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From “Technocrats” to Autocrats:
Who Elected the Central Bankers?

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The G-20 Finance Ministers’ meeting in Mexico City ended on Sunday, February 26, unsurprisingly, with no apparent progress on resolving the global economic crisis. Yet, according to some news reports, leaders at the meeting believed they had turned a corner on the euro crisis, primarily by agreeing to massive “fiscal consolidation,” another of the many euphemisms (this one for austerity) thrown up by the financial crisis.

Pushing through these austerity measures are a host of other actors, including the so-called “technocrats” who are running more institutions and even governments. Included among these so-called neutral technocrats is the “independent” European Central Bank (ECB). Digging a bit deeper cracks open a façade of central bank “expertise” and neutrality to reveal not only a destructive adherence to a failed economic analysis but also the use of unelected central banks to exercise the raw power of financial and other elites over democratic societies.

The most direct sign of this move from technocratic to autocratic intervention is the leaked secret memo sent in early August from the ECB to then Prime Minister Sylvio Berlusconi (himself, admittedly, with dubious democratic credentials). Little commented on at the time, the memo shows the ECB demanding drastic and highly specific changes in everything from labor laws to pension regulations to privatization of public services – all highly contentious and deep political and economic matters of social regulation – which had been debated in Italy for years. Signed and sent by both the outgoing ECB President Jean-Claude Trichet and incoming ECB President Mario Draghi on August 5 and leaked by the Italian Press in late September, the memo reveals a range and depth of the European Central Bank’s demands on Italy, one of the world’s largest democratic economies, that is breathtaking and disturbing. Italy, though having a high debt-to-GDP ratio, has been running a primary budget surplus for several years. The government committed itself to a “balanced budget”, but according to the leaked ECB letter, this is “not sufficient”. The ECB demanded more “reforms”, including:

1. “A…far-reaching…reform strategy, including the full liberalisation of local public services… particularly… the provision of local services through large scale privatizations.” Note that the Italians had already rejected by referendum a demand for “privatization” of the water supply, for example.
2. "...further reform the collective wage bargaining system allowing firm-level agreements to tailor wages and working conditions to firms’ specific needs and increasing their relevance with respect to other layers of negotiations." and "A thorough review of the rules regulating the hiring and dismissal of employees..." These have long been a dream of Italian capitalists to undermine Italian workers’ power achieved with the help of coordinated national bargaining, which now would lead to “race to the bottom” de-centralized bargaining and enhanced capitalist power to fire workers without cause as in the United States.

3. "It is possible to intervene further in the pension system, making more stringent the eligibility criteria for seniority pensions and rapidly aligning the retirement age of women in the private sector to that established for public employees”— more micro-managing of pension reform of a democratic government by an "independent" central bank.

The central bankers proposed, in addition, changes to the Italian Constitution: "A constitutional reform tightening fiscal rules would also be appropriate." These and many other policies, the ECB informed the government in early August, should be implemented immediately.

These policies – at best – reflect pre-Keynesian, mainstream macroeconomic theories of the efficiency and stability of capitalist economies that contributed to the crisis. (See, for example, the work of David Howell discrediting the role of “labor market inflexibility” in generating European unemployment and the recent Triple Crisis Blog post by Matias Vernengo and related subsequent Triple Crisis Blogs for discussion.) More likely, they simply represent a cynical raw power calculus to destroy worker and citizen protections without any real belief in the underlying neoliberal economics they use to justify it. A secret memo from the IMF staff circulated to European negotiators on Greek debt prior to the recent agreement clearly showed that the deal they were negotiating was unsustainable, largely because of the recessionary impacts of the austerity measures themselves.

“Micro-management” of economic policy extends to Greece as well. According to the Financial Times, the European Union has sent a list of 38 specific changes in tax, spending and wage policies to Greece. Notes the Financial Times: “They range from the sweeping – overhauling judicial procedures, centralising health insurance, completing an accurate land registry – to the mundane – buying a new computer system for tax collectors, changing the way drugs are prescribed and setting minimum crude oil stocks.” The requirements even included liberalization within 7 days of several professions including beauty salons and diet centers. Shrinking the bloated financial sector might help revive our economies, but making liposuction treatments cheaper is unlikely to do the trick.

The “technocratic” governments, installed in constitutionally dubious maneuvers in Greece and Italy, are perfect conduits for these policies, and for the private financial institutions who have a big influence over the whole process. It is well known that Mario Draghi, the new head of the ECB, Mario Monti, the Prime Minister of Italy, and Lucas Papadmos, Prime Minister of Greece, all have longstanding direct or indirect ties to the private financial sector.

The irony is that in Greece, Italy and elsewhere, the left is badly divided over how to respond to these initiatives. In Italy, for example, some of the left stood by as the Europeans installed Monti because they were desperate to get rid of Berlusconi; in Greece, the left seems to have remained divided over default and whether to stay in or leave the Eurozone.

Until progressive forces are able to unite around a progressive program, such as contained in the important Euro-memorandum, we will all continue to be subjugated by bankers’ and central bankers’ rules.