
IS INSTITUTIONAL EFFICIENCY IN INDEPENDENT CENTRAL BANKING A COMMUNICATIVE MATTER?

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Resumen

Tognato, Carlo. "¿La eficiencia institucional en la banca central independiente es un asunto comunicativo?", *Cuadernos de Economía*, v. XXIV, n. 42, Bogotá, 2005, páginas 117-134

Tradicionalmente, los economistas políticos han sido indiferentes a la construcción comunicativa del dinero y la banca central en la esfera pública. Esta no les importa cuando los asuntos monetarios se convierten en un juego racional encaminado a preservar el valor de la moneda o toman la forma de un juego de moral medieval. Este artículo sugiere que la economía política de la independencia del banco central exige alejarse de dicha práctica. Argumenta que la coordinación comunicativa del juego monetario es esencial para saber de qué manera los bancos centrales independientes pueden lograr la eficiencia institucional y por qué no enfrentan un trade-off entre eficiencia institucional y legitimidad democrática. Sugiere, en particular, que un banco central institucionalmente eficiente no puede actuar más que como un agente de empoderamiento comunicativo para la audiencia proporcionándole el contexto local para sus actividades.

Palabras clave: banca central independiente, comunicación, democracia. **JEL:** E58, E59.

* Este artículo fue publicado en *Borradores de Economía* N° 263, Banco de la República, Colombia. El autor es profesor del Departamento de Ingeniería Industrial de la Universidad de los Andes. Enviar los comentarios al correo: ctognato@uniandes.edu.co. Artículo recibido el 8 de octubre de 2004, aprobada su publicación el 1 de junio de 2005.

Abstract

Tognato, Carlo. "Is institutional efficiency in independent central banking a communicative matter?", Cuadernos de Economía, v. XXIV, n. 42, Bogotá, 2005, pages 117-134

Political economists have traditionally been indifferent to the communicative construction of money and central banking in the public sphere. It does not matter to them whether monetary affairs become a rational game aimed at preserving the value of currency or take on the form of a medieval morality play. This paper suggests that the very political economy of central bank independence requires a departure from such practice. It is argued that communicative coordination of the monetary game is relevant to understanding how independent central banks can achieve institutional efficiency and why they face no trade-off between institutional efficiency and democratic legitimacy. It is particularly suggested that an institutionally efficient central bank cannot but act as an agent of communicative empowerment for the audience providing the local context for its operation.

Key words: independent central bank, communication, democracy. **JEL:** E58, E59.

Résumé

Tognato, Carlo. "L'efficacité institutionnelle dans la banque centrale indépendante, une affaire de communication?", Cuadernos de Economía, v. XXIV, n. 42, Bogotá, 2005, pages 117-134

Traditionnellement, les économistes politiques sont restés indifférents à la construction communicative de l'argent et de la banque centrale dans la sphère publique. Elle leur importe peu quand les affaires monétaires deviennent, un jeu rationnel dont le but est de préserver la valeur de la monnaie, ou prennent la forme d'un jeu moraliste médiéval. Cet article suggère que l'économie politique de l'indépendance de la banque centrale exige de s'éloigner de cette pratique. Il argumente que la coordination communicative du jeu monétaire est essentielle pour savoir de quelle façon les banques centrales indépendantes peuvent obtenir une efficacité institutionnelle et pourquoi elles n'affrontent pas un trade-off (compromis) entre l'efficacité institutionnelle et la légitimité démocratique. Il suggère, en particulier, qu'une banque centrale institutionnellement efficace ne peut agir que comme un agent de contrôle de la communication pour l'audience en lui proportionnant un contexte local pour ses activités.

Mots clés: banque centrale indépendante, communication, démocratie. **JEL:** E58, E59.

1. INTRODUCTION

Independent central banks have emerged world-wide during the past three decades as the epitome of economic rationality. It is therefore not surprising that public discourse has commonly treated them in technical terms. However, technical discourse has not been the only mode of representing money and central banking. Scherbacher-Posé (1999) has observed (in an extremely rare contribution towards the language of monetary affairs) that war, life and death, health, birth and childhood, physics and technology, sea, sport, building, marriage and “legions of religious metaphors” have provided alternative fields of representation to talk about money and central banking. The Harvard theologian Harvey Cox (1999) has recently remarked that,

The lexicon of the Wall Street Journal and the business sections of Time and Newsweek [...] bear a striking resemblance to Genesis, the Epistle to the Romans and Saint Augustine’s City of God. Behind descriptions of market reforms, monetary policy and the convolutions of the Dow, I gradually made out pieces of a grand narrative about the inner meaning of human history, why things had gone wrong and how to put them right. Theologians call these myths of origin, legends of the fall, and doctrines of sin and redemption. But here they are again, and in only thin disguise (Cox 1999, 19).

