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CHAPTER 5

Central Bank Planning for Public Purpose

Benjamin Braun

Since the beginning of this century, the world of financial and monetary policy makers has changed beyond recognition. Reducing net carbon emissions to zero; reducing economic inequality so as to avert social disintegration and democratic backsliding; combating a global pandemic — societies are confronting unprecedented environmental, economic, and social challenges. Tackling these challenges will require states to deploy all economic policy instruments already at their disposal, to develop new ones, and to build a new macro-financial regime to deploy hose instruments in a coordinated way. Several of the most powerful of these instruments are controlled by the central bank — an institution that has been placed beyond the reach of most governments in recent monetary history. The COVID pandemic has catalyzed a debate about whether and how to redeploy these instruments.

The debate has a clear fault line. While (monetary) conservatives have been steadfast in their rejection of any repurposing of central bank instruments away from price stability, progressive voices in politics and civil society are facing a dilemma. On the one hand, they have spoken out against the empowerment of unelected central bankers, especially in the context of the disempowerment of fiscal policy (Dietsch, Claveau, and Fontan 2018; Downey 2020; Van't Klooster 2020). On the other hand, they have increasingly been calling for a reorientation of monetary

policy toward green and social purposes (Campiglio et al. 2018; Dikau and Volz 2020).

The progressive concern with the excessive technocratic power of central banks deserves to be taken seriously. It does not, however, imply a return to the *status quo ante*, when central banks enjoyed far-reaching independence while limiting their powers to the pursuit of price stability. Their powers are too formidable not to be wielded. The question is who gets to wield them, for what purposes, and in what kind of macro-financial architecture.[1] To answer this question, this chapter examines the relationship between technocracy, democracy, and capitalism, with a focus on advanced capitalist economies. Space constraints do not permit a discussion of the implications for developing countries (Maxfield 1998). Nor is there space to discuss the case of the People's Bank of China, which has practiced a form of central bank planning, albeit one embedded in a nondemocratic political system (Bell and Feng 2013).

Capitalism, Democracy, Technocracy

We are used to thinking of capitalism and democracy, if not as a match made in heaven, then at least as a solid marriage. There is a long version of this story in economic history, which emphasizes the deep complementarities between market institutions and political institutions (Acemoglu and Robinson 2012; North, Wallis, and Weingast 2009).[2] Then there is a shorter version, which dates the marriage to the "golden age" of the post-Second World War era of Keynesian social democracy. However, rather than the story of a bilateral marriage, the story of the advanced economies since the mid-twentieth century has been that of an uneasy, triangular cohabitation of capitalism, democracy, and technocracy.[3] The

1. On macro-finance as a concept and approach to political economy, see Gabor (2020).
2. For an alternative reading of economic history, see Van Bavel (2016).
3. The experience of the 1970s revived the literature on the relationship between capital and the state. When, following the demise of Bretton Woods, the relationship between "late capitalism" and democracy became more conflict-ridden, social theorists and political scientists re-discovered the state. While (neo-)Marxists debated the modalities and extent of the control of the capitalist class over the state, political scientists began to study the state as a partly autonomous force in advanced capitalist economies. See

three sides of the triangle represent alternative institutional solutions to the problem of organizing and coordinating polity and economy. Each side represents a particular macro-financial regime that marginalizes but does not eliminate the triangle's third corner (see Figure 1). The triangle offers a heuristic to think about the past and future of advanced capitalist economies.

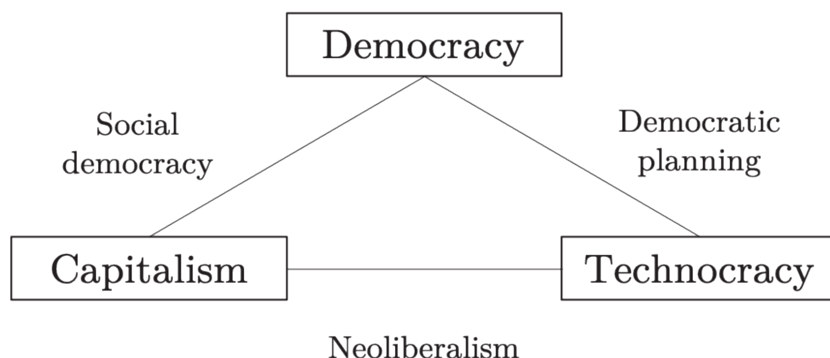

Figure 1: Three ways of organizing the cohabitation of capitalism, democracy, and technocracy.

