

# THE RISE AND FALL OF THE GUARDIANS

How Technocracy Failed During the Financial Crisis

Alasdair Roberts<sup>1</sup>

January 25, 2010

---

## Article Summary

The recent financial crisis has battered the credibility of technocrats. It is no longer clear that, left to their own devices, they will produce the one thing that justifies giving them authority: better decisions.

---

The financial crisis has seemingly battered the credibility of the U.S. Federal Reserve. But not according to Alan Blinder, the former vice chairman of the Federal Reserve Board of Governors. In September 2009, Blinder argued on ForeignAffairs.com that the Fed was still a model of sound decision-making. In fact, the real problem with the U.S. government, he wrote, is that it places “too many decisions in the political realm and too few in the technocratic one.”

Blinder has made this argument before. In a 1997 tribute to the Federal Reserve in Foreign Affairs, Blinder offered what he called “a nasty little thought” — that the country would be “better off if more public policy decisions were removed from the political thicket.”

At the time, such a thought might have seemed like heresy. The crumbling of the Soviet bloc, the collapse of South Africa’s apartheid regime, and the fall of many Latin American military dictatorships had renewed faith in populist democratic politics. “People have grown up,” explained then British Prime Minister Tony Blair in 2004. “They want to make their own life choices.” Blinder, in embracing technocratic governance, appeared to be rowing against the tide.

But Blinder was not alone. In the past quarter century, elected leaders have publicly professed their allegiance to populism. In practice, however, they have often vested more authority in technocrats. The most obvious area in which technocratic rule appeared to triumph was central banking. In the 1970s, most central banks still answered to elected officials. Politicians judged authority over monetary policy to be too important to be surrendered to technocrats. Even in 1989, then Australian Treasurer Paul Keating argued that central bank autonomy

---

<sup>1</sup> ALASDAIR ROBERTS is Jerome L. Rappaport Professor of Law and Public Policy at Suffolk University Law School. His book *The Logic of Discipline: Global Capitalism and the Architecture of Government* will be published in March by Oxford University Press.

“was completely at odds with our traditions requiring public officials to be in the end accountable.”

In recent years, however, there has been what Blinder called a “quiet revolution” in central bank governance. Around the world, it became axiomatic that central bankers should be formally shielded from growth-hampering politics. Today’s central bank, the economists Paul Bowles and Gordon White have written, is the “modern embodiment of the Platonic guardian ... it is deemed to be above and beyond the normal political pressures and requirements of democratic societies.”

This quiet revolution has spread from central banking to other areas — especially those linked to the smooth operation of a globalized economy. In many countries, governments have granted finance ministries more independence and influence, justifying the decision as a necessary check on the unhealthy tendencies of democratic political processes. A 2005 World Bank report conveyed what it called the “consensual view” that fiscal discipline was best achieved by keeping budget responsibility “under the tight steering” of finance ministry technocrats. It also encouraged many countries to design autonomous tax collection agencies, free from the grasp of incompetent and corrupt elected officials. Independent tax authorities, the World Bank suggested, would do a better job of ensuring that governments paid their debts — including those owed to foreign creditors — on time.

There was a similar revolution in the way that the world’s ports and airports were organized. Globalization caused a surge in marine and air traffic, producing congestion that threatened to lock up newly globalized production systems. Manufacturers and shippers claimed that the problem could not be fixed as long as ports and airports remained under the control of politicians obsessed with short-term agendas. They reasoned that only technocrats could make international transport more reliable.

Many countries also transferred regulatory power over businesses to independent agencies. The parallel to central banking was explicit. A different 2005 World Bank study argued that autonomous regulators would serve as a check against legislators who behaved “in a short-sighted and populist manner.” Countries that were eager to attract foreign investment adopted this logic and became the biggest enthusiasts for independent regulatory agencies.

