

Meridian 180 Forum: The Changing Politics of Central Banking

Annelise Riles

Negative interest rates. New regional and global coalitions and institutions claiming regulatory and policy-making authority. New forms of money and payment systems. The central bank as a target of (and response to) populist and nationalist politics. Households, consumers, and workers facing increasingly intolerable levels of inequality. Public distrust of experts, and skepticism about the view that financial and regulatory policy is a “science,” leading to new challenges to the credibility of central bankers and central banks. New communicative strategies and forms of collaboration between public officials and their publics. Malaise and unease among central bankers themselves about the limits of their tools and the double binds that define their work.

These dramatic changes seem to cry out for new ways of understanding what central banks do. Since the financial crisis, both practitioners and central banking scholars have recognized that existing intellectual paradigms for understanding the role of the central bank in the economy and the polity are no longer adequate to address the current challenges facing central banks. The problem is not just that the neoclassical models that dominated prior to 2008 fail to explain the current predicament. The problem is also that existing frameworks are far too narrow to take into account the broader political, social and cultural implications of the work of central bankers on local, national, regional and global scales. The unfinished agenda of the post-2008 reforms, arguably, is an intellectual one: how to understand the place of the state in the market and, in particular the place of the central bank in relationship to politics in all the senses of the term.

This forum aims to begin a conversation between academics 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. The conversation will continue at Cornell University during the April 18 – 19 conference, “The Changing Politics of Central Banking.” A full schedule for the live meeting appears [here](#). The first day of the conference will be simulcast for the benefit of Meridian 180 members who cannot attend in person, and the public at large.

The first step in this large endeavor is to identify key research areas worthy of new scholarship and collaboration. How can the social sciences move beyond existing paradigms to better reflect the current political, social, and economic issues facing central banks? To kick off this discussion, we have commissioned four graduate students to draft background papers [[1](#), [2](#), [3](#), [4](#)] that discuss current central banking research within their respective fields: law, economics, political science, sociology and anthropology. They summarize each discipline’s most important contributions, identify gaps that remain within the social science literature, and propose possible avenues for future research.

To begin, we ask each of you, regardless of your particular disciplinary, professional or geographical relationship to the topic, to very briefly share your thoughts on any or all of the following questions:

- What are the key questions you have about central banks at this moment?

- What key questions should academic scholarship about central banks seek to address at this moment?
- What are your greatest concerns about or hope for the politics of finance at this moment?

[Katharina Pistor](#)

03/15/2016

Key questions about central banks:

1. Central banks may be independent. Are they also impartial?
2. What are the limits of their mandate?
3. Is/should financial stability be part of it, and if so, how would this affect their actions?

Questions for academic scholars

1. Is the current governance structure of central banks adequate for the tasks they perform?
2. Who are the major beneficiaries of innovative central bank policies? Who the losers?
3. What is the relation between central bank rescue efforts and the depth of post crisis reforms?

Greatest concerns about the politics of finance:

1. Central banks fear of market downturns leading them to do whatever it takes without regards to the distributional effects of these measures
2. The political backlash against central banks that results from the above with adverse effects on future central bank flexibility
3. Excessive reliance on politicians on central banks for crisis management and the abdication of political responsibility for finance

Sung-In Jun

03/15/2016

“Pushing” the String in an Age of Omnipresent Deflation

When it comes to monetary contraction, central banks know very well how to pull the string by raising the interest rate. It is a sure signal that the party is over and all are advised to go home. Aggregate demand slows down and the stock market senses the cold wind. Yes. Central banks know what they are doing, how to do it and how to let everyone else know their intention. So far so good.

Monetary expansion is a different story, sometimes radically different. Central banks are essentially “pushing” the string, hoping to induce consumers and firms to increase their demand. It may or may not work. The key variable is inflationary expectation. In order to lower real interest rate, central banks have to boost inflationary expectation, which is, alas, in the realm of consumers, firms and workers.

The equilibrium could be a vicious circle. People do not believe central bank’s ability to boost the economy, unchanging their low inflationary expectation, which results in high real interest rate that, in turn, continues to choke the economy, validating the initial pessimistic beliefs. This is essentially what we observe in current Europe, Japan before Abe cabinet, increasingly in Korea.

So the question is “how to communicate with the market which does not believe in the ability of the central bank?” and “who should/could be in charge of communication?”

Two kinds of desperate measures were tried: (1) denying central bank’s independence and (2) charging negative interest, all done in the hope of stimulating inflationary expectation.

The first measure was adopted by Abe Shinzo, the Japanese prime minister. It was a bold move, signaling that the government would do whatever it takes to boost the economy. Money supply is forced to increase not because it does anything in real but because it signals the policymaker’s determination. Kicking the president of Bank of Japan off the position is another example of communication, desperate and radical.

The second measure, adopted by ECB, and (again who else?) by BOJ, tries to strike a balance between sheer communication and practical way of lowering real interest rate, by lowering nominal interest rate fast enough. It seems like the last move by central bank to salvage the independence before politicians march in to shut down the central banking itself.

What the current state shows clearly is the lack of communication tool to stimulate the inflationary expectation. We simply do not have the tool. Denying central bank, be it the denying of independence or the denying of the conventional wisdom about the level of interest rate, proves to be a very poor means of communication.

I guess we have to look elsewhere. The fundamental reason for economic stagnation is not that central bankers became suddenly inept, but that the economy itself lost growth dynamism somewhere along the road. We have to find a new and credible source of economic growth. That, and perhaps only that, will be the means of communication the market believes in.

Jianguo WANG(王家国)

03/16/2016

The U.S. QE policy contributes substantially to the current dilemma, creating a situation in which central banks in every country have little room to maneuver. That is, the United States' inappropriate monetary policy is in many ways responsible for the current worldwide central banks dilemma. At one level, the Federal Reserve's QE policy mentioned above seemingly saved the U.S., leading the country out of the crisis. Yet, this policy also has a hidden motive to wage a monetary war. Non-US currency countries (especially China) have accumulated huge US dollar currency reserves (including the U.S. national debts) by exporting cheap merchandise in the two or three decades before 2007. The role of the U.S. dollar as a foreign currency badly threatens its status the 'King of Currency.' It also threatens American national safety. Therefore, QE (printing currency) can serve both to stimulate the domestic economy of the U.S. and to dilute and weaken foreign-held U.S. dollars.

Facing the QE policies of the U.S., non-US currency countries were not as cool-minded as they should have been. They hastily printed currency, just as the U.S. did, in order to mitigate the pressure of rising local currency, thereby sustaining exports. But it turned out to be a disaster. Let me take China for an example. Printing more currency after the U.S. did the same thing failed to rebalance the severe overcapacity on the one side, and the dominance of the real estate industry on the other side. This worsens the situation, with the government falling into a dilemma and having little room to move around.

