

# The Ethics of Central Banking

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Modern societies use a variety of institutions to pursue key collective objectives. Among these institutions, central banks form the apex of the payment system for each currency. As such, one can appropriately take central banks to be part of what Rawls (2001: §3-4) calls the “basic structure of society” – i.e., a society’s “main political and social institutions and the way they hang together as one system of cooperation”.

There is no historically unique template for central banks: what they are asked to do and how they interact with other institutions have changed through time. This evolution is attributable to shifts in the common understanding of how central bank can best contribute to key collective objectives. In the late 1980s and early 1990s, the dominant understanding pushed for reforms in line with the ‘central bank independence’ (CBI) template. Yet, since the 2007-08 financial crisis, the effective functioning of central banks in advanced economies has diverged significantly from this template.

The goal of this chapter is to present three reasons to worry that central banks today are not optimally designed to serve society’s objectives: first, their actions have serious unintended consequences; second, financial interests loom too large in their decisions; and, finally, the concentration of monetary expertise around central banks does not provide the conditions for an effective error-correction mechanism on key issues. By fleshing out these worries, the chapter is meant as a preliminary step towards an updated understanding regarding the proper contributions of central banks to our societies’ basic structures.

## 1. Central banking: the essentials

In this preliminary section, we aim to provide just enough information about central banks for a non-specialist audience to be able to follow our subsequent discussion.

The characteristic that singles out the central bank among all of the institutions in a currency area is that it has a monopoly over the issuance of legal tender. It is not the only institution that ‘creates money’ – private banks do that too – but central bank money has a special status: it is the ultimate form of settlement between economic agents (Pistor 2013). All other monies (for instance, the sum that is credited to your bank account when you contract a loan) are promises redeemed, in fine, in central bank money. There is no further promise associated to central bank money.

This monopoly puts the central bank in a favorable position to pursue two goals that a society is likely to have: financial stability and price stability (Singleton 2010). First, it can step in at moments of financial turmoil to act as lender of last resort because it can create liquidity without constraints. Second, it can contribute to a stable price level by manipulating the availability of cheap credit. Although central banks have had various other roles across space and time (promoting employment, managing the exchange rate and the national debt, supervising financial institutions, etc.), the goals of financial stability and price stability are constantly present.

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In addition to the extent of their mandates, a changing characteristic of central banks has been their degree of independence toward other state actors, especially toward elected officials. Before the 1990s, governments typically had a direct say in monetary policy; for instance, they could ask central bankers to lower or raise their key interest rate. As the CBI template swept the world, various protections were put in place to ensure that central banks would not be subject to ‘political’ pressures in setting their monetary policy (McNamara 2002).

The justification for this type of firewall is that a division of institutional labor mitigates credibility problems (Kydland and Prescott 1977; Barro and Gordon 1983; Rogoff 1985). The general reason why central bankers not shielded from elected officials have a credibility deficit is that, although they can *claim* that they will do what it takes to keep inflation low, they have incentives to spur inflation. Rational economic actors would thus not be systematically fooled by the promises of central bankers. The incentives for inflationary policies could be, among others, pressures by elected officials for inflation-induced economic growth toward the end of their term to increase their probability of reelection.

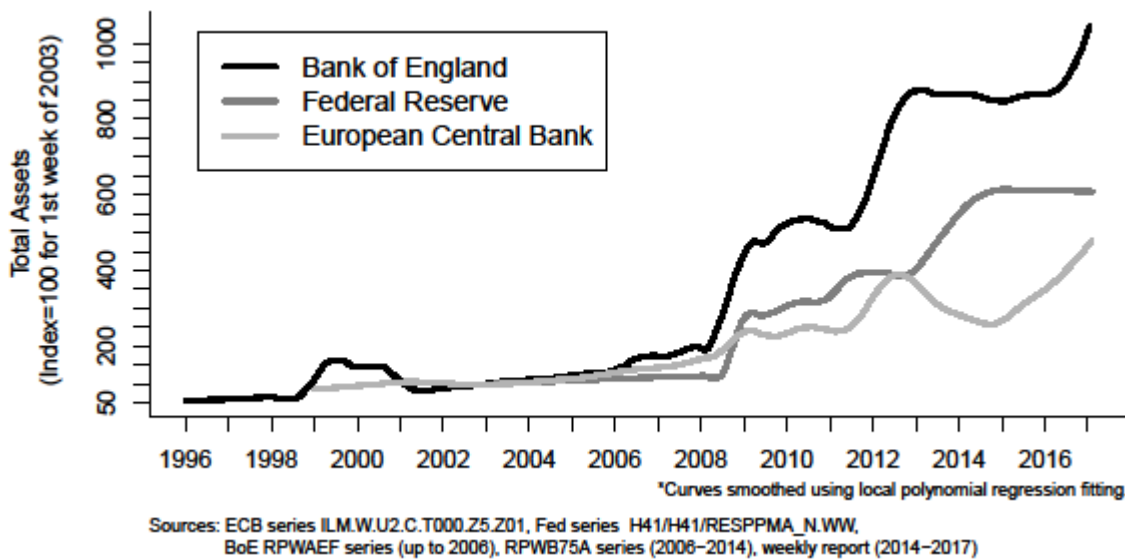
The CBI template not only promoted a high degree of operational independence of central banks, it also defined the mandate of this institution narrowly in historical terms. The main task of central banks became price stability. The other constant goal of financial stability was de-emphasized because of the belief – widespread before the 2007-08 financial crisis – that modern financial technology together with price stability would be sufficient to greatly moderate financial fluctuations (Bordo and Jeanne 2002).

