

## **Are Central Banks Democratically Legitimate? Does it matter?**

### **0.0 Introduction**

“Money *is* politics” – but central banks, the most powerful regulators of money, appear as technocratic institutions that are intentionally insulated from political pressures (Carruthers and Babb 1996, 1557; Kirshner 2003, 645–46; McNamara 2002, 48, 65). Ever since the Global Financial Crisis (GFC), scholars have been concerned about the democratic legitimacy of independent central banks (Braun 2016; Buckle 2023; Dietsch 2020; Fernández-Albertos 2015; van ’t Klooster 2020). Still the pre-crisis monetary policy paradigm remained relatively intact (Johnson, Arel-Bundock, and Portniaguine 2019, 546–47, 553, 556–57). In this paper, I explore two questions (1) *Are central banks democratically legitimate?* and (2) *What explains the strange non-death of Central Bank Independence (CBI)?* I argue that central banks are not democratically legitimate and that this does not matter. Thus, the persistence of CBI is not a strange non-death but rather it reflects the entrenched structural power of finance.

In section 1, I draw on Schmidt’s account of legitimacy to set out normative criteria for central bank legitimacy. I argue that central banks do not require input legitimacy as long as they are regulatory and not (significantly) redistributive institutions. In section 2, I explore how the GFC forced central banks to act beyond their narrow mandates and introduce policies that had negative redistributive outcomes. I argue that ever since the GFC central banks need input legitimacy to be democratically legitimate. In section 3, I investigate why despite the loss of democratic legitimacy after the GFC, central banks did not change their dominant policy paradigms. In particular, I look at how central banks tried to shore up their democratic legitimacy by improving their throughput legitimacy and direct communication with the public. I argue that both efforts fail to improve the central bank’s democratic legitimacy because neither effort substitutes for a lack of input legitimacy. I argue that

central banks must become strongly accountable to their parliaments through institutional reforms that grant parliaments the power to sanction central banks and the willingness to exercise this power when central banks are not sufficiently responsive to the public interest. This implies the end of central bank independence.

In section 4, I discuss whether scholars' efforts to engage in the central bank legitimacy debates are worthwhile. I argue they are not, and that legitimacy does not matter. Central bankers can tolerate scholars' challenges of their legitimacy precisely because central banks are not threatened by it. Instead, central bankers can pay lip service to legitimacy by expanding their transparency and communication at little to no cost. I conclude by briefly discussing an alternative approach that focuses on financial power. If scholars are serious about central bank reform, they must zoom out and consider reforms of the financial system writ large.

## **1.0 The Legitimacy of Central Banks**

By *legitimacy*, political scientists usually mean that the public accepts the authority of the institutions of the state and their right to deploy the state's powers (Tucker 2018, 11). This is a *descriptive* concept of legitimacy which political scientists use to investigate the public's *belief* in the legitimacy of a particular institution (Rossi 2024, 1–2). Scholars that are critical of the democratic legitimacy of central banks usually adopt a *normative* concept of legitimacy (Braun and Hoffmann-Axthelm 2017; e.g. van 't Klooster 2020). By contrast, critical scholars set out normative criteria that an institution must fulfil to be democratically legitimate and evaluate how well the institution measures up to these criteria (Rossi 2024, 2). An institution that fulfils these normative criteria is legitimate which means the people *should* or have good reasons to put up with the institution's power. For now, when I refer

to legitimacy, I mean normative legitimacy. But I do return to this distinction between descriptive and normative legitimacy later in the paper.

### **1.1 Schmidt's Account of Legitimacy**

EU scholars have provided a helpful distinction between input, output and throughput legitimacy (V. A. Schmidt 2013, 2, 7–8). *Input legitimacy* “depends on citizens expressing demands institutionally and deliberatively through representative politics while providing constructive support via their sense of identity and community” (V. A. Schmidt 2013, 7–8). *Output legitimacy* is “concerned with the problem-solving quality of the laws and rules” and “requires policies to work effectively while resonating with citizens’ values and identity” (V. A. Schmidt 2013, 7–8). *Throughput legitimacy* “demands institutional and constructive governance processes that work with efficacy, accountability, transparency, inclusiveness and openness” (V. A. Schmidt 2013, 7–8). Democratic states require a high degree of input, output, and throughput legitimacy. Put differently, democracies must be *by* the people (input), *for* the people (output) and *with* the people (throughput).

Today Central Bank Independence (CBI) is the dominant global policy paradigm<sup>1</sup> for central banks (Braun 2016, 1069; de Haan et al. 2018, 185–86; Johnson, Arel-Bundock, and Portniaguine 2019, 548). CBI sets out the narrow mandate of central banks and serves as evaluative criteria of their legitimacy. CBI combines three criteria, (1) central banks should be politically independent from their governments when setting monetary policy, (2) monetary policy should prioritise price stability over other goals (namely growth, unemployment and financial stability), and (3) central banks must be

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<sup>1</sup> A policy paradigm is defined as “a framework of ideas and standards that specifies not only the goals of policy and the kinds of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing” (Hall 1993, 279).

committed to transparency and accountability (Braun 2016, 1069; Johnson, Arel-Bundock, and Portniaguine 2019, 547). We can map CBI neatly onto Schmidt's typology.<sup>2</sup> (1) is about input legitimacy, (2) is about output legitimacy and (3) is about throughput legitimacy. This mapping can help us clarify the debate about central bank legitimacy.

## 1.2 The Input Legitimacy of Independent Agencies

Input legitimacy “refers to the participatory quality of the process leading to laws and rules as ensured by the ‘majoritarian’ institutions of electoral representation” (V. A. Schmidt 2013, 4). Then *how does the input legitimacy of the state relate to the input legitimacy of central banks?* Generally, a central bank is an independent agency (IA).<sup>3</sup> Every modern state has several IA to which the government delegates specific responsibilities. IAs require a high degree of output legitimacy but not necessarily input legitimacy. However, IAs do require *ex ante* input legitimacy. Governments delegate responsibilities to IAs because delegation is sometimes functional for fulfilling specific responsibilities more effectively. Ex ante input legitimacy takes the form of the instrumental reasons for delegation. Still, IAs do not require input legitimacy only as long as their policies are only regulatory and not redistributive (Nicoli 2017, 392–98). The legitimacy of IAs in democracies presupposes the possibility of separating problems of optimisation from redistributive concerns (Follesdal and Hix 2006, 551, 557). An IA is regulatory when its policy domain is confined to a unique Pareto-improvement and its policy instruments are limiting to optimising this Pareto-improvement (Follesdal and Hix 2006, 551, 557). Simply put, an IA is democratically legitimate as long as it sticks to its delegated responsibilities and

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<sup>2</sup> I think Macchiarelli et al. (2020b) were the first to apply Schmidt's (2013) account of legitimacy to central banks.

