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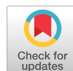

FORUM

Central bank power without central bank autonomy?

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Abstract

Leon Wansleben's new book, *The Rise of Central Banks*, explains how central banks have emerged as powerful monetary governors over the past half-century. Yet the book's recognition that central banks cannot extricate themselves from quantitative easing and market bailouts begs the question: what does it mean for central banks to be dominant but captive? In this commentary, I identify the book's ambiguities with the concept of infrastructural power the book draws from Michael Mann. Unless the dynamics of state-market interdependence are well specified, giving due attention to the sources of both public and private power, it is unclear what kind of agency central bankers are exercising if they lack sufficient autonomy to act in the public interest.

Keywords: central banking; state power; infrastructural power; autonomy; Michael Mann

In March 2020, in response to a panicked dash for cash in US financial markets, the Federal Reserve intervened on an unprecedented scale. In a matter of weeks, the Fed purchased $1 trillion of government bonds and $450 billion of mortgage-backed securities, expanding its balance sheet to $8 trillion of assets (almost a third of US GDP). These purchases allowed the Fed to hit its target of 0–0.25% in the Federal funds market, which it maintained even after Congress passed $2.2 trillion of stimulus measures ranging from tax cuts to helicopter money (Tooze, 2021: 131). The Fed's tide of liquidity would transform fear about the spread of the COVID-19 pandemic into a bull market in stocks and housing investments. Other Western central banks followed suit, coordinating their bond purchases with their Treasuries in the hope that the combination of fiscal stimulus and asset price inflation would keep their economies afloat.

Did these interventions confirm central banks as preeminent authorities of state macroeconomic management? Or did they demonstrate a slavish fixation on propping up financial markets, whatever the cost? The compelling contribution of Leon Wansleben's new and wonderfully detailed book, *The Rise of Central Banks*, is to show that both propositions might be simultaneously true: central banks have become mighty vessels of state macroeconomic management *and* they have achieved this power by aligning the operational practices of their inflation targeting regimes and quantitative easing programs with the demands of liberalized markets and shadow banking.

In the book's final chapter, Wansleben introduces a note of caution about central banks' success in riding the forces of financialization over the past half-century. He argues that the governance paradigm culminating in post-2008 quantitative easing programs has reached a point of exhaustion where central banks can no longer contain the combined pathologies of secular stagnation and rising inequality. Notwithstanding premonitions of

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an uncertain future, for the most part the book's focus lies with detailing central bankers' accomplishments. Wansleben argues that central banks have 'risen' in power insofar as they have successfully learnt from early failures with instituting practical monetarism in the 1970s and enlisted an infrastructural ally for their inflation targeting programs in a complex of liberalized and interconnected financial market structures.

Without contradicting these findings, I want to problematize the occasionally congratulatory tone of this account drawing on my interest in financial stability governance. To be sure, financial stability is not neglected in Wansleben's narrative: a whole chapter is devoted to showing how regulation and banking supervision was carved off to specialist agencies in 1980s and 1990s, with deleterious results. But still, where financial stability figures in the arc of the book's narrative it is as collateral damage in the processes through which central banks succeeded in consolidating their authority – and independence – in monetary governance. I want to suggest that the book's teleology glosses over countervailing currents which have diminished rather than strengthened central bank power. The problem is alluded to by Wansleben himself when, after noting that central banks have become locked in a cycle of asset purchases and market bailouts since the 2008 global financial crisis, he describes central banks as being in a 'captive situation' where they 'remain dominant by default' (Wansleben, 2023: 225). The purpose of this review is to ask: What does it mean for central bankers to be dominant but captive? Or put differently, is it possible for central banks to have power without autonomy?

The Rise of Central Banks is not a theory book, and it would be unfruitful to evaluate its contributions on those terms. Except for the introduction and the first chapter on the concept of neoliberalism, the following five chapters are comprised of thick, historical description based on a comparison of the trajectories of the Federal Reserve, Bank of England, and Swiss National Bank (with supporting roles reserved for the Bundesbank and European Central Bank). The book's most original insights derive from attention to institutional context. Previous work in the sociology and anthropology of central banking has emphasized the communicative techniques which allow central banks to manage expectations and hit their inflation targets, finding confirmation in these techniques' efficacy of Michael Callon's thesis about the performativity of economics (Holmes, 2009). Wansleben submits a deeper historical vision. He is concerned with central banks' organizational evolution and the practical (and often unglamorous) techniques of monetary governance, which scarcely touches upon developments in economic theory.

There are clear payoffs to his approach. Strikingly, where monetarism often functions as a byword in academic discourse for the deviant Anglo-American experiments of the early 1980s and the interventions of charismatic anti-hero Paul Volcker, Wansleben traces its operational forms to the early 1970s. He shows that attempts to institute monetarism were most successful in corporatist political economies like Switzerland, where credit control and collective wage bargaining meant that monetary base targeting was sufficiently credible to anchor expectations. By contrast, though academic monetarism originated in the United States, the Fed's short-lived attempts at monetary targeting were unsuccessful because its banks had during the 1970s embraced active liability management, weakening the Fed's tools of monetary governance. Against the tendency in political economy to run together monetarism and financialization, then, Wansleben shows that it was the financialization of the US and UK economies in the 1970s and 80s which defeated their programs of monetary targeting.

