Throughout the era of economic liberalization (1978–2007), a significant amount of governmental power was transferred to technocrat-guardians who were carefully buffered from elected officials. Democratic processes, it was said, had to be disciplined through such reforms if nations were to thrive in a globalized economy. This way of thinking about reform was already under assault before the financial crisis, and it was even more widely questioned during the crisis, as critics doubted the quality of technocratic decision making. This mode of reform—characterized as a “logic of discipline”—will survive the crisis, but it is unlikely to have the influence that it enjoyed during the era of liberalization.

The era of liberalization began in 1978–1980, with the advent of market reforms in China led by Deng Xiaoping; the election of British prime minister Margaret Thatcher, and her subsequent assault on the British planned economy; and the election of U.S. president Ronald Reagan, and his own program of economic deregulation. Economic liberalization was at first a revolutionary doctrine, but after three decades it became an orthodoxy. . . . This era ended in 2007–2009, as the consequence of the global financial crisis that threatened to plunge the world into depression.

Economic liberalization was at first a revolutionary doctrine, but after three decades it became an orthodoxy. . . . This era ended in 2007–2009, as the consequence of the global financial crisis that threatened to plunge the world into depression.

A common mode of thinking influenced reform in the parts of government that were critical to the operation of a globalized economy. It is a design philosophy that I call the logic of discipline (Roberts 2010). This approach to reform was deeply skeptical about conventional methods of democratic governance, which were alleged to produce policies that were shortsighted, unstable, or tailored to suit special interests rather than the overall public interest. The aim, therefore, was to impose constraints on democratic processes, often by transferring power to technocrat-guardians who would make difficult decisions that voters and legislators appeared to be incapable of making otherwise. A variety of legal devices—new laws, treaties, and contracts—were adopted with the expectation that they would constrain the power of popularly elected officials and preserve the autonomy of technocrats.

Even before the global economic crisis of 2007–2009, the logic of discipline was under assault. The notion that legal instruments alone could constrain trade, improving other forms of infrastructure to keep pace with growth, or modifying regulatory systems to reassure investors.
The Archetype: Central Banks

The most obvious application of the logic of discipline can be found in the field of central banking. There has been a “quiet revolution” in central banking over the last three decades (Blinder 2004). It was once widely accepted that central banks had to be kept under the direct control of finance ministries. Australian finance minister Paul Keating argued in 1989 that central bank autonomy “was completely at odds with our traditions requiring public officials to be in the end accountable.” In the 1990s, this way of thinking was swept aside. It became axiomatic that central banks should be given formal independence so that they could operate “outside the realm of party politics” (Patel 2008, 29).

The European Central Bank (ECB), established by the 1992 Treaty on European Union, is a prominent example of the commitment to bank independence. It is explicitly forbidden from taking instructions from the European Council, which represents member states, and from the popularly elected European Parliament. The president and other members of the ECB’s executive board are appointed for eight-year terms, and can be removed only if a court determines that they are guilty of serious misconduct. The ECB president must be an individual recognized for professional banking experience. The treaty stipulates that deliberations within the ECB on monetary policy are confidential.

Other central banks have also been given greater autonomy. In 1997, the Japanese government revised its law to strengthen the formal autonomy of the Bank of Japan, which previously had been criticized for being “subject to the general directions of the government” (Cargill, Hutchison, and Ito 2000, 92, 112). And in the same year, the United Kingdom’s newly elected Labour finance minister, Gordon Brown, startled observers with a surprise announcement that the law governing the Bank of England would also be overhauled to ensure its formal independence (Seldon 2005, 280–81). A wave of similar reforms were undertaken in other countries. By the end of 1990s, central banks had gone through a “global process of institutional transformation” (Marcussen 2007, 136).

This transformation was premised on the notion that conventional democratic processes could not be trusted to make the appropriate decisions about monetary policy. The premise, which seemed to be validated by the experience of advanced market economies in the 1970s, was that politicians and voters were incapable of taking the painful steps that were necessary to control inflation. The prevailing problem was a “lack of social discipline,” according to Alfred Kahn, chairman of the Council on Wage and Price Stability, which was established by President Gerald Ford in 1974 (White 1982, 148). A central bank that was not “subservient to central government,” and preferably led by conservative financiers or economists, would serve as a “commitment device”—in the sense that it committed a country to a rigorously anti-inflationary path (Alesina and Summers 1993; Bade and Parkin 1985; Fischer 1996; Rogoff 1985).