<sup>3</sup> An independent agency is “a public agency that is free to set and deploy its instruments in pursuit of a public policy goal (or goals) insulated from short-term political considerations, influence, or direction” (Tucker 2018, 11).

focuses on optimising outcomes. In democracies, unelected officials should not make major distributional choices or important value judgements, and they should not “have a decisive say in the way we live” (Tucker 2018, 14). When an IA makes distributive choices and produces redistributive outcomes it must have an appropriate increase in input legitimacy. If the IA fails to democratise, it is said to suffer from a *democratic deficit* or it has a *crisis of legitimacy*. The legitimacy of central banks is based on this logic.

### **1.3 The Ex-Ante Input Legitimacy of Central Banks**

As IAs, the ex-ante input legitimacy of central banks takes the form of the original rationale for delegation. The legitimacy of independent central banks rests on the idea that central banks must be insulated from democratic governments (Rogoff 1985). The original rationale explains why governments should vest central banks with power over monetary policy while, at the same time insulating them from democratic pressures. Politicians are tempted to stoke inflation for short-term political advantage, in order to win votes, but at the expense of long-term macroeconomic stability and growth (Adolph 2015, 5; McNamara 2002, 51–52). This is known as the *time inconsistency problem* where “policymakers refuse or are unable to bind their hands and convince the public that they will not engage in surprise inflationary policy” (Palley 2019, 76). Most famously, Nixon pressured Arthur Burns, former chair of the Fed, to stimulate the economy via monetary policy which led to rampant inflation in the 1970s (Abrams 2006).

Rogoff classically argued the government can resolve this problem by delegating authority over monetary policy to a politically independent central bank that has credible anti-inflation preferences (Rogoff 1985). The central bank’s (long-term) commitment to anti-inflation must be credible in order to dissuade economic actors from factoring-in inflation expectations into their wage

demands, prices and investment decisions which can themselves generate inflation in the long-term (McNamara 2002, 68, footnote 8). Independence should insulate the central bank from inflationary democratic pressures which signals to economic actors that the central bank will not manipulate the money supply for political gain. Since inflation is usually a long-term effect of policy and thus depends on long-term expectations, appointing conservative central bankers – or central bankers with stronger inflation rate stabilisation preferences than the socially optimal level – signals to economic actors that the central bank will prioritise inflation targeting across time (Rogoff 1985, 1187–88).

Institutional independence entails a lack of input legitimacy. But *regulatory* IAs do not need it. Instead, the loss of input legitimacy can be compensated by gains in output legitimacy (V. A. Schmidt 2013). In general, input and output legitimacy can involve complementarities and trade-offs where, like in the case of the European Union (EU), a lack of majoritarian institutional inputs can be off-set by desirable and effective policy (V. A. Schmidt 2013). Then, central banks are legitimate, despite lacking input legitimacy, because independence is functional for fighting inflation.

As IAs with unelected officials in liberal democracies, central banks are legitimate as long as they deliver price stability and avoid making major distributional choices (Tucker 2018, 14). Put differently, central banks should be evaluated in terms of output legitimacy – namely by their ability to deliver price stability – because, according to the original rationale, this was the reason why the government delegated power to the central banks in the first place. For central banks, “If independence is one side of the coin, the flip side is a narrow mandate” (Braun and Hoffmann-Axthelm 2017, 4). However, as with all IAs, central banks can substitute input legitimacy for output legitimacy only if (i) central banks stick to their narrow mandates (ex-ante input legitimacy) and (ii) outputs of monetary policy are not significantly distributive (i.e. they are regulatory) (Nicoli 2017, 392–

98). Central banks must fulfil (i) and (ii) to assuage concerns that they lack input legitimacy. If central banks fail to fulfil (i) or (ii) then they cannot rely on output legitimacy alone and must democratise.

## **2.0 The Global Financial Crisis undermined the Legitimacy of Central Banks**

The GFC forced central bankers to act beyond their narrow mandates and they enacted politically controversial monetary policies that had negative redistributive outcomes which undermined their legitimacy (Binder and Skinner 2023a; Braun and Hoffmann-Axthelm 2017, 4; Dietsch, Claveau, and Fontan 2018, ch. 2; Fernández-Albertos 2015, 218; Johnson, Arel-Bundock, and Portniaguine 2019, 546–47, 553, 556–57). The most controversial policy central banks introduced in response to the crisis was Quantitative Easing (QE). QE is controversial because it is an unconventional monetary policy, it produces significant redistributive outcomes and requires central banks to make controversial distributive choices. I discuss each in turn to show why QE undermines the legitimacy of central banks.

Firstly, QE was unconventional. Conventional monetary policy, conducted through Open Market Operations (OMO), involves *repurchase* agreements where central banks would reabsorb the liquidity they injected into commercial banks after a set period of time (usually one week) by re-selling their *reserves* back to commercial banks (Dietsch, Claveau, and Fontan 2018, ch.1; Krippner 2011, 109–13). By contrast, QE was unconventional because it involved the outright *purchase* of large amounts of financial assets on secondary markets, and these “assets vary in maturity and include government bonds, asset-backed securities and corporate securities” (Dietsch, Claveau, and Fontan 2018, ch.1). The Fed introduced QE because it hit the zero lower during the GFC which meant the Fed could not stimulate the economy through conventional monetary policy by targeting short term interest rates. By contrast, QE allows central banks to target – although much less directly – *long term* interest rates

by injecting liquidity directly into different institutional investors and restoring confidence in financial markets by inflating the value of a wide range of assets. QE led to a massive expansion of the central bank balance sheet. Following the GFC and then the COVID-19 pandemic, the Fed and ECB expanded their balance sheet to \$9 trillion and \$7 trillion respectively (ECB 2024; Sablik 2022, 4). The GFC transformed central banks institutionally into one of the largest investors domestically which is a role the original rationale for delegation does not include.

Secondly, QE produces significant redistributive outcomes. QE is significantly redistributive because it enriched existing bond/asset holders which tend to be rich individuals or large companies (Dietsch, Claveau, and Fontan 2018, ch.2). Between 2009 and 2012, during which time the Fed conducted three rounds of QE to help the stimulate the economy, the top 1% captured 91% of all income gains (Sablik 2022, 5; Saez 2018, 4). To affect *long-term* interest rates and stimulate spending and investment, central banks must drive up the demand and prices for a wide array of assets to lower the borrowing costs for corporations (Dietsch, Claveau, and Fontan 2018, ch.2). To boost asset prices through QE, central banks must inject institutional investors with *lots* of liquidity which they use to rebalance their portfolio by purchasing higher-yielding assets. QE enriches large corporations directly by purchasing their bonds and shares which excludes most SMEs that do not tend to issue bonds or shares. Then QE also enriches large corporations and rich individuals and excludes poorer non-bond-holding populations, because it works by boosting the prices of high-yielding assets which are safe avenues where large corporations and rich individuals store their wealth.

Thirdly QE requires central banks to make controversial distributive choices. The distributive pattern of QE is determined by the central bank's decision as to which institutional investors should receive liquidity and how institutional investors will spend their liquidity (Dietsch, Claveau, and Fontan 2018, ch.2). Central banks must select which firms to include in the QE programme and, while central

bankers claim they make neutral investment decisions based on a representative basket of corporate bonds, their decision is nonetheless political in so far as the choice to pursue QE means it is those corporations already active on bond markets that benefit (Dietsch, Claveau, and Fontan 2018, ch.2). Consequently, Dietsch et al. argue that democratic societies should be able to select which enterprises to support, for example green enterprises, through QE (Dietsch, Claveau, and Fontan 2018, ch.2).

