ROUNDTABLE: MONETARY POLICY IN THE EU

The Hegemony of Central Bankism and Authoritarian Neoliberalism as Obstacles to Human Progress and Survival

February 26, 2021

Jeremy Leaman, Emeritus Research Fellow in Political Economy, Loughborough University

Central Bankism: Fashionable but Destructive

Macroeconomic policy within the so-called advanced economies has, for more than four decades, been dominated by "central bankism" and its ideological cousins, monetarism, ordo-liberalism and supply-sidism. These strands of economic thinking became popular under the umbrella of neo-liberalism in the late 1970s. While they differ in both epistemological terms and in practical policy-making, these strands share a common hostility to Keynesian and other statist theories of political economy, along with a common belief in the greater efficiency of private markets for the allocation of resources within society and economy. Policy-makers within OECD-states have, in varying degrees, remained in thrall to the prejudices of neoliberal thinking, most notably to central bankism. This thraldom is characterised by the primacy of monetary policy-making as the core function of a supposedly slimmed-down state, and the corresponding subordination of fiscal policy to the disciplinary controls placed on public sector borrowing and overall state debt. This subordination has been increasingly codified in legal statutes and, in the current century, in constitutional limitations on the fiscal latitude available to states. Fiscal "consolidation", fiscal "austerity" are the watchwords of this incoherent and destructive fashion in political economy.

The Embeddedness of Failed Ideas

Heterodox political economists have long been united in their rejection of this "doctrine" of "failed ideas"[1] , but its codification in statutes, and its embeddedness in institutions and in political and cultural discourse bear witness to its extraordinary tenacity, to its "strange non-death"[2]. Despite its profound contradictions and flaws, central bankism is *hegemonic* in Gramscian terms; it is a key element of a neoliberal *historical bloc**[3]***which has decisively determined key policy preferences in the era of transnational, financialised capitalism. This bloc is maintained politically by the major autonomous central banks within the OECD – the Federal Reserve, the Bundesbank and, since 1999, the European Central Bank. At the beginning of the 1970s, the Fed, the Bundesbank and the Swiss Central Bank were the sole institutions that enjoyed a high degree of independence within their respective states. However, the main political vehicle for the popularisation of independent central banking within the OECD and beyond was the German Bundesbank. That said, the process which drove the rapid march towards autonomisation of monetary authorities, particularly in Europe, *cannot be described in terms of a hegemonic strategy* on the part of either the Federal Republic or its central bank, but rather of the very particular circumstances that emerged as a result of the collapse of the system of fixed exchange rates after 1971, the associated weakening of the United States' hegemonic role within advanced capitalist states and the OPEC revolt of 1973.

Towards Bundesbank Hegemony

In the context of stagflation in the second half of the 1970s, the floating of exchange rates generated high levels of volatility in currency markets and, in consequence, in sovereign bond markets, as states were forced to raise interest rates to attract the growing volumes of vagabond capital, including petro-dollars, or to maintain the loyalty of domestic capital. The combination of market volatility and asymmetrical balances of trade and payments exposed the weaknesses of several European currencies and reinforced the leverage of the stronger Deutschmark, cushioned – as it was – by (West) Germany's powerful trading position in

high-grade goods with their lower price-elasticity. The performance of the Bundesbank in the alien environment of stagflation[4], with its single mandate of price-stabilisation, was ostensibly far superior to that of macroeconomic authorities in other EEC-states, both in terms of comparatively low rates of inflation and low central bank interest rates. Moreover, it deployed its main policy instruments – discount rates, Lombard rates and open market operations – in a manner which seemed to serve German interests and was celebrated in domestic political debates; its autonomous policy choices were made in part at the expense of Community partners. The subsequent initiatives to stabilise market conditions within Europe (the currency Snake, Snake-in-the-Tunnel, European Monetary System (EMS)) were thus informed to a large degree by fears of unilateral political action on the part of the (independent) Bundesbank. The manoeuvrings within the EEC in the late 70's and 1980's are well-documented.[5] For the purposes of this brief analysis, it is sufficient to assert that, whether by design or by default, Europe's major states were persuaded to adopt the institutional model of independent central banking. The primary reason for this momentous trend were simply the politico-economic realities of Bundesbank hegemony over monetary policy. It was a very messy compromise: to exchange the damaging asymmetries of *national central bankism* for the hope of better balanced shared institutions of *European central bankism*, rooted in the separation of monetary authority from parliamentary control.