To accomplish their narrow mandates, central banks in the CBI era used a correspondingly narrow set of instruments. They chiefly relied on short-term open-market operations: central banks swap with commercial banks an amount of liquidity for specific financial assets (mainly, sovereign bonds). The liquidity is then returned with interest and the asset is recovered. Under the CBI paradigm, central banks’ actions affected, indirectly but quite reliably, the whole array of interest rates in the economy.

When observed from the perspective of how the basic institutions of society “hang together as one system of cooperation” (Rawls 2001: §3), the CBI template stands out as implying that central banks must not consider how their policies contribute to societal objectives beyond price stability. Although societal objectives are manifold, central banks under CBI are asked to aim at an optimum in only one dimension: price stability. Other institutions, including government, must take monetary policy as a given and optimize accordingly while taking into account other societal goals such as limiting inequalities. As alluded to earlier, the CBI literature argues that a decentralized arrangement with independent central banks can best mitigate the credibility problems of monetary policy. This alleged gain comes at a cost however: under the CBI template, there is little to no coordination between the different policy levers. One type of policy (e.g., monetary) can thus be detrimental to the objectives pursued with other policies (e.g., fiscal).

Since the 2007-08 financial crisis, the CBI template does not correspond to the actual interventions of central banks in advanced economies. To save the economic system from collapse, central banks extended and intensified their interventions. In their role as lenders of last resort, they bailed out several financial institutions. They also implemented two kinds of system-wide interventions. First, they ex-

tended their open-market operations in size, range of collateral, and length. Second, they launched quantitative easing programs, that is, the purchase of large amounts of financial assets on secondary markets. These measures are probably to be credited for stabilizing financial markets and for mitigating deflationist tendencies. Although presented originally as ‘temporary’, they are for the most part still in place after almost 10 years. Consequently, central bank policies clearly remain more invasive than they were prior to the crisis, as is illustrated in Figure 1 by the growth in the asset value of major central banks. Furthermore, many central banks were granted new responsibilities for micro and macro financial supervision in the aftermath of the crisis.



**Figure 1** Total assets of three major central banks indexed at their early-2003 levels

Does the institutional design of central banks today optimally serve societal objectives? We now discuss three reasons why one might worry that this is not the case.

## 2. First worry: distributive effects

Central bankers and monetary economists often use the term “unintended consequences” (e.g. White 2012) to describe certain side-effects of monetary policy. In particular, should it not be a cause for concern if monetary policy contributes to growing inequalities in income and wealth? In order to limit the scope of our argument, two preliminary observations are in order.

First, it is important to distinguish two types of unintended consequences of central bank action. On the one hand, there are *unforeseen* consequences that fall within central bank mandates. Consider the argument by Austrian economists that credit-financed expansions will lead to a more pronounced boom and bust cycle (Hayek 1984), an idea confirmed by recent empirical work (Jordà *et al.* 2013). Today, one might thus worry that an economic recovery built on massive liquidity injections by central bank policies such as quantitative easing will drive us into the next round of financial instability (White 2012: 17).

If central bankers accept that a consequence of this kind is likely, their mandate gives them a *prima facie* reason to adjust their policy accordingly. Central bankers might retort (1) that the consequences are unlikely, (2) that they will be able to control them through countermeasures, *or* (3) that, all things considered, unconventional monetary policy is still warranted. We will come back to these issues in the next section, but our focus here lies elsewhere.

