**To Democratize Finance, Democratize Central Banking**

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**Abstract**

Hockett’s “franchise view” argues, convincingly, that the capacity of banks or quasi-bank financial entities to create money rests on the laws, regulations, and guarantees of the state under which they operate. Block advocates use of this insight as a beachhead for establishing the legitimacy of locally embedded, non-profit lenders whose investments would be dedicated to public purposes. However, in view of the pervasive influence of “everyday libertarianism,” which fosters blindness to the public character of private economic power, I warn of possible counterproductive consequences of this proposal unless it is fused to the democratization of central banking. An end to central bank independence would highlight the ineliminable role of the state in the market, making that role easier to reshape. It would also bring an end to the dynamic whereby monetary easing provides political cover for damaging fiscal austerity, leading to better democratic deliberation on the contours of policy.

Keywords: Central bank independence, everyday libertarianism, coordination of fiscal and monetary policy

More than one hundred years ago, Georg Simmel wrote

One might say that money becomes increasingly a public institution in an increasingly strict sense of the word: money consists more and more of what public authorities, public institutions and the various forms of intercourse and guarantees of the general public make of it, and the extent to which they legitimize it.[[1]](#endnote-2)

And he was right! In developed countries, states enjoy a thoroughgoing monopoly on what counts as a legal means of payment. Bank deposits, transferred to settle legal obligations at parity with cash, are issued by legally constituted entities in legally delimited ways. Bank deposits’ parity with cash and their reliable flow through the financial system depend on state institutions. In effect, as Hockett’s contribution to this volume demonstrates, commercial banks exercise public power by operating a state-sanctioned and state-sustained “franchise” to issue money effectively interchangeable with that directly issued by the central bank. Even when its issue and circulation are managed by private organizations, money is indeed a public institution, our most pervasive and all-embracing one.

If a public institution facilitates what Block and Hockett term a “financial dictatorship,” then democratic legitimacy would seem to demand its reform. This chain of reasoning is logically unexceptionable, but its political impact is open to question. Developed and convincing analyses of the intertwining of public power with the institutions of capitalist exchange have been available at least since the 1920s, but proved no barrier to the rise of neoliberalism since the late 1970s. One reason for this, I suggest below, is the way that persistent, prevalent, and emotionally resonant convictions about the role of individual desert in driving market earnings deny or obscure the state’s formative role for market institutions. The tenets of such “everyday libertarianism,” which implicitly assume a stateless market, are unlikely to be dispelled by a proposal to broaden the monetary franchise to non-profit banks, even if it is popularly accepted.[[2]](#endnote-3)

Efforts to reform finance must consider not only this ideological context, but also the broader economic and political context. Here it proves essential to understand the role of independent central banks. Promotion of central bank independence (CBI) was a core aspect of the broader neoliberal push to insulate markets from democratic control. Eliminating direct influence of elected officials over monetary policy and tasking central bankers with the pursuit of price stability, neoliberals insisted, would inhibit the profligacy of politicians and permit the unpopular monetary restriction necessary to bring an end to inflation.

In the aftermath of the financial crisis of 2007-2008, CBI had unanticipated but highly significant effects. Throughout the developed world, fiscal policies to stimulate demand in response to the crisis were manifestly inadequate in scale, and pursued only briefly before giving way to a contractionary austerity.[[3]](#endnote-4) But central bankers’ mandate for price stability, designed with inflation in mind, also required them to fight deflation. Central banks were left with little alternative but to seek to mitigate the effects of fiscal austerity through creative efforts to prompt new lending.[[4]](#endnote-5) This pattern had the perverse political consequence that the architects of austerity were at least somewhat insulated from a potential electoral backlash, bailed out by a second-best replacement policy of which there was little public awareness.

I argue below that public-purpose lending, if established, could easily contribute to this damaging political configuration as another makeshift substitute for appropriate fiscal policy. More generally, given these ideological and political circumstances, a reform aimed at deploying the money franchise in service of public policy goals must be joined to a second reform: the reversal of central bank independence. For reasons explored below, by making monetary policy and its effects an object of regular debate, democratization of central banking would make everyday libertarianism much harder to sustain. And a transparent connection between monetary and fiscal policy would also improve democracy’s capacity to make coherent policy choices, including those about the appropriate contours of the money franchise. In sum, democratization of central banking would help create a permissive environment for a socialism understood in Polanyi’s sense as “subordination of markets to democratic politics.”[[5]](#endnote-6)

