European Parliament Research Group

The role of the European Parliament in the accountability of the European Central Bank

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EPRG Working Paper, No. 3

Paper Presented at the European Community Studies Association conference, 2-6 June 1999, Pittsburgh.

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1. Introduction.

In establishing the European Central Bank (ECB)the Treaty of European Union (TEU) is commonly held to have made a deliberate, and perhaps justifiable, trade-off between central bank independence and democratic values of representation and accountability. Yet the Treaty also gives the European Parliament (EP) a consultative role in the appointment of the ECB's executive, as well as powers to scrutinise its subsequent performance (European Commission, 1992: A109). The inclusion of a parliamentary dimension is striking because it is the one point on which the authors of the Treaty were prepared to break with an attempt to construct the ECB as a replica of the Bundesbank. In the countries with the longest tradition of independent central banking in Western Europe, parliamentary involvement has often been seen as a threat to central bank independence second only to instruction by government. The President of the Dutch central bank is, for example, banned by law from even entering the parliament building in the Hague (European Parliament, 1998b).

It is, of course, possible that the authors of the TEU only intended to provide the ECB with a thin veneer of parliamentary respectability. In contrast to such a view, this article argues that the Treaty provisions on parliamentary involvement represent the best combination of central bank independence and democratic accountability that is obtainable within the parameters of the EU's political system. It also concludes that the TEU is an 'equilibrium solution' in the further sense that both the ECB and the EP have strong incentives to respect the institutional roles that the Treaty assigns to the other body. It arrives at these conclusions by setting out the core normative justifications for independent central banking; by developing a typology of systems of democratic accountability compatible with independent central banking; and by discussing the relative suitability of each 'type' to the EU's political system. A final section then shows how the EP and ECB have begun to structure their relationship in a manner that confirms their mutual interest in parliamentary scrutiny.

2. Principles of central bank independence.

Any enquiry into the reconcilability of independence with accountability has to begin with a test of compatibility. Accountability can only be considered a threat to independence where it

constrains an agent *from* achieving the objectives laid out in the instrument under which it received its delegated authority. Independence is not compromised where it constrains the agent *to* achieve those things, or prevents it from doing things that have nothing to do with its mandate at all.

So, what are the objectives of the ECB? The ECB has a primary obligation to deliver price stability and a secondary one of supporting the economic goals of the Union. As defined in the TEU, and up-dated in the Amsterdam Treaty, the latter include balanced and sustainable growth, competitiveness, economic convergence amongst member states, the delivery of environmental and social protections, and equality between men and women. The ECB can, however, only turn to the secondary objectives once the primary ones are assured (European Commission, 1992 and 1997).

At a deeper level of analysis, any system of accountability will have to be compatible with core normative justifications for independent central banking. Far from being a narrowly technocratic solution, the theory of central banking points to three important political values that could be frustrated where monetary policy is not delegated to an agent with operational independence: those associated with the neutral operation of the democratic process; with minority entitlements; and with the attainability of pareto improving outcomes. The starting point for the theory is the inelegantly named NAIRU hypothesis(that there is a 'non-accelerating inflation rate of unemployment') (Friedman, 1968; Phelps, 1970). This postulates that rational agents only care about real economic values and that unemployment can, therefore, only be reduced below its natural rate for the short periods (estimated at less than two years), needed for the correction of random errors (Lucas, 1972), for the separation of 'money illusion' from the effects of real economic change, or the adjustment of 'sticky' prices and wages (Laidler, 1988). The only lasting effect of any attempt to push unemployment beneath its natural rate is to embed a higher level of inflation in the system as the base-line for future rounds of price and wage fixing. Although this core theory is contested, the purpose of this article is to assume its validity and examine the politics of accountability that follow from it.

