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Introduction

For some money is freedom. For others it is time or memory.[1] However you describe what money is, it enables those who have it. It permits them to act, produce, and create by empowering them to allocate resources. Most discussions of democracy and money tend to focus on the ramifications of income and wealth inequality. What are the consequences for society when some people earn so much more than others, or inherit more from their parents, or gain more from investing the wealth they already have? The focus is on the differential between how much one group has in comparison with another, and how that differential can compound over time. What are almost never discussed are the consequences for society of determining who has the power to *create money*.

Political theory is the study of who rules. It prompts us to ask *who* rules: The few? The many? The rich? The poor? The experts? But it also requires asking what it means *to rule*. Those who rule possess the power to shape the future. Rulers can force people to act in particular ways. They create and re-create the world through the allocation of resources. They do all this, in part, through the creation of money.[2]

When I say money creation, I don't just mean the government printing cash. In fact, that is such a small piece of contemporary money creation that it is almost irrelevant to this discussion. Much more common, and more important, is the creation of money through the extension of credit. Banks create money when they make a loan or extend a line of credit. States govern money creation by setting parameters for when institutions are allowed to create money. Through monetary policy they can encourage, discourage, and guide money creation, thereby influencing the possibilities we have as citizens for creating and recreating our world.[3]

We use money to buy and sell things, moving resources from here to there and back again. In the form of credit, money enables us to transform our lives:

to buy houses, go to law school, or start a business.[4] With credit, corporations can invest in a new project, expand a store, build a new building, or start a new program. States use credit to win wars, go to the moon, build infrastructure, and so much more.[5] Credit is the form of money we use to create the future.

In most of the world today, including the United States, private banks wield the power to create money in the form of credit. In deciding who to give loans to, private bankers decide what will be built, who will go to school, which technologies will be developed, and much more. They shape everyone's future, whether it's a young immigrant family starting out in the United States or Elon Musk. Which futures are possible depends on what banks permit you to borrow.

If the young immigrant family has any chance of prosperity, it is because it can access credit: a mortgage to buy a home, a small business loan to start a company, a student loan to go to college. The American dream depends on credit. If the family works hard, it should be able to achieve greatness, or at least a decent standard of living, but only if it can access credit. Private bankers decide who is creditworthy. They determine if the family deserves a mortgage, a small business loan, or a student loan. They decided whether Elon Musk got to start Tesla, buy Twitter, or go to space. They are the arbiters of hard work and creditworthiness. The American dream is theirs to bestow or to withhold. No case makes this clearer than redlining, in which bankers denied families mortgages because of the color of their skin.[6]

Private banks are able to create money because states have delegated that power to them. At root, the power to create money belongs to the state, a fact that reveals itself when governments step in to augment, alter, or adjust the existing allocation of credit. The US government offers federal student loans on better terms than private banks would to encourage higher education. It created Fannie Mae and Freddie Mac to compete with private mortgage lenders and make mortgages more affordable. It loaned money to Elon Musk to build a Tesla factory when the private sector wouldn't.[7] It passed the Fair Housing Act to outlaw racially motivated credit allocation. What determines when the state decides to intervene? Should private banks have the power to create money? On what terms?

The root of this book is the motivating observation that the power to create money is bound up with the democratic project. Who gets to decide if, when, and on what terms we create money influences how we relate to one another and thus the possibilities for collective self-government. To understand the balance of power over money creation in modern society, particularly in the United States, we must understand the institutional arrangements that determine who makes those choices—both as they are now and as they would be in a democracy.

In nearly all modern states, central banks govern the creation of money. Central banks conduct monetary policy when they unilaterally create new money and when they incentivize private financial institutions to create more or less money by adjusting the relevant interest rates and regulations. Monetary policy creates booms and recessions. It enables, organizes, and steers collective production. As one scholar put it, "The inflationary consequences of monetary policy decisions affect the wealth and well-being of just about every member of a modern industrialized society."[8] It is how we regulate our collective economic activity over time. The most powerful central bank in the world governs the creation of the most powerful money, the Federal Reserve Bank of the United States. This book is about how large, modern, complex democracies, especially the United States, would govern the creation of money *if democracy mattered*.

Monetary policy is a foundational power of the state, and yet in most modern democracies it is wielded by independent, unelected experts and implemented through private financial markets.[9] Decisions about if, when, and on what basis to create money are insulated from democratic politics. Many believe thick insulation between the central bank and the legislature is necessary because monetary policy is too important and complicated to be left to elected politicians. Over the last four decades, this view has become remarkably dominant, shaping the structure of democracies around the world. Good monetary policymaking, on this view, requires the presence of expertise and the absence of politics.

