Rethinking Central Bank Accountability in Uncertain Times

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As the dust has settled following the 2008 financial crisis and the economic dislocations that ensued, it has become clear that central banks have gained considerably in authority—using highly unorthodox tools to stimulate the economy, taking a great role in financial regulation, and putting themselves in more politically sensitive positions, such as with the European Central Bank's participation in the troika negotiations with Greece. It is not that surprising, therefore, that the question of central bank accountability is back on the table.[1] As the "Buttonwood" column notes in *The Economist*, "Janet Yellen and Mario Draghi are very important players in the world economy, arguably more important than the US President or the German chancellor. And yet they are not elected; if voters do not like the job they are doing, they cannot get rid of them."[2]

Political accountability is not a concept that we usually associate with central banks. This is no doubt in part because we see monetary policy as a technical rather than political domain, and are therefore comfortable leaving these decisions to the technocratic expertise of unelected central bankers. And yet, there is of course a great deal at stake in decisions about monetary policy. It is during moments of crisis—such as the Volcker shock of 1979, when the U.S. Federal Reserve raised interest rates to 20 percent, or the recent financial crisis—that the power of central bankers to dramatically shape economic policy is put on public display. Although this power is usually much subtler and more incremental, it is still very real. Decisions about monetary policy have significant political effects: they define the broad direction of the economy, create particular kinds of incentives, and influence distributional outcomes. Although central banks are tasked with pursuing the health of the economy as a whole, the specific policies that they adopt have uneven costs and benefits for different groups. Consider, for instance, the different reactions of a prospective first-time home buyer and a retired couple living on their savings to the prospect of yet another drop (or increase) in the interest rate.

Of course, central banks' mandates are broader than their responsibility for monetary policy: they also play the crucial role of lender of last resort in a crisis, and many have recently begun to expand their mandate into new, more politically sensitive areas, such as ensuring financial stability through macro- as well as microprudential regulation.[3] As these mandates have expanded, there has been some recognition that these new activities might require additional forms of accountability.[4] I argue here that, given the considerable power central banks wield, even if we set aside the more expansive roles that certain central banks have taken on recently

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and focus only on their bread-and-butter activity of setting monetary policy, greater democratic accountability is essential.

The current dominant model of central bank governance does provide for a certain kind of accountability. Because the principle of central bank independence involves a very narrow set of objectives—generally focused on an inflation target—and very few opportunities for sanction, the main mechanism for accountability is that provided by the publication of information about the bank's deliberations and activities. Although many central banks have greatly expanded their communications in recent years, this kind of transparency-based accountability assumes that there is enough information available to adequately anticipate, plan, and monitor monetary policies. Yet the 2008 financial crisis and the slow recovery that followed have revealed the pervasiveness of uncertainty in the current global economy, as well as the dilemmas that this uncertainty poses for monetary and financial policy.

Central bankers are aware of the political challenges posed by their independence. Some have suggested that as long as governments set the objectives that guide central bank policy, limiting the banks' autonomy to the choice of instruments (as is the practice in many but not all countries), then the demands of democratic accountability are being met.[5] As I will discuss below, however, central bankers also admit that the growing complexity of the current economic context (not to mention banks' increasing use of unorthodox measures, such as quantitative easing) has increased the importance of flexibility and discretion.[6] In such a context, when uncertainty is pervasive and simple rules and comprehensive models are unable to adequately direct monetary policy, we need to develop a more robust form of accountability.

I advance my argument in several stages. I begin by examining the differences between calculable risk and incalculable uncertainty, and consider the kinds of monetary policy and the forms of accountability that took hold from the mid-1980s onward, when risk rather than uncertainty seemed to define the economy. I then examine the implications of the 2008 global financial crisis, which brought the problem of genuine economic uncertainty front and center. I go on to recommend three ways to strengthen the accountability of central banks: first, by fostering more deliberation and dissent about bank policies; second, by ensuring that central banks are answerable to their key publics; and third, by broadening the objectives against which their actions are judged. I conclude by considering the complex relationship between efforts to increase the democratic accountability of central banks and their broader political and economic legitimacy—which also rests on the ability of these banks to deliver certain desired economic outcomes.

RISK AND UNCERTAINTY

International and national financial systems are characterized not only by risk, but also by uncertainty. While the differences between these terms may appear largely semantic, they do in fact matter. Risks are by their nature calculable: they can be translated into probabilities and fit into various models for predicting and managing them. Uncertainties, on the other hand, are more resistant to management. The Chicago economist Frank Knight made the now-classic distinction between risk and uncertainty when he defined "a *measurable* uncertainty, or 'risk' proper . . . [as] so far different from an *unmeasurable* one that it is not in effect an uncertainty at all."[7] Or, as John Maynard Keynes put it:

> By "uncertain" knowledge . . . I do not mean merely to distinguish what is known for certain from what is only probable. The game of roulette is not subject, in this sense, to uncertainty . . . . Even the weather is only moderately uncertain. The sense in which I am using the term is that in which the prospect of a European war is uncertain, or the price of copper and the rate of interest twenty years hence, or the obsolescence of a new invention . . . . About these matters there is no scientific basis on which to form any calculable probability whatever.[8]

Although these uncertainties are pervasive, they are much less visible in times of great economic confidence and stability, such as during the so-called Great Moderation of the mid-1980s to the mid-2000s, when the global economy enjoyed an unprecedented reduction in financial volatility. During such times, it becomes possible (or it at least appears possible) to treat uncertainty as either "noise" that can be ignored or as measurable risk. During the Great Moderation, risk—rather than uncertainty—became the central lens through which economic unknowns were understood and addressed.