The NAIRU hypothesis weakens the case for any system of accountability that allows governments an unconstrained freedom to instruct central banks. The normal reason that is

given for this is that the NAIRU hypothesis creates ideal conditions for governments to cheat on their voters (Nordhaus, 1975; Kydland and Prescott, 1977; Barro and Gordon, 1983) and for majorities to prey on minorities. Economic conjuring tricks based on unsustainable attempts to reduce unemployment below its natural level can be made to coincide with the political cycle. This violates the principle that competitors for power should only be able to control the conditions under which they are themselves elected through genuine differences of governing performance or of programmatic intention. The NAIRU also allows governments to use 'surprise inflation' to devalue public debt, a form of behaviour for which there may be no effective democratic sanction, since the majority may be only too happy to applaud the appropriation of a minority of savers where this reduces interest payments that will have to be covered by future taxes.

The NAIRU may, however, create a case for independent central banking regardless of whether governments succeed in cheating on those they represent. With time, rational citizens can be expected to identify those political systems that allow governments to exploit the NAIRU, and anticipate that risk in the way in which they set prices, wages and interest rates. Such systems will suffer from inflationary drift and premium interest rates that depress investment, productivity and underlying growth. Even governments with a sincere interest in full employment with stable prices would be unable to achieve it. In other words, the NAIRU implies that a pareto-optimum may be frustrated under some systems of public control but attainable under others: it cannot be achieved where discretionary monetary policy is left in the hands of elected majorities; it is, however, possible where responsibility for price stability is delegated to an independent central bank.

The NAIRU hypothesis may even create an unusually strong form of justification for delegation to an independent authority by side-stepping a couple of objections to the notion that pareto-improving policies can ever be sufficiently free of distributional implications to justify their delegation to unelected bodies. The first objection is that a mandate to pursue pareto improving outcomes may 'freeze' initially unfair distributions (Shapiro, 1996); and the second that an independent agency may have to choose between a series of different pareto optima, each of which distributes the collective gain in very different ways. In contrast, the NAIRU hypothesis implies that there is a *unique* social optimum in monetary policy-making, and that the discovery of that optimum can be decoupled from the fairness or otherwise of

initial distributions, since it is always open to governments to use supply-side policies to bring about a long-term shift in the NAIRU.

3. The ECB and agency models of public control

Given the foregoing justifications for independent central banking, what models of accountability are capable of reconciling independence with public control? It is helpful to begin by distinguishing three general approaches to accountability. Under a *supervisory* model, executive bodies are headed up by elected politicians who can be removed by the public or its representatives (Page and Woulters, 1994). Under *agency* models of accountability, top decision-makers are operationally independent, but they are required to explain their actions, and, in extremis, the terms of their agency can always be revised or recalled by a democratic process. Under *separation of powers* models, executive bodies can only achieve their objectives by pooling their resources with those of other institutions, including representative ones.

The agency approach is clearly at the core of any model of independent central banking. But can it deliver adequate standards of public control unaided? To answer this question, it is useful to begin with what Giandomenico Majone identifies as its essential characteristic: its apparent ability to reconcile independence and accountability without 'oversight exercised from any one place in the political spectrum'. As already hinted, this can be achieved through a mixture of accountability obligations stipulated *within* the agent's initial contract, and arrangements for the recall *of* the agency. Under the former, an independent central bank can be required to follow 'clear objectives' and 'unambiguous performance standards'; to observe due and transparent process; and to give reasons for its decisions, including a public defence of why they are the best means of achieving its objectives in the circumstances (Majone, 1996: 300).