In sum, I want to argue that the central banks of the world should consider the problems that arise from the specific situations of their own countries instead of acting in an uniform image or conception. In Chinese words, central banks should "seek truth from facts." Unfortunately, what the annual Davos World Economic Forum does is contrary to the rule of "seeking truth from facts." It tries to find a uniform prescription that is applicable to all central banks. ...

In the end, I think that the most important problem that all central banks must face is the issue of U.S. dollar hegemony. The central banks, as a united group, must smash the hegemony of the U.S. dollar and strive toward a new way of organizing the world monetary system.

Bridget Hutter

03/18/2016

The politics of central banking are especially complicated by the diversity of their remits and of their relationships with politicians. Beyond monetary policy they are far from homogeneous and even on monetary policy they do not agree. The position of central banks has changed in transnational settings. So in Europe, for example, the relationship between national central banks and the European Central Bank (ECB) needs to be scrutinized. In some areas national central banks are playing a subservient role to the ECB and in some areas, such as financial regulation, it is not always clear what they are demanding. This arguably has knock on effects for financial regulation in general including uncertainty around precisely what demands are being placed on business.

Post crisis UK has witnessed some strange maneuverings around the central bank. The Bank of England, like some other central banks, has been given a new or revised mandate to address financial stability, despite their failures to do so ahead of the crisis. And the supervision of banks has been moved to the central bank. In the case of the Bank of England we should say moved back because it held supervisory responsibilities until 1999 when a series of well publicised failures such as the collapse of Barings Bank in 1995, led to the removal of this function from the Bank to the newly created Financial Services Authority (FSA). Following the 2007-9 crisis the FSA was abolished and prudential regulation of banks and insurers was moved back to the Bank. This creates many issues for these central banks. One issue is how central banks cope with multiple mandates, where these objectives may at times conflict, where the instruments to achieve different objectives are not easily separable, and where the failure to achieve one objective may impair the credibility of central banks more generally. It also raises questions about the independence of the Bank as the removal and then reversal of its regulatory remit happened at the whim of politicians. It of course remains to be seen if these changes amount to anything more than 'moving the deckchairs on the Titanic'. Arguably they generate a great deal of uncertainty in an already unsettled market.

Eric San Juan

03/20/2016

For the financially savvy, it's true that negative interest rates, certain geographic coalitions, and new payment systems may be attributable to central banking. Moreover, home foreclosure and the Great Recession may have made central banks, their reach and limitations, salient even among the populace not formerly familiar with great financial institutions. Those who wouldn't otherwise know what a central bank should do now may feel aggrieved precisely because of perceived shortcomings.

By some accounts, a government agency should be a transparent mechanism that facilitates action without calling itself into question. After all, the bureaucrat's job is to keep the bureaucracy out of the funny pages. According to one translation of what Confucius said, "When plain substance prevails over patterned refinement, you have a bumpkin. When patterned refinement prevails over substance, you have a clerk. When substance and pattern are in balance, only then do you have a *junzi*." (Analects 6.18)

At the same time, governance mechanisms may be a prerequisite to economic activity. An organic state where rational actors naturally take their goods to market may have gone the way of the romantic imaginary.

If the question presented revolves around communication to a market who now doubt the credibility of the monetary regulator, presumably the answer lies in the quotidian experience of the doubtful. If the public gains consciousness of the financial apparatus of the State only at moments of crisis or failure, that could be a recipe for resentment.

A parallel concern of mine would lie on the other side of the fiscal house, regarding revenue collection. A taxpayer experience of paperwork burden and refund delay amid complexity so arcane as to appear unfair does not bode well for the rule of law. Nor can the tax collector rationalize Byzantine rules in the face of public hostility.

Ironically, demagogues who seek to capture State power may capitalize on or even foment popular fear of Federal officials. When political reality seems hopeless, perhaps a theory of fiscal sociology might offer at least intellectual hope.

Jinhua Cheng

03/21/2016

Key questions (considering the Chinese context in particular) I have now include:

- (1) who are regulators of the central bank and where are they from?
- (2) At what level the central bank can make independent and professional decisions?
- (3) how would the central bank identify a potential large-scale financial crisis at its beginning and how would it respond?
- (4) how could regulators of the central bank be responsible for their wrong decisions?

Wataru Takahashi

03/22/2016

The Independence of Central Banks

I would like to mention two points regarding the independence of central banks: 1) how the situation changed after the late-1990s; and 2) the relationship between democracy and central banking.

First, let's look at how the situation changed after the late-1990s. The independence of central banks was established in the period between 1996 to 1998. During this time, the European Central Bank was established as a strongly independent central bank, and the legislative organs governing the Bank of England and the Bank of Japan, respectively, were revised to increase the independence of those central banks as well.

During the 1990s, the motive behind ensuring the independence of central bank monetary policies was the necessity of restraining inflation. As a side effect, accountability and transparency became prerequisites for central banking, as compensation for the increased independence. Therefore, policies could no longer be created with accustomed levels of discretion, and information disclosure became crucial for central banking. At the same time, monetary system stabilization and supervising banks had to be separated from central banking.

The situation surrounding central banks has drastically changed in the twenty-first century. Macroeconomists have started to discuss deflation rather than inflation. Meanwhile, monetary stabilization policies significantly changed through the financial crisis and now central banks are regarded as being in charge of them. In this new situation, the independence of central banks faces a serious problem. The economic theories typically represented by Kenneth Rogoff's [model](#) - which support the independence of central banks - presuppose the necessity of controlling inflation, and, therefore, are not appropriate to an age of deflation.

Non-traditional monetary policies such as quantitative relaxation policies are criticized from the view of transparency, because they are discretionally managed. Also, it is standard to regard supervising and rescuing banks as administrative businesses. Thus, theoretically, independent central banks are not compatible with this model. The new challenge is to find a way for central banks to maintain their independence in this new system. In this sense, this forum's topic "The Changing Politics of Central Banking" is very significant.

Second, I want to speak to the relationship between democracy and central banking. Central banking has non-democratic features. Consider the famous truism, "It is the central bank's work to take away the punch bowl just when the party gets going." Limitless independence is not permitted by contemporary democratic societies. Therefore, central banks should be democratically controlled through their governments' appointive prerogative of central banks' presidents and boards. I suppose this line of thinking follows the example of the Federal Reserve Bank. Yet, in the case of Japan, this is a serious problem. Although the government should deliberately appoint boards of the central bank, the Abe administration appointed boards of the Bank of Japan based on obvious political interests. Likewise, the Japanese Diet also opposes the central bank, holding a central bank reform proposal over its head as a threat.

If central banks cannot help introducing a non-democratic policy (such as rescuing banks, etc.), there will be serious public resentment. The question of how to secure the independence of central banks without the support of the public is a serious problem in Japan, too.