**Ignoring the state in the market: Everyday libertarianism**

Hockett’s institutionally precise exposition of the public character of private banking recalls a critical American perspective on the place of the state in a market economy that is too often forgotten. Highlighting the pervasive, intrinsic role of legal institutions in capitalism was a key part of the programme of what Barbara Fried has termed “the progressive assault on laissez-faire,” spearheaded by legal realists and the so-called ‘old’ institutional economists (OIE) from the late 19th century, which flourished especially in the inter-war years.[[6]](#endnote-7) Their analysis charted the myriad ways in which legal institutions shape exchange through authorizing some acts and forbidding others, with contract, property, and tax law putting the state in the backdrop of every transaction (even the illegal ones) in modern capitalist economies. As the brilliant (but profoundly morally tainted) economist John R. Commons put it, “each individual is a ‘public utility’ to the extent that public powers are employed in his behalf against others.”[[7]](#endnote-8) From an OIE perspective, the activity of fractional reserve banks in creating “’new credit,’ which is equivalent to creating ‘new money’” was just another example of the ways in which a capitalist legal system grants “a certain share of [the] collective power” to those engaged in legally authorised transactions.[[8]](#endnote-9) A bank, Commons stated, deals “in promises to pay lawful money. And the volume of its promises to pay on demand may be as great as the risks it is willing to take on the chance of having enough lawful money on hand to meet a run of outgoing checks presented by customers and other banks in excess of the run of incoming checks deposited by customers and drawn on other banks.”[[9]](#endnote-10) Commons thus recognized that banks were not usefully understood as intermediaries between savers and borrowers, and that their creation of money—like any other capitalist transaction—involved the delegation of public power.[[10]](#endnote-11)

Such arguments are at least as compelling now as they were when Commons wrote in 1924. Indeed, in the specific case of finance, given intervening developments strengthening central back support for private credit, they are more so. Nonetheless, despite a dominant position in the U.S. academy before World War II, the years after the war saw a rapid, near total decline in the OIE’s influence. Legal realism likewise rapidly waned within the law academy, and the renaissance of its key ideas with the Critical Legal Studies movement proved, unfortunately, relatively circumscribed.[[11]](#endnote-12) The effort to use recognition of the public character of private capitalist transacting as a springboard for a political strategy should reckon with this history. Within the academy, sociology-of-knowledge factors certainly played a role in the marginalization of the two schools of thought, but this still doesn’t account for why their key insights failed to embed themselves in broader political practice and discourse despite a period of near-hegemony in the academy.

While innumerable causes could be cited, I’d like to focus what I believe is a significant ideational one: the power of what Murphy and Nagel have termed “everyday libertarianism.” Everyday libertarianism refers to the sense that our net market income “belongs to us without qualification, in the strong sense that what happens to that money is morally speaking entirely a matter of our say-so;” this moral confidence derives from an intuition that market rewards are deserved. Given that incomes depend crucially on the morally contingent contours of state-provided market-shaping institutions, even “cursory critical reflection” should dispel the claims of everyday libertarianism. Yet “the instinctive sense of unqualified ownership has remarkable tenacity.”[[12]](#endnote-13) This tenacity means everyday libertarianism exercises a corrosive effect on the capacity of political discourse to absorb an analysis of how private economic institutions embody authorizations to invoke public power, for any such analysis foregrounds the market-shaping processes that everyday libertarianism must ignore if its moral position is to have any coherence. The strength of everyday libertarianism is thus a significant barrier to socialism understood as democratic control over the contours of markets, as it makes all but impossible a reasoned public discussion of the core issues.

**Can The Franchise Model Disrupt Everyday Libertarianism?**

From an intellectual standpoint, money, the public institution that constitutes the object of private acquisitiveness, is a particularly telling illustration of the incoherence of everyday libertarianism. But how to make use of this insight politically is another question. Murphy and Nagel don’t really expand on the reasons that everyday libertarianism is so pervasive despite its intellectual vacuity. (We will leave to one side efforts by the rich and powerful to promote more explicit versions of the same ideas.) They imply it is reinforced by the quotidian experience of getting and spending, and the practical experience of exclusive control over net income, to which a mandate to, say, pay additional taxes appears an unwelcome exception. However, this is only part of the issue. It wouldn’t in and of itself explain why everyday libertarianism should also embody ideas of market income as *deserved*. For Murphy and Nagel, the answer seems to be one of logical implication. If incomes are not deserved, then there can be no justification for the sense of absolute ownership over net income. However, insofar as we are dealing with intuitions rather than reflective thought, ascribing causal power to logical implication seems dubious.