The possibility that the statute of an independent central bank might be revised or recalled will always exist in any system where democratic authorisation is considered indispensable to the legitimation of power. Even agency models, therefore, include residual political oversight, though it is possible to avoid that oversight being exercised 'from any one place in the political spectrum' by constitutionalising the powers of a central bank, so that their

amendment requires the consent of most members of the political unit, rather than a partisan majority. Revision of the ECB's Statute would, for example, require consultation of the Bank itself, the concurrent consent of all EU governments, ratification by national parliaments or by referendum in each member state, and, in the case of some parts of the Statute, the assent of the European Parliament acting on an absolute majority of its membership. Such unanimity rules (in the case of the European Council) and supermajorities (in the case of the EP) constrain amendments that are purely partisan or redistributive in intention. Yet, they need be no barrier to a revision of the ECB's statute should it fail to produce pareto optimal outcomes: where the correction of under performance would produce an efficiency gain for all, and not merely a redistributive benefit to some, unanimity rules will only be a barrier to change where transaction costs are higher than the likely benefits from reform (Buchanan and Tullock, 1962).

Any discussion of whether the agency model is sufficient to reconcile independence and accountability has to start by acknowledging that a central bank's statute is always an 'incomplete contract' (Williamson, 1985). Central banks have to make the following discretionary judgements: choice of a definition of price stability; decisions on how objectives are to be traded off against one another; choice and operationalisation of policy instruments; choice of optimal time-paths for a return to equilibrium each time an economy is knocked off course by an unanticipated or 'shock' event; and estimations of the variable lead and lag times by which monetary policy change translates into private economic behaviour. They also have to reach a normative understanding of what counts as the giving of good, full and clear justifications for decisions. Since May 1998, the ECB has had to make all of these judgement calls, with the possible exception of the second (because it has a clear responsibility to give priority to the control of inflation).

Any mechanism of public control has, therefore, to ensure that central bankers do not use their discretion to substitute personal policy preferences for social ones. Moreover, the need to allow central banks an element of discretion means that accountability can no longer be reduced to a mechanistic process of checking that each central bank action has a textual base in its original mandate. A further problem is that the same indeterminacies that require an element of policy-making discretion make it difficult to devise performance indicators that unambiguously pick up the effects of central bank behaviour. Variable lags and exogenous

shocks complicate the attribution of responsibility for policy outcomes. A central bank may, therefore, be tempted to under perform in the rational expectation that it will always enjoy some margin of manoeuvre in which it is hard to identify who exactly is to blame for sub-optimal delivery of objectives.

Defenders of the agency model might point to three mechanisms that could be used to meet these challenges without re-introducing continuous political supervision: the professional commitment of central bankers (Majone, cit: 300); their continuous surveillance by the financial markets; and the argument already encountered that unanimity rules will be no barrier to the revision of a central bank's statute where it persistently under performs. The importance of what B.Guy Peters calls internal standards of accountability should not be disregarded. Given the transactions costs involved in supervising all decisions taken by public bodies, self-regulation by means of deeply internalised professional standards is probably the most important source of day-to-day accountability within any administrative system (Peters, 1995). Moreover, central bankers form a close epistemic community, whose members place a high value on their reputation for professional competence (Haas, 1992; Dyson, 1994). Likewise, market surveillance is a cogent disincentive to poor performance: the financial markets invest huge resources in monitoring central banks, and, as will be seen, the ease with which any central bank can achieve its objectives is closely related to its market credibility.

This position, however, leaves a number of problems unresolved. It is not necessary to sign up to theories of institutional decay or agency capture to believe that the survival of strongly internalised professional standards is no alternative to assessors, incentives and sanctions that are external to the agency itself; rather, these things are strongly interdependent (Peters, 1995). Market judgements cannot, in turn, be sufficient to provide those external factors, if accountability is to include responsibility for the 'diffuse public interest' (Pollack, 1997b). Two examples can be used to illustrate this point. A central bank that was only interested in its relationship with the financial markets could well be tempted to adopt an overly accommodating monetary policy in the event of a financial crisis. Indeed, financial markets that knew the central bank was not under pressure to account for itself to public institutions could be prone to moral hazard: irresponsible lending on the assumption that the central bank would always help them out of difficulties, if need be at the expense of the public interest. A

second example is as follows: whenever a shock causes an economy to deviate from the pareto optimum of full employment with stable prices, a central bank has a choice of a whole series of time-paths by which it can return to equilibrium. These range from a short sharp shock (a large interest rate hike) to a long-slow squeeze. The choice is a purely subjective one, yet the preferences of the financial markets may be quite different from those of the public as a whole.

