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Constructing and Maintaining Legitimacy: Sociological Perspectives of the Politics of Central Banking

Part 1 of the Changing Politics
of Central Banking Series

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Preface

The failure of many central banks to anticipate the 2008 global financial crisis has led to dramatic changes in both their policies and the tools they use, including new forms of lending, new regional collaborations, and experiments such as negative interest rates. It has raised a raft of questions about the independence of central banks and central bankers. It has also tested many theories previously taken for granted and requires a new multi-disciplinary approach. Cornell University's Meridian 180, the Global Finance Initiative, and the Mario Einaudi Center for International Studies have initiated a new project to develop an innovative field of interdisciplinary scholarship around the politics of central banking and to bring different forms of expertise to the discussion of complex technical issues.

With support from the [Tobin Project](http://tobinproject.org/) (<http://tobinproject.org/>) and under the leadership of Professor Annelise Riles (Jack Clarke Professor of Far East Legal Studies, Cornell Law School; Professor, Department of Anthropology, Cornell University), the project includes a literature review of the state of knowledge on the politics of central banking in different social science disciplines. The resulting papers which focus on sociology, political science, economics, and law, are published as part of this International Studies Working Paper Series.

Based on a nation-wide call for applicants in multiple disciplines, four graduate students - Megan Doherty Bea (Cornell University), Adam Hayes (University of Wisconsin), Erin Lockwood (Northwestern University) and Marcelo Prates (Duke University) - received one-year fellowships to describe the achievements and methodological advantages of their disciplines related to the politics of central banking, as well as to identify blind spots and limitations. In addition to Professor Riles, the students were mentored during the year by the following faculty:

- Douglas Holmes, Professor of Anthropology, Binghamton University
- Ravi Kanbur, T.H Lee Professor of World Affairs, International Professor of Applied Economics and Management; Professor of Economics, Cornell University
- Peter Katzenstein, Walter S. Carpenter, Jr. Professor of International Studies, Department of Government, Cornell University
- Jonathan Kirshner, Stephen and Barbara Friedman Professor of International Political Economy, Department of Government, Cornell University
- Hirokazu Miyazaki, Director, Mario Einaudi Center for International Studies, John S. Knight Professor of International Studies; Professor, Department of Anthropology, Cornell University

The four graduate students' papers were presented and discussed during an international and interdisciplinary conference on [Changing Politics of Central Banking](http://einaudi.cornell.edu) (<http://einaudi.cornell.edu>). The conference, hosted at Cornell University on April 18 and 19, 2016, brought together current and former high-ranking central bank officials from Asia, Europe, the United States, and New Zealand as well as economists, political scientists, anthropologists, sociologists, and legal scholars. It initiated a conversation between social scientists and policy-makers about the building blocks and parameters for a new intellectual architecture for understanding what central banks do as an empirical matter, and what they should do as a normative matter.

Constructing and Maintaining Legitimacy: Sociological Perspectives of the Politics of Central Banking

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Megan Doherty Bea, Cornell University*

Abstract

This working paper reviews central banking research produced in sociology and anthropology, most of which has been published in the last five to ten years. These studies focus on institutional structures and social and cultural processes that shape central bank activity, with significant attention to the ways in which central banks seek to legitimate their actions. I outline key themes that have emerged, including central banks' internal decision-making and analysis of the international pressures they face. I review research examining the ways in which central bankers are influenced by one another, use performative rhetoric to manage the market, and engage in relational work with a variety of actors as they seek to maintain their legitimacy. This research is an important complement to traditional central banking research published in the fields of economics, political science, and law, and underscores the complexity involved in the day-to-day operations of central banks.

Keywords

Economic sociology, anthropology of finance, central banking, legitimacy, sense making, performativity, social networks, epistemic culture.

About the Author

Megan Doherty Bea is a PhD student in Sociology at Cornell University. Her research interests include economic sociology, consumer finance, and finance and inequality. She previously worked as Associate Director of Group of Thirty, a high-level think tank focused on international finance and composed of policy makers and central bankers.

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* This paper was presented and discussed during an international and interdisciplinary conference on the Changing Politics of Central Banking (<http://einaudi.cornell.edu/news/cornell-conference-aims-bring-new-voices-central-banking-debate>) at Cornell University on April 18 and 19, 2016. The author was mentored by Douglas Holmes, Professor of Anthropology, Binghamton University

Introduction

Sociologists, with a few notable exceptions¹, did not engage with central banking prior to the 2008 – 2009 financial crisis. The intellectual framework that dominated pre-crisis academic discussions of central banking focused on technical aspects of central banking from a largely rationalist perspective (Hayes, 2016; Lockwood, 2016), and the bread and butter of sociology – in this case, the study of central banks via social structures, networks, and processes – has been largely omitted from this scholarship. In consequence, much of the existing literature on central banking has not adequately considered the implications of many social processes that surround and influence these technical features of central banking.

Sociological research on central banking has begun to provide this important perspective. These studies examine how central bankers make decisions, foster credibility with financial markets and the broader public, and adapt to changing political environments. Central banking, as demonstrated by this relatively new area of research, is dependent upon social processes. Whether it is through discussion and debate among experts and practitioners (Abolafia, 2004, 2010), information-gathering on the current economy via contacts in business, finance, and government agencies (Holmes, 2014; Riles, 2011), communicating with the public (Holmes, 2014; Sørensen, 2015; Tognato, 2012), or coordinating messaging with the media (Velthuis, 2015), central banking involves important relational work that cannot be supplanted by economic modeling. While this is something that central bank practitioners understand intuitively, it has been absent from much of the academic scholarship on central banking until recently.