On the other hand, there are *predictable but ignored* consequences of central bank actions. For example, central bankers know that unconventional monetary policies impact the distribution of income and wealth in a number of different ways, but they say that it is not their job to do anything about these effects.<sup>i</sup> Our goal here is to both enhance our understanding of these effects and ask whether this calls for a more integrated approach to monetary policy and other policy fields including fiscal policy.

The second limitation on the scope of our argument is the following. When central banks are criticized for not taking into account distributive considerations, in addition to pointing to their limited mandate, they sometimes add that a “central bank with a clear mandate to safeguard price stability needs to act forcefully when push comes to shove. These distributional side-effects then need to be tolerated.” (Mersch 2014) The common theme of this and similar statements by central bankers since 2008 is that their actions have been necessary to save the financial system from collapse.

However, while there is a kernel of truth in this idea, it only applies in very specific circumstances. When the financial crisis broke out and banks were threatening to go under, the urgency of the situation indeed meant that compromising on considerations of financial stability might have had even worse distributive consequences due to the unemployment created by a deeper and longer recession. However, as Hannoun (2012: 22) puts it, “as crisis management gives way to crisis resolution, it is important that central banks highlight the limitations of their actions and the need for other policies to take over in order to ensure the necessary balance sheet repair and adjustment of the real economy.” The scope of this chapter is limited to times of crisis resolution, when public institutions – including central banks – dispose of the necessary *marge de manoeuvre* to adjust the policy mix in ways sensitive to a diverse set of policy objectives.

We now turn to one specific example of a foreseen but ignored consequence. The relations between monetary policy and distributive justice are manifold. The goal of this section is to present them in a systematic framework that will help the formulation of adequate normative and institutional responses. To do so, we draw a basic distinction between two kinds of distributive questions that arise in the context of monetary policy. First, we consider what we call the *direct* distributive effects of monetary policy, which refer to consequences of central bank actions analyzed in isolation from other policies. Second, when assessing what we call the *indirect* distributive effects of monetary policy, we look at the impact of monetary policy in conjunction with other policy variables.

In the first category, our analysis focuses on the unconventional monetary policy instruments deployed in the wake of the financial crisis (cf. Dietsch *forthcoming*), without implying that monetary policy does not have distributive effects in “normal times.”<sup>ii</sup> Here is a non-exhaustive<sup>iii</sup> list of different kinds of inequalitarian consequences of recent unconventional monetary policy:

- The most significant distributive concern has been the impact of quantitative easing on the prices of financial assets (cf. White 2012; Group of Thirty 2015). Independently of whether one of the goals of quantitative easing is to stimulate higher consumption through rising asset prices, and independently of whether this policy is successful or not, it boosts the assets of the haves compared to the have-nots and thus arguably exacerbates inequalities (Domanski *et al.* 2016; Bank of England 2012).<sup>iv</sup> The rallies of both stock markets and real estate markets in recent years, rallies that hardly reflect the outlook of economic fundamentals, have in part been stimulated by quantitative easing.
- Other unconventional policies, such as the long-term refinancing operations (LTROs) of the European Central Bank (ECB),<sup>v</sup> also tend to exacerbate inequalities. By offering low-risk arbitrage opportunities to banks, they boost profits of commercial banks without necessarily achieving their declared aim of boosting lending to the real economy.<sup>vi</sup>
- In contrast to traditional open-market operations, since the crisis central banks have both switched from temporary to permanent ('outright') purchases and have expanded the asset classes they buy. The ECB, for instance, has launched a corporate sector purchase program (CSPP)<sup>vii</sup> in order to stimulate lending for productive investment. While in the early days of the program only 4% of the purchases took place on primary markets, studies show that even purchases on secondary markets bestow tangible benefits in terms of lower borrowing costs on those selected for the program, such as carmaker Volkswagen or arms-producer Thales (Corporate Europe Observatory 2016). Arguably, political decisions of this sort are incompatible with the independence, and thus limited democratic control, of a central bank.

Letting central banks ignore these distributive consequences and expect governments to take corrective fiscal measures, even if – against the odds – it worked, could lead to a suboptimal policy mix. Note that this leaves open the question of whether to ask central banks to be more sensitive to distributive issues in their policy formulation (Fontan *et al.* 2016) or to adjust other policy variables instead, notably through regulatory changes (Brunnermeier and Sannikov 2012: 377).

We now turn to the second category of *indirect* distributive effects of monetary policy. Monetary policy is not formulated in isolation, but it in part responds to decisions made in fiscal policy and different kinds of regulation that are not part of the central bank mandate. Conversely, these other policies are sensitive to monetary policy. Against this background, different policy *combinations* will have different consequences for distribution.

