping central bank action, he does not wish to see central banks subordinated to state treasuries, as was the case during the Second World War. Instead, Monnet argues that independent central banks acting as the macrofinancial arm of economic planners can be democratically legitimate if they are representative in the sense defended by Rosanvallon (2011). For Rosanvallon, democracy means more than intermittent bouts of electoral competition at the ballot box; it entails liberal commitments which allow the organs of the administrative state to represent
the general will. A certain insulation from electoral competition may even support administrative agencies’ democratic function. Exemplary is the foundation of the independent Bundesbank after Germany’s experience of hyper-inflation in the early 1920s – by extracting control over the money supply from the sphere of partisan electoral competition Germany secured for its people ‘a direct relation to the institution in control of the nation’s currency’, signalling its aspirations to found a durable democratic society (Rosanvallon, 2011, p. 118, original emphasis).

Monnet’s take on Rosanvallon’s philosophy differs in the details but operates in a similar spirit. He argues for the democratisation of independent central banks by placing them in dialogue with credit councils analogous to the sectoral planning boards of postwar France, the deliberations of which would legitimate the new credit-allocation powers he wishes to see central banks exercise. Monnet leaves open who would staff these boards. They could be ‘representatives of parliament, experts, representatives of various public credit institutions or agencies, or economic sectors’ (Monnet, 2023). The important point is that credit councils would provide an extra decision-making layer in addition to parliament, transforming the current dyadic relationship founded on the principle of delegative accountability into a triadic relationship (parliament—credit council—central bank), with emphasis on the enhanced deliberation provided by a credit council. With this innovation in mind, Monnet arrives at a beguiling synthesis: the possibility of independent central banks wielding credit-allocation power over the economy, but which can be said to be democratised in that they bring monetary and credit policies closer to the concerns of civil society.

There is much to like in Monnet’s ideas and clarity of expression. With an astute perception of the contingency of present norms, he highlights how truncated our conception of central banking has become in the last 40 years. Monnet debunks the assumption that interest rates are the only tool at central banks’ disposal to combat inflation, as well as the idea that credit policies necessarily push in the opposite, inflation-stoking, direction. Implicitly taking the postwar experiences of the Banque de France as an ideal type (Lupi, 2022), Monnet is further able to propose a concrete institutional shape for critics who wish to see central banking reoriented in a progressive direction.

Yet, for all the sophistication and originality of Monnet’s proposals, in this article I want to suggest that Monnet brushes over the democratic dangers posed by his model of central bank planning. The nub of the problem is that while Monnet recognises that historical experiences with credit councils have often fallen short of democratic standards, he does not sufficiently consider countervailing forces in the

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1 Monnet talks specifically of a European Credit Council. However, I refer to just ‘credit council’ in this article to engage his proposals in broad theoretical terms.
present that might lead the deliberative model he proposes to insulate rather than democratize central banking. My worry is that tasking central banks with addressing ‘wicked problems’ (Rittel & Webber, 1973) such as climate change under the direction of credit councils may allow political actors to pursue agendas that they do not feel they can get past electorates in the transparent fiscal policy domain. Furthermore, because the effects of central banks’ instruments are often unintelligible to the average citizen, central bank led economic planning has potentially disempowering epistemic consequences. In this model, experts from the financial sector, industry, and (non-)governmental organisations sitting on credit council committees would operate as a de facto ‘epistocracy’ (Brennan, 2017; Friedman, 2019; Méndez, 2022; Vandamme, 2020), with risks of bias, partiality and error.

There are a number of interlinked elements to my argument. In Section 2, drawing on the work of sociologist Karl Mannheim, I insist on considering the social and political specificities of the present moment when evaluating Monnet’s proposals. The point here is that while the postwar need for reconstruction provided a near-universally agreed upon imperative for economic planning (a notable exception being Hayek, 2007 [1944]), no such consensus today exists, including in respect to climate change. I argue that proposals for returning to postwar models of economic planning need to reckon with the collapse of trust in experts as well as the rise of populism. In Section 3, I turn to the question of who would staff Monnet’s proposed credit councils. I point out that by declining to specify who would sit upon the councils’ committees Monnet leaves unanswered key problems concerning these councils’ democratic legitimacy, accountability, and representativeness. In Section 4, I turn to the epistemic implications of central banks’ credit policy instruments, arguing that they are not easily reconciled with deliberative democracy. I conclude, in Section 5, with suggestions for an alternative way forward. Instead of building upon the changes that have taken place over the past decade and a half, I make a democratic case for restoring the boundary between fiscal and monetary policy which held before quantitative easing blurred the distinction.