[Daromir Rudnycky](#)

03/22/2016

Excellent forum and an exciting conference! Appended below are my question/answers to the provocations posed by Annelise

- What are the key questions you have about central banks at this moment?

How do central bankers reconcile the objective of appearing outside politics that is a constitutive premise of many central banks with the profoundly political effects of their actions? How do central bankers reconcile the limits of their knowledge of both the economy and the tools they use to manage it?

- What key questions should academic scholarship about central banks seek to address at this moment?

How has economic theory framed central bank action? In other words, how have ideas about the economy framed the actions and policies of Central Banks? How do the assumptions made by central bankers about how economies function lead them to embrace specific courses of action and ignore others? What cannot be thought in central banking? In other words, what ideas about how economies work or might work are unintelligible due to the forms of knowledge in which central bankers are inculcated?

- What are your greatest concerns about or hope for the politics of finance at this moment?

Finance stands at a critical juncture. Like any field, finance runs the risk of taking its own assumptions for granted and losing the ability to critique itself. My hope for finance would be that it take serious critical reflections on finance as a means of rethinking its conceptual foundations. I have in mind more than the simple binary of regulation/deregulation. Ideas in alternative financial formulations such as bitcoin, Islamic finance, and other currency experiments and critiques, may be able to improve the efficacy of cCentral bBanking and finance at large by rethinking some of finance's foundational models of how economies operate and the core concepts on which these models are based such as equity, debt, growth, inflation, property, assets, investment, etc.

Arthur Grimes

03/26/2016

Central banking includes a number of functions. The current crisis in some – but by no means all – countries, relates principally to the monetary function of central banks. Put simply, the monetary policy role requires central banks to control the price or quantity of money to achieve one or more economic policy goals. Historically, many central banks were required to achieve more than one goal – low inflation, low unemployment, etc – despite the central bank only having one effective policy tool. Since Tinbergen, we have known that economic policy requires as many tools as targets, and that each policy tool should be assigned to the target for which it has the greatest comparative advantage.

Research over many decades, influenced by the monetarist school, has shown that monetary policy has a comparative advantage in controlling inflation. This realisation coupled with the Tinbergen [insight](#) led to the creation of inflation targeting in New Zealand in 1990 under new central bank legislation that assigned the (newly independent) Bank the single monetary policy objective of “achieving and maintaining stability in the general level of prices”. Unlike the Federal Reserve, there is no other target commensurate with the price stability target.

The Bank did not adopt another tenet of the monetarist school, monetary rules. Instead, inflation targeting is an explicitly discretionary approach enabling the Bank to make discretionary adjustments to policy instruments as conditions change in order to achieve the clearly specified inflation target.

The effect of this clearly articulated regime has been stability in the inflation rate (generally between 1% and 4% since 1992), moderately low unemployment (currently 5.3%) and broadly stable GDP growth of 2-3% p.a. The prime reason for this stability is that market participants know what the central bank is trying to achieve, both currently and for the future. Stability in this final target makes it easy for participants to predict how policy will evolve. This stability in targets and policy flows through to stability in the real economy.

Ironically, this single inflation target approach delivers a more stable real economy than does an approach with multiple monetary policy targets for the central bank. The latter approach makes policy difficult to anticipate and creates conflicting incentives for the Bank. It leads to time consistency problems whereby the market knows that the central bank will have to respond to real economy imbalances in future. Market

participants can then take a position – e.g. on asset prices – knowing that the central bank will have to bail them out if prices were to fall, so creating a risk to real activity. As discussed in my “Four Lectures on Central Banking” (http://motu-www.motu.org.nz/wpapers/14_02.pdf), this conflict led to the ‘Greenspan Put’ which was at the heart of the Global Financial Crisis.

Thus simplicity in central bank targets beats complexity; and central banks should concentrate on what they do best: controlling inflation.

Jonathan Kirshner

04/02/2016

I would like to probe at some of the assumptions of this approach. The conclusion "central banks should concentrate on what they do best: controlling inflation" is of course eminently reasonable -- who wants "uncontrolled inflation"? But questions of policy and purpose remain, for me, ambiguous. All monetary policy actions (and inactions) will benefit some actors within the economy at the expense of others. So, hypothetically, if inflation rises from, say, 3.3% to 3.7%, should the central bank act aggressively to "control" the increase in inflation (by taking measures that will tend to slow down the economy as a whole?) or is 3.7% "ok" and need not elicit counter-measures? Both action and inaction would serve some interests at the expense of others. Monetary policy -- a discretionary art -- can either err slightly in the direction of being "too loose" or "too tight". If the choice is "too tight", it still needs to be recognized that some economic interests will thrive in that environment and others will bear disproportionately the costs.

Wataru Takahashi

03/28/2016

Politicizing Economy and Central Banks

If someone asks me “What is the biggest issue for the changing politics of central banking after the financial crisis?” I would like to answer “It is politicizing the economy.”

During the Great Moderation before the financial crisis, economic institutions were maintained by prioritizing the market mechanism, excluding political elements. The policy of establishing the independence of central banks and excluding political elements, typically reflects this trend. Also, in terms of financial regulations, independent rules and deregulations were respected.

However, after the financial crisis, this tendency has drastically changed. Governments have begun to reinforce financial sector regulation and have increasingly intervened into central banking issues rather than expanding fiscal spending as in the past era.

Here I would like to point out another important piece of background information: the reinforced role of assets in the economy. While some have pointed out that secular stagnation is occurring and the influence of monetary policies towards GDP etc. is declining, the influence of monetary policies towards asset prices (such as stocks and exchanges etc.) is increasing. This tendency is more obvious when considering unconventional monetary policies. It is natural for politics to pay attention to this tendency, which can lead politicians to favor increased intervention into monetary policies in order to achieve short-term outcomes.

After the financial crisis, many are becoming incredulous of economic policy management which management that naively respects the market mechanism. Governments are reinforcing their interventions into the economy; in other words, a politicized economy is developing. Traditional economic theories which have focused on flow metrics such as GDP and do not take stock variables into consideration, and which ignore politics, are not appropriate for this situation. It is necessary for us to emphasize the role of stock variables rather than arguments of economists and move on to discuss politics.

[Wataru Takahashi](#)

03/28/2016

Changing Monetary Cooperation in East Asia: The Background

I pointed out to the “politicizing of the economy” as political intervention into central banks in another comment. This phenomenon also occurs within the monetary cooperation among central banks of East Asian countries. First, I would like to briefly explain about the background of this type of cooperation, which developed after the Asian financial crisis in 1997 and 1998. The US dollar swap network called the Chiang Mai Initiative was created in order to utilize increased foreign-exchange reserves from each country. This was conducted mainly by the ASEAN+3.

