



FORUM

Leviathan financialized?

Greta Krippner 

University of Michigan, Ann Arbor, MI, USA
Email: krippner@umich.edu

Abstract

In *The Rise of Central Banks*, Leon Wansleben provides a perceptive account of the evolution of central banking practices in the United States, the United Kingdom, Germany, and Switzerland from the 1970s through the subprime mortgage crisis and the global pandemic. Focusing on the concrete practices of monetary policymakers, Wansleben usefully explores the relationship between the development of novel techniques of monetary policy implementation and the financialization of the economy, with the paradox that the central bank appears more powerful, but exercises this power in a system that is ever more prone to crisis. While agreeing with the broad strokes of Wansleben's analysis, I raise questions about the nature of the 'infrastructural power' exercised by the state through financial markets, suggesting that the growing salience of the central bank in the policymaking apparatus should not be conflated with its independent influence over the direction of economic policy.

Keywords: Central banking; financialization; infrastructural power

Leon Wansleben has a gift for timing. No sooner had his terrific new book, *The Rise of Central Banks: State Power in Financial Capitalism*, rolled off the printing presses than its thesis was dramatically illustrated first in the failure of the Silicon Valley Bank and a short time later in the collapse of two other mid-size American banks. The 'mini-crisis', as it was called by the *Economist* (2023) magazine, evidenced both the Federal Reserve's capacity for bold, decisive action and the growing risks to an increasingly fragile financial system that the Fed's response ultimately seemed to deepen rather than diminish. Paradoxically, central bankers' new policy repertoires seem to stave off financial crisis in the immediate term while at the same time preparing the ground for even deeper crises in the future. Wansleben's meticulously researched account of the co-constitution of novel techniques in monetary policy and a financialized economy prone to deep instability has much to offer our understanding of the predicament of central bankers in the present moment.

As a preliminary matter, it's worth noting that Wansleben's approach to his subject matter departs from other, influential approaches in the literature. While much of the sociological and political science literature on central banking has emphasized the constitution of interests (i.e., 'hard money' versus 'soft money' coalitions) or ideas (i.e., monetary policy as reflecting a broader 'neoliberal' ideology), Wansleben suggests that we give close empirical attention to the actual *practice* of central bankers, that is, the evolution of concrete techniques that implement the policy designs of those who direct the economy (cf., Braun and Gabor, 2020: 243). It's a move I applaud, and indeed I leaned in

this direction myself in my own earlier work exploring the haphazard evolution of the Federal Reserve's strategy of 'transparency' vis-à-vis financial markets under Chairmans Volcker and Greenspan (Krippner, 2011; see also Braun, 2015).

So what insights does this invitation to 'look under the hood', as it were, yield? First, we discover from Wansleben's account that central bankers *learn* – that is, that their techniques are constantly evolving through continual experimentation and adaptation, in ways sometimes quite unexpected. The book's intricate narrative tracks this process of learning across four central banks – the Federal Reserve, the Bank of England, the Bundesbank, and the Swiss National Bank – from the period of crisis in the 1970s, when policymakers innovated new methods of policy implementation to suppress surging inflation, to the even more dramatic experiments of the 2008–2009 subprime mortgage crisis and recent global pandemic.

A second important insight from Wansleben's focus on operational technique is to pull apart monetarism and inflation targeting. In much of the social science literature on central banking, monetarism and inflation targeting are treated as intertwined – and indeed inseparable – elements of an overarching neoliberal policy regime. In drilling into the details of the work central bankers actually do to conduct monetary policy, however, Wansleben makes the convincing case that monetarism and inflation targeting do not belong to a unified 'regime'. Instead, monetarism and inflation targeting represent wholly distinct policy technologies, with different, albeit intersecting, histories. (The same point also holds for the relationship between monetarism and financialization, which are also often associated with each other. Where these co-exist – as in Thatcher's embrace of monetarism and her simultaneous effort to liberalize credit markets in Britain – they form an incoherent assemblage in which the pursuit of one goal necessarily undermines the other.)