The ‘market incomes are deserved’ aspect of everyday libertarianism does, however, resonate with a widely distributed psychological tendency to seek a meaningful moral order in the world. As Max Weber put it,

The fortunate is seldom satisfied with the fact of being fortunate. Beyond this, he needs to know that he has a *right* to his good fortune. He wants to be convinced that he ‘deserves’ it, and above all, that he deserves it in comparison with others. He wishes to be allowed the belief that the less fortunate also merely experience[s] his due. Good fortune thus wants to be ‘legitimate’ fortune.[[13]](#endnote-14)

In the context of market outcomes, one can suggest, this desire for a sense of moral worthiness pushes for an indication that income is deserved, what I have called elsewhere a “theodicy of markets.”[[14]](#endnote-15)

In the closing chapter of *The Great Transformation*, Polanyi provides a penetrating analysis of how the entwining of market outcomes with moral self-satisfaction interferes with perception of the ways in which incomes reflect the application of public power. His argument, albeit laconic and at times obscurely phrased, reveals clear appreciation of OIE arguments. Legally constituted markets inevitably involve compulsion (for instance, to collect debts or enforce property rights), a compulsion obscured by the formal freedoms of choosing consumers. To choose one product rather than another, for instance, inevitably exposes unchosen producers to financial consequences ultimately backed by the power of the state. Yet, in a market economy, “[a]ny decent individual could imagine himself free from all responsibility for acts of compulsion on the part of a state which he, personally, rejected; or for economic suffering in society from which he, personally, had not benefited. He was ‘paying his way,’ was ‘in nobody’s debt,’ and was unentangled in the evil of power and economic value. His lack of responsibility for them seemed so evident that he denied their reality in the name of his freedom.”[[15]](#endnote-16) In other words, the market supplies a seductive language of moral adequacy—paying one’s way, in nobody’s debt—that draws a veil over the organization of public authority that constitutes the market in the first place.

In light of this diagnosis of the roots of everyday libertarianism’s tenacity, we can inquire both into the prospects for promoting the franchise model and its capacity to transform discourse around constructing markets even if successful. On both counts, there are grounds for skepticism. Certainly, it is easy to present the ability of banks to create money as inconsistent with the idea that incomes must be earned. However, a criticism on this ground does not naturally lead to ideas about profit regulation of banks or broadening the money franchise, since either of these would challenge the theodicy of markets just as radically. In other words, promoters of a modified franchise model would have to direct the stream of political indignation stemming from the realization that banks create money away from the channels most deeply worn in popular economic discourse. Limited experience indicates that efforts to promote broad public knowledge of the fact that banks create money can easily go in the direction of full-reserve banking, as in the recent failed Swiss “Vollgeld” (full-money) referendum, which was closely linked to the international movement for “sovereign money.” The key idea of the sovereign money school is to deny banks the ability to create deposits that would trade at par with central bank money on the basis of fractional reserves. One result, as advocates stress, is that banks would earn money only through actual intermediation. Sovereign money advocates regularly invoke the idea of undeserved incomes to win support for their proposals, reinforcing the tropes of everyday libertarianism.[[16]](#endnote-17)

Suppose, however, that communication to a broad public of the franchise model built support not for its abolition but its reconstruction, as Block proposes, to limit bank profitability and facilitate creation of non-profit banks subordinated to public purposes. While this would certainly be very welcome, whether it would become an effective beachhead for a further pushback against everyday libertarianism is open to doubt. A discussion of how to employ the full faith and credit of the public does not logically entail an analysis of the construction of the markets within which it is employed. Borrowers from a non-profit bank would still have to repay their loans, based on ability to make effective commercial use of them on the backdrop of a price system shaped by inequities in bargaining power that are both pervasive and large. Even loan officers well-placed to observe the extortionate effects of these inequities would not be able to disregard them in making lending decisions. The difficulties that have plagued micro-finance in maintaining developmental purpose and avoiding a slide into predatory lending, absent a broader structural transformation of the circumstances in which small borrowers are located, can serve as a metaphor for challenges involved.[[17]](#endnote-18) To single out the excessive profitability of a single sector, banking, on the basis of the implicit public subsidy involved in fostering the exchange of bank deposits at par, might even have the effect of inadvertently legitimating the profitability of other sectors, though as the OIE reveals this profitability is similarly inseparable from the exercise of public power. In short, promotion of the franchise model runs a substantial risk of falling into a portrayal of banking as an exceptional violation of the moral strictures of everyday libertarianism, thereby implicitly endorsing their validity and coherence.