And yet, Donald Trump won the 2016 presidential election with calls to "drain the swamp." In the United Kingdom, cabinet minister Michael Gove characterized a vote for Brexit as the best way "to fire unelected elites," declaring that "people in this country have had enough of experts."[10] Political movements across the partisan spectrum have sprung up to reject the power of elites and experts in business, politics, journalism, and even science.[11] The coronavirus crisis exacerbated this trend. When discussing the enforcement of mask orders at schools, one Idaho state senator said on national public radio, "Listening to experts to set policy is an elitist approach. . . . I'm also fearful that it leads to totalitarianism."[12]

This rejection of elites has come alongside an astonishingly widespread disillusionment with democracy.[13] Based on international survey data, political scientists have concluded that "dissatisfaction with democracy has risen over time, and is reaching an all-time global high, in particular in [large] developed democracies."[14] There was an especially steep rise in dissatisfaction with democracy in the years after 2005, aligning with what one political scientist has called "a protracted democratic recession."[15] In the United States, congressional approval ratings and trust in government are at historic lows.[16] People are not just rejecting unelected experts, they are dissatisfied with their elected officials too.[17]

These two trends should be analyzed together.[18] The first trend, a rejection of experts, is evidence of the second, dissatisfaction with elected officials. People are dissatisfied with the waning power of the people they elect to steer the ship of government and the experts that populate it. One scholar writes that many people believe the "political system [is] impervious to public direction," and "do not believe that they are living in a democracy."[19] Another observed of France, the "party system disintegrated in part because democratically expressed discontent about economic policy *could change little*."[20] Contemporary dissatisfaction with democracy reflects a sense that voting makes little difference because the people one votes for do not exercise meaningful control over the bureaucrats they are meant to govern.

It should come as no surprise that "take back control" has been the clarion call of recent political movements. And yet, the movements to "take back control" we have seen are far from democratic. They want to take *back* control. Although there have been times when the citizenry in some countries held more direct control over policy, that citizenry was highly limited.

Contrary to the contemporary movements we see rejecting expertise wholesale, it is clear to me that monetary policy as if democracy matters cannot entail a rejection of expertise in government altogether.[21] This would not establish any meaningful control, because in modern democracies experts are required to give effect to collective action. Consider: If the oxen pulling your cart start to disobey you, walking off in directions you don't want to go, is the best course of action to cut them free or to find better ways to assert your control over them? The latter, for the simple reason that the former leaves you without any means of transport at all. Experts are a fundamental feature of large, complex, modern democracies. When elected officials delegate policymaking powers to unelected administrative agents, it seems obvious they should delegate to those they consider the most efficient and effective candidates for the job. The question then presents itself: Can we accept that monetary policymaking is complex and technical and requires expertise without concluding it is either too important or too complex for democratic politics? Can we employ expertise without being ruled by experts?

The threat of expert rule has plagued political theorists for a long time. Against the backdrop of the French Revolution, Benjamin Constant warned of delegates trying to usurp the people's political power by promising to deliver "good" governance. When they say, "Leave this happiness to us and we shall give it to you," Constant implored the people to respond, "No Sirs, we must not leave it to them."[22] In this book I argue that when macroeconomists and central bankers say, "Leave it to us, and we shall deliver to you price stability, optimal output, and full employment," the legislature must reject that offer, choosing instead to retain its effective power over money creation.

Constant's solution was a system of representative government. He believed that the best possible arrangement for modern government was one in which the people exercised "active and constant surveillance over their representatives."[23] While he saw this as the best possible arrangement, like Churchill after him, it was the best only because the other options were worse. The problem with representative government, according to Constant, was that "the individual, independent in his private life, is, even in the freest of states, sovereign only in appearance."[24] Under a system of representative government the sovereign body cannot itself exercise political power, but instead must delegate it to a government.[25] Consequently, any action carried out in the name of all will, in fact, be executed "willy-nilly in the hands of one individual or a few people."[26] In short, Constant thought it was impossible in the modern world to completely avoid the ill of "surrender[ing] our right to share in political power too easily."[27] Nevertheless, representative government, he thought, offered the best chance.