Policymaking in a Risk-Based Financial Culture

The Great Moderation provided policymakers with a false sense of security. As Daniel Drezner and Kathleen McNamara have pointed out, the unusual stability of this period "made it appear that ironclad laws of proper policymaking had been discovered."[9] In the late 1990s and early 2000s, financial regulators developed a number of techniques for managing risks, simultaneously ignoring the uncertainties they faced in an increasingly complex global economy.

Policymakers were also greatly influenced by a range of prominent economic ideas associated with new classical theory, which suggested that economic unknowns were in fact both quantifiable and manageable. The efficient markets hypothesis (which states that market efficiency ensures that prices reflect all relevant information) and the rational expectations hypothesis (which states that individuals use all available information when acting in the market) assumed that markets could adequately price and manage risk—assumptions that appeared to be confirmed by consistent stability and economic growth.[10] This "rational expectations revolution" in economic theory also provided a much broader justification for limiting the role of government in the economy. The theory of political business cycles, for example, suggests that leaders will tend to use expansionary monetary and fiscal policies to stimulate the economy in time for elections, only to reverse course shortly after, distorting a more natural economic cycle.[11] New classical economists also drew on the theory of Ricardian equivalence to argue that government efforts to stimulate the economy through deficit spending will fail because a well-informed public will know that it will have to one day pay back any additional income resulting from these policies (to reduce the debt) and will therefore save it all, rather than spend it. While both of these theories have been seriously challenged in more recent years,[12] they shaped a generation of economic policy thinking and practice.

Monetary policymakers were deeply informed by this shift in economic thinking during this period of unusual stability. The time inconsistency thesis, another central plank of new classical economics, led them to believe that uncertainty could be tamed—but only if politics could be kept out of the process.[13] Put simply, this thesis suggests that if governments are allowed discretion over monetary policy, they will generally opt to commit to a low-inflation policy ahead of time, but ultimately renege on that commitment when the time comes to act on it, because of concerns about an electoral backlash. Because members of the public are perfectly rational, they will see through the government's initial promises to pursue price stability and will expect higher inflation (which, through a self-fulfilling prophecy, will lead to demands for wage increases that will create the very inflation that they anticipated). In such a world, the only way to ensure that a commitment to price stability is credible is to radically limit the government influence over monetary policy by making central banks autonomous and requiring them to stick to a simple rule, such as the Taylor rule, which defines how the interest rate should be set in response to changes in certain macroeconomic variables.

While the formal scope of central bank autonomy varies from country to country,[14] there has been considerable convergence in their practices in recent years, with central banks in over thirty countries now using some form of inflation targeting (generally aiming for a rate of 2 percent), in an effort to anchor inflationary expectations.[15] Throughout the Great Moderation, it was widely believed that this combination of central bank independence and simple rules provided banks with the necessary credibility regarding their commitment to price stability, signaling that their ultimate aim was dramatically reducing market uncertainty and volatility.[16] As Governor of the Bank of Canada Stephen Poloz recently noted, "Fundamentally, the use of a rule is meant to reduce uncertainty for private sector decision-making by stripping out discretion."[17]

Policy discretion has not always been an anathema to central banking, however. The widespread embrace of central bank independence in its current form is actually relatively recent. Although central banks wielded considerable independence in the nineteenth and early twentieth century under the classical gold standard (a time that was broadly liberal but not particularly democratic),[18] after the Great Depression and World War II, full employment was deemed to be more important than price stability, and governments worked more closely with central banks to adjust the interest rate together with fiscal policy in order to achieve the right "trade off" between inflation and unemployment. By the mid-1970s, as Western nations faced stagflation (a combination of high unemployment and inflation), many governments moved away from Keynesianism and embraced the ideas of Milton Friedman, who advocated the creation of an independent monetary authority.[19] As the rational expectations revolution gained support, increasing numbers of central banks were made formally independent in the 1980s, and then began to move toward inflation targeting, beginning with New Zealand in 1990. This particular, rule-governed version of central bank accountability has therefore only existed as long as the Great Moderation itself.

A Narrow Approach to Accountability

Before we dig more deeply into the assumptions about accountability underpinning current central bank governance, it is worth considering how the concept of accountability has been broadly understood and used.

The idea of political accountability has a long history, and goes back at least as far as the liberal political theory of John Stuart Mill, who was preoccupied with maximizing "the accountability of governments to the people" through the creation of institutions that would increase those governments' likelihood of identifying their interests with those of the people.[20]

Although more recent treatments of accountability have generally retained Mill's liberal sensibilities, they have also sought to rationalize its definition. In a widely cited article on accountability in global politics, Ruth Grant and Robert Keohane provide a useful definition:

> Accountability, as we use the term, implies that some actors have the right to hold other actors to a set of standards, to judge whether they have fulfilled their responsibilities in light of these standards, and to impose sanctions if they determine that these responsibilities have not been met.[21]

Or, as Jennifer Rubenstein explains, current forms of accountability generally involve three key tools: "setting *standards*, finding and interpreting *information*, and . . . *sanctioning* the power wielder if it fails to live up to the relevant standards."[22]

