

**Globalisation and the Changing Power Relations among
Intra-State Institutions:
How to Understand
Central Bank Independence**

UMIT AKCAY

PhD Candidate

Department of Development Economics,

Marmara University, Istanbul, Turkey

E-mail: umitakcay2005@yahoo.com

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Abstract:

It can be observed that various central banks have obtained independent status all over the world in the last two decades. This change is mostly explained by the central bank independence (CBI) literature, which is highly dominated by neoclassical economics and the new institutionalist approach, in the context of the term “time inconsistency”, and the positive correlation between the degree of central bank independence and lower inflation. On the other hand, this significant development is part of a deeper transformation, which is not addressed by the CBI literature, namely the transformation of the nation state.

The crux of the question of this paper is to highlight the dynamics behind the transformation of the state and the changing power balance of state apparatuses (intra-state relations) in the process of internationalisation of capital.

For this aim, this paper will argue that the process of central banks gaining independence should be understood as a part of the restructuring of the capitalist state in the era of the internationalisation of capital. In order to understand this restructuring process, relational epistemology will be used. In this framework, the state is characterised as an arena of power struggles, and the condensation of conflicts between and within classes. Therefore, the roots of the transformation of the state can be found in the ongoing struggle between different fractions of capital.

The main argument of this paper is that there are two main dynamics behind the independence of central banks: (i) the demands of the “interior bourgeoisie” - and different fractions within the interior bourgeoisie - in each individual country, (ii) suggestions made by international institutions such as the IMF, WB and WTO which represent the interests of capital on a world scale. Moreover, it can be said that the results of the transformations of the form of the nation state are deepening the separation between economy and politics, and this is leading to the emergence of a new kind of “techno-authoritarianism”.

1. Introduction:

It can be observed that various central banks have obtained independent status all over the world in the last two decades. This change is mostly explained by the central bank independence (CBI) literature, which is highly dominated by the neoclassical economics and the new institutionalist approach, in the context of the positive correlation between the degree of central bank independence and lower inflation. On the other hand, this significant development is part of a deeper transformation, which is not addressed by the CBI literature, namely the transformation of the nation state.

The crux of the question of this paper is to highlight the dynamics behind the transformation of the state and the changing power balance of state apparatuses (intra-state relations) in the process of internationalisation of capital. For this aim, firstly, two main standpoints in the globalisation debate will be criticised: the arguments that *everything changed* and *nothing changed*, and an alternative framework that explains the phenomenon of globalisation will be suggested. Secondly, the question of 'how to understand the state' will be discussed. Lastly, in the light of the framework suggested above, main dynamics behind the process of independence of central banks will be examined.

2. Globalisation Debate:

The concept of globalisation has been the most controversial issue in nearly all the disciplines of social sciences over the last two decades. However, it might be said that there are two main discourses that try to explain the globalisation process: first is the argument that *everything has changed* and second is the argument that *nothing has changed*.

Firstly, the argument that *everything has changed*, which is shared by both liberal and some Marxist approaches, proposes that along with the development of the globalisation process, the nation state has lost control over the national economy and the importance of nation state is decreasing. On the one hand, in his significantly influential book Ohmae (1995), who strongly advocates liberalism, proclaimed the *End of The Nation State*, and he also argued that "... traditional nation states have become unnatural, even impossible, business in a global economy"(p. 5). According to his suggestions, developments of the four "I" (Investment, Industry, Information technology, and Individual consumers) have made the world "global", and nation states have become "unnecessary" (p. 2-4). Moreover, he claims

that the world has become homogenous and “borderless” in terms of global corporations in the era of globalisation¹ (Ohmae, 1994: xi).

On the other hand, some Marxist scholars also think: “... there is nothing in the historical materialist conception of the state that *necessarily* ties it to territory or to nation-states” (Robinson, 2001: 163). Hereby, this approach maintains that the globalisation process renders territorial boundaries “irrelevant” (Shaw, 2000: 7). In addition, with the development of the “transnational practices” which are led by transnational corporations’ executives, globalising state bureaucrats, capitalist-inspired politicians and professionals, and consumerist elites generate a “transnational class” (Sklair, 1994: 174; 1997: 521; 2005: 56); and the consequence of these developments has been to create that “transnational state” (Robinson, 2001).

