Central Bank Independence
Cultural Codes and Symbolic Performance

Carlo Tognato
Central Bank Independence
Cultural Sociology

Series Editors: Jeffrey C. Alexander, Ron Eyerman, David Inglis, and Philip Smith

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Cultural Codes and Symbolic Performance

Carlo Tognato
To Cesarina and Mario who believed from the very beginning
To Alexandra who believed even when it seemed too late
To Martina who proved to me that it is never too late
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Series Preface

Classical and modern social theory has conceptualized the capitalist market as the very embodiment of the disenchchantment that marks modernity’s rationalization of our social world. *Central Bank Independence* sharply challenges this core idea, making a powerful case for the continuing role culture plays in even the most highly marketized financial centers of contemporary capitalist societies. An economist and political scientist by training, Carlo Tognato turns to the “strong program” cultural sociology to demonstrate that meaning, mystery, and drama are central to the legitimacy of central banks, and that maintaining legitimacy is pivotal to maintaining their economic flexibility in troubled times.

Theorizing “stability cultures” in monetary affairs, Tognato proposes that, in order to maintain independence, central banks discursively embed themselves at the center of collective identity, such that ordinary citizens come to see their economic recommendations less as strategies than as efforts to protect the sacred social values. When economies enter into crisis, central banks engage in social dramas that seem to performatively enact this sacralizing mission.

Tognato employs this new theoretical model to engage in deeply researched case studies of the global economy’s three most powerful central banks—the Deutsche Bank, the European Central Bank (ECB), and the Federal Reserve Bank of the United States. The German bank embodied the postwar economic miracle, and it acquired symbolic power that gave it an almost salvationary stature. The European bank, by contrast, stands on significantly weaker ground. Because European collective identity is weaker and the postwar lessons more mixed, the ECB has been inhibited in facing the Euro crisis that is dangerously weakening European economies. The Federal Reserve Bank’s contrasting success in fusing with core American myths has allowed it, by contrast, to open the spigots of monetary policy.

*Central Bank Independence* continues the cultural turn in economic sociology, connecting it more centrally with market logic than it has ever been
before. A work of theoretical imagination and rich empirical texture, it is extraordinarily relevant to the crisis that capitalist economies are facing today.

Jeffrey C. Alexander
Acknowledgments

This book constitutes the point of arrival of a long journey during which I accumulated a debt of gratitude to many scholars, practitioners of monetary affairs, colleagues, and friends.

At the end of my undergraduate years at Bocconi University in Milan, Stefano Zamagni gave free rein to my intellectual curiosity and patiently put up with my immaturity.

Later on, during my postgraduate studies in Economics at the University of Ancona, I benefited from my interaction with Antonio Calafati.

During my MPhil in International Relations at Oxford, my tutors, Lars-erik Cederman and Ngaire Woods, were a remarkable source of inspiration. I am also thankful to Lars-erik for allowing me to follow him to UCLA. Without that this book could have never been written.

After my move to California, in winter 1999 I met Jeff Alexander and his work. That encounter parted my intellectual life in two. I am immensely grateful to Jeff for his ideas and his continuous support over the years, without which this project could have never taken shape.

In spring 1999, I met Susanne Lohmann. Without her encouragement and generous support, both at UCLA and in the years that followed, I could have not pursued my research at the crossroads between political economy and cultural sociology. I am deeply thankful to Susanne for that.

During my PhD dissertation at UCLA, Victor Wolfenstein, Saul Friedländer, and Deborah Larson also provided their support.

Between January 2001 and March 2001 the Research Group of the Deutsche Bundesbank hosted me for my fieldwork. I would like to thank, in particular, Heinz Hermann, Ulf von Kalkreuth, Joachim Keller, and Jens Tapkin. I am also in debt to Carola Goltz for the time and attention she devoted to me during my research at the Bundesbank Pressearchiv. During my time at the Bundesbank I also interacted with Ben Craig, who was visiting from the Federal Reserve of Cleveland, and hosted me later on when I returned to Frankfurt. Ben’s kindness is simply unforgettable.

