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978-1-107-12203-1 — Central Banks, Democratic States and Financial Power
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Excerpt
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1 Who Wanted Central Banks?

Central banks are ill-understood and most people – if they talk about money, its plenty and dearth, and its collapse in 2007 – focus their sights on banks and government treasuries. In many respects they are correct, as this book hopes to show. Central banks are the bankers to capitalist banking and to governments. Having said that, things get more complicated on the turf of central banks and money is that complicating factor. There are multiple understandings of money and, while none is perfect, some are deceptive or one-sided. Indeed, we have endured miserable ideas about banking and treasuries, or what it is that central banks do in *managing* money. After the last forty years, everyone wonders why civility is hard to find again whether in governments or in banks.

The era in which we live is divisive and unsettling. Once respected institutions devoted to doing little harm, work on principles that evade the rule of law. Banks are one case: far from serving their clients' best needs, financial institutions are devoted to plundering them. Line management runs from crassly well-off executives to ill-paid tellers ordered to deceive us and the authorities. Bank tricks are so dangerous that central banks and treasuries must rescue them. This book will not speak of a 'banking culture' where 'rogue traders' apparently flourish from nowhere. To the contrary, finance corporations are as indecent as they were in 1920–33, as I show. 'FIRE' (finance, insurance, real estate) appears to run everything.

Another tendency is that everyone has 'retreated into the present'; dignitaries and scribblers make long-term predictions based on yesterday's events.[1] The powerful take it as a right to lie, and this post-fact world is not new. Bank CEOs (dealing in or selling flimsy promises into the future most of all) demand certainty that no one can ever have. Efforts to squeeze uncertainty out of specific sources of unpredictability either fail or backfire as with the 2007–08 'sub-prime' catastrophe. For years, central banks had to help these banks try to control the future – with techniques that can wreak havoc on social and economic life, and above all must validate the past errors of banks. When that is obvious, central banks are easy targets of blame. Self-financing, dividends from their huge profits go to their Government's Treasury, an operation muddied with those few central banks that are still privately owned, or partially so. The US Federal Reserve System (Fed), the most dominant central bank in the world, is a mix of private and public ownership. Central banks – at arm's length from democratic states, but *not* from capitalist banks – are more financially secure than other independent government agencies.[2] Many democratic states are no longer trusted, whereas central banks are mostly unknown.

It may well be that central banks also deceive us, particularly the US Fed, which is, legally, partly directed for profit by Wall Street bank executives since its founding Act (the Federal Reserve Act [FRA]) in 1913. And yet, remarkably, since the Global Financial Crisis (GFC), the Fed has been speaking the language of civility, despite the Fed's divisions, its public forked tongue, and secrecy. The most recent former Chair, Janet Yellen, stressed that the interest rate should stay low until employment and wages improve, and inflation lifts off again. She has faced battalions of the ignorant and posturers, however, central banks are urging policies unheard of for two generations that the book recollects.

[1] A decent society *aims* not to humiliate. It requires a civil society which at the least is tolerant: see Markus (2001) and Pixley and Browne (2010). The 'retreat' into the present is a concept from Elias (1987) and see Elias (1970).

[2] 'Capitalise gains and socialise losses' is apt. The Bank of Italy is the other major central bank (CB) that is/was fully privately owned: Giannini (2011) gives an overall survey of CBs though my approach differs.

Instead of starting blandly with their functions or state mandates and remits, common in the central bank literature, I begin with the historical question of which social groups wanted central banks. Then the book looks at a number of central banks in the democratic times of the twentieth and twenty-first centuries. Before that, 'electorates' were tiny, exclusive. Bourgeois capitalist elites inside states and in banking sectors designed and controlled central banks. Semi-feudal European sovereigns wanted them to fund wars, and capitalist merchants had interests in state protection: these earliest central or ersatz public banks were experimental, and many broke down (from Venice to Amsterdam). This is because money is always unstable since it consists in promises to pay (IOUs), of guarantees into the future by both creditors and debtors (to success or failure). The rise of nation-states and capitalist economies was actively sponsored by these close-knit rulers and classes, as Max Weber put it, for the state to rule and the merchant-financiers to make money. Central banks were the go-betweens, and populations had no involvement whatsoever in their inception.