## **2.1 Critical Scholars Challenge the Legitimacy of Central Banks**

Central banks can substitute input legitimacy for output legitimacy only if (i) they stick to their narrow mandates and (ii) outputs of monetary policy are not significantly distributive. QE falls outside central banks' narrow mandates, is significantly distributive and requires central banks to make controversial distributive choices. Consequently, since central banks introduced QE, they fail (i) and (ii). In order to restore their legitimacy as IAs, central banks must democratise. Ever since the introduction of QE, scholars have raised concerns about the democratic legitimacy of independent central banks and have pushed for reforms (Braun 2016; Buckle 2023; Dietsch 2020; Fernández-Albertos 2015; van 't Klooster 2020). Braun claims there is an “uneasy balance between independence and accountability” and after the crisis central banks are overburdened which puts “severe strain” on the institutional arrangement that underpins their partial exemption from democratic accountability (Braun and Hoffmann-Axthelm 2017, 5). Dietsch claims central bankers are well aware of the distributive effects of QE can harm their legitimacy so they either reject responsibility for the distributive effects of monetary policy or deny that it had any distributive effects (Dietsch 2020, 593). Tucker evaluated the legitimacy of central banks as IAs in different policy domains and concluded things are “not well” and “quite a lot” of careful reform is necessary to rebuilt legitimacy (Tucker 2018, 23). Van 't Klooster claims, the “situation is untenable and reform is overdue” because the

central banks' policy mandates remained largely the same even though their political roles expanded significantly following the crisis (van 't Klooster 2020, 588).

### **3.0 The Strange Non-Death of Central Bank Independence**

Even though the GFC was the greatest challenge to the legitimacy of independent central banks and scholars cautioned central banks about losing their legitimacy, the GFC failed to transform central banking and the “core pre-crisis monetary policy paradigm remains relatively intact” (Johnson, Arel-Bundock, and Portniaguine 2019, 546–47, 553, 556–57). So *why did the loss of democratic legitimacy not lead to reforms of central banks?* Put differently, *what explains the strange non-death of CBI?*<sup>4</sup> In this section, I look at two types of efforts by central banks to shore up their legitimacy to investigate whether the non-death of CBI can be explained by these efforts. Firstly, after the GFC central banks substituted their lack of input legitimacy with throughput legitimacy by increasing transparency, communication and accountability (Tucker 2018, 420–421). By drawing on Schmidt (2013; 2019), I argue that central banks cannot substitute a lack of input legitimacy with throughput legitimacy. Secondly, central banks have tried to address their lack of input legitimacy through direct discourse with the public that aims to improve the public's trust in central banks (Binder and Skinner 2023b; Lokdam 2020; Macchiarelli et al. 2020a, 2020b). I draw a distinction between *normative* and *descriptive* legitimacy – the former is about assessing IAs against abstract normative criteria, the latter is about (the public's) *belief* in legitimacy – to argue that the central bank's public communication strategies address descriptive legitimacy and not normative legitimacy. To conclude this section, I argue that central banks remain democratically illegitimate despite their efforts to improve their throughput legitimacy and descriptive

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<sup>4</sup> I borrow this phrase from Crouch's seminal work *The Strange Non-Death of Neo-Liberalism* (Crouch 2011).

legitimacy because neither effort produces strong accountability towards their parliaments. In the following section, I question whether the lack of democratic legitimacy matters for central banks.

### **3.1 Central Banks compensated for a lack of Input Legitimacy with Throughput Legitimacy**

The main way central banks have tried to compensate for their lack of input legitimacy is by expanding their throughput legitimacy (Johnson, Arel-Bundock, and Portniaguine 2019, 557). More throughput legitimacy was expected to improve the *credibility* of central banks which Tucker called “a surprising door to legitimacy” (Tucker 2018, 414). After the GFC, the Fed and the ECB voluntarily expanded their transparency and communication with the public and parliament in a conscious effort to improve their legitimacy (Binder and Skinner 2023a, 15–17; Macchiarelli et al. 2020b, 103). To be democratically legitimate, central banks now require input legitimacy because they implemented policies that fell outside their narrow mandates and these policies had redistributive effects. In this section, I draw on Schmidt’s discussion of throughput legitimacy to challenge the central banks’ attempt to substitute input legitimacy with throughput legitimacy (V. A. Schmidt 2013; V. Schmidt and Wood 2019).

Throughput legitimacy “is a procedural criterion concerned with the quality of governance processes, as judged by the *accountability* of the policy-makers and the *transparency*, *inclusiveness* and *openness* of governance processes” (V. A. Schmidt 2013; V. Schmidt and Wood 2019, 728, emphasis added).<sup>5</sup> Simply put, “however high the quality of the governance processes, throughput is considered no substitute for input or output” (V. Schmidt and Wood 2019, 728). Firstly, I reject Tucker’s account

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<sup>5</sup> Due to space constraints, I do not look at *openness* and *inclusiveness*. Inclusiveness and openness is about the way citizens organised in interest groups can lobby to have a direct influence on policy making (V. A. Schmidt 2013, 14–15; V. Schmidt and Wood 2019, 733).

of the legitimacy of IAs through *discursive accountability*<sup>6</sup> because *weak* accountability is no substitute for input legitimacy (Tucker 2018). Secondly, I draw on Schmidt, Weber, and work on the legitimacy of the EU to argue that *strong* accountability to parliaments is necessary for input legitimacy. Strong accountability requires central banks to give up their independence. I conclude by briefly looking at the Fed's and the ECB's attempts to boost their throughput legitimacy and argue their efforts failed to improve their input legitimacy.

### 3.2 Tucker's Account of Central Bank Legitimacy

Among the criteria for throughput legitimacy, transparency and accountability are the strongest contenders to offer an *alternative* to input legitimacy. Transparency means that “citizens and political representatives have access to information about governance processes and that the processes along with the resulting decisions are public” (V. Schmidt and Wood 2019, 732). Transparency is important because it is necessary for accountability. Accountability (a) “means that actors must give account of their actions in (technical and political) forums as well as to the public” and (b) “that technical and political actors can be *held to account*—by technical and political oversight bodies or other forums—for what they do as they engage in processes of governance” (V. Schmidt and Wood 2019, 731, emphasis added).

Tucker argues transparency is necessary for accountability, and jointly with *discursive* accountability they are sufficient for central bank legitimacy (Tucker 2018, 422). Transparency ensures the public knows that political actors follow ethical standards and they do what they say they are doing so citizens could measure their discourse against their actions (V. Schmidt and Wood 2019, 732).

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<sup>6</sup> I think Tucker's is the most sustained contemporary *theoretical* defence of the legitimacy of central banks.

