Institutional efficiency in independent central banking: A communicative matter?

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Abstract: 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 are rendered as a rational game over the preservation of the value of the currency or, for example, as a morality play. In this paper I will suggest that the very political economy of central bank independence requires a departure from such a practice. I will argue that the communicative articulation of the monetary game is relevant to understand how independent central banks can achieve institutional efficiency, and why they face no tradeoff between institutional efficiency and democratic legitimacy. In particular, I will suggest that an institutionally efficient central bank cannot but act as an agent of communicative empowerment of the audiences that make up its local context of operation.

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1. Introduction

In the past three decades independent central banks have emerged world-wide as the epitome of economic rationality. It is therefore not surprising if public discourse has commonly treated them in technical terms. Yet, technical discourse has not been the only mode of representation of money and central banking. In an extremely rare contribution on the language of monetary affairs Brigitte Scherbacher-Posé (1999) observes 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: 19), for example, 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's 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.

The political analyst Edward Luttwak (1997: C1) developed Cox's remark even further with reference to central banking:

> a new religion has risen in the world, all the more powerful for not being recognized 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.'

And The Financial Times recently drew directly from a pop cultural saga that retains the structural features of religion for the purpose of 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.[1]

To the present political economists have been indifferent to the plurality of forms of representation of money and central banking in the public sphere. It has not mattered to them whether monetary affairs are rendered as a rational game over the preservation of the value of the currency or, for example, as a morality play. In this paper I will suggest that the very political economy of central bank independence requires a departure from such a practice. I will argue that the communicative articulation of the monetary game is relevant to understand how independent central banks can achieve institutional efficiency, and why they face no tradeoff between institutional efficiency and democratic legitimacy. In particular, I will suggest that an institutionally efficient central bank cannot but act as an agent of communicative empowerment of the audiences that make up its local context of operation.

I will start by introducing in section 2 Susanne Lohmann's audience-cost theory of institutional commitment that provides an adequate framework to understand the link between institutional efficiency and communication. I will then work out in section 3 the communicative presuppositions of her theory. And then I will address in section 4 their implications for the tradeoff between institutional efficiency and democratic legitimacy in independent central banking. In particular, I will argue that there is no tradeoff between democratic legitimacy and institutional efficiency, and that the former is necessary to achieve the latter. In section 5 I will address the frequent charge against independent central

[1] *The Financial Times* (08-07-1999: 3).

banks according to which in the age of economic globalization they can afford to eschew democratic rationality as a result of the declining effectiveness of formal democratic checks upon economic agencies. And in section 5 I will conclude by pointing to some of the topics that lay ahead of a research program on communication in independent central banking.

2. Lohmann's audience-cost theory of institutional commitment: 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: the time-consistency problem and political interference for electoral or partisan purposes into the monetary policy-making process. To solve such problems, designers have proposed a number of statutory rules that, among other things, regulate the appointment and dismissal of central bank officials, establish the length of their tenure, identify the incompatibility of their office with other offices, define the ultimate goal or goals of monetary policy, specify the policy targets, and lay out the punishments for the central bank officials in case of deviation from such targets.[2] By including such rules in the statute of the central bank, they have meant to make central bank independence more costly to reverse, thereby increasing the credibility of monetary delegation.

At the same time, designers have observed that an independent central bank should still retain an incentive to accommodate the principal under extraordinary conditions, such as major economic shocks, wars, or humanitarian disasters, and to react to the surprises that may spring up as a result of the deeply uncertain environment within which the central bank operates. As Lohmann (1992) shows, accommodation in these cases can prevent the principal from permanently disrupting statutory independence.

[2] For references see Eijffinger and De Haan (1996); and Cuckierman (1992).

In conclusion, designers of monetary institutions have strived to find an optimal solution to the tradeoff between credibility and flexibility, or in other words, they have aimed at generating institutionally efficient designs.