This paper provides an overview of sociological contributions to central banking research, revealing why this research provides an important complement to traditional central banking research in economics and other fields. The studies discussed here remain somewhat fragmented; papers do not often appear in the main disciplinary journals and cross-references remain low. Nevertheless, many converge around key themes related to central banks' efforts to establish and maintain legitimacy with regards to their forms and functions, and I will discuss these at length here. Following the review, I will discuss topics well suited for further sociological research and highlight a range of methodological tools available to academics and practitioners.

While this paper primarily focuses on work found within sociology, I also discuss several recent contributions to central banking literature from anthropology. Ethnographic work within the anthropology of finance provides a deep understanding of the various emotional and cultural underpinnings of financial practices and institutions, and, as will be demonstrated here, this work can provide insightful analysis of processes relevant to central banks. Additionally, I make occasional references to white papers and publications authored by central bankers, in part to underscore that practitioners are already thinking about many of the themes emerging from this relatively new area of academic research.

¹ See, e.g. Abolafia (2004), Krippner (2007), Polillo and Guillén (2005). There was also some sociological interest around the creation of European Central Bank in the late 1990s (see, e.g., Dodd, 2001). Others, like Hirschman (1985), have explored the sociology of inflation, analyzing its social and political contexts and consequences, but such analyses do not focus specifically on the role of central banks.

Current Sociological Approaches to Central Banking

Several recent analyses focus on processes used to establish and maintain legitimacy, especially during times of economic and political uncertainty. These studies are particularly useful for practitioners in terms of identifying mechanisms that shape how central banks and bankers engage with their networks and the broader public(s), and the ways in which this engagement is most successful. These studies seek to answer: How does a central bank produce legitimacy at both the national and international levels? Once it has established legitimacy in the eyes of the markets and public, how does it work to maintain credibility? These questions assume that there is a public to whom the central bank orients itself. Indeed, as will be discussed in the below sections, a central bank has its legitimacy evaluated by many publics, including various actors in the financial markets, the media, and the general public, at both the national and international levels.

The Production of Legitimacy in a National Context

In sociology, the production of legitimacy is seen as a collective social process (Johnson, Dowd, & Ridgeway, 2006). Establishing legitimacy lends credibility and stability to the actions of the organizations, and grants them the power to freely conduct business. A successful legitimization process begins with an innovation or new idea that is locally accepted and ultimately spreads to other localities, garnering broad acceptance and becoming the status quo (Johnson et al., 2006). For a central bank, its processes and decisions need to be legitimated by its audience or it can risk destabilizing the financial markets. Several studies, discussed below, show that part of this effort to maintain legitimacy involves careful attention to the narrative used in public announcements and statements, most of which target a national audience.

National legitimacy and narrative construction. Abolafia (2004) identified the process of narrative construction as a topic of sociological interest early on. In this and subsequent work, Abolafia focuses on the Federal Reserve and uses Federal Open Market Committee (FOMC) transcripts to examine the interpretive politics involved in the development of monetary policy. By analyzing internal discussions, he shows how narrative is strategically used to enhance the legitimacy of the central bank through the internal sense-making process within the bank. Discussion becomes "the medium in which legitimate policy and action are talked into existence" (Abolafia, 2010, p. 360). Abolafia (2012) underscores that, although central bankers appear to be rational technocrats in the eyes of the broader public, they have a significant amount of interpretive power in their decision-making process. While past experience and values, as well as economic models and data, guide the process, "policy makers select the facts, order the facts into a plausible narrative, and negotiate a viable choice" (Abolafia, 2010, p. 350).

Holmes (2014) further illustrates how central banks manage the economy through communication in his ethnography of central banks. In his view, markets serve as "a function of language" (Holmes, 2014, p. 29), and it is not merely technical expertise, but the use of narrative that enhances the credibility of the central bank. Part of the central bank's role is to maintain (or restore) confidence in the economy, and the bank achieves this by developing a narrative that is

appropriate for the current economic conditions and successfully acknowledges concerns felt by market participants. The communication of this narrative to the markets and public serves as a mechanism through which trust and confidence in the institution are built and reinforced.

The successful central bank understands its role as a signal to the markets, connecting the economic present to the economic future. To signal appropriately, the narrative must be the right one. Holmes (2014, pp. 136 - 158) details how the Riksbank worked to restore confidence in 2009 through the careful construction of a narrative that acknowledged current economic issues and confidently looked to the future, while remaining tailored to its Swedish audience. Even the most mundane word becomes important as central banks work to signal changes to the markets and public. In a reflection on his experiences, Duvvuri Subbarao, former governor of the Reserve Bank of India, writes that markets not only demanded forward guidance to help shape market expectations but also “guidance on guidance” to help interpret what the central bank’s statements meant (Subbarao 2016, p. 41). The need for such guidance can be witnessed in a small anecdote from a June 2015 press conference given by Janet Yellen, Chair of the Federal Reserve. A journalist from the Financial Times asked Chair Yellen if the word “gradual,” which Chair Yellen had used during the press conference, would become “official guidance” from the Fed (“Transcript of FOMC Press Conference,” 2015). This serious attention to word choice, to the point that a journalist used part of his limited question time to ask about one seemingly innocuous word, indicates that strategic, clear communication by the central banks has become paramount.²

Cultural sociologists have focused on one particular narrative strategy used to establish legitimacy in the eyes of the general public: invoking national identity and culture in rhetoric. The idea that central bankers adopt a carefully constructed cultural narrative fits well with the work by Holmes and Abolafia on the highly selective rhetoric used by central bankers. In direct contrast to studies arguing that technical expertise and rationality are the primary ways central banks ensure legitimacy, these studies take the position that credible monetary policy depends on how the bank shapes its identity in relation to its national audience (Tognato, 2012; Sørensen, 2015). Using case studies of the Federal Reserve, the European Central Bank, and the Bundesbank, Tognato (2012) explains how banks strategically connect their institutional identity to the national identity. In Germany, for instance, average citizens came to view the Deutschmark as a symbol of renewed confidence in their nation following World War II. Tognato (2012, p. 44) cites Otmar Issing, former chief economist at the Bundesbank, as saying the currency filled the “emotional vacuum” that Nazism left behind. The Bundesbank itself, as the guardian of the currency, took on an increasingly important symbolic role and became seen as an institution that could help Germany move on from the past. This symbolism, Tognato argues, connects the central bank to the broader political and economic identity of the country, deepening public support for the institution.