Another reason for skepticism about the transformative potential of the franchise model can be drawn from Block’s observation that a system of non-profit banks serving a public purpose does not represent a radical break with US traditions. As he notes, “the U.S. has a long history of democratizing financial reforms … In this sense, it is the last thirty year period that has been exceptional.”[[18]](#endnote-19) While Block makes a strong case that changing circumstances mean there is an economic base for a more democratized credit system, the fact that this tradition failed to embed itself on an ideological level, even when institutions persisted, suggests the scope of the challenge involved in reversing the sway of everyday libertarianism is very large.

**Disrupting Everyday Libertarianism through Democratizing Central Banking**

The more general lesson of the above considerations is that assessing the political potential of promoting the franchise model requires understanding how this effort would intersect with the broader context of economic policy. As noted above, in the decade since the economic crisis of 2008, the predominant policy stance in the developed world has combined inadequate fiscal stimulus, or outright fiscal austerity, with extraordinary expansionary efforts by central banks. Though indispensable during a financial implosion, and much better than nothing in a profound slump, monetary activism proved inadequate compensation for fiscal passivity or perversity. Even in the most fortunate countries the result was a slow and arduous recovery from crisis, weighing heavily on lower-income groups; in the less fortunate countries, such as Greece, the outcome was simply catastrophic.

The most prominent and significant example of these dynamics took place in the United States. Barack Obama’s administration, enjoying unified control of Congress on his accession to power, launched a program of fiscal stimulus in early 2009. While underpowered, this stimulus certainly reduced the depth and longevity of the recession. However, it did very little to help consumers laboring to repay debts, especially housing mortgages, built up in the years before the crisis. Modifications of bankruptcy rules to aid borrowers hit by the massive fall in home prices were blocked by the influence of financial interests in the Senate.[[19]](#endnote-20) Other programs aimed at aiding mortgagers barely got off the ground.[[20]](#endnote-21) While there were manifest political and practical difficulties in promoting such policies, it is also clear that the Obama administration did not make their pursuit a priority.

Nonetheless, even these limited efforts caused a backlash. Symbol and to some extent catalyst of this backlash was CNBC commentator Rick Santelli’s impassioned call for a ‘Tea Party’ to resist the administration’s efforts at mortgage relief. Speaking from the floor of the Chicago Board of Trade, Santelli said

The government is promoting bad behavior. … Why don't you put up a website to have people vote on the Internet as a referendum to see if we really want to subsidize the losers' mortgages; or would we like to at least buy cars and buy houses in foreclosure and give them to people that might have a chance to actually prosper down the road, and reward people that could carry the water instead of drink the water?[[21]](#endnote-22)

The implicit moral standpoint here was that individuals deserved to live with the consequences of their choices. It was a classic example of the theodicy of markets, and the seductive self-righteousness of “paying one’s own way.” The mix of material and ideal interests animating the Tea Party movement that subsequently emerged was complex, but a self-image as “productive members of society” in contrast to “moochers” provided an important part of the emotional energy for the movement.[[22]](#endnote-23) The power of the rhetoric of desert was particularly apparent when, on the eve of the 2010 midterm elections, Obama gave a retort to Santelli limited to the defensive assertion that some owners losing homes when unable to pay mortgages were “real people who worked really hard for that house.”[[23]](#endnote-24)

The Tea Party’s energy, alongside the disappointing results of the Obama administration’s insufficiently bold economic policies, certainly contributed to the Democrats’ loss of control over the House of Representatives in autumn 2010. Once in power, House Republicans waged a campaign of fiscal obstructionism, culminating in cliff-edge negotiations over increases in the Treasury’s authorized borrowing limit. These showdowns brought an end to the systematic use of fiscal stimulus to cushion the crisis’ impact. However, and very importantly, the Federal Reserve retained its independence, and in line with its mandate to avoid deflation and promote employment, compensated for fiscal restriction (and market uneasiness over the debt limit brinkmanship) with innovative expansive monetary policies in the form of quantitative easing (QE), which involved the use of copious provision of directly central-bank-issued money to compensate for weak private-sector money creation. It was all but impossible to find an argument for QE that didn’t imply a fiscal expansion would be a more effective approach, but this was foreclosed by politics. Republicans sympathetic to the Tea Party held little love for the Fed’s activism, but it nevertheless continued, obscuring the costs of fiscal austerity. Though many uniquely American institutions and attitudes figured in this outcome, the Eurozone and the UK also found their way to a similarly incoherent combination of fiscal restriction and monetary stimulus.[[24]](#endnote-25) And though the specific pathways of political causality were different, desert-based arguments played an important role in these cases as well.

