



Central Bank (CB) communication for the common good?

How can Habermas's theory of deliberative democracy underpin central bankers' communication as an instrument to foster a sense of legitimacy?

Dr Stefan Kesting, Sorbonne Alliance conference "Central Banks and the Common Good", 19 January 2024



Inflation targeting & regulation neglect



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“... inflation targeters have been political advocates and practical architects of market-based financial systems ... during the neoliberal era ... with the widespread adoption of inflation targeting in the 1990s to 2000s, these regulatory concerns disappeared, and central banks became active supporters of the expansion of key money markets, particularly “repo” (repurchase agreements)” (Wansleben, 2023: 20).

Inflation targeting works by setting the key interest rates which became the sole focus CB (monetary) policy while financial regulation was neglected up to the Global Financial Crisis (GFC).



Inflation targeting



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Effective control of the interest rate (monetary policy) requires central bank independence from influence by elected politicians and its separation from fiscal policy controlled by democratically legitimised governments.

“The key result of this line of analysis is that a central bank should have a single, measurable and quantifiable primary policy objective, to wit the rate of inflation. There are no trade-offs; no discretionary judgements between competing objectives” (Friedman & Goodhart, 2003: 95). And: “So, once a democratically elected government has decided on a central bank’s objective, there is then no case for democratic election to the central bank itself” (ibid.: 107).



Inflation targeting & transparency



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Independent central banks prevent politicians from manipulating monetary policy for electoral gains: “Independent central banks can resolve inconsistencies between politicians’ short-term interests in high economic output and the long-term societal benefits of stable money” (Wansleben, 2023: 38).

Goodhart concludes: “transparency and accountability are of paramount importance. They both encourage good decision-making and entrench the independence of the central bank against attacks on its democratic legitimacy” (2003: 109).



CB independence & transparency



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In the 1980s and 1990s, independent central banks in western democracies were designed as “... institutions that could achieve legitimacy through transparency ...” (Tucker, 2018: 402).

“Transparency is an obligation concerning all responsibilities and activities of a central bank as a public institution. Communication is the tool to achieve transparency and accountability. Communication, accountability, and transparency are interconnected in a kind of triad” (Issing, 2019: 62).



CB independence & transparency



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A proper theory of communication is crucial for a Central Bank to operate in the best public interest. It is essential to avoid misunderstanding and mistakes while steering public expectations and for Central Banks to understand how their communication works effectively and why.

However, I do not deal with this strategic objectives of CB policy implementation here, but with the normative aspects of CB policy objectives and implementation – the lack of legitimacy of CB administrative power.



CB legitimacy – ubiquity of goals



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Since the Global Financial Crisis, according to Ben Bernanke (2010) as cited by El-Erian, the policy goals and tasks for central banks have extended “... from targeting the normalization of financial markets ... to taking on the primary and enormous responsibility to deliver high economic growth, jobs, low and stable inflation, and overall financial stability ...” (2016: 14 and 15).

Moreover, the three crises of: “Global Financial”, “Covid” and “Climate” are explicitly focussed on by Mark Carney in his recently published book (2021). Carney is probably one of central banking’s most famous intellectual leaders.



CB legitimacy – distribution of wealth



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Central banks are facing a crisis of democratic legitimacy (linked to their independence) which they are aware of, but only deal with insufficiently by being transparent using communication with the public and stakeholders – called “forward guidance”.

The growing responsibility and diversity of goals leads to critical questions concerning central banks’ role played in “... being “quasi-fiscal” agencies in that they are seen by some as risking taxpayer money, buying government bonds that finance budget deficits, and deciding who gets taxpayer support, and doing all this without parliamentary approval or under executive order” (El-Erian, 2016: 22).



CB legitimacy – distribution of wealth



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In addition, central banks interfere with income distribution: “... unprecedented central bank involvement in the functioning of markets, in forcefully repressing volatility, in artificially boosting financial asset prices, in influencing how investors allocate their capital, and in impacting the distribution of income wealth” El-Erian, 2016: 22).