Secondly, the argument that *nothing has changed*, which is characterised by the state-centrist approach², claims that although there has been significant expansion of financial capital all around the world, this does not mean that the nation state and state power are diminishing (Hirst and Thompson, 1996; 2002). In contrast, Weiss (1997: 20) argues that the nation state has instead become a “victim”, “facilitating” the globalisation process.

Nevertheless, it can be said that these two approaches suffer from uni-dimensionality, and both of them separate the nation state and the globalisation process in the epistemological level. Whereas the first discourse focuses on the “global” scale, ignores the ongoing importance of the national level, and suggests that the globalisation process undermines the nation state, the second discourse, on the contrary, concentrates on the “national” level, and maintains that the national state still conserves its power. However, it can be argued that in order to grasp the globalisation process thoroughly, we need an alternative framework that allows us to identify both continuities and changes in recent transformations. Thus, following Oguz (2005), as an alternative to globalisation, the concept of *internationalisation of capital*³ will be used because of two crucial points.

First, the term *internationalization* implies that the 'national' level still matters in the process both in the sense that national spaces are still relevant for capital accumulation and also because international capital accumulation cannot proceed

¹ For criticism of Ohmae’s viewpoint, see Yeung (1998).

² The concept of “state-centrism” is being used in its broader meaning, which describes that the “nation state” is the main analysis unit of this conception in this paper. However, this approach is commonly used in the literature in reference to the book of Evans et al. (1985), *Bringing the State Back In*. For detailed criticisms of this approach, see Cammack (1989).

³ In order to find further explanation of the term *internationalisation of capital*, see Palloix (1975), Bina, C. and Yaghmaian, B. (1991), Bryan (1995).

without nation-states. Second, the emphasis on *capital* is important as it is basically capital that is internationally mobile in the so-called globalization process (Oguz, 2005: 2).

At this point, the problem that is disregarded by both two standpoints mentioned above emerges: "... the question of who will undertake the public functions necessary for the reproduction of international capital accumulation process..." (Oguz, 2005: 5), and how to manage the tension between the internationalisation of capital and the nation state. In the literature, this problematic is conceptualised by Murray (1971) with the terms "territorial non-coincidence". In order to deal with this question, therefore, the focus must be on the position of the nation states in the internationalisation of capital accumulation process. Indeed, as Poulantzas (1976, 73) pointed out "[t]he current internationalisation of capital neither suppresses nor by-passes the nation states...". In this context, the contradictions that arise in the internationalisation of capital accumulation process are temporarily solved and managed by the nation states themselves with the mechanism of *internalisation* (Poulantzas, 1976: 75). Thus, it should be noted that, although the capital accumulation process has become more international and extended all over the world since the 1970s, "... the class relations necessary for the production of capital value [still] arise and are reproduced politically within the space of nation..." (Bryan, 1987: 254).

To sum up, in order to understand recent transformations, we need to emphasise two key points: firstly, as the structural dynamic of recent transformations, the internationalisation of the capital accumulation process, defined as "the internationalization of the circuits of capital, and the intensified operation of the law of value at a world scale" (Ercan and Oguz, 2006: 646), should be addressed. Secondly, the importance of the nation state remains not only in terms of *internalising* the contradictions of the internationalisation of capital accumulation process, but also of *mediating* "... between the externally established policy priorities and the internal social forces..." (Panitch, 1994: 69).

