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Unelected power: a discussion with Paul Tucker in a pandemic world

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Unelected power: a discussion with Paul Tucker in a pandemic world

PAUL TUCKER

Harvard University
Former Vice-Governor of the Bank of England
Author of "Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State"

Wednesday, November 27 2019 - 6 pm

Discussants:
Salvatore Rossi TIM Chairman; Former Senior Deputy Governor of the Bank of Italy
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The meeting has been opened by
Cesare Bisoni UniCredit Chairman

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CESARE BISONI
UniCredit Chairman

I have many reasons to be pleased to be here this evening. First of all because I'm filling a role held by Fabrizio Saccomanni, a friend of BBS and, of course, of many of you here. His passing away has represented both a reason of personal pain and also a great loss for UniCredit. Fabrizio would have surely offered a valuable contribution to this discussion, thanks to his broad professional experience.
Secondly I'm pleased because I myself taught in this School for years and I fondly remember my time here.
Thirdly because UniCredit's relationship with Bologna Business School is strong and long-lasting and we want it to go on this way.
Last but by no means least, because the importance of this event is proved by our very special guests, starting with Sir Paul Tucker, who I'd like to personally thank for joining us.
I will shortly give them the floor to discuss a very important and extremely topical issue, such as the legitimisation of the so-called unelected powers, starting from those of the central banks.
Just allow me a few quick thoughts.
In Italy and elsewhere, almost every day, you hear about

pretty heated contrasts between politicians who, on the one hand, argue they should have more influence because they've been elected by the people and, on the other, authorities who demand a right to independence because of the mandate they've been assigned.

The President of the United States doesn't miss an opportunity to criticise the Fed and its decisions.

In the EU, Mario Draghi has just ended his term, causing a debate, with one side pointing out his crucial role in saving the eurozone and the other raising concerns about him exceeding the limits of his mandate.

Just as animated, to remain in the banking sector, was the debate between the EU authorities (SSM and EBA) and the European Parliament over the measures for non-performing loans and, of course, the repercussions they've already had and will have on the role of banks in supporting the economy.

Sir Paul Tucker's book is, as the author himself admits, mainly directed at legislators and seeks to shape the structure of a country's government. Just let me say that this brilliant work offers some very interesting and extremely topical insights also for business organisations.

The topic of governance is growing in importance in the judgment that is given to a company. As UniCredit Chairman I see this every day and I know how important it is for investors as for citizens in a democracy.

In this respect, the book clearly shows how collegiality, responsibility and clarity of objectives are the basis of the proper functioning of an organisation.

Of no less importance, and central to the book, in fact, is the topic of delegation of powers, something we at UniCredit have been working on strongly over the last few months.

I completely agree with the author when he writes that anyone granted a power, be it an independent authority or the management of a company, must be fully transparent, to allow elected bodies – parliaments, governments and boards of directors – to understand and make any necessary correction.

When it comes to delegating powers to independent authorities, reference is implicitly made to the topic of short-term objectives, typical of politics, and medium-to-long-term ones, which should be the prerogative of independent authorities.

Again, it's a balance that companies have to strike in the interest of their own stakeholders, who of course are not just shareholders.

So, many interesting points, which is why I don't want to take up any more precious time from the debate and will immediately give the floor to Sir Paul Tucker and the other guests.

Thank you.

PAOLA MANES

Full Professor, University of Bologna;
Director Bologna Business School

Sir **Paul Tucker** is chair of the Systemic Risk Council, a research fellow at the Harvard Kennedy School, and author of *Unelected Power* (Princeton University Press, 2018). His other activities include being a senior fellow at the Center for European Studies at Harvard University; president of the UK's National Institute for Economic and Social Research; a director at Swiss Re; and a Governor of the Ditchley Foundation. For over thirty years he was a central banker, including as Deputy Governor of the Bank of England from 2009 to late 2013. Internationally, he was a member of the steering committee of the G20 Financial Stability Board, leading its work on "too big to fail"; and a member of the board of the Bank for International Settlements, chairing the Committee for Payment and Settlement Systems.

The project of presenting Paul Tucker's book "Unelected Power" in Italy was suggested to Fabrizio Saccomanni, the then chairman of Unicredit, who was a good friend of Tucker's and enthusiastic about the idea of giving the due recognition to a publication that had so animated the inter-

national debate. The two central bankers had known each other well during the Saccomanni years at the Bank of Italy and Tucker at the Bank of England and the idea of discussing the role of central banks and the way they intersected with the balance of power, the constitutional framework, the treaties, and political balances had kindled great interest in Saccomanni.
The ideal venue for this debate was suggested to be Bologna Business School of the University of Bologna, first of all for its standing and international reputation and furthermore for its ties to Unicredit, its founding partner, whose chairman is a member of the advisory board of the School.
Therefore, the speakers were selected among distinguished representatives of academia, business and regulatory world and careful consideration was given to the public to be involved.
Tragic fate led to the untimely demise of Fabrizio Saccomanni in August 2019. However, this did not extinguish the idea to follow up on this ambitious project, which was already widely supported by the Dean, Massimo Bergami, and shared with the prestigious speakers; indeed it fueled it.
Chairman Cesare Bisoni thus wished, very magnanimously, to use the opening part of his speech to commemorate Saccomanni, as you will read in the opening of his contribution, and so did Tucker and the other discussants, with the skilful direction of Alessandro Merli, united by an ideal fil rouge of memory, which took concrete form in the articulation of their enlightened opinions on the volume.

In particular, it becomes apparent that an editorial contribution of this kind, which combines the perspective of the supervisors (Rossi and Tucker) with that of the banking world operators (Bisoni, Carletti, Nicastro) and completed by the political economy perspective (Jones and Merli from Johns Hopkins University), is a completely new work of great scientific and practical value as well as an important sign of how in our country due attention is given to the major issues of economic and legislative policy, to the appropriate functioning of democratic institutions, to the relationship between state powers, to the balance between independent authorities.
The discussion of the book, which was attended by senior representatives of the banking sector from all over Italy, members of the BBS Faculty, Italian and foreign academics and students of the various Masters of the School, attracted great interest. Therefore, many requested to be able to circulate to a wider audience the numerous ideas that emerged from the round table and also to make known to the public of professionals and post-graduate students the topics of

great interest that the issue of monetary policy, credit policy and banking regulation today raises in the face of geopolitical, macroeconomic, regulatory, and institutional scenarios. Hence the corollary that such a work, short but powerful and very rich in content, could also meet the educational and research needs of academia and industry, to the service of the community and to the knowledge that making contents often perceived as exclusive to a limited elite of experts available to students, academics and practitioners, is a value in itself and an important set of collective knowledge resources.

Publishing this volume will hopefully honor Fabrizio Saccomanni's memory in a significant and lasting way and will represent a precious legacy for future generations.

Unelected power: does central banking sideline democracy?