The ASEAN+3's actions originating from the Asian Monetary Fund (AMF) in 1998 initially caused the US and IMF to be wary. Although the US managed the Manila Framework Group (MFG) in opposition to the ASEAN+3, this forum was not able to gain agreements from Asian countries, so it collapsed. The Asian countries' distrust towards the US and IMF stemmed from the asymmetry of the responses the IMF has taken between towards Asian countries and as compared with other countries. The IMF imposed severe conditions on support to Asian countries after the Asian financial crisis. More precisely, the IMF imposed severe conditions contrary to Asian traditions, such as revising family management as well as tightening finance. This was severer more severe than the conditions placed on South American countries, and certainly stricter than the conditions placed on European countries after them. Under this situation In response, Asian countries created an independent crisis-response policy which policy that aims to keep s Asian countries as separated as possible from the influences from the IMF and US. The Chiang Mai Initiative decreased the percentage of the IMF linkage - the ratio between the total amounts of support provided by the IMF and by the Chiang Mai Initiative - and increased the percentage of support provided by the initiative itself. Also, tThe Chiang Mai Initiative also pooled money funds derived from foreign-exchange reserves, and so began to develop into a multilateral institution.

During that period, Western economists criticized this strategy of increasing foreign-exchange reserves, describing this policy as irrational. However, the reason why the Lehman shock did not seriously affect East Asian countries was precisely because of the increase of these increased foreign-exchange reserves, as well as the establishment of the Chiang Mai Initiative. Also, tThose economists also criticized the capital regulation performed in policies of Malaysia; nowadays, in retrospect, they affirm this same policy.

There are two political features in to the monetary cooperation of East Asia. The first is the presupposition of the US dollar as *the* international currency. If this continues to be the assumption, then even if monetary cooperation in East Asia has some independence, it remains a subsystem of the IMF regime. The second

feature is the consistent policy concerning commitment to the maintenance of equal relationships between East Asian countries. Japan and China provide the two largest contributions to this form of cooperation, but neither's influence outweighs the other because each country's contribution is essentially the same. In terms of management, the thirteen countries are equal to each other and there is no undue political influence from Japan and China. In fact, even recent political problems going on in China did not affect the cooperation.

[Wataru Takahashi](#)

03/28/2016

The Change in the Monetary Cooperation in East Asia: A Future Vision

The rise of China represents a big change in the monetary regime of the East Asian region. China's rise is clearly symbolized by the internationalization of the Chinese Yuan. At the beginning, some wondered at the plan to internationalize the Chinese Yuan, since the currency is managed by the Chinese government. Yet, generally speaking, this plan is developing smoothly thus far. The reason for this is that the market welcomed the rise of another international currency besides the US dollar, which has lacked fluidity after the financial crisis. If this situation continues, the Chinese Yuan could continue to grow as an Asian regional currency.

What we should focus on deserves our attention is how China is going to will create a new monetary system centered around China. China has declared that it will establish not only the Asian Infrastructure Investment Bank (AIIB) in opposition to the Asian Development Bank (ADB), but also the Contingency Reserve Arrangement (CRA) which is an institution to internationally supply monetary fluidity similar to the IMF. Also, China established the New Development Bank (NDB, BRICs Bank) which opposes in contrapoint to the World Bank. In order to make the existence of a payment system will be key to the project of making the Chinese Yuan an international currency, however a payment system is a significant element. It was unfortunate that China did not join in the Continuous Linked Settlement (CLS) bank in New York. Nevertheless, it seems that China will try to oppose it using CLS use of the Hong Kong Real-time Gross Settlement System (RTGS) in Hong Kong. China's plans are still in their beginning stage. Nevertheless, if this system continues to develop smoothly, the influence of China in the area of international monetary systems could be reinforced increase. The US and Japan are trying to disturb Chinese influence through the TPP. Japan's economic policy attitude toward China has followed a consistent principle, separating economic affairs from political affairs. However, from now on, political influence will become more important, even for currency policies in East Asia. At this juncture, we cannot talk about monetary cooperation without considering politics.

[Gwang-ju Rhee](#)

03/29/2016

Two Core Challenges Facing Central Banks

The challenges that central banks face since the 2008 global financial crisis are many and diverse, but may be boiled down to two core problems. The first is the threat of weakened credibility, and the second is the private sector's challenge to the central banks' monopoly on the issuance of currency and legal tender.

Central banks differ widely from each other on their mandated policy goals, monetary policy regimes, governance structure, and degree of independence. However, they all share an emphasis on the credibility of monetary policies on the one hand, and the exclusive power to issue currency and control legal tender on the other. These two powers are the core elements that define central banks.

Credibility is emphasized in monetary policy as in few other areas. Take inflation targeting (IT) as an example. IT, which has steadily and widely gained ground in the past twenty years, is a monetary policy regime focused on securing the credibility of monetary policy. IT puts great emphasis on the single policy goal of price stability, and also on transparency and accountability, because it aims to secure the credibility of monetary policy by solving the time inconsistency problem. Under this regime, there is little problem with the theoretical framework for monetary policy, the central bank's capability, and the means for achieving policy goals. Nevertheless, central banks have difficulty in achieving their policy goals due to their opportunism and the failure to clearly signal that they will consistently pursue their original purpose.

Currently, however, the problem lies in the fact that the old theoretical frameworks no longer function as well as they used to and policy tools are limited. The plight of the central banks at present, forced to fall back on unconventional monetary policy now that conventional means have fallen short, is comparable to that of a doctor suggesting alternative remedies like folk medicine because cutting-edge medical knowledge and surgery have failed to turn around a critically ill patient. The patient's sense of shock and anxiety cannot but lead to a strong distrust for the doctor.

Delayed economic recovery may also exacerbate distrust in central banks' capabilities. In most major economies outside of the United States, the rate of recovery has fallen far short of expectations despite the central banks' aggressive responses. Prospects for recovery in the near future also remain unclear. As social discontent rises due to the delays in recovery, the public and politicians may find central banks to be a convenient political scapegoat. Individuals and societies alike, faced with a problem, have the tendency to pick a target to take the blame and then to attack the target rather than attempt to solve the problem by identifying its underlying causes.

In addition to the credibility problem, another challenge that central banks face is the weakening of their monopoly status due to rapid progress in information processing and communication technologies. In particular, the precipitous spread of private sector-generated e-money may break down the central banks' monopoly on currency issuance and legal tender. The basis for the central banks' ability to perform interest-rate policy is its exclusive provision of reserves to banks based on its currency-issuing power. That is, the central bank controls the interest rate between banks, which is the price of reserves, by adjusting the supply of reserves through open market operations. It is likely due to these concerns that states such as China and Russia are reportedly seeking stronger controls or state monopoly over e-money.