The decades following the Second World War are said to have marked the "golden age" of democratic capitalism (Marglin and Schor 1990). The social democratic settlement arose from a situation in which the Great Depression and the two world wars had reduced the global economy to a "financially underdeveloped state" (Mehrling 2015: 313). Under the international regime of "embedded liberalism," states kept their borders open to international trade but imposed strict limits on international capital flows and high tax rates on corporations and the wealthy (Ruggie 1982). Keynesian macroeconomic stabilization, industrial policy, and even indicative planning were widespread, and most central banks were subordinated to their governments (Monnet 2018). The state had considerable influence over key sectors of the economy, unions were strong, and managers of large, financially independent and domestically anchored corporations supported the Fordist high-wage, high-consumption growth model. In this mixed economy, capital and

Habermas (1975); Offe (1976); Evans, Rueschemeyer, and Skocpol (1985); Miliband (1969); Poulantzas (1973).

democratically elected governments depended on each other. Social democratic capitalism was not a technocratic regime — experts were important but did not rule (Mudge 2018).

Starting in the 1960s, financial globalization gradually eroded this arrangement (Helleiner 1994). From the beginning, central banks — acting with a degree of autonomy that is the hallmark of technocracy — actively paved the way for financial capital to move across borders in large volumes through the Eurodollar market (Altamura 2017; Braun, Krampf, and Murau 2021). The growth and globalization of finance increased the structural power of capital vis-à-vis both labor and the state, undermining the foundations of the social democratic regime (Scharpf 1991). At the same time, governability problems — beginning with inflation and followed by financial instability — led to the delegation of ever more powers to independent technocratic agencies. The near-universal institutionalization of central bank independence took monetary and — by implication — fiscal policy off governments' policy menu, increasing the pressure to generate growth by further liberalizing financial markets and implementing structural labor market reforms (Aklin, Kern, and Negre 2021; Braun et al. 2021). The options available on the democratic menu were significantly reduced (Downey 2020; Van't Klooster 2020). The global financial crisis consolidated this shift toward the capitalism-technocracy axis — most dramatically in the euro area, where national governments received orders from the European Central Bank (Fontan 2018; Jacoby and Hopkin 2019). Some critics have dubbed this new alignment "authoritarian (neo)liberalism" (Bruff 2014; Streeck 2015), but the neoliberal tradition's focus on placing capital and markets beyond the reach of majoritarian politics is long-standing (Madariaga 2020; Slobodian 2018). The neoliberal macro-financial regime minimizes the democratic component of government.

To see why a return to tried and tested social democracy may not be an option, it is important to consider how historical circumstances have changed. Compared to the period of embedded liberalism, financialized capitalism today poses a much greater obstacle to distributive justice, political equality, and climate sustainability. In pursuit of the lowest possible wage and tax bills and the optimal financial and legal structure, corporations have self-fragmented across the globe (Reurink and Garcia-Bernardo 2021). Corporations, and increasingly our homes and infrastructures, are owned by powerful asset management companies who manage retirement savings and the wealth of the global rich (Braun 2021; Fichtner et al. 2017; Gabor and Kohl forthcoming). Whereas

managers in Fordism often depended on sustainable relationships with local workers and customers, managers of financial capital seek effective protection *against* local democracy, provided by institutions such as independent central banks and arbitration courts. The scale of the shift of ownership and power from public to private institutions, and from nonfinancial to financial actors, blocks any direct path back to the social democratic capitalism of old.

Can a new path toward a progressive future be forged? Progressives correctly see "actually existing technocracy" as a mode of governance geared toward protecting financialized capitalism against electoral majorities and should be skeptical of naive ideas of "progressive technocracy" within the current macro-financial regime. That said, reclaiming the fiscal and monetary powers of the state and mobilizing them in service of progressive goals is going to be a technocratic — in addition to a political — project. As Daniela Gabor (2021) might put it, the revolutionaries better come armed with a macro-financial blueprint.