While addressing the trade-off between credibility and flexibility in monetary delegation, the designers of monetary institutions have traditionally assumed that the central bank would face one single homogenous audience. Lohmann (2003) relaxes this assumption and shows that, only by looking at the collection of multiple audiences attached to a monetary institution, will it be possible to fully appreciate how a well-designed monetary institution solves the trade-off between credibility and flexibility. For Lohmann (2003: 100) designing monetary institutions is about selecting the appropriate menu of audiences that will effectively monitor the institution and punish the intrusions of policy-makers into the workings of the institution. The audience cost – she remarks - will give credibility to the policy-maker's commitment.

Lohmann observes that there are two relevant types of audiences that differ with respect to their capability of assessing whether institutional defections are grounded and therefore excusable. On the one hand, the mass electorate can inflict in case of institutional defection the harshest punishment upon the government by voting it out of office but it also has a very unsophisticated understanding of monetary policy and therefore a low capability of discriminating between excusable and inexcusable defections. Lohmann suggests that the simplicity (or non-state-contingence) of the trigger-punishment strategies available to the mass electorate does not only follow from the low level of information or attention of the electorate but also from the quasi-impossibility for millions of voters to coordinate their beliefs on a complex (highly state-contingent) trigger-punishment strategy. On the other hand, elite audiences such as trade unions, employer organizations, financial institutions, and academic economists, have a sophisticated understanding of monetary policy, a high level of information and attention, and can therefore discriminate between excusable and inexcusable institutional defections. Yet, they cannot impose such a harsh punishment as the mass electorate can do. In conclusion, - Lohmann (2003: 104) observes – audiences differ in the kind of defections they can identify and care about; in their definition of justified defections and unjustified defections; in the probability that the punishment is executed "in equilibrium"; in the quality and severity of the punishments; and in the distribution of the punishment burden.

An audience that was capable of playing perfectly state-contingent trigger-punishment strategies and of imposing the highest punishment for inexcusable institutional defection would produce a monetary institution that is credible and yet 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 that may collectively create a complex menu of audience costs.

According to Lohmann the Bundesbank relied upon such a collection of audiences. The German general public used to adjudicate public conflicts between the Bundesbank and the Federal government but did not monitor the processes of reform of the German central bank in 1955-57 and in 1992. Instead, the regional states took care of the latter issue as a result of their permanent concern with any debate impinging upon their own prerogatives vis à vis German federal institutions. Finally, neither the general public nor regional states monitored the monetary performance of the Bundesbank. Rather, Bundesbank watchers did. And although the Bundesbank often failed to meet its monetary targets, it could meet their understanding by explaining its deviations to them. In conclusion, - Lohmann (2003: 106) continues – "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."

After acknowledging the function of effective audience monitoring upon central banking, Lohmann (2003: 107-108) concludes that there is ultimately no tradeoff between institutional efficiency and democracy:

> Institutionally thick democracy can enter a complex institutional commitment … where an institutionally thin tinpot dictatorship must resort to primitive commitment mechanisms (machine guns). Mature democracies have more, and more powerful, and more varied audiences.

In other words, according to Lohmann democracy is a source of societal complexity and sheer complexity, in turn, is the source of institutional efficiency. While Lohmann's theory is correct with respect to the effect of audience monitoring upon central bank efficiency, her conclusion on the relation between democracy and central bank efficiency is spurious. I will argue that institutional efficiency in independent central banking does not result from the complexity-inducing effects of democracy but rather from the communicative function of democracy. To understand why, it is necessary to take two steps beyond her argument. First, one needs to unpack the notion of effective monitoring and address its communicative preconditions. And then, one must account for the relation between democracy and such communicative preconditions, thereby explaining in what sense mature democracies produce more powerful audiences.

3. Institutional efficiency and its communicative preconditions

In order to recover the communicative preconditions to effective audience monitoring, it is useful to address Lohmann's views on the debate on policy transparency. After outlining her theory, Lohmann suggests that the debate about secrecy and independence versus transparency and accountability in the institutional design literature moves from mistaken premises. The question is not whether the monetary policy-making process should be fully secretive or fully transparent vis à vis a single homogenous audience but whether information is segmented in such a way to satisfy the collection of audiences attached to the central bank. In other words, some audiences will need more information while others will be content with less (Lohmann 2003: 106).