Fast forward to the twentieth century, where a handful of the many new central banks were installed and designed by elected social democratic governments. In fact, the advent of democratic processes threatened to ruin the 'clubs' of state royalty, 'robber barons', of capitalist merchants that banked with central banks. *The twentieth and twenty-first centuries are this book's subject for that reason*. The US Fed is the focus, but the book stresses that different central bank models do exist; indeed, few copy the old Bank of England (BoE) model or the Fed's. This may surprise, and it is true that since Britain's overall decline, everyone watches the US empire/power-house and its Fed. The US imposes a 'one best way' that inflicts damage and crises in the different contexts of other countries' financial practices that are variously effective in coping with capitalist money, always difficult with mobile capital and US global currency fluctuations.

And yet, since 2007, elected leaders and executives locked in bubbles of privilege are utterly confused. Since the resurgence

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of activist financial sectors, many bank-supported political parties aimed to destroy democratic procedures and have removed the 'wets', the doves, the vulnerable and decent social democrats who were properly called civil servants to the people. 'Inflation' and state budget 'deficits' became alleged enemies. Then suddenly, incredibly, central banks begged for more inflation and keep harping about jobs and economic activity, although the European Central Bank (ECB) was busy creating more jobless even as the GFC spread. Prime Ministers and Presidents further weakened trade unions, waged wars, while agitators stir hatreds. History is constantly rewritten to abuse hopes for social democracy or any informed public. Who knows how wars are funded? Fact-checkers for scrutinising the chorus of lies or meaningless jargon streaming from corporate bank and government executives seem to indicate something worse. The slang used inside states and banks is far more value-laden than the terms I use in this book, like 'uncivil', 'humiliating', 'cruel', 'indecent', through to 'tolerant', 'civil', even 'decent'. Puerile dualisms of gang fights that give the power game away are 'hawks/doves'; 'wets/dries'; 'brown-cardigan losers'. There are feudal images of Darth Vader; big swinging dicks or Michael Douglas bad guys, whereas the slogan 'greed is good' *ad nauseam* is outdated because it is the norm. Misogyny, racism and vilification of the poor are out in the open, less original than children's chants of 'teacher's pet' or 'tittle tattle': the solidarity of tiny tyrants.

Governors or Chairs of central banks are not immune. My interviews in the 1990s to 2010s with the more civil, often truly decent informed central bankers did show anger, through to embarrassment, or cognitive dissonance, should one dare to ask why low-paid workers are sacrificed on the altars of austerity, joblessness and pitiful wages. Some denied central banks made political decisions in raising interest rates against people's social desires and desperate needs for money. Yet sceptics informed about money stressed, instead, decent methods to reduce inflation without such cruel, senseless results. Central banks could work strategically with their treasury: progressive taxes are known to reduce inflation, for example. Forget that: central banks were ordered to induce recessions, just like in pre-democratic times.

Central banks are in a harsh spotlight, as often before, partly because so few know what they do. Virtually no political leader or commercial banker (who cares not to know) understood or explained, when the GFC hit, how central banks suddenly created money, and so much. And saved the banks, which create far more money. When, in 2008, that bank money disappeared, everyone froze in fear. Was money so untrustworthy that it could vanish? The public had rare glimpses into money's previously unknown workings, operating behind our backs. States returned to full view and with their central banks became saviours: financiers had long dismissed states for 'repressing' banks. As it turned out in the GFC, the 'saved' was that exclusive crowd of fantastically rich in the vast financial sectors, parts of which we found out were corrupt. That varied across places; the smaller, but by no means poor countries often had the better central banks. There is even a modicum of egalitarianism left in, say, Canada, Sweden or Australia, the least GFC-affected countries. My favourite quote in 1998 was a US official who told me 'I do regret my advice to Sweden', for misapplying the US finance system to Sweden's.

In the OECD countries that created the GFC, the seeming order of things turned upside down, from markets, corporate (money-production) outfits and weak (if mean) states, to *money* at the centre of the whole show.[3] This cannot be stressed enough. Capital-labour relations, hardly congenial before, were further at the mercy of banking's reckless activities. Firms and households collapsed – the debtors – and the more criminal so called creditors. Since then, not one post-GFC politician has (publicly) argued that while central banks create money, so do private banks, which manufacture the bulk of the money that we use – except when they stopped in October 2008.

3 My finance sector interviews are explained fully in Pixley (2004); my central bankers were mostly retired. The OECD is the Organisation for Economic Co-operation and Development.

Enter central banks onto the political stage (possibly to be sacrificed); these monstrous chameleons that, having cast workers and the jobless into humiliation for forty years, are begging their masters for the emphasis to be on job creation. Banks are not interested. States have resolutely refused, preferring austerity, yet governments previously improved economic activity through peaceful stimulus. That is the simple if correct and decent story that aimed for dignified meaningful lives.