2 Specificities of the Present

Eric Monnet cites Karl Polanyi as an inspiration for his ambitious proposals, drawing on iconic quotes in The Great Transformation where Polanyi celebrates central banks as a ‘device developed for the purpose of offering protection’ (Polanyi, 2014 [1944], p. 201) from the destructive cyclical swings of free market economies. Monnet accordingly positions his proposals for a new generation of welfare-oriented credit policies as a reactivation of ‘embedded liberalism’ (Ruggie, 1982) for the challenges of the present.
Yet, in his ambition to square the imperatives of central bank planning and democracy, Monnet echoes the concerns of Karl Mannheim’s *Man and Society in Age of Reconstruction* (1940) in ways that are more instructive for considering the merits and realism of his proposals. Written during the interwar crisis of the early twentieth century, *Man and Society* provides a prolonged reflection upon how a new age of economic planning – for Mannheim the solution to liberalism’s failures – can be reconciled with freedom and democracy. Mannheim’s answer is that the evolution of the social and economic structure of society has rendered anachronous nineteenth century liberal philosophy (see also Mannheim, 2013 [1951]). He makes this point not to theoretically license unfettered state control of the economy. Mannheim’s goal is to conceptually differentiate democratic economic planning from its wartime and totalitarian variants to help stall a slippery slope from the former to the latter.²

Monnet evinces similar concerns in his book on the credit policies of the Bank de France. Regarding the experiences of postwar France, he stresses that the role of the state in ‘credit selectivity’ was not authoritarian because it avoided collapsing state institutions into a vertical planning hierarchy, as well as exerting influence only indirectly through a steering effect on investment (Monnet, 2018, pp. 52, 65–66, 68). One of Mannheim’s insights Monnet is less sensitive to, but which I would like to emphasize here, is that political categories need to speak to the specifics of the present. Although Monnet is careful to avoid lending the impression that the experiences of postwar France can be revived like an institutional blueprint taken out of a time capsule, he nevertheless follows the zeitgeist on the political left wishing to institute a Green New Deal, or other state interventions to coordinate the economy taking inspiration from the 1930s and postwar period (e.g. Braun, 2021, p. 114; Quinn et al., 2019).

The problem with this agenda is that despite a qualified reappearance of the ‘big state’ since the 2008 financial crisis and global pandemic (Forsyth, 2021), the social conditions that led to planning emerging as the political common sense of the interwar and postwar period no longer hold. One point of differentiation is that the need for state economic planning in the postwar period was aligned with an optimistic and deferential view of experts. With Europe lying in ruins after the Second World War and the reconstruction effort coordinated under the aegis of the US’s Marshall Plan, a worldview that James Scott (1999) terms ‘authoritarian high modernism’ reached its apogee. This was a belief that society could be conceptualised as a machine to be optimised by placing the tools of industrial, scientific rationality in

² Hammersley (2021, p. 1469) notes that despite Mannheim’s *Man and Society* (1940) being a key target for Hayek’s book *The Road to Serfdom* (2007 [1944]), there are ‘interesting parallels’ between the two authors. Both believe that partial planning may lead to total planning, threatening liberty.
the hands of state power. Throughout the Western world, where New Deal and Keynesian ideas were dominant, economic experts were held in high esteem and played prominent roles in left wing political parties (Mudge, 2018). Scientists occupied a privileged place in the popular political imagination. Most believed that economic experts manipulating national accounting statistics and macroeconomic models could be as efficacious in improving the human condition as engineers employing mathematical physics to optimise jet engines and spaceflight trajectories. And until the 1970s that belief seemed to be ratified by successful experiences of economic planning in the Western world.