Advocates of central bank independence usually emphasized the need for laws that clearly would establish a bank’s independence from elected officials. (This was known as de jure independence.) For example, a central bank was more likely to be counted as independent if the law contained a guarantee that bank heads would be appointed for fixed terms, with removal only for serious misconduct; a proscription against government directions to the bank on monetary policy; and a mandate to focus on inflation control, to the exclusion of other objectives (Arnone, Laurens, and Segalotto 2006, 8–20). Research conducted in the 1980s and early 1990s seemed to validate the claim that central banks with a high degree of de jure independence were more successful in fighting inflation.

Technocrat-Guardians in Other Fields

In fact, independent central banks seemed to be so effective in preserving price stability that they often served as models for reform in other parts of government. In a provocative 1997 article, a former vice chairman of the Federal Reserve’s Board of Governors, Alan Blinder, suggested that the United States “would be better off if more policy decisions were removed from the political thicket and placed in the hands of unelected technocrats” (1997, 119).

Treasury power. The Business Council of Australia, an association of that country’s largest companies, took Blinder’s suggestion seriously. In 2000, it argued that it was time for a fundamental reengineering of the way in which governments made decisions about taxing and spending: “In a world of free capital flows, credibility has become a fundamental precondition of policy effectiveness . . . Budget deficits undermine market confidence” (Gruen 2001, 89, 103). What was needed was a new institution like an independent central bank that would force wayward politicians to adjust taxes and spending so that budgets are balanced. The economist Charles Wyplosz agreed that it would be a “natural step” to apply the “highly successful” central bank model to budgeting, by giving a committee of unelected experts the power to see that balance is maintained (2005, 73–73, 77).

Although the Business Council of Australia model was not adopted exactly, another reform trend arguably served a similar purpose. This was the concentration of budget power within finance ministries. This was a common phenomenon throughout the era of liberalization. “Budgetary politics,” say Lotte Jensen and John Wanna, “moved upward to an elite strata of decision-makers inside government” (2003, 259). A common trigger for the centralization of power was an economic crisis, or plausible evidence of a looming crisis. These were in ample supply during the era of liberalization (Wolf 2008, 31–34).

Many policy makers and academics justified the concentration of treasury power as a prerequisite for overcoming the indiscipline
that typified democratic systems. The economist William Nordhaus argued that fiscal laxity arose because “myopic” politicians bent on reelection had strong incentives to offer voters a “potlatch” of public expenditure. One remedy, he suggested, was to turn fiscal policy over to “persons who will not be tempted by the Sirens of partisan politics...a Treasury dominated by civil servants” (1975, 188-89). Nordhaus drew an explicit analogy to the role of central bankers.

By the end of the era of liberalization, this view of the role of finance ministries was generally accepted. A critical first step to the restoration of fiscal discipline, Alberto Alesina and Roberto Perotti argued in 1996, was “strengthening of the roles of the executive branch vis-à-vis the legislature, and of the treasury minister vis-à-vis the rest of the executive branch, in order to achieve a centralized and ‘top-bottom’ approach to the budget process” (1996, 401, 405-6). They, too, drew an analogy to autonomous central banks. Other analysts agreed on the necessary reforms. Institutional changes that assured a “strong position” for the finance minister relative to spending ministers would create a “commitment device for fiscal discipline,” and provide an important signal to foreign lenders about a nation’s seriousness on fiscal restraint (Von Hagen and Harden 1995, 776, 779).

**Autonomous revenue agencies.** While advanced economies worried about control of expenditures, many developing countries were confronted about a more basic problem: collecting taxes. The 1980s and 1990s were years of “radical reform” in tax administration in the developing world (Taliercio 2004, 264). The template for reform in many countries was the Autonomous Revenue Authority (ARA). Under the ARA model, tax collection functions were “extracted” from ministries of finance and established as separate bodies (Fjeldstad and Moore 2008, 4). These bodies were endowed with “a number of autonomy-enhancing features” designed to protect them from the threat of political interference (Taliercio 2004, 264). Through appropriate institutional design, an ARA would be “isolated from external influences” and thus able to execute its responsibilities professionally (Kidd and Crandall 2006, 5).