TO THE MEMORY OF ALBERTO ALESINA

PAUL TUCKER

Harvard University
Former Vice-Governor of the Bank of England
Author of "Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State"

Over the past half century or more the position of central banks in our societies has been transformed. If you think back to the 1930s, the face most people associate with the world's response to the Great Depression is that of US President Franklin D. Roosevelt. Eighty years later, during the Great Financial Crisis, elected politicians did not even take the lead in explaining to the public the crisis-management measures taken in their name and for their sake. The emblematic crisis managers were Ben Bernanke, Tim Geithner, Jean-Claude Trichet, and Mario Draghi, followed today, in responding to the covid-19 pandemic, by Jay Powell and Christine Lagarde - none of whom has ever held elective office. Something has changed, and not for the better.
Today's central banks are, of course, extraordinarily powerful. First, the right to create money is always latently a power of taxation, capable of redistributing resources across society and between generations through a burst of surprise inflation (or de flation). Second, as lenders of last resort, central banks can potentially pick winners and losers. Third, through the terms of their financial operations (collateral, counterparties, and so on), they can affect the

(1) Paul Tucker is a research fellow at Harvard's John F. Kennedy School of Government, chair of the Systemic Risk Council, and author of *Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State*, on which this article draws (copyright: Princeton University Press, 2018). He was a central banker from 1980 to late-2013.

allocation of credit in the economy. Fourth, acting as banking system supervisors, they are, like regulators in other fields, effectively delegated lawmakers and judges.
Central bankers have become, in effect, a third grand pillar of unelected power, along-side the judiciary and military.
Even before Covid-19, this was hardly uncontroversial. Going back just to 2018/19, President Trump was saying "The Fed has gone crazy"; India's government forced out its Reserve Bank governor after an extended squabble; Turkey flipped its governor to get easier monetary policy; Italian politicians wanted heads to roll at the Banca D'Italia after a series of avoidable bank rescues; and Britain's Brexiteer leadership labelled then Bank of England governor Mark Carney "a failed second tier politician."
Meanwhile, Christine Lagarde committed the European Central Bank to addressing climate change. Blackrock staff called on central banks to buy equities during recessions. A former New York Federal Reserve Bank president urged his old colleagues to undermine Donald Trump's reelection prospects. And UK think tanks suggested future Labour governments use the Bank of England to steer credit to where it might reduce ine-quality or improve productivity growth. Around the world, the political Left calls for "People's Quantitative Easing". Libertarians seek salvation in privately issued crypto currencies. And the conspiratorialist fringes think monetary officials are in league with enemies of the people.
Whether you cheer or choke on all that, it cannot be denied that something has been going on in the once sober world of central banking. Being the only game in town was turning out to be a political, even constitutional, nightmare.

TWO MODELS OF CENTRAL BANKING

And then came COVID-19, which in an extraordinary twist returned central banking to the kind of role it played when, from the 1930s to the 1980s, it was merely an instrument for finance ministries. In some jurisdictions (notably the US and euro area), the central bank has in effect been standing in for governments which cannot act decisively or promptly, becoming the de facto fiscal authority. In others (perhaps the UK), the central bank will finance executive government, possibly without a framework that ensures an exit route, and risking releasing executive government from the constraints of the elected assembly.
This latest turn reminds us that in the past two quite different models of central banking prevailed. One sees a country's central bank as the operational arm of government financial policy, its functions determined by technocratic

comparative advantage and the power of its balance sheet. Acting as the banking community's team captain, they provide, in economic terms, club goods, together with whatever assistance government wants.

Under the other model, central banks are independent authorities delegated specific responsibilities and formally insulated from day-to-day politics. They provide public goods (such as price stability) and preserve common goods (such as financial stability) that can be enjoyed by all but eroded by the exploitative.

Those modes of existence are so distinct that passage from one to the other is often fraught. In emerging market economies, even after formal independence central banks are sometimes expected (and occasionally want) to continue to provide a very wide range of services to their society. In advanced economies, the transition from subordinate agent to independent trustee has typically raised questions about boundaries, and especially about their role in banking supervision (to which I return below).

CONSTITUTIONALIST CENTRAL BANKING

None of this makes central bank independence a bad thing, but it does present real challenges.

In fact, anyone committed to the separation of powers that lies at the heart of constitutional government should want central bank independence preserved. Otherwise, presidents and prime ministers could use the printing press to fund their pet projects and enrich supporters without having to go to the representative assembly for legislated approval. Aspirant authoritarians, on the left or right, will be alert to the attractions of seizing or suborning the monetary power. Lenin spotted this a long time ago.

But while an arm's length monetary authority, insulated from day-to-day politics, can help underpin a constitutional system of government, unelected central bankers surely need to be constrained. Legitimacy depends on it, and that could hardly matter more because legitimacy holds a system of government together when, occasionally but inevitably, public policy fails the people.

To be accepted as legitimate, a government institution's design and operation must comport with a political society's deepest political values. For constitutional democralargely insulated from the day-to-day politics of both the elected executive government and the legislature because their policymakers have job security, control over their policy instruments, and some autonomy in determining the organisation's budget (2). That is a reasonable description of many modern central banks, and of some regulatory bodies.

(2) Misleadingly, the US typically applies the term "independent agency" to a government body whose leaders the President cannot sack on a whim. Since (quite properly) many such agencies are under the continuing influence of Congress (e.g., Securities and Exchange Commission) but others are not (Federal Reserve), the US has ended up with an impoverished de-bate on the warrant for agency independence.

They can usefully be thought of as trustees: free to set and deploy their delegated powers, including in unpopular ways, so long as they are true to their legislated mandate and stay within their legal constraints.
Any set of principles for central banks and other independent agencies must satisfy the following test: are they robust to the different reasons people have for going along with the legitimacy of representative democracy, as reflected in public debate, opinions and practices? In other words, delegation principles must not wilt when confronted by our deep political values, which I take to include the separation of powers (see above); the predictability, transparency and generality of our laws, together with their being fairly and consistently applied; and democratic participation and accountability.

The instrumental warrant for delegation-with-insulation

Starting with the instrumental warrant for such *delegation-with-insulation*, I want to argue this is the welfare benefits that can be achieved by enhancing the credibility of the delegated policy goal (3).
Government faces problems in making credible promises wherever the effectiveness of today's policy choice depends on others' actions tomorrow and, in particular, on their expectations of future policy. If people act on an expectation that a promise could be broken, it can prove too costly for government to stick to its promise. For example, by living in the floodplain households might force government to break a pledge not to build expensive infrastructure preventing floods.
Delegating to independent agencies is, in short, a mechanism for improving aggregate welfare in those fields where elected representatives cannot make credible policy commitments if they retain ongoing control. Instead, by appointing an unelected trustee, parliamentarians can seek to generate a normative public expectation that the agency will stick to the mandate rather than seek to improve upon (or otherwise depart from) it. The mechanism is not idealistic, but relies upon harnessing the self-regard of technocratic policy makers. Whereas elected politicians will nearly always prioritise whatever shortterm measures help get them reelected, technocrats can be highly sensitive to their professional reputation and standing.
For this to work, the objective must be capable of being monitored. This comports with our republican values. If the instrumental purpose of delegation to trusteeagencies is to help the democratic state deliver better results by sticking to the people's settled purposes, then the people's purposes had better be known, and determined by some public

(3) Alesina, Alberto, and Guido Tabellini. "Bureaucrats or Politicians? Part I: A Single Policy Task." *American Economic Review 97*, no. 1 (2007): 169–79. In Europe, Majone, Giandomenico, "Temporal Consistency and Policy Credibility: Why Democracies Need Non-Majoritarian Institutions." European University Institute, Working Paper RSC No 96/57 (1996). Alberto passed away, tragically early, while I was writing this piece.

process that has deep legitimacy. That is exactly the role of democracy's procedures (4).

In a similar republican vein, we should avoid delegating power to an agency with a single policy maker, not just because open committee discussions among equals can produce better results, but also because concentrated power is alien to our traditions of government.

(4) This argument chimes with recent neo-republican political theory: Pettit, Philip. *On the People's Terms: A Republican Theory and Model of Democracy*, New York: Cambridge University Press, 2012, summary points 19 and 20, p.306.

The scope of delegation-with-insulation should depend on the delegated regime's entrenchment

By using ordinary legislation to delegate a clear mission to an independent agency, elected legislators specify and retain ultimate control over a policy regime (because, formally, it can be amended or repealed) while putting obstacles in their own path: exposing themselves to political costs if they override or repeal a policy regime which they made a public fuss about insulating.