CB legitimacy – distribution of wealth



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In a similar fashion, Issing lists amongst the factors overburdening central banks (Issing, 2017): 1) the distributional effects of monetary policy, 2) conducting de facto fiscal policy and coordination of it and 3) additional competencies in micro- and macroprudential policies (2019). For the ECB, but also for other central banks, all this leads to Issing's conclusion: "The threat to the bank's independent status increases in parallel with the growth in power" (2019: 59). Benjamin Braun also highlights the quasi-fiscal intervention of quantitative easing which he calls "hydraulic" (2018: 195/196). Moreover, he observes "a quest to expand the temporal reach of monetary policy into the future ..." which "... morphed into a form of central (bank) planning" (2018: 196).



CB legitimacy – Wansleben – method



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Wansleben explores: “... how and when central banks emerged as dominant actors in economic policymaking” (2023: 8).

He relies on interests, ideas, institutions and technocracy as conceptual building blocks while using “the three concepts – bureaucratic entrepreneurship, policy instruments, and infrastructural power” (235).

Drawing on this theoretical foundation and thirty oral history interviews and extensive archival work he does meticulous institutional comparative analysis to show the entrepreneurial role of institutional design of CB policies from 1970 to 2020 enabling them to gain their contemporary powerful position.



CB legitimacy – Wansleben



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“... all central bankers enjoy some room for maneuver, and their organizations have distinct resources at their disposal. In the most abstract terms, central bankers use this room and their resources to secure and strengthen the status of their organizations as relatively autonomous entities within the state (Carpenter 2001). To achieve that, they aim to create and stabilize conditions under which they can causally relate their own practices to objectives that are positively sanctioned in the policy and society – in short, to construct a favourable framework of “output legitimacy” (Scharpf 2004)” (Wansleben, 2023: 45).



CB legitimacy – Wansleben



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“The books core argument is that central banks’ rise during neoliberalism is the product of monetary authorities’ successful enlistment of finance as an infrastructural vehicle for effective governing, and outcome that required intensive policy experimentation by central bankers themselves” (30).

Wandsleben shows how central banks used their infrastructural power and entrepreneurial institutional inventions and interventions of forward guidance, negative interest rates and QE stabilized the world economy during the GFC and Covid-19 pandemic, but also lead to problematic effects questioning the legitimacy of CB independence from democratic control:



CB legitimacy – Wansleben - regulation



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Before 2008, the sole focus on interest rate setting (monetary policy) led to “structural secrecy” (180) and an “entrenched institutional and organisational neglect” (197) in central bankers’ role of financial regulation.

“financial regulation remained “micro-prudential,” providing no answer to what are now understood as “cross-sectional” or “cyclical” systemic risks” (179)

It was “focused only on registered domestic banks and thus was ineffective in addressing the growth of shadow banking and offshore markets” (179)

“the metrics used in supervisory examinations were constructed by the banks themselves” (179)



CB legitimacy – Wansleben – inequality



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“... the effects of QE in support of financial and other assets, from stocks to bonds to real estate. As the growing literature on inequality has shown, ownership of such assets and access to the possibilities for their debt-financed acquisition are distributed highly unequally, even more so than in the case of income (Piketty 2014)” (221).

“... post-2008 policies have favored financial market actors and rich groups in society that own excessive wealth” (225)

“Central banks have also increased the risks of household overindebtedness and overleverage because, under current policy conditions, middle-class families continue to invest in nondiversified assets while poorer families, especially in the United States, continue to consume on debt” (225).



CB legitimacy – Wansleben



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So, due to CB policy there is growing financial wealth at the top going hand in hand with dissaving as well as consolidation and growth of household debt among the rest of the population and more government debt.

“Growing inequality then feeds into secular stagnation because propensities to consume are high at the bottom but low at the top” (221).

Corporate financing:

“... lowering finding costs and boosting stock values, QE has contributed to an environment in which firms attempt large-scale mergers and acquisitions, consolidating their position in ever more concentrated markets” (223).



CB legitimacy – Wansleben



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“At one end of the spectrum, small and medium-sized firms have not profited sufficiently from QE to expand investments, especially in a broader environment of depressed demand; QE may have done just enough to help ailing firms to roll over their debts. At the other end, more successful large corporations have used their low funding costs for activities that either do not bring forth investment or that have a small positive impact on jobs and growth” (223).