The political analyst Edward Luttwak (1997, C1) took Cox’s remark even further when referring to central banking,

A new religion has arisen in the world, all the more powerful for not being recognised as such. Let’s call it Central Bankism. It is the faith of the men who control the banks of the world’s leading economic powers. Like most religions, Central Bankism has both a supreme god – hard money – and a devil – inflation (Luttwak 1997, C1).

The Financial Times has drawn directly on a popular cultural saga that retains the structural features of religion for an ironic rendition of monetary affairs,

For a thousand generations the Jedi knights have ensured peace and justice throughout the galaxy. But now the Jedi High Council is facing the Phantom Menace (cue Star Wars' theme music). Meanwhile, in our own time and galaxy, the Bank of England's monetary policy committee (MPC) has ensured the kingdom's prosperity for a rather briefer period. [...] Nevertheless, the MPC, like the Jedi Council, is facing a menace. But will it turn out to be a phantom one? [...] The problem for the MPC might be tougher than the one threatening the Jedi Council. A Jedi knows that when he senses a disturbance in the living force it is a sure sign of danger. [...] But the MPC has far less precise data to go on, ranging from official statistics to anecdotal evidence. Armed only with such unreliable information it has to plot a course between two evils [...] the evil Darth Inflation [...] and the equally nasty Darth Recession (The Financial Times 1999, 3).

To date, political economists have been indifferent to the plurality of forms of representing money and central banking in the public sphere. It has not mattered to them whether monetary affairs are rendered as a rational game concerning preserving the value of currency or whether they take on the form of a morality play. This paper suggests that the very political economy of central bank independence requires a departure from such practice. Communicative coordination of the monetary game is relevant to understanding how independent central banks can achieve institutional efficiency and why they face no trade-off between institutional efficiency and democratic legitimacy. An institutionally efficient central bank cannot but act as an agent of communicative empowerment for the audience forming the local context for its operation.

Susanne Lohmann's audience-cost theory of institutional commitment will be outlined in section 2 as it provides a suitable framework for understanding the link between institutional efficiency and communication. Section 3 gives her theory's communicative presuppositions. Section 4 deals with their implications for trade-off between institutional efficiency and democratic legitimacy in independent central banking; it will be argued that there is no trade-off between democratic legitimacy and institutional efficiency and that the former is necessary for achieving the latter. Section 5 will address the frequent charge against independent central banks that they can afford to eschew democratic rationality as a result of the declining effectiveness of formal democratic checks upon economic agencies in an age

of economic globalisation. Some of the topics that lie ahead for a research programme based on communication in independent central banking will then be mentioned.

2. LOHMANN'S AUDIENCE-COST THEORY OF INSTITUTIONAL COMMITMENT IN TERMS OF THE QUESTION OF INSTITUTIONAL EFFICIENCY IN CENTRAL BANKING

Central bank designers have traditionally regarded central bank independence as an institutional solution to the inflationary bias resulting from two problems inherent in discretionary monetary policy: time-consistency and political interference in monetary policy-making for electoral or partisan purposes. Designers have proposed a number of statutory rules for solving such problems aimed at regulating the appointment and dismissal of central bank officials, establishing the length of their tenure, identifying the incompatibility of their office with other offices, defining monetary policy's ultimate goals, specifying policy targets and laying down punishments for central bank officials in case they deviate from such targets¹. They have intended to make central bank independence more costly to reverse by including such rules in central bank statutes, thereby increasing monetary delegation's credibility.

Designers have also observed that an independent central bank should still retain an incentive for accommodating the principal under extraordinary conditions such as major economic shocks, war, or humanitarian disaster and to react to any surprise which may arise as a result of the deeply uncertain environment in which a central bank operates. Lohmann (1992) has shown that accommodation in these cases can prevent the principal from permanently disrupting statutory independence.

