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## BOOKSHELF

# 'Unelected Power' Review: Monetary Mavericks

The question is not whether recent interventions by central banks were effective, but whether they were legitimate. Joseph C. Sternberg reviews "Unelected Power" by Paul Tucker.



PHOTO: BROOKS KRAFT/GETTY IMAGES

*By Joseph C. Sternberg*

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A book about central banking that begins with Britain's vote to leave the European Union, America's election of Donald Trump as president and Continental Europe's rising populism is starting in the right place. That alone gives Paul Tucker's "Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State" a claim as one of the more perceptive books on his subject in recent years.

We should be alarmed that a mass-market subgenre of books on central banking is developing at all. Readers have been treated lately to popular histories of the U.S. Federal Reserve (Roger Lowenstein's "America's Bank" in 2015); accessible scholarly analyses of the Fed's unwieldy inner workings (Peter Conti-Brown's "The Power and Independence of the Federal Reserve" in 2016); and any number of memoirs and screeds by or directed at current and former central bankers around the world.

These books are undoubtedly fascinating for bankers and newspaper columnists of a certain disposition, but the question arises: Aren't central banks supposed to be less interesting than this? The promise of the modern central bank is that it will make its corner of the economic-policy world technocratic and academic—in a word, boring.

The lesson of the past decade is that this promise is a lie. The developed world's four major central banks—the Fed, the Banks of England and Japan, and the European Central Bank—have executed a series of extraordinary policy maneuvers to rescue us from the 2008 financial panic, with debatable success. These include ultralow or negative interest rates; the purchase of sovereign debt in mind-boggling quantities; forays into commercial debt, equity and real-estate markets; and ventures into mortgages, small-business loans and other similar instruments. Central banks have also taken on vast new supervisory powers over the financial system. Each of these measures has had profound effects on our economies: debtors win, savers lose; large, bond-issuing companies get credit, smaller firms don't; owners of assets accumulate wealth, wage earners see their salaries endangered by inflation. Such distributional choices are normally left to elected leaders, but no one elects a central bank.

Mr. Tucker reminds us how this happened. He places the development of modern central banking firmly within the wider story of administrative governance in the 20th century and its expansion at the expense of electoral accountability. "Central banks might well be the current epitome of unelected power," he writes, "but they are part of broader forces that have been reshaping the structure of modern governance." His brief account of the Fed's history starts not at the usual spot—the 1907 panic and its aftermath—but with the creation of the Interstate Commerce Commission, in 1887, taken by some as the first step in the development of America's modern bureaucracy. The Fed itself was created in 1913; Mr. Tucker notes that the Federal Trade Commission was born only a year later. One could add that other turning points in the Fed's history—its further centralization in 1935 and an accord with the Treasury Department entrenching its independence in 1951—were also high-water marks for technocracy. Other central banks in the developed world had similar theoretical origins.