Technocracy

Technocrats possess specialized policy knowledge and, unlike mere technicians, occupy positions of power in the apparatus of government. Technocracy itself is "a system of governance in which technically trained experts rule by virtue of their specialized knowledge and position in dominant political and economic institutions" (Centeno 1993). Both authoritarian and democratic states rely heavily on technocratic rule. Prominent cases include authoritarian neoliberalism in Chile, developmental state capitalism in East Asia, and authoritarian state capitalism in contemporary China. In much of the rest of the world, technocracy used to keep a slightly lower profile: the mostly hidden-from-view work of inflation targeting by independent central banks for the West, conditionality imposed by private lenders and the International Monetary Fund for the rest (Deforge and Lemoine 2021; Kentikelenis and Babb 2019). Toward the end of the twentieth century, in a climate of post-Cold War triumphalism on the right and capitulation on the left, an optimistic view of technocracy took hold. The consensus in political science was that the "output legitimacy" produced by higher effectiveness of technocratic government could compensate for losses in the "input legitimacy" that resulted from lower citizen participation (Majone 1998; Scharpf 1997).

Things have changed since then. The area of technocratic governance that has seen the greatest increase of "unelected power" has no doubt been central banking (Tucker 2018). Following the stagflation crisis of the 1970s and Paul Volcker's labor-crushing crackdown on inflation in the United States (US) in the early 1980s, countries around the world transferred the responsibility for monetary policy from those directly accountable to elected representatives to arms-length technocrats governing newly "independent" central banks. By limiting that independence to relatively narrow price-stability mandates, the argument went, this institutional arrangement would strike a balance between the needs of financialized capitalism and the requirements of democracy. That was not, however, how things have played out.

Contrary to the narrative that central bank independence constituted a form of depoliticized welfare-maximizing economic management, central banks retained extraordinary power to determine distributional outcomes. The full scale of that power became apparent in the wake of the global financial crisis of 2008. Central banks' unlimited liquidity operations and asset purchases highlighted their capacity to choose how, and for whom, to do "whatever it takes."

To be very clear, the problem with central banks' policy responses in 2008 and 2020 is not that they acted swiftly and on an unprecedented scale to prevent further economic damage but that those interventions tend to perpetuate a bloated, unstable, and inefficient financial system. In other words, the problem is not the absence of central bank planning but that such planning is carried out as a mere support function, subordinated to the profit-oriented planning capacity of the private financial system (Braun 2018; Gabor 2021; Lemoine 2016). Reversing that hierarchy requires changes not only in the area of monetary policy but also in the areas of fiscal policy and, crucially, financial regulation — in a word, to the broader macro-financial regime.

The Worst of Both Worlds: Central Bank Planning for Private Profit

In theory, the macroeconomic coordination problem has two "pure" solutions. It can be solved either in centralized fashion by a social planner or by Hayekian speculators whose decentralized actions are coordinated via market pricing. These "pure" solutions are ideal types; in practice, we all live in mixed economies: nonmarket institutions and the price mechanism each do a good amount of coordinating. However, much of the

capacity to coordinate economic activities across sectors, space, and time — in other words, the capacity to plan — has shifted from public to private institutions, and especially to the private financial sector.

In financialized capitalism, the most important central institution is the central bank. Central banking always carries an element of central planning: monetary policy involves the purposeful manipulation of a key price in the economy, namely the price of short-term liquidity. Since 2008, however, the scale and scope of central bank planning have expanded far beyond that. This expansion has been most dramatically illustrated by large-scale asset purchases ("quantitative easing"), which directly target long-term interest rates while putting a floor under the price of financial assets. Pioneered by the Bank of Japan in the early 2000s, quantitative easing became the policy response of choice to the global financial crisis of 2008 and the ensuing decade of slow growth and low inflation. Central banks launched even larger quantitative easing programs in response to the COVID pandemic. Of the debt issued by the governments of the United Kingdom, the US, the eurozone, and Japan between February and September 2020, their central banks purchased 50, 57, 71, and 75 percent, respectively (IMF 2020). This represents a degree of quasi-monetary financing that until very recently was considered unthinkable.

Less visible but equally consequential are central banks' market-shaping activities. They have built or reshaped money markets and markets for asset-backed securities, as well as the infrastructures for payments and securities settlement. They have further increased their footprints in the financial system by institutionalizing international currency swap lines, by establishing permanent dealer-of-last-resort facilities, and through macro-prudential regulation and stress testing (Birk and Thiemann 2020; Braun 2020; Coombs 2020; McDowell 2019; Thiemann 2019).