A further point is that reinforces the need for representative bodies to have a permanent role in any process of central bank accountability is that the public's right to recall or revise an agent's mandate cannot be confined to a power of last resort. If recall is to be informed and not arbitrary, it must be linked to day-to-day arrangements for judging the quality of policy explanations offered by central banks.

So, to conclude, delegation to an operationally independent agency is at the core of any system of independent central banking, yet agency models need to be supplemented by publicly representative bodies capable of providing criteria, assessors and sanctions external to the central bank itself. This means that any attempt to reconcile independence with public control has to be based on a hybrid of agency with some other approach to accountability. Two such solutions are possible within the typology of systems of public control discussed above: an agency-supervisory hybrid or an agency-separation of powers one. The next two sections explain these alternatives in greater detail and consider which is the more suited to the EU.

3. The agency-supervision hybrid. A missed opportunity for the EU?

The *agency/supervision* hybrid has been the subject of an important application in the recent history of central banking. Under the New Zealand model, the elected government of the day hands the central bank an inflation target which it must meet subject to a precise contract of rewards and sanctions, including provision for salary bonuses or the dismissal of the board (Archer, 1997; Lloyd, 1992; Walsh, 1995). Although democratically authorised and controlled, an NZ-style central bank does have a significant measure of independence. It can only be sanctioned or rewarded for success or failure in the achievement of a pre-announced target and not at the whim of the elected government. The government of the day cannot

change the target by stealth: it has to announce any change publicly, justify it, and obtain parliamentary approval, all under gaze of electorate. In the meantime, the central bank has complete discretion in its choice of means by which the target is to be met. It is said to have 'operational independence' even if does not have 'goal independence' (Rogoff, 1985).

A powerful critique that has been made of the TEU is precisely that it ignored the 'superior' combination of accountability and independence offered by the NZ model (Charles Goodhart evidence to EMAC of EP, January 1998). On the analogy of the Treaty arrangements for subscribing to an external currency regime, the NZ model could have been applied to the EU by requiring decisions to change the ECB's target, or reward or sanction its performance, to be initiated by the Commission and unanimously agreed by the Council after consultation with the EP (European Commission, 1992:109). A case could even be made for use of the assent procedure.

The power of such a model to deliver accountability is self-evident. With the foregoing adaptation to EU institutions, it could also have secured many of the purposes of ECB independence. Because members of the Council are elected according to different electoral cycles, the democratic process would have been protected from the manipulation of monetary policy: at no one moment would members of the Council of Ministers have a unanimous interest in instructing the ECB to relax its inflation target. A lengthy and public procedure for adjusting the inflation target would likewise have constrained governments from using surprise inflation to appropriate minorities. Member governments would have been exposed to increased debt servicing charges before any policy change could take effect. The New Zealand model could even have been pareto superior to the TEU to the extent that the ECB would have had greater incentive to hit its target, and this would have been known to price and wage fixers.

Yet, the NZ model is probably precluded by various features of the EU's political system. The first is that it is difficulty to apply to federal central banking structures, where voting rights are distributed between central appointees and representatives of the regions, and responsibility for implementation is likewise shared. In the case of the ECB, national central banks (NCBs) have a majority of 11:6 on the Governing Council; the rules of procedure allow any one member to put an item on the agenda; and policy implementation takes place

through all eleven financial centres. In fact, the ECB is the most decentralised of the three main models of federal central banking: the ECB, the Bundesbank and the US Federal Reserve (Gros and Thygessen, 1998). Any application of the NZ model to the EU would, therefore, create a dilemma: to make the ECB's permanent Executive dismissable for non-performance would be to confer responsibility without power, since the Executive Board would be open to sanction for the policies of a Governing Council in which it only holds a minority of votes, or for implementation gaps between its own sound policies and the inadequate execution of others; yet, to make the entire Governing Council sanctionable for non-performance, would be to terminate the federal structure of the ECB, since NCB governors would then be dismissable from the centre. The EU could only have avoided this dilemma by creating a more unitary central banking structure.