But that is not the only option. Where a polity's constitutional provisions are codified, it could instead specify that some specific public-policy commitments and institutions must exist. In other words, institutionalised commitment technology can have different degrees of entrenchment.

The choice is consequential. Given our democratic values, the more an agency's independence is formally entrenched, the more important it is that there exist workable processes for the constitution (or treaty) to be formally amended rather than reform relying, in practice, upon shifting interpretations by unelected and insulated judges.

That leads to the important conclusion that, other things being equal, the mandate of an independent agency should be narrower, the more deeply the institution is entrenched and the harder it is to amend the constitution. This is one significant element in the fraught debate about the European Central Bank (ECB, see below).

Principles for Delegation to independent agencies

To summarize just a few of my proposed Principles for Delegation (5):

1. Independent agencies should pursue a mission that enjoys broad public support, and which needs credible commitment.
2. They should have clear, monitorable objectives set by elected representatives of the people.
3. They should not be given mandates or powers that entail making big distributional choices or big value judgments on behalf of society.
4. They should make policy in committees, comprising members with long, staggered terms (which they are expected

(5) For the *Principles* in full, see the Appendix of *Unelected Power*, pp.569-572.

to serve), and operating via one person-one vote

5. Their policy choices should not interfere with individual citizens' liberties more than warranted to achieve their statutory purpose (proportionality)
6. The provisions of such delegations should, in the usual course of things, be laid down in ordinary legislation, and only after wide public debate; and they need subsequently to become embedded through ongoing public familiarity and support (prescriptive legitimacy)
7. Governments and legislatures should articulate in advance, and preferably in law, how (if at all) an independent agency's powers to intervene in an emergency would be extended, but any such extensions should not compromise the integrity and political insu-lation of its core mission
8. There should be sufficient transparency to enable the stewardship of the delegated policymaker and, separately, the design of the regime itself to be monitored and debated by the public and their elected representatives. In particular,
   - The agency should publish principles for how it plans to exercise discretion within the boundaries of its powers
   - It should publish data that enables *ex post* evaluation of its performance, and re-search on the regime
9. An independent agency should be given *multiple missions* only if:
   - they are intrinsically connected, each faces a problem of credible commitment, and combining them under one roof will deliver materially better results.
   - each mission has its own monitorable objectives and constraints
   - each mission is the responsibility of a distinct policy body within the agency, with a majority of members of each body serving on only that body and a minority serving on all of them.
10. The legislature should have the capacity, through its committee system, properly to oversee each independent agency's stewardship and, separately, whether the regime is working adequately.
11. The agency and its policymakers should be independent of any industry it regulates, both de jure and de facto.
12. Beyond the parameters of the formal regime, an ethic of self-restraint should prevail among the agency's policy-makers.

APPLYING THE PRINCIPLES TO INDEPENDENT CENTRAL BANKS

Those principles have myriad implications for central banks. For example, a frequent challenge has been that Quantitative

Easing (QE) did have distributional effects, prompting the political Left to argue that monetary authorities should be under day-to-day political control, and parts of the ordoliberal Right to argue that QE was a step too far for independent central banks. But, in terms of democratic legitimacy, it is important to distinguish between effects and choices. While I agree central banks were slow to acknowledge the distributional effects of QE, they did not set out (choose) to enrich some at the expense of others, and governments could have used their tax and spending powers to offset or soften some of less desirable social consequences. Too frequently in recent years the missing actor in debates about macro-economic policy is elected government, and the missing policy has been fiscal policy.

Before returning to those questions about balancesheet policies and emergencies, I need first to say something about the powers central banks accrue through having multiple missions.

Monetary authorities in the regulatory state

The constitutional argument for central bank independence applies only to monetary policy, not to regulatory policy and prudential supervision. What's more, a central bank with regulatory powers risks being an overmighty citizen. And, yet, as the late Paul Volcker (6) so rightly said, many years before the 2007/08 crisis:

> "I insist that neither monetary policy nor the financial system will be well served if a central bank loses interest in, or influence over, the financial system."

Since in the years leading up to 2007's liquidity crunch, the Bank of England had lost influence over the system, and the Greenspan Fed had lost interest in it, we should take Volc-ker's stricture very seriously. In fact, of course, the combination of functions is elemental and, as the Bank and Fed discovered, can never be avoided for long.

A central bank is a monetary-economy's liquidity reinsurer - its lender of last resort (LOLR) - and so are pretty well certain to find themselves at the scene of financial disasters. This gives them a clear interest in being able to influence the banking system's regulation and supervision. A central bank must be in a position to track the health of individual banks during peacetime in order to be able to act promptly and effectively as the liquidity cavalry; and in order to be judge how its monetary decisions will be transmitted, via the financial system, into the economy. The UK's miserable 2007 demonstrated that attempting this from a standingstart is bad for the people's welfare (7).

(6) Volcker, Paul. "The Triumph of Central Banking?" The 1990 Per Jacobsson Lecture, Per Jacobsson Foundation, 1990.

(7) After the collapse of Northern Rock in 2007, the front cover of the British edition of the Economist magazine was a photo-graph of the then Governor of the Bank of England under the headline "The Bank that failed": *Economist*, 20 September 2007. Not a tryptich of central banker, regulator and finance minister - the members of the UK's then Tripartite Committee for stability.

In some jurisdictions, for example Germany and Japan, this unavoidable connection is reflected in a set-up where the central bank conducts inspections of banks but does not take *formal* regulatory decisions. Sitting next to him at dinner, I once asked former Bundesbank President Helmut Schlesinger why he publically maintained that central banks should not be the bank supervisor when, as a matter of fact, many (perhaps most) of the German central bank's staff were engaged on bank supervision. The response was that the central bank was not *formally* responsible or accountable, so banking problems would not infect the Bundesbank's reputation and standing as a monetary authority. This is, to put it lightly, problematic held given the values of modern democratic constitutionalism. Liberal democracies should not try to hide the reality of who is exercising state power. Our rule-of-law and democratic values entail that a central bank's de facto roles and powers in banking system oversight should be formalized - in law.
That being so, in a world of fiat money and fractional-reserve banking, the central banking mission should properly be thought of as being *monetary system stability*. It has two components:

- stability in the value of central bank money in terms of goods and services;
- stability of private-banking system deposit money in terms of central bank money (8).

Central banking under a a Money-Credit Constitution

But what of constraints? Given our constitutionalist and rule-of-law values, we should think of independent central banks as being located within a *Money-Credit Constitution* (9).
The 19th century's gold-standard provided a money-credit constitution with fairly strong constraints, although the overall regime was deficient in so far as it did not cater explicitly for solvency-crises as opposed to liquiditycrises. A modern money-credit constitution would, at a schematic level, have five components:

- a target for inflation (or some other nominal magnitude)
- a requirement to hold reserves (or assets readily exchanged for reserves) that increases with a bank's leverage/riskiness and with the social costs of their failure (10)
- a liquidity-reinsurance regime for the banking system (and, under specified conditions, shadow banks)
- a resolution regime for bankrupt banks
- constraints on how far

The *Principles of Delegation* for independent agencies should shape that last set of constraints. For example:

- For *monetary policy*: no autonomous power to inflate away

(8) The second leg absolutely does not entail that no banking institutions can be allowed to fail; only that the monetary liabili-ties of distressed firms must be transferable into claims on other, healthy deposit-taking firms or otherwise mutualized so that payments services are not interrupted.