While taking stance on the debate on policy transparency, Lohmann seems to have in mind an idea of policy transparency as openness to release of information. Yet, this is only one of the two possible interpretations of the notion of transparency and – I would argue – the alternative perspective is not only consistent with Lohmann's audience cost theory of institutional commitment but it is also the only perspective within which Lohmann's theory can fully realize its potential.

In a lively exchange with Willem Buiter (1999), Otmar Issing (1999: 506) has suggested that the idea of policy transparency "extends beyond mere openness" and cannot be collapsed into the belief that more transparency is achieved by greater amounts of information. Issing's reasoning is further developed in a systematic manner by Bernhard Winkler (2000).[3] Winkler (2000: 7) complains that the 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 a homogenous good. In other words, the more of it, the better. To avoid this, Winkler (2000: 9) calls for a departure from the standard presumptions of perfect rationality, limited uncertainty, homogeneous information, common knowledge and friction-less

[3] Bernhard Winkler worked at the Economics Department of the Deutsche Bundesbank and then moved to the European Central Bank. Otmar Issing was Chief Economist of the Deutsche Bundesbank and then moved to the European Central Bank as Chief Economist and member of the Executive Council..

communication. Or, as he also puts it, for a shift in the political economy approach to monetary policy transparency from the early to the later Wittgenstein. Winkler (2000: 7) defines transparency as "the degree of genuine understanding of the monetary policy process and policy decisions by the public" and takes it to be predicated, among other things, upon the sharing among the communicating parties of a common language for encoding and decoding messages. Consequently, - Winkler (2000: 13) continues –

> the primary task for central bank communication policy would consist of making its view of the world commonly understood and to make information available in a form (or language) that is shared with the public and understood *across* different segments of the public. In order to minimize higher order uncertainty about how other agents interpret information this suggest 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.

On this ground Winkler advocates the creation of a common basis of understanding between the central bank and its audiences of reference so that access by such audiences to the monetary policy-making process will produce genuine understanding.

What are then the implications of Issing's and Winkler's take on policy transparency upon Lohmann's view of the central bank audiences? Lohmann argues that a well-designed monetary institution comes attached to a collection of audiences that may collectively create a complex menu of audience costs. To carry out their distinct monitoring tasks, such audiences need different amounts of information. Therefore, - Lohmann concludes - policy transparency has to do with adequate informational segmentation. Following Issing's and Winkler's argument, however, it is possible to argue that informational segmentation does not entail transparency segmentation. In particular, informational segmentation can coexist and must coexist with a full transparency of the communicative process at all segments. This is clear also from Lohmann's discussion of the three audiences of the Bundesbank. According to Lohmann each of them intervenes in different cases and for different reasons, and needs different information and in different amounts. Yet, the situation upon which each audience is required to intervene needs to be fully transparent otherwise the audience would not be able to fully carry out its monitoring task. In other words, the audience needs to see clear into, or *understand*, the situation. As a result, different audiences do not merely have different informational requirements but may also have different modes of understanding and may therefore require that different 'languages' be applied in the communicative exchanges between each of them and the central bank. In conclusion, policy transparency is about adequate informational segmentation at least as much it is about adequate 'linguistic' segmentation.

This is particularly important as one sets out to reconsider Lohmann's reading of the Bundesbank in the light of her audience cost theory. Lohmann points out that 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's and Winkler's view of policy transparency, it is now possible to appreciate that the three audiences considered by Lohmann use different languages of communication as well and different modes of understanding. Bundesbank watchers use economics. Regional states intervene in defense of their regional prerogatives against the federal government by using legal arguments. Where the Law & Economics tradition has not gained a dominant position within the legal profession, and where the network of economists and that of legal experts only marginally overlap, economics and legal doctrine constitute two separate discursive fields that articulate different types of rationalities and therefore different modes of understanding. Finally, while intervening to adjudicate conflicts between the Bundesbank and the federal government, the general public will have to use modes of understanding that will be only tangentially based upon economics or legal doctrine. It is plausible to expect that the general public will use some ideological device to make sense of the battle between the central bank and the government. For example, the public may be keen on interpreting the monetary game as a morality play.

