
È. Monnet, *Balance of Power: Central Banks and the Fate of Democracies*, The University of Chicago Press, Chicago, 2024, pp. 203.

Is it time to democratize central banking? Should the framework for monetary and fiscal policy be revised? The French economist and economic historian Èric Monnet attempts to address these challenging questions in his latest book, *Balance of Power: Central Banks and the Fate of Democracies*. Monnet is no new to this debate; his extensive body of work has long engaged with the evolution of central banks and their interaction with broader economic and political structures. The text examined here is a translated version of the original, published by Les Éditions du Seuil and La République des Idées in November 2021 under the title *La Banque-providence. Démocratiser la banque centrale et la monnaie*. The book garnered significant attention and was revised and expanded for the English edition. This latest version builds on the previous one, offering a deeper exploration of how central banks have transitioned from narrowly focused institutions to influential actors shaping financial markets, wealth distribution, and green policy. Monnet frames his analysis starting from the context of the “1990s consensus,” which – as is well known – defined central banks as primarily responsible for inflation targeting and interest rate management. The underlying assumption was that monetary policy could remain largely isolated from other macroeconomic policies, with no need for coordination with broader fiscal measures. The 1990s also saw the emergence of a new definition of central bank independence, designed to shield monetary policy from political influence, encapsulated by the idea that “money is too important to be left to elected representatives.” However, this framework has been fundamentally challenged over the past 15 years, particularly by the crises of 2008 and COVID-19. Excluding the most recent events, such as the current battle against inflation, we can observe that central banks have been more focused on maintaining financial stability than strictly controlling inflation. Fur-

thermore, central banks have employed a variety of tools in addition to interest rates, such as quantitative easing, targeted loans, foreign exchange reserves, and swaps – many of which were rediscovered from earlier practices. These actions, while necessary, have had significant side effects, including impacts on asset prices, wealth inequality, and the profitability of financial institutions. This has made coordination between monetary and fiscal policies inevitable, paving the way for what is now referred to as macroprudential policy. The mandate of central banks, which many central bankers claim is clear and narrow, has proven to be far less so.

Faced with the paradigm shift of the past decade – which Monnet argues has effectively dismantled the 1990s framework – it is legitimate to ask whether we should demand more or less from central banks. These questions are not without contradictions. For instance, while many progressives in various countries emphasize that central banks are already very powerful, they also highlight the potential roles central banks could play in addressing urgent challenges, such as green transitions.

Three main positions have emerged, albeit with nuanced differences, regarding the role of central banks today and their democratic legitimacy. The first position, which remains dominant among some economists, advocates a return to the pre-2000s consensus. However, given the current levels of public debt and the pressing issue of climate change, returning to the world of the 1990s as if the past decades had not occurred seems highly unlikely. The second position represents the opposite extreme, advocating for a complete abandonment of central bank independence in favour of a full integration of monetary policy and fiscal policy, with a central bank directly financing the government until inflation forces it to restrict such financing, as proposed by Modern Monetary Theory. Finally, the third position calls for rebuilding coordination between monetary policy and fiscal policy while preserving central bank independence. In this perspective, which Monnet supports, creating new forms of democratic accountability for central banks and redefining the concept of central bank independence is essential.

To construct this new framework, a cornerstone of Monnet's argument is to shift the focus of analysis from monetary policy to credit policy. Monnet has already explored this topic in his seminal book *Controlling Credit. Central Banking and the Planned Economy in Postwar France, 1948-1973* (Cambridge University Press, 2008). While the concept of monetary policy is relatively recent – emerging prominently only in the 1990s when central banks began to define themselves as responsible primarily for monetary policy – and could be defined as the means that a central bank uses to affect variables of the short-term economic cycle such as

inflation, production and employment, credit policy refers to all types of state intervention that deal with the development and allocation of credit and money, and their distributional consequences. Within this broad framework of state intervention in credit allocation, central banks operate as one of several key players. Thinking about central bank policy in terms of credit policy is useful because this wider perspective encourages consideration of the sectoral consequences of central bank actions and their interactions with other policies, reframing the role of central banks while preserving their distinct responsibilities.