(9) This is in the spirit of the economic constitutionalism advocated by James Buchanan and the German ordo-liberal tra-dition, but accepts the existence of fiat money and of fractional-reserve banking. See, for example, Buchanan, James M. "The Constitutionalization of Money." *Cato Journal* 30, no. 2 (2010): 251–58. Further, pace Buchanan and some others, the idea of constitutionalist constraints does not of itself entail much about what the substance of those con-straints should be: they have to be argued for in their own right.

(10) In the limit, this would require banking groups to cover 100% of their short-term liabilities with assets against which the central bank would lend. Mervyn King, *End of Alchemy*: Money, Banking and the Future of the Global Economy. London: Little Brown, 2016, chapter 7, pp. 269-281. Tucker, "Is the Financial System Sufficiently Resilient?" BIS re-search effects should be cooked into the delegation and not result from discretionary choices

the debt, which should be reserved to legislators

- For *balance sheet operations*: operations and balance sheets that are as simple and as small as possible, consistent with achieving objective(s); major distributive effects should be cooked into the delegation and not result from discretionary choices
- As *lender of last resort*: no lending to firms that are fundamentally insolvent or broken (11)
- For *stability policy*: a mandate to achieve a monitorable standard for the resilience of the private parts of the monetary system, including shadow banking
- *Across the board*: not exceeding powers during an emergency, and any temporary expansion or unusual use of powers being made subject to a clear framework that is consistent with central banking's core mission and provides an exit route
- *Organizationally*: the chair not being be the sole decision-maker on anything
- *Accountability*: transparency in all things, even if only with a lag where immediacy would be perverse
- *Communications*: policymakers to speak frequently in the language of the public rather than only of high finance and monetary economics
- *Self-restraint*: staying out of affairs that are neither mandated nor intimately connected to legal objectives, however much central bankers know or care about them.

THREATS TO INDEPENDENCE

That is all very well, but could seem detached from the world as it exists today; a world in which central banks are again the operating arms of government policy. A world where the slogan "only game in town" coined after 2008/09 looks like understatement.

Enemies of independence

First off, it is important to remember that there have always been enemies of independence. Within a rich repertoire for undoing an economy's money-credit constitution, they can deploy two broad strategies, each with obvious and opaque variants.

One way to bring central banks to heel is through appointments. As seen in the United States over recent years, that is not easy when favoured candidates fall well short of the normal credentials. More troubling are appointees who seem reasonable, excellent even, but turn out to be discreetly committed allies of leading politicians. The most famous case, also during turbulent times, is the former Fed chairman

(11) Tucker, "Solvency as a Fundamental Constraint on LOLR Policy for Independent Central Banks: Principles, History, Law." http://paultucker.me/wp-content/uploads/2019/04/Solvency-As-A-Fundamental-Constraint-On-Lolr-Policy.pdf

Arthur Burns, a leading economist who put Richard Nixon's 1972 reelection prospects ahead of the Fed's statutory mandate. No one should think that was the last example of a political outrider occupying the monetary corridors.
The other way to undermine independence is through a change in mandate. The crude variant involves simply voting to compromise or repeal the central bank law. That isn't easy, because it is highly visible. The subtle, almost paradoxical, strategy gives the cen-tral bank *more* responsibility - so much so that any decent official would feel duty bound to consult political leaders on how to use their extensive powers. The more central banks acquiesce (even revel) in the "only game in town" label, the easier it becomes for politicians to give them more to do, and so undo them.

The grand dilemma of central banking: politicians' incentives to stand back

This is the vicious dynamic confronting central bankers.
In ways and to a degree never expected, the world has bumped into a costly strategic tension between central banks and elected policymakers.
While monetary officials have legal mandates that impose both constraints *and* obligations, our elected representatives are subject to fewer constraints but carry very few, if any, legal obligations. In consequence, when short-term politics raises obstacles (political scientists' "political transaction costs") in the way of elected governments and legislators acting to contain a crisis or bring about economic recovery, they can sit on their hands safe in the knowledge that their central bank will be obliged by its mandate to try to do more (within the legal limits of its powers). The upshot can be a flawed mix of monetary, fiscal and structural policies, creating avoidable risks in the economy and financial system.
I call this the *grand dilemma of central banking*. Imposing clear duties on unelected central bankers, as legitimacy demands, leaves us overly dependent on them so long as the elected fiscal authorities are not subject to their own set of duties.

The grand dilemma today: finance ministry operational arm redux

While I wrote that a few years ago, it has been underlined by states' response to the covid-19 pandemic. In both the United States and the euro area, central bankers have again been the key actors, because the wider constitutional setup deprives elected officials of decisiveness again been the key actors, because the wider constitutional setup deprives elected officials of decisiveness.

Has this jeopardized, even overridden, independence? Up to a point, yes. When evaluating the constitutional politics of central banks' extraordinary measures to preserve our economies - ensuring cash reaches households and businesses - it is necessary to discern where each facility lies on a spectrum from independence to subordination.
Towards one end, the central bank operates freely within its mandate but is guaranteed by the finance ministry in recognition that taxpayers ultimately bear the risk. Moving toward the other end, the central bank acts on behalf of the government. It merely executes the finance ministry's discretionary decisions, but takes no risk itself, and provides monetary financing (directly or indirectly) only if, acting independently, it so chooses. This is still the central bank as arm's length institution. Beyond are facilities conducted on the central bank's balance sheet on the instruction of government, and also operations conducted on the government's balance sheet that are forcibly financed via the printing press.
For each intervention, whether independence survives turns on who is really deciding what. Where independence is in effect suspended, that ought to be clear. Vitally, the exit route should be clear too.

THE ECB'S PRECARIOUS POSITION IN AN INCOMPLETE CONSTITUTIONAL ORDER

Nowhere is this more apparent but seemingly insoluble than at the ECB. Here, my general conceptualization and justification of the legitimacy of central banking under constitutional democracy stumbles. This is serious.

Not a regular central bank

The most obvious difference is that the ECB is not established by ordinary legislation but through a treaty among the EU's many member states (each with their own ratification process, some involving referenda). In practice, the ECB's independence is as deeply entrenched as it possible to get. As argued above, this implies its functions ought to be narrower than those of its international nationstate peers. But unlike central banks serving national or federal democracies, the euro area's central bank does not work alongside a counterpart fiscal authority elected by the people. Appearing to recognize this, the treaty-makers sought to substitute discipline for discretion by enshrining a legal principle of 'no bail outs' for member states participating in the monetary union. When it came to pass, however, that proved mere parchment. While memberstate governments had short-term incentives to sign up to 'discipline', they did not have more enduring incentives to abide by or enforce their agreement. So when, in 2011-12, the euro area faced existential crisis, the lack of confederal fiscal capabilities in elected hands left the ECB as the only institution which could keep the currency union from shattering.

It is important to be clear about what this means: the ECB became the existential guarantor of the European Project itself. Not merely a mighty citizen, but *the* essential citizen, the economic sovereign, a *Guardian* - however one likes to express it, a lot more than a normal central bank (12).

Central banking's grand dilemma writ large

Here we confront an especially problematic version of central banking's grand dilemma. Because the ECB's independence is so deeply entrenched, its functions should be tightly constrained. Because it lacks a fiscal counterpart, the opposite is inevitable in practice. The deep value of constitutional propriety and the imperative of preserving the people's welfare meet in headlong collision. Both in terms of constitutional politics and quotidian politics, therefore, the ECB's greatest challenge is to navigate itself to the more modest and proper role of trustee.

It is hard to see how that can be accomplished without the monetary union being deepened in ways that, to date, have been unpalatable for some member states. For constitutionalists, the choice lies between living with an over mighty central bank (underpinning a fragile currency union through its quasifiscal powers) or, alternatively, returning technocracy to its proper place but within a deeper Economic Union built on incentive-compatible foundations.