Transparency incentivises central bankers to stick to their narrow mandates by making their actions and results all visible (Tucker 2018, 420–421). Transparency also disincentivises the government from interfering or overriding the central bank’s decisions (Tucker 2018, 420–421). So transparency serves to reinforce the central bank’s credibility as an independent institution and, consequently, serves to calm market-expectations about future inflation. However, Tucker claims that transparency merely “*enables* informed public debate about the regime and its operation” and is not sufficient for legitimacy (Tucker 2018, 423).

*Discursive accountability* means the parliament (or legislative body) holds the IA accountable by requiring the IA to justify its actions, and to respond to questions and confusions of concern to the public (Tucker 2018, 263). An IA must account to parliament because it is parliament that granted it powers and can, in principle, take them away (Tucker 2018, 262–63). For IAs, public appearances give them the opportunity to let the public in (Tucker 2018, 263). Aware of the value of transparency and discursive accountability for their credibility, central bankers “invest in comprehension and monitoring by a wide range of intermediaries”, like the press, in order to facilitate “reasoned debate and criticism of (central bank) policies” (Tucker 2018, 420–422). For Tucker, transparency and discursive accountability together produce “360-degree monitoring” or “*democracy as watchfulness*” which can secure central bank legitimacy (Tucker 2018, 422).

### **3.3 Rejecting Tucker’s Account of Central Bank Legitimacy**

Tucker may be right about IAs in general, but he is wrong about central banks. Firstly, for Tucker, public discourse in parliament is principally about transparency and “entails putting on display the kaleidoscopic range of opinion prevailing on an IA’s policy committee” (Tucker 2018, 372). However, high information transparency – through public discourse and regular publications – can

make an IA less transparent and accountable. For example, the European Commission's high information transparency, in response to the Santer Commission's corruption, led to information overload which ironically made the Commission less transparent (V. A. Schmidt 2013, 16). The Fed and ECB have a very high degree of information output, in part because they sit at the centre of research on central banks, and their governing councils regularly publish their minutes of meeting (Dietsch, Claveau, and Fontan 2018, ch.4).

Secondly, transparency and discursive accountability are insufficient for central bank legitimacy because they produce only *weak* accountability which does not count towards input legitimacy. Schmidt distinguishes between *weak* (throughput) accountability – to hold political agents accountable in public forums by requiring them to justify their actions – and *strong* (input) accountability – to hold political agents accountable at the level of appointments through democratic elections or authorisation (V. Schmidt and Wood 2019, 732). Throughput accountability comes after and merely complements input accountability (V. Schmidt and Wood 2019, 732). Strong accountability is more demanding than weak accountability because, while weak accountability is about reason-giving and publicly scrutiny, strong accountability is about political sanctions and, in particular, the highest form of political sanction – the loss of public office. Tucker's combination of transparency and discursive accountability is a form of weak accountability because it is about holding central bankers accountable in public forums by requiring them to justify their actions. For throughput legitimacy to start to count towards input legitimacy, parliaments must have the power to sanction central banks. As far as I could tell, Tucker does not think that the central banks' accountability rests on the power of parliament to sanction central banks (Tucker 2018). For this reason, I reject Tucker's argument that transparency and discursive accountability is sufficient for central bank legitimacy. Next, I clarify the

meaning of weak and strong accountability for central banks more fully to explain what form throughput legitimacy must take to count towards input legitimacy.

### **3.4 Motivating an Alternative Account of Legitimacy**

To clarify how strong accountability relates to input legitimacy I briefly turn to Weber's account of the modern state. The idea of input legitimacy comes from Weber's dictum that after the French revolution only democratic forms of rule<sup>7</sup> are legitimate (Shaw 2008, 34; Weber 2004, 52–53). However, under modern conditions, direct democracy – the democratic ideal – is not feasible because modern states are too big, diverse and complex to be ruled without an intellectual division of labour (Shaw 2008, 34). Instead, under modern conditions, the democratic ideal is feasibly realised through democratic elections through which citizens can grant input legitimacy to their representatives by voting them in.

In modern states, elected representatives are strongly accountable to their citizens because, by voting, citizens have the power to grant their representatives input legitimacy and, in the next election, to take it away. So, on the one hand, strong accountability is about the power to sanction representatives and, in particular, the power to sanction representatives through appointments. Once in power, elected officials have an interest to follow democratic norms and procedures (throughput legitimacy) and deliver on some of their promises (input legitimacy) in order to win the next election and stay in power. Then on the other hand, strong accountability is also about exercising sanctions not only when representatives fail to follow set procedures but also when representatives fail to be responsive to the common interest or deliver on their promises. I suggest the strong accountability

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<sup>7</sup> Rule, or *Herrschaft* in Weber's terminology, is "the probability that certain specific commands (or all commands) will be obeyed by a group of persons" (Shaw 2008, 34).

counts towards (or reflects) input legitimacy if strong accountability means citizens have the power to sanction public official through elections, and citizens exercise this power when the public official is not responsive to the public interest.

### **3.5 Alternative Account of Legitimacy for Central Banks**

The public holds elected officials *weakly* accountable by regularly requiring them to justify their actions publicly (throughput) and *strongly* accountable by voting in elections (input legitimacy). I suggest we can uphold this distinction and by analogy provide a somewhat different account for central banks by borrowing from work on the democratic legitimacy of the EU. In the case of the EU, Schmidt admits that if we evaluated EU's legitimacy solely in terms of its input then "it is almost destined to fail" (V. Schmidt and Wood 2019, 737). However, *if*<sup>8</sup> we agree with intergovernmentalists that EU's input legitimacy lies in the democratic accountability of governments – insofar as EU's supranational institutions are effectively controlled by Member States through the Council – then the EU is a black box of governance whose output performance depends on the throughput legitimacy of EU's decision-making processes (Moravcsik 2002, 619; V. Schmidt and Wood 2019, 737). Put differently, if the EU merely translates the will of its Member States, then the input legitimacy is not essential, but throughput legitimacy is very important for the EU. The EU has indirect input legitimacy if its Member States have direct input legitimacy<sup>9</sup> and can effectively control the EU's supranational institutions.<sup>10</sup>

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<sup>8</sup> And this is a big if. I do not endorse this view.

<sup>9</sup> Kelemen (2017) argues that the EU has a democratic deficit on the grounds that some of its Member States, namely Poland and Hungary, do not have democratic legitimacy.

<sup>10</sup> I think the EU is not democratically legitimate precisely because Member States do not control EU's supranational institutions. For a similar response see (Hix 2018).

As Member States are the principal to EU institutions, domestic parliaments are the principals to central banks. Parliaments have input legitimacy through elections and it is parliaments that hold IAs directly accountable. I suggest parliaments hold IAs *weakly* accountable by making them justify their actions publicly (throughput legitimacy) and *strongly* accountable by sanctioning the IA in order to make it adjust its policies if its policies are not responsive to the common interest (input legitimacy).<sup>11</sup> By analogy to the EU, a central bank can have indirect input legitimacy if their parliament has direct input legitimacy and if the parliament can effectively control the central bank. I suggest effective control can take the form of strong accountability. Then strong accountability requires parliament to have the power to sanction central banks, in particular the power to appoint and fire central bankers, and parliament must be willing to exercise this power if the central banks are not responsive to the public interest. This is a demanding criterion that implies the end of central bank independence. However, if central banks are serious about democratic legitimacy and as redistributive IAs they now need input legitimacy, then the way to compensate a lack of input legitimacy is to implement strong accountability.