Secondly, according to Monnet, central bank independence should be revised. The redefinition of central bank independence, of course, is a highly contentious issue. Although today central bank independence is often associated with the works of economists such as Barro, Gordon, Lucas, and Sargent, who emphasized the need for central banks' autonomy to prevent inflationary biases linked to electoral cycles and to prioritize price stability, in central banking history independence has taken various forms over time. Rather than positioning independence as a safeguard against democratic decision-making, as it was the case in the 1990s, Monnet suggests that independence should be reconceptualized as something that enhances democracy. The key is to view independent institutions as contributors to the balance of power within democratic systems.

Central banks are not the only independent institutions in a democracy. Similar roles are played by bodies such as competition authorities, media oversight organizations, and even supreme courts. A robust body of literature in political philosophy and political theory, which Monnet extensively engages with (see, for example, the contributions of Pierre Rosanvallon), supports the idea of rethinking the independence of institutions like central banks in a way that aligns with democratic principles. However, a new definition of independence imposes far greater demands in terms of democratic accountability than those required under the 1990s framework. For central banks, this means being far more precise about how their policies interact with fiscal measures, regulatory actions, and broader macroeconomic policies.

In this framework, one of the most important proposals in Monnet's book is the creation of a "credit council," which in the European context could be called the "European Credit Council." The idea of such an institution is not entirely new: credit councils were established in several countries after World War II to facilitate coordination between monetary and fiscal policies, thereby supporting the state's overall economic policy. In Monnet's view, the credit council would not have decision-making authority; instead, its role would be twofold: to

strengthen the balance of power between parliament and the central bank, and to serve as a forum for evaluating and deliberating on the coordination among the various agencies or public institutions engaged in credit policy. The Council would also have an advisory role to parliament, helping to enhance parliamentary power. A significant issue in most countries today is the imbalance between the resources of central banks and the capability of parliaments. Central banks employ hundreds of economists who can produce detailed scenarios and analyses, while parliaments often lack the tools and expertise to critically evaluate these scenarios. The Credit Council would help bridge this gap, enabling parliaments to assess the completeness of the central bank's proposals, including potential side effects. Finally, the Credit Council would give representation to a diverse range of stakeholders affected by central bank policies – not just those from the financial sector, but also those concerned with areas like climate policy and housing.

The book also devotes considerable attention to the role of central banks in addressing climate change. While acknowledging that central banks cannot replace public development banks, Monnet argues that targeted green credit policies can reconcile central bank actions with broader societal goals, such as reducing inflation while fostering green investment. As he notes in a policy paper co-authored with Jens van 't Klooster (*Using Green Credit Policy to Bring Down Inflation: What Central Bankers Can Learn from History*, 2023), raising interest rates to combat inflation risks discouraging investments in renewable energy, energy efficiency, and climate adaptation – all of which are critical for long-term economic and environmental stability. The proposed solution is straightforward: central banks should prioritize specific types of investments, such as green technologies, by offering preferential refinancing rates. Historical precedents support this approach. Institutions like the Bundesbank and Banque de France exempted key sectors from credit restrictions during tightening cycles until the late 1990s. However, while such measures align with existing central bank mandates, implementing them effectively requires stronger coordination with executive bodies, enhanced parliamentary oversight, and robust central bank accountability.

Finally, a significant and timely issue explored in the book is that of digital currencies. Over the past decade, private digital currencies, such as Bitcoin or Facebook's Diem, have gained traction, contributing to the broader and likely irreversible phenomenon of the digitalization of payment systems. Instruments like credit cards, mobile wallets (e.g., Apple Wallet), and private cryptocurrencies are now widespread, reducing reliance on traditional cash transactions. However, private

currencies are not without risks. First, they present significant regulatory challenges. Second, they pose threats to financial stability by potentially undermining state and central bank control over the money supply. As private monetary instruments proliferate, the ability of central banks to conduct effective monetary policy risks being compromised. This fragmentation of monetary sovereignty could render traditional tools, such as interest rate adjustments, less effective, ultimately destabilizing the public monetary system. In this context central banks have started to explore the development of public digital currencies, commonly referred to as central bank digital currencies (CBDCs). Monnet situates the emergence of CBDCs as a dual response: a defence against the growing privatization of the monetary system and a strategic adaptation to evolving financial and technological realities. By introducing CBDCs, central banks can safeguard the public nature of money, ensure stability, and maintain accessibility for all. However, this requires not only a robust regulation but also a reimagining of monetary governance and a comprehensive public debate to design a new digital monetary policy framework.