The template for reform was the independent central bank. “When one compares various central banks with the tax administration in their respective countries,” said Glenn Jenkins, an early proponent of autonomization, “it is clear that the banks operate with greater efficiency and effectiveness. The proposal...is to restructure the tax administration very much in the same manner as central banks have been established around the world” (1994, 76, 84). A senior executive in the Peruvian ARA said that the aim was to “create an institution independent of the public sector, an island in the public sector...similar to the central bank” (Taliercio 2000, 147).

Like central banks, ARAs were justified through the logic of discipline. The political leader’s problem “is essentially one of too much discretion” over the enforcement of tax laws (Taliercio 2004, 268). Political leaders can see the immediate political benefits of control over the tax authority. In the long run, however, political leaders pay a substantial price for such practices. Patronage corrodes enforcement capabilities, and this, in turn, reduces the probability that citizens will comply with tax laws. Similarly, citizens are less likely to reveal information about their income and wealth if they think that disclosure will make them targets for extortion.

If the problem is too much discretion, the solution is to structure the tax administration function so that discretion is eliminated. “The prescription...is to increase—perhaps even to maximise—the degree of autonomy that the revenue authority has in relation to politicians and government,” Odd-Helge Fjeldstad and Mick Moore wrote. “It signals to business people and to potential investors that the power to tax will not be abused” (2008, 5).

The ARA model also followed the logic of discipline in its approach to institutional change. ARA reform schemes emphasized the centrality of legislative changes as a way of ensuring the independence of tax collectors. “There is...a relatively coherent package of formal measures that is likely to achieve this goal [of autonomy],” one study concluded—including separate legal status, fixed tenure for executives, and formal independence in budgeting and personnel matters (Fjeldstad and Moore 2008, 5).

**Independent regulators.** The central banking model was also extended to regulation. Here, the variant was known as the independent regulatory agency, or IRA. The substance of this reform was straightforward. Traditionally, government ministries that are directly accountable to ministers and legislatures undertook a host of regulatory functions. The premise was that these tasks should be transferred to new organizations that were “deliberately insulated from political control” (Gilardi 2008, 1). Laws would be adjusted to ensure this insulation.

The IRA model diffused widely throughout the era of liberalization, becoming “an hegemonic institution grounded in a new convention in economic governance” (Jordana and Levi-Faur 2006, 336). For example, there were only 15 autonomous regulatory agencies in Europe in 1980; by 2002, there were more than 90 (Gilardi 2008, appendix IV). Another survey of 49 OECD (Organisation for Economic Co-operation and Development) and Latin American countries, looking at a much broader range of economic and social regulation, found that the number of autonomous regulatory agencies grew from 49 in 1980 to 466 in 2002 (Jordana, Levi-Faur, and Marin 2007). Indeed, there was “explosive growth” in the number of IRAs in Latin America during this period. A survey of regulation in 19 Latin American countries and 12 areas of regulation found that the number of autonomous regulators grew from just 2 in 1979 to 101 in 2002 (Jordana and Levi-Faur 2006).

The IRA model was often used to entice foreign investors by reassuring them that the value of their investment would not be undermined by regulatory actions. The major force behind the adoption of the IRA model “is the state’s dependency on capital...The more privatized the economy is, the greater its dependency on private capital and consequently the greater is the need to establish a stable institutional design that is technocratic rather than political in its orientation” (Gilardi, Jordana, and Levi-Faur 2006, 4). Giandomenico Majone agrees: without the “credible regulatory commitment” provided by independent agencies, “companies will refuse to invest, or will not invest enough to satisfy demand and to maintain existing infrastructure” (1999, 5).
Arguments about the virtues of IRAs as commitment technologies drew an explicit parallel with problems in the formulation of monetary policy. The critical issue was perceived to be politicians’ tendency “to behave in a shortsighted and populist manner that reduces welfare summed over a medium to long-term period” (Cubbin 2005, 5). Advocates and scholars interested in regulatory reform also focused on easily-observed markers of de jure independence, citing early research that appeared to show that central banks with de jure autonomy were more effective in controlling inflation (Gilardi 2002, 880).

