1 History of Central Banking

In a modern economy, markets are incomplete, information is both scarce and requires resources to discover and unlock, and transactions are costly. For these reasons, assets, liabilities and balance sheets matter and create a pivotal role for the financial sector that can help us to manage a portfolio of assets and even allocate resources to the future.

Banks and other financial intermediaries offer a range of services: they lower the information cost associated with investment and saving, and they provide insurance. But their most important function is the process we call intermediation, whereby banks match the needs of investors (retail deposits and wholesale lending) with borrowers who wish to finance consumption, investment or other business activities. From our current vantage point, a central bank appears to be a necessary component of a financial sector, and not just a component, but pre-eminent among the banks and assigned the responsibility to regulate the conduct of other banks and financial institutions as well as given a mandate to implement policy with far-reaching consequences. This was not always so.

A central bank with its modern roles and responsibilities emerged as a complete package only during the first decades of the twentieth century. These key functions are: (i) to be a banker to the government, (ii) to have a monopoly over the issuance of notes and coins, and to (iii) be regulator of and (iv) a lender of last resort to the financial sector (Capie et al., 1994). The forerunners of banks with one or more of these functions reach back hundreds of years, with the Sverige Riksbank of Sweden, founded in 1668, recognised as the oldest. The Bank of England (BoE) followed in 1694; then there was a long gap before the Banque de France was established in 1800. By

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the beginning of the twentieth century there were eighteen central banks internationally, a number that grew to fifty-nine by the middle of that century and has reached 179 at the time of writing (2022).[1]

The purpose of this chapter is to trace the evolution of central banking prior to the emergence of modern central banking in the twentieth century as well as the developments of that century until the disruption brought by the global financial crisis (GFC) of 2008/2009, followed by the crisis of the EUROZONE, the COVID-19 pandemic and the Russian invasion of Ukraine, starting February 2022, in slightly more than the subsequent decade. It is a dramatic story: the functions that define a modern central bank are inherently in tension, as will be evident from the post-war history of these institutions and their policy frameworks. The drama came to a head by the late 1970s, and the former Chair of the Federal Reserve Board (Fed) in the United States described it as follows at the time:

> One of the time-honored functions of a central bank is to protect the integrity of is nation's currency, both domestically and internationally. In monetary policy central bankers have a potent means for fostering stability of the general price level. By training, if not also by temperament, they are inclined to lay great stress on price stability, and their abhorrence of inflation is continually reinforced by contacts with one another and with like-minded members of the private financial community. And yet, despite their antipathy to inflation and the powerful weapons they could wield against it, central bankers have failed so utterly in this mission in recent years. In this paradox lies the anguish of central banking. (Burns, 1979, p. 7)

From that crisis in the 1970s emerged a widely shared modern framework for monetary policy as well as an institutional framework shared by many central banks. This consensus has been challenged

[1] The dates and numbers of central banks in the past were taken from Tables 1.1 and 1.2 in Capie et al. (1994) and the latest count of central banks from the website of the Bank for International Settlements (www.bis.org).

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fundamentally in the aftermath of the GFC. This book concerns one important dimension of that consensus, the independence of central banks, which has lately been under severe pressure.

1.1 A BANK FOR THE GOVERNMENT

Towards the end of the thirteenth century, Marco Polo learnt of the paper money issued for Kublai Khan at the mint of Kanbala. The colourful account is worth quoting at some length:

> In this city of Kanbala is the mint of the Great Khan, who may truly be said to possess the secret of the alchemists, as he has the art of producing money by the following process.
>
> …[T]he coinage of this paper money is authenticated with as much form and ceremony as if it were actually pure gold or silver; for to each note a number of officers, specially appointed, not only subscribe their names, but affix their seals also … in this way it receives full authenticity as current money, and the act of counterfeiting it is punished as a capital offence. When thus coined in large quantities this paper currency is circulated in every part of the Great Khan's dominions; nor dares any person, at the peril of his life, refuse to accept it in payment.
>
> All his Majesty's armies are paid with this currency, which is to them the same value as if it were gold or silver. Upon these grounds, it may be certainly affirmed that the Great Khan has a more extensive command of treasure than any other sovereign in the universe. (Polo, 1930, p. 159)