But the need to represent each national segment is probably inherent in any attempt to construct a central bank within a multi-national political system. In contrast to single-nation federal systems such as the United States or Germany, it is hard to believe that the decisions of the ECB would have enjoyed high and even levels of acceptance if it had followed the Fed in only representing states by rotation or the Bundesbank in grouping them into overlapping units. Moreover, it is NCBs that have all the accumulated administrative resources, with a total staff of 60 000 to the ECB's 600, as well as the knowledge of domestic banking systems needed for effective implementation and financial supervision.

Nor, indeed, would it have been enough for the Union to take the unlikely step of moving towards a unitary central banking structure. The NZ model can only reconcile independence and accountability in a political system with a high capacity to 'guard the guardians'. Where this condition does not apply, a central bank will be exposed to a governing authority with powers to redefine its goals and dismiss its board, without the latter being sanctionable for any abuse of its position. The Council of Ministers, which would presumably be primarily responsible for setting targets for the ECB under any application of the NZ model to the EU, is neither collectively dismissable (Weiler, 1997: 275), nor is it sufficiently transparent or connected to national parliaments to institutionalise a system of individual ministerial responsibility.

4. Agency within a separation of powers.

If it is impossible to reconcile accountability with independence within the parameters of the EU's political system by retaining supervision for some decisions (goals) but not others (instruments), what of the alternative solution of embedding the ECB's agency within a separation of powers? Unlike the NZ model, this would give the ECB independence in relation to all kinds of monetary decision, while making it systematically easier for it to deliver its objectives at lower cost to itself where it can convince other bodies, including publicly representative ones, of its present intentions and past performance.

The ECB will share in two factors that limit the ability of all central banks to achieve their objectives without the co-operation of others. The first is that a sound monetary policy may be frustrated by a poor fiscal policy. This is known as the problem of 'policy mix'(Anderson and Schneider, 1986; Artis and Winkler, 1997; Blake and Weale, 1998; Masson, 1996 ; De Silguy, 1998: 257). The second is that central banking is a 'credence good': the more policy regimes are perfectly understood and completely believed, the lower will be the 'sacrifice ratio' (short-term losses of employment and growth) needed to achieve a given price reduction (Briault, et al, 1996:9; Gros and Thygessen, 1992: 127-9). Thus the ECB's Chief Economist, Ottmar Issing, told the European Parliament's confirmation hearings that the bank would only succeed if it achieved the visibility and credibility needed to steer the economic expectations of ordinary citizens (European Parliament, 1998b).
Dependence on public belief in its professional competence will be especially acute in the case of the ECB. Like other independent central banks, it cannot claim legitimacy by election; unlike others, it is not a 'national' central bank, with correspondingly uncontested authority throughout the territorial area in which its policies apply. On the assumption that democracy, identity and performance exhaust possible sources of political legitimacy (Beetham, 1991; Beetham and Lord, 1998), the sole basis for public acceptance of the ECB is, therefore, performance alone. It will, moreover, have to convince public and markets that it is the most efficient means of achieving a widely shared public good in a context in which economic relationships may themselves be unsettled by the changeover to a single currency (Backus and Drifill, 1985).