**Autonomous mainports.** The model of autonomization was also applied vigorously to ports and airports. This was largely a reaction to the extraordinary boom in maritime and air traffic during the era of liberalization. Many ports and airports proved incapable of handling the greatly increased traffic, often producing congestion that jeopardized globalized production systems.

A common argument was that ports and airports would be incapable of growing to accommodate increased traffic so long as they remained under the direct control of central government ministries, as they were in many countries until the 1980s. "Political management structures," Theo E. Notteboom and Willy Winkelmans argued, “have impeded many public port organizations from developing enough flexibility and versatility . . . to respond adequately to structural changes in the world economy” (2001, 247). Political interference, a spokesman for Australian ports complained in 2000, meant that “short term government agendas” were allowed to undermine projects that were essential to meet “market development needs” (Everett 2003, 211).

A 1996 World Bank report echoed the lament. Politicians, it said, exploited traditional mainport structures “to further goals which may have little to do with corporate efficiency” (88). One of the principal objectives, therefore, was to limit political control over mainport operations. “A major aim of [port] reform,” an Australian commentator explained in 1998, “is to either remove or distance governments from day to day port operations” (Everett and Robinson 1998, 41). Likewise, one of the goals of airport restructuring was to create “autonomous airports . . . free from state policy constraints” and able to “focus on operational and service improvements” (Carney and Mew 2003, 222).

Sometimes governments were satisfied with creating port or airport authorities or corporations that were government owned, but with significant operational freedom. Laws were amended so that these authorities were freed from civil service laws, allowed to spend income collected from shippers or airlines, and protected from political interference in management decisions. However, governments sometimes took autonomization a step further—by giving a private operator a long-term contract to manage key parts of a mainport, or by completely divesting a port or airport to the private sector.

**Privately operated infrastructure.** Governance structures for other capital-intensive activities were also reformed according to the logic of discipline. Many countries were said to confront “infrastructure crises” because of their failure to maintain spending on investment and maintenance of assets. This was often said to be the result of the perverse incentives facing elected officials. As New York City mayor Michael Bloomberg observed in 2008, “In politics, winning elections and protecting a party majority is more important than solving problems. So short-term pork invariably wins over long-term investing. . . . That’s the disconnect that gets so many elected officials unwilling to make commitments for long-term projects, and most infrastructure is long-term” (Rivera 2008). Of course, this was essentially the same criticism made about the formulation of monetary policy by elected officials.

A popular solution to these crises was the enlistment of private capital to finance the development of infrastructure. According to the consulting firm Deloitte Touche Tohmatsu, there has been “a paradigm shift . . . [a] revolution . . . in how governments provide infrastructure” (2006, 4). One of the main devices for enlisting private capital was the long-term infrastructure contract, or LTIC. These contracts were negotiated between governments and private operators of infrastructure. LTICs varied widely in structure, but they usually obligated the private operator to find its own financing for construction of an asset, and maintain the asset in good condition for the whole of its life. LTICs differed from conventional government contracts in several ways. The deals often ran for several decades, were highly complex, and put private operators in charge of activities that were once thought to be at the core of the public sector.

The enthusiasm for LTICs provided more evidence of the logic of discipline at work. An LTIC serves as a kind of commitment mechanism: it requires government to pay the operator for expenditures that it knows ought to be incurred, but that it would otherwise be tempted to avoid. Long-term investment appears to be “locked in.” As a study of British LTICs observes, “We would expect to walk into a [privately-financed] hospital or school in twenty years’ time and find a well maintained asset still performing to the original specification. We would not have the same level of confidence if the asset had been conventionally procured” (Arthur Andersen and Enterprise LSE 2000, 25). In addition, the contract is expected to block interference in the execution of a project that is motivated by short-term political concerns. In theory, the transfer of infrastructure responsibilities to a contractor “remove[s] undue political interference in service provision” (Commonwealth Business Council 2006, 2). The contract “drive[s] a wedge between politicians and managers” (Boycko, Shleifer, and Vishny 1996, 318).