Sørensen (2015) builds on Tognato’s cultural approach in a case study of the Danish central bank that traces the historical development of the bank’s narratives over a 150-year time-span. As a result of narrative development that was explicitly linked to the national identity, Sørensen writes that the “idea that central bankers serve the nation ... was institutionalized and came to define

² Chair Yellen responded by saying that she believed the use of the word “gradual” during the press conference was consistent with the “spirit” of the corresponding sentence found in the FOMC statement.

the frame within which Danish central bankers, in general, were evaluated in public discourse” (2015, p. 20). This symbolic connection to the national identity is maintained through constant reaffirmation of the central bank’s intentions and motivations. While Sørensen supports Tognato's theory that an appearance of rationality is insufficient for successfully implementing monetary policy, he also asserts that a successful narrative can be difficult to identify given the many varying values and norms that define the role(s) of the bank. His analysis of how the Danish central bank sought to connect itself to the national culture underscores the fact that narrative construction and legitimation-seeking are reciprocal processes, and achieving the right narrative requires constant fine-tuning. Furthermore, unlike Tognato, who views central banks as primarily reactive to national culture, Sørensen’s perspective emphasizes how central bankers can reproduce and change their institutional environment. The ability to influence the broader environment is an important consideration and will be discussed in more detail in the next section.

The studies discussed so far demonstrate that there is a separation between the external technocratic, rational appearance of central banks and the actions that are conducted internally to maintain that reputation. This is an idea well supported by sociological theory around the operation of organizations (see, e.g., Meyer & Rowan, 1977). Internally, central bankers work to craft a compelling narrative that both fits the current economic conditions and supports their rational image. With the right narrative, they can be viewed as rational, technocratic experts on monetary policy externally. The separation from a strict technocratic process within the bank through discussion and debate around policy options allows central banks to conduct important interpretive work that is necessary for establishing external institutional legitimacy.

This process isn’t free from politics. The construction of the narrative involves “micro politics” around the framing of issues and policy within the central bank (Fligstein, Brundage, & Schultz, 2014). Those around the table have backgrounds in different schools of economic thought, varying experiences and opinions, a combination that can add tension and increase debate over policy directions. During times of heightened uncertainty, the narrative process can endure increased conflict and negotiation about how to best shape the account – at the same time that the narrative becomes critically important for restoring confidence in the economy.

As an example, Abolafia’s (forthcoming) work analyzing the Federal Reserve’s response to the 2007 - 09 financial crisis demonstrates the potential sense-making failures that came with the increased uncertainty during the early months of the crisis. Discussing how the Fed failed and when it succeeded in the months following the crisis, Abolafia argues that the narrative framing the Fed first employed in response to the crisis was insufficient to handle the problems the economy was facing. At least initially, the Fed relied on a “restoration” narrative that did not include the possibility that the crisis could spread beyond the subprime mortgage market.³ The restoration narrative is connected to the efficient markets hypothesis, with the premise that

³ Abolafia (chapter 2, p. 5) observes that there was some debate about this narrative; Yellen voiced concerns about the possibility of contagion. However, he writes that there was “a tendency [among other members] to minimize the contagion narrative,” which he argues resulted from the fact that this alternate narrative did not fit with existing frames for thinking about the problem.

markets could heal themselves. Additionally, Abolafia argues that they made decisions under the problematic assumption that the financial markets and the real economy were distinct spheres where contagion from one to the other was an unlikely outcome.

Ultimately, Abolafia argues that this initial narrative was based on – and limited by - existing epistemic frames that were used by central bankers. This is supported by Fligstein et. al (2014), who demonstrate through their own analysis of FOMC transcripts that the economic training and the models used limited the FOMC’s capacity to understand the size and scope of the problem they were facing. This example of epistemic failure is something that has been echoed in broader conversations about the crisis acknowledging that existing intellectual paradigms were inadequate and limited the responses and actions by key players. In her latest book, Gillian Tett (2015) warns of the dangers of siloed thinking: not only can intellectual rigidities contribute to an unawareness of risks, but they can also limit opportunities for the development of new ideas and new ways of problem-solving. This is precisely what occurred within the Fed during the early stages of the crisis.

Did this early, flawed narrative framing lead to a decrease in the external legitimacy of the Fed? Not necessarily. Because their roles were so public, with significant attention from the media, Rosenhek (2013) argues that both the Fed and the ECB became seen as crucial actors and were granted the epistemic authority to act, despite early missteps. Furthermore, Rosenhek describes how the Fed and the ECB were able to adapt, albeit slowly, so that by the end of 2009 both banks were reassessing dominant epistemic narratives and coming up with alternatives. While they may have been slow to identify alternatives, in the end, they did move beyond their initial narrow framing of the crisis.

The Production of Legitimacy as a Transnational Political Process

So far, the discussion has focused on how the central bank can establish legitimacy within its national boundaries. Abolafia, Holmes, and Tognato focus their work on case studies of particular banks, which presume national audiences, just as Sørensen’s analysis of the Danish central bank used the Danish economy as a frame. These studies focus on how the central bank synthesizes and analyses economic data to frame policy and the ways in which the bank communicates those policies to the national public. But legitimacy is not dependent solely on the national audience.