In its May 2020 judgment on the ECB, the German Constitutional Court was, elementally, out of its depth. Where treaty amendment has become more or less impossible, the courts emerge as the de facto rulers. In this case, the issue concerns which unelected power prevails: the de facto economic sovereign (ECB) or the de facto legislative sovereign (constitutional judges). If anything demonstrates that economic institutions need to be designed to cater for all seasons, this, surely, is it.

SUMMING UP: DOES CENTRAL BANKING SIDELINE DEMOCRACY?

Everything about central banks stems from their liabilities being the economy's basic money. In consequence, while interest rates being close to zero currently constrains their capacity to stimulate aggregate spending, they are not at all

(12) The language "economic sovereign" echoes the executive-centred account of sovereignty given by (the morally appal-ling) Nazi-era legal theorist Carl Schmitt.

constrained in their capacity to provide support to financial intermediaries, regular businesses, households, and governments.

Over the past decade or so, politicians have learnt that they can almost always count on central bankers filling the vacuum that it suits them to leave, prompting think tanks and others to propose more and more functions and objectives for our unelected monetary officials. We need society to reject the notion that central banks can be the Only Game in Town, not because they have failed but, rather, because it not sustainable given the violation of our values. They cannot sensibly be left to play at being Plato's Guardians.

The need for a fiscal constitution

In other words, notwithstanding its considerable merits, a money-credit constitution based on the principles espoused in *Unelected Power* cannot be enough. We need to wake up to the fact that a cost of central bank independence has been under-investment in fiscal institutions.

Advanced-economy democracies also need a fiscal constitution that says more than merely that elected representatives decide fiscal policy. It needs, amongst other things, to cover the role of the fiscal authority in stabilizing an economy facing deep recession when monetary policy rates of interest are close to their effective lower bound; how government will track and address the distributional effects of central banks' and regulators' actions; and, in the financial services sphere, whether a government has a capital-of-last resort policy for when all else has failed, together with how to make 'no bailouts' a credible policy.

Quite apart from stretching their legitimacy, which should worry us given the value of stable institutions, the current predicament of central banks is a warning signal about the need to reinvigorate our democratic system of government.

SALVATORE ROSSI

TIM Chairman;
Former Senior Deputy Governor of the Bank of Italy

Over the past two centuries there has been a lot of reflection on the nature of central banks.
Meanwhile, central banks have proliferated: today, nearly every country in the world has a central bank.
Yet, opinions still differ over the actual social needs that central banks are intended to address.
The idea that fiat money must be issued by an institution that is independent and distinct from the sovereign is actually very old. It dates back at least to Henry Thornton and David Ricardo.
In a paper of 1824 Ricardo accused the Bank of England - established more than a century before - to be subservient to the executive power. Then he set the three golden pillars of central bank independence: institutional separation between money creation and money spending; prohibition of public sector monetary financing; accountability of the central bank.
Ricardo's principles were set aside by policy makers for many years, and then rediscovered by the League of Nations in the early 20s of last century. Trying to find ways to solve the world economic and financial problems posed

by WW1, the Brussels Conference Final Report identified price stability as a primary objective of economic policy but underlined the need to assign it to an independent central bank.
Again those ideas were forgotten and their implementation ignored. After WW2 the theoretical mainstream was that inflation and growth were linked by a trade-off, so that a policy maker could buy a little more growth tolerating a little more inflation. There was little appetite for an independent central bank pursuing price stability.
We had to wait for the stagflation of the 70s in order to understand that the trade-off, if any, was short term.
Within the framework of "new classical macroeconomics" the "time consistency" literature, applied to monetary policy, argued that the only way to prevent policy-makers from exploiting the short-run trade-off between output and inflation, and so to preserve price stability, was to delegate the conduct of monetary policy permanently to an independent but accountable central bank.
Ricardo took his revenge. This line of thought exerted a profound influence on the design of the ECB, and no one would have questioned it until the outbreak of the global financial crisis and the ensuing Great Recession.
Now, in the post-crisis era, the independence of central banks has become again a debatable issue. There are at least **four** reasons for that.
A **first** reason is represented by the role assumed by central banks in the pursuit of financial stability.
For decades financial instability had only been a theoretical concept, until the collapse of Lehman Brothers eleven years ago.
Now everybody is convinced that central banks can not ignore financial stability in both their objectives and action.
Price stability and financial stability are seen as complementary objectives: the achievement of one not only facilitates but actually requires the attainment of the other. Any possible short-term trade-off between them can be eliminated or attenuated by macroprudential action.
But putting more power in the hands of central banks is likely to increase the political pressure on them. Influencing asset prices and credit flows throughout the financial system makes central banks the perfect target for both lobbies and governments – and, of course, the ideal culprit if things go wrong.
Banking supervision entails a **second** threat to the independence of central bank, of course of those that are in charge of it. Resolution of banking crises may imply either the use of taxpayers' money or public trust in the financial system, and a non-elected institution dealing with it may find itself in an uncomfortable position.

The Bank of Italy experienced that kind of uneasiness in recent years.
A **third** obvious risk for central banks' independence are unconventional monetary policy measures.
Compared to standard measures, unconventional ones may have substantial fiscal and re-distributional effects.
A technocratic institution engaging in such operations may be perceived as lacking in democratic legitimacy, and its independence may be challenged.
Let me make an example. It is sometimes argued that large-scale purchases of public bonds by a central bank could blur the distinction between fiscal policy and monetary policy and so undermine central bank autonomy.
But that is not always true.
In the 1970s a number of central banks, including the Bank of Italy, acted as buyers of last resort of public bonds on the primary market.
Today, by contrast, it is clear that the Fed and the ECB, which have both made substantial recourse to unconventional measures, have simply pursued their own statutory objectives: by providing stimulus to the economy when short-term interest rates are at the zero lower bound; by restoring the viability of the monetary policy transmission mechanism.
Finally, a **fourth** problem for central banks' independence is their financial autonomy.
The unconventional measures have expanded central banks' balance sheets enormously; the exposure to financial risk has increased accordingly.
Protracted financial losses, even though existing reserves could absorb them, implies reputational risks that could undermine the confidence of the public in the central bank, and lead to government interference.
To conclude, competence and independence are instrumental to the most valuable asset that a central bank can produce: trust. Ultimately, a central bank's independence is in jeopardy when it no longer satisfies the public need for trust.
Curzio Giannini, a brilliant Bank of Italy economist who passed away prematurely sixteen years ago, wrote:
"The legitimacy of central banks does not lie in their policy activism, or the ability to generate income, or even [...] their efficiency. Rather, [...] it derives from competence, moderation, the long-term approach, and the refusal to take any tasks beyond their primary role".

ELENA CARLETTI
Bocconi University and UniCredit

Thank you, Paul, for writing this book It is an fascinating book, which raises the attention on a topic – the power of independent agencies – of great importance and particularly so

- given the crisis and its management
- increasing number of independent agencies (perhaps not in France!).

The message of the book is not "we should not have IA" because IAs can increase the efficiency of the system, **but** rather we should discuss on how to design them and which objectives to give them
How should they be designed?