3. How to Understand the State:

This part of the paper will concentrate on the question of how to understand the nation state. On the one hand, the nation state is generally interpreted by the liberal approach as external to society and is represented as a *neutral arbitrator*. The state is construed by the Marxist tradition⁴, on the other hand, as a *social relation*. As Holloway (1996: 119-120) pointed out, indeed, “[t]he state... is a rigidified (or ‘fetishised’, to use Marx’s term) form of social relations. It is a relation between people, a social relation which exists in the form of something external to social relations.” However, in order to reach an explanation that is more extensive, some crucial points should be highlighted:

- Firstly, it should be stressed that, to understand the phenomenon of the nation state, the epistemology that is being used is very important. Therefore, it might be appropriate to start by clarifying the description of society. As Bhaskar (1989: 4) stated, “[s]ociety... is the ensemble of the positioned practices and networked interrelationships which individuals never create but in their practical activity always presuppose, and in doing so everywhere reproduce or transform.” Accordingly, the state should be understood as a social institution in conjunction with *relational epistemology*, such as the relations between the state and society, the state and the social classes, and the relations between intra-state institutions. In doing so, this framework can allow us recognise the dynamics behind the transformations of the state.
- Secondly, it ought to be noted that the modern nation state has a specific characteristic, namely “the class character of the capitalist form of the state” (Burnham, 1996: 98). Contrary to the liberal and the state-centrist approaches, therefore, it can be said that, “[i]t is not the State [that] shapes society, but *society that shapes the state*... the State, emerging from the relations in production, does not represent the common good, but its political expression of the class structure inherent in production.” (Italics added, Carnoy, 1984: 47).
- In this respect, “[t]he State is not an ‘entity’ with an intrinsic instrumental essence”, as Poulantzas (1976: 26) argued, “but it is itself a relation, more precisely condensation of a class relation.” Therefore, the state can be defined “... like ‘capital’... [as] ... a relationship of forces, or more precisely the material condensation of such a relationship among classes and class fractions, such as it is expressed within the State in a necessarily specific form” (Poulantzas, 1978: 128-29). In addition, instead of

⁴ In Marxist approach, there are many different positions in terms of explaining the state. For a classified analysis, see, Carnoy (1984). Barrow (1993).

grasping the state as a free agent which itself exercises political power, “it is a locus of political struggle.” Furthermore, “[p]olitical struggles occur within and between apparatuses of the state, so that to posit the state as a unified set of institutions precludes it being seen as a terrain in which political struggle occurs.” (Bryan, 1989: 257). In other words, we have “... the state as a separate material institution, functioning as the nodal point of the relations of power within society. The state as such has *no power*; it is an institution where social power is *concentrated* and *exercised*.” (Italics added, Therborn, 1978: 132). Thus, it must be emphasised that the nation state is not a *monolithic bloc* without any cracks, divisions, and contradictions; rather it implicates and represents the contradictions within and between the social classes (Poulantzas, 1978, 132).

- Lastly, in order to indicate the transformations of the nation state, we need to examine the role of state institutions, namely *the state apparatuses*. “The principal role of the state apparatuses is to maintain the unity and cohesion of social formation by concentrating and sanctioning class domination, and in this way reproducing social relations, i.e. class relations.” (Poulantzas, 1976: 25).

4. Concerning the Changing Power Relations among Intra-State Institutions:

Central Bank Independence

In this section, firstly, the altering power balance among intra-state institutions will be demonstrated. Secondly, reasons behind these changes will be explained in the light of the crucial points mentioned above. Thirdly, the agents that lead this transformation process will be conveyed, and lastly, the possible results of this process will be discussed.

Firstly, what is clear in conjunction with the internationalisation of capital process is that the power of the nation state has not waned; rather it has experienced a transformation, which is the main motivation of the changing power balance among state institutions. In other words, “... these structural changes in the political economy lead not to the decline of the state but to its internal restructuring; not a decline in the power of the state, but a *transformation of the internal architecture of the state*.” (Italics added, Jayasuriya, 2001:119). It can be claimed that, indeed, the main tendency of the “shift in the hierarchy of state apparatuses”(Panitch and Gindin, 2005: 110) moved the *power centres* (Poulantzas, 1975: 115) within the state from the ministries of industry, commerce, labour, health, welfare, education, and the national planning

agencies, which become subordinated in the new era, towards the offices of presidents and prime ministers, treasuries, and central banks in each of the individual nation state (Cox, 1992: 30-31; Barrow, 2005: 128). While Cox (1987: 228, 259) argued that the chief motivation of these processes of change can be the links which provide the connections between the nation state and the global economy, and in this manner function as “external pressures”; Panitch (1994), however, claimed that this altering process is