Transnational political processes. The global diffusion of central bank structure and practices has led to cross-national similarities in central banking. In one of the few quantitative studies of central banking in sociology, Polillo and Guillén (2005) argue that international pressures due to globalization have played a significant role in how states have dealt with monetary policy. Conducting a longitudinal analysis of the adoption of central bank independence, the authors confirm that states become more likely to emulate central bank forms found in other countries as their exposure to the global economy increases. Central banks also tend to share similar technical processes. Setting the short-term interest rate to target inflation with the aid of the Taylor Rule is common practice, and pursuing price stability functions as a primary goal for many central banks (The Group of Thirty, 2015; Lebaron 2012).

These similarities are indicative of the presence of a broader epistemic culture that guides many central banking practices. Knorr Cetina (2007) introduces the concept of “macro-epistemic culture” to describe a cultural framework that extends beyond national boundaries. The global financial architecture, in her view, is one such example. This epistemic system provides common tools and strategies, and it serves as a way to “safeguard the economic system” (Knorr Cetina 2007, p. 368). The epistemic culture may have created a certain kind of central banker, what Lebaron (2012) considers universal paradigm of central banking, defined by similar professional training and transnationally supported strategies and practices heavily influenced by neoliberalism and monetarism. In her ethnography of public and private financial regulatory practices, Riles (2011, p. 126) describes the ways in which the “high degree of intellectual inculcation in neoliberal economic and political theories” shaped how Bank of Japan officials conducted their work and engaged with market participants. Following a series of highly public corruption scandals, the Bank of Japan imposed strict rules on how its regulators should conduct business with market participants, replacing the informal, yet effective, conversations that allowed deeper personal relationships with market interlocutors (Riles, 2011, pp. 124 – 130). This solution limited coordination between the markets and the central bank, and in many ways, made it more difficult to gather information, but it was seen as better aligned with Western ideologies around how a central bank should regulate.

Undoubtedly, the transnational adoption of form and practice is not without its own set of politics; international pressures are often met with resistance from national contexts within which the central bank operates. As an example, Krampf (2013) describes the highly political process linked to the adoption of the liberal norm that supported central bank independence. He writes between 1940s and the 1970s, there were two norms for central banks – the liberal norm, which supported central bank independence from the political cycle and government oversight as a way to have efficient markets, and the developmental norm, which provided broader supervisory powers to the central bank as a way to administrate the allocation of resources. Initially, both norms were accepted as legitimate forms of central banking styles. The developmental norm drew support from economists at the Federal Reserve due to the success of the Bank of Argentina’s redesign in the 1930s, which incorporated broad supervisory powers. Following this successful redesign, economists at both the Fed and the IMF worked to extend the developmental norm to other developing countries. However, in the 1980s, there was a shift in the views of Western economic experts, who began to argue that market-based central banking should also extend to developing countries. A publication written by two scholars in the IMF’s central banking department seemed to solidify this shift, and the Asian financial crisis in the 1990s gave the IMF the opportunity to impose the adoption of liberal norm (Krampf 2013).

International social structures. Central banks, as part of the global financial architecture, are responsive to that epistemic culture. The above example demonstrates how majority consensus around best practices can foster international pressures that override national preferences regarding central bank practices. While the above literature demonstrates how central banks are embedded within this culture, other work in sociology and anthropology reveals how central bankers also have the ability to change aspects of that culture by serving as their own epistemic community, defined as networks of experts with shared values and belief systems working

toward common policy goals (Haas, 1992). As part of an international network of financial actors, central bankers can reshape national discourses and influence how economic institutions are developed (Fourcade, 2009; Kapstein, 1992).

In 1992, political economist Ethan Kapstein wrote that central bankers were increasingly becoming an epistemic community. Kapstein (1992) asserts that in order to be an epistemic community, central bankers must have consensus around and make regulatory policies based on established theoretical and empirical research rather than national ideologies, and that they need to be protected from domestic pressures.

There is an argument to be made that central bankers form such a community today, especially post-crisis. On Kapstein's point about consensus around policy options, central bankers increasingly share the same professionalization, with most holding PhDs in economics from prestigious (Western) schools (Hirschman & Berman, 2014; Lebaron, 2012). This shared training provides both a common doctrinal framework for thinking about economic issues (Lebaron, 2012). Indeed, in a recent New York Times op-ed, Paul Krugman makes the observation that policy positions, including those within central banks, are increasingly dominated by MIT-trained economists, beginning to supplant the Chicago school free-market ideology that was once prevalent. As both economists and policy makers, central bankers have "wide latitude to set the course of monetary policy based on accepted economic theories" (Hirschman & Berman, 2014, p. 793), especially because many central banks are – at least in theory – outside the scope of legislative oversight (Rosenhek 2013; Prates 2016).⁴

While national political pressures have not disappeared, the spread of central bank independence and broad consensus around key issues demonstrates that much of their work is guided by such internationally supported norms. Add to this their epistemic authority around monetary policy issues (Rosenhek, 2013), and individual experts at the helms of central banks have become part of an influential, global monetary policy network. The changing guest list at the annual Economic Policy Symposium at Jackson Hole provides a brief, but clear demonstration of this. Always an event targeted to central bankers, the meeting, hosted by the Kansas City Fed, has increasingly excluded private financiers to add more foreign central bankers to its guest list over the past thirty years, encouraging participation from the global network of central bankers.⁵

Being a part of an epistemic community does not mean that each central bank and banker needs to act in exactly the same way. National mandates differ, and central banks can still be subject to pressures from national political bodies. Importantly, shared academic ideas can have multiple meanings and uses once applied within the policy world (Riles 2011, p. 149). Moreover, despite similarities in practice, outcomes of policy can differ due to other political constraints, including the need to coordinate with other national institutions. But, broadly speaking, access to other international central bankers leads to similarities in policy measures taken, and international forums, like the Jackson Hole meetings referenced above, strengthen the cohesion of the network. Revisiting Rosenhek's (2013) analysis on responses to the financial crisis by the Fed

⁴ Prates (2016, p. 11) astutely observes that, despite their ostensible independence, central banks can still be subject to legislative politics.