While even more dependent than other central banks on a reputation for effectiveness, the ECB is likely to enjoy fewer political resources. The Bundesbank, for example, enjoyed a highly mobilised social consensus in favour of anti-inflationary central banking, a structured

dialogue with price and wage fixers, and a relationship with fiscal authorities whose spending power is evenly divided between the states and the centre. In contrast, the ECB's efforts to secure the co-operation of other actors will be limited to the following institutional mechanisms: rights of representation at meetings of the Council of Finance Ministers (ECOFIN); ECB participation in the new economic and monetary committee which prepares ECOFIN business; an emerging 'comitologie' between the ECB and NCB's (author's interview in ECB, 21 September 1998); and regular interactions between the ECB and its own 'client group' of private sector actors in the commercial banking sector. These amount to little more than a series of networking relationships, in which the various parties have a high level of mutual dependence, but few powers of command and control.

The heavy dependence of the ECB on policy networks could, however, be made to contribute to accountability in at least three ways. First, a measure of accountability is inherent in any networking relationship: by assumption, no one member of the network can achieve its goals where it cannot give a sufficiently good account of itself to achieve the active co-operation of others (Wessels, 1992). Second, policy networks may improve the deliberative quality of public control. A problem with systems of accountability confined to parliamentary or electoral majorities is that they may only encourage strategic action in which the aim is 'to play to close' through the formation of a minimum winning coalition at the earliest moment (Sartori, 1988). In contrast, close scrutiny by 'knowledgeable actors' (Héritier, 1997: 180), can be used to enforce mutual reflection on preferences (Joerges and Neyer, 1997: 613). It may also create conditions in which policies have to be publicly justified and not merely asserted (Mill, 1972: 239-40; Rawls, 212). Third, a condition in which the ECB is systematically more likely to achieve its objectives where it can justify itself to other knowledgeable actors, without itself being controllable by them, is precisely the separation of powers most suited to the reconciliation of accountability with independence.

Yet, an obvious difficulty remains: do the various policy networks to which the ECB has to justify its policy positions amount to a system of *public* control? Because they institutionalise differential access to decision-making, policy networks clearly can function as power relationships, rather than representative mechanisms in which the preferences of all citizens count equally. They may also be too fragmented and issue specific to be any better than market mechanisms at embracing the 'diffuse public interest' (Pollack, 1997b; Marsh and

Rhodes, 1992: 265). A final problem is that the very need for all members of a network to 'exchange their resources in order to achieve their objectives' may complicate the attribution of responsibility, since it will be difficult to know when, where and with whose participation decisions are made (Rhodes, 1996: 658 & 662).

It may, however, be possible to link networks to publicly representative bodies at 'key nodal points'. Given that networks are only formed between those who have resources indispensable to the solution of collective action problems faced by all (Peterson, 1995: 76; Rhodes, 1996: 658), a high level of public control may sometimes be achieved through the accountability of just one or a few network members to a public body. Under the TEU, the ECB has reporting obligations to the European Council, the Council of Ministers, the Commission and the European Parliament. The second and the fourth are reinforced by further mechanisms: the right of the Council to send a representative to meetings of the ECB General Council and the obligation of the President of the ECB to report in person to the EP. In the light of what has been said in this article it might be possible to identify the following as an optimal arrangement for using accountability through reason-giving to reconcile the public control and independence of the ECB within the separation of powers offered by the EU's political system.

1. The ECB has to give reasons for its decisions, through public statements, formal reporting requirements to other EU bodies, dialogue with the Council, and interrogation by the EP.

2. Both markets and institutions can sanction the ECB if they find its explanations wanting.

3. Sanctions take the form of a lowering of the credibility of the ECB. They do not involve any interference in ECB decision-making itself.

4. The ECB can be assumed to care about its credibility because this determines the ease with which it can achieve its policy objectives; and because the legitimacy of ECB decision-making rests on considerations of performance alone.

5. Each party only has a 'conditional power' to sanction the ECB. Neither Council nor Parliament can dent the credibility of the ECB unless they can convince the markets that their

criticisms are based on sound economic reasoning and that they are germane to the ECB's strictly defined mandate of price stability. Conversely, market doubts need not translate into political damage to the ECB where its stance is supported by the Council or Parliament. In short, the actors that are in a position to sanction the ECB are themselves subject to checks and balances which are well structured to maintain an equilibrium between independence and public control.