The Venetian's metaphor was more penetrating than he could have intended in an era when alchemy retained an air of respectability. Ultimately, however, the treasure of the Khan's mint, like the alchemist's prize, proved ephemeral. Because the Mongol Empire's revenue was indeed vast, the abuse of seigniorage was not, initially, extreme and the subsequent inflation contained; but over time, the balance of revenue and expenses turned ever less favourable and inflation rose. As the value of money declined in the succeeding states, trust eroded

and paper money was eventually abandoned to restore stability in exchange (Tullock and McKenzie, 1985; Kasper and Streit, 1998).

As for the Great Khan, it was government's continuous desire not just for finance, but for the management of government debt on favourable terms that motivated the establishment of some of the earliest central banks. The Nine Years War (1688–1697), and especially the need to rebuild the English fleet after the disastrous naval battle of Beachy Head (1690), prompted the government of William III (William of Orange) to establish the BoE as a limited liability company with the exclusive right to act as the government's banker, manage government debt and issue bank notes. Similar considerations motivated the establishment of the Banque de France, the Iberian central banks and the first two Banks of the United States in the nineteenth century (Capie et al., 1994, p. 7).

Governments' interest in cheap finance created an inherent tension with a bank that was at the same time a major investor in government bonds, the value of which would be eroded if the value of the currency was undermined. This tension, as well as the associated threat to the independence of the central bank, will take centre stage in our discussion of the monopoly central banks gained over the issuance of currency. Meanwhile Adam Smith had little doubt that 'in every country in the world … the avarice and injustice of princes and sovereign states, abusing the confidence of their subjects, have by degrees diminished the real quantity of metal, which had been originally contained in their coins' (Smith, 1981 [1776], p. 43). The diminution in the real quantity of metal, as Smith described it, is the modern phenomenon of inflation.

In a number of post-Westphalian states, the motivation for the foundation of a central bank included explicitly the desire to develop the commercial banking sector. These included the central banks of the Netherlands, Denmark, Sweden, Norway and Austria–Hungary (Capie et al., 1994, p. 4). In many cases these were initially the only commercial bank in the respective country and did not need to be given *de jure* monopoly status on the issuance of currency.

Over time, the corporate financial sector developed in these countries and business rivalry emerged between the private sector banks and the central banks. At this point, the central bank took its place among the rest of the banking sector, albeit with notable privileges as banker to the government. These central banks did not yet enjoy a monopoly on the issuance of currency, nor did they function as lender of last resort, let alone determine interest rate policy, features now regarded as the necessary functions of a modern central bank. The competitive tension between a privileged central bank and the developing commercial banking sector was resolved in most countries only during the early twentieth century with the withdrawal by central banks from commercial banking, while the 'commercial banks voluntarily accepted the central bank's leadership – even by such informal mechanism as the Governor's eyebrows', in the words of Capie et al. (1994, p. 3).

1.2 A MONOPOLY OVER THE ISSUANCE OF NOTES AND COINS

It was in the course of the nineteenth century that central banks gained the monopoly over the issuance of local currency now associated with these institutions. During that century's early decades, the convertibility of central bank currency into gold and/or silver made it redundant to also require legal status for the central bank's currency. But that legal status was nevertheless valuable, and over the course of the second half of the century provided a pre-eminence to currency issued by the central bank. By the beginning of the twentieth century, it was expected in countries with a central bank that the latter would enjoy a monopoly to issue the means of payment.

