

# Debate: The end of the guardians?

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Here is one of the great paradoxes of the past 30 years: while we celebrated the idea of popular sovereignty, we gave an extraordinary amount of power to technocrats who were carefully shielded from public influence. But the financial crisis has reminded us about the limitations and dangers of guardian rule.

The era of economic liberalization—spanning roughly 1978 to 2007—was often hailed as a period of widespread democratization as well. Pundits celebrated the ‘unabashed victory’ of democratic principles. At a conference in Warsaw in 2000, representatives of 100 nations affirmed that the will of the people was the only true basis of government. We believed in the ‘wisdom of crowds’, as James Surowiecki called it in 2004 (Surowiecki, 2004).

## Scepticism about democracy

In practice, though, governments adopted reforms that reflected deep scepticism about popular sovereignty. For example, there was a quiet revolution in monetary policy as countries shifted power to independent central banks. The justification was that elected officials and voters could not be trusted to make the painful decisions necessary to deter inflation. The modern central bank, Paul Bowles and Gordon White have written, became the ‘embodiment of the Platonic guardian...above and beyond the normal political pressures and requirements of democratic societies’ (Bowles and White, 1994).

In many countries, the power of finance ministry technocrats increased as well. A 2005 World Bank report conveyed the ‘consensual view’ that fiscal discipline was achieved by keeping budget responsibility ‘under the tight steering of the finance ministry’ (Santiso 2005). Economic and financial crises—endemic in the era of liberalization—often became the pretext for the execution of Treasury coups. ‘We did not create crises’, a New Zealand Treasury official said, ‘But we weren’t above taking advantage of them’ (McKinnon, 2003).

Reforms in other fields often drew explicitly on the model of central banks. Governments established independent regulators that were intended to be ‘technocratic rather than political orientation’, in the words of researcher Fabrizio

Gilardi (Gilardi *et al.*, 2006). Major ports and airports were given autonomy, on the premise that they could not cope with surging trade if they were under the thumb of politicians. Other critical infrastructure was given to private operators who would be shielded from undue political influence. Heavily indebted countries promised freedom to tax collectors so they could raise revenue more aggressively.

In short, the era of liberalization was also an era of guardian rule. In a globalized economy, certain goals—price stability, fiscal discipline, the free flow of trade, fair treatment of investors, prompt repayment of government debts—were too important to be left to democratic processes. The crowd could not be trusted to make hard choices and stick with them for the long term. Technocrats, operating in carefully constructed bastions, would do a better job.

## The limits of expertise

This, at any rate, was the argument pushed hard by commercial and financial interests and by international institutions such as the World Bank. In practice, the campaign for technocratic power had two great limitations:

- It was often very difficult to entrench guardian influence. A study of supposedly independent tax agencies in Africa found ‘very little loosening of the political and bureaucratic grip of central executive authorities’ (Fjeldstad and Moore, 2008). A review of independent regulators in Latin America reported that ‘practice is significantly different from what legal provisions would lead one to expect’ (Stern and Cubbin, 2005).
- Backlash from legislators and voters who took the rhetoric of democratization seriously. Frustration with New Zealand’s Treasury coup fueled a movement for significant electoral reforms. Canadians rebelled against the ‘friendly dictatorship’ established after a 1994 financial crisis. In the United Kingdom, critics railed against the ‘Stalinist ruthlessness’ with which Treasury power was exercised under Chancellor Gordon Brown. Critics dubbed US Treasury Secretary Paulson ‘King Henry’ when he sought expansive powers in Autumn 2008.

And now there is a third problem: guardians have proved to be fallible. All the brainpower massed within major central banks failed to anticipate the crisis of 2007–2009. Economist Robert Shiller says ‘concerns about

professional stature' quieted sceptics who worried about market bubbles (Shiller, 2008). 'The signs were perfectly clear', William White, the retired chief economist for the Bank of International Settlements, said in 2009. 'The point is that people didn't want to respond to the warnings'.

In 2010 the chairman of the Federal Reserve, Ben Bernanke, conceded the failure of this expert community. 'Almost universally', Bernanke said, 'economists failed to predict the nature, timing, or severity of the crisis'. Eliot Spitzer, former New York state governor and attorney general, has also condemned US regulators for 'groupthink...an ideological conformity that forecloses challenges and alternative theories'.

Post-crisis, the mystique and authority of financial ministries is also under renewed assault. In 2010, there were mass protests against austerity drives in many European capitals—one million people on the streets of Paris, one hundred thousand in Athens, tens of thousands in London, Dublin, Madrid, Lisbon and Reykjavik. Irish protesters broke into the lobby of the finance ministry; British protesters shattered the windows of Her Majesty's Treasury; protesters in Athens set the Greek finance ministry ablaze. Politics has reclaimed the domain of fiscal policy with a vengeance.

### The end of theocracy

In 2009, the *Financial Times* announced that 'the era of economic theocracy, in which unelected experts ran the global economy, is over'. Perhaps that is just as well. Old notions about the virtues of rule by guardians cannot survive in an era in which citizens are captivated by the rhetoric of democratization. And it is no longer clear that technocrats, left to their own devices, will produce the one thing that justifies the delegation of power: unambiguously better decisions on critical questions of public policy. ■

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