Fast forward to the present and things look rather different. Whether due to the exhaustion of these growth models or ideological gains by the free-market right which undermined their institutional coherence, the neoliberal turn beginning in the 1980s decisively shifted popular beliefs in the competency of government in ways I would argue are now irreversible. Since then, central bankers have enjoyed moments of high repute. An example is when in 1999 *Time* magazine lauded Alan Greenspan, Robert Rubin, and Lawrence Summers as the ‘Committee to save the world’ for their role in preventing global contagion from the Asian financial crisis. But after the supervisory oversights leading to the 2008 financial crisis, the excesses of quantitative easing, and the failure of central bankers to predict the inflation surge beginning in 2020, the credibility of central banks is fragile.

Neither do central bankers seem the impartial stewards of price stability they once did. Former Bank of England Governor Marc Carney’s intervention into the United Kingdom’s referendum about whether to leave the European Union in 2016, prophesying immediate economic damage if vote leave was successful, struck many as openly political. Carney’s intervention provoked then UK justice secretary Michael Gove to argue that ‘the people of this country have had enough of experts with organisations with acronyms saying that they know what is best and getting it consistently wrong’ (quoted in Portes, 2017). Gove’s statement struck a nerve among progressives because it gave voice to growing popular distrust of experts. Gil Eyal (2019) argues that this distrust cannot be blamed on irrationalism. Since the 1980s, distrust in experts has been provoked by risk management techniques, operating under conditions of uncertainty and prone to misfires, penetrating the everyday lives of citizens. The result for Eyal is that the boundaries between science and politics have become so porous experts no longer hold uncontested epistemic authority, whether in natural scientific or economic fields.

Both the decline of economic planning as political common sense and growing distrust of experts are salient developments when considering the purposes for which Monnet envisages welfare-oriented central banking, principally institutional coordination in the fight against climate change. The hypothetical projections of climate models do not offer the same certainties as the need for postwar
reconstruction did in the mid-twentieth century. Taking meaningful, and inevitably painful, action in response to climate change requires a level of trust in governments, experts and financial elites that cannot be taken for granted. It is not impossible Monnet’s credit councils could be staffed by representatives of the public, the presence of which might help secure trust in a credit council’s decisions. However, as I will highlight in the next section, Monnet is coy about who would be represented on the committees and does not mention, even in passing, the possibility of citizens groups or workers having a voice. Given the inevitably technical nature of the advice credit councils would be required to provide central banks, they are likely be staffed by experts from elite policy networks spanning the financial sector, industry, and (non-)governmental organisations, none of which are guaranteed, or even likely, to elicit trust in the current political climate.

While probably not the kind of initiative Monnet has in mind, it is telling that, as The Economist (2022) notes, Marc Carney’s project to mobilise global central bankers and financial leaders to stop climate change and encourage responsible capitalism has not so much led to a celebrated ‘Committee to Save the Planet’ as inviting scepticism and ridicule. In fact, recent history suggests that far from electorates crying out for experts to roll back market forces, populist, anti-elite currents which emphasise individual autonomy have the upper hand (Eatwell & Goodwin, 2018; Goodhart & Lastra, 2018). In the populist era there is widespread support for states to protect citizens from the vicissitudes of, for example, financial failures and volatile international energy markets; but the prospect of more extensive government control over economy and society is viewed with scepticism. In this context, proposals to expand the administrative state on the model of the top-down planning of the postwar era feel like an exercise in wishful thinking out of step with the spirit of the age.

I would go so far as to argue that much of the appeal of utilising central banks for progressive goals is motivated by recognition of the difficulties of reverting to an earlier age of economic planning in the transparent and contested fiscal policy domain. It is not only outrage with the perceived injustices of bank bailouts and quantitative easing programmes that since the early 2010s has led the political left to channel hopes into central banking by proposing projects such as ‘green quantitative easing’ (Murphy & Hines, 2010). More opportunistic motives may be conjectured. George Selgin (2020) observes that the 2015 Fixing America’s Surface Transportation (FAST) Act was in part funded by siphoning away $20 billion of the Federal Reserve Banks’ surplus to the Treasury budget through the introduction of a new rule which capped the Fed’s aggregate surplus at $10 billion. The main reason for adopting this approach was because it allowed the Act’s supporters to bypass the congressional budgets and appropriations process for funding the Act’s infrastructure provisions. Dipping into the central bank’s reserves offered politicians the
opportunity to indulge in ‘backdoor spending’, which while expeditious in policy terms contravened the expectation that in a healthy democracy there is ‘full public disclosure and discussion of the expenditure of public funds’ (Goodfriend quoted in Selgin, 2020, pp. 54–56). Selgin sees the appeal of utilising central banks to fund ‘fiscal QE’ as deriving from the same impulse – a desire to bypass the usual democratic checks and balances in the legislative process.