If we apply this basic framework for accountability to central banking, we discover something quite interesting: because of the requirements of central bank independence, only some of these basic tools of accountability are effective. Over the past few decades, governments have set specific objectives or *standards* for monetary policy, such as maintaining price stability,[23] and central banks publish *information* on their decision-making and report back to the government.[24] However, although governments do retain some capacity to *sanction* central bankers after the fact, central bank independence has meant that this power remains very limited: for example, the U.S. government can only remove members of the Federal Reserve Board for cause (not including differences of opinion regarding monetary policy), while the Canadian government cannot remove the Governor or Deputies of its central bank.[25]

Without much meaningful capacity for sanction, the basic process of accountability in central banks has been greatly narrowed. With *standards* relatively stable (and minimal), and *sanctions* quite limited, a great deal of the work of accountability must be done through the provision and interpretation of *information*—hence the increasing emphasis on banks' transparency.[26]

In fact, in a notable departure, given their tradition of secrecy, central banks have made significant strides in providing greater information about their analysis and the grounds for their decisions.[27] The U.S. Federal Reserve Board's Open Market Committee, the Bank of Canada, and the Bank of England, for example, have all greatly increased the quantity, frequency, and quality of the information that they communicate to the public over the past fifteen years. Central bankers have also become more reflexive and strategic about the performative impact of their communications[28]—a phenomenon made particularly clear by banks' reliance on "forward guidance," a practice wherein central bankers use their stated long-term commitment to very low interest rates to shift market actors' future expectations. This type of signaling brings medium-term rates down further than would otherwise be possible if markets were more uncertain about the bank's intentions.

Over the past two decades, we have thus witnessed the increased use of a highly technical and increasingly narrow form of central bank accountability, which relies primarily on monetary rules and the communication of information. As the quote from Poloz above indicates, this narrowly technical form of accountability as transparency was in fact designed to reduce the political dynamics of financial and monetary policy by limiting the discretion of public regulators.

Yet the success of this rule-based form of accountability depended on several key assumptions: first, that the broadly stable character of the global economy would persist into the foreseeable future; second, that it was possible to obtain relatively comprehensive information about the state of the economy and its probable trajectories; and third, that uncertainty was a relatively minor problem, largely reducible to risk.

From Risk to Uncertainty

The recent global financial crisis raised serious doubts about each of these assumptions, revealing just how simplistic financial actors' risk models were, and just how ugly things can get when the global economy's uncertainty and volatility exceeds these too-rosy pictures of economic unknowns.[29] Although this crisis has not radically transformed monetary or financial policy,[30] it has had a subtle but potentially important effect on key policymakers' conceptions of the problem of economic uncertainty. In 2010, then Federal Reserve Chairman Ben Bernanke pointed to the problem posed by profound uncertainty during the crisis:

> An important assumption of [the framework used by most economists] is that, in making decisions under uncertainty, economic agents can assign meaningful probabilities to alternative outcomes. However, during the worst phase of the financial crisis, many economic actors—including investors, employers, and consumers—metaphorically threw up their hands and admitted that, given the extreme and, in some ways, unprecedented nature of the crisis, they did not know what they did not know.[31]

In the Fall of 2014, Poloz weighed in with a more radical assessment of the policy implications of the current state of economic uncertainty:

> The sort of post-crisis uncertainty that central banks are dealing with today is more profound than that which is typically subjected to rigorous analysis and *does not lend itself easily to formal modelling*.[32]

Poloz went on to explain that the Bank of Canada would no longer provide forward guidance to markets because such communications provide market actors with a false sense of security about the Bank's capacity to predict and plan over the longer term. Instead, the Bank will provide market actors with a more complete picture of the kinds of uncertainties and risks that the Bank itself is struggling to understand and manage.

In the United States, central bankers have been similarly skeptical about a narrow rule-based approach. Bernanke has argued against a narrow reliance on the "Taylor rule," while Alan Greenspan pointed out over a decade ago that the actual work of inflation targeting is always far more flexible and discretionary than its theoretical foundations assume.[33] Janet Yellen has also gone on record regarding some of the limits of using simple rules, noting in 2012 that "times are by no means normal now, and the simple rules that perform well under ordinary circumstances just won't perform well."[34]

RETHINKING ACCOUNTABILITY

If levels of uncertainty are profound and cannot always be reduced to quantifiable risk, then a form of accountability that relies heavily on transparency is clearly inadequate. For transparency to provide genuine accountability, it must be possible to assess and communicate the full complexity of the key issues to the affected stakeholders. If unknowns can be reduced to risks, then they can be quantified and communicated. If they cannot, then any attempt to communicate these unknowns will necessarily be partial, and will almost certainly provide insufficient information to ensure accountability. This insight is potentially applicable to a wide range of governance areas but is particularly important in the area of monetary and financial accountability, in which the magnitude and complexity of the uncertainties facing policymakers so greatly overwhelm the extremely narrow technical tools that regulators and bankers have recently relied on.

What is needed therefore is a more robust form of accountability—one that is not solely based on transparency. While I do not have the space here to provide a comprehensive blueprint, I will provide some possible directions to pursue such a goal, and outline a few of the principles that could underpin a robust form of accountability.

Deliberation and Dissent

At the heart of the concept of accountability is the notion of answerability: those wielding decision-making power should be able to explain their actions and answer the questions of those to whom they are accountable.[35] While the transparency model of accountability obligates decision-makers to explain their actions, it treats this process as more or less automatic: the information is compiled and published and its publication enables market, government, and civil society actors to hold them accountable. What is missing from this conception of accountability is the back and forth of question and answer—the process of debate and deliberation.