We are now in a position to consider how the presence of public-purpose banking, legitimated by the franchise approach, might have affected these political dynamics. The most plausible answer is: very little. In fact, accounts of money broadly consistent with the franchise view gained ground during this period, but facilitated rather than challenged the tight budget, loose money outcome. Benjamin Braun has argued that before the crisis, central bankers long found it convenient to endorse what he terms the “folk theory” of money, a theory that fails to recognise the “public-private partnership” governing its issue, regarding banks as intermediaries and ascribing full, exogenous control over the money supply to the central bank.[[25]](#endnote-26) The folk theory of money made monetarism seem a feasible policy and kept the actual practical struggles of adjusting stimuli to achieve expansionary or contractionary bank lending well out of the public view. From the perspective of the folk theory of money, or crude amateur versions of monetarism, central banks’ increase of their money issue to many multiples of its pre-crisis level was alarming. Braun argues that the rise of QE pushed central banks to give a more realistic account of the money-creation process to dispel inflationary fears, noting a 2014 paper issued by the Bank of England (one also invoked by Hockett as support for the franchise model).[[26]](#endnote-27) In 2018, Claus Borio, a leading analyst at the Bank of International Settlements, an influential citadel of central banking orthodoxy, adopted a similar point of view.[[27]](#endnote-28) While as of early 2019 it would have been an overstatement to say that central banks generally had become protagonists of an effort to convey a more realistic view of the money supply process to the broad public, they certainly weren’t resisting it.

On a practical level, central banks struggled mightily during the post-crisis period to get commercial banks to lend more freely. In Europe, these efforts progressed to the point of the ECB in effect paying banks that would lend to small business, with careful efforts to avoid spillover of these funds into real-estate speculation or subsidies for lending that would have taken place anyway.[[28]](#endnote-29) In effect, then, the ECB was seeking to channel banks’ money creation to public purposes, if narrowly defined. Nonprofit banks with an explicit public purpose might have been more responsive to such encouragement, but to the extent that they were constrained to avoid losses, would have experienced similar reasons to hesitate in their lending.

In short, ideas close to the franchise view, and policies with at least a family resemblance to the proposal for public-purpose banking, did emerge in the aftermath of the financial crisis. But in the presence of independent central banks with a mandate to avoid deflation, these ideas and policies facilitated, however indirectly, the perpetuation of a political formula that used hypertrophied monetary activism to permit atrophied fiscal policy. Though the experiment is far from perfect, this record suggests that on its own an effort to promote the democratization of finance via a reconfigured franchise model will at best leave untouched––and at worst, actively perpetuate––a political context for economic policy that has proved hostile to socialism even, remarkably, after capitalism’s biggest catastrophe in eight decades.

The broader political situation thus requires that promotion of public-purpose banking should be paired with a push for direct subordination of the central bank, and therefore organization of the money supply process, to democratic authorities. This would have at least two positive effects. First, it would remove the incentives for political arbitrage between fiscal and monetary policy. The absurdity of cutting spending “to reduce debt” while the central bank, far from the public eye, is issuing money to purchase government debt at a breakneck rate would become manifest. Rather than focusing on commercial banks as centers of money issue, and asking whether activities are aligned with the public purpose, democratic discussion could encompass all forms of money issue—including that involved whenever a government makes payments out of a bank account. Rather than an implicit program of loose money and fiscal austerity, parties comfortable with that policy stance would have to embrace it explicitly. As presently organized, a program of monetary stimulus says, in effect, we in the central bank want to improve the economy by encouraging those enjoying the money franchise to lend more actively and make profit by doing so. Defending *that* program in an explicit public forum in which votes must be won could plausibly do a great deal to educate public opinion on banking and open political space for public-purpose banks.

A second potential benefit of eliminating central bank independence is that publicly deliberated making of monetary policy could spill over into broader reforms involving a thoroughgoing challenge to everyday libertarianism. This might happen as follows. A common dynamic in monetary policy practice is that central bankers find the effectiveness of their policies limited or undermined by the organization of the financial markets through which they operate. In reaction, central banks seek to restructure financial markets to facilitate their monetary policy role.[[29]](#endnote-30) But it is not only *financial* markets that condition the effectiveness of monetary policy. As central bankers struggled to raise inflation rates to target levels in the post-crisis decade, the failure of declining levels of unemployment to pass through to substantial wage gains proved an important barrier. However, independent central banks had no levers via which to reverse deunionization and the other structural and policy changes that had weakened of labor’s bargaining power via (even if the relevant officials had been inclined to do so). By contrast, elected institutions grappling with the ineffectiveness of monetary policy would have available to them a much broader range of possible reactions, and be stimulated to rebalance bargaining strength across a range of economic sectors.