To be clear, nowhere does Monnet advocate printing money or drawing down the Eurosystem’s reserves to fund government programmes. But still, my concern is that the same political logics would shape the functioning of credit-allocating central banks and the credit councils intended to legitimate their new powers. Even if the proposed credit councils are supposed to act as deliberative forums for making central banks more responsive to the concerns of civil society, it is not difficult to imagine a scenario where they would serve as extra-parliamentary vehicles for political actors, coordinating within their networks, to pursue agendas that they cannot get past electorates through transparent fiscal policy processes. Political actors frustrated with the legislative logjam, the compromises of negotiation, and the slowness of desired reforms, are inevitably going to find the backdoor, technocratic levers offered by central banks an appealing shortcut for realising their goals.

Social problems, it has long been recognised, are ‘wicked problems’ (Rittel & Webber, 1973). Unlike the ‘tame problems’ of natural science, social policies operating in the open systems of modern technical societies invite multiple problem definitions and solutions. Climate change is one such wicked problem which engenders contentious responses from across the political spectrum. If fiscal policy is perceived to have failed to rise to challenge, due to political polarisation and the competing demands placed on policymakers, then it understandable that central banks, with their arsenal of highly technical and indirect policy levers, would emerge as an attractive alternative channel for effecting change.

3 Who are the Credit Councillors?

One of the most difficult aspects of Monnet’s proposal to square with the democratic imperative is his insistence that credit councils would not be staffed by elected representatives but by delegates of key institutional bodies. As noted, this proposal adheres to the ideas of Pierre Rosanvallon who insists that democracy is composed of a broad architecture of liberal ‘intermediary’ institutions, which attain their democratic credentials not necessarily through elections but by living up to the ideals of reflexivity, impartiality, and proximity (Rosanvallon, 2011).

Of the three ideals, Monnet singles out ‘reflexivity’ as the most important desideratum. Rosanvallon’s notion of reflexivity stems from a critique of the view
that electoral-representative democracy provides a sufficient mechanism for expressing the general will. For Rosanvallon, the general will can be neither a majoritarian consensus, nor discovered in the compressed timescales of electoral competitions. The general will needs to be constructed not just expressed. A ‘democratic generality’ and ‘complex sovereignty’ (Rosanvallon, 2011, p. 129), based on pluralising the sources of social power, requires structural institutions to improve the quality of public deliberation so that all voices can be heard and refracted in the formation of the collective will. To that end, Rosanvallon sees deepening democracy as requiring the multiplication of reflexive, deliberate forums where experts and independent regulatory agencies convene to discuss and debate the pressing issues of the day.

It is plain to see how Monnet’s credit councils follow this model. In providing a formal venue where different interests and perspectives meet to deliberate about central banks’ policies, they promise the reflexive pluralism at the heart of Rosanvallon’s vision of democracy. One critical difference, however, is that Monnet’s project is not just about increasing the democratic responsiveness of central banks; his credit councils are intended to legitimate new central bank powers that would take state planners more deeply into fine-grained management of the economy than they have ventured since the 1970s. That, I would argue, alters the ethical calculus of the proposition.

While Monnet insists that central banks should remain independent and the decisions of credit councils would not be binding, if these councils are to legitimate new credit allocation powers, they would at the least need to be perceived by the public as influencing central banks’ decisions. A credit council operating as an auxiliary to central banks’ internal committees would be seen as an impotent ‘talking shop’. On the other hand, a credit council with power to guide the decisions of central banks towards public policy goals would face unsettling questions about its democratic legitimacy. Questions might understandably be asked about why parliament is not asserting its sovereignty over the central bank. No matter how impeccably liberal their styles of governance, an independent central bank with its policies guided by an independent credit council, with neither institution directly accountable to electorates, would amount to taking economic policy out of the hands of parliamentary democracy. As Leah Downey forefully puts it in her contribution to this forum, observing the slippage from the enhanced deliberation offered by Monnet’s credit councils to legislative disempowerment: ‘what democracy requires … is not necessarily good deliberation, but rather, democratic power—the power of the people and their elected officials to steer public policy’ (Downey, 2022, p. 6).