Consider first the impact monetary policy has on fiscal policy, before looking at the influence running the other way. In several countries, expansionary monetary policy in the wake of the crisis has been combined with fiscal austerity. Politics of austerity tend to exacerbate income inequalities. It is a legitimate question whether expansionary monetary policy has, at least in part, rendered fiscal austerity possible. Would governments have pursued growth-oriented policies under a less expansionary monetary policy regime? If there is a substitution effect between the two policy domains (Green and Lavery 2015: 906), and if monetary policy could and perhaps should have been normalized again more rapidly after the crisis (Hannoun 2012), then the omission to do so, via austerity, has an inegalitarian impact.

Conversely, is there a sense in which austerity renders expansionary monetary policy necessary? On the plausible assumption that contractionary fiscal policy dents employment and might prove deflationary, too, their mandates will indeed force central banks to compensate.

In sum, the first worry raised by the current contributions of central banks to societal objectives is that some objectives, especially distributional ones, are adversely affected by the new monetary policy, but the institutional configuration characterized by an absence of coordination is ill-suited to correct for these effects.

### 3. Second worry: the influence of financial interests

Since the 1970s, the literature on central bank independence (CBI) has focused on the independence towards political authorities. However, there is another aspect of the recent history of central banking that has not been seriously tackled by the literature: the operations of central banks in times of financialization<sup>viii</sup>. Financialization refers to “the increasing role of financial motives, financial markets and financial institutions in the operation of the domestic and international economies” (Epstein 2005). As central banks play an interface role between financial markets and democratic states (Singleton 2010), financialization and central banks’ activities mutually influence each other. As we will show in this section, central banking under financialization is problematic because it suffers from a bias in favor of financial market interests. This bias takes two forms: on the one hand, central banks fuel the risky expansion of the financial industry in non-crisis times and, on the other hand, they allow the financial industry to shift the cost of financial stabilization onto others in crisis times.

In a quantitative and historical study of professional biographies, Adolph (2013) emphasizes two links between central bankers and the financial industry. First, the beliefs of central bankers who used to work in the financial industry are more likely to have been shaped by the latter (socialization effect). For example, both Mark Carney and Mario Draghi worked for Goldman Sachs before becoming governors of the Bank of England and the ECB respectively. Second, when central bankers hope to be recruited by the financial industry upon leaving office, it is more likely that they send positive signals to their future employers when formulating policies (regulatory capture effect). The fact that central bankers’ sociological trajectories are increasingly linked with the financial industry since the CBI era arguably is one of the drivers of financialization.

While important, factors related to professional biographies cannot fully explain central banks’ actions because different central banks with different sociological compositions of their monetary committees have implemented similar monetary policies. To understand the reasons why financial actors are in a favorable position with respect to monetary policy, we must also remember that central banks rely on the smooth functioning of financial markets to implement and transmit their monetary policy to the real economy. Janet Yellen, the chairwoman of the Federal Reserve (Fed) since 2014, said that although central banks “work through the financial markets, our goal is to help Main Street and not Wall Street.<sup>ix</sup>” While she might be right about the *intentionality* of central bank policies, financial institutions still enjoy leverage over monetary policy *outcomes* because central banks rely on the infrastructures of financial markets to implement their policies (Gabor and Ban 2015).

Why did central bankers not try to disentangle their conduct of monetary policy from financial markets in order to decrease this leverage? One hypothesis is that operating monetary policy through financial markets allows them to further isolate central banks from political interference (Marcussen 2009; Krippner 2011). Adolph (2013: 314) suggests that there is an inverse correlation between the two faces of CBI: when central banks gain more independence towards political authorities, their independence towards financial players weakens, and *vice versa*.