In contrast to Constant, Jean-Jacques Rousseau offered an approach to governance designed to allow the people to retain sovereignty over time.[28] Rousseau rejected the idea of *representing* sovereignty. Rather, when the people are not directly involved in making political decisions, they should install stewards to make choices on their behalf. Constant's embrace of the idea of representatives led him to limit the role of the people to surveillance, aimed at ensuring accountability. Rousseau, by contrast, saw the people's delegates as stewards, emphasizing that the people must retain effective political power, even when not exercising it directly. As I argue in chapter 5, Rousseau's system of governance was one of managed delegation, rather than representation of the sort advocated by Constant.[29] As Rousseau put it, the relationship between the people and their government is "not a contract" but, rather, a commission, an

> employment, in which, as simple officers of the sovereign, they exercise in its name the power of which it has made them depositaries, and which it can limit, modify, and take back when it pleases. The alienation of such a right, being incompatible with the nature of the social body, is contrary to the object of the association.[30]

On this view, preserving the power of the people is less about identifying the right terms of delegation and more about managing the relationship between the people and their delegates over time.

Following Rousseau, I argue that preserving the health of democracy requires the legislature to regularly revisit the terms and conditions of delegated powers. In a dynamic world, this ensures that our approach to governing policymaking is sensitive to changes in social preferences, the environment, and innovation. It prevents ossification. Even more importantly, regularly revisiting the terms and conditions of delegation is itself an expression of political power. By regularly flexing this muscle, the legislature reminds both itself and its administrative delegates who is in charge. As I argue in chapter 5, this is essential to preserving the proper role of expertise in policymaking, and as such, to establishing and maintaining the health of democracy.

Michael Schudson suggests experts have three roles in democratic politics: speaking truth to power, clarifying the grounds of public debate, and diagnosing opportunity and injustice.[31] None of these roles can be properly executed if experts themselves hoard political power. Experts cannot speak truth to power if they are the power. Nor can they usefully clarify the grounds of public debate if they set the terms of the debate or diagnose opportunity and injustice if they establish those opportunities and injustices. Schudson deploys monetary policy as a canonical example of expert rule. He asks,

> Have we made an error, as far as preserving democracy is concerned, to cede so much authority to Alan Greenspan (or his successor as Federal Reserve chair, Ben Bernanke)? Should Greenspan have been required to make a case to a jury to raise or lower interest rates? If so, should the jury have decided on the basis of the preponderance of evidence? Or on the presence or absence of reasonable doubt? Should the presumption have been for or against Greenspan's proposals? How would the fiscal jury be instructed—and by whom?[32]

This is the wrong question. We have not necessarily made an error, as far as preserving democracy is concerned, by ceding *so much* authority to Alan

Greenspan. Rather, our error has been to cede so much power to Greenspan *in the absence of continuous legislative management*. What matters is how the ceding of power is structured, not how much is ceded. We need the legislature to more regularly and openly reconsider the Fed's decisions and the framework within which it makes them. This is what I call *iterative governance*, which I argue is the key to establishing effective control over public policy in a democracy. Through iterative governance, democracies can employ expertise without being ruled by experts. It structures the governance of money creation to simultaneously expand our collective powers by employing experts, while ensuring those powers remain firmly in the hands of the elected officials through the iterative governance of those experts by the legislature.

When democracy matters, monetary policy is political but not partisan. Under my proposed arrangement, monetary policy could support building a border wall or reducing regional inequality. It could be deployed to steer the economy towards a green transition or to rev up the military industrial complex. As a citizen I have opinions as to which of these would be better; however, the aim of this book is not to explore what monetary policy could do for any political party or interest group. It is about demonstrating what monetary policy would look like if democracy matters. As I will argue, that requires making it political, not giving it a politics. Good monetary policymaking, on my view, requires *both* the presence of expertise and politics.

Methodology and Outline

Jeremy Waldron described *political political theory* as "theory addressing itself to politics and to the way our political institutions house and frame our disagreements about social ideas and orchestrate what is done about whatever aims we can settle on."[33] Monetary policy is among the most significant forms of state power. This book explores how the contemporary approach to governing monetary policy shapes what the people, and their elected officials, can see and, ultimately, do. Engaging in the political political theory of how states make monetary policy required a panoply of tools and a novel methodology.[34] This book is not simply theory applied to a case study. Instead, I use the case study to illuminate the theory and the theory to unpick the case, weaving back and forth between examining how the state in fact works and theorizing how it should work. By examining how monetary policy works in practice, alongside how contemporary democratic theory suggests it should, I discover gaps in democratic theory and uncover shortcomings in the existing institutional and theoretical architecture of monetary policy.

To answer the question *What would monetary policy look like if democracy matters?*, I develop (1) a clear understanding of the history and economic theory behind the existing monetary policy arrangement in the United States, (2) a working knowledge of tools from democratic theory used to analyze the administrative state and delegated political powers generally, and (3) a good grasp of all this in the context of financial globalization. These tools are set out in parts I, II, and III.

