Progressives: Central Banks Seen As Key Agents Of Technocracy

In parallel to the World Bank's and WEF's Big Reset, the author concludes, "As the world emerges from the coronavirus pandemic, there will be a once-in-a-century opportunity to rebuild the global economic order."

TN sees this view as muddled, but it points out that the global progressive cause certainly understands that Technocracy is alive and well on earth. TN Editor

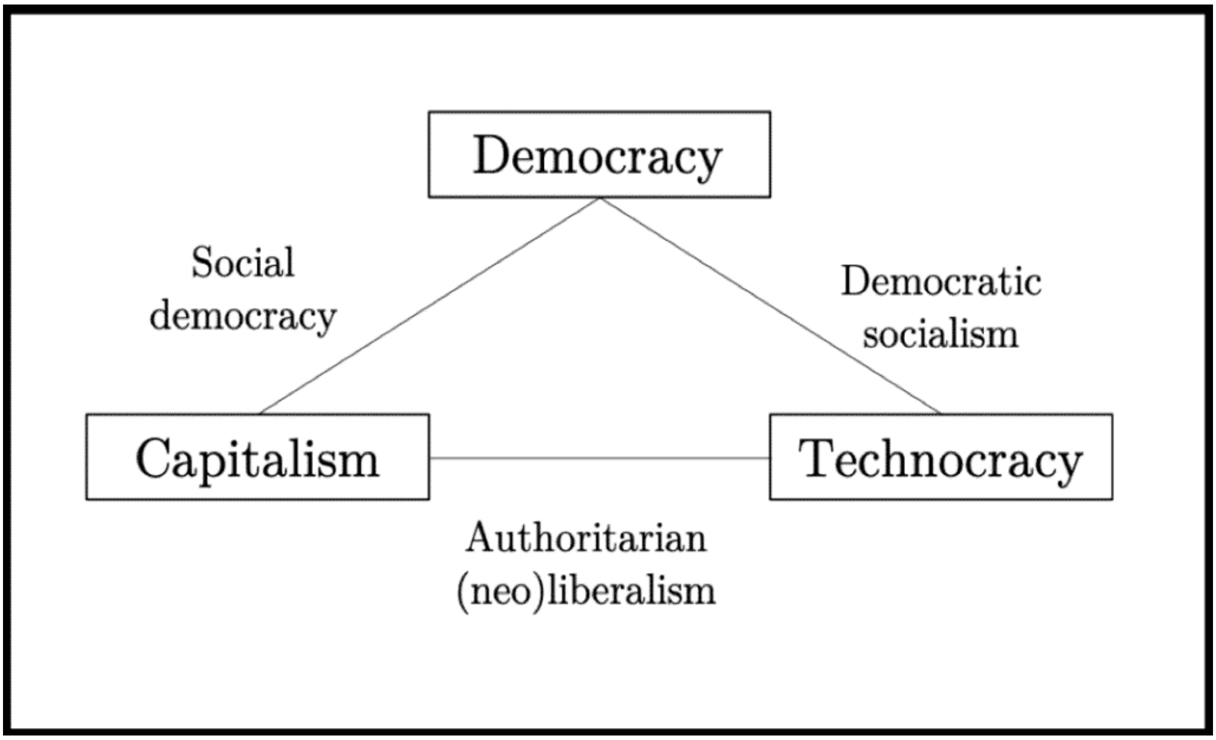
We are caught in a democracy – capitalism – technocracy trilemma.

The solution, argues political economist Benjamin Braun, is to turn the financial system into a utility-like sector geared towards the public good — and socialize central bank planning.

The standard liberal historiography asserts that, following an initial violent setback, capitalism and democracy entered a marriage.

That marriage experienced a honeymoon ('Golden Age'), before the relationship became increasingly troubled under conditions of globalization and financialization. This narrative has, of course, been debunked: prosperity and freedom in the Global North have been predicated on exploitation and oppression in the Global South. My starting point, however, is a second line of critique, which questions the marriage narrative primarily on domestic political grounds: Instead of a marriage of democracy and capitalism, we should think of the post-war era as an uneasy cohabitation of capitalism, democracy, and technocracy.