Although a thinner, more automatic form of answerability may be appropriate where the information is straightforward, the more complex and uncertain the problem, the more important it becomes to ensure dynamic, robust communication, to enable those responsible to explain and justify their actions in a nuanced way. There are various mechanisms through which central bankers and financial regulators can be asked to answer for their actions—in the United States, the United Kingdom, and Canada, for example, the head of the central bank can be asked to speak before relevant legislative committees. Yet, as Cheryl Schonhardt-Bailey has noted, the quality of deliberation in these contexts varies considerably and often falls short of the reciprocal process of debate, reflection, and learning that should characterize meaningful deliberation.[36]

It should not be too surprising that the quality of debate and deliberation surrounding monetary policy has been wanting. After all, by the mid-2000s, central bankers were being treated like oracles, with Alan Greenspan as the most revered among them. This was not a healthy trend. For accountability to have depth, there must be room for dissent—both among those with the power to set monetary policy and in the wider society that is affected by those policies.[37] Dissent does appear to be on the rise, at least in a minor way: a recent *Bloomberg* article noted that central bank decisions in Europe, the United States, and Japan have all increasingly been the subject of vigorous disagreement, as unanimous decisions have become rarer.[38] Nevertheless, this is only a very small step toward more robust accountability.

Accountability to Whom?

Rethinking accountability also means considering who gets to hold policymakers accountable: Who should be part of the debate and deliberation that goes into setting and evaluating monetary policy? As Grant and Keohane note, policymakers are usually accountable either to those who have entrusted them with their powers or the people their policies affect.[39] In this case, the first group is the government and the second is the wider public.

Although it is these two traditional "publics" that we might normally expect to hold central banks to account, the reality is more complicated. Because financial issues are so complex and their impacts are often diffuse, monetary and financial policy questions rarely become salient enough to mobilize public action in comparison with economic policies with more visible political effects, like trade or taxation. It was particularly difficult to persuade the public or politicians that they should pay attention to what seemed to be a very mundane and technical aspect of economic policy during the boom years of the Great Moderation, when the current policy appeared to be a great success. Although monetary and financial policy did become part of broad popular debates in the early days of the financial crisis, as Eric Helleiner notes in his examination of recent efforts to regulate derivative markets, over time the "public" whose interests were considered in decisions about regulation ended up boiling down to a narrow group of financial actors.[40]

In fact, it is this third "public"—the financial community—that has arguably wielded the most effective check on central banks' actions in recent years. The power of the financial lobby has been well-documented.[41] Even where direct lobbying is less in evidence, market actors can impose very serious sanctions on central banks if they disagree with their policies. Consider, for example, the 2013 "taper-tantrum" sell-off after Ben Bernanke suggested that the Fed would likely taper off its quantitative easing program, or the Swiss stock market's condemnation of the Swiss central bank's decision to end its currency peg in January 2015.[42] Because of central bank independence, there are very few formal means through which either the wider public or the government can impose sanctions on central banks; in this context, the power of sanction actually shifts away from the two groups to whom central bankers should be accountable—the government and the public—and toward financial actors.

In theory, of course, the interests of the market, the government, and the people would all align in the form of an optimal, low-inflation equilibrium. In practice, however, the focus of governments and central banks on very low (rather than moderate) inflation has had real, but generally unacknowledged, distributional consequences, as I will discuss below. And if the financial crisis taught us anything, it is that it is dangerous to assume that the interests of the market and those of the public at large are necessarily consistent—a fact that even Greenspan admitted in the crisis's aftermath.[43]

More Inclusive and Flexible Objectives

One way of ensuring that monetary policymakers are accountable to the wider public is to embed the issues that affect the public into the standards, or objectives, that guide central banks' monetary policy.[44] Monetary policy has important effects on many aspects of economic life. Yet, at least in countries that have embraced inflation targeting, most of these issues are not officially on the agenda, which is constrained by the goal of achieving a very low level of inflation. As Chairwoman Yellen notes, even in the United States, where the Federal Reserve is mandated to pursue both full employment and low inflation, well into the mid-1990s mentioning the employment mandate of the Federal Reserve Board was tantamount to "sticking needles in the eyes of central bankers."[45]

Although central bankers argue that price stability is a means to a healthier economy rather than an end in itself, in practice the focus on a single narrow target has made it difficult to consider the trade-offs and distributional consequences of focusing on very low inflation. While there is broad agreement that very high inflation or hyperinflation has extremely negative effects on economic growth and equality, Jonathan Kirshner notes that "the costs of moderate inflation are extraordinarily difficult to find."[46] Even Robert Barro, who has been a supporter of a very low inflation regime, has acknowledged that below 20 percent the impact of inflation on growth is statistically insignificant.[47] A number of recent studies have also suggested that the relationship between inflation and inequality is nonlinear and U-shaped, so that inequality actually declines as inflation rises, until inflation meets a certain threshold, at which point it increases.[48] Data from recent years have also shown that a very low inflation target leaves policymakers with little scope to reduce interest rates, making deflation a more serious threat—a problem that monetary policymakers have been struggling with recently. There is no general consensus that very low inflation is a universally positive thing—and yet the narrow inflation targets adopted by so many central banks assume just that.[49]

A number of commentators have recognized this dilemma, and have suggested that today's very low inflation targets may not be appropriate in the current macroeconomic context: for example, in a recent Federal Reserve working paper, William English suggests that both increasing the current inflation target and supplementing it with a nominal GDP target would be economically beneficial in the United States.[50] Such moves to broaden the objectives used to guide central bank decisions would also go some way toward increasing their accountability.