So Blinder’s “nasty little thought” had many adherents. But it also had three serious limitations. The first had to do with how technocratic independence was established. Advocates in influential organizations such as the International Monetary Fund and the World Bank often took the simplistic view that passing laws to affirm technocratic power would be sufficient to entrench it. That idea proved to be misguided.

★★★★★★★★★★

*In the past quarter century, elected leaders have publicly professed their allegiance to populism. In practice, however, they have often vested more authority in technocrats.*

★★★★★★★★★★

2:

Well-established interests — powerful political groups, rival bureaucrats, and disaffected workers — were often able to subvert new laws. A 2008 study conducted by the Norwegian policy institute CMI of nominally independent tax agencies in Africa found that there had actually been “very little loosening of the political and bureaucratic grip of central executive authorities.” And in a review of formally independent regulators in developing countries, the economists Jon Stern and John Cubbin argued that “practice is typically significantly different from what legal provisions would lead one to expect.” In many countries, independent ports and airports continue to find themselves entangled in local political and labor disputes as well.

A second problem with technocratic independence has to do with the rising power of populism. It has become increasingly difficult for governments to defend guardian power while, at the same time, telling citizens that they have the right and capacity to participate actively in governmental decision-making. To put it another way: one cannot defend the prerogatives of experts in an era that champions the “wisdom of crowds.”

In many countries, there has been a backlash from legislators and voters against the increasing concentration of power in the hands of finance ministries. For example, New Zealand’s treasury launched “something of a coup” after a 1984 economic crisis, asserting tight control over government and overseeing a radical shift in government policy. But this concentration of power fueled popular anger over the weakening of democratic institutions, which eventually led to constitutional amendments designed to restore the role of the legislature.

3:

A similar dynamic unfolded elsewhere throughout the 1990s. The Globe and Mail columnist Jeffrey Simpson lamented that Canada became “a friendly dictatorship” after 1994, when the country’s strengthened finance ministry launched harsh budget cuts to social programs. And in the United Kingdom, critics complained about the “Stalinist ruthlessness” with which the treasury was allowed to exercise power under the Labour government that was elected in 1997. In Latin America, legislators and voters also rebelled against the concentration of power in the hands of executive branch technocrats, demanding a stronger role for legislatures in budget processes.

It was not until the financial crisis of 2007-9, however, that the same dynamic began to play out in the United States. In September 2008, Newsweek dubbed then Treasury Secretary Henry Paulson “King Henry” as he sought broad powers to deal with the crisis. And Vermont Senator Bernie Sanders criticized the Federal Reserve for wielding its power “with absolutely no accountability, no transparency, and no honest reckoning with the American people.” Spurred by populist anger, two-thirds of the House of Representatives even cosigned a bill granting the Government Accountability Office power to audit the Federal Reserve.

## The Rise and Fall of the Guardians

---

It has become increasingly difficult for governments to defend guardian power while, at the same time, telling citizens that they have the right and capacity to participate actively in governmental decision-making.

The financial crisis has revealed yet a third problem with technocracy: even the best-resourced experts are fallible. Between 1990 and 2003, while other government agencies wrestled with cutbacks, the central banks of advanced economies more than doubled the number of professional economists on staff. Most major central banks built up research wings that were equal in quality to the economics departments of top-ranked universities. Economists in those research units demanded and received the freedom to manage their own agendas.

Yet all this accumulated brainpower did little to anticipate the gathering storm. On the contrary, the guardian class proved to have serious internal problems. The economist Barry Eichengreen noted a “pressure of social conformity” among economists, which discouraged them from paying attention to signs of a looming crisis. And Robert Shiller, another economist, suggested that “concerns about professional stature” quieted those who worried about market bubbles.

Today, Blinder’s “nasty little thought” is badly battered, as perhaps it should be. Simplistic proposals to get key government functions “out of politics” have not worked. And it is no longer clear that technocrats, left to their own devices, will produce the one thing that justifies giving them authority: better public policy decisions.

4.