6. The ECB is always in a position to win back credibility in 'subsequent rounds of the game'. This is important if the Council and EP are not to be constrained by a fear that it is not in the long-term interest of those they represent to sanction the ECB for poor reason-giving. It is also desirable that the ECB should face a symmetrical incentive structure: that it can say and do things that will improve, as well as diminish, its policy credibility and effectiveness.

5. The 'value-added' of including the European Parliament in ECB accountability.

Before moving on to examine the extent to which preliminary arrangements for ECB reporting to the EP contribute to the accountability optimum just outlined, it is useful to clarify exactly why it is important to include the EP in a process that is after all established as a delegation of powers from member states. There are several reasons why accountability to the European Council and Council of Ministers would not be enough. The Council and ECB effectively constitute a two-headed executive power under Monetary Union. As seen, they will need to collaborate to deal with certain problems of monetary-fiscal policy-mix. In an ideal world, the ECB and Council would not only be accountable to one another. They would also be politically responsible to some body that is altogether independent of the complex of intra-executive relations. From a point of view of reconciling independence with accountability, the EP is, moreover, in the ideal position of being able to pass public judgement on the ECB's performance and policy justifications, without being able to dominate it. Because the Council is more likely to be perceived by the markets as having the political resources to threaten the ECB, it is more circumscribed in its scope to level criticism. Furthermore, the ECB needs to be politically responsible to the most transparent institutional process available, given that its primary incentive in co-operating fully with any system of public control lies in the opportunity to explain its policy regimes to the public and

the markets. Whereas the Council is an essentially secretive institution geared towards permanent intergovernmental bargaining, the Parliament is a body in search of an audience. As will be seen in the next section, it has been quick to understand the political opportunity offered by the ECB's need for a political platform. A final point is that the ECB will systematically under perform unless it targets economic conditions in the Euro-zone as a whole, rather than those in particular member states (Tietmeyer, 1998). This underlines the advantage of accountability to the Parliament, since it is a body organised for the expression of transnational party preferences, rather than national perspectives.

6. Lessons from the early practice of EP-ECB relations: How Close to the Accountability-Independence optimum?

True to form, the EP has put a maximal interpretation on its Treaty powers to scrutinise the Central Bank. It has sought to turn its right to be consulted on the appointment of the ECB's executive into a power akin to that of the US Senate to 'hear' and confirm nominees for the Federal Reserve. Its internal rules of procedure require nominees to the ECB's Executive Board to make a declaration before EMAC and answer its questions; EMAC then has to make a recommendation to the Parliament to accept or reject the candidate concerned; the Council should be asked to withdraw any candidate rejected by the Parliament, and substitute a new nominee (European Parliament Rules of Procedure: A36). To obtain maximum publicity, EP intends that the submission of the ECB's annual report should be at a plenary session of the Parliament, and that there should be a debate and a vote on the ECB's performance. During the hearings on his appointment, Duisenberg agreed to regular appearances before EMAC every three months.

The EP has sought to link these various powers into a continuum: the confirmation hearings are to be used to clarify the criteria by which the ECB will be subsequently brought to account; the three monthly hearings are then to be used to review the performance of the ECB against those targets; and it is anticipated that the EP will then use its power to request an emergency meeting if the targets are not met (European Parliament, 1998). In addition, the ECB will effectively be required to carry out a self-assessment of its performance by up-dating its predictions for each meeting with EMAC and comparing them with its previous reports.

