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EUROPE

The ECB should keep a lid on dissent

The increasing role that monetary policy has acquired in addressing the current financial crisis is raising concerns for the independence of central banks. Such independence is protected by the statutes of central banks, which specify, among other things, the mandate, the way in which the members of the decision-making bodies are nominated or can be dismissed, the length of the term of office, the kind of operations which can be conducted. Central banks must also be accountable.

The way in which central banks account for their policies varies across countries. In the US and the UK, for instance, the minutes of central bank meetings are made public – albeit with some delay – and individual members of the decision-making bodies are required to disclose their votes and explain their views. In the eurozone there are no detailed minutes of the meetings and only the view of the whole European Central Bank Governing Council is disclosed. In the US and UK, central bank accountability is individual; in the eurozone, accountability is collegiate.

The difference depends on the underlying political structure. In fully integrated political systems, like the US or the UK, accountability is exercised and monitored by the entirety of the country's public opinion, media and political system. A central banker suspected to act under the pressure of a political party or interest group would be publicly criticised throughout the country. The reputation of the political body which nominated him would be seriously undermined. This represents a strong incentive for nominating independent personalities and for the latter to act independently in an open way.

The eurozone is based on a yet imperfect political integration. The governors of the 17 National Central Banks, out of the 23 members of the ECB Governing

Council, are nominated by their respective national authorities (while the six members of the Executive Board are nominated by the European Council) but are expected not to be influenced by their nationality when they express their views. They cannot be called by their national parliaments to give account of their votes, given that they are supposed to take decisions for the interest of the whole eurozone.

National politicians, media and the wider public have not yet fully understood that the ECB Council members do not represent the interests of their respective countries. They often associate the names of the members with their nationality, forgetting that each member participates in the ECB Council on a personal basis. The exercise of accountability in a collegiate way aims to protect the ECB Council members from the possible pressure coming from their own countries. As a result, the discussions – sometimes quite animated – take place within the ECB Council, but only the decision is made public. The members of the ECB Council are expected to loyally support and defend in public whatever decision is taken.

This system has served the ECB well for many years. Even when decisions were not unanimous, there was little public interest in understanding the nationality of the dissenting voices.

Things changed in Spring 2010, when dissenting views were publicly expressed on specific policy measures, in particular concerning the purchase of government bonds on the secondary market.

The departure from collegiate accountability and the expression of dissenting views on important policy issues has not strengthened the independence of the ECB. It might have actually seriously undermined it.

The expression of a dissenting opinion, especially when the opinion coincides with the view of a large part of the population of the respective country, generates the impression that discussions within the Governing Council are politicised, and that all members reflect national views. This may encourage pressures by national constituencies on the different ECB Council members to act on the basis of national interests, rather than the broader European ones. It may also encourage some national central banks to publicly express views on monetary policy issues, which is against the letter and the spirit of the Treaty because monetary policy is not anymore a competence of the NCBs but only of the ECB. The Treaty clearly states that the ECB Council members should not be influenced by any national or European institution, not even their own central bank.

The breach of collegiate accountability has led to requests for modifying the statutes of the ECB with a view to better reflect nationalities. An example is the recent call by some German politician and academics to change the current one-man-one-vote ECB voting system to one based on national

weights. This would certainly end the independence of the ECB.

Finally, in the current environment characterised by high uncertainty, not only in financial markets but also in the population at large, uncoordinated communication adds to instability. It ultimately undermines the credibility of the central bank and reduces the effectiveness of its policies. Central banks are expected to send clear messages, explaining the reasons for their actions, possibly also the risks, including the risks of non-action.

Preserving the independence of the ECB requires that personal considerations, even when well-founded, remain subordinated to the pursue of the common good. If this cannot be achieved, there is only one way out.

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