1.3 A LENDER OF LAST RESORT

On the occasion of Milton Friedman's ninetieth birthday, Ben Bernanke, then Chair of the Fed, reviewed the evidence presented by Friedman and Schwartz (1963) in *A Monetary History of the United States* and concluded that they were right to assign much blame for

the Great Depression on the failure of the Fed to support the banking sector. As Chair of the Fed, Bernanke said: 'We're very sorry. But thanks to you, we won't do it again.' The Fed would not neglect its lender of last resort duty again and in 2008, with Bernanke at the helm, the Fed had to make good on its promise. It did so, expanding the lender of last resort function of the modern central bank mightily not only to support illiquid banks, but also to prevent the entire financial system from collapsing in an extraordinary moment of crisis. In the process, they deployed concepts such as forward guidance and quantitative easing (QE) to justify a vast expansion of the central bank's balance sheet.

The idea that the central bank should use its balance sheet to provide temporary support to illiquid, though solvent, banks was not clearly understood until Bagehot's *Lombard Street* in 1873 (Bagehot, 1873). The logic behind the lender of last resort is that, under fractional reserve banking, a solvent bank can be forced into closure by even temporary liquidity pressure, the extreme form of which is a run on the bank. More disconcertingly still, such a panic could spill over to other banks, none of whom will be able to meet the liquidity requirements of a full-scale run on the banks. A central bank that steps in to provide temporary liquidity for a bank in such an embarrassing position will prevent the bank's collapse and restore public confidence in the banking system as a whole. If it is known that the central bank stands ready to perform this function credibly, then the public's confidence in the entire banking sector is strengthened and the risk of bank runs is reduced, if not avoided completely.

By 1913, the four main functions of a modern central bank could be recognised in the major central banks of the era, although the United States was to some extent an exception. Capie and his co-authors summarise this pre-war consensus as follows: the central banks enjoyed considerable independence from government and had, as its main objective, the maintenance of the gold standard (Capie et al., 1994, p. 15). To this end, the main policy instrument was interest rate control, the effectiveness of which was ensured

by using discounting bills and open market operations. The central bank was the government's bank and no longer operated in competition with commercial banks. At this time, central banks had not yet been given a regulatory or supervisory role in the financial sector, but often exercised leadership and co-ordination to rescue financial institutions under the evolving lender of last resort principle.

1.4 THE DEVELOPMENT OF MACROECONOMIC POLICY AND THE EMERGENCE OF THE MODERN CONSENSUS

The Great War ended not just the European empires, but also fiscal prudence and the sound monetary management associated with the gold standard. Continental governments, especially the former central powers and Russia, had nowhere to turn but the printing press in an ultimately futile attempt to match their expenditure with a dramatically diminished tax base. As the allies were increasing the pressures on the German fiscus at Versailles, Keynes left the peace negotiations to write *The Economic Consequences of the Peace* (Keynes, 1924), wherein he predicted not just the ensuing hyperinflation, but also the disintegration of industrial society that follows the destruction of its money.[2] These predictions proved distressingly accurate, and as inflation accelerated on the continent, Keynes rose to the front rank of economists.

The 1920s brought a brief respite, but the mis-priced return to the gold standard was ill-fated in Britain. Costly deflation ensued during the Great Depression; indeed, some – most famously Friedman and Schwartz (1963) – argued that the Great Depression was the result of monetary mismanagement, which allowed a recession to spiral into a depression.

Normal economic relations were suspended during the Second World War as price controls were combined with a dramatic expansion of the productive state. Towards the end of the war, however, a return to monetary order internationally

[2] 'Lenin was certainly right', Keynes (1924, p. 220) argued: 'there is no subtler, no surer means of overturning the existing basis of society than to debauch the currency'.

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was fundamental to the negotiations at Bretton Woods, New Hampshire. Though the ensuing international monetary system was anchored to gold via the dollar, the system failed to restrain either the Fed, or other central banks, in the expansionary policies that followed the adoption of full employment and active stabilisation as goals for macroeconomic policy (Bordo and Schwartz, 1999). Monetary stability with fiat money required different institutions, and these were slow to emerge.