The questions are: What strategic vision guides how technocrats wield this formidable instrument of sovereign power? Or, who or what are central banks planning *for*? In recent decades, the answer has generally been: the private financial system. And rather than a decentralized system coordinated by market prices, private finance itself has come increasingly to resemble a centrally planned system: global investment priorities are a function not of the decisions of millions of Hayekian speculators but of the business models of a few dozen extremely large banks and asset managers (Mason 2016). Banks invest in mortgages; asset managers in whichever firms are in market-capitalization-weighted

indices; private equity firms in urban real estate; and venture capital firms in scalable rent-extraction models. This sector is highly concentrated at the top, where a few giant companies — banks, hedge funds, private equity funds — control the direction of global capital flows.

Rather than providing a corrective to the inefficiencies and inequities of this mode of capital allocation, central bank planning has long been geared toward expanding and stabilizing it. Indeed, the history of central bank-led financialization is well documented in the political economy literature (Dutta 2019; Gabor and Ban 2016; Krippner 2007; Özgöde 2021; Walter and Wansleben 2019; Wansleben 2020). The 2008 financial crisis and the rise of macro-prudential regulation have not changed that pattern. The shadow banking system will not establish a sufficiently liquid and standardized, pan-European repo market on its own? The European Central Bank (ECB) will help. The private system of securities settlement is inefficient and creates frictions in capital markets? The ECB will build a better, publicly operated system. Asset markets regularly seize up, threatening the expansion of the financial sector? Central banks will create backstops and dealer-of-last-resort facilities, thus effectively underwriting the ability of hedge and private equity funds to gobble up assets amid economic disasters.

Consider the turmoil, in late 2019, in the US repo market, where financial firms borrow and lend cash against securities, pledged as collateral. A major cause of this turmoil was liquidity demand from hedge and private equity funds. These funds are typically levered — in order maximize their returns, they borrow large sums in the shadow banking system, often pledging the assets they acquire as collateral. In order to stabilize the repo market, the Federal Reserve increased its balance sheet by 10 percent, or USD 400 billion, between September 2019 and January 2020. The question "What is the social value of levered hedge funds and private equity buyouts?" was not asked.

The same pattern recurred — on a much larger scale — in the wake of the COVID outbreak in early 2020. In order to prevent the economic shock caused by the pandemic from leading to another systemic financial crisis, central banks across the world chose to backstop not only banks but also the broader shadow banking system. The most audacious measures — in both size and scope — have been implemented by the Federal Reserve. By purchasing so-called "junk bonds" — bonds issued by corporate debtors with lower credit ratings — the Federal Reserve again backstopped private equity funds, which routinely transfer debt to their buyout targets, forcing the latter to issue junk bonds. By backstopping

both the money market and the (high-risk) capital market, the Federal Reserve effectively protects both the *liability* side and the *asset* side of levered investors' balance sheets.

In other words, the Federal Reserve ensures that the arsenal of the most predatory actors in the financial system is fully stocked and ready to be deployed — for further financializing currently distressed sectors of the economy, such as elderly care. Shareholders understand — the stock price of firms such as Blackstone and Apollo bounced back spectacularly after the Federal Reserve announced its measures. Unless governments take swift and decisive action to curb the ability of hedge and private equity funds to gobble up assets, COVID will become a major milestone in the long history of central bank-facilitated financialization.

The upshot is that while central bank planning already exists, it is currently geared toward propping up a system in which the planning of investment is in private hands. This system is both unfair and inefficient. Central banks have become the lenders of last resort for a manifestly unsustainable status quo (Fontan, Claveau, and Dietsch 2016; Jacobs and King 2016; Streeck 2014).

Socialize Central Bank Planning

Can central banks be turned into progressive institutions? Among observers from across the ideological spectrum, the overwhelming consensus has been that central banks must be cut down to size and made more democratically accountable. Progressives, however, should consider an alternative path toward democratizing central banking: to cut the private financial system down to size and double down on central bank planning.

It is important to be very clear: while private financial institutions wield extraordinary power in the economy, the ultimate source of that power is the state. Legal scholars Robert Hockett and Saule Omarova (2017) have coined the apt phrase "finance franchise" to describe an arrangement in which private banks act as "franchisees" of citizens, with the power to act with the full faith and credit of the public. This model, which in the US took shape between the establishment of the Federal Reserve in 1913 and President Roosevelt's New Deal reforms of the banking system in the early 1930s, was premised on the twin assumptions that capital was scarce and that private actors were best able to allocate it to its most productive uses. Neither of these assumptions holds

today. Capital is abundant, and private capital allocation has created vast inequality within and between nations, while bringing the planet to the brink of catastrophe.