My argument takes a different tack: Central banks are identifiable and (too) easy targets of attack. Who will dare take on J. P. Morgan given its 130-year banking history of dubious interference with the world? And wars still vie with peace: how 'pleasant' are states? Money is the social force that needs full recognition to the point of seeing that control over the production of money by banks or by states is the major social tension and historical conflict, as Geoff Ingham puts it. In between these two mighty forces, central banks are bankers to their governments and to capitalist banks, which are both harsh taskmasters. On occasion, in specific social-political circumstances, the forces of capital and labour – the producers – have intervened, but not in the recent GFC. Some question whether citizens really need central banks. That would depend on whether central banks are permitted to serve the public good (somewhat) rather than fund the old institutions of capitalist money and war mongering states exclusively. Some remain vital *and* decent. Usually they are not allowed to work with Treasuries for the public. If we want to see the naked power-dealers, we should not look first to central banks. To assess this, the book selects major incidents that affected central banks from mainly the sorry twentieth-century record to the abysmal GFC (2007 to the present), and including the mid-century moment when money was open to some democratic scrutiny.

The bones of the argument are unusual, although the obvious practices, centuries old, that all money is debt is continually banished, to the benefit of banks and states, unwittingly or not. That idea must not be lost or silenced to mystifying tactics.

- Central banks (CBs) are not rigidly similar: Some are/were exclusive and secretive, adjudicators of the clash of raw vested interests over the purposes of money; others attempt civil, public deliberation about their remits. Full employment (FE) and price stability are twin mandates of the US Fed and Reserve Bank of Australia (RBA), but most central banks are confined to price stability (anti-inflation) without FE (anti-deflation). By the mid-twentieth century democracy partly entered CB workings, with FE to stop them inducing recessions – but that emphasis later switched. CBs keep changing, then. The unexpected occurs that reshapes them for better or worse.
- The separation of form and content brings sharp dissonances – the form claims public good, but the content of central bank policies has major distribution effects, winners and losers that depend on the social distribution of political power over money. Treasuries can correct maldistribution, less so central banks, but both increase inequalities via public decisions. The funding methods of vast nuclear arsenals (say) is secret; unspoken.
- My precarious line is trod between uncivil, indecent doctrines, based on counterfactuals (not evidence) and on support for old exclusive social forces and, in contrast, the fragile social democratic practices and civil discourses abused for decades. This book explores evident pressures on central banks during civil and uncivil eras in the twentieth to twenty-first centuries, comparing typical capitalist-state patterns but in different contexts – of democratic norms, either welcomed, respected, or begrudged even blasted to empty shells manipulated by private money and state money production.
- Different CBs are selected, with diverse aims imposed under coalitions of the dominant interests of the time and place (that invariably change – and one cannot cover them all) – so the book gives a few comparisons. The mighty US Fed gets the most attention but a few outliers like the RBA or Bank of Canada (BoC) serve as energetic historical contrasts; the BoE too, but as the former hegemonic CB. If all kinds of purposes have been intended for central bank money creation, then there are no eternal rights or wrongs.
- The book draws on recent and past scholars (selectively), of note Karl Polanyi, who criticised those treating money as a commodity; André Orléan likewise argues liquidity is a term that denies money's social nature. These terms hint at the inequality in the opportunity to make

liquid (or saleable) all assets. Most people have only one 'property' to sell: their capacity to labour. That is difficult in stagnant job markets. To Polanyi, land, labour and money were abused as commodities. Unlike money, the first two are obvious, thus climate change. Objectified labour is a 'hired hand' or a 'human resource'.[4] Just as humans, with our richly diverse capacities, are turned into objects for statistical analysis and sharp trading, so is money, which consists in mutual promises, contracts and obligations into the (uncertain) future. *Money is not a thing and involves generative relations*.

- The towering figures of Joseph Schumpeter and John Maynard Keynes must appear, because their social analyses are the start to explicate today's practices and production of bank money and state money. Some have brought the sociology of money into prominence, notably Ingham, Orléan and others. Works in political science, economics past and present, history and social policy are also discussed. Few outward-looking or socially alert meanings of money's creative power are ever free of doubt. Vicious counter-attacks arise, assuming a lofty bystander, which is impossible as everyone has a world view.