The first post-war effort to create such institutions was the remarkable attempt that culminated at Bretton Woods at the end of the Second World War with an agreement on fixed (but adjustable) exchange rates among the signatories of the agreement. In this system the US dollar was anchored to gold and the other currencies pegged to the US dollar. The partner countries had to secure the bilateral exchange rates, which created the problem of the nth currency, describing the incentive for the United States to determine the inflation rate for the whole Bretton Woods System (BWS). During the 1960s and part of the 1970s, the US government had to finance the Vietnam War, and urged the Fed to provide the loans for these expenditures. These easy monetary conditions resulted in pressure on the US dollar to depreciate and capital to flow to partner countries. These foreign central banks then had to buy dollars to support the system, which meant they expanded their balance sheets and imported inflation.[3]

The system collapsed when the US government closed the gold window in August 1971, which unanchored the entire system, ushering in the era of floating exchange rates. Therefore, the full BWS lasted only from January 1959 (when the European currencies became fully convertible) to August 1971; in practice, the exchange rate used for transactions was much less stable than appears from the official rates (Reinhart and Rogoff, 2002).

[3] Former German Chancellor Helmut Schmidt, an economist by training and then economics minister, was cited in the press as announcing that 'every dollar will be shot at the border in the future'.

There are many differences between the institutional arrangements of the BWS and modern monetary policy regimes. A number of differences are listed by Rose (2007), including that the BWS was a deliberately designed system while modern floating exchange rates are not, and that gold had a central role in the BWS yet has none in the modern system. In his list of contrasts, the most important for this book is that central banks were politically dependent under BWS, in contrast with their largely independent modern successors. A major obstacle to central bank independence (CBI) was that the exchange rates in the BWS were a political decision: the central banks had to maintain the respective exchange rate of the national currency to the dollar. Therefore, they were not in full control of the monetary base, although they still tried to sterilise dollar inflows. In this respect, during the BWS, monetary policy was decided in cabinets to a certain degree.

The 1970s, following the collapse of Bretton Woods at the start of that decade, and the disturbances of the oil shocks, underlined the inability of the then existing monetary policy regimes to maintain monetary stability. Indeed, Figure 1.1 shows just how poorly a selection of prominent central banks fared in protecting the purchasing power of their respective currencies. The figure shows the extent to which the purchasing power (in 1960 terms) of 100 currency units in 1960 had been eroded by the end of the year 2020, for a selection of developed and developing countries.

The graph in Figure 1.1 should be interpreted as follows: each bar shows the percentage of 100 units of local 1960 purchasing power that remained after sixty years. It is the process of inflation that causes the bar to decline over time; absent inflation, the bars would have remained at 100 over time. For example, the cumulative impact of inflation in the United States since 1960 eroded the 100 units of local purchasing power in US dollar terms to 10.2 by 2020. Germany fared better, but still lost a cumulative 80 per cent of the purchasing power of the local currency over six decades, while the other countries on the graph did worse – and the entire purchasing power of the Turkish lira was, to some decimal places, wiped out over these decades.