From Accountability to Legitimacy

Fostering greater deliberation and debate about monetary policy, making central banks more responsive to the publics they most affect, and developing broader and more inclusive objectives will all help to make monetary policy more accountable. In addition, it would ultimately increase the broader *legitimacy* of central banks, which has traditionally been linked to their capacity to deliver particular economic outcomes—notably, price stability and, since the 2008 financial crisis, the avoidance of another Great Depression.

In his influential analysis of some of the dilemmas faced by European democracies in the face of the pressures of EU integration, Fritz Scharpf makes a useful distinction between input and output legitimacy. He suggests that input legitimacy, or the "authenticity" of the democratic process through which policy decisions are made, is not the only criterion on which to judge an institution's legitimacy. The ultimate outcomes of these decisions are also crucial: a perfectly democratic procedure that results in terribly ineffective policy is not going to be seen as legitimate. Similarly, in the case of central banks, legitimacy is linked both to the processes through which they make key policy decisions (input legitimacy), and to the ultimate effectiveness of these decisions (output legitimacy). Drawing on this distinction, one could argue that the constraints on democratic accountability inherent in current central bank practice may be justifiable if they ultimately produce significantly better outcomes than policies generated through more democratic processes.[51]

It is possible to make an even stronger argument—as many have—that making central bank decision-making more accountable will actually erode their legitimacy. This is because central banks have done such a good job of persuading the markets of the value of simple rules and very low inflation targets that they will have a hard job convincing them that a change is necessary. While the U.S. Federal Reserve working paper cited above suggests that changes in the inflation target would be beneficial, it also notes that such "changes could be misunderstood or could undermine the credibility of the central bank; in such cases, macroeconomic outcomes could be significantly worse."[52] In other words, market actors may well end up being their own worst enemy if their fears of change (and their threats of damaging reactions to change) ultimately force central banks to pursue policies that are not in anyone's best interests. Governments' efforts to increase the accountability of central bank decisions could actually erode their legitimacy if markets react badly.

It is important, however, to remember that the rational expectations theory that market actors have accepted (and which predicts an inflationary spiral if central banks move away from a narrow rule) is not an iron law. Alan Greenspan himself has stated that monetary policy alone cannot be responsible for the remarkable convergence toward low inflation rates during the Great Moderation, arguing that he was "increasingly of the view that, at a minimum, monetary policy in the last two decades has been operating in an environment particularly conducive to the pursuit of price stability."[53] While the risk of a negative market reaction to more central bank accountability should not be discounted, it does not constitute a sufficient excuse to stick with the status quo.

In fact, if central banks continue their present course, they run an even greater risk of eroding their effectiveness and thus their legitimacy. In the years following the 2008 financial crisis, monetary policy has moved increasingly into unknown territory, making use of exceptionally low (even negative) nominal interest rates and quantitative easing, and growing central bank balance sheets to extraordinary levels, effectively blurring the line between monetary and fiscal policy.[54] As governments have pulled away from their initial fiscal stimulus measures, they have come to rely increasingly on central banks' extremely loose monetary policy to keep the economy going. Yet that shift has had perverse policy outcomes—forcing central banks to keep interest rates at exceptionally low levels longer than would otherwise be necessary, with further negative consequences.[55] Over time, this massive increase in the authority of central banks, combined with the very real limits of the tools at their disposal, is only making the accountability gap more visible and rendering democratic reform more pressing.

CONCLUSION

The current system of independent central banks using simple rules to achieve very low inflation was designed to avoid certain kinds of problems, such as excessive politicization and accelerating inflation. While this approach has succeeded in keeping inflation very low, it has done so by distorting accountability, effectively giving financial actors greater influence over policy than the government or the wider public. In the absence of genuinely negotiable standards or meaningful forms of sanction, the main tool left to public actors in their bid to hold central banks accountable has been these banks' own commitments to transparency. Yet, in the context of the current uncertainty, that accountability-as-transparency model has revealed its insufficiency, as central bankers have been confronted with the limits of their ability to communicate the complexity of the challenges that they face.

This article has identified a number of principles that might strengthen accountability in this context of uncertainty: shift from a narrow focus on transparency to a broader form of debate;

find ways of ensuring that banks and financial regulators are at least as accountable to the government and the wider public as they are to financial actors; and develop more inclusive and flexible standards to guide bank actions.

It is worth noting that these suggestions move in the opposite direction from the one advocated by conservative critics of central banks, particularly in the United States, where Republicans have been arguing that the Federal Reserve's discretion should be further constrained through even narrower rules: legislation to that end has recently been introduced in both the House and the Senate.[56] This article has argued that it would be wise to do otherwise, as the apparent stability of a rule-based approach to financial and monetary policy is an illusion in a highly uncertain environment.[57] Policymakers need more, not less, discretion when facing an uncertain economic context, in order to be able to adapt their policy response to shifting circumstances. That discretion, in turn, requires new forms of accountability beyond ones based solely on transparency. Only then can we ensure that central bankers are genuinely accountable for the considerable powers that they wield.

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1 As recent articles in *The Economist*, the International Monetary Fund's journal, *Finance and Development*, and *The Financial Times* attest. See Buttonwood, "Monetary Policy, Politics and the Economy: Central Banks in the Firing Line," *The Economist*, March 19, 2015; Luis Jácome and Tommaso Mancini-Griffoli, "A Broader Mandate," *Finance and Development* 51, no. 2 (2014); and Sam Fleming, "Fed Paves Way to Raise Rates This Year as US Economy Strengthens," *Financial Times*, February 24, 2015.