Monetary institution designers have striven to find an optimum solution for the trade-off between credibility and flexibility (i.e. they have aimed at producing institutionally efficient designs).

While addressing the trade-off between credibility and flexibility in monetary delegation, monetary institution designers have traditionally assumed that a central bank would face a sole homogenous audience. Lohmann (2003) has relaxed this assumption, showing that it will only be possible to fully

1 Eijffinger and De Haan (1996), Cuckierman (1992).

appreciate how a well-designed monetary institution solves the trade-off between credibility and flexibility by looking at the collection of audiences pertaining to a monetary institution. Lohmann (2003, 100) has stated that designing monetary institutions is all about selecting an appropriate menu of audiences for effectively monitoring such institution and punish policy-makers' intrusions into the workings of the institution. The audience cost will give credibility to policy-makers' commitment.

Lohmann has observed that there are two relevant types of audience differing in terms of their ability to assess whether institutional defections are grounded and therefore excusable. The mass electorate can inflict the harshest punishment upon a government by voting it out of office in the case of institutional defection; however, the electorate also has an unsophisticated understanding of monetary policy and therefore a low capability of discriminating between excusable and inexcusable defections. Lohmann has suggested that the simplicity (or non-state-contingence) of trigger-punishment strategies available to the mass electorate does not only follow from the electorate's low level of information or attention but also from the quasi-impossibility of millions of voters to coordinate their beliefs regarding a complex (highly state-contingent) trigger-punishment strategy.

Elite audiences (i.e. trade unions, employer organisations, financial institutions and academic economists) have a sophisticated understanding of monetary policy and a high level of information and attention and they can therefore discriminate between excusable and inexcusable institutional defections. However, they cannot impose such a harsh punishment as the mass electorate can do. Lohmann (2003, 104) has observed that audiences differ in the kind of defection they can identify and care about, in their definition of justified or unjustified defection, in the probability that any punishment is executed in equilibrium, in the quality and severity of punishment and in the distribution of the burden of any punishment applied.

An audience capable of employing perfectly state-contingent trigger-punishment strategies and imposing the highest punishment for inexcusable institutional defection would produce a credible monetary institution and yet one which was flexible enough to accommodate extraordinary situations. Such an ideal audience, however, does not exist but it can at least be approximated by a collection of audiences which may collectively create a complex menu of audience costs.

The Bundesbank relied upon such a collection of audiences, according to Lohmann. The German general public used to adjudicate public conflicts

between the Bundesbank and the Federal government but did not monitor German central bank reform during 1955-57 and 1992. Instead, the regional states took care of the issue as a result of their ongoing concern with any debate impinging upon their own prerogatives *vis à vis* German federal institutions. In the end, neither the general public nor the regional states monitored the Bundesbank's monetary performance; Bundesbank watchers did. Although the Bundesbank often failed to meet its monetary targets, it could meet their understanding by explaining its deviations to them.

The institution speaks to informationally segmented audiences with the result that some aspects of its operations are transparent to some audiences and opaque to others. Audience scrutiny generates credibility; but not everything the Bundesbank does is scrutinized by everybody all the time, which is what generates flexibility (Lohmann 2003, 106).

After acknowledging the function of effective audience monitoring upon central banking, Lohmann (2003) concluded that there is ultimately no trade-off between institutional efficiency and democracy,

Institutionally thick democracy can enter a complex institutional commitment [...] whereas an institutionally thin tinpot dictatorship must resort to primitive commitment mechanisms (machine guns). Mature democracies have more, and more powerful, and more varied audiences (Lohmann 2003, 107-108).

Lohmann sees democracy as a source of social complexity; sheer complexity, in turn, is the source of institutional efficiency. Whilst Lohmann's theory seems correct respecting the effect of audience monitoring of central bank efficiency, her conclusion regarding the relationship between democracy and central bank efficiency is spurious. Institutional efficiency in independent central banking does not result from the complexity-inducing effects of democracy but rather from democracy's communicative function. Two steps must be taken beyond her argument to understand why. The notion of effective monitoring must be analysed and its communicative preconditions be addressed. The relationship between democracy and such communicative preconditions must then be accounted for, thereby explaining in what sense mature democracies can produce more powerful audiences.