By interjecting Lohmann with Issing and Winkler, it is therefore possible to conclude that a well-designed central bank that efficiently solves the trade-off between credibility and flexibility is a 'multi-lingual' institution capable of practicing 'linguistic' discrimination across its multiple communicatively heterogeneous audiences.

I would like to emphasize at this point the scope of this conclusion as it implicitly follows both from Lohmann's audience cost theory and from Issing's and Winkler's interpretative approach to the question of transparency. Once accepted the need for the central bank to take into account the modes of understanding, and therefore the languages, of the central bank's audiences, one can no longer assume *a priori* (or impose surreptitiously) the equivalence between the economist's interpretation of the monetary game and that of the central bank audiences. Neither can one assume the equivalence between the functional expectations that economists have over the bank's task and those of its audiences. In other words, one must be open to the surprising discovery that there may be audiences that interpret the monetary game in quite different terms than economists do; that constitute the game by using quite different languages; and that may derive from their different experience of the monetary game quite different functions they expect the central bank to fulfill – the central bank willing it or not. For example, audiences may understand the monetary game not as a game over the preservation of the values of their savings but rather as a morality play. Therefore, their functional expectations vis a vis the central bank will revolve around the fulfillment of the symbolic functions that are implied by *their* understanding of the monetary game. These symbolic functions make up the invisible statute of the central bank upon which the institutional design literature has been totally silent. Audiences will monitor and judge central bank performance along the dimensions that are relevant *to them*; and will reward or sanction the central bank on the ground of the central bank fulfillment of the audiences' functional expectations vis a vis the central bank. It is on this basis that audiences will decide whether to support central bank independence.

That said, one must expect that, depending on the mode of understanding of the monetary game, different individuals will act as central bank watchers, institutional stakeholders, or lay public. For example, as the monetary game shifts away from the monetary arena and turns into a game over national identity, economists will no longer be the central bank watchers. Rather, historians, philosophers, sociologists, political scientists and even writers, poets, artists will be central bank watchers, depending on the specific societal context. Similarly, if the game over money turns into a game over public morality, the moral authorities – secular and religious – within the society in question will take up the role of central bank watchers. It is also important to emphasize that not all audiences of a central bank are activated at the same time. For example, the audiences just referred above enter the game only after the activation of symbolic linkages between the monetary arena and their arenas of reference.

4. Communicative preconditions to institutional efficiency: How democracy helps satisfy them

In the previous section I have argued that Lohmann's audience-cost theory of institutional commitment is based upon a much too thin notion of communicative heterogeneity that blinds the analyst vis a vis the communicative preconditions upon which her conclusions are valid. I have suggested that, in order to recover such preconditions upon which effective audience monitoring depends, Lohmann's theory requires the thicker notion of communicative heterogeneity that underpins Issing's and Winkler's conception of policy transparency. On such ground – I have continued – it is possible to understand why a well-designed central bank that efficiently solves the trade-off between credibility and flexibility is a 'multi-lingual' institution capable of practicing 'linguistic' discrimination across its communicatively heterogeneous audiences.

That said, I have promised to show that democracy matters to institutional efficiency in independent central banking because of its communicative function. The purpose of this section is to account for such function.

There are two types of local knowledge that are relevant for the functioning of a society. The first type exclusively resides within the individual and according to Friedrich von Hayek (1937, 1945) can be efficiently brokered by the market. The second type, on the other hand, resides within groups. It is knowledge about a given system of intersubjectively shared meanings and about the modes to articulate and produce meanings within such a system. Like a language, the latter serves to articulate the former. For example, suppose that a community perceives the monetary game as a game over national identity while a different community sees it purely in terms of maintenance of the purchasing power of the national currency. Knowledge about the way agents within such communities articulate their perception of the monetary game is necessary to decipher the meaning of their actions with regard to monetary affairs. In other words, their local positional knowledge is not automatically revealed by their action.