**The Limits of Naive Institutionalism**

A critical element of the logic of discipline was the reliance on legal instruments—laws, treaties, or contracts—as mechanisms for ensuring the autonomy of technocrats. For example, proponents of central bank reform placed emphasis on statutes that ensured de jure independence; the same was true for advocates of autonomous revenue authorities, regulatory agencies, and port and airport authorities. Similarly, contracts were expected to provide a firewall against political interference in infrastructure projects.

Many proponents of these reforms considered themselves to be “institutionalists”—in the sense that they acknowledged the critical importance of well-designed “governing institutions” to long-run economic development (World Bank 1997). They appeared to follow a line of scholarly work including that done by the economist Douglass C. North, who emphasized the way in which institutions
influence long-run economic performance. However, there was a critical difference between North and many groups that were directly engaged in the campaign for discipline. North defined the term “institution” broadly, to include informal constraints such as norms of behavior, codes of conduct, and conventions that are “part of the heritage we call culture” (1990, 4, 6, 36–37). By contrast, advocates of discipline took a much narrower view. As Dani Rodrik has recently said, there was “a tendency to oversimplify the issues at stake . . . by identifying ‘institutions’ solely with the formal, legislated rules in existence” (2007, 184). I will call this simplified view naive institutionalism.

Even before the financial crisis, there was substantial evidence that the logic of discipline was flawed, precisely because of this disproportionate emphasis on formal-legal transformation. For example, attempts to establish independent revenue agencies were foiled in many countries because of the unwillingness of powerful actors—elected officials, rival bureaucracies, and corrupt networks—to respect laws that ceded autonomy to the new organizations. “We can be clear about a point of fact,” two specialists said in a 2008 report on ARAs. “Despite the rhetoric and debate about ‘autonomy’, there has been very little loosening of the political and bureaucratic grip of central executive authorities over the revenue collectors” (Fjeldstad and Moore 2008, 1). A comparable conclusion was reached about the attempt to establish independent regulatory agencies in many developing countries. “Formal requirements for integrity, independence, transparency, and accountability . . . are far from sufficient,” a World Bank survey concluded. “The experience so far raises doubts that governments will observe the spirit of the law and implement proper, consistent regulatory procedures” (Kessides 2004, 18). Appraisals of long-term infrastructure contracting also criticized the “legal paradigm” on which many deals were based—that is, “an irrational exuberance . . . that project risks in developing countries could be managed through detailed contracting,” with little regard for broader political conditions (Orr and Metzger 2005, 2; Woodhouse 2005, 8).

By the mid-2000s, many development specialists seemed ready to abandon this narrow, formal-legal conception of reform. “Merely adopting some other country’s laws and formal regulations is no guarantee of achieving the same institutional performance,” another World Bank report said in 2005. “[W]e need to get away from formulae and the search for elusive ‘best practices’ . . . [and acquire] a better understanding of non-economic factors—history, culture, and politics—in economic growth processes” (xiii, 5).

The Collision with Democratization

The failure of formal-legal reforms was often attributed to the resistance of other actors who were presumed to have selfish motives—such as elected officials determined to preserve patronage opportunities or union leaders determined to preserve jobs. But there was also a more fundamental conflict between two reform movements predicated on very different assumptions about the public’s role in policy development. One movement, described here, took a skeptical view of the public’s capacity to make appropriate decisions, and consequently sought to restrict popular influence over policy development. At the same time, however, there was an active movement (comprising a substantially different set of actors) that was engaged in promoting public participation in policy development through a wide variety of reforms—such as new policies on public consultation and governmental transparency and initiatives to improve electoral processes and legislative oversight. Reforms predicated on the logic of discipline often faltered because of the failure to accommodate this contemporaneous “democratic surge.”