3. INSTITUTIONAL EFFICIENCY AND ITS COMMUNICATIVE PRECONDITIONS

It is useful to address Lohmann's views regarding the debate on policy transparency when restating the communicative preconditions for effecti-

ve audience monitoring. She suggests that the debate in the institutional design literature concerning secrecy and independence *cf* transparency and accountability arises from mistaken premises. The question is not whether monetary policy-making should be fully secretive or fully transparent *vis à vis* a single homogenous audience but whether information is segmented in such a way as to satisfy the collection of audiences attached to a central bank (some audiences will need more information while others will be content with less) (Lohmann 2003, 106).

Lohmann seems to have in mind an idea of policy transparency as being the openness to release information. However, this is only one of two possible interpretations of the notion of transparency; the alternative perspective is not only consistent with her audience cost theory of institutional commitment but is also the only perspective within which her theory can fully realise its potential.

Otmar Issing (1999, 506) has suggested in a lively exchange with Willem Buiter (1999) that the idea of policy transparency, “extends beyond mere openness,” and cannot be compressed into the belief that more transparency is achieved by greater amounts of information. Issing’s reasoning has been further developed by Bernhard Winkler (2000)². Winkler (2000, 7) has complained that current literature on policy transparency has adopted a simple one-dimensional notion of transparency which boils it down to the mere idea of availability of information and that addresses information as being a homogenous good; in other words, the more the better. Winkler (2000, 9) called for a departure from the standard presumptions of perfect rationality, limited uncertainty and homogeneous information, common knowledge and friction-less communication to avoid this. He wished for a shift in a political economy approach to monetary policy transparency from early to later Wittgenstein. Winkler (2000, 7) has defined transparency as, “a degree of genuine understanding of monetary policy and policy decisions by the public,” and took it to be predicated upon sharing communicating parties sharing a common language for encoding and decoding messages. Winkler (2000) has stated that,

2 Bernhard Winkler worked at Deutsche Bundesbank’s economics department and then moved to the European Central Bank. Otmar Issing was Deutsche Bundesbank’s chief economist and then moved to the European Central Bank as chief economist and member of the executive council.

The primary task for central bank communication policy would consist of making its view of the world commonly understood and making information available in a form (or language) that is shared with the public and understood *across* different segments of the public. In order to minimise higher order uncertainty about how other agents interpret information, this suggests that central banks should avoid using a language that is only understood by a subset of the (relevant) public or leaves doubts that it may not be understood in the same way (Winkler 2000, 13).

Winkler advocated creating a common basis for understanding between a central bank and its reference audiences so that such audiences' access to monetary policy-making would produce genuine understanding.

What implications do Issing and Winkler's approaches to policy transparency have on Lohmann's view of central bank audiences? She has argued that a well-designed monetary institution comes attached to a collection of audiences that may collectively create a complex menu of audience costs; such audiences need different amounts of information to carry out their distinct monitoring tasks. She states that policy transparency has to do with adequate informational segmentation. Following Issing and Winkler's argument, however, it may be argued that informational segmentation does not entail transparency segmentation. Informational segmentation can and must coexist with full communicative transparency in all segments. This is also clear from her discussion of the three Bundesbank audiences, she states that each of them intervenes in different cases and for different reasons and need different information, in different amounts. Any situation in which each audience is required to intervene needs to be fully transparent, otherwise the audience would not be able to *understand* a particular situation or carry out its monitoring role to the full. Different audiences do not thus merely have different informational requirements but may also have different modes of understanding and may therefore require different languages to be applied in communicative exchanges between each of them and a central bank. Policy transparency is as much about suitable informational segmentation as it is about suitable linguistic segmentation.

This is particularly important when one reconsiders Lohmann's reading of the Bundesbank in the light of her audience cost theory. She points out that the general public, regional states and Bundesbank watchers need different amounts of information, are interested in different questions, intervene in different ways and punish with different degrees of harshness. In the light of Issing and Winkler's view of policy transparency, it is now possible to appreciate that the three audiences she considered use different languages

for communication and employ different modes of understanding. Bundesbank watchers use economics. Regional states intervene against the federal government in defence of their regional prerogatives by using legal arguments. Economics and legal doctrine constitute two separate discursive fields coordinating different types of rationality, and therefore different modes of understanding, where the tradition of law and economics has not gained a dominant position within the legal profession and where the network of economists and that of legal experts only marginally overlap. The general public will have to use modes of understanding that will be only tangentially based upon economics or legal doctrine while intervening to adjudicate conflicts between the Bundesbank and the federal government. It can be expected that the general public will use some kind of ideological device to make sense of the battle between the central bank and the government (e.g. the public may be keen on interpreting the monetary game as a kind of medieval morality play).