In a society many different 'languages' coexist next to each other and the language of the market is only one of them. If it were the only one, it would be possible to construct an argument – as Hayek does – on the sufficiency of the market as an institutional framework capable of efficiently mobilizing local knowledge of the individual type. Societies, however, are 'multi-linguistic' environments and local knowledge of the individual type must travel *across* linguistic borders, which poses a much greater institutional challenge. To mobilize local knowledge across distinct 'linguistic' communities, some institution will have to make sure that local positional knowledge is exchangeable along the surfaces of contact between 'linguistic' communities. Or in other words, it must foster local coordination at the border of contiguous communities. When two communities meet, local coordination (and therefore local exchange) between them can be achieved by means of 'contact' languages that emerge for the purpose of enabling the exchange. I will argue that 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. Furthermore, pluralistic democracies carry out this function in an efficient manner.

By virtue of the principle of representation, 'linguistic' communities within a democracy are turned into constituencies. Such constituencies expect that their representatives pursue their interests. To do so, however, such representatives must be able to understand such interests as articulated 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. As a result, representatives do not merely compete for the satisfaction of the interests of their electorate. They compete – and must compete - among themselves in the process of identification of the 'languages' of coordination used by the various 'linguistic' communities. Furthermore, to expand their constituencies, they compete in the production of 'contact' languages that enable trade among different communities. Finally, competition creates an incentive to efficiently engage in such a process of language-bridging and language-crafting. In this sense, democracy should be thought as an institutional framework that jointly with the market efficiently manages local knowledge in a multi-linguistic environment and across communicatively heterogeneous communities.

On such ground it is possible to conclude that economic institutions benefit in two ways from the positive communicative externalities of democracy. First, they will be able to rely upon a whole repertoire of ‘contact’ codes that democracy contributes to produce. This will enhance the capability of economic institutions to gain access to their communicatively heterogeneous audiences and therefore to their understandings of the monetary game. As already said, 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. Second, through democracy economic institutions will be able to rely upon an institutional mechanism that efficiently brings about communicative contact between distinct ‘linguistic’ communities.

Being the communicative function of democracy conducive to the long-term efficiency of economic institutions, economic institutions must be vigilant in all those situations in which such a function weakens and must be prepared to take active action to restore it when it does. This sets the background to respond to a frequent criticism against independent central banking.

5. Institutional efficiency by communicative empowerment: How an institutionally efficient central bank helps democracy help the bank

In the previous section I have 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. In other words, democracy is an internal requirement for the efficiency of economic institutions. In this section I will use this conclusion to address a frequent criticism against central bank independence.

In a global economy – critics observe - formal democratic checks upon independent economic agencies increasingly fail to bite and therefore economic agencies can increasingly afford to act as autarchic institutions that eschew democracy and take economic rationality as their only guiding principle.

In the light of the previous sections it is possible to suggest that the critics' conclusion is a *no sequitur*. The erosion of formal democratic institutions and the emergence of economic rationality as the exclusive guiding principle of independent economic agencies do not imply that independent economic agencies can afford to depart from democracy. On the very contrary, if such agencies pursue efficiency – as they should if they are self-consistent about their commitment to economic rationality – they are bound to nest the communicative function of democracy into their own practices, which requires on their part acknowledging the communicative heterogeneity of their audiences and adjusting their internal organizational incentives to do so.

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

In conclusion, if the practice of independent central banking homogenizes the audiences, then local knowledge is destroyed, institutional efficiency is threatened, and democracy is tramped over. On the other hand, if the practice of 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.

That said, I would like to return to Lohmann for one last comment. Lohmann (2000: 107-108) suggests that "mature democracies have more, and more powerful, and more varied audiences." Therefore, by creating the conditions for complex monitoring – she concludes – democracy is functional to institutional efficiency. In the light of the argument carried out in this paper one can argue that the possibility of complex monitoring does neither automatically follow from the variety or high number of audiences *per se* nor from their generic social power. After all, if this were the case, then the Soviet system would have produced the same effects that Lohmann attributes to democracy since it generated many audiences and many powerful ones, too. Instead, it is because democracy creates positive incentives for language-bridging and language-crafting across heterogeneous audiences, thereby *communicatively empowering* such audiences vis a vis the central bank, that audiences can fulfill their monitoring task. In other words, communicative empowerment is the ultimate reason why democratic legitimacy and institutional efficiency in independent central banking central are reconcilable and why independent central banks are bound to contribute to the strengthening of the democratic process if they are fully committed to institutional efficiency.