2 Buttonwood, "Central Banks in the Firing Line."

3 This broadening of central banks' mandates has solicited considerable debate. See, for example, Barry Eichengreen et al., "Rethinking Central Banking" (Washington, D.C.: Committee on International Economic Policy and Reform, Brookings Institution, September 2011); Magnus Georgsson et al., "The Modern Central Bank's Mandate and the Discussion Following the Financial Crisis," *Sveriges Riksbank Economic Review*, no. 1 (2015); Jácome and Mancini-Griffoli, "A Broader Mandate."

4 For example, Ben Bernanke has noted, "the independence afforded central banks for the making of monetary policy should not be presumed to extend without qualification to its nonmonetary functions." Bernanke, "Central Bank Independence, Transparency, and Accountability" (Remarks at the Institute for Monetary and Economic Studies International Conference, Bank of Japan, Tokyo, Japan, May 26, 2010).

5 Bernanke, "Central Bank Independence." For further discussions of central bank objectives and mandates, see notes 14 and 23.

6 Through quantitative easing, central banks buy up treasury bonds and other securities, providing even more liquidity in the economy than they can achieve through their usual role in setting short-term interest rates.

7 Frank Knight, *Risk, Uncertainty and Profit* (Boston: Houghton Mifflin Company, 1946), p. 20. Emphasis in the original.

8 John Maynard Keynes, "The General Theory of Employment," *Quarterly Journal of Economics* 51, no. 2 (1937), pp. 213–14.

9 D. W. Drezner and K. R. McNamara, "International Political Economy, Global Financial Orders and the 2008 Financial Crisis," *Perspectives on Politics* 11, no. 1 (2013), p. 158.

[10] Key contributions to this literature include Robert E. Lucas, Jr., "Expectations and the Neutrality of Money," *Journal of Economic Theory* 4, no. 2 (1972), pp. 103–24; John Muth, "Rational Expectations and the Theory of Price Movements," *Econometrica* 29, no. 3 (1961), pp. 315–35; Thomas Sargent and Neil Wallace, "Rational Expectations and the Theory of Economic Policy," *Journal of Monetary Economics* 2, no. 2 (1976), pp. 169–83.

[11] William Nordhaus, "The Political Business Cycle," *Review of Economic Studies* 42, no. 2 (1975), pp. 169–90.

[12] Allen Drazen, "The Political Business Cycle after 25 Years," in Ben. S. Bernanke and Kenneth Rogoff, eds., *NBER Macroeconomics Annual 2000, Volume 15* (Boston: MIT Press, 2001), pp. 75–138. B. Douglas Bernheim, "Ricardian Equivalence: An Evaluation of Theory and Evidence," NBER Working Paper No. 2330 (1987); Martin Feldstein, "The Effects of Fiscal Policies When Incomes Are Uncertain: A Contradiction to Ricardian Equivalence," NBER Working Paper No. 2062 (1986).

[13] Finn Kydland and Edward Prescott, "Rules Rather Than Discretion: The Inconsistency of Optimal Plans," *Journal of Political Economy* 85, no. 3 (1977), pp. 473–91.

[14] For example, the U.S. Federal Reserve has a considerable measure of autonomy over the objectives of policy (deciding the relative weight of its multiple goals), as well as targets and instruments. In Canada and Great Britain, on the other hand, the government has established a single objective (price stability) as well as an explicit target, leaving the central bank to determine the instruments through which to achieve it. The European Central Bank has several objectives but is formally limited by a very clear hierarchy that places price stability at the top. It is worth noting, however, that central banks' practical autonomy can differ in important respects from their formal autonomy: for example, in recent months, the ECB has expanded its priority objectives to include a more explicit focus on lowering unemployment, in spite of its formal mandate. Jack Ewing, "European Central Bank Expands Mandate as It Struggles to Keep Zone Intact," *New York Times*, May 24, 2015.

[15] Georgsson et al., "Modern Central Bank's Mandate," p. 12.

[16] John Taylor wrote an influential article in 1993 that identified a rule that described past Federal Reserve interest rate policy decisions—a rule that has since been treated by many (including Taylor) as a prescription for best central bank practice. John B. Taylor, "Discretion Versus Policy Rules in Practice," *Carnegie-Rochester Conference Series on Public Policy* 39 (1993), pp. 195–214. On the broader trend toward inflation targeting, see Ben Bernanke and Frederic Mishkin, "Inflation Targeting: A New Framework for Monetary Policy?" NBER Working Paper Series No. 5893 (1997).

[17] Stephen Poloz, "Integrating Uncertainty and Monetary Policy-Making: A Practitioner's Perspective," *Bank of Canada Discussion Paper* 2014, no. 6 (October 2014), p. 1.

[18] On the challenges posed by the shift toward mass democracy for highly liberalized economies, see Barry Eichengreen, *Globalizing Capital* (Princeton: Princeton University Press, 2008).

[19] Milton Friedman, "Should There Be an Independent Monetary Authority?" in Leland B. Yeager, ed., *In Search of a Monetary Constitution* (Cambridge: Harvard University Press, 1962).

[20] John Stuart Mill, *Dissertations and Discussions: Political, Philosophical, and Historical,* Vol. 1 (Haskell House Publishers, 1973), Appendix.