I start with what monetary policy looks like today. Chapter 1 describes contemporary monetary policy, pointing out the tensions between the governance of monetary policy and basic intuitions about what is required in a democracy. I introduce the concept of central bank dominance to describe the present relationship between the legislature and the central bank in the United States. Not only does the central bank's legislative mandate do little to guide monetary policy, but the Federal Reserve System (the Fed) has acquired autonomous powers through the payment of interest on reserves. I point out that this state of affairs is supported by macroeconomic theory, which suggests monetary, not fiscal, dominance is the optimal approach to economic governance.

Chapter 2 examines the Fed's history. By interrogating a series of key moments in the Fed's relationship to Congress, I characterize this history as a repeated pattern of choices by the legislature to disempower itself. These choices amount to a history of depoliticization of the central bank and the monetary policy it conducts, which explains the contemporary state of affairs of central bank dominance. Chapter 3 explores a set of ideas at the heart of macroeconomics—monetary policy neutrality and the credible commitment defense of central bank independence—that are foundational to the depoliticization of monetary policy. Both, I conclude, generate the convenient yet dubious conclusion that the legislature has no good reason to actively manage monetary policy.

Armed with a picture of what monetary policy looks like, Chapter 4 turns to democracy. I pull together the analysis of the proceeding chapters and ask: What is wrong with how monetary policy works now, according to contemporary democratic theory? The existing scholarly literature on the administrative state focuses on the legitimacy of delegation. Central banks are democratically legitimate if the delegation of monetary policymaking powers meets particular legitimacy conditions, and central banks are held accountable to those conditions, which requires a certain degree of transparency. I argue that there is something missing in contemporary democracy theory, as central bank dominance appears to be democratically legitimate and yet still harmful to democracy over time.

Chapter 5 addresses this gap in democratic theory by introducing a cluster of new concepts: democratic health, effective power, and iterative governance. I argue that sustaining a healthy democracy requires that delegated policymaking powers are exercised both legitimately and in a manner that sustains the effective power of the legislature to guide policy over time. The chapter describes how states could engage in the healthy delegation of policymaking power by embracing iterative governance. This is how democracies can employ expertise without being ruled by experts.

Chapter 6 details what the iterative governance of monetary policy might look like in the United States. I explore two significant reforms: annual credit guidance in the form of a preferred asset taxonomy and regular rechartering of the whole Federal Reserve System. The aim of these reforms is to bring politics to the fore and to structure a regime of monetary policy governance that embraces the inevitability and the value of uncertainty in democracy.

Chapters 7 and 8 apply this argument in the context of a global economy. I argue that the contemporary state of affairs is best described as a global economy of asset holders governed by a decentralized network of international macroeconomic policymakers. This arrangement is rooted in the domestic dominance of independent central banks. Two things follow from this key observation: (1) To secure monetary policy as if democracy matters domestically, the existing governance structure for the global financial system would have to change. (2) The decentralized nature of the existing international governance structure means states can bring about such change through unilateral, domestic action. I then explore the trade-offs states would face in doing just that. Because there is a global hierarchy of currencies, to move away from the existing global economy of asset holders towards a global economy of nation states would require those at the top of the hierarchy, specifically the United States, to act first in instituting domestic political control over monetary policy.

It is worth emphasizing what this book does and does not do. I do not outline a comprehensive account of the reforms needed to establish a just, democratic, or fair Federal Reserve System.[35] Nor do I provide a comprehensive account of what is needed to establish a healthy democracy. I argue that governing monetary policy as if democracy matters requires empowering democratic legislatures to manage monetary policy more actively. As I emphasize and explore in the conclusion, this is not an argument for the faint of heart.

It is an especially challenging argument in light of the terrible state of so many contemporary legislatures, especially the US Congress. My aim is not to discount these problems. Quite the contrary. My argument complements those that emphasize the importance of strengthening the democratic character of modern legislatures.[36] In what follows, I identify *one* ill that ails large, contemporary democracies—an ill that is often overlooked in standard accounts of democratic reform: unhealthy delegation. I offer a treatment for this ailment, iterative governance, and in doing so, suggest that employing iterative governance will better support sustaining a healthy democracy. That by no means makes it enough.

Lastly, a brief note on the text. Monetary policymakers self-identify as technical experts. Macroeconomic policy is challenging terrain for many political theorists—and, for that matter, politicians, journalists, and citizens. The frequent use of acronyms is an additional barrier to entry. In an attempt to familiarize those new to the space with the relevant acronyms, I use them repeatedly, and contrary to convention, frequently include in the text both the acronym and its meaning. There is an overview of all acronyms used in the list of abbreviations at the end of the book, where each is defined in plain prose.

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