Third, Wansleben's close attention to the details of policy implementation also forces us to rewrite the history of monetarism in significant ways. The usual story is that monetarism – the attempt to implement monetary policy through the rigid control of monetary aggregates – was a dismal failure that wreaked havoc on Western economies in the 1970s and 1980s. Notably, the wide comparative sweep of Wansleben's analysis offers a more nuanced account. In fact, under the right conditions, monetarism was a surprisingly effective and enduring policy regime. More specifically, Wansleben suggests that central bankers in Germany and Switzerland benefited from the existence of robust corporatist institutions and a conservative banking sector insulated from financial markets. The former condition meant that the state could effectively enforce wage bargains and the latter made tight control of the monetary aggregates a viable proposition for the central bank. Only when these conditions began to break down in the 1990s did 'practical monetarism' in Germany and Switzerland give way to an alternative monetary policy regime.

The convergence by the late 1990s of all of the economies Wansleben examines here – the United States, the United Kingdom, Germany, and Switzerland – on an inflation targeting regime marks what he provocatively refers to in the title of his book as the 'rise of the central banks'. This is arguably the book's most important argument, and as such it requires more elaboration than the preceding points. Wansleben claims that it was the emergence of this new policy technique, involving the central bank's forward guidance of financial markets through the direct communication of future policy actions, that accounted for a sudden and dramatic increase in the power of central bankers. The technique was introduced first by the Federal Reserve and later by the Bank of England in response to a similar crisis of governance as monetarism proved unworkable in the United States and Britain. The paradox here is that an ad hoc response to a failing policy regime inflated the central bank's power by improving its ability to transmit its policy objectives directly to financial markets. In the context of financialization, Wansleben suggests, the

central bank's improved ability to steer tightly coupled and globally integrated financial markets translated into a degree of influence over economic outcomes that exceeded the monetarists' wildest dreams. Indeed, because policymakers realized that deep, liquid, and interconnected financial markets aided the policy transmission mechanism, enhancing rather than circumscribing the effectiveness of monetary policy, central bankers opted to allow rather than resist the dramatic growth of repurchase ('repo') markets used to fund assets on the balance sheets of bank and non-bank entities. In this regard, Wansleben observes a kind of 'recursive causality' between the rise of the inflation targeting regime and the financialization of the economy.¹

To take a slightly more critical perspective on Wansleben's analysis, we might ask precisely what kind of 'power' this new ability to steer markets entailed. Following the work of Benjamin Braun and Daniela Gabor, Wansleben characterizes the sort of power that central bankers exercise in conducting monetary policy by pointing to sociologist Michael Mann's (1984) influential concept of 'infrastructural power' (Braun, 2018; Braun and Gabor, 2020). Mann's infrastructural power refers not to the state that 'commands' but rather to the state that 'operates' – the latter capacities often treated as technical functionalities and missed as a form of power altogether. The concept of infrastructural power is very generative in this context, but notably, the concept itself doesn't tell us whether state power is increasing or decreasing. That is, in the case of central banking, there is a 'glass half-full' versus 'half-empty' quality to considerations of infrastructural power. Wansleben definitely sees the glass as being half-full: while he recognizes (especially in the later sections of the book) certain complications in how central bankers exercise policy operations through financial markets, the overall thesis of the book affirms a massive augmentation in the power of these institutions. Braun and Gabor see the glass as being more half-empty: the growing entanglement of central banks and financial markets has indeed increased infrastructural power – but this is the infrastructural power of the *market*, not the state (Braun, 2018; Braun and Gabor, 2020). Indeed, according to this alternative account, the state's dependency on financial markets to conduct policy reflects a worrisome diminishment of capacities, even as its technical operations and efficiencies are improved.²

My own view on this point, primarily based on knowledge of the US case, is closer to Braun and Gabor than it is to Wansleben. Indeed, the existential question that Federal Reserve policymakers grappled with as they learned to manipulate policy targets by communicating expectations to financial markets (and I assume central bankers in other countries, as well) was *who, exactly, was steering whom* (see Krippner, 2011). If coordinating expectations across financial markets was the key to policy efficacy, did this not require central bankers to 'validate' those expectations? What happened when policy conditions changed suddenly, requiring a policy move that deviated from what financial markets expected (or, more to the point, desired)? Whose 'power' was exerted when policy efficacy demanded that the central bank 'follow the market'? Under what circumstances could the central bank move 'against' the market, disappointing (or more perhaps accurately, disobeying) expectations? While I observed policymakers fretting over these and related questions as the Federal Reserve was first developing the inflation targeting regime, they are still live issues in the present. Wansleben himself observes that efforts to unwind the economic stimulus put in place after the subprime mortgage crisis were stymied by fears that financial markets would react negatively. This hardly seems like an empowered central bank, but rather one whose room for maneuver is sharply curtailed by the need to provide financial institutions conducive conditions for the steady accumulation of profits.