Now that we have sketched the reasons why financial institutions are in an advantageous position, we will substantiate our claim that central banking under financialization is problematic in two ways. On the one hand, central banks fuel the risky expansion of the financial sector in non-crisis times. In the run-up to the 2007-08 financial crisis, central bankers did not sufficiently control the excessive credit and the speculative bubbles. In the US, the Fed believed that the growth of the US housing market induced by the subprime industry would serve its double objective (maximum employment and price stability). Therefore, from 2001 to 2006, the Fed did not sufficiently 'lean against the wind' to tame the subprime financial bubble, but rather trusted the self-regulation of markets (Krippner 2011). On the other side of the Atlantic, the ECB feared that the financial fragmentation<sup>x</sup> of the Eurozone would impair its ability to implement its monetary policy. To promote financial integration, the ECB hence decided that the debt of any Eurozone country would have the same value when used as collateral in its refinancing operations (Gabor and Ban 2015: 10). By putting diverse countries such as Greece and Germany in the same basket, it encouraged financial operators to purchase more sovereign debt from peripheral countries, as it could be traded against liquidity at the ECB in a way similar to the more expensive German debt. These perverse incentives partly explain both the major financial expansion of large banks<sup>xi</sup> from core European countries and the growth of public debt in Eurozone periphery (Blyth 2013: chapter 3). In sum, in non-crisis times, central banking under financialization is characterized by the fact that central banks neglect the prevention of financial imbalances.

On the other hand, since the crisis, central banks did not do enough to make the financial industry assume a fair share of the losses nor to change the rules of the game to prevent future crises. First, when acting as lender of last resort, central banks should be wary about the risks of moral hazard<sup>xii</sup> and follow Bagehot's (1873) doctrine to lend only to banks suffering from liquidity problems, at a high rate, and against quality collateral. In 2008, central banks broke almost all Bagehot's recommendations to prevent moral hazard: they lent ample amounts of liquidity at low rates against risky assets for a long time, thereby transferring credit risk from private institutions to public balance sheets (Cour-Thimann 2013). Moreover, the vast amounts of liquidity provided by central banks without stringent conditionality have complicated the tasks of financial regulation agencies as they have allowed large dysfunctional financial institutions to survive (Admati forthcoming).

A second constraint caused by financialization is that it pushed central bankers to unduly prolong their unconventional policies (Gabor and Ban 2016), exacerbating the problematic side-effects discussed in the previous section. For example, it is plausible to think that in the absence of the strong reaction from financial markets to the mention by the Fed in May 2013 of the mere possibility of reducing its asset purchases, the Fed would have stopped its unconventional policies sooner and more decisively. Simi-

larly, the persistent fragility of the Eurozone banking sector forced the ECB to renew its large liquidity offers (LTRO) in March 2016.

Finally, financialization makes it more difficult for central bankers to ensure that the cheap liquidity provided to commercial banks is used to provide credits to the real economy. For example, in 2014, the ECB tried to impose some conditions on the use of liquidity by commercial banks.<sup>xiii</sup> However, it abandoned the conditionality component of its liquidity offers in March 2016, mainly because the banks were reluctant to respect the condition of lending to the real economy. This lack of conditions is in strong contrast with the coercive demands of the ECB when it provided liquidity to Eurozone countries (Fontan 2017). The fact that central banks are more reluctant to impose conditions on financial institutions than on governments reflects the undue influence of the former.