⁵ Market participants fell from 27% of attendees in 1982 to three percent in 2013, while non-US central bankers increased from three percent to 31% (The Economist, 2014).

and the ECB underscores that, despite differences in their institutional histories and the ways their roles were defined, the similarities in their assessments of the crisis are striking – the same arguments were made, the same theories referenced. He writes:

“This certainly reflects the operation of a tight and highly institutionalized international network of central banks that serves as an institutional space for consultation, exchange of information, and the formulation of common ideational networks to make sense of the economic world.” (Rosenhek, 2013, p. 269)

As the crisis unfolded, key central banks continued to coordinate both formally and informally, enacting emergency measures together. This cooperation, Rosenhek argues, fostered shared causal accounts to explain the crisis, which strengthened central banks’ abilities to speak with authority about the crisis. Their causal interpretations evolved as the crisis deepened, and they began to rethink existing intellectual frames that had narrowed the range of policy options.

While sociology often emphasizes the embeddedness of economic within broader social structures (Granovetter, 1985), studies on central banking demonstrate that these institutions serve as their own field of knowledge, capable of changing broader economic and social structures and norms. As an influential global network, central bankers have an opportunity to challenge existing intellectual paradigms. In Rosenhek’s assessment, it took an extreme economic shock to change how central bankers thought about their roles in the economy. Does epistemic change require such an extreme event? Holmes (2014) takes the premise that central bankers are constantly conducting “communicative experiments” as they work to improve monetary policy measures. Per Holmes, this is part of their daily, performative work and can unfold without a crisis, though perhaps more gradually.

Performative Work

In recent years, a significant portion of the scholarship in the sociology and anthropology of finance has focused on performativity of markets. Callon (2006, p. 7) defines performativity as a theoretical discourse “that contributes to the construction of the reality that it describes.” Economic theories and formulas do not just describe economic phenomena but can be used to construct a world that matches what the theories envision. Past research has described how economic actors control the economic environment through performativity, using formal economic models and techniques to transform empirical phenomena to match what models anticipate (Healy, 2015). This work focuses primarily on how economic and finance theories contribute to the practices and conditions of the market.⁶

There has been criticism that work on performativity tends to focus too heavily on calculative processes, ignoring political factors and relationships among financial actors that also shape economic action (Fligstein & Dauter, 2007). Others point out that this work does not sufficiently explore what happens when economic theories and knowledge fail (Miyazaki & Riles, 2007).

⁶ Studies in the social studies of finance, for instance, have shown how financial models can shape activity in financial markets (see, e.g., Lepinay, 2011; MacKenzie, 2008).

Recent studies on central banking begin to address such criticisms by both providing a view of performativity that is connected to such political and relational factors and showing how performative work by central bankers may risk undermining their goals in some contexts.

Performativity and central banking. For central banking, there are two aspects of performativity. First, economic theory can shape development of the central bank's form and practices. For instance, while the central bank, as an institution, seems at odds with neoliberal perspective of free markets, it has come to link itself to the neoliberal environment within which it is embedded (Krippner, 2007; Lockwood 2016). Krippner (2007, p. 482) draws on the work of sociologist Pierre Bourdieu to argue that neoliberalism, as a discourse, can reshape institutions to support its prevailing theories. Similarly, Krampf (2013, p. 22) argues that it was a "discursive change" in economic theory that made liberal norm the sole legitimate norm during the 1980s. In this case, Krampf shows that dominant economic theory can restrict what "legitimate" means in terms of institutional structure.

Other work has examined how economic theories and tools can sometimes constrain the activity of central banks, undermining their objectives. The paper by Fligstein et. al (2014), discussed at the beginning of this review, provides an example of how economic models can lead to performative failure within a central bank. In their analysis of the Federal Reserve's response to the financial crisis, they argue that the economic models and discourse that the FOMC used to make sense of the economy actually "inhibited" the ability of the FOMC to accurately respond to the crisis (Fligstein et. al, 2014, p. 48). The FOMC was continually underestimating the size of the problem due to an overreliance on models that did not match reality, which ultimately led to a "major failure of economic forecasting" (Fligstein, et. al, 2014, p. 49).

The second aspect of performativity ties central bank rhetoric to market changes. Holmes (2014) shows that the rhetoric of central bankers is performative, strategically used to shape the behavior of markets. Holmes writes that central bankers are aware of their performative power and the potential impact they can have on the markets. Communication serves as a signal about the economic future, but it also shapes that future. This performative work can be successful if the central bank has become legitimized in the eyes of its public and the financial markets. Through "carefully calibrated" statements that are supported by data and theory, the banks' statements can serve as "analytic bridges" to the future (Holmes, 2014, p. 30). Furthermore, by involving the public and making their actions more transparent, central banks allows the market to do part of its work for them (Krippner, 2007). For instance, the use of forward guidance and regular communication with the public provides the market with signals about likely monetary policy measures, and the conditions under which those measures will be introduced, which allows markets to anticipate and adjust their behavior. Sørensen (2015) notes that the performativity of central bankers' rhetoric is not a new phenomenon, even though studies have tended to focus on recent examples. In his historical analysis of the Danish central bank, which begins in 1840 and continues to the present, he observes how time and again, central bankers used rhetoric to achieve monetary policy goals.