... determined more from within the state itself, whereby even those agencies without such direct international links, but which nevertheless directly facilitate capital accumulation and articulate a *competitiveness ideology*, are the ones that gain status, while those which fostered social welfare and articulated a class harmony orientation lose status. Whether that loss of status is considerable, or even permanent, however, partly depends on the transformations which these latter agencies are today going through in terms of being made, or making themselves, more attuned to the *exigencies of global competitiveness and fiscal restraint*. Ministries of labour, health, and welfare are perhaps not so much being subordinated *as themselves being restructured*. (Italics added, p. 72).

Therefore, it can be clearly stated that central banks have gained their privileged position of supremacy among the state institutions as a consequence of the recent internalisation of capital accumulation process. In addition, what is new (the recent phenomenon) is the changing status of central banks towards “independence” as a part of this restructuring process. As Maxfield (1997) pointed out,

[c]ountries ranging from Eritrea to Malta, France, Kazakhstan, New Zealand, England, and Chile have recently approved, or contemplated, new central bank legislation. Between 1990 and 1995 at least thirty countries, spanning five continents, legislated increases in the statutory independence of their central banks. (p. 3).

Indeed, as Figure-1 indicates, a dramatic increase can be seen in the numbers of central banks that have gained *independent* status, beginning from 1990.

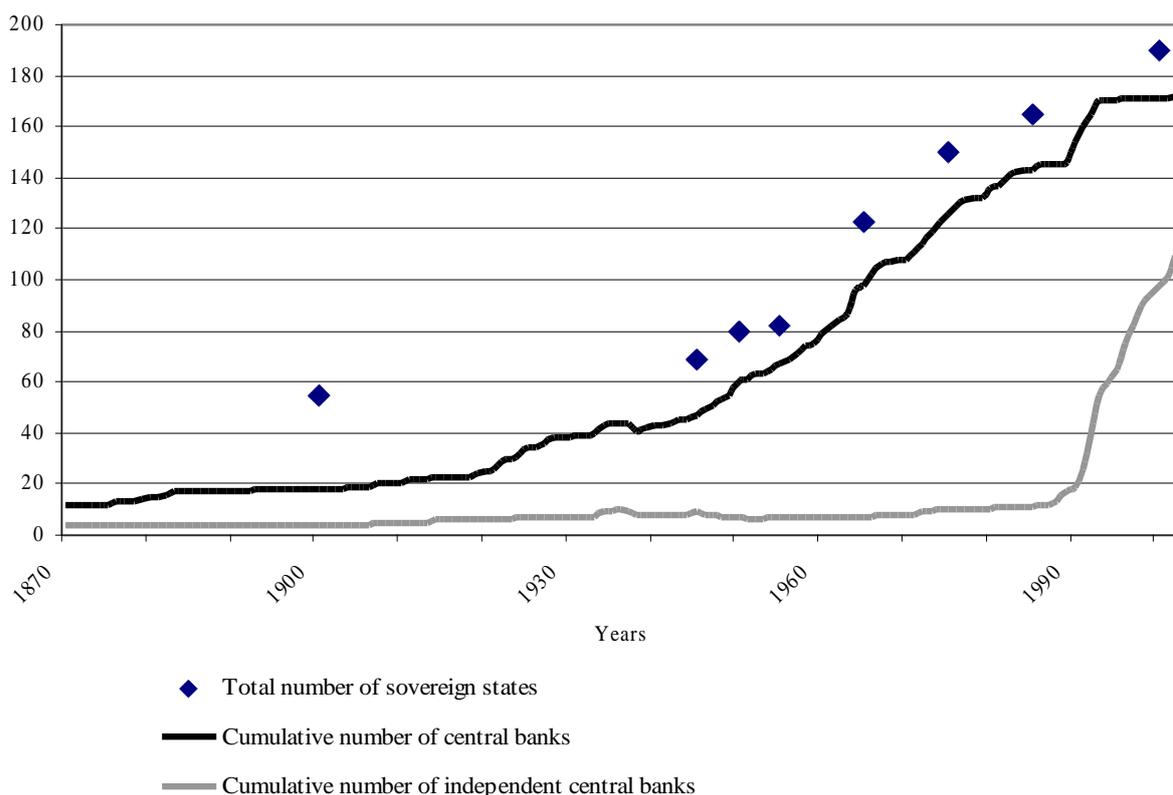


Figure 1: Central bank autonomy on the rise during the 1990s

Source: Martin Marcussen, (2005: 5)