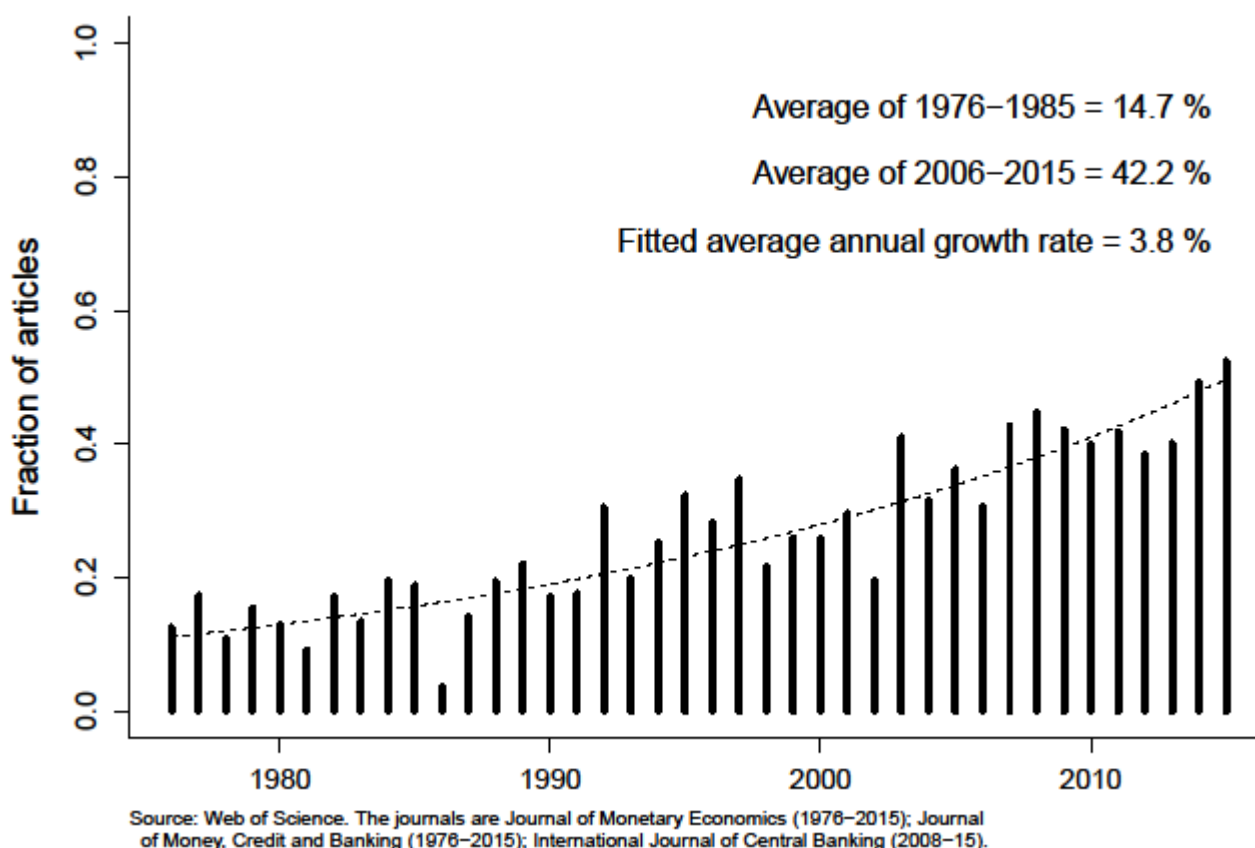
In sum, central banking under financialization has encountered two problems. First, central banks have fueled financialization dynamics when they failed to engage in sufficient prevention of financial imbalances. Second, financialization has constrained the post-crisis interventions of central banks. It weakens their efforts to control the risks of moral hazard and incites them to pursue their unconventional policies well beyond the immediate crisis.

#### 4. Third worry: central banks as experts

Central banks are the dominant providers of research and expert opinion on central banking and monetary policy today. White (2005) provides ample evidence of the centrality of the Fed in the United States. For instance, he estimates in the early 2000s that “the Fed employs full-time about 27 percent more macro/money/banking economists than the top 50 US academic economics departments put together” (White 2005: 329). The centrality of the Fed is heightened by the tight links between the institution and economists in academia, for instance through an extensive visiting scholar program. There is also ample yet disparate evidence that other central banks are major players in the research world:<sup>xiv</sup> Figure 2 shows that the fraction of articles signed by at least one central bank employee in the three main academic journals on central banking and monetary policy has been growing at an average rate of 3.8 % since the late 1970s. In the last year in our corpus (2015), the percentage of articles signed by at least one central bank employee reached 52.5 %.

A core worry in the expert-layperson relationship is whether the expert is trustworthy (Goldman 2001). Should the general public trust central banks as experts on monetary matters? A starting point in answering this question is to recognize that central bankers’ dominant opinion on an important issue has failed us in the period prior to the financial crisis: the opinion that monetary policy should (almost) exclusively focus on price stability “was fatally flawed” (Carney 2014: 14). But concluding from this fact that central banks cannot be trusted is premature. First, central bankers have corrected this erroneous belief. Second and more importantly, it would be too demanding to ask an expert community to be infallible. We should rather require that our reliance on the community’s opinions in its domain of expertise be significantly more goal-conducive than relying on alternative sources.





**Figure 2** *Fraction of articles in the three main specialized academic journals with at least one author working at a central bank*

Since directly assessing whether this condition holds is arguably beyond the layperson’s grasp – indeed, we would ourselves be experts in the domain if we could directly judge the current reliability of alleged experts – we have to resort to a more indirect assessment. Because expert communities are fallible, our trust in them should be a function of whether they have a well-functioning mechanism to correct errors. From the literature in scientific methodology and philosophy, we have some knowledge of the general characteristics at the individual and collective levels that promote error correction. The question of whether the expertise of central banks is trustworthy can thus be converted into the question of whether they have an adequate error-correction mechanism. The simple three-part framework that we will use is inspired by Helen Longino’s characteristics for procedural objectivity (Longino 1990).