Performativity in this second sense – bringing the market in line with central bank goals via specific rhetoric – is difficult to achieve, and unsuccessful central bank communications can provide cautionary tales of what happens when performative rhetoric fails. While central banks

strive to guide the markets, they run the risk of having their words misinterpreted, or worse, experiencing a loss of confidence that makes financial actors less likely to respond to such communications. Central bank rhetoric must be constantly adjusted and reassessed to account for unanticipated market reactions. This performative work, as Holmes (2014) writes, is collaborative and experimental, developed in concert with the public the central bank seeks to guide. As an example, Holmes (2014, p. 51) details the “performative apparatus” used by the Federal Reserve Bank that generates both social and cultural knowledge about the economy via ongoing communication with a broad network of interlocutors in business and finance around the country. While the public serves as the central bank’s audience - the recipient of its narrative - it also helps shape that narrative and remains a vital participant in this performative experiment.

Blinder et al. (2008) observe that there are significant variations in communicative practices of central banks, making it hard to determine best practices, and the authors ask whether there is an optimal strategy for central bank communication. As can be seen from the above literature, there may be no optimal strategy; the effectiveness of central bank communication is dependent upon a variety of national and international contexts, changing attitudes and expectations of market participants, and the multiple – at times conflicting – norms and values fundamental to central bank practices.

This research on the performative work of central banking not only provides a deeper consideration of what performativity is and how it manifests in settings beyond trading floors, but it also illuminates the specific social, political, and historical contexts under which performative rhetoric works – and doesn’t. Further research examining what happens when performative rhetoric of central banks does not work would begin to answer some of the criticisms raised more generally about the role of performativity in economic life, and, at the very least, bring attention to performativity’s heterogeneous forms. Moreover, studying the unintended consequences, and how this performative work changes as economic uncertainty increases, particularly as central banks seek to introduce new “unconventional” measures, would provide central bankers with further insights about potential pitfalls as they continue this communicative experiment.

Epistemic Authority and Relational Work

To change how they conduct monetary policy, or indeed, reframe the broader epistemic environment, central banks must be able to maintain authority and credibility. In economic sociology, Fligstein (1996, 2001) introduces a political-cultural approach to the study of markets. Fligstein makes the explicit argument that, in light of the many unknowns in the market economy, the orientation of action is shifted towards the creation of stable markets via cooperative action in order to achieve economic ends. His work pays special attention to political economy and the role of the state, institutions, and norms, highlighting how actors and institutions have the capacity to change the market.

Applying his theory to the role of central banks in the market, it is clear that central banks must rely on cooperation from market participants, as well as support from political actors, to maintain their authority. Central bank legitimacy and credibility can always be brought into question,

especially in times of crisis when it may be forced to take unorthodox measures. As central banks work to stabilize the market in times of uncertainty, they risk losing credibility if new measures do not work or are not politically supported.

The central bank encounters added difficulty for this task because it speaks to multiple audiences. A recent paper in the *International Journal of Central Banking* by researchers at Denmark's Nationalbank notes that research on central bank communications often assumes that the “public” means financial markets, but this is problematic because it ignores the significance of the broader public (van der Crujisen, Jansen, & de Haan, 2015; see also Blinder et. al, 2008). The economy has become increasingly reliant on financial activity, and average citizens have growing exposure to risk embedded within financial markets (Fligstein & Goldstein, 2015; Krippner, 2005, 2011). As such, while the specifics of central bank decision-making around interest rates might go unnoticed by these individuals (van der Crujisen et al., 2015), many are aware that the outcomes can impact their daily lives (Davidson, 2015). As a result, central banks must target their communications to both active market participants and the broader public in order to maintain their credibility.

Similarly, new research has shown that the media is essential to central banks' efforts to maintain order in the market (Velthuis, 2015). To maintain credibility, especially when implementing new ideas or practices, central banks rely on the media to convey their communications to the broader public. In his recent ethnographic study, Velthuis (2015) illuminates the contentious role of the media when it comes to central bank communication. Both the central bank and the media aim to manage the market with words but have conflicting interests in doing so. Central banks seek to ensure that the media relays the right message, but journalists have capacity to reinterpret narratives before relaying them to the public. In addition to this potential loss of control over the narrative, Velthuis (2015) argues that journalists want to capitalize on any discovery of possible uncertainty, while, as Abolafia (2012) notes, central banks want this uncertainty obscured in order to maintain their authoritative image, a tension which results in a need for a delicate balance between the desires of the media and those of the central banks. Media outlets remain an important intermediary between the central bank and the general public, but to my knowledge, they have not been given a place within central banking research prior to this work by Velthuis.

The maintenance of epistemic authority depends on the cooperation of the various publics interested in – and affected by – central bank processes. Much of the work of a central banker is relational, defined by sociologist Viviana Zelizer (2012, p. 149) as the “creative effort people make establishing, maintaining, negotiating, transforming, and terminating interpersonal relations.” Central banking involves intentional efforts to preserve and strengthen relationships with other market actors, the media, and the general public. Through this work, central bankers can help establish boundaries and norms for economic policy and activity, while also reinforcing their credibility and authority.

A Perspective Late to the Conversation

It is unfortunate that much of the sociological interest in central banking only emerged within the last five to ten years. Studies of central banking found in sociology and anthropology literatures

provide an important assessment of the relational labor and the social, cultural and political tensions that shape central bank operations, contributing a perspective that challenges the traditional technocratic view.

