

Powerful and alienating central banks: principles for a delegation of power to unelected institutions



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lines as central banks became the only game in town. Whatever the causes, somehow the institution of central banking is at once necessary but profoundly alienating. For some on the political left, independent monetary authorities create a “democratic deficit”; for parts of the right, their exercise of discretionary power violates the values of the “rule of law”. For a growing number of younger people, if central banks are so powerful, then surely they could and should do more to steer credit to the less well-off and privileged parts of society.

There is more going on here than a rash of complaints from prominent politicians in, most recently, the US, Italy, India, and Britain; it would be imprudent to regard this as just some passing populist spasm. In the corridors of power, the Swedish parliament and the New Zealand finance ministry are formally reviewing their central bank laws; and profound challenges to the legality of the ECB’s quantitative easing and prudential powers continue to work their way through the German Constitutional Court.

Central banks have become controversial – despite, after the 2008 crisis, helping to avoid a repeat of the Great Depression, and despite the European Central Bank (ECB) subsequently keeping the euro area project alive. Or maybe the unease arises precisely because of those decisive interventions in bond and credit markets: a world in which elected politicians seemed to retreat to the side-

Meanwhile, in academia, central banking is no longer the preserve of economics: political theorists, sociologists, anthropologists, and legal scholars are all engaging with it.

I address how powerful monetary authorities can find an enduring place in our system of government in Tucker (2018). Drawing on our deep political values, it sets out principles for a delegation which emphasize the pursuit of a widely supported and monitorable objective by a committee of equal policymakers who are dedicated to transparency and accountability. It also argues that since central banks are the lender of last resort to the private part of the monetary system (banking), they are inevitably involved in prudential supervision. That makes them even more powerful: regulators are, after all, lawmakers. Our democratic and constitutionalist values demand that this role is recognized, formalized, and carefully constrained, through law.

Where do my delegation principles leave the ECB? Well, its existence is much more deeply entrenched than that of regular central banks, and the European Parliament’s ECON committee

is too big to conduct effective oversight of the ECB’s stewardship of the monetary regime. Also, without a counterpart euro area fiscal authority of some kind, the ECB is exposed to much more pressure to deploy a monetary authority’s latent fiscal capabilities, with its policymakers seeming to vote according to perceptions of national interest. The ECB is left as both more and less than a normal central bank.

On the other side of the ledger, the advent of the Single Supervisory Mechanism (SSM) under the umbrella of the ECB is, in democratic terms, preferable to the Bundesbank’s non-formalised (and so deniable) involvement in banking supervision, prudential standards, and crisis management. But the SSM needs a clear objective for system resilience, which should be seen as the missing component of a two-part mission for maintaining monetary system stability.

References

Tucker, P. (2018), “Unelected Power. The Quest for Legitimacy in Central Banking and the Regulatory State”, Princeton University Press.