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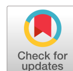

FORUM

Introducing *The Rise of Central Banks*

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Abstract

I use this introduction to the book forum to situate my work within scholarly discussions of relevance to the readers of *Finance and Society*, thereby indicating how my work advances the broader field. I also provide a brief synopsis of the book's core findings and offer some ideas on how to think with and beyond the book.

Keywords: Central banking; financialization; global financial governance

As qualitative sociologists, we are sometimes lucky to encounter place- and time-specific, circumscribed 'material research objects' (Krause, 2021) that simultaneously assume strategic importance for broader processes that warrant description and explanation. When I started to devise plans for my research after a PhD in the sociology of finance (around 2012), I sensed that central banks would constitute such felicitous research objects. Indeed, as it turned out, these organizations are not only extremely peculiar, *sui generis* entities. They have also been at the center of shifting relationships between the state and the economy in advanced capitalism over the past fifty years. Before or together with me, scholars like Daniela Gabor, Ben Braun, Sahil Dutta, Nathan Coombs, and Matthias Thiemann recognized this importance at an early stage and have by now established a strong research field that combines the study of financialization in its technical details and broad contours with research on economic and financial policies. The upshot of this literature is that while financialization itself (partly) emerged from political choices (Krippner, 2011), it has redefined the contexts in which state interventions into the economy take place (Dutta, 2017; Braun and Gabor, 2020; Coombs and Thiemann, 2022).

To study these developments productively means to connect and advance debates that had by and large been separated before. For instance, political economists had discussed for some time why Western capitalism had entered an age of low-inflation neoliberal policies, and what the consequences of these policies were. But neither the Marxist, nor the 'Varieties of Capitalism' (VoC) strands in political economy had properly understood the nexus between central banking and finance and explained why this nexus mattered at larger scales. For Marxists, central banks and capitalists form alliances of interests and/or ideology that lead to 'hard money' (anti-inflation) biases in monetary policies (e.g., Epstein, 1992). For VoC scholars, differences in bargaining institutions are the key variable that mainstream economists had overlooked to explain successful (i.e., less costly) disinflations (Hall and Franzese, 1998). But neither the Marxist nor the VoC political economists paid sufficient attention to the operational relationships between central banks and finance,

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nor did they have the adequate methodological tools to study what was going on there. This led them to overlook a key factor shaping neoliberal governance. Central banks are singular governing bodies because, in their actual policy conduct, they are constrained and enabled by their positions at the heart of financial systems and by their transactions with banks and other financial firms as counterparties. Misrecognition of these linkages then also led to limited understanding of how central banks contribute to financialization and the expansion of financial systems. In the wake of the Global Financial Crisis, and with the proliferation of monetary and financial interventionism after 2008, opening this black box became a crucial gap that I, together with the other authors, wanted to fill.

The rhetoric of opening black boxes is all too familiar to readers of this journal. Using tools from science and technology studies (STS) to explore the technicity, epistemics, and materiality of finance is an established strategy in the social studies of finance (SSF). However, my book did not turn out to become another work in this genre. SSF had been curiously silent on central banks. To be sure, Mitchell Abolafia, a forefather of SSF, had conducted a long-term study of the Federal Reserve and published in-depth analyses of its policy deliberations (using ad verbatim transcripts from Federal Open Market Committee – short FOMC – meetings) (Abolafia, 2020). However, this had remained a fairly isolated project. Isolated, not so much because nobody followed up on Abolafia's research; indeed, Neil Fligstein and co-authors (2017) conducted similar research, using innovative text analysis tools. Rather, a disconnect with crucial debates came from the fact that Abolafia took the Fed to be a case of organizational cognition (the pitfalls of technocratic dogmatism and virtues of uncertainty-embracing deliberations). Broader questions about the nexus between money, credit (public and private), and financial systems, as well as the neoliberal state's power in financialized capitalism, remained unaddressed. In some ways, this revealed a deeper problem in SSF. Far too late had the field recognized that capitalism was back on the agenda. To come to terms with capitalism, not only was SSF in need of new concepts to recognize the deep intertwinements of credit and asset markets with the broader economy and processes of social stratification. The field was also ill-equipped to analyze the role of the state in general and particular constellations of political-economic institutions in particular, and how these interact with the rise of contemporary, market-based finance. Starting with early studies (Baker, 1984; Abolafia, 1998), SSF had primarily been interested in (para-)self-governing bodies as well as the regulatory power of finance-internal devices (like collateral and valuation models), often treating markets as fairly self-contained entities. SSF's (and economic sociology's more general) strategy to carve out meso- and market-level phenomena for qualitative or network studies proved a limitation when it came to the study of these intertwinements between politics, finance, and a transforming macroeconomy. Finally, in my project, I also encountered a methodological weakness in SSF. While it was an important contribution of the field to rehabilitate description against its positivist degradation, my own project demanded a more explanatory approach. For the questions to be answered were how central banks had risen as dominant economic policymakers under the specific constellations of financialization, and how these policymakers had become essential for maintaining finance's growth. Such questions required to incorporate the standard STS/SSF move of unpacking seemingly unspectacular, often quite technical matters into a broader analytic framework that captured large-scale as well as organizational changes. I thus had to move beyond SSF's comfort zone.