The phenomenon of independence of central banks is explained by the central bank independence (CBI) literature in terms of positive correlation between the degree of central bank independence and lower inflation (Cukierman, 1994, 2002; Blinder, 2000; Issing, 2006; Diana and Sidiropoulos, 2004; Goodman, 1991; Fischer, 1995). Moreover, “[t]his correlation suggest that CBI serves to alter economic actors’ perceptions and government’ reputations.” (Mosley, 2003: 204-5). In response to the CBI literature’s arguments, Lapavitsas (1997: 2) claims that “... [CBI] literature suffers from fundamental conceptual weaknesses which decisively limit their persuasiveness.” In addition, this recent phenomenon is interpreted by Burnham (1999: 51) as a process of “depoliticization of state management.”⁵ According to him, “as a governing strategy, depoliticization” contains three main forms (in the case of Britain): first, “there has been a reassignment of tasks away from the party in office to a number of ostensibly ‘non-political’ bodies as a way of underwriting the government’s commitment to achieving objectives” (p. 47). Secondly, “... the adoption of measures ostensibly to increase the accountability, transparency, and external validation of policy” (p.

⁵ For similar argument, see Ghosh (2002:13), Jayasuriya (2001:120).

48). Lastly, these depoliticisation strategies "... have been pursued in an overall context favouring the adoption of binding 'rules' which limit government room for manoeuvre" (p. 49).

Secondly, if we turn to the second point of this section, it might be claimed that,

[a] major reason for the enhanced power of central banks is the growing importance of monetary policy in an era dominated by the demand for more global financial integration. This latter trend resulted not only in a shift of policy instruments from fiscal to monetary policy, but also a shift of power *within* the state towards agencies such as central banks. (Jayasuriya, 2001:113).

Besides, in order to understand the shifting power balance within the state, it should be made clear what the leading incentive of the intra-state institutions is. In this context, as Poulantzas (1976: 70) argued, "... institutions and apparatuses do not 'possess' their own 'power', but simply express and crystallize class powers." It can be said, therefore, that the primary factor is "... the class struggle which determines the form and modifications of the apparatuses" (Poulantzas, 1976: 27). In other words, if the state is acknowledged *as an arena of class struggles*, it can be argued that the primary dynamic of the transformations of the state and the intra-state institutions is the changing power balance between and within the social classes. Thus, as a process of structural change, the central bank independence can be interpreted as a restructuring process led by the relationship of forces between classes and class fractions "*within the State itself.*" (Poulantzas, 1978: 132).

Thirdly, in this framework the central banks' increasing importance and independence are commonly explained by "external pressures" or the "outside-in" logic⁶ (Sassen, 1999: 410). In particular, international institutions such as IMF, WB and WTO are generally portrayed as the main actors of this transformation process (McMichael, and Myhre, 1991: 88; Jayasuriya, 2001:117). Despite the fact that this assumption indicates an important *part of the story*, it also suffers from insufficient explanation and mono-dimensionality. In other words, the "outside-in" approach must be balanced with the corresponding dynamics in each individual nation state (Ercan and Oguz, 2006: 645), namely the "interior bourgeoisie"⁷ which has developed at each individual national scale. Thus, it can be argued that the international institutions, which

⁶ For example, see Cox, 1987.

⁷ Poulantzas used this term to explain the relationship between the Europe and the USA capitals. However, the importance of this term is that it indicates a bourgeoisie, which is different from "comprador" and "national". For him, interior bourgeoisie "... which exists alongside sectors that are genuinely comprador, no longer possess the structural characteristics of a national bourgeoisie, though the extent of this of course differs from one imperialist formation to another." (1976, 72)

represent the capital on the world scale, and their suggestions, play an important role in the process of central banks gaining independence on the one hand; the demands of the interior bourgeoisie, which is located within each individual nation state, determine the process of independence on the other hand.