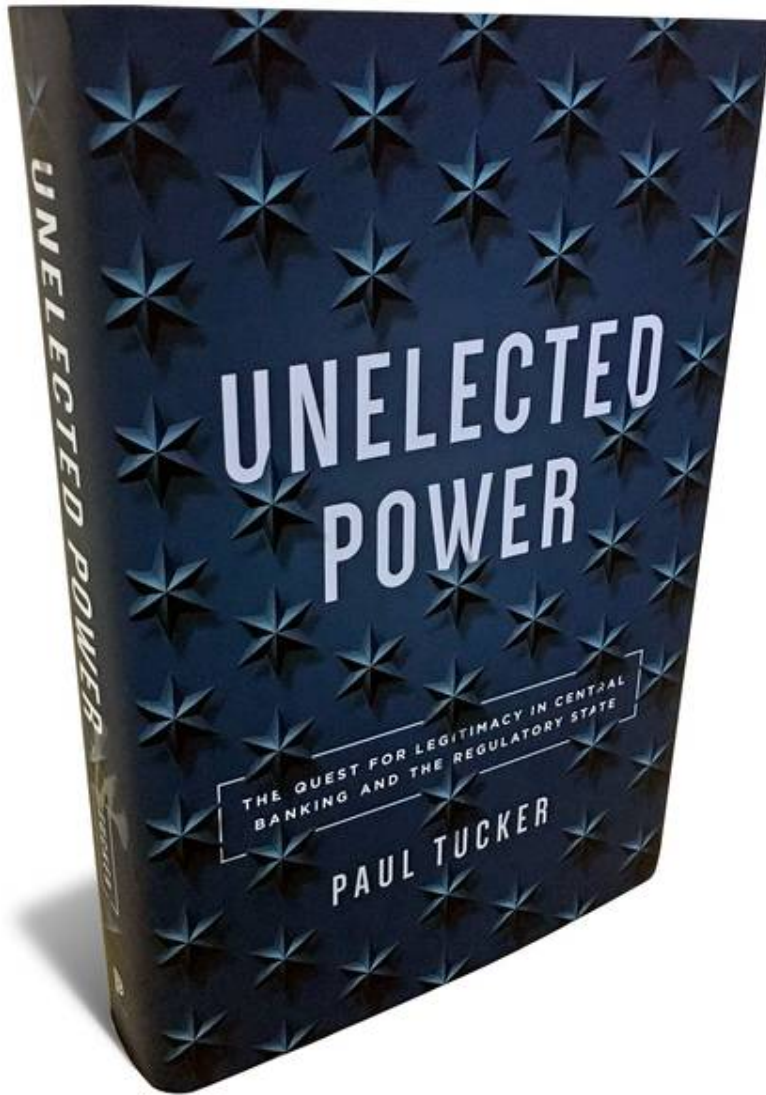


PHOTO: WSJ

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## UNELECTED POWER

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By Paul Tucker

*Princeton, 642 pages, \$35*

The question now is not whether these central-bank interventions have worked but whether they can be viewed as legitimate. On this Mr. Tucker offers the most compelling recent exploration of the constitutional problems posed by an independent central bank in a democracy. “The people’s tolerance for the inevitable disappointments and frustrations of government is greater when they can vote out their governors,” he notes. Politicians had hoped that independent central banks would help shield them from public anger, but may ironically be

leading voters to punish them instead, via Brexit or Mr. Trump, for the consequences of central-bank decisions. Still, surely it's better for our democracy that we all know whom to blame for what.

Mr. Tucker's exploration of this constitutional thicket is evenhanded, even admitting that there are virtues to central-bank independence. Most important, he notes that in a world of fiat money such as ours, hiving off monetary policy from the executive branch in theory preserves the taxing authority for the legislature and prevents the executive from taxing via inflation. That's something, anyway.

It all makes for a thought-provoking read. One minor quibble is that, despite the considerable evidence that Mr. Tucker marshals, his recipe for imbuing central banks with legitimacy seems implausible. His "principles for delegation"—including the principle of delegating authority to an independent agency like a central bank only if "the policy instruments are confidently expected to work, and there exists a relevant community of experts outside" the agency to judge its success or failure—are unsatisfyingly abstract, given the strength of the political currents he describes.

A bigger problem is that the book's length, organizational infelicities and jargon-laden prose make it less compelling as a polemic than it ought to be. Too often the narrative thread gets lost in a flurry of bulleted lists and theoretical digressions. And while "central bank independence" is a wretched mouthful, abbreviating it to "CBI" throughout an entire book isn't much better. Voters are rightly angry that the political and economic order in the West has stopped working for too many people, and Mr. Tucker offers a window into the dysfunctions at the heart of the failure. If a lay readership finds "Unelected Power" difficult going at times, we should hope that politicians, academics and journalists digest his insights and deploy them to inform an overdue debate about the whys and wherefores of central banking.

*Mr. Sternberg, a member of the Journal's editorial board in London, is writing a book about millennials in the post-2008 economy.*

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