Between summer 2001 and summer 2002, I spent almost a year at the Department of Sociology of the University of Konstanz, worked on a
research project with Bernhard Giesen, and continued my fieldwork for my dissertation. That was my first time playing within an orchestra of trained sociologists. Bernd was gracious enough as a conductor to let me play along even when I labored to tune in with the rest of the strings. Looking back at that unique opportunity, I can surely say that his patience was only topped by his generosity.

Between July and November 2003, just after submitting my PhD dissertation at UCLA, I visited the Department of Institutional Communication and that of Economic Studies at the Banco de la República de Colombia in Bogota. I am very grateful to Miguel Urrutia, Jose Darío Uribe, Fernando Tenjo, and Salomón Kalmanovitz for receiving me in their institution.

After that, I settled down in Bogota. Between 2004 and the beginning of 2006, I had to interrupt my research on central banking and could resume it only at the end of 2006 after getting a job in Sociology at the National University of Colombia. The support of some extraordinary colleagues and friends at the Sociology Department and at the Center for Social Studies at the National University got me back on track. I would like to thank, in particular, Yuri Jack Gómez, Alexis de Greiff, Myriam Jimeno, Francisco Ortega, Olga Restrepo, Javier Saenz, Fabián Sanabria, and Paolo Vignolo, who were later joined by Sebastián Cuellar and, since his move to Bogota, by Malcolm Ashmore.

During a visit at Yale, possibly in 2008, Phil Smith enquired over coffee whether I was available to contribute a chapter to the forthcoming Oxford Handbook of Cultural Sociology, which he is coediting. That opportunity allowed me to define more clearly the theoretical horizon of this book. Over the years Phil has been extremely generous with his feedback on my work. Since I met him, his support has been critical for the completion of this project.

Over the past few years Eduardo de la Fuente, Peter Murphy and Brad West, as well, have supported me in many ways and deserve my thanks and gratitude for that.

After my relocation to Australia, the Indo-Pacific Governance Research Centre and the School of History and Politics at the University of Adelaide have provided a supportive environment to finish this book. I would like to thank, in particular, Kanishka Jayasuriya, Lisa Hill, Andrew Rosser, and Clement Macintyre.

Back in LA, two of my classmates, Arif Arshad and Suleyman Ari, hosted me whenever I needed to head back to Westwood to meet my committee. And my former college mate at Oxford, Jessica Sack, opened the doors of her apartment each time I visited New Haven. I would like to thank them for their hospitality and friendship.

This book would have never been possible without the support of my family. To my daughter Martina, my wife Alexandra, and my parents Cesarina and Mario I dedicate these pages.
The National University of Colombia allowed me to republish here in a revised form parts of the following material:

In 1999 Europe took a historical step. Euroland was born. Eleven countries relinquished their national currencies, adopted the euro, and surrendered their monetary sovereignty to the European Central Bank (ECB). At that time the European Monetary Union (EMU) appeared to fulfill a long-time dream for many Europeans. It promised to crown a history of war and hatred with a present and a future of cooperation and stability. And it pledged the defeat of the demons of nationalism and the establishment in their place of a community of shared principles based on peace and goodwill. The euro was presented at the time as “the first cathedral of modern Europe”\(^1\) and was saluted as the founding stone of a new stage in history: “When Jesus Christ decided to found a church, he said to Peter: thou art Peter, and upon this rock I will build my church. You are the euro, and on this new currency, the euro, we will build our new Europe” (Issing 1999a).

To guard the cathedral, the founders of the EMU established a central bank that at least on paper appeared to be even more independent than the most independent central bank in world history, the Deutsche Bundesbank.