This was evident, for example, in the many failed or half-hearted attempts at port and airport autonomization. Autonomization was intended to facilitate port and airport expansion, which threatened to impose significant externalities—noise, pollution, congestion—on neighboring communities. Those stakeholders often resisted the attempts of formally autonomous bodies to expand their operations, and deployed the rhetoric of democratic control to bolster their position. In the United Kingdom, for example, the devolution of authority over airports to autonomous bodies was matched by an extraordinary growth in the capacity of environmental and community groups; the result was a prolonged stalemate over the expansion of major facilities. Major ports—such as those of Los Angeles and Long Beach, California—also found their room for maneuver limited by powerful protest groups that appealed to the ideals of popular control.

Similar conflicts arose in other fields. In many countries, attempts at long-term infrastructure contracting have been compromised by the rising influence of nongovernmental stakeholders. “[T]he number of informal stakeholders activated and mobilized in opposition to privatization and private participation in infrastructure has skyrocketed,” analysts observed. “[W]ith the spread of democratic values and a steady growth in disposable income, these people came to feel more empowered than before, to express interests and opposition in socially and politically sensitive areas” (Orr and Metzger 2005, 12).

Attempts at consolidating treasury influence also produced popular backlashes in many countries. In the United Kingdom, for example, parliamentarians complained that the treasury had come to “exert too much influence over policy areas which are properly the business of other departments” (U.K. Treasury Committee 2001). In Canada, critics protested that the country had been transformed into a “friendly dictatorship” marked by the centralization of authority in the Finance Department (Simpson 2001). In New Zealand, anger over the concentration of power in the hands of treasury technocrats helped fuel a successful movement to overhaul the country’s electoral system.

Some of the reforms that have been advanced in other countries under the banner of discipline are well established in the United States. . . . [But it was the] financial crisis [that] finally brought the phenomenon of treasury power to the United States.

Consequences of the Economic Crisis

Some of the reforms that have been advanced in other countries under the banner of discipline are well established in the United States. The Federal Reserve had a significant amount of autonomy even before the era of liberalization. Independent regulatory agencies and autonomous port and airport authorities are also familiar institutions. However, one particular institutional innovation—the consolidation of treasury power—was unfamiliar, perhaps
because the United States has been largely sheltered from the economic shocks felt by other nations in the past 30 years.

The financial crisis finally brought the phenomenon of treasury power to the United States. Decisions about whether to rescue or abandon failing financial institutions that had enormous budgetary and economic consequences were taken by Treasury Department officials with little opportunity for legislative or public debate. The treasury proposed legislation in September 2008 that seemed to confirm this kind of decision making as the new modus operandi. Its draft bill, only three pages long, gave Secretary of the Treasury Henry Paulson broad discretion to spend $700 billion—roughly 5 percent of gross domestic product—on assistance for the financial sector (Cassidy 2008).

The American public recoiled against this proposal. Financier George Soros called the plan “the ultimate fulfillment of the Bush administration’s dream of a unitary executive” (2008, 237). Newsweek (2008) dubbed Paulson “King Henry.” Congress revolted, refusing to approve the legislation until it had been expanded to a 170-page catalog of conditions and accountability requirements. Nevertheless, the law gave Paulson wide latitude. Protests about the accretion of treasury power and the decline of accountability persisted in following months.

Meanwhile, the crisis brought sharper challenges to the authority of the Federal Reserve. Three charges could be made against the Fed (Kaufman 2009). The first was that it had simply failed to acknowledge evidence of a housing bubble or anticipate the damage that would be done to the financial system and economy when the bubble inevitably burst. The second was that it had failed to use its regulatory powers to control mortgage lending and the booming market for complex financial instruments. The third was that it had failed to use its influence over interest rates to deflate the bubble by raising the cost of borrowing by homeowners. Leading economists conceded that the “groupthink” within central banks and academia might have discouraged attention to evidence of a looming collapse (Eichengreen 2009; Shiller 2008).