If central banks do not respond effectively to the two core challenges outlined above, the consequences may go beyond the revival of skepticism in central banks a la Friedrich Hayek. At the extreme, they may be headed toward extinction.

Masanori Tanabe

04/01/2016

Historically, central banks have used their independence from governments to enforce the authority of the management of monetary policies. Paralleling the maturation of all aspects of civil society (such as the development of democracy and the market economy etc.), currency systems managed by central banks have become more stable and their monetary policies have become more effective. Board members of central banks are appointed by governments; they hold voting rights and make policy decisions, but they are not directly elected by the public.

However, the authority of central banks has been in decline since the recent financial crisis, the effects of which are still on-going being felt today. The reason for this is as follows:

When the financial crisis first occurred, central banks offered a large credit accommodation to the market in order to prevent a complete meltdown of the financial system. Central banks also performed policies using tax money - in spite of criticisms from the public. As a result, a true meltdown was mostly avoided, but the financial crisis affected the depth of the real economy and resulted in a structure of deflationary pressure. As a result of a decline in resource prices, there was a subsequent decline in resource interest values, and stock prices remained at a standstill. While capital requirements from the private sector decreased, governments issued government bonds in order to expand fiscal spending. Central banks not only decided on a policy of ultra-low interest rates, but also bought up large amounts of government bonds in order to supply the market with a great amount of currency. Yet, these responses have not had their expected positive results. For this reason, central banks are now seeking to further enforce their policies, using such instruments as 'negative interest rates.'

There are some issues with this story:

1. On the one hand, the effects of interest rate policies on the financial market are clear. There is also the Taylor rule, to which interest rate policies typically refer. On the other hand, the effects of quantitative easing policies on the financial market are relatively unclear. Their effects on the real economy are uncertain. It is inevitable that a huge loss of redemptions will weaken central banks. Therefore, capital support from governments might be needed in the future. In Japan, there was a policy decision which attempted to outsmart the market in order to maximally enforce these uncertain effects. This policy, which issued large government bonds, was immediately linked to the problem of the expansion of the income gap through a rise in asset prices. To what extent should "independent" central banks have the freedom to perform this experimental policy without direct evaluation by the people? Should there be a strict limit of the independence of central banks in a democratic system?
2. When the financial crisis was still ongoing, central banks affected the political sphere when they insisted that national governments invest tax money to weather the storm. But political sphere has continued to affect central banks even after the crisis quieted down. Originally central banking was a part of national administrations, but it acquired its independence in light of the necessities of long-term policy management and the need for separation from fickle governmental financial policies. But now we must consider whether central banks have lost their basis for independence. If we shatter the illusion that central banks and

governments can make effective policy decisions separately, and then go on to unify central banks with governments, will this result in more appropriate financial and national debt policies?

3. Given these conditions, there are the two choices for central banks facing the pressure of politicization. Even if central banks cannot help but try to preserve the status quo, sooner or later they will need to face the following dilemma:

Should we,

(A) Legally enforce the independence of central banks once more, and so restore them to their original form?

Or,

(B) Legally weaken the independence of central banks in order to meet the needs of the current economic situation?

[Jonathan Kirshner](#)

04/02/2016

I would like to probe at some of the assumptions of this approach. The conclusion "central banks should concentrate on what they do best: controlling inflation" is of course eminently reasonable -- who wants "uncontrolled inflation"? But questions of policy and purpose remain, for me, ambiguous. All monetary policy actions (and inactions) will benefit some actors within the economy at the expense of others. So, hypothetically, if inflation rises from, say, 3.3% to 3.7%, should the central bank act aggressively to "control" the increase in inflation (by taking measures that will tend to slow down the economy as a whole?) or is 3.7% "ok" and need not elicit counter-measures? Both action and inaction would serve some interests at the expense of others. Monetary policy -- a discretionary art -- can either err slightly in the direction of being "too loose" or "too tight". If the choice is "too tight", it still needs to be recognized that some economic interests will thrive in that environment and others will bear disproportionately the costs.

[Meridian 180 Team](#)

04/06/2016

Dear Meridian 180 Members,

Many thanks go to the members who posted wonderful comments. And this forum is scheduled to close on Sunday, April 10th. We will be accepting comments until 5PM(EST) that day.

Please share your thoughts on this important topic by posting your comment (650 words or less) on the forum page or by emailing it to Daxiao Shi (ds993@cornell.edu).

Thank you so much.

Sincerely,

Meridian 180 Team

Christine Desan

04/07/2016

For me, an historical and legal perspective informs what Annelise called the unfinished agenda of our moment “to understand the place of the state in the market and . . . the place of the central bank in relationship to politics.”

Much scholarship on central banks casts them as institutions that react to, rather than construct, money creation and economic exchange. The conventional account begins with private commercial activity -- the money-making enterprise of goldsmith-bankers and purveyors of merchant credit. We move to national banks; they “get a monopoly” on the note issue of those earlier actors -- the formulation itself implies the public take-over of a private function. Central banks then develop as national banks manipulate their monopoly to police money production and credit.

In fact, national banks represented a qualitative break with modes of medieval money production in Europe, including mercantile credit. That break occurred when governments chartered certain investor groups (dubbing them national banks) to issue notes against public debt and other qualifying assets. Those notes (and soon, deposits) would function as retail cash because the government identified them as sovereign liabilities that held value for all public payment; the novel arrangement effectively enlarged the money stock. The initiative was as much or more for public as private purposes (financing war, for example), although the public/private line itself is something of a misnomer: money production that resolved small denomination problems and facilitated payments systems could be conceptualized as meeting either public or private ends.

Central banking operations developed with the new legal institutional architecture. The distinctive ability of a national bank to produce sovereign liabilities meant that its money carried unique cash qualities and settled private as well as public obligations. A national bank could in turn support the development of the commercial banking industry by clearing that industry’s liabilities; it could affect the money supply and interest rates by making clearing more or less difficult; it could bail-out faltering banks by producing additional reserves.

The implication of a revised legal historical account is that the state and the market have been fused from the beginning. That was true even before advent of modern money: a “commodity” in early Europe indicated an item that could legally be sold for money; debts could only be settled finally in the official unit of account; and exchange depended more generally on contract enforcement.

But the fusion of market and state is even more striking with the elaboration of the modern monetary architecture. (1) That architecture alone enabled the huge increase in liquidity that now irrigates exchange. (2) The circulating public debt associated with modern money provided the critical mass that stabilized early securities markets. (3) Capital markets took root in that medium and expanded on the basis of public-debt-for-equity swaps. (4) Money markets grew up within this architecture to service interbank clearing.

