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Central banks and other disasters
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Central banking, as it is understood today, developed in the interwar period. This was a conjunctural point in the history and functions of central banks and the new form and content of central banking reflected an attempt to address crucial social and political transformations.

Two key events overshadowed these transformations: the collapse of the gold standard, which had so far governed trade, currency relations and capital accumulation; and the advent of mass democracy, with the proliferation of universal suffrage. A third reality was also decisive: the change of the role and scope of the state and its activities in the aftermath of World War I.

The discrediting of the notion of the “natural” order of the market and the expansion of state activity with planning (taking over production, distribution and research) coincided with the mushrooming of working-class organisations, political parties, trade unions and the militant self-activity of the proletariat.

Central bankers and other officials respond by putting forward the concept of central bank independence (CBI), i.e. an institutional form designed to insulate monetary policy from democratic/social pressures. In many ways, this was an attempt to imitate the semi-automatic regime of the gold standard with an inherent bias towards austerity, balanced budgets, and limits to state spending. This is a framework of policymaking, orientation and institutional design that continues - to this day - to be promoted as the optimal form of central banking.

While CBI did not achieve hegemonic status at the time, undermined by the shift towards protectionism, autarky and the need to finance the militarism that led to World War II, its essential features survived. And they were resurrected, in the post-war period, with the inauguration of the Bundesbank in Germany. The expansion of CBI beyond Germany (and, in a way, Switzerland) would require another massive historical transformation.

The second conjunctural point in this direction was the moment of the collapse of the post-war monetary order of the Bretton Woods regime, accompanied by the wider economic, social and political crises of the 1970s. Somewhat similar to the gold standard, its collapse heralded another regurgitation of the interwar proposals for central banking and CBI as the second-best alternative to a gold standard. This time around, it coincided with the (re)emergence of the neoliberal paradigm (itself a framework developed in the interwar period) and the accompanying monetarist “counter-revolution” and the more general embedding of technocratic, depoliticised governance as the optimal form of rationality.

As a consequence, the dismantling of the post-war compromise took the form of the tremendous proliferation of independent central banks (today more than 150 central banks, out of 180, are formally independent), reflecting the forceful return to a model of monetary policy-making that remains radically insulated from democratic or social pressure. Crucially, however, this transformation happened, in the 1970s, under the auspices of an incredible discursive change: whereas interwar proponents of independent central banks had no qualms in presenting this institutional set up as a countermeasure against democratic rule, the post-1970s defenders of contemporary central banking conceptualised their proposals as a defence of democracy against short-sighted, selfish and inconsistent politicians.

Today, central banks are seen as “holding the reins of the world” (Tooze). Their structure, institutional design and mandate reflect the distilling of the lessons and goals that were first expressed in the interwar period. While other transformations (such as the expansion of financialization) have altered certain key fundamentals, there is an invariant strand that remains unchanged since that time: the glorification of expertise and technocracy (as opposed to social and/or democratic deliberation); the conceptual separation of monetary from economic policy; the need to insulate monetary policy from social pressure; the insistence on the euphemism of depoliticization that pretends that central bank policies do not have political aims or consequences. Dispelling these, and other mystifications, will be at the centre of my talk.