### **3.6 Evaluating the Legitimacy of the Fed and the ECB**

The Fed's and the ECB's efforts to improve their transparency and communication policy with their respective parliaments – Congress and the European Parliament – takes the form of weak accountability (Binder and Skinner 2023a, 11–17; Macchiarelli et al. 2020b, 103). The Board Chair of the Fed reports to the House and Senate on a semi-annual basis to report about performance,

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<sup>11</sup> Between weak and strong accountability, I think there is also space for *moderate* accountability where parliaments have the power to sanction the IA, but they sanction the IA only for failures of governance (throughput legitimacy) and not for failures of policies to be responsive to the common interest (input legitimacy).

objectives and plans (Binder and Skinner 2023a, 14). Similarly, the ECB's accountability is best captured by its answerability to the European Parliament and especially its ECON Committee (Macchiarelli et al. 2020b, 106–9). The ECB has quarterly meetings with the ECON Committee and the European Parliament as a whole (Macchiarelli et al. 2020b, 109). Binder and Skinner claim that parliamentary scrutiny of the Fed's internal workings is lax relative in comparison to IAs like the Environmental Protection Agency or the Federal Trade Commission (Binder and Skinner 2023a, 14). Similarly, Macchiarelli et al. highlight that MEPs criticised the ECON committee's "somewhat submissive attitude towards the ECB president" and how some MEPs were generally there to flatter and not to scrutinise the ECB (Macchiarelli et al. 2020b, 114). For discursive accountability to perform its function, parliaments must be willing to scrutinise their central banks during hearings (Tucker 2018, 262–63). This may be the bare minimum for central banks to be weakly accountable to parliament, but it seems like both for the Fed and the ECB their parliament's questioning is not incisive or critical enough to deliver even weak accountability. However, it may be the case that poor weak accountability reflects a lack of strong accountability.

Parliaments may be more willing to scrutinise their central banks if their scrutiny mattered for central bank decisions. However, parliaments lack effective sanctioning mechanisms to force the Fed or the ECB to consider their views. The European Parliament "has no substantive means at its disposal to sanction the central bank" (Macchiarelli et al. 2020b, 107, 111–12; V. Schmidt and Wood 2019, 731). MEPs are acutely aware "of the fact that their interventions tend to be of limited input into the ECB's decision-making"<sup>12</sup> (Macchiarelli et al. 2020b, 111). In the US, the gold standard for keeping IAs accountable is judicial review which often serves as a stand-in for "more directly democratic

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<sup>12</sup> Although, Macchiarelli et al. do point that out "70% of respondents deeming the central bank to take the EP's views into consideration at least "occasionally"" (Macchiarelli et al. 2020b, 111).

features” (Binder and Skinner 2023a, 12). However, the Fed is effectively insulated from judicial review, the Fed’s actions are almost never reviewed in court, and citizens are in practice excluded from “seeking court review of a Fed policy” (Binder and Skinner 2023a, 12–13). Congress also has the power to audit the Fed but this option has never been used and is arguably not feasible given the size of the Fed’s balance sheet (Binder and Skinner 2023a, 14–15). Since parliaments lack effective sanctioning mechanisms, they cannot hold their central banks strongly accountable. This means that the central banks’ efforts to improve their throughput legitimacy does not count towards their lack of input legitimacy. After introducing QE, central banks remain democratically illegitimate, and their efforts have not improved their situation. Next, I turn to central banks’ other attempt to improve their legitimacy.

### **3.7 Central Banks’ Efforts to Communicate directly with the People**

Ever since the GFC, central banks have also prioritised *speaking to the people*, and the Fed and ECB have adopted open and clear approaches to communicating with the public directly as best practices because they “believe this level and style of communication is necessary to maintain its legitimacy” (Binder and Skinner 2023a, 16; Macchiarelli et al. 2020b). As Bernanke claimed, “Ultimately, the legitimacy of our policies rests on the understanding and support of the broader American public, whose interests we are working to serve” (Binder and Skinner 2023a, 16–17). The Fed expanded its direct communication to increase public comprehension of and support for the Fed and its policies (Binder and Skinner 2023a, 16–17). The Fed also organises “Fed Listens” events where a wide-range of participants – from trade unions to low- and middle- income residents – voice their views about how monetary policy affects their daily lives and livelihoods (Binder and Skinner 2023a, 17).

Similarly, the ECB has intensified its efforts to speak to the people of Europe to improve its public legitimacy (Macchiarelli et al. 2020b, 115–17). After the GFC, the ECB also rebranded as an institution that serves the interests of European citizens more directly and explicitly (Lokdam 2020, 978). For both the Fed and the ECB more direct communication with the people is about improving their legitimacy or, more accurately, their perceived legitimacy with the people. To make sense whether these efforts help improve the legitimacy of central banks, I return to the distinction between descriptive and normative legitimacy.

I return to the distinction between normative legitimacy and descriptive legitimacy. Philosophical approaches adopt normative legitimacy and explore the normative question, *should* people put up with others’ power over them? (Rossi 2024, 1–2). Generally, philosophical accounts of legitimacy try to identify properties that polities or their institutions “acceptable or justified, or that generate political obligations” (Rossi 2024, 2). Thus far in this paper, I evaluated the democratic legitimacy of central banks in a normative way.<sup>13</sup> I first set-out the problem – since the GFC central banks require input legitimacy because they transformed from regulatory into redistributive IAs. Then I evaluated whether the central banks’ recent efforts to expand their throughput legitimacy count towards their input legitimacy by looking at the Fed’s and the ECB’s expanded transparency, accountability, and communication policies. I answered in the negative because the central banks’ expansion of throughput legitimacy did not take the form of strong accountability, and accountability must take this form to count towards input legitimacy. Simply put, central banks today are not democratically legitimate. This is a normative claim which implies that the people *should* not put up with the power of central banks.

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<sup>13</sup> I think most *critical* CPE/IPE evaluate the democratic legitimacy of central banks in a normative way.

However, there is a big difference between asking whether the people *should* put up with the power of central banks and why, in practice, *do* people put up with the power of central banks (Rossi 2024, 1)? The latter question orients the social scientific approach where legitimacy is a *descriptive* concept. The social scientific approach follows Weber for whom legitimacy is perceived legitimacy or the capacity to secure obedience and a lack of legitimacy, among other things, can entail a loss of political power (Rossi 2024, 1–2; Shaw 2008, 35–36; Weber 2019, 109, 338). Then, for the social scientific approach legitimacy is belief in legitimacy and social scientists conduct public opinion surveys to make claims about democratic legitimacy (Rossi 2024, 2–4). Contemporary social scientific approaches extend the Weberian approach and evaluate the legitimacy of democratic polities by taking the *responsiveness* of a democratic polity – or the “alignment between public opinion and policy outcomes” – as a proxy or indication of broad support for the polity (Rossi 2024, 4–6).