Annelise's invitation to enlarge the frame prompts us to consider structural aspects of our monetary architecture as well as the operational aspects (like monetary policy) that occur within that architecture. In that spirit, the politics of central banking includes issues like the following:

The shape of credit allocation – Central banks support a very particular set of actors, both those commercial banks served within their payments communities and those entities with market funding roles (shadow banks) that have become critical to modern finance. These systems of credit allocation have developed with partial and confused political vetting.

The distributive effects of public support – Both commercial and shadow banks reap private seignorage that flows from the advantages they capture as enterprises that effectively expand the money supply. That subsidy is rendered invisible by the old historiography that locates money as privately produced.

The relationship of fiscal to monetary policy – Fiscal policy is artificially constrained by the same historiography and a neoliberal politics that defines public agency as regulatory rather than constitutive in economic matters. Central banks wield their tools within this distorted conceptual and political environment.

[Douglas R. Holmes](#)

04/08/2016

In the ethnographic vignette that follows (divided in two posts), I provide a very brief example of how political issues gained articulation in one central bank.

Part 1:

In early 2009 I was in Stockholm conducting research at the Riksbank. It was a time when there was a glimmer of hope that the first dire challenges of the financial crisis had been addressed and that a range of catastrophic outcomes, at least for the time being, had been avoided. Unsurprisingly, among six members of the board of the Riksbank—composed of the Governor and five deputy Governors—there was critical discussion developing about interest rates. But these discussions turned on an unusual question: How are monetary affairs managed at the “zero lower bound,” that is the point when the bank's policy rate, the “repo rate,” approaches zero? In other words, if stimulative monetary policy is achieved by lowering interest rates, what alternatives are available when interest rates are at or close to zero? Can a policy rate be set below zero?

The key figure in this discussion was Lars Svennson, at the time a Deputy Governor of the bank. Svennson had written extensively about this problem while he was a member of the economics department at Princeton University focusing in particular on the monetary conundrum of Japan and its “lost decades” mired in deflation. I read with great excitement selections of Svennson's scholarly works and the speeches he had delivered at the time of my fieldwork. I was also fortunate to have a conversation with him on his “fool proof” strategy for avoiding deflation and escaping a “liquidity trap.” In almost every respect I found his solutions brilliant, it was by any standard a remarkable and creative application of macroeconomic theory to an overriding concern posed by the financial crisis. He had a series of policy remedies in hand if the Swedish economy, or any other economy for that matter, was to encounter a serious episode of deflation and he articulated these remedies forcefully.

During this same period I also had a conversation with the Governor of the Riksbank, Stefan Ingves. Ingves provided an account of the crisis and the bank's efforts to grapple with various contingencies. In the midst of the conversation there was an awkward moment when the governor asked me what I thought of the bank's policy. I was initially taken aback by the question. I certainly was not in a position then or now to critically appraise or evaluate the technical aspects of the bank's monetary policy, precisely because I understood the deliberative procedures by which these decisions were made. Setting the repo rate was not a matter of mere opinion, but of systematic research and carefully orchestrated conversations. To be continued.

[Douglas R. Holmes](#)

04/08/2016

Part 2

Much to my relief, I quickly realized that I was actually being asked a different question. He was *not* soliciting my position on the interest rate policy per se. Rather Governor Ingves was asking: Was the policy legible? Was the policy consistent with the relationship the bank had carefully cultivated with the Swedish people over the course of two or three decades? These were questions that went to the heart of my project and I could respond, albeit tentatively.

But the question was also an implicit criticism, if not rebuke, of Ingves's colleague, Lars Svensson. Ingves was suggesting that there was something else at stake in monetary policy, something that exceeded economic analysis.

I am not clairvoyant, my parsing of Governor Ingves's question was only possible because of many other conversations I had had at the bank during the prior weeks, specifically on the nature of the Riksbank's political mandates and accountabilities. Indeed, it followed a line of reasoning that was consistent with my conversations in all the five central banks I had visited, most notably at the Bundesbank in the early years of the last decade. Ingves's was, thus, expressing a concern that was *not* reducible to economic theory or the operation of markets, but predicated on accountabilities aligned with broader public interests. Addressing the public demands a distinctive language that can, as Ingves insisted, sustain an ongoing relationship, which acknowledges the public's role as protagonists in the monetary drama. The bank had more than mere policy solutions to offer, it had a relationship with the public, cultivated for decades, that was decisive in summoning the ephemeral elements of confidence in the face of great uncertainty.

The basis of this communicative relationship was rooted in the creative field of economic action. Insofar as the members of the Riksbank's Executive Board were deeply engaged in conversations with networks of interlocutors they sought to operate fully in concert with the public, fully wired into their communicative field, and fully aware of their unfolding dilemmas. The troubled economy and the dysfunctional financial system assumed the guise of shared predicaments, which the Riksbank's Board understood were ultimately in the hands, the visible hands, of its target groups—the public—to creatively resolve. The legibility of Riksbank's policy was decisive insofar as it established the basis of an unusual politics in which members of the public are not merely served by policy; they enacted it.

The interplay between “the market” and “the public” is constitutive of a distinctive politics, a politics in which high-level analytical abstractions must continually confront the predicaments of unruly beings of flesh and blood.

Masanori Tanabe

04/09/2016

The Two Key Features of Central Banking

What is the essential difference in the way central banks and governments manage economic policy? Briefly speaking, I believe it is as follows:

Governments create regulatory environments and also intervene into the economy by exercising their powers of tax collection. These policies must be approved by congresses.

In contrast, central banks affect interest rates and monetary bases by exercising their power to issue banknotes. This is done through different financial transactions without any approvals by congresses.

In this way, central banks have the following two features:

1) Central banks can make policy decisions quickly. Therefore, historically speaking, central banks have supplied large amounts of risk money to the market, yet have also rescued financial institutions ahead of governments’ policies (which need approval by congresses). Furthermore, when the recovery of a growing financial power is a significant issue, as in the current economic situation, central banks facilitate private sector activity through large-scale quantitative easing ahead of structural reforming policies by governments.

2) Central banks can enact their policies through “market” transactions. In the market, participants who have different perspectives try to build consensuses. These consensuses enable decisions regarding interest rates and the amounts of each currency. Hence, central banks operate in a so-what may be called a “democratic” style atmosphere of decision makingdecision-making. In this process, market participants share and revise their perspectives toward the economic situation ‘behind’ the market. Central banks have an overwhelming influence (especially in domestic financial markets) which and this enables them to freely control interest rates and adjust amounts of currencies as they see fit. Yet, central banks have tried to avoid taking this imperious attitude toward the market as much as possible. Instead, they have emphasized “dialogues with market participants.” Central banks have sometimes used their power humbly and have tried to take a larger market view into consideration. This approach has also allowed central banks to get accurate information from the market as well.

It is very important to continue to preserve the merits benefits stemming from these two features in order to ensure the validity and fairness of central bank policies. Yet, these days, central banks are facing a serious problem.