[21] Ruth W. Grant and Robert O. Keohane, "Accountability and Abuses of Power in World Politics," *American Political Science Review* 99, no. 1 (2005), p. 29.

[22] Jennifer Rubenstein, "Accountability in an Unequal World," *Journal of Politics* 69, no. 3 (2007), p. 617. Emphasis added.

[23] These objectives can be broken down into broad policy goals, such as price stability (generally seen as the most important), financial stability, and growth, as well as more specific targets, such as an inflation target.

[24] For an overview of the different forms taken by central bank independence, see Alex Cukierman, "Central Bank Independence and Monetary Policymaking Institutions: Past, Present and Future," *European Journal of Political Economy* 24, no. 4 (2008), pp. 722–36.

[25] In Canada, the Minister of Finance does have the power to overrule the Governor in cases of a profound disagreement, although this has never occurred. As I suggested in note 14, the informal practices and culture of central bank autonomy can be as important as its formal structure. For an interesting discussion of the historical evolution of a culture of central bank autonomy in the United States, see Lucy Goodhart, "Brave New World? Macro-Prudential Policy and the New Political Economy of the Federal Reserve," *Review of International Political Economy* 22, no. 2 (2015), pp. 280–310.

[26] Bernanke provides an explicit justification of the sufficiency of this kind of accountability in Bernanke, "Central Bank Independence, Transparency, and Accountability."

[27] For an overview of central bank transparency, see Christopher Crowe and Ellen Meade, "Central Bank Independence and Transparency: Evolution and Effectiveness," IMF Working Paper No. 08/119 (2008).

[28] A statement is performative when the utterance itself changes the social reality. John L. Austin, *How to Do Things with Words* (Cambridge: Harvard University Press, 1962). Although the idea of performativity might sound deeply philosophical, central bankers like Ben Bernanke are well aware of the effects of what they say: Ben Bernanke, "Central Bank Talk and Monetary Policy" (Remarks at the Japan Society Corporate Luncheon, New York, October 7, 2004).

[29] Jacqueline Best, "The Limits of Financial Risk Management: Or, What We Didn't Learn from the Asian Crisis," *New Political Economy* 15, no. 1 (2010).

[30] There is in fact a growing literature in international political economy that seeks to make sense of how little policies have changed in the aftermath of the crisis, particularly in comparison with the changes that took place after the Great Depression. See, for example, Eric Helleiner, *The Status Quo Crisis: Global Financial Governance after the 2008 Financial Meltdown* (New York: Oxford University Press, 2014); and Manuella Moschella and Eleni Tsingou, eds., *Great Expectations, Slow Transformations: Incremental Change in Post-Crisis Regulation* (Colchester, U.K.: ECPR Press, 2013).

[31] Ben Bernanke, "Implications of the Financial Crisis for Economics" (Remarks at the conference co-sponsored by the Center for Economic Policy Studies and the Bendheim Center for Finance, Princeton University, Princeton, New Jersey, September 24, 2010).

[32] Poloz, "Integrating Uncertainty and Monetary Policy-Making," p. iii. These comments echo those made by Alan Greenspan in 2004: Alan Greenspan, "Risk and Uncertainty in Monetary Policy," (Remarks at the meetings of the American Economic Association, San Diego, California, January 3, 2004). Emphasis added.

33 Ben Bernanke, "The Taylor Rule: A Benchmark for Monetary Policy?" Ben Bernanke's Blog, April 28, 2015, www.brookings.edu/blogs/ben-bernanke/posts/2015/04/28-taylor-rule-monetary-policy; Greenspan, "Risk and Uncertainty in Monetary Policy."

34 Janet Yellen, "Revolution and Evolution in Central Bank Communications" (Remarks at the Haas School of Business, University of California, Berkeley, November 13, 2012). See also William English, J. David López-Salido, and Robert J. Tetlow, "The Federal Reserve's Framework for Monetary Policy–Recent Changes and New Questions," *Finance and Economics Discussion Series, Federal Reserve Board*, no. 76 (2013). In some recent testimony on Capitol Hill, Yellen also challenged those Republican lawmakers who sought to further constrain Federal Reserve discretion by imposing automatic rules. Sam Fleming, "Janet Yellen Defends US Central Bank Independence," *Financial Times*, February 25, 2015.

35 For a useful overview of the relationship between accountability and deliberation in monetary policy, see Cheryl Schonhardt-Bailey, "Monetary Policy Oversight in Comparative Perspective: Britain and America during the Financial Crisis," London School of Economics, Department of Government, Political Science and Political Economy Working Paper No. 3/2014.

36 Ibid.

37 Moreover, as Ellen Meade and David Stasavage have noted, greater transparency regarding monetary policy deliberations can in fact decrease the room for dissent. Ellen Meade and David Stasavage, "Publicity of Debate and the Incentive to Dissent: Evidence from the US Federal Reserve," *Economic Journal* 188 (April 2008), pp. 695–717.

38 Simon Kennedy, "Unanimous No More as Central Banks Split as Unknowns Top Knowns," *Bloomberg*, November 4, 2014.

39 Grant and Keohane, "Accountability and Abuses of Power in World Politics," p. 31.

40 Eric Helleiner, "Out from the Shadows: Governing OTC Derivatives after the 2007–08 Financial Crisis," in Jacqueline Best and Alexandra Gheciu, eds., *The Return of the Public in Global Governance* (Cambridge: Cambridge University Press, 2014), pp. 70–94.