First, error correction is more likely when the members of the community are *transparent* about both the claims they hold to be true and the standards they rely on to justify these beliefs, since being transparent on these matters allows one’s beliefs to be effectively challenged. Central banks used to be opaque, but they have morphed into extremely transparent institutions, in great part because the central banking community believes that transparency promotes the effectiveness of monetary policy (Dincer and Eichengreen 2007). We can thus conclude that the central banking community possesses this first aspect of an error-correction mechanism to a high degree.

Second, the adequacy of an error-correction mechanism hinges on the *sustained generation of varied criticisms*. The generation must be sustained because one successful blow is usually insufficient to un-

settle important beliefs. The criticisms must be varied so that no specific beliefs will be accepted without being probed. Let us look at the intensity and the variety of criticisms in turn.

With their important research divisions and their extensive links to academic researchers, central banks have access to a sustained flow of novel research results. For instance, much of the research measuring the distributive effects of unconventional monetary policies has come out of central banks (e.g., Bank of England 2012; Saiki and Frost 2014; Domanski *et al.* 2016). Yet, a first caveat can be registered here. There is reason to worry that the structure of the community is such that the intensity of criticisms is muted. As we have seen, central banks are pivotal in the community; standard strategic considerations should lead agents who want to be fully recognized as members of the community to think twice before pursuing research that is likely to seriously challenge central tenets of the monetary policy consensus. Highly ranked central bankers have levers to silence some of the dissident voices. For instance, every research output, at the Fed and the ECB at least, has to go through an approval process before being made public. This process is officially meant to ensure “the research is of high quality”,<sup>xv</sup> but it has been presented by a Fed employee as aiming “to avoid statements in conflict with national monetary policy” (Fase and Vanthoor 2000: 32; for the ECB, see Mudge and Vauchez 2016: 161-62). For researchers that are not on a central bank’s payroll, the influence is more indirect: being a black sheep diminishes the chances that one gets a share of the resources controlled by central banks (e.g., conference invitations, visiting scholarships) and the probability of publishing critical material in well-regarded journals is lowered when a large proportion of reviewers come from the incumbent institutions.

With respect to the *diversity* of criticism, the worry is twofold. First, central banks as regulators have incentives to channel resources toward research that is likely to help them better plan their interventions. Consequently, they set research priorities – for instance, the Bank of England’s One Bank Research Agenda (Bank of England 2015). Although this strategy is totally understandable for a regulator, it can have the undesirable effect to limit the scope of research. In particular, research that is not closely connected to the central banks’ *current* mandates risks being underappreciated. Second, there is a vast literature documenting cases in the history of science “where we can now see that even conscientious, well-intentioned scientists made problematic assumptions, adopted gender and racial stereotypes, or reasoned in ways that reflected and projected their own experiences, values and interests” (Intemann 2009: 255) We can thus worry about the diversity of criticisms in the central banking community based on the low diversity of *its members*. The uniformity of governing bodies is most noticeable: out of 25 members of the ECB’s Governing Council in early 2017, only 2 are women. Gender is only one dimension of member diversity that might be relevant. In the United States, the movement Fed Up has recently taken up the issue of member diversity with regards to ethnicity. One of its major claim is that the Fed is blind to the detrimental effects of its policies on specific ethnic groups. It asks both for a more diverse Board and for a Fed research program dedicated to these issues (WSJ Pro 2016).

After transparency and sustained generation of varied criticisms, the last element of a well-functioning error-correction mechanism is the *willingness to belief revision*. Indeed, if most members of an epistemic community stubbornly stick to their opinions, error correction will not occur even if the first two

elements are present. In the case of monetary economics, one must acknowledge that central banks' spokespersons have changed their minds on important issues since the financial crisis of 2007-8. They have, for instance, come to believe that 'extraordinary measures' such as quantitative easing could be a legitimate part of the toolbox and that financial stability can be enhanced by macroprudential interventions.<sup>xvi</sup> Yet, we should be careful here: as members of an institution with privileges, we should expect that the key players in the central banking community will be far less keen to revise their beliefs on other issues. The best example of such sensitive issues is the justification of the central bank independence in the post-2007 era.

In fact, the issue of independence illustrates well the interaction of the three elements of a well-functioning error mechanism and indicates that, as laypersons, we should not blindly trust central banks as experts. Central banks are *transparent* about their beliefs in independence and what they think justifies this belief: "Extensive empirical evidence and theoretical analyses have shown that independent central banks are better capable of maintaining low inflation rates."<sup>xvii</sup> Yet, while calls in the public sphere to reconsider independence have grown more vocal since the financial crisis, this issue is simply not a research topic in the epistemic community: from the approximately 10,000 research papers that have come out of central banks since 2008, only two studied the justifications for central bank independence.<sup>xviii</sup> We find here a clear case of a defect in *criticism generation*. Furthermore, even if serious and sustained criticism existed with respect to central bank independence, we should expect a weak *willingness to revise belief* in the importance of independence. Central bankers have a vested interest in the *status quo* on this topic. There is thus a potential conflict of interest between their role as providers of information and the protection of their institutional status.