Concerning the first feature I mentioned (i.e. central banks’ advantage over governments in making rapid responses in a moment of crisis), central banks have sometimes continued to utilize this advantage *after* a

crisis, as well as in the midst of a crisis. While governments have a tendency to be late to respond to a crisis, central banks often continue their experimental policies for a long time.

Looking at the second feature I mentioned (i.e. dialogues between central banks and market participants), when central banks perform experimental policies (such as quantitative easing or negative interest rates) which have not yet garnered enough scientific evidence to guarantee obvious effects, they cannot help but overwhelm other market participants, as well as directly affect other people's market expectations. For this reason, dialogues through market transactions between central banks and other market participants – and between market participants and other market participants – are going to be negatively affected. Oral explanations given by presidents of central banks regarding the political implications of a given policy experiment become more significant. These explanations can sometimes disturb the stability of the market.

In short, I have this question: Except in moments of crisis, when we need seamless and strong measures, and turning points in the economy, are central banks performing too showily and acting with undue strength? This question also relates to another question: What kinds of independence and resultant power should central banks have? At the same time, we must also consider this question as a problem related to the practical aspects of policies.

[Daniela Gabor](#)

04/10/2016

One critical, if under-appreciated, challenge for central banks is the changing role of government debt in market-based finance. We now live in a world where [modern money creation](#) demands of the state to issue debt not because it needs cash, but because private finance needs safe collateral. While banks traditionally held government bonds to ensure access to liquidity in case of a cash drain, now they can use government bonds for balance sheet expansion through shadow banking. This shadow function is described in regulatory circles as securities financing transactions (or repos/repurchase agreements): (shadow) banks use their portfolio of government bonds as collateral to issue short-term money claims. The legal right to re-use/re-hypothecate collateral allows several financial institutions to issue repos against the same government bond, and thus fund portfolios of private securities. (Shadow) banks can mobilise government bond portfolios to finance less liquid, but higher yielding assets, that again can be reused as collateral.

Two important implications are worth mentioning. In a system of credit claims built on a base asset issued by the state, the distinction between fiscal and monetary policy becomes increasingly blurred. Bank of England has (quietly) acknowledged this by introducing collateral transformation facilities that allow (shadow) banks to exchange bad for good collateral, and by coordinating the good/bad collateral ratio with the UK Treasury (a similar exercise undertaken by NY Fed in 2009). Coordination is the new game, with clear rules still to be developed.

Second, the limits to unconventional monetary policy are fiscal. Negative interest rates are the other side of a structural shortage of safe (government) assets, worsened by QE and by the lack of an overall theoretical framework that connects government debt to credit creation and financial stability. The clearest example is Japan, where the IMF recently argued that 'the BoJ may need to taper its JGB purchases in 2017 or 2018, given collateral needs of banks, asset-liability management constraints of insurers, and announced asset

allocation targets of major pension funds'. More overtly political, the ECB has been repeatedly calling for fiscal stimulus, and - unusually - dismissed the standard argument that structural reforms could fix growth problems.

For academic scholarship, we argue in the first paper of our INET project *Managing Shadow Money*, the rise of shadow banking has profound implications for monetary theory and practice. Efforts to appreciate its challenges must take point of departure in an examination of forms of short term lending supported by tradable collateral. A convincing account of modern money creation requires a firm grasp on the tectonic shifts of modern-day finance, central banking and sovereign debt management.

[Youngjae Lim](#)

04/10/2016

One must admit that the politicization of central bank policies under deep recessions or deflationary pressures is, by nature, different from the political economy failure of such structural policies as trade, labor, or pension. In the latter, the politician's failure to implement 'optimal' policies is the source of the problem. We understand well the mechanisms by which such policies work to cure the causes of the disease in the economy. However, politicians do not welcome those policies. On the other hand, in the former, politicians welcome central bank policies, even though we do not understand well the mechanisms by which central bank policies work to cure the economy.

Often the root cause of economic crises and ensuing deep recessions has been the failure to introduce the 'needed' structural policies at the right places and timing. It is because their costs are imminent and concentrated on those who can easily mobilize political resources to punish politicians. On the other hand, the benefits are potential and dispersed among a large number of unspecified people (so unlikely to be politically mobilized). As a result, politicians fear losing election and their jobs. These political economy failures accumulate underneath the economy, and finally burst into crises.

Now after crises, central banks are called up to do something. Central bank policies are welcomed by politicians. Those policies harm few interest groups, hence little political resistance. With lack of other easy policies, central banks are forced into experimenting on the economy in a new territory. But no one has a good understanding of the role of central banks there. Policies' perceived transmission mechanisms are also theoretically tenuous. The tenuous links later may plague the economy. We just hope that it would not happen. Here the U.S. central bank is special in that it enjoys the global seignorage privilege.

Under normal business cycles, central banks were successfully practicing a set of monetary policy tools to mitigate negative consequences of business cycles. But, under deep recessions or deflationary pressures, those traditional policy tools lose their relevance. (In fact, we do not now have a good intellectual framework to integrate money into macroeconomic models. In this sense, our understanding of monetary policies even under normal business cycles lacks a rigorous theoretical underpinning. We now push it further into an unknown territory.)

More seriously, those central bank policies inflict a large negative externality on other countries. Unfortunately, however, there are no global mechanisms available now by which the damaged countries can collectively seek to deter it. Within an independent jurisdiction, the remedy is government intervention. The

government levies an appropriate tax on such an action to remedy the missing market. For the global economy, alas, there is no such authority to fix the problem. Without a right remedy on a global dimension, other countries' reactions tend to be on a trap of beggar-your-neighbor type. This is an issue to be address.

[Guo Li \(郭雳\)](#)

04/13/2016

China: The Rise or the Return of a “Super” Central Bank?

Many thanks go to the experts who posted insightful comments on central banking. I would like to add a Chinese perspective. As the central bank of the world second largest economy, the People's Bank of China (PBC) is obviously an important institution. Mr. Xiaochuan Zhou, once named as “Central Bank Governor of the Year,” has been in charge of the PBC for fourteen years and enjoys a positive international reputation. Currently, the world seems to be focusing on the scale and the possible transformation of the PBC. On the one hand, the PBC has had the largest balance sheet among all central banks across the world since 2006, and that balance sheet continued to expand in a particularly rapid and surprising way after the Financial Crisis. Meanwhile, the U.S., the European Union, and Japan are all accelerating their currency printing.