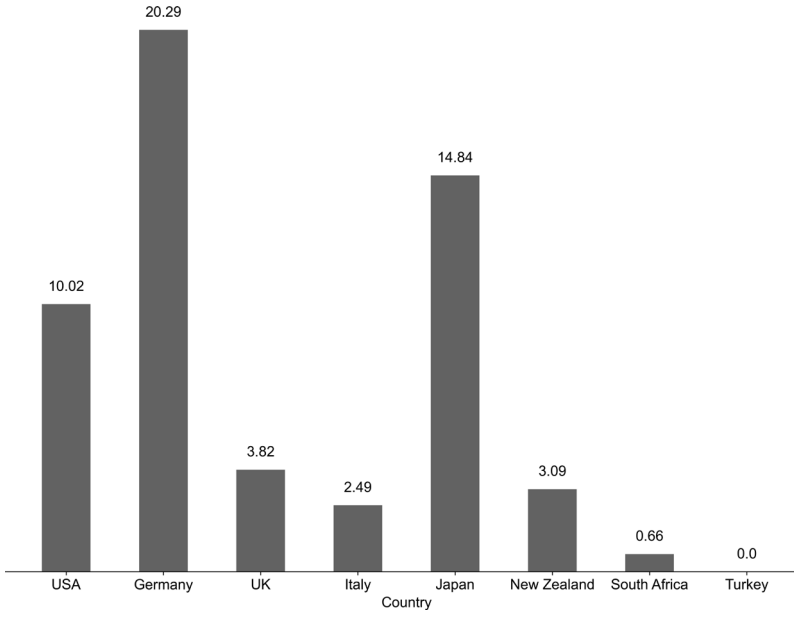

FIGURE 1.1 The purchasing power at the end of 2020 of 100 units of local currency units in 1960
Source: Data from OECD statistics

Post-Bretton Woods, the international financial system adopted a comprehensive fiat money regime for the first time; and for the first time there was no automatic centralised check on the discretion of modern monetary authorities.[4] Recently, Kydland and Wynne (2002) argued that there is now a consensus on the need for careful institutional design as the 'best' guarantee of monetary stability under a fiat money regime; and a nominal anchor is one important aspect of such institutional design. (See Mishkin and Savastano (2002) for the same conclusion with respect to emerging market economies.)

Kydland and Wynne's (2002) interpretation of the literature corresponds with former head of the International Monetary Fund (IMF) Michel Camdessus' use of the term 'policy standard' to describe a

[4] Meanwhile, the industrialised world adopted floating exchange rates, which were required for retaining independence for monetary policy decisions, in the light of increasing capital flows.

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fiat money system. The value of fiat money is ultimately determined by the institutional design of the system and the policies encouraged by these institutions. Or as Michael Woodford (2003, p. 1) argued: 'We now live in a world of pure "fiat" units of account, the value of each of which depends solely upon the policies of the particular central bank with responsibility for it.'

A nominal anchor is what economists call an 'institution', that is, a rule for the conduct of the policy authorities that links the nominal objectives with the stance of their policy tools. More formally, institutions are 'a set of constraints on behaviour in the form of rules and regulations; a set of procedures to detect deviations from the rules and regulations; and, finally, a set of moral, ethical behavioural norms which define the contours that constrain the way in which the rules and regulations are specified and enforcement is carried out' (North, 1984, p. 8), or, in game-theoretic terms, the institutions are the 'rules of the game' of social interaction (North 1990). A nominal anchor is that part of the institutional design that provides the 'rules of the game' for the central bank.

The gold standard was a notably strict form of a nominal anchor. Absent such strict limitation on the discretion of the central bank, there is no check on the amount of money that the central bank can issue and, consequently, no automatic check to inflation. That is to say, without deliberate design a modern fiat money system lacks a nominal anchor (Bernanke et al., 1999). Indeed, that is what Arthur Burns experienced practically as the anguish of a central banker in the post-Bretton Woods era, when even the weak anchor of that system fell away.[5]

During that same period, Milton Friedman (1977) used his Nobel Prize acceptance lecture to argue that the then prevailing mix of macroeconomic policies and institutions could not last, as it entailed incentives that would encourage either a drift to higher inflation or

[5] Arthur Burns was Chair of the Board of Governors of the Federal Reserve System in the United States from 1970 until 1978, that is during a period of high inflation and high unemployment.

to institutional changes that would encourage lower inflation outcomes. He was predicting a return to more explicit nominal anchors, and that is indeed what emerged from the 1980s onwards.

But Friedman (1977) maintained that it was not the task of monetary policy alone to ensure favourable inflation outcomes in a fiat money system. Fiscal and exchange rate policies have significant influence on the money supply too. Such influence is generated, for example, through the financial policy of the government used in financing its exhaustive expenditure and through the impact of the balance of payments on the stock of domestic money. It follows that any comprehensive account of discretion on monetary policy requires a limit on the discretion of exchange rate and fiscal policies too.