In scholarship there is a big chasm between normative and descriptive legitimacy which produces a number of practical problems.<sup>14</sup> The normative qualities of a system of authority are in principle independent of the people’s belief in the legitimacy of that authority and vice-versa (Rossi 2024, 2). Descriptive accounts of legitimacy take observable indicators – like people’s beliefs, attitudes, trust of or participation in an institution – as proxies of normative legitimacy but it is often unclear how these observables should translate into a justification of a given authority. Similarly, normative accounts of legitimacy may point out central banks are illegitimate, and the people should not put up with their power, but the people may nonetheless put up with the power of central banks. After all, whether the people believe central banks are legitimate is distinct from whether central banks are legitimate as such.

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<sup>14</sup> For a longer discussion of the relationship between descriptive and normative legitimacy see (Rossi 2024; Sabl 2015).

The central banks' recent efforts to expand their direct communication with the public targets their descriptive legitimacy and not their normative legitimacy. Still if the public's belief in the legitimacy of an institution is what determines whether the institution holds onto political power, then in principle clear empirical indicators of the public's belief in the institution's legitimacy can count as a proxy for the central banks' normative legitimacy. A 2022 Gallup Poll – that asked Americans to evaluate the job the Federal Reserve Board was doing – indicated that the approval of the Fed increased since their lowest levels after the crisis in 2009 and the 2017 approval figures are similar to the pre-GFC 2003 figures (Gallup Poll 2022, Q22 C). By comparison, Eurobarometer surveys indicate that net trust<sup>15</sup> in the ECB improved but never recovered from pre-2008 levels, and ECB-scepticism continued to rise until 2017 and only started to taper off thereafter (Bergbauer et al. 2020). On the surface, without making too much out of public opinion surveys, this may suggest that the central banks' efforts to speak to the public may have improved their descriptive legitimacy. However, scholars sometimes conflate normative and descriptive legitimacy, and I would caution against taking indicators of descriptive legitimacy as indicative of normative legitimacy outright.<sup>16</sup> Macchiarelli et al. claimed “perceptions of legitimacy are hard to grasp and even harder to steer” (Macchiarelli et al. 2020b, 103). The approval of ECB is correlated with other macroeconomic indicators, like unemployment and GDP growth, and broader support for EU institutions, but the ECB's market success still did not translate into praise of ECB as an institution (Macchiarelli et al. 2020a, 125–31).

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<sup>15</sup> “Net trust is calculated as the share of respondents giving the answer “Tend to trust” minus the share giving the answer “Tend not to trust” to the question “Please tell me if you tend to trust it or tend not to trust it?” (Bergbauer et al. 2020).

<sup>16</sup> For example, I think while Schmidt mainly provides a normative account of throughput legitimacy, Schmidt suggests throughput legitimacy matters because it affects “public perceptions of legitimacy” (V. A. Schmidt 2013, 14).

This suggests that pumping confidence in central banks through transparency and communication with the public does not always translate into descriptive legitimacy.

Observable indicators that are taken as evidence of descriptive legitimacy are often poor proxies for normative legitimacy. Koop and Reh argued that, for descriptive legitimacy to count as a reasonable proxy for normative legitimacy we need evidence that “(i) citizens are aware of the ECB and its design; (ii) citizens prioritise democratic standards over alternative motivations for acceptance; and (iii) citizens are able to differentiate between the ECB and the European Union’s wider multilevel system” and they concluded that “these three conditions are unlikely to bear out empirically” (Koop and Reh 2019, 63). This is a demanding standard for descriptive indicators of legitimacy to count as a good proxy for normative legitimacy. This means the empirical evidence necessary for descriptive legitimacy to count as a reasonable proxy for normative legitimacy is often not available, and it requires citizens to have expansive knowledge and opinions about their central banks that could be reasonably translated into legitimacy-beliefs.

Still, it is worthwhile to try bridge the gap between descriptive and normative legitimacy by, for example, asking citizens normative questions about how their central banks should be organised. In this case, Binder and Skinner evaluated whether the Fed was normatively legitimate by looking at statutes and the Fed’s practices, and then surveyed American citizens to show the general public prefers the Fed to stick to its narrow mandate and focus on price stability, and so they urge “the Fed to use restraint when exercising the discretion in the interstices of its legal mandates” (Binder and Skinner 2023a, 1). In the absence of normative legitimacy, scholars must do a lot more empirical work to show that central banks are nonetheless descriptively legitimate such that normative evaluations might be wrong headed and need to be revised. As it stands, the central banks’ efforts to improve

their descriptive legitimacy does not help them improve their (normative) input legitimacy. In the next section, I discuss whether legitimacy matters for central banks.

#### **4.0 Primacy of Legitimacy Thesis**

The preceding discussions demonstrate that much contemporary scholarly debates about central bank reform is organised around the democratic legitimacy of central banks. Driven by the original rationale behind CBI, mainstream scholarship, confined the debate about central banking to determining optimal monetary policy and finding ways to insulate central bankers to let them get on with their work (Adolph 2018, 737). In response critical CPE/IPE scholars, sociologists and political theorists, tried to politicise central banks in order to push through reforms by showing that at least ever since the GFC central banks lost their democratic legitimacy (Adolph 2015, ch.1; Binder and Skinner 2023a; Braun and Hoffmann-Axthelm 2017; Dietsch 2020; Dietsch, Claveau, and Fontan 2018; Fernández-Albertos 2015; Johnson, Arel-Bundock, and Portniaguine 2019; Kirshner 2003; van 't Klooster 2020; e.g. McNamara 2002; Palley 2019; Tucker 2018). Other scholars and central bankers themselves tried to *save* the democratic legitimacy of central banks by adjusting the legitimisation story or clarifying public misconceptions about central banking that could undermine belief in the legitimacy of central banks (e.g. Braun 2016; Diessner 2023b).

I think there is something amiss in critical scholars' insistence on securing the democratic legitimacy of central banks. Lurking behind this insistence there seems to be the intuition that "we must first agree to get along, and only then can we get down to the business of pursuing justice" (Roberts 2022, 41). The basic idea is that the question of legitimacy has political primacy. Roberts called this the *primacy of legitimacy thesis* (PLT) (Roberts 2022, 41). Scholars and political actors (e.g. central bankers) must settle the question of legitimacy first before they can decide on specific

political outcomes (e.g. which firms should receive QE). Before we decide on specific political outcomes, we must “bind ourselves to only pursue policies that are, in some sense, acceptable to everyone” by finding procedural constraints for setting policy that enjoy a broad consensus (Roberts 2022, 46). Put differently, the first task of politics is to find, secure and protect mutually agreeable institutional frameworks for debate and decision making (Roberts 2022, 46). The idea is that that institutions of rule are founded upon the legitimacy-beliefs of the ruled (Roberts 2022, 45). In this case, descriptive legitimacy is about the study of the legitimacy-beliefs of the ruled, and the achievement of normative legitimacy lends itself to positive legitimacy-beliefs among the ruled. Scholars’ insistence on establishing the democratic legitimacy of central banks very much fits PLT. Even the more provocative works organise their critiques of central banks around democratic legitimacy (e.g. Dietsch, Claveau, and Fontan 2018).