Those to whom this seems a far-fetched prospect might consider some precedents. FDR’s effort to shape a monetary policy that could reverse price declines, which had limited direct success, prepared the way for a reversal of his advocacy of budget balance and was part and parcel of the broader effort to restructure markets that constituted the New Deal.[[30]](#endnote-31) In the 1970s, before the primacy of central banks in fighting inflation was firmly established, efforts to tackle the issue frequently involved changes in the authorizations of transactional autonomy granted to private parties. In the US, for example, the Nixon administration imposed direct controls on wages and prices. UK governments spent years in futile efforts to coordinate incomes policy. These policies were not successful nor always progressive, but they do illustrate the ways in which elected authorities grappling with issues of monetary policy found themselves drawn into a much broader engagement with market structures, thereby shining a political spotlight on the functioning of capitalism’s legal institutions and underscoring the incoherence of everyday libertarianism. The drive to depoliticize such issues was, of course, an important part of the broader neoliberal push that also enshrined CBI.

Naturally, a reversal of central bank independence would guarantee neither more rational coordination of fiscal and monetary policy nor a progressive market restructuring. But eliminating CBI would have at least one other powerful political benefit. Drawing on the lessons of the Syriza experience in Greece, Block highlights the importance of avoiding a punishing capital strike during the transition to socialism, and suggests that a network of nonprofit banks could be a buffer against such a strike. However, as Block recognizes, Greece’s participation in the Eurozone, and thus the lack of a central bank over which its government had even arm’s-length control, was absolutely central to the Greek story.[[31]](#endnote-32) The prospect of financial panic on Greek bond markets, and runs on Greek banks, were critically dependent on the ECB’s expressed willingness to permit such a catastrophe. This reprised a broader pattern from the acute phase of the Eurozone crisis, when the ECB successfully used the threat of allowing market panics to rage unchecked as a means of promoting austerity.[[32]](#endnote-33) Although the absence of a corresponding fiscal or governmental authority for the Eurozone as a whole makes the ECB’s degree of independence unique, the pattern in which an independent central bank channels the prospect of market panic to curtail radical political aims can hold in the more common nation-state configuration as well.[[33]](#endnote-34)

All of this suggests that capacity to resist a transitional capital strike will depend crucially on government control over the central bank. Without lender of last resort support, and without the central bank’s continued underpinning of the franchise model, a network of non-profit banks will be vulnerable to unmediated shifts in market sentiment and a drying up of reserves. Direct subordination of the central bank to elected authorities is thus a crucial institutional precondition for the sort of transition to socialism Block envisages. Efforts to make establishing control over the central bank part of such a transition, because of the public signal they would send to financial markets, would only strengthen the prospect for a capital strike. Reversing central bank independence thus plausibly needs to come prior to an effort to transition to socialism.

**Prospects for Democratizing Central Banking**

Democratizing central banking is, obviously, not a trivial political challenge. The mainstream consensus on central bank independence has become deeply rooted over the last several decades. Even some critics of austerity, and advocates of ‘helicopter money’, have proposed to build the possibility of this policy into the design of a central bank.[[34]](#endnote-35) However, shifts in economic and political context suggest that the crumbling of this consensus is a realistic prospect.

Codification of an explicit case for central bank independence dates from the high-inflation period of the 1970s. Whatever the relevance of the key arguments in those circumstances, their contemporary pertinence is very difficult to defend.[[35]](#endnote-36) Consider, first, the ‘time inconsistency’ argument. This derives from the claim that economic agents who expect inflation will rapidly raise prices in response to any expansion of nominal demand through monetary policy, negating its effect. However, if inflation is unexpected, a period of ‘money illusion’ will allow an increase in nominal demand to be interpreted as an increase in real demand, prompting an expansion in production and hiring. Thus a promise to maintain low inflation, once believed, creates space for effective monetary stimulus—and with it, a politically irresistible temptation to violate that promise.[[36]](#endnote-37)

However, the causal mechanism is impossible to credit after years (or in the case of Japan, decades) of unsuccessful efforts to stimulate in the face of low inflation expectations. This same empirical record undermines a second prominent rationale for CBI. Kenneth Rogoff argued for the benefits of appointing central bankers whose distaste for inflation exceeds that of the public’s, as the prospect of ferocious monetary restriction in the face of price rises would dampen inflationary expectations. Yet if central bankers may be called on to accelerate inflation as well to reduce it, picking a hyperconservative central banker could easily prove counterproductive.[[37]](#endnote-38)