“But even when firms in thriving sectors such as information technology *do* invest, the marginal benefits of these investments for workers and the economy remain small” (223).



CB legitimacy – Wansleben – public debt



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Short of directly taking on public debt, central banks support and ease government funding needs for instance by engaging massively in Euro member states' bond markets during the GFC and Covid-19 crisis. This practice facilitates public debt and simultaneously the growth of financial sectors. (226)

There are also practices of direct or indirect central bank lending for politically favored sectors (“green central banking”?). “... such developments problematically confound macroeconomic stabilization operations (...) with industrial policy. The latter should be conducted in public investment banks with explicit political mandates and frameworks of accountability to carry out such policies”.



CB legitimacy – Wansleben



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The core conclusion of the book is: “Central banks’ positions of power are entrenched, but their output legitimacy has weakened” (15).

Moreover, given CB’s large and grown impact on economic welfare shown by Wansleben, we can move to Tucker’s concern “whether



CB legitimacy – Tucker



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Paul Tucker who worked for the Bank of England for several decades wrote a whole book questioning and critically scrutinizing the legitimacy of the unelected power of these monetary institutions (Tucker, 2018).

He sees CBs not as guardians of democracy but as trustees.

He agrees with Wansleben in his description of the ubiquitous negative welfare effects of CB policies in terms of: the monetary fiscal policy overlap, the rising inequality and uncertainty, fostering risk taking of financial institutions, support of government debt, potential hysteresis (long-term stagnation) and neglected financial regulation.



CB legitimacy – Tucker



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He also emphasise the CB as institutional entrepreneur:

“Central bankers are, then, in the business of creating, refining, and sometimes overturning precedents.”

He limits his arguments in terms of republican and liberal theories of democracy, and suggests elected politicians as CB “overseers” (p. 557). But he repeatedly stresses the role of “public debate” hinting towards deliberative democracy:

“On *whether to delegate* to an independent agency, the key test is whether it can solve socially costly credible commitment problems without venturing into major choices on the distribution of wealth or society’s values. ->



CB legitimacy – Tucker



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“That requires broadly settled preferences and a consensus that the policy regime will work, as reflected in public debate and, eventually, in cross-party convergence.

On *how* to delegate, the core Design Precepts are well-specified goals, responsibilities, and **powers, coming from the legislature**; clear, mandatory procedures for decision making; the articulation of operating principles for how discretion will be exercised, so that policy can be systematic and proportionate; **transparency of outputs and outcomes sufficient to enable democratic oversight and informed public debate**; and clear procedures for elected policy makers to determine whether a remit should be extended in an emergency” (p. 556),



CB legitimacy – Tucker



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Public debate is also the ninth of his eleven general proposals (p. 558/559). This hints towards deliberative democratic measures and his recommendation/norm of self-restraint for central bankers (p.564) would also be supported by participant observers from the public.

Like judges in the UK, central bank officials should be forced to retire for good, when they leave office (541-543).

“... central bankers are perform in an ongoing conversation with society about what they are doing and why. As their powers accumulate, they need to broaden and deepen that debate and to ensure it is sustained even when economic peacetime returns: ... The central bankers need, continuously, to be *legitimacy seekers*. They need, put differently, to be *unelected democrats*” (p. 564).



Habermas's communicative action



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To fill the theoretical void around central bank communication, I want to propose Habermas's concept of communicative power which he explores based on Hannah Arendt's work (1958, 1965, 1970 and Habermas, 1985). He further develops it as a procedural concept of deliberative democracy used by civil society to gain influence in the public sphere in chapters 7 and 8 of his book *Facts and Norms* (1992). Habermas deals with the legitimacy of law in his book, but his insights and concepts can be easily transferred from the development and implementation of law by an independent judiciary to the development and implementation of monetary policy and regulation of financial markets by equally independent central banks.



Habermas's communicative action



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Habermas writes: “In contrast to Weber, who sees the fundamental phenomenon of power as the probability that in a social relationship one can assert one’s own will against opposition, Arendt views power as the potential of a common will formed in noncoercive communication. She opposes “power” (Macht) to “violence” (Gewalt); that is, she opposes the consensus-achieving force of a communication aimed at reaching understanding to the capacity for instrumentalizing another’s will for one’s own purposes” (p. 147/148). So, communicative action is used to build “... political power neither for realizing collective goals, nor as the administrative power to implement collectively binding decisions, but rather as an authorizing force ...” (p. 148).