By interposing Lohmann with Issing and Winkler, it is therefore possible to conclude that a well-designed central bank efficiently solving the trade-off between credibility and flexibility would be a multi-lingual institution capable of practising linguistic discrimination in its communicatively heterogeneous audiences.

The scope of such conclusion should be emphasised here as it follows implicitly both from Lohmann's audience cost theory and from Issing and Winkler's interpretative approach to the question of transparency. Once the need for a central bank to take the modes of understanding into account has been accepted (and therefore a central bank's audiences' languages), then one can no longer assume *a priori* (or surreptitiously impose) equivalence between an economist's interpretation of the monetary game and that of central bank audiences. Nor can one assume equivalence between economists' functional expectations concerning a bank's tasks and those of its audiences. One must be open to the surprising discovery that there may be audiences interpreting the monetary game in quite different terms to those employed by economists; they may constitute the game by using quite different languages and they may derive quite different functions which they expect a central bank to fulfil from their different experience of the monetary game. Audiences may understand the monetary game not as a game concerning preserving the values of their savings but rather as a medieval morality play.

Their functional expectations *vis à vis* a central bank will thus revolve around fulfilling the symbolic functions that are implied by *their* understanding of the monetary game. These symbolic functions make up a central bank's

invisible statute, regarding which the institutional design literature has been mute. Audiences will monitor and judge central bank performance in terms of the dimensions which are relevant to *them* and will reward or sanction a central bank on the grounds of central bank fulfilment of audiences' functional expectations *vis à vis* a central bank. It is on this basis that audiences will decide whether to support central bank independence.

One must thus expect that different individuals will act as central bank watchers, institutional stakeholders or lay public, depending on their mode of understanding the monetary game. Economists will no longer be central bank watchers as the monetary game shifts away from the monetary arena and turns into a game concerning national identity. Historians, philosophers, sociologists, political scientists and even writers, poets, artists will rather become central bank watchers, depending on a specific community context. If the game regarding money turns into a game concerning public morality, then moral authorities (secular and religious) within the society in question will take up the role of central bank watchers. It should also be emphasised that not all central bank audiences are activated at the same time. The audiences just referred to above only enter the game after symbolic linkage between the monetary arena and their reference areas have been activated.

4. HOW DEMOCRACY HELPS SATISFY COMMUNICATIVE PRECONDITIONS FOR INSTITUTIONAL EFFICIENCY

The previous section argued that Lohmann's audience-cost theory of institutional commitment was based upon a much too thin notion of communicative heterogeneity, blinding the analyst *vis à vis* communicative preconditions upon which her conclusions are valid. It was suggested that her theory requires the thicker notion of communicative heterogeneity underpinning Issing and Winkler's concept of policy transparency for restating such preconditions upon which effective audience monitoring depends. It is thus possible to understand why a well-designed central bank efficiently solves the trade-off between credibility and flexibility by being a multi-lingual institution capable of practising linguistic discrimination regarding its communicatively heterogeneous audiences.

Two types of local knowledge are relevant for a society's functioning. The first type exclusively resides within an individual and can be efficiently brokered by the market, according to Friedrich von Hayek (1937, 1945). The second type resides within groups; it is knowledge regarding a given system of inter-subjectively shared meaning and modes of coordinating and

producing meaning within such a system. Like a language, the latter serves to make the former coherent. Suppose that a community perceives the monetary game as concerning national identity while a different community sees it purely in terms of maintaining national currency's purchasing power. Knowledge concerning the way agents within such communities express their perception of the monetary game is necessary for deciphering the meaning of their actions regarding monetary affairs (their local positional knowledge is not automatically revealed by their action).