If the government commits to an explicit nominal anchor for monetary policy, a double commitment is, in effect, made as Mishkin (2000) has argued: first, that fiscal policy will not dominate monetary policy; and second, that monetary policy *will* dominate fiscal policy. The independence of central banks to set their instruments without regard for the implications thereof for fiscal policy was a major step to rebalance the power within the mix of macroeconomic policy. Or, in the three-point summary of the modern approach given by Svensson et al. (2002): define a clear goal for monetary policy; grant operational independence to the central bank in the pursuit of that target; and hold the monetary authorities accountable for their performance.

Friedman predicted that the institutions of macroeconomic policy would have to change if monetary order was to return. The core of his prediction is that fiat money requires a nominal anchor; and, in step with his prediction, central banks have increasingly adopted explicit nominal anchors since the early 1980s. Various forces have contributed to the changes that Friedman predicted. Among these, the inadequate monetary management of the 1970s was a primary factor; governments learn, or are forced to learn, via the ballot box. Globalisation – broadly defined as the increasing interdependence of economies owing to expanding international trade, capital flows and migration – has also played an important role.

Towards the end of the twentieth century, one nominal anchor, the then novel idea of 'inflation targeting', emerged as a serious rival to alternative anchors such as nominal exchange rate targets, money supply growth targets or even the theoretically attractive nominal gross domestic product (GDP) targets that were highly favoured by the early 1990s (e.g. Hall and Mankiw, 1994) but only ever tried implicitly in one case – in South Africa from 1986 to 1989 (see also Section 4.4).

The practical result of the focus on nominal anchors since the 1970s, and the success of explicit and implicit inflation targeting regimes, generated a very different outcome from that which led to Burns' anguish and Friedman's Nobel in 1976. Since then, inflation has been brought under control in the industrialised world and in much of the developing world; the internal average inflation rate declined from 14.8 per cent for the first five years of the 1980s to 3.2 per cent for the five years that ended in 2020, according to the IMF's World Economic Outlook Database. Inflation not only declined but also became more stable until 2021. In 2022, inflation reappeared. This sanguine era of low and stable inflation has, for the time being, ended.

By the end of the twentieth century, these changes had already become so widespread that global inflation declined to 6.6 per cent for the last five years of the century (IMF World Economic Outlook Database). Indeed, for the Nobel Laureate Robert Mundell (2000, p. 327), 'the clue to the twentieth century lies in the link between its first and last decades', as he traced the profound economic and even political consequences of the initial success and subsequent mismanagement of the gold standard, followed by the contradictory system of Bretton Woods and the re-emergence of prudent money, when central banks had learnt how to implement nominal anchors for fiat money with flexible exchange rates.

1.5 RULES AND DISCRETION IN THE HISTORY OF CENTRAL BANKING

Prior to the 1970s, the debate on rules versus discretion divided economists into a camp favouring an active role for policymakers in

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achieving the goals of macroeconomic policy and a camp that argued that such goals were best achieved by tying the hands of policymakers. In this dichotomy, rules are passive, while discretion is allowed to policymakers, who may take an active response to the state of the economy. The debate turned on whether there was both the need and the technique for economists to interfere benevolently, or whether prudence combined with science to suggest that despite economic pathologies, policymakers should shun activism as their knowledge and instruments lacked the requisite precision to correct market failures.

Friedman (1968) famously argued that the knowledge limitations of policymakers favours rules over discretion, especially in monetary policy. Policymakers, he argued, were not so ignorant that policy instruments would be perversely adjusted in the wrong direction, given the state of the economy. Rather, policymakers could not incorporate the long and variable lags of the transmission mechanism in their optimisation problem, with the result that policy adjustments were, generally, 'too late and too much'.