Finally, possible results of this process, which is that central banks gain independent status, are examined in the last part of this section. In the first place, it should be noted that in conjunction with the recent restructuring process, the separation of economics and politics, which is the principal characteristic of the capitalist social relations (Wood, 1981), has significantly deepened. Secondly, as an effect of this transformation process, it can be clearly seen that there has been

- ... a shift in the locus of decision-making from parliament to the technocratic/executive apparatus of the state;
- the fusion of the state at this level with the top echelons of capitalist enterprise;
- and the general breaking down of the public-private boundaries that previously characterized bourgeois democracy (Panitch, 1981: 22).

Furthermore, as Albo (2003: 51) indicated, “[t]he foremost symbol of the concentration of political power has been the decline of legislative bodies and democratic accountability and the strengthening of the unilateral exercise of the power by the executive branches.” In addition, Harvey (2006: 27) argued that, “[s]trong institutions are created, such as central banks... and quasi-government institutions internally and the IMF and the WTO on the international stage, that are *entirely outside of the democratic influence*⁸, auditing, accountability and control.” (Italics added). Consequently, as a leading ideology, the notions of the ‘neutrality’ of the state and the ‘universal laws of the economy’ have been amalgamated, and in this way, the new “techno-authoritarian discourse” has been generated (Tsoukalas, 1999: 73; Harvey, 2006: 28). To sum up, Tsoukalas’s interpretation gives us the best explanation of the results of this transformation process:

... the national state, still the fundamental instance ensuring the reproduction of social cohesion, has been led to modify spectacularly the form of its specific interventions as well as its functional role in neutralising the dominant forms of class struggles, both on the economic and on the political-ideological level. In this context, new contradictions between the various components and functions of the state

⁸ This point is commonly maintained by numerous writers even if they have different viewpoints. For instance, see, Jayasuriya (2001:120), Ghosh (2002:12), Gritsch (2005: 19), Stiglitz (1998: 202), Chang (1997: 23-25).

apparatus have appeared, endangering its internal cohesion. As a consequence, the ideological and political prevalence of the new dominant 'techno-authoritarianism' assumes a paramount importance. (Tsoukalas, 1999: 74).

5. Conclusion:

The question of which dynamics lay behind the transformation of the state and the changing power balance of state apparatuses (intra-state relations) in the process of internationalisation of capital has been analysed in this paper. In addition, the process of obtaining the independence of central banks has been used as a symbol to explain the recent restructuring of the nation states. For this aim, firstly, the two extreme standpoints, which argue that *everything has changed* or *nothing has changed*, have been criticised in terms of their lack of explanations; and it has been argued that the term *internationalisation of capital* provides us with a more comprehensive framework to understand recent transformations. Secondly, some crucial points as regards the nation state, which stands as a central problematic in the globalisation debate, have been stressed. As mentioned in Section 2, the state should be understood as an arena of the struggles between and within the social classes. In this framework, therefore, recent changes in the internal power relations of the state institutions can be interpreted as a consequence of the reflection of the class relations over the state's. Lastly, it has been indicated that the course of shifting the power centre among intra-state institutions has been from the ministries of industry, labour, and the social welfare institutions, to the offices of prime ministers, treasuries, and the central banks. In addition, as recent developments, the process of gaining independent status of central banks since the 1990s has been indicated in Section 3.

In conclusion, the main argument of this paper is that there are two main dynamics behind the independence of central banks: (i) the demands of the "interior bourgeoisie" - and different fractions within the interior bourgeoisie - in each individual country, (ii) suggestions made by international institutions such as the IMF, WB and WTO which represent the interests of capital on a world scale. Moreover, it can be said that the results of the transformations of the form of the nation state are deepening the separation between economics and politics, and this is leading to the emergence of a new kind of "techno-authoritarianism".

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