- **Single dominating** objective, that is **clear, public debated, and that can be measured**
- Other important desired requirements are:
- **Transparency** to ensue **accountability** versus both the **public** and the **parliament**
- They should **not** deal with **distributional issues** (and thus with fiscal policy), as they are **not elected** and **cannot** be **voted out**

What I would like to do is to comment on these principles, drawing examples from the European financial architecture
Before I do this, let me point to an importance difference between Europe/Euro area and other countries, namely:
- Europe is a place without a "real" democratic state with fiscal power, but where there is an association/assembly of national governments, each of them with their own fiscal power
- This implies that European IAs have a different role from the national IAs. In particular, as they are "forced" to assume emergency fiscal powers in times of crisis – e.g., ECB but also State aid competition during the crises
- Moreover, in terms of regulation, we have the two step implementation, whereby the rules are transposed first at the European level (regulation and directives) and then at the national level – mostly if not exclusively through parliaments
- These differences have important consequences on how applicable are to the Euro-pean context

Let me now turn to the desiderata:
Single objective: many, if not all IAs, have multiple objectives, which at times may con-trast. E.g. ECB
- Monetary policy with inflation target objective (although with secondary objective to sustain EU economy more wi-dely)
- Banking supervision since 2014
- ESRB – attention for systemic risk – EU level and not Euro area
- Complicated **governance** system with a supervisory board, whose decisions are subject to a "no objection procedure" by the governing council and a mediation panel in case of conflicts no problems so far but no clear this won't happen in the future and what this will eventually imply for the institution
- Why is this the case? "**historical accident**" (art 127 of the Maastricht treaty) – certainly not the result of a public debate!
- But the reality is that the ECB has become a **monster** and it is unclear at this stage whether and to which extent this may become an issue going further.

Clear objective: this may be "easier" for IA like Central banks but more difficult in case of others – eg. financial stability, resolution and more generally crisis management
- but also, flexibility is important in times of crisis!
- "constructive ambiguity" of CB.

Measurable: easier for MP objectives (e.g., inflation target), but again more difficult for others, e.g., financial stability, resolution.

• **Financial stability:** do we want a completely safe system with no crisis, which may become a sort of "repressed" and thus not support enough the real economy or are we willing to tolerate a higher level of risk if this helps to foster growth?

Transparency/accountability: this is an important point, and something I fully agree with Paul – the need to make IAs accountable, and not only to the Parliament but also to the public through speeches, media etc. What does it mean? How often and with which finality

- **Parliament**
  - **ECB** – 29 hearings since 2011 (4-6 per year) in front of the Committee on Economic and Monetary Affairs of the European Parliament
  - **ESRB** – 22 times since 2011 (3 per year)
  - **SSM** – 14 times since 2014 and before each hearing papers are asked to a group of experts on one particular topic to "train" the members of the parliament (I am myself one of them!)

- **In addition, Draghi** gave (according to an economist in Pictet Wealth Management):
  - approx. 20 speeches per year (14 in 2018 and 11 in 2019!)
  - 8-12 press conferences per year after ECB GC
- and these numbers do not consider the number of times he went to national parliaments or courts (e.g., Germany)

Are these numbers high? low? perhaps with respect to the public, much more could and should be done, since press conferences or speeches may not be easily understandable!
but what should be the objectives of the hearings?
- limit the power of IA?
- criticize its decisions? at the end, as Paul says, they are not voted out…and we should not undermine their independency
- And how to bring more discussion with the public? Divulgation may not be easy given the technicalities of certain fields and the degradation of the political discussions in many countries
- It may be worth discussing these points more in the debate.
  - how best to make them accountable, esp. to the public
  - what we would like to achieve with this

Distributional issues
- I fully agree with Paul when he says that IA should not deal with distributional issues
- But is this possible? unfortunately, many of their decisions influence distribution
  - E.g., **negative rates on deposits** – should governments pay back citizens? they are saving so much on their debt…!

- E.g.**, resolution – this is where distributional issues are even more relevant**: application of bail-in has had important distributional consequences – in the future possibly a bit less, as new regulation is asking banks to build enough loss absorption capacity with the issuance of instruments that should be placed with wholesale investors and not retail
- but the very underlying idea that an IA (e.g., SRB) could impose haircuts on financial instruments (and in a retroactive manner!) based on the valuation of a bank's asset made by consultants (that at the end are not even accountable for such valuation!) is something that, at least, should have been di-scussed much more!!!

ERIK JONES

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Paul Tucker's book on independent agencies is a major contribution to the debate about what we in the political science community call 'non-majoritarian' institutions and what economists refer to more simply as politically independent central banks. The linguistic distinctions offer an important starting point in understanding why Tucker's book is so important. Political scientists talk about non-majoritarian institutions because they tend to focus on areas where there is intense – and often irresolvable – political conflict. Economists talk about politically independent central banks because they worry that politicians should not be trusted with control over monetary policy instruments. But Tucker talks about 'independent agencies' because – as an insider – he recognizes that they are simply tools of governance to be deployed when necessary to get the job done.

This insider's view is refreshingly modest. Tucker does not celebrate the technical skill of the expert community in the way that the economics literature seems to do. Neither does he denigrate the rough and tumble of democratic politics in a way that the political science literature suggests. Instead, he makes a clear case that politicians can usefully delegate some policy responsibilities to other agencies in the standard 'principal-agent' pattern that we recognize from the study of industrial organization. In doing so, Tucker does not prejudge why that delegation takes place beyond pointing to the fact that it may be useful under specific circumstances. He also does not prejudge why that act of delegation might be revoked other that pointing out that there are always problems when the agent does not accomplish what the principal wants and there are also circumstances where it makes more sense for the principal to accept direct accountability.

Tucker's perspective on delegation does not deny the advantages of technical expertise. He is, after all, a lifelong civil servant and central banker. In that sense, Tucker's argument is consistent with the central insights from the economics literature. There is a time-inconsistency in monetary policy making. Providing monetary accommodation may stimulate the economy in the short run but only at the expense of more significant long-er-term adjustments to avoid accelerating inflation. The pendulum also swings the other way, and a tightening of monetary instruments can slow inflation at the expense of unnecessary longerterm unemployment. Therefore, it is more useful to assign responsibility for monetary policy to agents who take a longer-term perspective. If those agents are widely known to focus their attention on price stability, then the simple act of delegation can shape expectations in the market that will help to stabilize price movements an unemployment levels over the longer term.

The arguments are subtly different when Tucker moves to his two other prime examples of independent agencies – the army and the judiciary. These institutions were not created because of any time inconsistency dilemma. Nevertheless, it is easy to make the case for having a professional military and for having professional jurists. That case does not rule out the possibility of a volunteer army or militia; it does not rule out the possibility of citizen judges either. Moreover, such arrangements do exist in modern democracies. The point is simply that there is a strong case to make for the role of expertise in providing the kinds of public goods these institutions offer and so there is also a strong case for politicians to delegate responsibility for matters related to security and justice.

The question in all three cases remains, however, how closely the politicians should watch over these agencies and how easily they should be allowed as principals to influence that actions of their agents. Here Tucker's view is consistent with the political science literature on non-majoritarian institutions. This literature goes beyond the recognition of policy-relevant expertise to establish the importance of creating some kind of buffer between day-to-day politics and longerterm policymaking. Here too there are strong arguments for ‘independence’. Rapid changes in monetary policy tend to upset market expectations and so complicate the task of stabilizing both inflation and unemployment. In a similar way, rapid changes in defence planning complicate both training regimens and procurement. Rapid changes in judicial decisions disrupt precedent and so undermine the predictability that lies at the heart of jurisprudence. Hence it is easy to imagine that the buffer between politicians and the agencies to which they delegate responsibility for these matters should be thick.

The problem, political scientists like Peter Mair and Stefano Bartolini argue, is that creating a thick barrier between politicians and the independent agencies to which they assign key public policy responsibilities has an impact on the relationship between those politicians and the electorate. Voters who feel aggrieved by the outcomes of public policy have no one to hold accountable; they cannot expression opposition because their elected representatives deny responsibility for the policy decisions handed down by ‘independent’ agencies. Unfortunately, such grievances tend to accumulate over the longerterm, which is much the same time frame that delegation to independent agencies is meant to provide policy advantages. The irony, therefore, is that what looks and sounds like good policy turns out to be bad politics, because the accumulation of grievances in the form of unexpressed or unchanneled ‘opposition’ tends to evolve into a more generalized discontent with the whole political (and hence also policymaking) system.