Both the legal provisions that made up its statute and the background institutional context within which the ECB was embedded appeared to justify that expectation. Many analysts, however, soon warned that it was too early to conclude that the ECB would be better insulated from political interference than the Bundesbank. The latter, after all, could rely on the local stability culture to command the support of the general public. The ECB, instead, could not. Now, scholars and practitioners sensed the existence of a link between legitimacy, public support, and central bank independence, and suspected that culture might have something to do with it. Only, no studies were and have been available to ground that intuition.

After a decade, the EMU has stumbled into its first historical challenge that may crucially test its capability to survive. The Greek debt crisis has lit up a fire that ended up burning Portugal, Spain, and Italy, sending a shock wave throughout the entire Union, and beyond. In the past, debt crises around the globe have been tackled with massive structural adjustments
coupled with severe currency devaluations and more aggressive export-led policies. In the European case, however, currency devaluation is not an option because the countries in trouble are members of the same currency area. Public expenditures and domestic wages, as a result, will have to take the full hit of any adjustment.

The violent protests that have repeatedly taken the streets of Athens are just an ominous sign of what might occur in the streets of Lisbon, Madrid, and Rome, should the financial market enforce on them comparable corrections. To gain membership into the EMU, and reap the benefits of long-term stability, people in those countries were often asked to bear enormous sacrifices. Today, they are less willing to put up with the costs. The recent recession and, often before it, many years of slow growth, high levels of unemployment, and massive loads of public debt, which have dramatically thinned the possibility of igniting growth through public expenditures, have already taken a major toll on southern European societies.

The situation tends to be even grimmer wherever local social structures jam the prospect of social mobility for the new generations. Where loyalty and social belonging get rewarded over merit, the implicit social contract that underpins economic adjustments starts to crumble down as people can no longer expect they will proportionally reap the fruit of their own sacrifices. Where this occurs, society is at risk of dangerously slipping into a vicious circle at the end of which hope may wither and despair may take over, making macroeconomic adjustment all the more difficult to set in. The market may anticipate that, and may therefore add an extra premium on their public debt. Servicing the interests, at that point, gets more costly and even larger correctives become necessary.

Coping with the debt crisis presents a formidable challenge not only to southern European countries. On the other end of Euroland, taxpayers see part of their money head south to rescue the economies in distress in an effort to stabilize the entire euro zone. Right-wing parties see the opportunity to exploit their irritation, and local political leaders have an increasingly hard time defending the euro from nationalist attacks.

As a result of the debt crisis, the ECB faces three important challenges. First, it needs to bring on its side an often angry general public wherever dramatic economic correctives are needed to respond to the crisis. Second, it has to convince citizens elsewhere that the money pledged to stabilize the eurozone is justified. And finally, should any of the countries in trouble default on its debt, the ECB might have to monetize part of it in order to recapitalize those European financial institutions, particularly in France and Germany, that might be overexposed as a result of the default. This move, which mimics what the Federal Reserve did during the US financial crisis to safeguard the stability of the US banking system, might alienate those
citizens in central and northern Europe who are most viscerally allergic to any prospect of inflation. The ECB would therefore need to persuade them that the exceptionality of the situation warrants exceptional measures, and that, despite that, the ECB is holding on to its commitment to price stability and is therefore not giving in to political interference.

In the light of such challenges, understanding the link between legitimacy, public support, and central bank independence may turn out to be a valuable asset. So far, scholars and practitioners have intuitively perceived that culture may have something to do with it and have even coined a concept—that of stability culture—to refer to that link. Their understanding of stability cultures, however, is still too shallow and often merely tautological. Stability cultures, in other words, are simply described as cultures conducive to macroeconomic stability. When it is not, it boils stability cultures down to a special case of inflation cultures in which public values and attitudes support low inflation. Independent central banks, as a result, find it easier to keep inflation under check, because their societies more willingly accept the sacrifices that come along with a tight monetary policy.