It is possible that central banks are duty-bound to defend 'state-capitalist money' and cannot do much else. Bearing in mind my entry-points on the crucial advent and impact of formal democratic procedures over money, let us reconsider the present. On 8 November 2016, a new US President was greeted in German press headlines with the phrase 'Horror-Clown!'.[5] The *Financial Times* ran a campaign against ideas of UK Prime Minister Theresa May and US President Donald Trump about central banks. No judgement is possible (so soon), except to say that jokers are part of any pack of cards, and this pack is tied to specific state and financial motives, that the book lays out. The vision of political leaders able to achieve anything

4 Readers may find these approaches useful (I am not debating every teensy point theorists ever said, just what's suitable). My motto is beware of eternal 'universal' pomposities that Polanyi (1957 [1944]) criticised. He was hopeful that this nineteenth century trend was over by 1944. Social policy talked of the 'decommodification' of labour in the 1960s–70s; land became the scientific study of climate change. Money as a commodity is rarely analysed in Polanyi scholarship, with honourable exceptions.

5 On the German press, see Lane 2016 and Sandbu (2016b). The *FT* was furious that the Fed and BoE were attacked, e.g. in Sandbu (2016a).

by barking out orders without diverse support is obsolete if it ever applied. As well, what a leader achieves, and whether she or he understood the implications, or not, are debated for centuries. I emphasise that in the twentieth century, politicians were gradually more separate from their usual allies in industry and/or finance (although less so for the last forty years). Before then it was difficult to distinguish their private from public interests. For example, the Bismarck family was, when Fritz Stern finished his famous work in 1977, the richest in Germany due to Otto's blurred lines of war finance and personal finance. Complex democratic policies to serve many walks of life suffer from any return to feudal patrimonial amalgamations.[6]

HISTORICAL MOTIVES FOR CENTRAL BANKS

Instead of hinting at mysterious social forces, I aim to call them forth; to describe the important private sectors' public roles and governments' duties to their electorates, in respect to pushing for changes to central banks. To compare with pre-democratic days, I briefly discuss a few bare bones of the semi-feudal motives for the creation of central banks. Depending on the central bank, sceptics among my interviewees were critical of them, but the more arrogant assumed that central banks should treat the downtrodden as expendable. We were not the citizens of the 1960s. Their friends on Wall Street, the City of London, or the Frankfurt stock exchange were executive traders, who spoke ironically in the language of warlords. They would 'rip off faces' of firms or governments waiting to be 'screwed'. Their surroundings looking over Lake Zurich or the Hudson River were lessons. To stroll (with care) on pot-holed Wall Street down below is to be among the street venders like old times.

[6] See McDonald (2016) on 'the joker'; I emphasise the disparate forces creating a leader, not only a voting base; on Bismarck, see Stern (1977). On patrimonialism in UK/Europe, see Weber (1978) or Louis XIV's absolutism in "l'état c'est moi"; like Chinese feudal lords who talked of 'their' state, in Osnos (2018). Semi-feudal states recur in weird forms and weeding out 'cronies' remains patchy. Industrial (debtor) sectors *have* supported democratic aims of general well-being, if rarely (in Chapter 4).

About 500 years ago, a handful of these central banks emerged from experimental bargains between sovereign feudal monarchs and the rising bourgeois capitalist classes in Europe. Capitalist money became the core social fact: in general, the motives of both sides were for some sort of public–private or central bank to manage their assets and liabilities to each other: each was mutually dependent. Gradually no one could survive without this money, but only a tiny fraction invented and controlled these deals: aristocratic elites of the rising nation state and new bourgeois class, which between them transformed a feudal economy of kings, nobles and serfs into a capitalist economy and nation states, of labour-capital and significant debtor-creditor money classes. The reader is saved the details of the great literature, since there is only one fundamental point needed to introduce this book. At the time when experimental central banks came into being, there was no democratic involvement in this 'symbiosis' of sovereign and merchant moneys that we all use.

In the central bank literature, a common theme is that in the twentieth century, these banks had to cope with 'the masses'. To some, that complicated central bank work. One cannot stress enough the elitism and disdain entrenched in the dominant central banks, those few that started ages ago. The Bank of England (1694) is a creature of kings and rich merchant-cum-aristocrats. The US Fed, founded in 1913 after a century of political ambivalence and bottom-up debates about money, and two defunct central banks, was created after the 'gilded age' by an exclusive state and a handful of 'robber barons' and financiers (Rockefeller or J. P. Morgan) in league with Congressional politicians.

Capitalism's violent origins was not the only source of immense global change. Change arose out of the fragmentation of lords and peasants, subsistence activity, person-to-person credit (IOUs) and local coinage. Far-reaching IOU trading systems were developing. Trading merchants funded European/English warlords battling to control territorial patches and, if their centralising aims were unintended, it was this partnership that made state unification and capitalist money