6. A research program on communication in independent central banking: The work ahead

Political economists have traditionally been indifferent to the communicative construction of money and central banking in the public sphere. It has not mattered to them whether monetary affairs are rendered as a rational game over the preservation of the value of the currency or, for example, as a morality play. In this paper I have suggested that the very political economy of central bank independence requires a departure from such a practice. I have argued that the communicative articulation of the monetary game is relevant to understand how independent central banks can achieve institutional efficiency, and why they face no tradeoff between institutional efficiency and democratic legitimacy. In particular, I have suggested that an institutionally efficient central bank cannot but act as an agent of communicative empowerment of the audiences that make up its local context of operation. Therefore, provided that it is efficient, an independent central bank works to strengthen democracy rather than to undermine it.

This analysis of the communicative underpinnings of institutional efficiency in independent central banking is part of a broader research program on communication in central banking. A number of empirical questions are of immediate concern for such a program. In particular, the program aims at:

- Identifying the conceptual tools central banks will need to be able to access to the 'vernacular' languages by which their audiences articulate their experience of the monetary process.
- Identifying the conceptual tools central banks will need to engage in language-bridging and language-crafting effort that is required to gain access to such vernacular languages.
- Defining the organizational requirements central banks will have to meet to self-consistently, systematically and efficiently manage communicative heterogeneity across their audiences.
- Designing the academic curricula that will produce professional profiles apt to meet those organizational requirements.
- Defining the communicative provisions that monetary constitutions will need to contain in order to set the incentive for independent central banks to keep managing communicative heterogeneity.

- Designing the control procedures by which political institutions will check the correct application of the communicative provisions of the monetary constitution by independent central banks.
- Assisting parliamentary commissions in charge of the control of independent central banks in the verification of the efficiency credentials of the central banks. This paper has explained that the efficiency credentials have also to do with the management of communication on the part of the independent central bank. I would like to stress that in line with my argument the control of the efficiency credentials automatically presupposes the control of the democratic credentials.

To address such empirical questions, a research program on communication in independent central banking will need to draw from, and systematically connect, at least the following bodies of literature: 1) the traditional institutional design literature within the political economy of central banking, 2) the literature on robustness in complex systems,[4] 3) the game-theoretical literature on common knowledge and culture,[5] 4) the political economy literature on expressive rationality,[6] 5) the literature in cultural studies and sociology of scientific knowledge.[7]

On the methodological front research in this field will need to draw – depending on the occasion – from game theory, computational methods in complex systems, experimental design, discourse analysis, sociological intervention as well as collaborative and participative methodologies.

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[4] The reading list collected by the Santa Fe Institute Program on Robustness in Natural, Engineering and Social Systems is particularly useful in this respect. See in particular, Padgett and Ansell (1993); Jen (2001).

[5] See Chwe (2001).

[6] See Schuessler (2000).

[7] See Shils (1975); Alexander and Smith (1993); Alexander (2001); Turner (1974); Sahlins (1981), and Galison (1997).

A research program on communication in central banking is also bound to take active part to the debate over globalization. In one occasion Karl Brunner (1981: 19-20) suggested that

> the protective effect of the mystique lowers public accountability of Central Bank behavior and offers increased opportunities to exploit the monetary powers for political purposes. It also raises the likelihood of mismanagement due to sheer ignorance and incompetence. This is particularly serious when we recognize 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 with the wisdom and courage to adjust operations rationally to the uncertain knowledge available to us. But these managers remain an exception.

A close study of the phenomenon of communication in independent central banking will enable the analyst to distinguish between those situations in which local policy-makers deviate from standard economic protocols out of sheer incompetence from those situations in which they do so on the ground of their direct access to the type of local knowledge that is embodied in the discursive practices of the local communities; that is relevant to central bank operations; and that is not directly accessible to external observers. In the latter case their deviation will be the product of a higher-order rationality rather than of a lack of rationality.

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