The three sides of the capitalism-democracy-technocracy triangle represent alternative institutional solutions to the problem of organizing and coordinating economic activity (in reality, these solutions often overlap). Under the post-New Deal, pre-globalization conditions of the Bretton Woods period (from the end of the war until 1971), the Global North-West successfully married capitalism and democracy under a broadly Keynesian policy regime ("social democracy"). Financial globalization gradually eroded this arrangement. As social democracy morphed into the 'Third Way' typified by the Blair and Clinton governments of the 1990s, which promoted austerity and central banks independence, fiscal space and democratic choice shrank. The global financial crisis consolidated this shift towards the capitalism-technocracy axis — most dramatically in the euro area, where national governments received orders from the European Central Bank. Putting the emphasis on the loss of democratic choice and self-determination, critics dubbed the new alignment "authoritarian (neo)liberalism".



Where things get interesting is the third side of the triangle — let's call it "democratic socialism." To see why returning to tried and tested social democracy may not be an option, it is important to consider how historical circumstances have changed. The social democratic settlement arose from a situation in which the Great Depression and two world wars had reduced the global economy to what Perry Mehrling calls a "financially underdeveloped state." As a result of World War II, the state had considerable influence over key sectors of the economy, unions were strong, and managers of large, financially independent, and domestically anchored corporations believed in the Fordist 'high-wage, high-consumption' growth model. In this mixed economy, capital and democratically elected governments depended on each other.

The situation today is different. Financialized capitalism poses a much greater obstacle to distributive justice, political equality, and, crucially, climate sustainability. In pursuit of the lowest possible wage and tax bills and the optimal financial and legal structure, corporations have self-fragmented across the globe. Corporations, and increasingly our homes and infrastructures, are owned by powerful financial investors who manage the wealth of the world's wealthy elite. Unlike the Fordist managers of the past, this financialized capital depends not on sustainable relationships with other local stakeholders but on independent central banks and arbitration courts to protect it *against* local democracy. Under current conditions, it is doubtful whether there remains a direct path back to the social democratic capitalism of old.

Can a new path towards a progressive future be forged? Progressives correctly see ‘actually existing technocracy’ as a mode of governance geared towards protecting financialized capitalism against electoral majorities, and should be skeptical of naïve ideas of ‘progressive technocracy’ within the current institutional order. That said, reclaiming the fiscal and monetary power of the state and mobilizing it in service of progressive goals is going to be a technocratic — in addition to a political — project.

Technocracy

Technocrats form a sub-group of bureaucrats. They possess specialized knowledge and, unlike mere technicians, they occupy positions of power in the apparatus of government. Technocracy is “a system of governance in which technically trained experts rule by virtue of their specialized knowledge and position in dominant political and economic institutions”. Both authoritarian and democratic states rely heavily on technocratic rule. Prominent cases include authoritarian neoliberalism in Chile, authoritarian state-capitalism in China, developmental state capitalism in East Asia.

In much of the rest of the world, technocracy used to keep a slightly lower profile: the mostly hidden-from-view work of inflation targeting by independent central banks for the West, for example, or the policy work to meet the demands of IMF conditionality for the rest.

As Robert Dahl once noted, democratic societies may face a trade-off between “system effectiveness and citizen participation.” Towards the end of the twentieth century, in a climate of post-cold war triumphalism on the right and capitulation on the left, an optimistic view of technocracy took hold. The consensus in political science was that the “output legitimacy” produced by higher effectiveness could compensate for losses in the “input legitimacy” that resulted from lower citizen participation. Since then, however, things have changed.

The area of technocratic governance that has seen the greatest increase of unelected power has no doubt been central banking. Following the stagflation crisis of the 1970s and Paul Volcker's labour-crushing crackdown on inflation in the US in the early 1980s, countries around the world transferred the responsibility for monetary policy from those directly accountable to elected representatives to arms-length technocrats governing newly "independent" central banks. By limiting that independence to relatively narrow price-stability mandates, the argument went, this institutional arrangement would strike a balance between the needs of financialized capitalism and the requirements of democracy. That was not, however, how things have since played out.

Contrary to the narrative that central bank independence constituted a form of depoliticized, welfare-maximizing economic management, central banks retained extraordinary power to determine distributional outcomes. The full scale of that power became apparent in the wake of the global financial crisis of 2008. Central banks' unlimited liquidity operations and asset purchases highlighted their capacity to do 'whatever it takes' to support those they deemed worthy of support, while remaining largely insulated from democratic control.

Read full story here…