Habermas's deliberative democracy



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However, the quote also suggests a strategic (manipulative or rhetoric) use of speech acts administrative purposes: “To be sure, with the concept of communicative power, we get hold of only the emergence of political power, not the administrative employment of already constituted power, that is, the process of exercising power” (p. 149). So, for central bank communication one can conclude, there is at least a two-fold effectiveness in it, an instrumental/strategic one and authorising/legitimising one. This rather strict conceptual dualism of either strategic or communicative action has its origin in Habermas's distinction between lifeworld and system.



Habermas's deliberative democracy



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As Habermas argues in chapter seven of *Facts and Norms*, the specific appropriateness of his concept of deliberative democracy in providing legitimacy to certain administrative bodies derives from taking the middle ground between a republican and liberal conception of democracy.

For Habermas the third deliberative position is the most appropriate one for modern, complex and differentiated societies. He describes the deliberative process as such: “The results of deliberative politics can be understood as communicatively generated power that competes, on the one hand, with the social power of actors with credible threats and, on the other hand, with the administrative power of officeholders” (1992: 341).



Habermas's deliberative democracy



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“The constitutionally regulated circulation of power is nullified if the administrative system becomes independent of communicatively generated power, if the social power of functional systems and large organisations (including the mass media) is converted into illegitimate power, or if the lifeworld resources for spontaneous public communication no longer suffice to guarantee an uncoerced articulation of social interests. The independence of illegitimate power, together with the weakness of civil society and the public sphere, can deteriorate into a “legitimation dilemma,” which in certain circumstances can combine with the steering trilemma and develop into a vicious circle. Then the political system is pulled into the whirlpool of legitimation deficits and steering deficits that reinforce one another” (1992: 386).



Habermas's deliberative democracy



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“This kind of complexity-preserving counter-steering is already at work in the way that informal public opinion plays off against institutionalized, procedurally regulated opinion- and will-formation. The communication circulating in the public sphere is vulnerable to the selective pressure of social inertia; the influence thus generated, however, can be converted into political power only if it passes through the sluices of democratic procedure and penetrates the constitutionally organised political system in general” (1992: 327).



Habermas's deliberative democracy



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“Communicatively power generated power ... springs from the interactions among legally institutionalized will-formation and culturally mobilized publics. The latter for their part, find a basis in the associations of a civil society quite distinct from both state and economy alike” (1992: 301). So, social power is exerted within the public discourse in general and on central banks in particular by what Habermas calls “opinion forming associations” (1992: 355) like business associations, trade unions and other groups and organisations lobbying for and using mass media (1992: 307) to push for their interests to be heard and influence policy.



Habermas's deliberative democracy



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To build communicative power does require resources: money, time and expertise which will be unequally distributed (1992: 325). However, via communicative power in interaction with the central bank representatives of associations and members of the public bring topics into the debate (1992: 381) and provide legitimacy (1992: 300 and 304) or put up resistance (1992: 320). But: “The public opinion that is worked up via democratic procedures into communicative power cannot “rule” of itself but can only point the use of administrative power in specific directions”.



Citizens' panels



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Examples for citizen councils and panels:

- Bürgerrat zu **Ernährung** im Wandel (one of many in Germany, see: <https://www.buergerrat.de/>) And: <https://www.buergerrat.de/aktuelles/buergerrat-zu-ernaehrung-beendet-seine-arbeit/> And: <https://www.bundestag.de/buergerraete>
- **Irish citizens' assemblies:** <https://citizensassembly.ie/>
- **Bank of England's citizen panels:** <https://www.bankofengland.co.uk/about/get-involved/citizens-panels>



Critique of deliberative democracy – Selk



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Problem of hidden or veiled power relationships.

Problem of inequality of education and income.

“participation gap”

→ More explicit inclusion of “interests” (unions, business associations, NGOs like Greenpeace, WBG, etc.)

Global effects of central bank interventions, international overlaps, spill overs and linkages.

Role of social and conventional mass media.

Basic requirement of a democratic ethos (Bernard Williams).