Of course, the central bank undoubtedly grew more 'powerful' in this period if we consider its efficacy against other domains of the state's economic policy apparatus that lost out – particularly, fiscal policy as exercised through the legislative branch of government. In this sense, monetary policy became 'the only game in town', as central

bankers like to brag. But the elevation of central banking within the state apparatus should be kept distinct from the state's positioning vis-à-vis financial markets in a more global sense. It is here that I think Wansleben might conflate the growing *salience* of central bankers in the economic policy apparatus with the actual *power* of central bankers to independently direct economic policy. To borrow the language of the old state theory debates, the key question really concerns the autonomy of the state (in this case, the central bank) to act *against* the interests of the bankers when circumstances call for it. Considered from this vantage point, Wansleben's argument that the central bank has taken advantage of financialization to augment and enhance its own power is difficult to evaluate (particularly, because it is hard to find instances in which the state acts directly and forcefully against the interests of financial markets, save in very exceptional circumstances).

Here we can observe a striking paradox. The circumstances that 'call for' independent action by the central bank appear to present themselves only when a deep financial crisis looms (cf., Woll, 2017). That is, the one situation in which central bankers can reliably defy the expectations of financial markets is when the financial system is teetering on the brink of disaster. In this circumstance, financial market players not only allow, but actually depend on, the capacity of the central bank to act against their expectations (and perhaps their desires too). And indeed, in recent years, we have witnessed dramatic 'power grabs' with each successive financial crisis as the central bank increasingly extends its purview beyond the staid Treasury market to shore up mortgage markets, corporate bonds, and municipal finances. (Will the climate crisis be next? Many have speculated as to whether our planetary fate might ultimately rest on the capacity of the world's central bankers to act boldly, as imagined in Kim Stanley Robinson's (2020) celebrated science fiction novel, *The Ministry for the Future*.) Here Wansleben seems to be on firmer ground in arguing that the current era is one in which central banks have accumulated significant new powers and capacities. One need only consider the unprecedented expansion of central bank balance sheets in the aftermath of the subprime mortgage meltdown and the global pandemic for seemingly incontrovertible evidence in support of Wansleben's view that central banks have 'risen' in recent years (see Mehrling, 2011; Menand, 2022).

But now note another paradox, which Wansleben himself observes in his discussion. Precisely at the moment that the central bank extends itself in a crisis, taking on new markets and new policy domains (from wealth inequality, to gender equity, to the looming climate threat), its role not just in stabilizing the macro-economy but also directly intervening in distributional questions comes into the open. ('Industrial policy' is now the preferred term for this distributional politics – a nostalgic visitation from the era before financialization.) And here we stand in a rather tenuous state of affairs, as the effectiveness of this new style of central banking is at least in part a function of its capacity to convert the perilous distributional struggles associated with the inflation crisis of the 1970s into seemingly apolitical technocratic maneuvers (cf., Krippner, 2011). Politics, it appears, has returned with the assertion of a newly muscular form of central banking – and this time will not be so easily hidden from view.

So in the end, we find ourselves in a distressingly familiar dilemma: the central bank's power, to the extent such power is meaningful, is tied to its role as crisis manager. But the central bank's role as crisis manager inevitably puts it at the epicenter of political struggles that are likely to erode that power as the problems to which it responds become increasingly intractable. If the past is any guide, we can expect central bankers to launch new rounds of experimentation and innovation in response to these challenges of governance, which will further entrench the power of financial markets and at the same time render these markets more fragile, inviting still more incursions by the central bank. It is hardly reassuring that the most recent iteration of this repeat cycle – the innovation of 'quantitative easing' in response to the financial crisis of 2008 and 2009 – is already

exhausting its capacity to manage the strains of the financial system and the broader economy *that it itself produces*, as Wansleben explains in the penultimate chapter of the book.