The last of the three major justifications for CBI derives its arguments from the supposed monetary dangers of fiscal profligacy. Sargent and Wallace suggested that the volume of government debt would at some point exceed the willingness of investors to hold it, especially if growth the stock of debt is accelerated by high interest rates. At this point, they argued, the central bank would face irresistible pressure to use money issue to cover government expenditure—unless the central bank is able independently to determine its policy in a way that “effectively disciplines the fiscal authority.”[[38]](#endnote-39) The argument hinges, then, on the proposal that unconstrained fiscal authority will eventually issue debt on a scale that overwhelms the public’s appetite to hold its bonds. Yet, as long as economic growth outstrips the interest rate on government, as is predominantly the case, there is no reason to assume a looming cliff-edge in the capacity of fiscal authorities to place their bonds.[[39]](#endnote-40)

Whether governments do shrug off the shackles of defunct economists and take back control over monetary policy will depend, ultimately, on politics. The prospects and relevant processes will depend on the specific features of different polities, as well as capacities to withstand potential negative reactions from financial markets. In the United Kingdom, the unconstrained power of the executive—the lack of ‘checks and balances’—made central bank independence relatively easy to introduce, and would make it relatively easy to reverse. CBI’s prospects thus depend on the costs and benefits for the governing party. For Labour politicians Gordon Brown and Ed Balls, who orchestrated the sudden switch to CBI after Labour’s 1997 electoral victory, the arrangement had a dual purpose. To ‘the markets’, CBI underscored New Labour’s rejection of radical policies, but the specter of bank rate rises was also meant to ensure that fiscal conservatives would have the whip hand in internal party disagreements.[[40]](#endnote-41) Later, when the Conservative-led coalition government took over in 2010, pre-deflationary economic conditions meant that the Bank of England’s inflation mandate required expansionary policy; this allowed the Tories to implement their preference for austerity secure in the knowledge that the central bank would mitigate some of the economic impact.[[41]](#endnote-42) Given low world interest rates that reduce the prospective borrowing cost consequences of a reversal of CBI, and Labour’s ambition to reverse austerity, resubordination of the Bank of England to the Treasury is a real prospect should the party return to power. In the UK general election of 2015, Labour Party leader Jeremy Corbyn proposed “QE for the People,” which would have involved using central bank monetary issue to fund an investment bank.[[42]](#endnote-43)

Reversal of CBI faces a much more challenging path in the Eurozone, and not just because of individual member states’ ample capacities to obstruct any revision of the treaty provisions establishing the European Central Bank. The attenuated link to electorates of relevant executive authorities, including the European Commission and the influential but secretive “Eurogroup” of finance ministers, as well as the circumscribed powers of the European parliament and the macroeconomically trivial fiscal role of EU-wide spending, all underscore the absence of democratically responsive agents to which the ECB could be subordinated. Without a strengthening and democratization of Europe-wide institutions, restoration of democratic sovereignty over money will have to take place at the level of individual countries. However, the prospect of bank runs and the significance of euro-denominated obligations make exit from the euro unattractive. There is, though, an alternative route. This involves the use of fiscal powers—taxation and spending—to facilitate monetary issue. Fiscal authorities can spend in an alternative or surrogate currency, which they agree to accept in taxes. Historically, this is a well-trodden path.[[43]](#endnote-44) In 2011-2012, Spain came quite close to implementing a version of this approach via netting government debts to suppliers against their tax obligations, though eventually it found a way to accomplish a similar end via channeling a commercial bank’s franchise to issue official money.[[44]](#endnote-45) Greece’s former finance minister Yanis Varoufakis promoted the issue of fiscal surrogate currency during the country’s stand-off with other Eurozone countries.[[45]](#endnote-46) More recently, in the context of sustained stagnant growth, Italy’s Lega Nord proposed issuing a parallel currency that could retire budget debts and would be accepted in payment of taxes, and the Lega - Five Star Movement coalition government floated the idea of requesting that Italian debt purchased by the ECB be retired.[[46]](#endnote-47) (It is pertinent that there are reasonable suspicions that shifts in ECB policy and rhetoric helped touch off sharp rises in interest rates on Italian bonds, contributing to a substantially less provocative ultimate formulation of financial policy by the Lega-Five Star government.)[[47]](#endnote-48) In sum, the potential conversion of fiscal into monetary powers is a specter that will continue to haunt the euro, though implementation would require a more radical politics than have so far emerged.