The remaking of infrastructural state power

I want to mention three elements that came to constitute building blocks of my approach here. First, my work puts emphasis on central banks as organizational actors. In standard language, this suggests that I side with agency, rather than external factors, like shifting

economic interests, electoral politics, or ideologies. More accurately, I believe that central banks are strategic actors. However, their very actorhood as well as the opportunity structures at particular historical conjunctures emerge from patterns of relationships in which central banks are enmeshed. I recognize and extensively discuss *institutional* relationships – legal mandates, terms of interaction with governments, etc. However, my key contribution is to lay bare two other layers of relationships that determine central bank agency and strategic capacity. These are, firstly, the *operational relationships* between central banks with financial systems. As mentioned, the most defining feature of central banks is that they conduct credit and securities trading operations with banks and sometimes other financial firms. Policy making for various purposes – for inflation control, job growth, financial stabilization – relies primarily on these, often daily financial transactions. As I show in my book, financial plumbing and its innovation – usually by central banks' own staff – have been decisive in redefining the policy roles of these organizations. The second layer concerns *expectational relations*. It is an established argument in sociology that beliefs, expectations, and conventions influence monetary developments – the consolidation of monetary orders as well as the emergence of crises (Orléan, 2008). This implies that policymaking at central banks is strongly conditioned by the organizations' positions in broader fields of monetary beliefs and anticipations. Other scholars have already pointed to the importance of expectation management as a crucial technique of monetary policy (Holmes, 2013; Braun, 2015). However, these scholars have failed to embed the analysis of such management into the varying political-economic contexts that render certain types of expectational coordination viable and thus give rise to certain types of monetary hegemony.

This, secondly, raises the question of why central bankers have been able to gain power by leveraging their operational entanglements and expectational politics in the period from the 1970s onwards. This brought me to an argument about the remaking of infrastructural power in neoliberalism. Michael Mann (1984, 1996) introduced this concept to describe how democratic capitalist states in modernity expand their control over citizens far beyond what could be achieved by coercive means. Infrastructural power, according to Mann, provides an alternative way to exercise power, whereby states make citizens comply with a governed order by shaping social routines and enticing self-interested behavior. I adapted this argument by contending that, for the period from 1970 onwards, infrastructural power for economic governing had become reconfigured and redistributed. Some areas, like fiscal, industrial, and income policies had been weakened. However, central banks had managed to tap sources of infrastructural power that came to enhance their capacities. To reveal the institutional and structural changes that have caused such redistribution, I employed a historical-comparative approach.

Accordingly, I looked at a small number of cases, for which I would be able to trace processes of agentic change while getting some variation on narrower operational as well as wider political-economic conditions. But I did not only use cases for the purpose of 'finding- and explaining variation'; I also used them to trace connections. For instance, policy innovations at one central bank are closely watched by others and thus change the latter's perceived opportunities. Through such observational and communicative linkages, as well as more structural ones, the cases systematically hang together. A third building block thus consisted of an adapted version of Philip McMichael's (1990) method of *incorporated comparison*. I used cases to compare and connect. For that purpose, I selected Germany, Switzerland, the United Kingdom, and the United States. In these countries, monetary authorities produced innovations that reshaped the whole world of central banking, but with significant variation in the types of policy techniques being invented and picked up by others. These contrasts and connections rendered visible how, why, and when financialized statecraft prevailed. The material I used for my study was archival data (primarily from central bank archives), oral history interviews (often with operational,

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rather than executive, staff), and a plethora of textual documents on the countries' political systems, growth models, and financial sector developments. I used this material to recount the longer processes of change over 50 years and to reconstruct, in detail, a few key episodes in which opportunities and pressures for change emerged. By focusing on episodes (in the sense given to this term by Tilly and Goodin (2006)), my work also accounts for the processuality and contingency of what in retrospect often appear as inevitable paths.