Bartolini and Mair find evidence for this growing sense of discontent within the electorate in a wide range of policy domains and at different levels of aggregation. They can use this argument to explain the rise of populism in the domestic political context, but they can also use it to explain the growing sense of Euroscepticism. For Bartolini and Mair, the European Commission and the European Central Bank are both ‘non-majoritarian’ institutions. They were created precisely to allow for technical experts to handle issues related to international trade, market competition, or monetary policy, that require a longerterm perspective and so needed to be insulated from political interference. Such insulation also created space for national politicians to deny responsibility for decisions taken at the European level and so to escape accountability before a democratic electorate. It is small wonder, therefore, that populist politicians challenge not only the functioning of domestic political institutions but also the virtues of European integration.

Tucker adds an important qualification to this argument, which is that the rise of popular frustration with independent agencies can accelerate dramatically during moments of

crisis. These are moments when policy makers face uncertain conditions, where their traditional models for policy making no longer seem appropriate, and where they are often forced to act in ways that create obvious winners and losers within society. Worse, these are also moments where politicians are prone to hide from accountability by deferring to 'expert' judgment. Such moments are bad for independent agencies insofar as the policymakers who guide them have no choice but to exercise what looks to the rest of the world like political judgement – because deciding who wins and who loses is in many ways the essence of politics. Such moments of crisis are also bad for democratic politics because the notion of 'independence' denies the opportunity for meaningful opposition and so undermines the legitimacy of political system.
What Tucker offers as a solution is a sort of release valve. When policymakers find themselves operating in uncertainty, politicians should step in to accept responsibility for the choices that are made. This does not mean politicians should ignore the expert advice from those who staff the major policy institutions. What it means is that voters should have a clear sense that the policymakers are providing advice and that elected politicians are making the decisions. In this way, the electorate can pass judgment on the politicians and their performance without necessarily passing judgement on the merits of the political system. And, once the crisis is passed, the structure of delegation can return to what it was beforehand. Tucker's argument does not deny the merits of independent agencies. He simply points out that there are contexts within which independence is part of the problem and not part of the solution for the provision of effective public policy.
This insight is conventional wisdom among students of civilian control over the military. In that sense, Tucker has done us all a great service by underscoring the importance of looking across the policy process in trying to gain insights on what works and what does not work in an act of delegation.
The application of the argument to the judiciary is unclear. Perhaps that reveals the distinction between a political act of delegation and a constitutional separation of powers: the judiciary is not usually part of either the legislature or the executive, although some constitutional arrangements tend to blur the boundaries between them.

Where Tucker's insight has the most powerful resonance is in the world of central banking. That only stands to reason. This is the world where Tucker rose to professional leadership. It is also a world that has embraced the notion of political independence as something of a talisman. And it is a world that found itself very much left on its own to respond to the economic and financial crisis that started in 2007. The policy response of central bankers was heroic in many respects, particularly given how confusing the crisis was in the context of their traditional models. Nevertheless, that response was too often underpowered because it was not matched sufficiently by other macroeconomic policy measures, particularly on the fiscal side. Worse, central bankers were often left alone to face the outrage of a deeply wounded democratic electorate that was very quick to question whether monetary policy makers had more responsibility for the origins of the crisis than for its resolution.

The argument in this book is not to deny the claims of a frustrated electorate. That electorate (or those electorates) had every right to be frustrated. Rather the argument is that independent agencies should not be made the focus for electorate frustration – because voting is not an appropriate channel for venting that frustration or for doing something constructive to resolve it. Therefore, if politicians want to retain the possibility to delegate important policies mandates to independent agencies, they are going to have to accept the responsibility for that delegation and for the decisions that are made in times of crisis.

What we might add to Tucker's argument from the political science literature, is that politicians should embrace that responsibility during more normal periods as well – explaining to the electorate why independent agencies are important and what are the advantages attached to their independence. This is true for the military; it is true for central banking; and it is also true for European institutions. That message has never been more important. In democratic systems, political responsibility is for elected politicians. Independent agencies have a role to play, but that role is not to undermine the legitimacy of democratic politics. Politicians should not hide behind independent agencies, they should defend them by accepting political responsibility – both at the national level and with respect to the European Union.

ROBERTO NICASTRO

Senior Advisor Cerberus

I found Professor Tucker's book truly fascinating since it spells out clearly some material ambiguities and tradeoffs of governance in several crucial crossroads of economic development that we struggle to admit or discuss in the open. Such tradeoffs bring to highlight both the critical importance of independent Authorities like Central banks and Regulators and also the need to devise corrections to increase their overall accountability. For example, where "unelected powers" have allowed to take unpopular decisions deemed favorable for the public good but still difficult to digest for very meaningful parts of the electorate. Or, where on the other hand Political Bodies (not just governments) have taken concerted steps to correct the roadmap spelled out by Regulators.
Or when lack of accountability by some of this Unelected Powers may instead end up in unintended but troublesome consequences for the economic system.
Let's review some cases of these ambiguities, that as external observer or practitioner in banking I may refer to.
A first case seems to me the relationship between ECB decision making in the Draghi period and many German constituencies. In a few turning points of Mr. Draghi's manda-

te, we have read vocal opposition from sensible and heterogeneous parts of Germany. Still despite Germany's preeminent influence in the ECB, the Draghi line has been more or less smoothly implemented and one would in several instances gain the perception that elected Merkel was ultimately backing Draghi's choices, but would refrain from commenting this in public not to lose voters' consensus. Draghi has been recognized as savior of the euro and a propeller of the European economy with the "whatever it takes", TLTRO, QEs, etc. but this would have been impossible without the support, albeit silent, of the German government, that on one side was conscious of the benefits of such decisions for supporting the European and German economy, and on the other hand was not in a position to strongly endorse in public the ECB decisions. So essentially, a key unelected power (the governing council of the ECB and its Chairman) has been instrumental in carrying out decisions that elected powers would find extremely problematic to take openly. And this effect goes as far as leading Governments (and the general public and media) to pretend always solutions from the monetary policies, where instead they should be provided by fiscal and political decisions.
Another case regards the so called "SME Supporting Factor". The rigorously technical Basel Rules for defining the Risk Weighted Absorption, were not meant to include a capital subsidy for SME Lending but then they have been integrated with such component. When the Rules were introduced, they were found particularly harsh on gauging the lending risk towards Small and Medium Enterprises. SMEs are a constituency that on one side is often recognized as a major engine for developing Jobs and Employment with the European economy, that remains largely reliant on bank-related lending to finance their activities and on the other hand is a major tank of voters for politicians. As a result, the European Parliament has carried out a bipartisan action to enforce a special preferential treatment for them, the so-called SME supporting factor. This has led the Commission to push banking regulators to execute a substantial deviation from their golden rules to cope for the rationale for public policies to support SME financing. Odds are still out on the effectiveness of the SME supporting factor, and we need probably a couple of economic cycles to draw a definite conclusion on its long term impact but certainly, based on the current evidence it broadly seems a commonsense correction to the course of action strictly defined by the unelected powers.
Third case; that I had a chance to experience directly.
It regards the DG Competition and its action on Public Aid in the case of Resolution of the Four Banks in Italy in 2015.
I have been publicly commenting that the rigidity of the DG

Comp has helped transforming a potentially restricted and idiosyncratic banking crisis concerning less than 1% of the Italian banking market into a nearly systematic issue that affected the entire Italian banking system for several months and generated material losses additional to those already intrinsic in the 4 Banks crisis. Rigidity that was (1) coupled with the insufficient coordination between DG Comp with SSM and the NCA to ensu-re an adequate management of the "classic" tradeoff of banking stability vs antitrust matters; and (2) exacerbated by the lack of substantial accountability of the technical offices of the DG Comp, to which - in light of the EU Commission inner working practice, the Commission itself had ultimately granted full substantial powers.