Such an understanding of stability cultures, however, hides more than it actually reveals. Already in 1998, Bertold Wahlig, then head of the Legal Department of the Bundesbank, stressed that public dramatization plays an important role in monetary politics. Whenever a central bank and politicians come to clash over monetary policy, and politicians start to seriously challenge central bank independence, each party has the option to dramatize conflict in an effort to harness public support in favor of its own cause. Surely, public preferences for low inflation and public attitudes toward central bank independence play an important role in the decision on the part of the general public to support the bank or its opponents, instead. Still, there is more to the dramatization of monetary affairs than just inflation preferences and attitudes. This, however, has completely escaped the analytical lenses scholars and practitioners have adopted to address the role of culture in monetary affairs.

To get at the nature and operation of stability cultures, scholars must closely follow what goes on when monetary affairs get dramatized. When this occurs, the monetary game curiously turns into a morality play about collective identity, and central bank independence turns into a matter of relevance to the very foundations of society. Stability cultures at that point reveal their true nature. That is, they are about the cultural structures and practices that make it possible for monetary affairs to undergo that transformation in meaning and for central independence to take on a transcendental value for the general public.

To detect that, one needs to move beyond current social-psychological approaches to stability cultures, and recognize, instead, that cultures are
not only about values and attitudes, but also about symbols, codes, narratives, genres, public rituals, and social dramas. This book will provide an analytical framework that will enable analysts to see these elements at work. In particular, it will point scholars and practitioners to three important elements that constitute the backbone of stability cultures: the way societies understand themselves, the symbolic linkages that latently anchor monetary affairs to collective identity, and the dramatic conditions under which such linkages become effective.

As one digs deeper into the nature and operation of stability cultures, one will understand why public preferences about inflation, and therefore public attitudes toward central bank independence, are not necessarily predetermined by the economic structure of society. Wherever monetary affairs exit the realm of economic calculation and turn into a matter of national identity, public preferences about inflation become a proxy of public preferences about national identity. The fact that they are conducive to price stability, as a result, may reflect that transformation in meaning.

Once we unveil the intricate and yet fascinating workings of stability cultures, it is easier to understand why they have little to do with economic literacy, unlike many academic economists and practitioners of monetary affairs have mistakenly thought based on the belief that the public will automatically mobilize to defend central bank independence if the central bank keeps inflation low and people understand the importance of price stability. Economic literacy is neither necessary nor sufficient to guarantee a smooth implementation of stability-oriented monetary policy. The transformation of price stability into a transcendent value for society, instead, will be sufficient.

To pry the lid off stability cultures, analysts must recognize the whole world of cultural communication in monetary affairs that scholars and practitioners have so far systematically overlooked. Independent central banks have been traditionally regarded as one of the purest institutional distillates of modern rationality. Yet, technical accounts of monetary affairs are not the only way they are represented in the public sphere. As a rare observer of this phenomenon has pointed out, war, life and death, health, birth and childhood, physics and technology, sea, sport, building, marriage, and “legions of religious metaphors” have provided alternative fields of representation to talk about money and central banking (Scherbacher-Posé 1999). When religious metaphors, myths of origin, legends of the fall, and doctrines of sin and redemption come in to represent monetary affairs, then money and central banking exit from the aseptic realm of economic calculation and enter other spheres that follow alternative cultural logics. At that point, central banks may turn into the moral compass of society, inflation into a moral abyss, and monetary stability into the path to the remoralization of social
life. Some remind us that society must cross a “valley of tears” in order to purify itself and achieve stability (Knapp 1991). Others stress that “monetary policy must hurt” (Reinmann 1989), and yet others insist that the acceptance of economic sacrifices may have a deeper meaning than economists would have us believe: “The difference between happiness and misery is a 0.2 per cent deficit of the gross domestic product! A 2.9 per cent deficit is fine and enables one to live in happiness and bliss, while a 3.1 percent deficit condemns a country to chaos, misery, and eternal damnation.”

As monetary affairs drift into the turf of morals, central bankers are progressively catapulted into a world of dogma, church, and piety. Some observers start referring to leading central bankers as popes or cardinals, “all pure belief and holy rigidity” (Glotz 1998). Others emphasize their integral devotion to their mission: he “died the way he lived—in monetary policy.” And yet others stress the priestly austerity that characterizes their profession (Atkins 2009).