Many different languages coexist next to each other in any given society, market language being just one of them. If it were the only one, it would be possible to construct an argument (as Hayek does) on market sufficiency as an institutional framework capable of efficiently mobilising individual local knowledge. Societies, however, represent multi-linguistic environments and individual local knowledge must travel *across* linguistic borders possessing a much greater institutional challenge. Some institutions will have to ensure that local positional knowledge is exchangeable through contact between linguistic communities to mobilise local knowledge throughout distinct linguistic communities (local coordination must be fostered at the border of contiguous communities). When two communities meet, local coordination (and therefore local exchange) between them can be achieved by contact languages emerging to enable such exchange. A pluralistic democracy is a system that encourages the emergence of such contact languages, thereby facilitating the circulation of local positional knowledge across linguistic borders; pluralistic democracies can efficiently carry out this function.

Linguistic communities within a democracy become constituencies by virtue of the principle of representation. Such constituencies expect that their representatives pursue their interests. To do so, however, such representatives must be able to understand such interests as expressed within the language of coordination used within their constituencies. It is in fact this language that gives meaning to the interests that they need to represent. Representatives do not thus merely compete to satisfy their electorate's interests. They compete (and must compete) among themselves in identifying the coordinating languages employed by the various linguistic communities. They compete in producing contact languages enabling trade among different communities to expand their constituencies. Competition creates an incentive to engage efficiently in such language-bridging and language-crafting. In this sense, democracy should be thought as an institutional framework efficiently managing local knowledge jointly with the market in a multi-linguistic environment and throughout communicatively heterogeneous communities.

It can be concluded that economic institutions benefit in two ways from democracy's positive communicative externalities. They will be able to rely upon a whole repertoire of contact codes that democracy contributes towards producing. This will enhance economic institutions' capability to gain access to their communicatively heterogeneous audiences and therefore to their understanding of the monetary game. This knowledge is necessary for economic institutions to be transparent to such audiences and therefore to enable such audiences to correctly perform their monitoring function which is ultimately relevant for institutional efficiency. Democracy represents an institutional mechanism for economic institutions to rely upon, efficiently bringing about communicative contact between distinct linguistic communities.

Economic institutions must be vigilant in all situations in which such a function becomes weakened, democracy's communicative function being conducive to economic institutions' long-term efficiency; economic institutions must be prepared to take active action to restore functions when they become weakened. This sets the background for responding to a frequent criticism against independent central banking.

5. HOW AN INSTITUTIONALLY EFFICIENT CENTRAL BANK HELPS DEMOCRACY HELP THE BANK BY EMPLOYING COMMUNICATIVE EMPOWERMENT

The previous section suggested that democracy is an institutional mechanism that efficiently brokers a special type of local knowledge and that such knowledge matters for institutional efficiency in independent central banking. Democracy is an internal requirement for economic institution efficiency; such conclusion may be used for addressing a frequent criticism against central bank independence.

Critics observe that in a global economy formal democratic checks upon independent economic agencies increasingly fail to bite and therefore economic agencies can increasingly afford to act as autarchic institutions eschewing democracy and taking economic rationality as their only guiding principle.

It may be suggested that the critics' conclusion represents a *non sequitur* in the light of the previous sections. Formal democratic institutions' erosion and the emergence of economic rationality as independent economic agencies' exclusive guiding principle do not imply that independent economic agencies can afford to ignore democracy. On the contrary, if such agencies

pursue efficiency (as they should if they are self-consistent about their commitment to economic rationality) they are bound to employ democracy's communicative function as part of their own practices, requiring acknowledging their audiences' communicative heterogeneity on their part and adjusting their internal organisational incentives if they wish to do so.

By acknowledging their audiences' communicative heterogeneity independent central banks will engage in the very same language-bridging function that the democratic process performs on a routine basis. Independent central banks will translate the incentive generated by the democratic process for competitive representation by adjusting their internal organisational incentives into the own practices so as to support the language-bridging effort.

If independent central banking homogenises audiences, then local knowledge becomes destroyed, institutional efficiency is threatened and democracy is trampled on. If independent central banking self-consistently and systematically acknowledges communicative heterogeneity, then local knowledge is not dissipated, institutional efficiency is maintained and democracy is reproduced by proxy.