41 Deniz Igan, Prachi Mishra, and Thierry Tressel, "A Fistful of Dollars: Lobbying and the Financial Crisis," in Daron Acemoglu and Michael Woodford, eds., *NBER Macroeconomics Annual 2011, Volume 26* (Chicago: University of Chicago Press, 2012); Angela O'Mahony, "Broader Political Accountability and the Limits of Financial Regulation" (Paper presented at the New Political Economy of Monetary Policy and Financial Regulation Conference, Yale University, New Haven, March 21-22 2015); and Eva Schliephake, "The Political Economy of Banking Regulation in the Aftermath of the Financial Crisis 2007–2008," ibid.

42 Christopher Matthews, "Taper Tantrums: 3 Myths About Quantitative Easing," *Time*, September 18, 2013; Neil MacLucas and Brian Blackstone, "Swiss Move Roils Global Markets," *Wall Street Journal*, January 15, 2015.

43 Alan Greenspan noted in his testimony to Congress, "I made a mistake in presuming that the self-interests of organizations, specifically banks and others, were such that they were best capable of protecting their own shareholders and their equity in the firms." Greenspan, Hearing before the Committee on Oversight and Government Reform, House of Representatives, October 23, 2008.

44 I am referring here to the objectives that guide a central bank's monetary policy, and leaving aside the broader question of whether their mandate should be expanded beyond monetary policy.

[45] Yellen, "Revolution and Evolution in Central Bank Communications," p. 4. Yellen was citing a *New York Times* article.

[46] Jonathan Kirshner, "The Study of Money," *World Politics* 52, no. 3 (2000), p. 429.

[47] Although Barro notes that the data does not reject the hypothesis that lower levels of inflation are negatively correlated with growth, he nonetheless finds that "for inflation rates below 20 percent per year, as shown in the upper panel, the relation between growth and inflation is not statistically significant." Robert J. Barro, "Inflation and Growth," *Federal Reserve Bank of St. Louis Review* (May/June 1996), p. 159.

[48] Monin establishes the threshold at 16 percent. Pierre Monin, "Inflation and Income Inequality in Developed Economies," Council on Economic Policies Working Paper No. 2014/1 (May 2014). Similarly, in a 2001 IMF staff paper, Aleš Bulíř suggests that a reduction in inflation from hyperinflation significantly reduces inequality, while further reductions have a negligible impact. Aleš Bulíř, "Income Inequality: Does Inflation Matter?," *IMF Staff Paper* 48, no. 1 (2001).

[49] For some political-economy focused analyses of the politics of inflation, see Kirshner, "The Study of Money"; Wesley Widmaier, "The Meaning of an Inflation Crisis: Steel, Enron, and Macroeconomic Policy," *Journal of Post-Keynesian Economics* 27, no. 4 (2005), pp. 553–71; Brian Barry, "Does Democracy Cause Inflation? Political Ideas of Some Economists," in Leon Lindberg and Charles Maier, eds., *The Politics of Inflation and Economic Stagnation* (Washington, D.C.: Brookings Institution, 1985), pp. 280–318; A. Przeworski et al., "What Makes Democracies Endure?" *Journal of Democracy* 7, no. 1 (1996), p. 42; Albert O. Hirschman, "The Social and Political Matrix of Inflation: Elaborations on the Latin American Experience," in Albert O. Hirschman, *Essays in Trespassing: Economics to Politics and Beyond* (Cambridge: Cambridge University Press, 1981), pp. 177–207.

[50] English, López-Salido, and Tetlow, "The Federal Reserve's Framework for Monetary Policy–Recent Changes and New Questions."

[51] Fritz Scharpf, "Economic Integration, Democracy and the Welfare State," *Journal of European Public Policy* 4, no. 1 (1997), pp. 18–36. Scharpf's analysis provides a contemporary twist on a long-recognized dilemma in liberalism: the fact that deliberative processes and liberal rights are sometimes in tension with the demands of efficiency or, more starkly, necessity. Such tensions are most evident in the context of the claims of security exceptionalism, but they do also arise in the context of economic crises.

[52] English, López-Salido, and Tetlow, "The Federal Reserve's Framework for Monetary Policy–Recent Changes and New Questions."," p. 2.

[53] Greenspan, "Risk and Uncertainty in Monetary Policy."

[54] In 2013, the Fed bought up 71 percent of all of the Treasury Bills issued by the U.S. government, financing almost three-quarters of the debt acquired by the government that year, while the Bank of England currently holds 25 percent of all British government debt. Floyd Norris, "No Surprise, Fed Was Biggest Buyer of Treasuries in 2013," *New York Times*, February 21, 2014; IMF, *IMF Global Financial Stability Report: Old Risks, New Challenges* (Washington, D.C.: International Monetary Fund, 2013), p. 104.

[55] In the Canadian case, for example, extremely low interest rates combined with a milder post-crisis recession than what was experienced in many other countries have resulted in a huge increase in consumer indebtedness and a bubble in the housing market. Gordon Isfeld, "Bank

of Canada Says Household Debt, Housing Price Crash Remain Major Concern for Economy," *Financial Post*, June 12, 2015.

[56] The "Federal Reserve Accountability and Transparency Act of 2014" was introduced in the House of Representatives in July of 2014 (but not passed before the end of the session), while the "Financial Regulatory Improvement Act of 2015" was introduced in the Senate in June of 2015.

[57] I make a similar argument in a wider historical context in Jacqueline Best, *The Limits of Transparency: Ambiguity and the History of International Finance* (Ithaca, N.Y.: Cornell University Press, 2005).