Besides such moral representations of monetary affairs, we also see money and central banking entering the field of national identity. This was most recurrent in the case of the D-Mark, which many analysts recognized as a national symbol, the only one Germans could be proud of (Bonfante 1998, 21), something that gave them “a piece of identity, even before the national anthem and the national flag came” (Kohl 1998, 632). Many observers have contrasted the sacred nature of the D-Mark with the secular character of the euro. Even in the case of the euro, however, various analysts have stressed that there is more to it than just its economic function. The euro, they point out, is also a meaning that transcends financial messages (Perez 1999, 140). At the eve of its physical circulation across the eurozone, for example, Wim Duisenberg, then president of the ECB, was well aware of that: “Central bankers are not supposed to express emotions or to have dreams. They are supposed to speak and think about numbers. Forgive me if I make an exception today. This is a moment in which the flow of history is present” (Duisenberg 2001a).

A systematic study of stability cultures is particularly useful at a historical juncture when European monetary affairs enter a stage of unprecedented turbulence. Its horizon of relevance, however, is not confined to Europe. Since the end of the 1980s, independent central banking has diffused on a world scale. This process peaked in the 1990s, when only in the first five years at least 30 countries increased the statutory independence of their own central banks. Since then, many central bankers around the world have worked to steer their own societies onto the path of macroeconomic stability, often encountering resistance from their general public. Sensing that their banks lacked the kind of public support that many of their counterparts in the industrialized world could rely on, some central bankers decided to do
something about it and took steps to spur the emergence of local stability cultures. This book provides an analytical framework that will allow them to understand not only why they did well but also how they could do better. Most importantly, it will provide central bankers around the world with the tools to promote the emergence and strengthening of local stability cultures in a much more focused and efficient way.

After acknowledging that the transformation of monetary affairs into a matter of national identity is the backbone of any stability culture, it is important to zoom in and shed light on one important facet that becomes salient whenever extraordinary shocks hit the economy, and central banks must free the reins of money creation. Political economists have shown that under such circumstances, an extraordinary response on the part of the central bank will be deemed to be justified and its reputation will not suffer (Lohmann 1992). Extraordinary circumstances, however, are not at all self-evident. If analysts took so long to realize the United States was falling into an unprecedented financial crisis, why should the general public be any more effective at recognizing trouble? Hence, the question is what makes a situation exceptional? If economic data were self-evident, to justify lax monetary policy, central bankers, policy makers, and other observers would simply have to refer to the economic situation just “as it is.” The latest US financial crisis, however, shows that this was not the case. To talk about the situation, they repeatedly invoked the ideas of “war,” “threat to civilization,” or “destruction,” instead. The Economist, for example, referred to the peak of the financial crisis by foreshadowing “a nuclear winter.” Treasury Secretary Paulson warned that the crisis was “the financial equivalent of war” (Stewart 2009, 74). And Treasury Secretary Geithner later added that “the Fed is more like the Pentagon. It defends the freedom and security of Americans from existential threats” (Grunwald 2009). The use of such powerful representations, often under the umbrella of melodramatic, apocalyptic, and tragic frames, shows a good deal of cultural work involved in the making of exceptional circumstances. It is thanks to this work that the public will no longer perceive a relaxation of monetary discipline as a threat to society but rather as an imperative to save it, thereby reversing the logic that would otherwise routinely apply to stability cultures. Such a cultural regulation of the exception in monetary policy making constitutes another interesting dimension of the cultural phenomenon this book sets out to explore.

From its very conception, this project sought to respond to a pragmatic need. The role of culture in independent central banking has traditionally escaped the analytical grip of academic political economists and the policy control of central bankers. Laying out a new conceptual framework that finally makes it possible to see it and to intervene on it, can contribute to the success of independent central banking both in the industrialized world.