This point segues to Wansleben's second major accomplishment in the book, which is to demonstrate the discontinuities between monetarism and inflation targeting. While attempts at monetarism were unsuccessful in those jurisdictions most exposed to global money markets, inflation targeting is a technique fundamentally oriented toward tightly integrated financial markets. Hence, monetarism is recast by Wansleben as an approach to monetary governance best suited to prefinancialized, coordinated economies. Inflation

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targeting found a felicitous ecological niche in financialized economies where central banks could winnow down their operational levers to the single instrument of setting the price of short-term liquidity. With such newfound clarity of purpose, the growing authority of central banks from the early 1990s was reflected in the willingness of legislatures to grant them statutory independence (like the Bank of England has enjoyed since 1997 and the ECB from its inception in 1998).

The latter chapters of *The Rise of Central Banks* chart developments from the late 1990s onward and offer fewer surprises. However, they are tied together with the upheavals of the 1970s and 1980s in that they propagate what Wansleben, following historical sociologist Michael Mann, terms 'infrastructural power' – the ability of the state to mobilize the infrastructural resources of civil society and the private sector to achieve its goals (Mann, 1984). In sociology and the political economy of finance, the appeal of the infrastructural power concept is that it moves past the zero-sum antinomy of state vs market to instead understand the new powers unleashed when states learn to work *through* markets (for an overview of the concept's applications in interdisciplinary finance studies see Coombs, forthcoming).

There is no doubt that the infrastructural power concept has proven useful for putting the structural vision of political economy into dialog with fine-grained work on materiality in the social studies of finance. The danger of such a bilateral conception of power is that it can lead to one side of the power dynamic being overemphasized. Mann (1993: 59) introduced the important qualification that infrastructural power is a 'two-way street', that is, that infrastructural co-dependencies also allow business groups to exert power over the state. Yet apart from the final chapter on the exhaustion of post-2008 monetary policy, Wansleben's narrative gives little attention to private financial actors beyond treating them as anonymous cogs in the market-based infrastructures central bankers construct and exploit. As a result, the book does not provide a very clear sense of the forces at play which have led to central banks becoming 'captive'. I want to elaborate on two blind spots which may be responsible for the book's enigmatic account of how central banks came to occupy the paradoxical position of being dominant but captive.

First, Wansleben's narrative omits the many bailouts and lender of last resort operations conducted by central banks over his period of study. The only financial firms with index entries are the bank Credit Suisse (for its adoption of US liability management techniques in the 1980s) and the securities dealer Lombard Wall Inc. (for its 1982 default). There has been a litany of failures caused by the return of financial fragility since the 1970s, but not even the iconic failures of Franklin National, Herstatt Bank, Continental Illinois, Long Term Capital Management or Lehman Brothers receive a mention. That in the early 1970s central banks like the Fed initially wanted to constrain financial innovations which undermined their control over money markets but would eventually concede defeat and settle for providing generous liquidity support whenever these markets imploded (as they regularly did) is hardly a portrait of an unequivocal 'rise' in central bank power.

Neither are these historic defeats unconnected to central banks' infrastructural power as monetary governors in the present. As demonstrated in the early 2023 runs on Silicon Valley Bank, Signature Bank, and First Republic Bank (which mismatched their rapidly growing deposits during the pandemic with Treasury bonds which sunk in value when interest rates were hiked by the Fed), central banks' attempts to counter inflation need to contend with the possibility that doing so may provoke systemic risks. Central banks' quantitative easing programs, banks' risk management, and monetary policy are inextricably intertwined. Greater recognition of central banks' dependencies on financial firms would have put a sharper spotlight on the question of how much decision-making autonomy central banks enjoy by virtue their infrastructural power. After all, it is regularly observed that today central banks are hypersensitive to the effects of

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their communications on bond and stock markets, to the extent that, as Alan Blinder (2004: Chapter 3) notes, it sometimes appears the tail is wagging the dog. This is not to mention the revolving door of central bankers moving into executive roles in investment banks and asset management companies after demitting from office, potentially misaligning public and private interests.

A second notable omission from the book is economic theory. Wansleben distinguishes his project from the sociological performativity literature by avoiding engagement with 'academic' financial economics and contemporary macroeconomics. Certainly, it may be that Wansleben's decision not to engage economic theory was necessary to clear the ground for his uniquely organizational and institutional take on central banking. Nevertheless, there is a still a salient story to be told here concerning the blow to Keynesian fine-tuning inflicted by the Lucas critique in the 1970s. The assumption of rational expectations in central banks' now standard macroeconomic Dynamic Stochastic General Equilibrium models bakes in lower expectations of what central bankers can achieve in their day-to-day operations. The New Keynesian models of the 1990s, in proposing a relationship between inflation and the output gap (proxied from unemployment levels), do provide scope for counter-cyclical 'optimization' policy by breaking from overly rigid assumptions of monetary neutrality. But this is only on the condition that central banks make forward-looking commitments which tie their hands in full view of market actors. Given the significance of central bank 'scientization' for establishing these organizations' authority and stature from the 1990s, the book's minimal engagement with economic theory means that a whole dimension of central banks' rise to power is left unaccounted for.

All this said, noted omissions do not detract from the fact that Wansleben has accomplished a remarkable feat with *The Rise of Central Banks*. The book has established a new standard for the sociology of central banking against which subsequent contributions will be compared. That it is possible to point out aspects of the book which are relatively underdeveloped without (hopefully) inviting charges of pedantry speaks to the phenomenal scope and ambition of Wansleben's project, which synthesizes existing literature, teases out new empirical insights, and brings welcome clarity to this field of research. Future work would benefit from extending Wansleben's institutional approach to other areas of central banking such as macroprudential regulation and lender of last resort operations, folding in greater awareness of the power exercised by financial sector actors over central banks. Perhaps then we will find answers to the question of whether it is possible to have central bank power without central bank autonomy.

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