



Tucker, Paul: Unelected power: the quest for legitimacy in central banking and the regulatory state

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This is a very substantial book on a topic of great relevance and practical importance. Its focus is on central banks, their history, and their place in democratic societies. It shows how central banks became the important, powerful players that we see today. The fundamental question the author asks is a more general one, however. It refers to the delegation of power to independent agencies of government, and how to reconcile this delegated authority with democratic legitimacy. The book is, as the author states, about power—unelected power. How to contain it, hold it accountable, legitimize it. In answering these questions, the author draws from a rich personal experience in central banking accumulated over many years of service at the Bank of England and the Bank for International Settlements.

A basic premise of the book is, obviously, that institutions matter—a belief very much shared by this reviewer. Institutions define the environment which constrains and influences individual behavior and social interaction and, in consequence, shapes political and economics outcomes in a society. However, we must also note that institutions, in order to be effective, must be credible and based on the conviction of those they are supposed to guide. Their success or failure is as dependent on their firm embedding in a society's convictions as it is on their technical specifications. They must arise from people's beliefs and convictions, if they are to be successful. Much of what the author has to tell us is about this precisely.

Unelected power is not something new, as the author points out repeatedly. Democratic societies have long found ways of accommodating and honoring the Military, the Judiciary, and, in many cases, an established Church. Nevertheless, the author does not see central banks as a fourth branch of government on equal terms with the legislature, the elected executive and the high judiciary. Even though insulated from day-to-day politics, they are subordinate to those: an independence law can be

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reformed or repealed, and their rules can be overridden by the legislature. The ECB, acting today as a kind of “guardian” of the EU project itself, represents a somewhat special case in this regard—reflecting the fact that it serves a very special and incomplete constitutional project.

Should central bankers be allowed to issue legally binding rules and regulations? Should they have statutory power to authorize and close banks? Should they be free to decide when to provide liquidity assistance to distressed firms? Should they be granted quasi-fiscal capabilities? Through balance-sheet operations (quantitative and credit easing) central banks have altered the size and shape of the state’s consolidated balance sheet, have become part of the *fiscal state*. Through their role as the lender of last resort, they have become part of the *emergency state*. And through their role in bank supervision, they have become part of the *regulatory state*. Have they become too powerful?

To address these intricate and fundamental questions, the author proposes, develops, defends, and applies a set of *Principles for Delegation* for independent-agency regimes to be run by unelected technocrats shielded from day-to-day politics. He argues that the key condition for a decision to delegate must be a need for a credible commitment, so that government sticks to the people’s purposes rather than departing from them for short-term gain, electoral popularity, or sectional interest. Among monetary economists, and beyond, this justification has been widely accepted over the more recent past. This is a necessary, but not a sufficient condition, however, in the author’s view. He adds the following requirements.

The benefits of delegation must be substantial. Major distributional choices should remain in the hands of elected politicians. Central bankers should not be allowed to make important value judgements for society. A necessary ingredient further is that objectives of delegated policy are framed after public debate and with a high degree of support, over time and across the main political parties.

The roles of central banks should be constrained to go no further than is necessary to preserve monetary and financial stability. Central banks need to resist pressures to intrude too far into fiscal territory. A good central bank regime cannot be designed without a good *fiscal constitution*. Setting boundaries to the authority of central banks requires to also define the role and the place of the fiscal authorities.

Truly independent agencies need clear objectives. Vague, indeterminate, or incoherent objectives may in effect allow the policy maker unconstrained discretion, breaking the circle of a commitment to the people’s democratically agreed purposes that shields the policy makers and their staff from both day-to-day politics and the risk of capture by industries and other sectional interests.

Once established, independent, unelected policy makers need to be deliberate and transparent. They must be accountable for their actions. Agency policy makers must explain the operating principles that guide the exercise of their discretion, so that policy is systematic and can be seen to be so. In short, independent agencies must act as “legitimacy seekers”.

Finally, a very subtle and difficult issue remains: it should be clear what happens when an insulated agency reaches the boundaries of its mandate but could help contain a crisis by going into uncharted territory. The merits of systematic policy and the need

for flexibility in a crisis can produce an awkward tension during emergencies and their aftermath.

This is an admirably written book, very enjoyable to read, to be strongly recommended to anyone interested in central banking and its place in our economic and political systems. The principles enunciated by the author are convincing and clear. A word of modesty and warning must be added at the end, nevertheless: principles are comparatively easy to put down and defend. The proper way to interpret and implement them in practical application, however, invariably remains a difficult, and probably much more controversial, matter.