That is why I find unsatisfactory Monnet’s reluctance to specify who would sit on his envisaged credit councils. There is a difference between parliamentary appointees, selected for their expertise but acting as civil servants in line with the values
and priorities of elected representatives, and leaders from non-governmental organisations, thinktanks, business groups and economic sectors. The former are democratically legitimate in a conventional sense; the latter are not. Even if the existence of a credit council can be said to impart a democratic quality to an independent central bank, if the council is exercising power over the central bank’s credit policies, then its composition is more than a technical footnote of institutional design; it is the *sine qua non* of its democratic legitimacy.

In contemporary societies which do not passively accept rule by unelected experts, claims to speak for and represent the will of the people invite an ineluctable *democratic regress*. Their democratic legitimacy only finds a halting point when meeting its interface with electoral processes where the people select their representatives. Monnet’s aversion to Tucker’s (2018) contractarian approach to central bank legitimacy – which draws a line between the technical implementation of delegated policy goals and value-based political decisions related to distribution and social priorities – should be understood in this light. Monnet’s proposals represent an attempt to avoid the democratic regress by blurring the line between the technical and the political. Monnet is seeking to derive alternatives sources of legitimacy for central bank action not resting on the ostensible neutrality of their interventions, which allows them to be ringfenced as merely technical in nature.

Political economists, of course, argue that the idea of ‘market neutrality’ is a myth. Central bankers, due to their career trajectories and ideological biases, already make political distributional choices in their ‘technical’ interest rate decisions and selections of bonds and equities to purchase (Adolph, 2013; Van ’t Klooster and Fontan, 2020). From this perspective, Monnet’s proposal to politicise central banks and align their decisions with social goals is just rendering explicit and progressively realigning the values encoded in existing practices. With respect to the unconventional monetary policies introduced since the financial crisis there is truth to the charge; and there are valid debates to be had about how much discretion central bankers should be granted. However, there is a difference between arguing for more democratic control over central banks by parliaments due to the inevitable, and mostly indirect, distributional consequences of their interest rate decisions and arguing that central banks *should* embrace distributional responsibilities in the pursuit of overtly political agendas through a range of new credit allocating powers.

At the very least, if discriminating political criteria are to play a role in central banks’ interventions, such as by privileging the purchase of ‘green bonds’, then I cannot see how a democrat could not believe that such policies should be crafted by parliaments and pass through the legislative process for debate by elected representatives. In sum, the point I have tried to make in this section is that it is unclear what democratic role credit councils play in Monnet’s model of central bank planning that is not squeezed out by the need for validation of central banks’ policies by
the electorate and the mandates independent central banks operate within and are held accountable to when exercising discretion. The liminal status of the proposed credit councils, as well as their uncertain composition, seems less a solution to the problem of central bank democratization and more its deferment and displacement.

4 The Danger of Epistemic Disempowerment

I have already hinted that a key problem with utilising central bank instruments for political goals is that their technicality and opacity mean it will be difficult for many political actors, never mind lay electorates, to connect their effects to their causes. Monnet recognises this epistemic asymmetry and recommends improving the economic expertise available to parliaments to hold central banks to account. That is a welcome recommendation. But in this section, I want to argue that it is insufficient to solve the epistemic disempowerment threatened by credit-allocating, independent central banks, whose interventions threaten to impede the ability of the public to understand and determine the governance of their polities. I then connect this to my fear that Monnet’s proposed credit councils will act as a de facto epistocracy in the sphere of economic governance, affording experts an outsized and democratically unaccountable role in shaping economy and society.

It is worth beginning this section by acknowledging that central bank instruments are not unique in provoking effects that are hard to assign to their causes. Every act of state governance has mystifying effects, as decisions are refracted through multiple channels and twisted in unexpected directions (Cairney, 2012). Nevertheless, within economic governance, fiscal policy has the virtue of being relatively intuitive: when a government spends more of the public budget in certain areas it can be expected that those areas will improve, and when a government cuts funding to other areas they can be expected to decline. The same holds, vice versa, regarding taxation. This is a consequence of Pigouvian welfare economics, which I have never found difficult to explain to my students.