At the same time, the financial regulatory framework of “one bank, three commissions” (the one bank is the PBC, and the three commissions are China Banking Regulatory Commission, China Securities Regulatory Commission, and China Insurance Regulatory Commission), formed at the beginning of this century, is facing grave challenges. Over the past few years, there have been consistent and strong voices calling for reform of the separated regulatory system under which the PBC, China Banking Regulatory Commission, China Securities Regulatory Commission, China Insurance Regulatory Commission, and the State Administration of Foreign Exchange exercise their respective regulatory powers. The core idea put forward by these voices is to construct a new “three in one” financial management system in order to effectively prevent systemic financial risks. The new system would incorporate monetary policy, macro-prudential management, and micro-prudential regulation with macro prudential management at its heart. Particularly since the beginning of this year, some important officials from the PBC have expressed the idea in their articles or speeches that micro-prudential regulatory function tends to gradually concentrate in the central banks in almost all countries because it is difficult for a simple mixed regulatory system to prevent systemic financial risks. Therefore, these PBC officials believe that a framework like “a Central Bank + a Conduct Authority” or “a Central Bank + a Prudential Regulation + a Conduct Authority” might be more suitable for contemporary China.

Not long ago, a piece of news from an overseas media source reported that the PBC would set up a “Financial Regulatory Bureau”, which would function like the Financial Services and the Treasury Bureau in Hong Kong, in order to coordinate and arrange policies and regulatory affairs among the China Banking Regulatory Commission, China Securities Regulatory Commission, and China Insurance Regulatory Commission. Although it is unknown whether the proposal is final or not, it seems that the separation of monetary policy-making and financial regulation carried out in the past two decades will be reversed. In light of this, the PBC's right to speak in terms of financial and economic areas, and even the

entirety of social affairs, would be enhanced. The PBC has never left the central stage, but its new posture (i.e. to prepare to begin directing all monetary and financial regulation) reminds people of the system in place during the first years of the 'Reform and Opening Up' policy era. However, times have changed. Facing a highly complex and systemically new financial world, how would a "super" central bank be likely to act? Let's wait and see what happens.

[Hirokazu Miyazaki](#)

04/13/2016

The changing politics of central banking is an exceptionally timely theme globally. It is important for us to discuss common issues and challenges central banks face, as well as common tools and theories they have at their disposal in order to address those issues and challenges, in this increasingly globally connected world. In my view, however, it is also crucial for us to pay attention to the specific configuration of the relationship between politics and finance surrounding each central bank. Are the Bank of Japan, the European Central Bank and the Fed facing the same political challenge when it comes to the legitimacy of their monetary policy action? Can these three banks really be regarded as the same kind of institution? In my opinion, central bank studies would benefit from a more comparative and more ethnographically and historically nuanced framework for capturing the entanglement of monetary policy with national, regional and global politics emergent politics of global finance and its governance.

[Leigh B. Bienen](#)

04/17/2016

In your opinion how was the public to express its view, or how was 'the public' supposed to enact the policy? With business interests or local banks increasing activities, borrowing and lending? By consumers purchasing? Did anyone at the central bank express any expectations about that. What would be an example of 'creative resolution'? looking forward to the discussion in Ithaca. This comment raises another issue: what is the audience for our comments?

[Annelise Riles](#)

04/17/2016

Thank you for this extremely stimulating discussion. Let me summarize a few points to focus our discussions going forward.

Central Banks are Political Actors

-This has been the case from the start, as the production of money is a sovereign political project not a private market affair bolstered by state law (Desan). This politics continues in contemporary forms with alternative currencies that seem to threaten the state's political monopoly over the money supply but also projects like collateral transformation facilities that recognize the role of sovereign debt itself as enabling banking beyond the state and seek to reintegrate it in the state structure (Gabor).

-Central banking is political in another sense too: central bankers are engaged in a political project of nation and region building that involves curating a conversation with the citizenry through talk about the market (Holmes).

-The political nature of central banking is now explicit as never before: The financial crisis and the use by central banks of tax dollars to bail out private banks have “shattered the illusion that central banks and governments can make effective policy separately” (Tanabe).

-The result is a political backlash (Pistor): central banks have emerged as targets of public concern and populist politics. Demagogues take advantage of public fears and frustration over economic stagnation (San Juan, Rhee).

This central assumption in turn frames a number of key questions for research and policy:

Central Bank Independence and Democratic Legitimacy

-Does an appreciation of the political nature of central banking suggest that central banks should be more or less independent? (Tanabe)

-Should we embrace or reject the overt politicization of finance by political leaders such as Shinzo Abe? (Takahashi) Is it different in some important way from the longstanding power of political officials to appoint central bank leaders?

-What kind of political or moral accountability should central bankers have for their failures or for the distributional effects of their policies? (Cheng)

-How do ordinary citizens think about these questions? We need a “fiscal sociology” (San Juan).

The Limits of Expertise

-Central bankers are profoundly aware of the limits of their own expertise: “The old theoretical frameworks no longer function as well as they used to and the policy tools are limited.” (Rhee, Jun) The lack of a “reasonably good intellectual framework” in turn further exposes the politics of finance (Lim)

-Do central bankers have other forms of expertise than monetary policy—such as payment systems or supervisory expertise, and should they concentrate on these at this moment? Or should they limit themselves to controlling inflation? (Grimes) And if supervising and rescuing banks is “administrative business” does the kind of political oversight suited to administrative branches seem appropriate here?

-Thinking about these questions raises a host of anthropological/sociological questions: “Who are the regulators and where are they from?” How independent are central bankers intellectually even when they are politically independent? (Cheng) How do particular ways of thinking limit the problems that are foregrounded and the solutions that can be imagined? (Rudnyckyj)

Distributional Effects

Who are the beneficiaries of central bank policies and who are the losers? (Kirshner, Desan, Pistor) How and why do certain actors (such as private banks) come to be supported by central banks (Desan)? New monetary policies bring these distributional effects into greater public view (Tanabe). What should we do about these?

Comparative Diversity

The challenges central banks face differ because the politics is different in different locales (Miyazaki). Central bankers “should consider the problems that arise from their specific situations” (Wang) and scholars should take a more comparative and nuanced approach.

Transnational Politics

Finally, the politics of central banking is not just national.

-This is clear in Europe where coordinating among national central banks and the ECB and managing overlapping authority creates uncertainty (Hutter).

-Likewise in Asia cooperation among central banks has been shaped and limited by the geopolitics of US and Chinese dominance in the region (Takahashi, Rhee).

-The hegemony of the dollar creates serious transnational externalities to US monetary policy that are not addressed by the US domestic debate about the political mandate of the Fed (Wang), and these account in part for efforts to create other regional cooperative arrangements and the search for other global currencies such as the Yuan (Takahashi).

-Such regional efforts in turn have wider political consequences beyond finance—they have the potential to engender new ideas about citizenship and new forms of political allegiance (Holmes). One task for a transnational group of scholars and policy-makers might be to consider how to turn the complexity and challenges of the current political moment into an opportunity for national and transnational political transformation.