The Bundesbank in fact resisted the political initiative of Giscard d'Estaing and Helmut Schmidt to establish shared commitments by national central banks to intervene to defend agreed exchange rate margins, within the EMS. In the wake of Germany's contentious currency union process, the Bank also did its best to obstruct the negotiations surrounding European Monetary Union (EMU), succeeding at least in insisting on very strict conditionalities for membership. Subsequently, ECB and ECOFIN policy has been conducted in the tacit acknowledgment of the need for Bundesbank approval. This has arguably slowed the progress towards EU reforms in fiscal and monetary policy within the Eurozone. The significant doubts, raised in other states in the run-up to EMU, about the merits of separating monetary policy and fiscal policy, of establishing a less answerable, less accountable technocratic agency for the conduct of monetary policy, of increasing rather than reducing Europe's democratic deficits, were thus set aside in the name of pragmatic expediency. Europe could not hope to "deepen" and "widen" its political potential without the Bundesbank or Germany's ordo-liberal preferences, so they chose to make those preferences their own.

The Challenge of Abandoning a Bad Orthodoxy

This brings us back to the fundamental contradiction highlighted in the opening paragraph above, namely that the policy preferences that have become baked into institutions, the statutes, the political behaviour and the intellectual mindset of the European Union are bad preferences. Together with the institutions of financialised capitalism, they have contributed to an increase in the *disparities of income and wealth* within the Union, to a *declining trend in productive investment* in its core states, including the now-united Germany, to *weak recoveries* from cyclical and structural economic crises and, most critically, they have side-lined heterodox, critical voices within both the research and policy communities of Europe concerning the actual merits of central bankism. Debates on these issues since the Great Financial Crash of 2008 and, more recently, in the wake of failed austerity programmes and the Covid-19 pandemic, have not changed the fundamental parameters governing the legitimacy of central bank autonomy. These remain largely unchallenged. What policy communities have been focussing on – adding a fiscal dimension to Eurozone macroeconomic management, allowing the partial mutualisation of state debt, adding a green dimension to the ECB's mandate, analysing the relevance of (Germany's) legal rulings on Eurozone reforms – is arguably mere displacement activity, akin to re-arranging the deck chairs on the Titanic.[6] It is, in contrast, the very case for central bank independence that requires radical re-examination. The precipitate capitulation of European political elites to the "Bundesbank myth"[7] demands the close scrutiny of contemporary and future analysts, as does the parallel capitulation of those same elites to the delusions of "neoliberalism". Firstly, that capitulation took place at a time when the scholarly credentials of monetarism and (German) central bank practice were being arguably undermined by the realities of global, financialised capitalism in the eyes of heterodox critics of central bankism. Secondly, the theoretically dubious case for the autonomisation of European and other central banks as a means to combat inflation, was based on an empirical sample of one, namely the Bundesbank; little more than a crude syllogism. Bibow notes the eccentricity of the political choice of a model based, as it was, on "peculiar German traditions"[8] , governed by "very peculiar historical circumstances".[9]Indeed, the seminal legal acts, establishing the autonomy of the *Reichsbank* (1922, 1924) or the *Bank deutscher Länder* (1948) were implemented as a result of the *diktat* of the victors of the First and Second World Wars respectively[10]; the political and parliamentary circumstances before the passage of the Bundesbank Law (1958) were also informed by both the preferences of the western

Allies, dominated by the US, prioritising the weakening of the *powers* of Federal parliament and government, and by the electoral opportunism of the Social Democrats[11] who came out strongly in favour of central bank independence!