By contrast, none of the instruments wielded by central banks are intuitive. Only economists and bankers tend to understand with precision how the interest rates central banks set for providing short-term liquidity to markets affect the broader universe of interest rates for mortgage finance and unsecured lending (Krippner, 2007). This is a problem that has been exacerbated since the 2008 financial crisis after central banks began experimenting with unconventional monetary policies. Central bankers admit they don’t have a solid grasp of how the bond purchases conducted in their quantitative easing (QE) programmes are supposed to boost the economy and have frequently switched their rationalisations for the policy (Cassar, 2021). As former Fed chairman Ben Bernanke famously put it: ‘The problem
with QE is it works in practice, but it doesn’t work in theory’ (quoted in Harding, 2014).

Along with the mysteries of QE, black boxes have proliferated in post-financial crisis banking supervision. Macroprudential innovations such as the counter-cyclical capital buffer only speak to a limited epistemic constituency, even though they have the potential to modulate the availability of credit in the economy (Coombs, 2020). The discretionary design of stress test scenarios has granted central banks what The Clearing House (2017) call, for the case of the Federal Reserve’s annual Comprehensive Capital Analysis and Review, an ‘inherent capital allocation power’. Regarding the Bank of England’s annual stress test, I have also shown that by manipulating the scenario narrative, and its corresponding macroeconomic variables, the Bank can shape the investment strategies of UK banks (Coombs, 2022). A stress scenario that involves heavy losses in a particular sector will raise the cost of capital for banks to invest in that sector and drive their investment elsewhere. That these techniques are being conducted in an opaque and hyper-technical supervisory space should go without saying.

It is notable that Monnet does not specify how he envisages central banks engaging in credit allocation. It is therefore difficult to be speculate which knowledge gaps might be cultivated by his proposals. However, the channels adopted by the European Central Bank in pursuit of its green agenda do not provide grounds for optimism about the potential for public understanding of the effects of central bank interventions. The rules and techniques introduced by the ECB to facilitate a ‘green transition’ work through some of the least transparent and most circuitous infrastructural channels available to central banks: collateral frameworks, capital requirements, and supervisory stress testing (Smolenska and van’t Klooster, 2022). By employing these levers of influence, central banks seek to manipulate the incentives, investment choices, and portfolio compositions of financial firms. The aim is to facilitate a ‘green transition’ that chokes off investment to polluting industries while incentivising investment in firms judged conducive to decarbonising the economy.

The dangers of this approach should be obvious after the energy crisis beginning in 2022, which for a time looked like it might lead to rolling blackouts, energy rationing and European deindustrialisation. The problem I am hinting at is that when central banks pull backstage financial levers to drive investment into ‘green’ sectors and raise the costs faced by polluting industries, they are manipulating the economy at a high level of abstraction from the material provision of energy.

Material considerations regarding the need to maintain the baseload of energy grids and the ability of the poor and working classes to afford to heat their homes are arguably beyond the scope and comprehension of central banks when tasked with pursuing climate goals. As such, it does not take a heroic leap of imagination to picture a future dystopia where the intersection between central bank led climate policies and external shocks leads to spiralling energy costs and increasing societal impoverishment, the causes of which are only vaguely understood, if at all, by the voting public.\footnote{Channelling similar anxieties, Sternberg (2022) argues that it is climate policy rather the climate change which poses the greatest threat to financial stability. Further energy price rises such as those seen in Europe in 2022, Stenberg predicts, would lead to the mass insolvency of businesses as well as stretching the budgetary limits of citizens to breaking point. That will, in turn, provoke a fiscal policy response by governments through the issuing of yet more public debt, with the potential to set in motion a doom loop of increasing indebtedness and rising interest rates.}

For these reasons, I do not believe that treating central banks as malleable tools of public policy can be easily reconciled with democratic, deliberate aspirations. My argument aligns with Walter (2022), who contends that because central banks’ ‘infrastructural power’ (Mann, 1984) has grown in tandem with market-based finance since the 1980s, attempts to democratise central banking without fundamental institutional change are doomed to fail. As Walter seeks to show, reforms that aim to repurpose the assumed ‘fungible agency’ of central banks may have undemocratic effects, as ‘by adding purposes to central banks’ mission, we induce them to expand their infrastructures laterally, absorbing and integrating heterogeneous functions, institutions and infrastructural technologies’ (Walter, 2022, p. 213). Put differently, because central banks have coproduced the financialized economies of the early 21st century, expecting their instruments to be reapplied in the service of progressive social and political goals is a sociotechnical anachronism.