As the crisis continued, willingness to defer to the authority of central bankers declined. Federal Reserve chairman Ben Bernanke responded with a publicity campaign that included a town hall–style forum in which he expressed his disgust with the behavior of some financial institutions (Andrews 2009). This was a radical departure from the usual reticence of Federal Reserve chairmen, triggered by an acknowledgment of the deep public anger about policies in which the Fed had been implicated. The same well of anger made it possible for Representative Ron Paul to garner support from a majority of colleagues for proposed legislation that would subject the Federal Reserve to closer scrutiny by the Government Accountability Office. Meanwhile, efforts faltered to provide the Federal Reserve with increased powers, which it said were necessary to avoid a reprise of the financial crisis. Bernanke’s reappointment in early 2010 momentarily seemed to be in jeopardy. Although he was finally confirmed, Bernanke garnered fewer favorable votes than any preceding nominee for Fed chairman (Seib 2010).

Independent regulators were also assailed. The U.S. Securities and Exchange Commission (SEC) “dropped the ball,” in the words of former Federal Reserve chairman Paul Volcker, “There was an undue relaxation of regulatory or supervisory discipline” (Freeland 2010). Former New York governor Eliot Spitzer (2009) criticized the SEC for “inaction while blatant abuses stared it in the face.” The regulator, he said, was “intellectually or ideologically unwilling to confront powerful market players.” The main British regulator, the Financial Services Authority, was similarly criticized for persisting with a policy of “light-touch regulation” despite mounting evidence of danger (Lanchester 2010, 181).

The case for delegation of power to technocrats hinged on the assumption that they could be trusted to exercise discretion properly. The financial crisis provided vivid evidence that technocrats, too, were capable of massive policy errors—and perhaps also that formal mechanisms for ensuring independence could not prevent industry capture or ideologically induced blindness to emerging threats. Moreover, these problems had arisen in the two countries that were most closely associated with the project of economic liberalization. The effect was to discredit the reform prescription (i.e., autonomization of central banks and regulators) as well as the main proponents of that prescription.

The financial crisis also undermined reform in other ways. For example, it triggered a dramatic collapse in maritime and air traffic. A survey of U.S. ports showed a 20 percent drop in container traffic between January 2008 and June 2009 (National Retail Federation 2009). The International Air Transport Association said in early 2009 that air freight volumes had declined by a similar amount. This implied an easing of pressure to reform ports and airports to deal with problems of congestion.

Private financing of infrastructure (PFI) also declined. Several major highway and airport privatization plans in the United States collapsed for lack of investors. In the United Kingdom, the amount of private money committed to new PFI projects declined by 90 percent between the first and second half of 2008. As private investors retreated, governments stepped in. The U.K. government announced that it would provide private operators with all of the debt needed for planned PFI projects to proceed (Her Majesty’s Treasury 2009). In India and Brazil, government-owned banks replaced private investors as the major source of funding for planned infrastructure projects (World Bank 2009, 4–5). In the United States, stimulus programs once again emphasized public expenditure on infrastructure. Federal outlays on physical capital investment jumped by 40 percent between 2007 and 2009.

The Future of Discipline

Many of the reforms described here were justified as necessary remedies for the defects of democratic governance—its tendency to produce policies that were myopic, unstable, or skewed to serve narrow constituencies rather than the broader public interest. A remarkable aspect of the financial crisis has been the extent to which the same criticisms are now made against actors in the financial sector. Major financial institutions, it is now claimed, were unduly preoccupied with the generation of short-term returns. Financial flows are said to be too volatile to allow appropriate economic management by national governments. And the financial sector is said to be preoccupied with speculative activities that have little to do with the real economy.
The overall intellectual climate has changed substantially, and this
is likely to have adverse consequences for a range of reform efforts.
The legitimacy of technocratic governance has been badly damaged.
The two states that most actively promoted this model of govern-
ance—the United States and United Kingdom—are now grappling
with substantial economic and budgetary woes. This does not imply
that reforms already completed will be unwound. But we can expect
that there will be continued assaults on already autonomized func-
tions, and that proposals for further autonomization will be treated
with greater skepticism.

This model of reform was, to a degree, utopian: it was premised on
the belief that some of the most important aspects of government
could be “taken out of politics.” Skeptics were always available to question whether it was
feasible or desirable to do this. So long as the
global economy was growing quickly, those
dissenting voices were unlikely to be heard.
Circumstances have now changed, and it seems likely that we will pursue a less direct
path, in which proposals for technocratic govern-
ance are qualified by, or perhaps entirely
defeated by, demands for popular control over critical questions of public policy.

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