Central banks' ascendency in four countries

In this section, I want to provide a rough overview of results so that readers can better understand, and adequately assess, the subsequent reviews. In a nutshell, here is what I argue in the book:

Germany and Switzerland represent one group of formative cases, which exemplify a distinct version of *central bank dominance.* What the German Bundesbank and the Swiss National Bank (SNB) managed to do in the 1970s was to exploit *corporatist* institutions and *conservative* banking structures in order to become the primary economic policy actors in their respective countries. Corporatism and conservative banking provided the felicity conditions to introduce a version of practical monetarism that, as I reconstruct it, was by and large invented on the fly. Without having a clear conception of how to react to the changed conditions of international floating exchange rates after 1973, the Bundesbank and SNB experimented with new communicative strategies based on money supply targets that resonated with their relatively stable refinancing operations with banks. Once realizing how practical monetarism enhanced their authority in the respective polities, the Bundesbank and the Swiss National Bank turned into conservative champions of neoliberal economic policies in these export-focused economies, combining wage restraint, limits to domestic demand, and fiscal prudence. But this neoliberalism was very different from that known in the Anglosphere. The German-Swiss version not only entailed a continuation of corporatist coordination under changed macro-circumstances; it also implied *subdued* financialization through the universalist banking systems. While there is no doubt that the respective versions of neoliberalism had high domestic and international macroeconomic costs, particularly during the 1980s and 1990s, we should thus be careful to separate this version of central bank dominance from that emerging in the Anglosphere in the 1980s and 1990s. In alliance with universalist banks, the Bundesbank and Swiss National Bank actually proved relatively resistant to the introduction of risky money market instruments and of non-bank financial competitors on the respective financial systems, initially shielding the respective systems from the expansive dynamics in finance that had been unleashed in the 1960s.

The main part of my work then concentrates on the second, Anglo-Saxon path to central bank dominance. Both the US and UK central banks had failed with their monetarist experiments and became embroiled in an adversarial politicization of inflation during the late 1970s and early 1980s. Neither Margret Thatcher nor Ronald Reagan offered any solutions to a fundamental contradiction in their economic policy programs. One could not disinflate economies with money supply control, as these politicians had promised, while supporting rampant credit growth. Left with this contradiction, central bankers like Paul Volcker and Alan Greenspan at the Fed, and Eddie George and Mervyn King at the Bank of England figured out a new solution to govern the economy throughout the 1980s and 1990s and thereby establishing a different version of a central bank-dominated policy regime, which ultimately came to be called inflation targeting. As Paul Volcker had already discovered in the early 1980s, the core of this technique was for central banks to coordinate with globalizing money and capital markets. Central banks

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would signal their intended policy courses with regard to interest rate decisions to financial markets and establish frameworks in which these choices became increasingly predictable. Moreover, they would recognize that aggregate demand increasingly depended on credit growth and rising asset values, using their capacity to influence these financial variables to expand their clout over macroeconomic management. Since policy implementation and transmission of inflation targeting were facilitated by interconnected and price-sensitive markets, and since stability concerns became increasingly important in mature financialized economies, central banks became increasingly proactive constructors of institutional foundations under which such financialized capitalism could thrive. This involved the co-construction of repo markets with private actors and the expansion of lender-of-last-resort functions, going beyond classic lending to direct counterparty banks.

Crucially, in contrast to the Bundesbank's and SNB's versions of neoliberal monetary policies, with their demanding institutional prerequisites, those of the Fed and the pioneer inflation targeters (New Zealand, Canada, UK) could be more readily exported globally, together with globalizing market-based financial systems. Moreover, the demands of stabilization raised by highly interconnected, large, and fragile financial markets did not remain contained in the US, even though the Fed was and remains at the center of bail-out actions (Tooze, 2018). This is why the larger story that I tell is of an increasingly prevalent regime in which central banking and financialization became ever more closely intertwined.

After 2008, we then see in some ways a continuation of this trajectory, and in others a crucial shift. With the crisis itself, central banks came out as wholesale insurers of market-based finance, engaging in active trading in different securities to stabilize their values as well as upstream money markets. As I trace, quantitative easing (QE) evolved out of such support role for market-based finance and extended the rationale for value, credit, and liquidity stabilizations to the macroeconomy. The case for QE, formulated only after about four years of massive experimentation with balance sheet expansions, was based on the rationale that asset purchases would support growth and jobs via credit and asset value channels. As I show, this implied that the boundaries between monetary, financial, and fiscal policies became blurred. Asset purchases by central banks would – depending on perspective – serve to stabilize upstream markets, boost aggregate demand via financial wealth effects, render credit cheaper for corporations, and/or maintain the creditworthiness of private as well as public borrowers. However, such de-differentiation together with the effects of QE on wealth distributions, credit behavior, and corporate strategies meant that the underlying problems of secular stagnation, financial fragility, and inequality were deepened. The argument for QE and thus the underpinnings of central banks' dominance in macroeconomic policies at this stage were then only based on a negative case. Being responsive to financial dominance was perceived as inevitable by default – the threat of yet deeper recessions, mass insolvencies, and pressures from the ever-larger financial conglomerates kept these policies in place. This particularly came out during the COVID-19 pandemic, when central bank reactions were as quick and aggressive as ever before. Caught in a vicious loop of regime preservation, only the disruptive developments in the aftermath of the pandemic and Russia's war against Ukraine shifted attention toward inflation, thus distracting from the fact that central bankers had gotten into a veritable legitimacy crisis, in the Offe/Habermas-sense, by the end of the 2010s. However, the reasons for this deeper crisis have not gone away, and the one-dimensional response to inflation via drastic interest rate hikes has only added another visible sign of a failing regime.