As the above review outlines, the sociological perspective of central banking details how central banks' forms and functions become legitimated via intentional efforts by central bankers to connect their work to both prevailing economic theories and cultural frames that resonate with their audiences. These studies note the importance of both national and international influences and epistemic frameworks when it comes to internal decision-making processes and external communication. Within this literature, scholars have also analyzed how central bankers have the capacity to alter the financial markets through the strategic use of performative rhetoric. Finally, these studies have begun to show that central banks rely on collaboration with many actors and institutions, including other central banks, in order to maintain their authority and credibility. This work importantly underscores that central banks' influence over markets is a process, not a stagnant form, in need of constant adjustment and reevaluation by both central bankers, as they set policy, and markets and the general public, as they react to policy. There are implicit politics and risks in each step, and this literature highlights the subjectivity and ambiguity that surrounds the technocratic image of the central bank.

At this juncture, however, this work stands on the periphery of central banking research. With most publications occurring only very recently, this is not yet a cohesive, established area of sociological study, and studies remain somewhat isolated from one another. Going forward, there needs to be a concerted effort to prevent this new sociological attention from being short-lived. A few recent papers (Fligstein et. al, 2014; Rosenhek, 2013) signal sociological interest specifically around central banks' management of the financial crisis, and this should not become the only way that sociology engages with central banking. As seen in this review, sociological attention to the routine relational work carried out by central banks is critical for developing a comprehensive understanding of the world of central banking, both in times of crisis and in times of relative stability.

Implications for Future Research

This work has not yet reached its full potential. Research coming out of sociology, in particular, tends to rely too heavily on analysis of publicly released documents, which likely offers versions of central banking processes that are too polished. Expanding this work to consider different sources of information and data, via collaboration with central bankers or other means, must be a part of the research moving forward. Additionally, much of this work considers central banks in the US and Europe. Future research needs to assess how central banks operate under different mandates and how different national contexts change the ability to coordinate internationally. This work tends to focus primarily on decision-making around monetary policy, perhaps in part because this is where the information is most readily available. There are a variety of other issues to consider – ones that stand to gain a great deal from sociological analysis. In the below section I discuss three possible future directions for such research, though there are undoubtedly many others. Before concluding, I make note of the methods and tools available that could expand and strengthen the existing literature.

A need for the study of central banking beyond monetary policy. The literature reviewed in this paper focuses primarily on decision-making and communicative measures regarding monetary policy. However, central banks are also responsible for large infrastructural projects that support the global economy and ensure financial stability. One potential area for consideration is central bank involvement in the development and maintenance of payment systems. The longstanding Committee of Payment and Market Infrastructures at the Bank for International Settlements, with 25 central banks as members, underscores the significance of such issues for central banks. A 2003 report by this committee⁷ raises questions around the precise roles of central bank money in international payment systems and individual central bank policies converge and diverge (Bank for International Settlements, 2003). Subsequent reports by the BIS and others continue to grapple with issues around harmonization of market infrastructures.

The focus on technical collaboration and harmonization among banks for this and other infrastructural projects resonates with much of the work found in the multidisciplinary social studies of finance, which examines the socio-technical aspects of finance. Within the social studies of finance, scholars have examined how derivatives traders interact with and innovate new technical products and processes (Lepinay, 2011), how financial concepts seep into the life views of market participants in the face of unknowns (Miyazaki, 2013), and how seemingly mundane technical and legal processes become highly political (Maurer, 2012; Riles, 2011).

Indeed, Riles (2011) specifically draws out the political implications of technical legal processes within central banking. Her discussion of the Bank of Japan's introduction of a real time gross settlement (RTGS) system highlights both the international political pressures that were felt by the BOJ to adopt such a system and the policy uncertainty that such a radical change can introduce, despite initial dreams of a having such a system serve as an elegant regulatory resolution. Despite this example, however, most of the emerging sociological literature has barely scratched the surface when it comes to the infrastructural projects of central banks. Deeper consideration of the technical and infrastructural work of central banks would move the sociological literature beyond the study of monetary policy and provide opportunities for scholars interested in the social studies of finance to contribute to academic conversations about other aspects of central banking.

A need for the study of social consequences of central banking policy. For sociological work that continues to examine monetary policy, there must be more attention given to its consequences. In his examination of the politics around inflation in Latin America, sociologist Albert Hirschman (1985) discusses both the causes and consequences of inflation, concluding his analysis by noting how it can redistribute wealth, favoring some groups over others, and even change state regime structures. His argument takes into account the full life cycle of inflation. In contrast, the studies presented here talk at great length about the construction of monetary policy, focusing on how central banks make decisions and the variety of political and social factors that must be considered, but they do not discuss the social consequences of monetary policy.

This is a critical gap; as the economy becomes increasingly reliant on finance, such consequences must be considered. Indeed, this is something that central bankers themselves are studying. Bernanke (2015) notes in a recent Brookings Institute blog post that monetary policy –

⁷ Known as the Committee on Payment and Settlement Systems at the time.

quantitative easing in particular – affects the distribution of wealth but that whether the net effect is positive or negative remains unclear. These remarks were linked to an event at the Brookings Institute in June of 2015 featuring three papers that sought to determine whether monetary policy action affected the broader economic inequality in the United States. These papers showed that, while unemployment was lowered and housing prices increased, there remained uneven distributional effects, with some regions most affected by the crisis benefitting the least from quantitative easing.⁸

Sociology, with its considerable attention to economic and social inequality, is well suited to take on this issue, but thus far, studies have stopped short of assessing the relationship between monetary policy and economic inequality. The study of monetary policy and inequality is particularly challenging because it is difficult to separate the effects of monetary policy on inequality from fiscal measures and other economic events occurring simultaneously. Nevertheless, this research is critical as central bankers work to refine and rethink their processes and goals. Mechanisms of how and why monetary policy contributes to inequality must be made clear in order to understand how to make appropriate adjustments.