The problems of approaches that follow PLT stems from two assumptions (a) the legitimacy of an institution reflects a broad *consensus* about the institution’s decision-making procedures and, consequently, and (b) the loss of legitimacy is detrimental to the institution that lost it because it implies dissensus about rules of procedure (Roberts 2022, 45–46). However, for (a) and (b) to be true we must presuppose the very social conditions that (a) and (b) make possible. Let me clarify. A legitimate institution is one that has decision making procedures that are broadly accepted by the public. CBI undergirds the legitimacy of central banks. By virtue of being broadly accepted, these procedures make the institution responsive to the will of the public, whether through direct participation, representation, or accountable regulation. However, for the institution to establish acceptable procedures to become legitimate, the institution would have had to be responsive to the public in the first place. This means that an institution that empowers the public by virtue of its legitimacy, presupposes the very empowered public capable of establishing a legitimate institution in

the first place.<sup>17</sup> Put differently, the “legitimacy of government is more likely to be an index of the absence of social domination than a precondition of that absence” (Roberts 2022, 47).

First, I will briefly discuss why (a) and (b) are *not* reasonable assumptions in relation to central banks and then I will turn to the more general problem of approaches that employ PLT. Part of the problem is that (a) is infeasible because politics is generally deeply conflictual (Sleat 2013, 471). (a) presupposes the possibility of a broad consensus about rules of procedure whereas the continued existence of a society without such an agreement “is often the only practical possibility” (Galston 2010, 385). (a) is all the more an absurd assumption to hold in relation to central banks that are intentionally insulated from democratic influence. The legitimacy of central banks rests on CBI, the idea that institutional insulation from democratic pressures is functional for price stability (Braun 2016, 1065). In theory, for CBI to establish the legitimacy of a central bank, the central bank would have had to be responsive to the public such that CBI could reflect a broad consensus about the central bank’s procedures.

However, CBI was introduced as an effort by the US government and the Fed to evade public responsibility for the negative effects of highly contractionary monetary policy in the 1970s and 1980s (Dietsch, Claveau, and Fontan 2018, ch.2; Krippner 2011, ch.5). Paul Volcker – after whom the idea that central bank legitimacy rests on CBI is named – was appointed chair of the Federal Reserve in 1979 at a moment of intense politicisation of economic policy with disgruntled consumers on one side

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<sup>17</sup> This is a common form of critique of ideal theory. For illustration, another example of this critique is Gourevitch and Stanczyk’s arguments against Universal Basic Income (UBI) (Gourevitch and Stanczyk 2018). It goes something like this. A generous UBI could empower workers to better resist their bosses. However, a UBI high enough to be emancipatory would require the expropriation of bosses and the wealthy which presupposes “an organised working class already powerful enough to extract it” (Gourevitch and Stanczyk 2018, 1). While a UBI is supposed to emancipate the working class, it presupposes the very emancipated working class it was supposed to produce. And if UBI requires that the working class already won, then UBI is irrelevant to working class struggle.

and financial markets in panic on the other (Braun 2016, 1065; Krippner 2011, 114). At the time, Volcker introduced monetarism – the idea that inflation can be reduced by adjusting the money supply – even though he considered it “extreme” precisely because it obscured the Fed’s role in controlling the interest rate (Krippner 2011, 115–18). Hiding from responsibility mattered because by early 1980s, the interest rate climbed to 20% and by 1981 the US economy was put in a deep recession in part to (eventually) crush the inflation (Krippner 2011, 118–20).

Needless to say, this policy was not popular, and people protested. Car dealerships sent “coffins containing the car keys of unsold vehicles” to the Fed (Federal Reserve 2013). However, despite the high social costs Reagan got re-elected and served until 1989, and Volcker remained in office until 1987. CBI served to make the Fed *less* responsive at a time when it had to implement policies that the public would disagree with so it is highly unlikely that CBI could reflect a broad consensus about central bank procedures nor was it ever supposed to. Instead, for central banks, independence “has important legitimising and symbolic properties which render it attractive in times of uncertainty or economic distress” (McNamara 2002, 48, 65). Put another way, since the beginning central bank independence is about producing belief in the legitimacy of central banks in the public and not about establishing the legitimacy of central banks’ as such. Thereafter, central banking spread due to “organisational mimicry and global norms of neoliberal governance” and not because CBI was especially functional for fighting inflation nor were the countries that implemented CBI usually in need to fight high inflation (McNamara 2002, 48, 56–58, 65).

Similarly, the idea that (b) the loss of legitimacy is detrimental to the institution that lost it, presupposes a public or their representatives with the power to do anything about it. The loss of legitimacy is only a problem if the public has the power to eventuate change if they are dissatisfied with or do not trust a given institution (Roberts 2022, 45). To illustrate, the loss of democratic

legitimacy can threaten central banks because elected politicians may choose to remove central bank independence and the public may push for reforms (Tucker 2018; do Vale 2021). CBI saw its first heyday in Britain in the mid-1920s but the 1929 stock market crash and the Great Depression was enough to roll back the recently acquired responsibilities and powers of central banks (Tucker 2018, 4; do Vale 2021). However, the GFC presented a moment where stronger coordination between monetary and fiscal policy was desirable to address financial instability and an opportunity where politicians could have reformed central banks to improve coordination but they did not (Diessner 2023a). If anything, the degree to which central banks, market-based banking and financial regulation remained the same after the crisis suggests it “required substantial political support” and not merely silent accomplices (Braun 2020, 399).

Further, protest movements that target central banks – e.g. Occupy protests against Fed bailouts to finance, the anti-capitalist Blockupy protests against the ECB in 2015 and protests against capital controls in Lebanon in 2023 – may reflect a loss of democratic legitimacy but these movements express dissatisfaction with capitalism in general or specific policies and not CBI in particular (Al Jazeera 2023; Jones 2015; Rooney 2008). Protests may express dissatisfaction or distrust of an institution, but their mere presence hardly means they have the power to do anything about it. Consider, Occupy Wall Street, the biggest protest in the aftermath of the GFC, that failed to achieve any policy ends and whose greatest achievement was raising consciousness about wealth inequality (Milkman, Lewis, and Luce 2013). Despite the loss of legitimacy and despite this public discontent, the “core pre-crisis monetary policy paradigm remains relatively intact” (Johnson, Arel-Bundock, and Portniaguine 2019, 546–47, 553, 556–57).

Prioritising legitimacy occludes an important political phenomenon which can help explain the non-death of CBI (Roberts 2022, 47). Socially dominant groups tend to dig in their heels politically

whenever the spectre of reforms threaten their social dominance (Roberts 2022, 47). This means the dominant are prone to hold legitimacy hostage to stay in power. Among IAs, independence grants central bankers an exceptional degree of power. Central bankers cling onto CBI and went to pains to defend it precisely because CBI is what granted them power in the first place.<sup>18</sup> Following the GFC, central bankers defended CBI, in part, by underplaying the newness of their unconventional instruments and incorporating them into the core paradigm in a gradual and subtle way (Johnson, Arel-Bundock, and Portniaguine 2019, 555–58). Central banks are also exceptionally well-positioned to produce their own credibility as experts by being at the centre of research on CBs, e.g. the Fed hires 400 PhD economists and monetary policy journal editorial boards are often majority ex-central bankers (Dietsch, Claveau, and Fontan 2018, ch.4).