Conclusion

To conclude this introduction, I want to mention what I see as promising avenues to extend, revise, and rethink the arguments being made in the book. I want to start with the broader question of infrastructural state power. Many scholars have noted that state

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interventions into the economy have assumed greater importance over the past decade, due to recognized failures of neoliberalism, and/or simply because geopolitical, ecological, and domestic political pressures have increased (Thiemann and Lepont, 2023). However, demands and needs for state action do not naturally lead to effective interventions. Indeed, my work and those of others demonstrate the unequal distribution and fracturing of infrastructural power, allowing for partial interventionism in some domains, posing serious capacity problems in other areas, and in general weakening coordinated public policy action. Central banks' capacities to stabilize market-based financial systems and boost particular asset markets are not matched by equal powers held by these same states to develop green energy systems, industries, and social as well as material environments for decarbonized daily lives. Moreover, private actors like those in the digital economy increasingly challenge public actors by assuming greater control over quintessential infrastructures of communication, commerce, and social life in general, thus using such control to govern people for the sake of profit. The consequences of these inequalities and fragmentations, for instance for low-carbon transitions, are captured well in Daniela Gabor's (2023) image of 'weak' green states. This notion leads us to ask under which conditions infrastructural powers beyond finance can, or cannot, be re-generated. Which potential sources of infrastructural power could entrepreneurial policymakers tap to generate new policy solutions for the numerous problems we face? Or more realistically, what are the institutional deficiencies, weak webs of governing relations, and fractured technologies of governing that undermine such projects, such that a thorough decarbonization of industries, houses, and traffic seems ever more distant? I believe that we here have a broader research problem to be addressed by sociologists of the state.

A second promising extension of my book would look more broadly at the evolution of financial statecraft in the past two decades. From the brilliant works of Sarah Quinn (2019), Monica Prasad (2012), Suzanne Mettler (2011), and others, we have learned that financial policies have been essential for the construction of American welfare and have offered ways to conduct economic policies in fractured, ideologically liberal polities. But in the past decades, we have seen how a standardized set of financial policies has spread in the entire OECD world and beyond. Take quantitative easing, which the Fed improvised as a policy solution in 2008–2009, but that was quickly adopted by other central banks. Covid-19 then led to extremely expansive issuances of loan guarantee programs in different countries such as Japan, France, and Germany, often exceeding the volumes of standard fiscal packages. Not only do we need to theorize the drivers of this financial policy proliferation, which I would mainly see in a combination of fiscal crises and the distinct, socially structured security demands being raised in 'mature' financialization. We should also recognize that the financial security state is here to stay, as a distinct state formation that reconfigures social protection, redistribution, and state responsibilities in capitalism. What are the distributional implications of this development? Or, as I discuss in my most recent work, how does the financial security state challenge the foundations of fiscal democracy, due to its rather peculiar institutional, discursive, and infrastructural foundations?

Lastly, I cannot avoid addressing the inflation question that has re-emerged since 2021. Does the sudden increase in prices invalidate some ideas from my book, most notably the suggestion that central banks support finance through *expansionary* (rather than hard money) policies, and the argument that central bank-induced financialization has entrenched forces of secular stagnation? I hope that the book conveys a sense that central bankers, in constructing inflation targeting and quantitative easing, never entirely understood, let alone controlled, the background conditions that rendered such constructions possible. Rather, by relying on market-based finance, these authorities actually concentrated on an increasingly narrow set of governing relationships that integrated the specific mechanisms of financialized capitalism (e.g., the effects of asset

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market developments) with operational regularities that they could exploit. The fragility of these governing relationships was, on the one hand, endogenous. Policies that were focused on stabilizing financial expansions undermined their own preconditions, as the financial crisis of 2008 revealed. The inflation crisis then rendered visible another, more exogenous fragility. Global deflationary forces, embedded in millions of supply chains, as well as wage restraint through enhanced corporate power and a de-unionized, fractured labor force were essential felicity conditions for central bank legitimacy in neoliberalism. Precisely because central banks relied on their own, extremely fractured version of infrastructural power, they and officials in finance ministries looked rather helpless when conditions changed. I would thus posit that the inflation crisis not so much invalidates, but adds complexity to the argument being made in the book. I very much look forward to works that take this added complexity into account, advancing our knowledge of the multilayered historical processes that have created the space of possibilities and boundaries that we confront in the enduring poly-crisis of our contemporary age.

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