Lohmann (2000, 107-108) has suggested that, "Mature democracies have more, and more powerful, and more varied audiences." Therefore, democracy is functional to institutional efficiency by creating the conditions for complex monitoring. One can then argue that complex monitoring neither follows automatically from the variety or large number of audiences *per se* or from their generic social power. If this were the case, then the Soviet system would have produced the same effects that Lohmann attributes to democracy since it produced many powerful audiences. Instead, it is because democracy creates positive incentives for heterogeneous audience language-bridging and language-crafting, thereby *communicatively empowering* such audiences *vis à vis* a central bank that audiences can fulfil their monitoring task. Communicative empowerment is why democratic legitimacy and institutional efficiency are reconcilable in independent central banking and why independent central banks are bound to contribute towards strengthening the democratic process if they are fully committed to institutional efficiency.

6. THE WORK AHEAD LIES IN A RESEARCH PROGRAMME CONCERNING COMMUNICATION IN INDEPENDENT CENTRAL BANKING

Political economists have traditionally been indifferent to the communicative construction of money and central banking in the public sphere. It has

been argued that the monetary game's communicative expression is relevant to understanding how independent central banks can achieve institutional efficiency and why they face no trade-off between institutional efficiency and democratic legitimacy. An institutionally efficient central bank must be an agent of communicative empowerment for the audiences forming the local context for its operation. Provided that it is efficient, an independent central bank should therefore work towards strengthening democracy rather than undermining it.

Analysing the communicative underpinning of institutional efficiency in independent central banking is part of a broader research programme concerning communication in central banking. A number of empirical questions are of immediate concern for such a programme. The programme is particularly aimed at:

- Identifying conceptual tools central banks will need to access vernacular languages used by their audiences when expressing their experience of the monetary process;
- Identifying conceptual tools central banks will need to engage in the language-bridging and language-crafting required to gain access to such vernacular languages;
- Defining central banks' organisational requirements for self-consistently and systematically meeting and efficiently managing their audiences' communicative heterogeneity;
- Designing the academic curricula that will produce professional profiles apt to meet those organisational requirements;
- Defining monetary constitutions' communicative provisions for setting independent central banks' incentives for managing communicative heterogeneity;
- Designing political institutions' control procedures for checking independent central banks' correct application of the monetary constitution's communicative provisions; and
- Assisting parliamentary commissions responsible for controlling independent central banks in verifying the central banks' efficiency credentials. This paper has explained that efficiency credentials have also to do with managing independent central bank communication. Controlling efficiency credentials automatically presupposes controlling democratic credentials.

To address such empirical questions, a research programme concerned with communication in independent central banking will need to draw from (and systematically connect) the following bodies of literature:

- Traditional institutional design literature concerning central banking political economy;
- Literature on robustness in complex systems³;
- Game-theory literature regarding shared knowledge and culture⁴;
- Political economy literature regarding expressive rationality⁵; and
- Literature concerning cultural studies and the sociology of scientific knowledge⁶.

In terms of methodology in this field, research will need to draw on game theory, computational methods in complex systems, experimental design, discourse analysis, sociological intervention and collaborative and participative methodologies.

A research programme concerning communication in central banking is also bound to take active part in the debate over globalisation. Karl Brunner (1981) suggested that,

The protective effect of the mystique lowers public accountability of central bank behaviour and offers increased opportunities for exploiting monetary powers for political purposes. It also raises the likelihood of mismanagement due to sheer ignorance and incompetence. This is particularly serious when we recognise that the world's central bank managers form probably a random collection hardly conducive to systematic selection of competent and knowledgeable personnel. This does not deny the intermittent occurrence of truly outstanding managers of central banks, or of managers having the wisdom and courage to rationally adjust operations to the uncertain knowledge available to us. But these managers remain an exception (Brunner 1981, 19-20).

3 The Santa Fe Institute programme reading list on robustness in natural, engineering and social systems is particularly useful. See Padgett and Ansell (1993), Jen (2001).

4 See Chwe (2001).

5 See Schuessler (2000).

6 See Shils (1975), Alexander and Smith (1993), Alexander (2001), Turner (1974), Sahlins (1981) and Galison (1997).

A close study of communication in independent central banking will enable analysts to distinguish between those situations in which local policy-makers deviate from standard economic protocol out of sheer incompetence from those situations when they deviate on the grounds of their direct access to the type of local knowledge that is embodied in local communities' discursive practice. What is relevant to central bank operations and what is not directly accessible to external observers must also be distinguished; their deviation in the latter case will be the product of higher-order rationality rather than a lack of rationality.

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