CBI, instead of restricting central bankers who overstepped their narrow mandates, allows them to dismiss responsibility for anything that fell outside their narrow mandates, like financial stability or monetary financing. Even at the end of his challenging tenure (2004–2011), previous ECB president Trichet insisted “we were called to deliver price stability!”, rejected the ECB’s role as lender-of-last-resort, and denied the ECB engaged in monetary financing even after engaging in open market bond purchases to shore up EU Member States (Atkins 2011; European Central Bank 2011). I speculate that central bankers mistrust the public and they do so because democratic insulation is what grants them power and the public’s *irrational* expectations about inflation is what makes the central bankers’ job harder. The central bankers’ response to a lack of input legitimacy with more throughput

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<sup>18</sup> This is consistent with saying that central bankers resisted any challenges to CBI because they truly believe in the paradigm’s virtues (Johnson, Arel-Bundock, and Portniaguine 2019, 549–56). After all, central bankers have an interest in retaining CBI and this interest may be reflected in their beliefs.

legitimacy reflects just this. For central bankers, the problem of legitimacy is resolved by making sure the public is aware and understands that the central bank is doing the right thing.

The problem with approaches that employ PLT is that by insisting on resolving the question of legitimacy first before we descend to do politics these approaches rarely check whether the relations of power – that are necessary for legitimacy to obtain and for the loss legitimacy to matter – are present.<sup>19</sup> This explains why even though critical scholars have successfully demonstrated that central banks are democratically illegitimate, CBI remains a “zombie idea; that is, an idea that will not die, no matter how often it is disproved” (Qanas and Sawyer 2023, 13). And, as I suggested above, the strange non-death of CBI may also in part reflect central bankers’ own interest in maintaining their power. Scholars’ insistence on achieving democratic legitimacy may perversely play into the central bankers’ hands in so far as they have the power to hold legitimacy hostage precisely because the public does not have the power to keep central banks accountable in any substantive way. Put differently, central bankers can tolerate scholars’ challenges of their democratic legitimacy precisely because central banks are not threatened by it, nor are they founded upon it. Instead, central banks can pay lip service to legitimacy by expanding their transparency and communication at little to no cost.

For these reasons, the legitimacy of central banks does not matter, and scholars should learn to stop worrying about it. Instead, scholars should look where their commitment to PLT discourages

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<sup>19</sup> As Roberts put it, “The priority of legitimacy thesis presupposes that dissensus about procedures—contestation over the framework for decision making—is akin to a high fever or uncontrolled bleeding: a symptom of illness or injury that must be treated before the underlying condition may be addressed. First you bring the fever down. First you stop the bleeding. Otherwise, the patient may die before you can treat the causes” (Roberts 2022, 47).

from doing so. Critical scholars should focus *below* legitimacy at relations of power.<sup>20</sup> Scholars should proceed from the premise that questions of power are *prior* to questions of legitimacy.<sup>21</sup> This idea stems from Marx's insight that social rules and norms flow from underlying power relations (Marx 1994). This means we should evaluate institutions, like central banks, by focusing on their inherent forms of power rather than in the way they violate particular rules or norms, like CBI, that are, in part, produced by the institutions under consideration. To this end, I briefly turn to contemporary accounts of financial power and how central banks are affected by it.

#### **4.1 The Power of Finance**

In this final section, I (very) briefly consider how the non-death of CBI can be explained in terms of power. One final group of critical scholars explain the non-death of CBI by arguing that central bankers and state officials were captured by neoliberal ideologies and financial interests, or the state became structurally dependent on the determinations of financial markets such that the prospect of capital flight loomed large in decisions about reforms (Adolph 2015; Dietsch, Claveau, and Fontan 2018; Kalaitzake 2017; Palley 2019; Seabrooke and Tsingou 2021; Tsingou 2015). While I agree with the thrust of this response – financial actors have disproportional influence on central bankers and central banks care about financial market determinations – I reject the claim that central banks or the state are *captured* by finance as such. This implies CBI did not die because finance holds effective power

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<sup>20</sup> Or again, as Roberts put it, “I incline, instead, to the view that a lack of legitimacy is akin to the growth of a boil, and that healing may well require encouraging the conflict over procedures to come to a head” (Roberts 2022, 47).

<sup>21</sup> I am not suggesting scholars should not focus on legitimacy at all. But I do think that when it comes to the democratic legitimacy of central banks, critical scholars are just kicking a dead horse.

*over* the state and had it not been the case the state would have reformed CBI after the GFC (Braun 2020, 396).

However, financial markets require strong cooperation from central banks and the state and core states and their central banks benefit from strong financial markets (Braun and Koddenbrock 2023, 20; Dutta 2020, 675, 678). In fact, the Fed and the ECB have expanded and propped up financial markets in order to make their monetary policy instruments more effective (Braun 2020). Central banks invest in financial markets because their monetary policy instruments had to become more market based to govern effectively a financialised and market based banking system (Braun 2020). On this reading, the non-death of CBI is not so much the result of capture by finance but rather it reflects a structural shift in banking and finance that required central banks to adapt to govern effectively. Then, if critical scholars want to reform central banking, they must not focus on legitimacy nor on financial capture, but they should focus on the power of finance writ large. This implies that central bank reform would require wholesale reform of the financial system which, understandably, is a much taller order (Lapavistas 2013). Even so, grappling with this much more serious problem is significantly more worthwhile than all the ink scholars have spilled over the legitimacy of central banks.

## **5.0 Conclusion**

In conclusion, I have argued that central banks are not democratically legitimate and that this does not matter. My goal has been to discourage critically minded scholars who are invested in central bank reform from continuing the debate about democratic legitimacy. CBI persists despite the GFC and despite the scholars' successful challenges of central bank legitimacy. I clarified that institutional reform that introduces strong accountability is necessary for central banks to restore their legitimacy. This implies the end of central bank independence. By looking at the Fed's and the ECB's efforts

since the GFC to improve their legitimacy, I sought to show that their efforts were never really about democratisation but rather they were about making citizens believe they were legitimate.

This implies legitimacy does not matter for central banks. Central bankers can happily tolerate scholars' challenges to their legitimacy because these challenges do not threaten their power, and so they can continue to pay lip service to legitimacy by having cheap public discourses with the people. Instead of investigating democratic legitimacy scholars should focus on financial power. On this account, CBI merely reflects the structural changes that central banking introduced in order to reassert control over money after the introduction of financialization and market-based banking. This is a more challenging task but at least it is worthwhile. If scholars continue to challenge the legitimacy of central banks, then they will just continue to "struggle with the 'shadows of reality'" (Marx and Engels 2010, 23–24).

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