In addition to Walter’s critique, I would add that whether successful or not attempts to exploit central banks’ instruments for specific social policy goals are likely to place the understanding necessary for citizens to govern their polities yet further out of reach. This is not only because they will provoke effects that are hard for regular citizens to traces to their causes, but also because forbidding knowledge barriers will act as a filter upon who can affect the decision-making of credit councils. Here, the idea of ‘epistocracy’ provides a useful concept for getting at the epistemic disempowerment threatened by Monnet’s model of central bank planning (Vandamme, 2020; Méndez, 2022). Epistocracy means rule by the wise or knowledgeable and is directly opposed to the inclusive egalitarianism of democracy (one person, one vote). Its advocates are usually motivated by a sense that voters are too stupid, self-interested, or incompetent to make the right decisions because they lack sufficient training in economics and social science (Brennan, 2017). Hence in an
epistocracy a sub-set of citizens are excluded from suffrage or deprived of influence over important policy questions. Crucially, the notion of epistocracy is different from the labelling of institutions such as central banks as technocratic, in that an epistocracy is not restricted to the operation of technical systems with narrowly prescribed goals. Instead, in an epistocracy, the most knowledgeable persons are selected to make the right decisions as a matter of principle. As Runciman describes: ‘It [the epistocrat] tries to work out where we should be going. A technocrat can only tell us how we should get there’ (Runciman, 2018).

Through this conceptual lens, it is possible to interpret Monnet’s proposal for a credit council not as the vehicle for central bank democratization but as the epistocratic counterpart to technocratic, independent central banks. Where the central bank exercises technical discretion in fulfilling its mandate, the credit council, comprised of representatives from business sectors and policy-advising professions, would be exercising judgement over the future direction taken by economy and society. Strictly speaking, a credit council would not be a properly epistocratic institution because there would be no de jure membership restrictions based on credentials certifying expertise. In practice, however, credit council committees would have an epistocratic flavour. Indeed, the notion of a credit council is similar to the idea of an ‘epistocratic council’ developed by Jason Brennan, one of most vocal anti-democrats in contemporary political theory (Brennan, 2017, pp. 215–220). Brennan envisages an epistocratic council as having veto power over decisions made by the demos, which it can choose to reject for being unwise or based on a flawed understanding of data, science, or political civics (clearly having in mind the sort of voters who supported Donald Trump and Brexit). Arguably, a credit council is more like an epistocratic council than the model actually proposed by Brennan as it would be not vetoing but in effect setting policy and advising a central bank on the credit policies it should pursue.

In sum, the very nature of central banking, particularly in the context of obscure and hyper-technical post-financial crisis innovations, does not seem propitious for democratization. Affording these institutions powers of credit allocation would grant them a level of control over the direction of economy and society, which would be hard for most citizens to understand or challenge through the democratic channels they have access to. A credit council is not likely to provide such a channel as it would require a level of expertise which would act as a filter upon who could input into its decision making. From this perspective, Monnet’s vehicle for central bank democratization begins to look like the very opposite of what it is intended to be: an elite venue where the voices of those with the best knowledge of financial dynamics and macroeconomics are privileged over the lay publics subject to their decisions.
5 Conclusion

It would seem I started this article by crediting Monnet as doing a great service to central banking studies only to expend my energies over the previous three sections criticising his proposals. I have, I concede, stated my concerns quite strongly. Still, that should not be taken to mean that I think Monnet has incorrectly diagnosed the problem with post-financial crisis central banking. Monnet is correct when he points to how post-financial crisis quantitative easing has collapsed the distinction between monetary and fiscal policy, leaving independent central banking with an increasingly untenable democratic deficit. The value of Monnet’s work lies with offering a route out of this legitimation dilemma by clarifying the stakes of a dirigiste future for central bank led capitalism.

To summarise, Monnet’s proposals mean: accepting the post-crisis blurring of monetary and fiscal policy as a durable feature of contemporary political economies; calling for a formalised framework of institutional coordination between parliaments and central banks; abandoning the narrowly technical mandates of independent central banks in favour of a looser, discretionary approach; and establishing a credit council to deliberate about how credit should be allocated in the economy and to suggest which levers the central bank should pull to fulfil public policy goals.