To Friedman's case for rules was added the powerful argument that monetary authorities had been trying to set the instruments of policy based on incorrect models of the economy – models where long-run trade-off existed between inflation and unemployment. With a correct model of the economy, the scope for beneficial discretion is greatly undermined, as shown famously by Kydland and Prescott (1977).

The next important step in the debate was taken by Barro and Gordon (1983a, p. 607) with the argument, in their words, that 'discretion amounts to disallowing a set of long-term arrangements between the policymaker and the public'. Subsequently, the central aspect of a rule has come to be recognised as the commitment by policymakers to future behaviour, not the presumed permanence of parameters in the policy rule.

This modern understanding of a policy rule is what Taylor has called a contingency plan, that is, '[a] plan that specifies as clearly as possible the circumstance under which a central bank should change

the *instruments* of monetary policy.... Implicit in this definition, is that the policy rule will in fact be used, and expected to be used, *for many periods into the future*' (Taylor, 2000, p. 3, emphasis in the original). In the words of Stephen Cecchetti (1998, p. 1), 'a policy rule [is] ... a systematic rule for adjusting the quantity that the Central Bank controls as the state of the economy fluctuates'. Though it is a rule, such a contingent plan responds to the state of the economy and is hence properly called an 'activist rule'.

A rule, understood as a contingency plan, is clearly not the mechanistic standard of earlier Friedman vintage that implied a 'fixed setting for the instruments of monetary policy' (Taylor, 1993, p. 196). Rather, the broader understanding of rules provides a way of thinking about monetary policy that implies a distinction between the 'policy' and the 'stance of policy'. Consequently, the evaluation of monetary policy proceeds along two axes, with respect to the policy (rule) on the one hand, and with respect to the day-to-day implementation of the policy (the stance of policy) on the other. And great care has to be taken to design the incentives facing the monetary authorities in both policy and implementation. This modern understanding of policy rules that respond to the state of the economy, especially the projected state of the economy, is assumed in the remainder of this book.

1.6 SUMMARY

The rise of the modern monetary policy consensus by the late twentieth century created an awkward problem. Monetary authorities, constrained by a nominal anchor, gained the power formerly yielded by elected governments to manage the instruments of monetary policy. The solution does not tell us what checks there will be on the authority of the technocrats at the central banks, though. Whereas economists may be convinced, technically, of a nominal anchor such as inflation targeting, there are broader political issues at stake, including the accountability of an independent inflation targeting central bank in a democratic society and the rationale for limiting the discretion of a powerful policymaking institution.

These are familiar questions from the literature on political science: (i) who should rule, and (ii) how do we prevent the authorities from causing too much harm?

The first of these questions has been answered both theoretically and empirically over the course of the last half-century with the modern consensus on modern monetary policy as described in this chapter. The second question has been more vexed. As the modern consensus was emerging, Stanley Fischer (1995, p. 4) already observed that the 'potentially enormous power' of an independent central bank remains undefined. And as Charles Freedman observed at about the same time, 'on the surface, at least, there can be a "tension" between the mechanisms needed to ensure the accountability of the central bank to government or parliament and the ability of the central bank to carry out its responsibility as an institution somewhat apart from government' (Freedman, 1993, p. 92). This tension has elsewhere been called the 'democratic deficit' of independent central banks (Briault et al., 1996, p. 7).[6]

This tension between the need for independence by the central bank and the desire for society to hold the same bank accountable in a democratic setting runs through this book. Nevertheless, that is no longer *the* major objection to the modern conception of an independent central bank with an explicit nominal anchor. Since the GFC, we have seen political pressure on central banks assume a very different role: to acquire vast portfolios of government debt and to try and generate sustained economic growth by supporting the most expansionary fiscal policies on record. The combined effect of such fiscal activism and the monetary accommodation thereof is that the relationship between governments and central banks changes fundamentally. It is the central theme of this book that this change will prove frustrating for policymakers. Abandoning monetary prudence will undermine the modest but important contribution that sound money can make to modern society.

[6] The debate on potential democratic deficits will be illustrated in some detail in Chapter 8.

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