Changing the Narrative away from Central Bankism

Since 1958 there has been very little serious debate about central bank autonomy. Rather, more intellectual effort has been invested in crafting and polishing a mythology of the Bundesbank and its supposedly key role in the success of the "social market economy". This has significant consequences for the popular reception of comparative institutional achievements. What the economic history of the Federal Republic demonstrates above all, is that the lionising of the Bundesbank as the primary architect of Germany's macroeconomic success exaggerates the central bank's role to a grotesque degree and correspondingly trivialises the greater importance of many other determinants – domestic and international – which underpinned the nation's passage to industrial and exporting dominance.[12] One particularly egregious example of this fatal deification of the Bundesbank is the hagiography by Dieter Balkhausen, published under the title of Good Money, Bad Politics (*Gutes Geld und schlechte Politik*)[13]; above all it reflects and seeks to reinforce the authoritarian scepticism towards democratic *politics* in Germany that survived two wars, and was increasingly reflected in opinion surveys of popular trust in institutions: the Bundesbank consistently outscored elected assemblies at central, regional and local level, to such an extent that Jacques Delors famously pronounced that "not all Germans believe in God, but they all believe in the Bundesbank".

Distrust in democratic institutions is ubiquitous, notably in times of social crisis, but the *historical sanctification of* *the Bundesbank* in Germany has had deep and lasting consequences beyond the country's borders, and it runs parallel to the structural neutralisation of Keynesianism within German institutions and, in consequence, among the country's political and academic elites.[14] Jörg Bibow's conclusion that "Germany's Anti-Keynesianism has brought Europe to its knees"[15] is certainly persuasive, and equally applicable to the theocratic adulation of the Bundesbank. This is particularly relevant when one observes the extreme difficulties facing European policymakers in the wake of the Great Financial Crash, and now in the context of both climate crisis and pandemic which derive to a significant degree from the statutory obstacles which central bankism has baked into the legal and institutional structures of the European Union.

The relevance of the *active, strategically agile and well-resourced state* in the triple global crises of financialised capitalism, environmental collapse and a devastating pandemic is irrefutable. Likewise, the case for integrated *cross-border macroeconomic coordination* of monetary and fiscal policies, underpinned by well-informed electorates and civil society actors, is unanswerable. The mobilisation of resources to ensure the physical survival of the planet and its occupants is urgently critical and the global community of states cannot afford to be disrupted by the fundamentalist delusions of monetarism, neoliberalism and central bankism. Equally, the scope of that resource-mobilisation has to include not just uniquely high levels of state-borrowing and regionally mutualised debt but also the rigorous national and international eradication of tax-avoidance, tax-evasion and money-laundering, too long tolerated by permissive neoliberal policy-elites, alongside more equitable, more progressive rates of income and wealth taxation. The triple *global* crises constitute a unique challenge, far beyond even the exigencies of war. COVID-19 has delivered a volcanic shock to the foundations of the neoliberal "leaner, fitter, state" and the nonsense of "crowding out"; it has also provided a glimpse of the real value of those areas of human endeavour that ensure the health, welfare and social well-being of societies (nursing, doctoring, essential services, food-production and -distribution, schools, university research departments) and, in turn, has raised questions about occupations that focus on value-extraction. Above all, the emergence of a younger generation of enquiring, politically aware activists, gives us some reason to hope that transformative change is a realistic ambition.

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[6] See other contributions to *Just Money* on this subject: https://justmoney.org/monetary-policy-in-the-european-economic-and-monetary-union/.

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[8]Bibow, *A Post-Keynesian perspective on the rise of Central Bank Independence: A Dubious Success Story in Monetary Economics*, 5f.

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[10]Leaman, *The Bundesbank Myth. Towards a Critique of Central Bank Independence,* 73, 91ff.

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