In sum, in theorizing the deep connections between new techniques of central banking and financialized capitalism, Wansleben's book raises important questions about how far the central bank's new power can go, what the nature of this power actually is, and where it will find its (necessary and inevitable) limits. With the advanced industrial economies once again experiencing persistently high inflation (by recent if not historical standards), it's not hard to imagine that we could return to our point of departure in the crisis of the 1970s, with policymakers increasingly 'owning' social problems they cannot remedy with the tools available to them. In this circumstance, the ever increasing expansion of financial markets will no longer provide a solution to these problems, not only because that path has already been taken (with predictable results), but even more fundamentally because the limits of the system ultimately are not social or economic but are imposed by nature (as argued pointedly by Katharina Pistor in a recent interview on *The Ezra Klein Show*).³ When we arrive at that point, presumably in the not very distant future, even endlessly inventive central bankers may have run out of tricks.

Notes

1. My own account suggested that, in the US case, monetary policymakers had inadvertently contributed to financialization by developing techniques of policymaking that allowed credit growth to increase without limit (see Krippner, 2011). Here Wansleben appears to suggest that what at one point was inadvertent later became more deliberate: central bankers seeking to support the development of repo markets seemed to understand exactly what they were doing and why.
2. I leave to one side important questions about how financial institutions *could* be designed if the explicit goal were to diminish the infrastructural power of financial markets and increase the infrastructural power of the state (see Block and Hockett, 2022; Ricks, 2016; 2018). Here efforts to create central bank digital currencies that could function to suppress private ('shadow') money represent a particularly intriguing avenue for innovation (Ricks, Crawford, and Menand, 2021). Obviously, the political conditions allowing such an option are somewhat daunting, although circumstances seem more favorable in Europe than in the United States (Brunnermeier and Landau, 2022).
3. <https://www.nytimes.com/2023/01/13/opinion/ezra-klein-podcast-katharina-pistor.html>

References

- Block, F. and Hockett, R. (eds.) (2022) *Democratizing Finance: Restructuring Credit to Transform Society*. London: Verso.
- Braun, B. (2015) Governing the future: The European central bank's expectation management during the great moderation. *Economy and Society*, 44(3): 367–391.
- Braun, B. (2018) Central banking and the infrastructural power of finance: The case of ECB support for repo and securitization markets. *Socio-Economic Review*, 18(2): 395–418.
- Braun, B. and Gabor, D. (2020) Central banking, shadow banking, and infrastructural power. In: Mader, P., Mertens, D., and van der Zwan, N. (eds.) *The Routledge International Handbook of Financialization*. London: Routledge, 241–52.
- Brunnermeier, M. and Landau, J.P. (2022) *The Digital Euro: Policy Implications and Perspectives*. Report prepared for the European Parliament. Policy Department for Economic, Scientific and Quality of Life Policies. [https://www.europarl.europa.eu/RegData/etudes/STUD/2022/703337/IPOL_STU\(2022\)703337_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2022/703337/IPOL_STU(2022)703337_EN.pdf). Accessed 28 July 2023.
- Economist (2023) By invitation: Andreas Wesemann asks what government-backed deposit insurance is for. 1 May.
- Krippner, G. (2011) *Capitalizing on Crisis: The Political Origins of the Rise of Finance*. Cambridge, MA: Harvard University Press.
- Mann, M. (1984) The autonomous power of the state: Its origins, mechanisms, and results. *European Journal of Sociology*, 25(2): 185–213.
- Mehrling, P. (2011) *The New Lombard Street: How the Fed Became a Dealer of Last Resort*. Princeton, NJ: Princeton University Press.

- Menand, L. (2022) *The Fed Unbound: Central Banking in a Time of Crisis*. New York: Columbia Global Reports.
- Ricks, M. (2016) *The Money Problem: Rethinking Financial Regulation*. Chicago, IL: University of Chicago Press.
- Ricks, M. (2018) Money as infrastructure. *Columbia Business Law Review*, 3: 757–851.
- Ricks, M., Crawford, J., and Menand, L. (2021) Fed accounts: Digital dollars. *The George Washington Law Review*, 89(1): 113–172.
- Robinson, K. S. (2020) *The Ministry for the Future*. New York: Orbit.
- Wansleben, L. (2023) *The Rise of Central Banks: State Power in Financial Capitalism*. Cambridge, MA: Harvard University Press.
- Woll, C. (2017) State action in financial times. In: King, D. and Le Galès, P. (eds.) *Reconfiguring European States in Crisis*. New York: Oxford University Press, 201–14.