Turning, finally, to the U.S., on which Hockett primarily focuses, the entrenchment of CBI is somewhat less than often imagined. Binder and Spindel note that Congress has repeatedly shown a willingness to change the laws governing the Fed, and demonstrate that Fed officials are cognizant of the potential consequences of provoking legislators’ discontent. “At best,” they argue, “the Federal Reserve earns partial and contingent independence from Congress, and thus, we conclude, barely any independence at all.”[[48]](#endnote-49) This is a vast exaggeration; given the multiple countermajoritarian veto-points of the U.S. legislative process, the barriers to curtailing independence are high.[[49]](#endnote-50) Indeed, Binder and Spindel would have to concede that on many occasions, including during the post-2007 financial crisis, the Fed undertook actions that would never have won Congressional approval.[[50]](#endnote-51) Nonetheless, they are correct to emphasize that what Congress has enacted Congress can, and sometimes does, change. Post-crisis legislative changes focused on narrowing the Fed’s discretion in emergency circumstances, including requiring approval from the Treasury for certain policies. This doesn’t undermine, indeed probably strengthens, the Fed’s main potential source of power in crisis circumstances, namely the threat not to act and permit catastrophe to unfold. But it does slightly extend democratic control over what action is done, without significant change to the overall model of Fed independence constrained by pursuit of a mandate. A more significant challenge to the model was a 2015 episode in which Congress in effect required the Fed to create new money to fund spending, albeit on a one-off basis.[[51]](#endnote-52) On this backdrop, political circumstances in which elimination of CBI becomes possible can certainly be imagined. Such circumstances would be very likely to overlap with those necessary to enable a radical expansion of public-purpose banking, so that the two reforms might be passed at the same time.

How to design a democratically appropriate central bank for the U.S. is a complicated issue given the country’s broader democratic defects. Polanyi’s penetrating quip that the U.S. Constitution deployed Montequeieu’s “separation of powers … to separate the people from power over their own economic life” retains its relevance.[[52]](#endnote-53) However, even without a constitutional revolution, democracy would still be strengthened by bringing monetary policy under direct control of the executive branch. The ways in which Congressional fiscal policy connected to monetary policy—for instance, excessive spending restrictions prompting a Presidential decision to fund deficits via seigniorage rather than debt—would become much more politically transparent. When Congressional Republicans were threatening a catastrophic refusal to raise the government’s debt ceiling to force spending restrictions, some progressives urged the Obama administration to use an obscure legal provision authorizing the executive to mint platinum coins as a means of expanding money issue to meet government obligations.[[53]](#endnote-54) In direct macroeconomic effect, this would have been little different from borrowing via treasury bonds subsequently purchased by Fed money issues. But it would have been vastly more politically salient and contributed to an honest processing of the fiscal-monetary policy mix within elected institutions.

**Conclusion**

Block proposes that because “the franchise model cuts through [the] ideological haze [portraying banks as part of self-regulating market of intermediaries connecting savers to borrowers], it opens up a whole set of alternative policy options.”[[54]](#endnote-55) Yet, this intellectual haze is not so easily dispelled. The brief intellectual history of the OIE given at the beginning of this paper suggests that clear-sighted perception of the delegation of public power to private business by legal institutions does not by itself create political opportunities. Furthermore, confusion about the nature of banking is built on a broader base of everyday libertarianism, which is an intuitive grouping of views that is resilient to exceptions. Certainly, the franchise model of present-day banking gives an excellent example of the fallacies of everyday libertarianism. But for those able to perceive them, such examples abound. Effectively confronting everyday libertarianism—which creates innumerable points of resistance to promoting socialism understood as the subordination of markets to democratically determined public purposes—plausibly requires continuous discussion that brings its implicit claims into the open. Discussion of the institutions bearing on the effectiveness of monetary policy (including the money franchise) in a legislative forum could help accomplish this aim. Reversal of CBI could thus open the way to integration of democratized finance into a more thoroughly democratized economy.

Making the coordination of fiscal and monetary policy a matter of explicit public contention will serve the same aim. Kalecki argued long ago that one explanation for the hesitation of business representatives to endorse fiscal stimulus despite the economic improvement it ought to bring is their reluctance to endorse “subsiding mass consumption” for “here a ‘moral‘ principle of the highest importance is at stake. The fundamentals of capitalist ethics require that ‘You shall earn your bread in sweat’—unless you happen to have private means.”[[55]](#endnote-56) QE and monetary stimulus more broadly had the effect of reducing the economic, and thus political, costs of subordinating fiscal policy to this sort of self-interested moralizing. Central banks’ compensatory reaction to the lack of systematic integration of Keynesian insights into fiscal policy-making thus wound up strengthening everyday libertarianism. The goal of ensuring that publicly created money franchises serve authentic public purposes can only be ensured if this damaging dynamic is broken. And this requires direct subordination of central banks to elected officials.

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**Notes**

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