Roundtable: Monetary Policy in the EU

Rekindling Public Trust in Central Bankers in an Era of Populism

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In a recent interview with the Financial Times, Vladimir Putin declared "liberalism has become obsolete." By liberalism, Putin seemed to mean representative democracy, in which, authority is delegated by the public to representative officials, who in turn delegate authority to the experts—from immigration authorities, to the military, to the central bank.

Liberalism, Putin asserted, has given way to nationalist populism. Raising the specter of multiculturalism in particular, he implied that the experts don't share ordinary people's values and can't be trusted to do what ordinary people want. The legitimacy of delegated authority, mediated by expertise, no longer holds, Putin seemed to suggest.

The European Monetary Union is certainly one site where the legitimacy narrative of delegated authority mediated by expertise seems to be in crisis. In many corners of Europe—as in Japan, the U.S., Turkey and elsewhere—central bankers and central bank independence have emerged as targets for populist politicians.

Why is this the case? In the old legitimacy narrative, the zone of politics and the zone of expertise were clearly different things. Take for example, the building of a bridge. Where the bridge should go, or if there should be a bridge at all, was a matter of politics, to be decided by elected representatives who were accountable to the voters. But what kind of concrete or steel reinforcements should be used was a matter for the engineers. You wouldn't want the politicians meddling in that. The literature on central banks from the

1990s was all about making this point: eminent economists like Lawrence Summers wrote papers purporting to show that countries with more central bank independence had lower rates of inflation (back then, a good thing!) because the politicians stayed in their lane and let the experts do the job.

But since the financial crisis, the public has become wary of the idea that the zones of politics and expertise can be easily delineated. How wide the bridge should be, for example, might be seen as an engineering question, but it turns out to have implications for how many people can cross the bridge at rush hour, and how high the tolls or taxes to fund it will be.

Similarly, a new generation of citizen groups is raising concerns about the actions of central bankers. From Occupy Wall Street on the left to End the Fed on the right to powerful new NGOs like Positive Money, whose principal target is the European Central Bank (ECB), citizen movements are demanding that, if central banking is political, citizens should have a direct voice in its operation. And citizen groups are not the only threat to the experts at the ECB: large banks like UBS and JP Morgan and newer Fintech companies like Circle and Flywire are luring retail customers to forms of digital payment that circumvent the central bank altogether. The rise of digital currencies is, at its core, a challenge to the authority of the state and its expertise over the market. Although the rise of popular movements is exciting, let’s remember that this populism is not always something to cheer for. The critiques of central bankers on Internet sites like Breitbart trade in familiar anti-Semitic conspiracy tropes and spin militarist fantasies, as well as just plain misunderstanding about such things as the possibility of returning to the gold standard.

Why does all this matter? It matters because the livelihoods of so many people will turn on the ability of central banks to manage the next great financial crisis, and managing the next great financial crisis will in turn depend on one critical element: public trust in the experts inside the central bank, which is in jeopardy.

Populist critiques of central banks exploit a contradiction: In neoliberalism, states should stay out of markets. But in the work of central bankers, markets and states are always mixed together.

Central banks are, at their core, tools of state intervention in the sustenance and governance of markets. In Japan, where I did my first fieldwork on central banks, market participants were so clear on this point that they had an adage: The Central Bank is our mother. And if you know anything about Japanese mothers and sons, you know where the power lies in that relationship.

As experts, central bankers have always had two constituencies—the market and the public. What is interesting about this moment, however, is that the two are increasingly fused into one. The push from social movements for a “Green QE” for example is a call for central bankers to pursue goals that are at once economic and social. A new kind of social actor is emerging—the “Financial Citizen” who participates in the spheres of the state and the market at once. The Financial Citizen is a consumer of retail goods and services, but also a political activist who participates in social movements online and in person; an investor in financial products but also a voter who follows financial issues and a direct commentator on the actions of central banks and financial regulators.

This participation is enabled and fueled by new digital technologies. Consider for example, the twitter reaction to Bank of England Deputy Governor Bed Broadbent’s poorly chosen words about the economy “entering a menopausal phase”: the comment unleashed a fury from commentators around the world far beyond the usual circle of central bank watchers who decried the words as “offensive,” an example of “ignorant prejudice,” and “pejorative tosh.”

In one sense, therefore, Putin is right: representative democracy doesn’t account for the relationship between central bankers and today’s financial citizens. The old delegation of power from citizens to elected officials and, in turn, to experts, is increasingly supplanted by technologies that do the mediating instead. These technologies increasingly cut out the elected representatives, putting citizens in direct conversation with the experts.

Central bankers in general, and ECB central bankers in particular, have largely had their head in the sand about these changes. When they consider questions of legitimacy, the debate is mainly about whether or how to tweak the number of reports they give to political branches or whether there should be term limits for central bankers. Most think that engaging the public directly is dangerous at best and politically illegitimate at worst. To her credit, ECB President Christine Lagarde has met with NGO representatives and done more to maintain a public facing presence than her predecessors by far.

But we need something much more revolutionary to reinstate public faith in representative democracy and the legitimacy of delegated authority to central banks.

We need an institutional configuration for public engagement and a legitimacy narrative that is widely shared. We need a story that matches the realities of our current world, and motivates experts and citizens to work together. It must be a story that enables us to make coherent distinctions between legitimate and illegitimate arguments, between better and worse options. The key element of this new narrative is not central bank independence but central bank interdependence. Central banks do not do their magic alone. They never have. Their work depends on market participants and yes, on the political branches of government—and that interdependence does not stop at national boundaries. It requires trust, and new forms of mediation between conflicting constituencies and interests. This means that the skill of the expert includes an ability to listen and to collaborate, and that citizens have responsibilities to do their share in the collaboration.