Overall, the book offers a comprehensive analysis of recent central bank policies, emphasizing how their unintended side effects frequently remain unaddressed, with no clear accountability for the resulting consequences. This absence of control, Monnet argues, poses significant risks to both economic stability and democratic governance. A key takeaway is the pressing need for enhanced deliberation and stronger parliamentary oversight to reestablish a more balanced distribution of power. Notably, the book demonstrates that this rebalancing is entirely compatible with a redefined concept of central bank independence – one that integrates greater transparency and accountability while preserving the technical expertise and autonomy essential for effective monetary policymaking.

Monnet's proposals have sparked widespread discussion and have also been the subject of criticism. For example, some critics argue that establishing new institutions risks adding layers of bureaucracy without necessarily improving the outcomes. Historical experience in some cases demonstrates similar dynamics outside the French context. For instance, the creation of the Italian Inter-ministerial Committee for Credit and Savings (CICR) after the Second World War did not hinder the Bank of Italy from maintaining significant independence and influence over policymaking. Simultaneously, the broad system of credit policy explicitly advanced by the central bank in alignment with the country's developmental objectives has, at times, devolved into inefficient and opaque practices (see Mattia Lupi, "A European Credit Council? Lessons from the History of Italian Central Banking after

World War II", *Accounting, Economics, and Law: A Convivium*, vol. 14, no. 4, 2024, pp. 533-551).

Monnet addresses this criticism by drawing on the epistemic theory of democracy, which posits that democracy is an effective system of governance because it allows for better decision-making through the balancing of powers and the inclusion of diverse perspectives. In this view, the independence of an administrative authority is grounded in an epistemic understanding of democracy, acknowledging that certain political decisions may not directly stem from electoral outcomes but can be justified by a significant degree of expertise. Nevertheless, the potential for technocracy to overshadow genuine democratic accountability remains a valid concern, highlighting the need for a thoughtful design and a careful implementation of the book's proposals.

Despite certain limitations – for example, even in its expanded English edition, the book retains a predominantly European perspective, which is particularly useful for current debates on ECB –, the strength of Monnet's work lies in its ability to provide a robust framework for rethinking central banks' roles in fostering economic stability and democratic accountability, while also provoking a meaningful debate by examining the interplay between historical practices and contemporary challenges. The book mentions several key points that spark further reflections regarding historical experiences. For instance, it notes how central bank independence has taken various forms over time, references institutions such as the European Credit Council that have significant historical antecedents and mentions tools like targeted longer-term refinancing operations (TLTROs), which, at the time of their introduction in 2014, evoked parallels with earlier industrial and credit policy practice that involved strategic political decisions and shaped long-term lending and investment. Such reflections highlight the importance for economists of engaging with history. What was labelled as "unconventional" in the aftermath of the 2008 crisis has, over a decade later, become standard practice, while a retrospective view reveals that many of these approaches were already conventional in the past.

At the same time, the book invites economic historians to reconsider their discipline's relevance to current debates. The post-2008 period was not merely about revising standard economic models; it also reignited interest in economic history, particularly in the history of central banking. Historical practices remind us that, for much of the 20th century – and especially during crises – central banks were deeply involved in industrial finance and public debt management, not only in developing economies but also in advanced nations. Supporting governments, stabilizing exchange rates, and directly intervening in key economic sectors were fundamental tasks of central banks in the

United States, Europe, and the United Kingdom. However, such early practices are often overlooked in contemporary discourse. This historical perspective provides economic historians with fresh opportunities for inquiry while underlining the relevance of the past in addressing contemporary monetary challenges.

In conclusion, whether one agrees with Monnet's perspectives or not, his book remains a must-read for both economists and economic historians.

Marianna Astore

University of Insubria, and University of Oxford