I have argued that this programme is neither realistic nor desirable. It is not realistic because it fails to recognise that trust in experts is not what it was in the postwar period from which Monnet draws inspiration. His proposals hark back to a different era in which the top-down planning of society could be pursued by states without democratic pushback. Monnet’s proposals are not desirable because despite claiming to democratise central banking his model leaves the central bank as an independent institution and supplements its decision-making with the advice of an independent credit council. To call this democratization relies on a counter-intuitive, deliberative conception of democracy derived from the work of Pierre Rosanvallon which is far removed from the principle of one person, one vote. I have further suggested that part of the appeal of using central banks for progressive goals derives from frustrations with electoral democracy. I therefore speculated that credit councils could become a vehicle for political actors to pursue agendas which would be otherwise be more vigorously contested in transparent, fiscal policy processes. Monnet’s reluctance to state who would sit on the credit council and the difficulty for regular citizens to understand the effects of credit policy interventions bolster my fears that these innovations would not lead to the democratization of central banking but rather to the emergence of a credit allocating epistocracy insulated from accountability to voters.
That said, I believe Monnet has provided a thoughtful and rigorous response to the impasses cultivated over the past decade and a half. By emphasising the unsustainability of the status quo and outlining a coherent path forward, Monnet’s work places the onus on those not enamoured by the prospect of central bank planning to articulate what their alternative is. In that spirit, I would like to conclude by briefly offering suggestions of my own.

If the key motivation for Monnet’s project derives from how rapaciously influential central banks have become in the post-crisis era, then the critical question for normative theorising is: should the erosion of boundary between fiscal and monetary policy be accepted as the new normal requiring deeper institutional coordination and central bank led planning of the economy? Or should the infringement of the fiscal-monetary policy boundary by central bank bond purchasing programmes be seen as a problematic undermining of institutional norms to be corrected as expeditiously as possible?

It is easy to appreciate why progressives may lean towards the former position. Even before the advent of quantitative easing it was not a difficult to point to the artificiality of the separation of monetary and fiscal policy, when they have the potential to move in opposite directions and be insufficiently coordinated. The monist state theory of progressive reformers typically responds to such impasses with proposals to tear down cumbersome boundaries, treating the restoration of the authentic unity of the state as a synonym for ‘democratization’. To his credit, nowhere does Monnet indulge this simplistic political theology. Like Rosanvallon’s liberal theory of ‘horizontal’ democracy, Monnet insists on retaining the functional separation of treasuries, central banks, parliaments, and his proposed credit councils. Nevertheless, Monnet’s view on the fiscal-monetary policy boundary shares with left wing literature a readiness to embrace the erosion of the fiscal-monetary boundary as the starting point for constructing an institutionally coordinated economic planning apparatus.

Against this, I would insist on the need for prudence. While the boundaries upheld by liberal governmentality often seem frustratingly arbitrary, they serve productive functions which have evolved over time but are often forgotten over generations. Boundaries are of course never static. As Matthias Thiemann and I have argued, the history of central banking extending back to the early modern era can be interpreted as an ever evolving tension between the entanglements these institutions forge between states and markets and the need to draw new boundaries between state and economy to prevent central bank planning of the economy (Coombs & Thiemann, 2022). The fiscal-monetary policy distinction is possibly the most durable of all such institutional boundaries, dating back to before the formation of the first central banks when treasuries minted currency themselves (Desan, 2015).
I would like to close this article by pointing out that those nations which successfully maintained a boundary between their fiscal and monetary policy have tended to provide the stable political climate conducive to liberal democracy. The debasement of currency or the inability to maintain a boundary between fiscal and monetary policy has, oppositely, always been a reliable predictor of instability and a lurch towards authoritarian extremes. I would therefore suggest that a return to the pre-crisis status quo ante, before the advent of quantitative easing, is a better alternative to the model of central bank planning Monnet envisages. We may better face the challenges of the present within the intelligible domain of fiscal policy, debated by voters’ elected representatives. Bringing monetary policy under legislative control would seem a preferable model for central bank democratization than building a credit allocating epistocracy to supervise an untested experiment in macrofinancial economic planning.

References