A need for the study of the central banking community. Lastly, studies of central banking thus far within sociology and anthropology tend to focus on case studies of individual central banks, or compare and contrast a few different banks. The interest in these studies lies primarily in the internal processes and external communications of the bank that are targeted to national audiences. However, there is much to be said about the network of central banks and bankers more broadly. Future analyses should move beyond the operations of a single bank to consider the operations of the central banking community as a whole. Central bankers look both within and outside their national parameters to identify appropriate courses of actions, consulting with a wide range of experts formally and informally. By studying the broader network structures we can better assess how central bankers come to alter their methods of decision-making and actions they choose to take. How do central bankers connect to each other? When do they collaborate with other public officials and organizations within the private sector? How do meetings and events targeted to central bankers allow for the exchange of new ideas and signal broader shifts to each other?

In her study on the development and influence of economic knowledge, Fourcade (2009, p. 260) makes specific mention of the importance of international relationships when it comes to central banking. While central banks aim to retain independence from national political pressures regarding their decision making processes (Lockwood, 2016), it is worth considering what this independence means when they are part of a much larger epistemic community that may in fact define how such independence is construed.

Sociology and anthropology can speak well to community structures and cultures. Studying both informal and formal connections among central banks and composite groups, such as the BIS and the FSB, and various meetings and summits would illuminate how, when, and why central bankers collaborate. Incorporating analysis of these relationships would enable scholars to assess how central bankers signal changes to each other not just the market, and how new ideas become validated in the international context. At the same time, there also needs to be a more critical

⁸ See <http://www.brookings.edu/events/2015/06/01-inequality-and-monetary-policy> for details on this event.

assessment of happens when there are divides among bankers and conflicting approaches to global financial matters. Examining collaboration and cooperation among central banks must also seek to unmask key differences and debates that shape specific modes of engagement.

Methodological Tools Available

The fields of sociology and anthropology have the methodological tools necessary to strengthen and expand on existing research on central banking. Social network analysis is surprisingly underrepresented in the research thus far. Broadly speaking, social network analysis allows for the study of social structures through the analysis of social connections at either the interpersonal or organizational levels. This analysis contributes to our understanding of how shared cultural meanings are produced (Pachucki & Breiger, 2010) and how similarities among persons or groups emerge and are reinforced (McPherson, Smith-Lovin, & Cook, 2001). Social sequence analysis, similarly, is a group of techniques that has the capacity to explain sequential social processes, connecting network information to specific events (Cornwell, 2015).

These techniques can help interested researchers understand how networks form, are maintained, and how they change. Furthermore, they can trace the development of the community over time, mapping changes onto external events and shifts in the broader economy. Studying these relationships in greater detail would add to the understanding of how national and transnational processes of central bank legitimacy intersect. Lebaron (2012) is one of the few studies discussed here that uses network analysis to determine what the field of central bankers looks like and how they are connected to one another. There is much more work that could be done using this set of analytical tools.

Text analysis can also identify changes within the international community. Topic modeling, a form of text analysis that involves algorithms to identify thematic patterns within texts, is particularly useful in identifying narrative shifts in responses to external shocks and evaluating changes over time. Fligstein et al. (2014), use topic modeling in their assessment of the Fed's reaction to the 2008 – 09 financial crisis. This type of text analysis can be used to examine other documents, public statements and transcripts. As central banks become more open about many of their processes, much more of their work is publicly available, which is helpful for researchers. However, research efforts must also move beyond official documents and other publicly available information on central banking networks and activities. Qualitative research is required to understand the complexities facing central bankers. Ethnography and periods of extended fieldwork, as Riles (2011, p. 13) notes, provides scholars of finance with an opportunity to move beyond the “stylized and glossy accounts of their activities for outside consumption.” If this paper has confirmed anything, it is that central bankers work extremely hard to communicate a polished narrative. The public documents available are going to consist of well-vetted language that has been approved by various internal departments. If researchers only examine public documents or focus on data driven analysis using what is publicly available, we risk only getting part of the story. To get the rest of the story, it is critical to think more creatively about how to best approach central banking research.

Conclusion: A Need for Collaboration

While the aim of this paper has been to introduce practitioners and scholars to the sociological study of central banking, it also shows that this work provides an essential perspective for understanding the social and political complexities of the central banking world. A question to consider moving forward is: how can sociological and anthropological work on the subject become a standard part of the conversation?

This scholarship risks being limited in its effectiveness by not being shared with practitioners and other scholars outside the discipline. Too frequently, papers are not being disseminated across disciplines. Moreover, much of this work is hidden within academic journals, many of which, quite frankly, are unlikely to be picked up by central bankers, which limits its usefulness. Krippner (2007, pp. 483 - 486), for example, includes a four-page primer on how monetary policy operates before beginning her argument about how central banking sought to match broader neoliberal values in the late twentieth century. This is immensely helpful for readers unfamiliar with monetary policy, but it also signals that her audience, readers of *Theory and Society*, likely does not consist of central bank practitioners.

The papers in this compendium (see Hayes, 2016; Lockwood, 2016; Prates, 2016) begin to demonstrate that the study of central banking can and should draw upon multiple disciplines and that findings can resonate across disciplines. In the conclusion of her book on the dangers of silo mentalities, Gillian Tett (2015) argues that there must be a willingness to allow different interpretations to be a part of the broader discourse in order to break down barriers between specialties. By actively, intentionally engaging in collaborative scholarship, we can seek to avoid the siloed thinking that Tett (2015) warns against. An interdisciplinary approach to the study of central banking – one that includes analysis and consideration of the many legal, technical, social, and political factors involved in central banking – would result in a more comprehensive understanding of the challenges central banks face and provide space for new, innovative solutions.

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