After 4 years the European Court of Justice has annulled the basis decision of the DG Comp ("Tercas" state aid case) on which the entire "4 Banks crisis framework" was grounded by the same DG Comp. While an Appeal case is still being currently discus-sed on the "Tercas case", it is clear that in the meanwhile a material damage for the Italian banking system had been created by the rigidity of DG Comp.

Far from me to express a criticism of the function of the DG Comp, that for instance is currently playing a fundamental role for the wellbeing of European citizens by being possibly the strongest fortress in battling the market dominance of the big in-ternet giants. Still, the case of DG Comp and the 4 Banks proves a clear issue of unaccountability of an important unelected power.

In conclusion, there are very different cases of proper and improper functioning of Unelected Powers. Nevertheless their task is absolutely capital for the proper functioning of the economic governance; we need to communicate this better to the general public so that the independence of central banks could become a shared value among voters, and at the same time as Professor Tucker underscores in this precious book, we need in parallel to keep working on clarifying their mission and to strengthen the levels of their accountability.

ALESSANDRO MERLI
Johns Hopkins University and BBS

Central banking is subject to intellectual trends and fluctuating perceptions in the media and public opinion, especially since the invention of social media platforms.
In the past decade or so, central banks have in turns been labelled as "the only game in town", then doubted as impotent, with "nothing left in the toolbox", only to come to the fore again as the policymakers quicker and more effective in responding to crises. The most recent developments, however, have shown that current problems in the global economy are best addressed by fiscal, not monetary policy, as the crisis that followed the coronavirus pandemic is of a completely different nature than the global financial crisis, in the solution of which central banks were very prominent.
The very idea of central bank independence, as Salvatore Rossi reminded us, has an illustrious intellectual pedigree, dating back to David Ricardo, but it was by no means uncontroversial. If we look at more recent times, we had the example of the Bundesbank, the very paradigm of an independent central bank, which was however overruled by the German governments in some crucial instances, the most important of which was the conversion at par of the East German mark

into the Deutsche Mark at the time of reunification. But it is also worth remembering that, before the Labour government granted her independence in 1997, the Bank of England, already past its 300th birthday, had no power over interest rates, which were set by the Treasury. The case for central bank independence was made by a long line of economists in the past 30 years. In this instance, I would like to remember Vittorio Grilli, Donato Masciandaro and Guido Tabellini, who in a 1991 paper concluded that central bank independence promotes low inflation with no apparent cost in terms of real economic performance, and Alberto Alesina, among others. It is perhaps no coincidence that so many Italian economists were concerned with this issue at the time, as the damage caused by the lack of independence had become apparent in Italy .

During this time, the most influential of the proponents of independence was Stanley Fischer, with his work in the early 1990s and through his grooming at MIT of many of the central bankers of future decades, foremost among them Ben Bernanke and Mario Draghi. The creation of the European Central Bank in the image of Bundesbank, seemed, at the end of the 1990s, as the ultimate reaffirmation of independence, enshrined in its statute, as the main tenet of central banking. As Fischer himself has reminded us in a 2015 speech, however, times have changed: persistently below-target inflation, not high inflation, is now the main problem for central banks. And other issues have cropped up and caught the attention of central banks, sometimes for the lack of better options in tackling them, like financial stability and banking supervision, and it is widespread the use of unconventional monetary policy. All these factors tend to muddy the waters between monetary and fiscal policy, which has inevitable repercussions on the way we think of central bank independence.

It is therefore not completely surprising to see many doubts raised by Paul Tucker in "Unelected Power", pointing the finger at the risk that politicians, who should be the actors making certain decisions and taking responsibility for them in a democracy, are relinquishing part of their role to central bankers. It may come as a bit more of a surprise that this doubting of the orthodoxy should come from someone who, in his role as deputy governor of the Bank of England, could be regarded as one of the high priests of central banking in its independent form. Tucker does not deny that certain tasks should be delegated to technocrats by virtue of their competence, but calls for a very precise mandate (which may have become a bit blurred in these years of crisis) and the constant monitoring of its respect.

It is, once again, Fischer's voice that gives the most original contribution to the discussion, maintaining, in a paper with three colleagues from Blackrock (an asset manager giant and his current employer), that at times like these, when monetary policy is exhausted and fiscal policy is not enough, there is a need for an unprecedented degree of coordination between monetary and fiscal policy and a response that "goes direct", getting central bank money directly in the hands of public and private sector spenders. Fischer and his colleagues propose an explicit inflation objective that fiscal and monetary authorities are jointly responsible for achieving and a mechanism - a standing emergency fiscal facility – the size of which would be determined by the central bank. The facility would then be closed when medium-term inflation is back at target. Central bank independence and credibility would thus be saved. Clearly, this is a very different concept of central bank independence from what Fischer himself envisaged in the 90s.

There is another element which I believe is central to Paul Tucker's argument and it is that of accountability and transparency of the central bank. In my opinion, perhaps because of my long years in the media and as a central bank watcher, a crucial aspect of this is communication, a relative newcomer to the central banking tool. That is possibly the link from central banks as "unelected power" and central banks as an institution more integrated in a representative democracy.

In terms of central bank communication, we have certainly come a long way from the famous quote of the governor of the Bank of England, Montagu Norman, in the 1930s, "Never explain, never apologise", or even the extreme secretiveness of the Bank for International Settlements, the "central bank of central banks", until rather recently. That era of stonewalling from central banks evolved only slightly in the following decades into one of tight lips and rare public pronouncements: I think, for instance, of Federal Reserve chairman Paul Volcker and a succession of Bank of Italy's governors, who spoke in public no more than three or four times a year. The following phase was that of obfuscation: central bankers spoke more often but not (at least not intentionally), more clearly. "If I turn out to be particularly clear, you must have misunderstood what I said", was the infamous quote from Alan Greenspan. At the newly born ECB, intentional obfuscation often gave way to cacophony from members of the governing council, and therefore the difficulty in identifying the main message. This was certainly the case during Wim Duisenberg's tenure.

Duisenberg's successor, Jean-Claude Trichet, introduced a new way of communicating through code words, such as "vigilance" or "strong vigilance", which ECB watchers were supposed to decipher to anticipate the future course of interest rates, at the time basically the only instrument of monetary

policy. Mervyn King, at the Bank of England, was also a believer in the power of central banking through communication, which should enable a central bank to make markets move in its favour without actually having to do much: a bit like Diego Maradona and his swerving moves through England's defense in the 1986 World Cup, as King liked to recall.
Fischer and his disciples introduced a more direct way of communicating, making it effectively a tool of central banking. The masterpiece of this must be the famous "Whatever it takes" pronounced by Mario Draghi in London in the hot summer of 2012. It was totally direct and also ended up being the best example of the Maradona monetary policy: obtain the maximum result without enacting any actual measure.
The prominence of communication in contemporary central banking has created difficulty, especially at the beginning of their respective mandates, for central bankers less adept in this art, like Janet Yellen and Jay Powell. The fact that even a master of communication, like Christine Lagarde, slipped up at the debut of her tenure, shows that, especially in times of high instability, it is not an easy tool to use along the more traditional ones. But it will be more and more important in trying to bridge the tasks of central banks with their increasingly political connotations in the new world of central banking that Paul Tucker describes.

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