Can the public cut out the middleman? Increasingly, scholars and advocates emphasize "the propriety and the necessity of the public's taking an active role in modulating and allocating its credit aggregates across the economy" (Hockett 2019: 491). Taking such an active role is, of course, a daunting project. Progressives need to think carefully about the architecture of a financial system in which the modulation and allocation of capital is subject to public rather than private planning.

Again, the good news is that central bank planning is already here. The present reality of central bank planning already undercuts the textbook arguments for delegating monetary policy to independent central banks. First, the many ways in which central banks steer, shape, and build financial markets invalidates the market neutrality principle. The notion that monetary policy has (or should have) only a negligible footprint in the economy has long been a myth, which is why proposing to put that footprint to progressive use should not worry us (Van't Klooster and Fontan 2019). Second, central banks have many more tools at their disposal than implied by the so-called Tinbergen rule, according to which a single instrument (such as the short-term interest rate) can only be deployed to achieve a single goal (such as price stability). Applying the Tinbergen rule — long a foundational principle for monetary policy — to central banks is nonsensical. Collateral requirements, targeted asset purchases, regulatory measures, market building, international cooperation — these are only some of the instruments that central banks have been using all along. It is much more accurate to compare the central bank to a Swiss army knife, an apparatus that contains many different instruments and that can therefore be deployed in pursuit of several different goals (Braun and Downey 2020).

Reorienting central bank planning from private profit toward public purpose is both possible and desirable. It is possible only, however, as part of a full-scale overhaul of the financial system. While this is not the place to go into the details, two points are worth highlighting. First, while progressives should think big and bold, it is also important to recognize that we have been here — extreme inequality, financial collapse, economic depression — before. The New Deal period offers many examples of policies and public financial institutions — such as the Reconstruction Finance Corporation — that can serve as guideposts. What is more, key thinkers of the New Deal period had first-hand experience in actual

economic planning — Adolf Berle served as legal counsel to the Reconstruction Finance Corporation and John Kenneth Galbraith helped run the government's Office of Price Administration during the Second World War (Lemann 2019). As Sarah Quinn and her colleagues (2019) have shown, Berle's ideas for a "modern financial tool-kit" provide an excellent starting point for thinking about the radical reforms necessary to democratize the financial system today.[4]

The second point worth highlighting is that a progressive agenda for finance must be an international agenda. In retrospect, the 2008 financial crisis did not wipe the slate clean enough (Tooze 2018). Whether the economic and political fallout from the coronavirus pandemic will create a window of opportunity for a renegotiation of the international financial order remains to be seen. The pandemic's repercussions have, however, exposed once more the devastating dependence of the global financial system on the US dollar and hence the Federal Reserve. By late March 2020, capital outflows from emerging market economies had exceeded all previous episodes of capital flight. Lives were on the line already in 2008–9, but the stakes of, for instance, a Federal Reserve swap line were on much starker display during the COVID pandemic. Global warming, environmental degradation, and pandemics are global problems with global feedback effects: there is little prospect of combating these problems without a more balanced, multilateral financial order in which societies have the institutional and economic means to formulate and implement their ideas of the public good.

Conclusion

The reputation of the neoliberal macro-financial regime took a hit in 2008. However, the financial origins of the crisis made it possible to blame the misallocation of capital on the excesses of US mortgage finance. Post-Lehman Brothers, dreaming big was to dream of a well-regulated financial system. Both the climate crisis and the COVID crisis have been different as they have exposed the misallocation, on a planetary scale, of *real* resources. States have failed to protect their citizens, not because of the insufficient regulation of markets, but because of the lack of state capacity to direct resources and production without the intervention of markets (Jones and Hameiri 2021). When the coronavirus

4. On democratizing finance today, see Block (2019) and McCarthy (2019).

pandemic eventually recedes, the alternatives for the global economic order could not be starker. While the idea of an enlightened neoliberal technocracy is moribund, neoliberalism will likely survive in its semi-authoritarian and nationalist variants. The alternative is a macro-financial regime that turns finance into a utility-like sector while reorienting the power of central banking towards bolstering the capacity of states for redistribution and green public investment.

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