All in all, although the central banking community today comes closer than ever to having the characteristics of a "scientific" community (Marcussen 2009), it is prudent not to blindly trust them. Central banks could be asked to improve on some issues – for instance, on internal diversity – and our societies would also be better off if a serious counter-expertise could be organized. It is collectively unwise to concentrate expert credentials in a community that has vested interests.

## Conclusion

This chapter is not meant to produce a clear-cut verdict on the societal value of the current configuration of central banking. Its goal was to flesh out three worries regarding this value and to offer guidance in thinking through these worries. The ignored consequences of monetary policy – especially distributional ones – the promotion of financial interests, and the oligopoly of opinion of central banks on monetary policy all highlight an important but typically overlooked fact about contemporary central banks. They are not 'neutral' institutions dedicated to a unique and merely technical objective. They are rather part of the main institutions created for our societies to flourish and, as such, how they relate to other institutions should never be taken as settled.

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<sup>i</sup> Peter Praet of the European Central Bank (ECB), for example, states that “[g]overnments have to take care of redistributive effects.” (Praet 2015)

<sup>ii</sup> See for instance Monnin (2014) on the link between inflation and inequality.

<sup>iii</sup> We bracket considerations of gender (Young 2017), of international distribution (Reddy 2003) as well as environmental concerns; for the latter, see e.g. Volz (2017).

<sup>iv</sup> For a dissenting view, see Montecino and Epstein (2015), who claim that the inegalitarian effects get overestimated.

<sup>v</sup> See [https://www.ecb.europa.eu/press/pr/date/2011/html/pr111208\\_1.en.html](https://www.ecb.europa.eu/press/pr/date/2011/html/pr111208_1.en.html) (accessed February 22<sup>nd</sup> 2017).

<sup>vi</sup> Draghi admits as much in his justification of ECB policy in his speech to the European Parliament on July 14, 2014.

<sup>vii</sup> See [https://www.ecb.europa.eu/press/pr/date/2016/html/pr160421\\_1.en.html](https://www.ecb.europa.eu/press/pr/date/2016/html/pr160421_1.en.html) (accessed February 22<sup>nd</sup> 2017).

<sup>viii</sup> The issue of central banks’ independence towards financial authorities has also been called ‘financial dominance’ (Hannoun 2012; Brunnermeier and Sanikov 2012).

<sup>ix</sup> See <https://www.federalreserve.gov/newsevents/speech/yellen20140331a.htm> (accessed February 27<sup>th</sup> 2017)

<sup>x</sup> Financial fragmentation occurs when financial players do not enjoy similar access to credit within the same currency area.

<sup>xi</sup> The size of the Eurozone banking sector doubled between 2001 and 2007. European banks used periphery debt as collateral on repo markets to purchase US “subprime” financial assets. Therefore, in 2007, European banks were exposed to both the subprime crisis and the risky peripheral debt.

<sup>xii</sup> Moral hazard occurs when the existence of a safety net, such as a central bank, encourages and/or sustains risk prone activities.

<sup>xiii</sup> Cf. the Targeted Long Term Refinancing Operations of the ECB (TLTROs).

<sup>xiv</sup> For the ECB, see Mudge and Vauchez (2016) and internal reports (Goodfriend *et al.* 2004; Freedman *et al.* 2011). It is also clear that central banks strive to become even more important: for the ECB, see Freedman *et al.* (2011, 51); for the Bank of England, see Carney (2015).

<sup>xv</sup> See <https://www.ecb.europa.eu/explainers/tell-me-more/html/research.en.html> (accessed February 27<sup>th</sup> 2017).

<sup>xvi</sup> That is, by measures designed to shore up the stability of the financial system through a variety of regulations.

<sup>xvii</sup> See [https://www.ecb.europa.eu/explainers/tell-me-more/html/ecb\\_independent.en.html](https://www.ecb.europa.eu/explainers/tell-me-more/html/ecb_independent.en.html) (accessed February 27<sup>th</sup> 2017).

<sup>xviii</sup> Data are from the BIS Research Hub (<http://www.bis.org/cbhub/index.htm>). The two outliers are Oritani (2010) and de Haan and Eijffinger (2016).