How far do these arrangements contribute to the optimum accountability-independence optimum outlined at the end of section four? They would certainly seem to introduce external criteria and assessors to the process of accountability through reason giving. By boxing the ECB into a continuously up-dated set of public statements, the EP may also limit the dangers of allowing the ECB both goal and operational independence: the Bank will have less scope to evade responsibility by keeping goals vague, or by changing them as it goes along. Given the importance of market credibility to effective central banking, the right of the Parliament to invite the Executive Board to an unscheduled appearance before EMAC could well be a powerful source of accountability and a considerable deterrent against poor performance. If an Executive Board were either to decline the invitation or to fail to give convincing answers under cross examination it would probably suffer loss to its reputation.
There is also evidence that the EP's powers over the Central Bank will be conditional in a manner that will limit parliamentary pressure to incentivising the Bank's initial mandate. When, for example, Duisenberg was asked during the EP confirmation proceedings whether he would take up office against an adverse parliamentary vote, he replied that his decision would depend on whether the reasons given for any parliamentary rejection reflected on the credibility with which he could perform as ECB President (European Parliament, 1998b).

The creation of a substantial role for the EP in bringing the ECB to account is none the less subject to problems of operationalisation. Accountability through reason-giving raises the issue of transparency in acute form. Here it is useful to note various suggestions as to what would amount to a satisfactory process of reason-giving on the part of an independent agency. It could be required to justify each decision in terms of fixed criteria; to set out the information and methodology used to take each decision; to stipulate the expected consequences of each action in a form that allows eventual outcomes to be tested against initial expectations; and to record the range of debate, including the reasons for rejecting alternative courses, so that there is no subsequent scope to claim that particular problems were not foreseeable at the time. This raises the obvious difficulty of how the ECB should be required to summarise the thought process by which it arrived at its decisions. One view is that anything short of a full publication of the minutes of General Council meetings will only produce an abridged and sanitised version of discussions: the public and its representatives would be denied a full account of the conflicting considerations involved in any policy

choice. Non-publication of voting records could also make it harder to detect threats to the ECB's independence or nationalistic voting patterns on the part of NCB's (Buiter, 1998) The alternative view, however, is that collective responsibility is precisely what the ECB should be aiming to achieve. Anything that made it possible to identify who took which positions on the General Council would open central bankers to domestic pressures and deflect them from their responsibility for achieving price stability in the Euro area as a whole (Issing, 1998).

A further problem is that the mode of parliamentary accountability suggested here makes peculiar demands on the EP and its resources. It frees it from a need to mobilise coherent parliamentary majorities for the impressive exercise of powers, only to bind it to a need to mobilise specialised forms of knowledge in an immensely technical policy area. In organisational terms, it means that the EP's contribution to squaring the circle between accountability and independence will be as good as its committee devoted to that purpose. Yet EP committees are subject to some well-known institutional pathologies. One is the high turn-over of membership between Parliaments, which may interrupt the steady accumulation of expertise (Corbett, Jacobs, Shackleton, 1995); another is the need to assign positions according to the D'Hondt system of proportional representation of parties and nationalities, and not directly according to knowledge of a policy area.

A final difficulty is that the EP and the ECB may not always hold the same concept of accountability. For a start, the ECB is almost certain to insist that it should only be held politically responsible in a manner that acknowledges, first, its narrow focus on price stability and, second, the core theoretical assumption of independent central banking that there are no long-run trade offs between inflation and the real economy. The ECB may also see the EP as just one element in a wider strategy of communication and legitimation with the public. In contrast, the EP may feel that detailed scrutiny will require it to have forms of privileged access to information on the internal policy-making of the Central Bank. This tension has already produced one disagreement. Duisenberg has refused to disclose any documents to the EP that are not also to be made available to the public at large (Author's notes from Duisenberg appearance before EMAC, 22 September 1998). Some members of EMAC have, on the other hand, taken the view that they should enjoy certain rights of confidential disclosure of documents, such as those produced by the working parties of the Central Bank, if they are to meet what they consider to be adequate standards of parliamentary review.

7. Conclusion

One view of independent central banking is that it constitutes one of the rare instances in which powerful justification can be found for removing decisions from normal democratic politics (Saward, 1996). This article has taken a different perspective. Independent central banking can be seen as extending the capacity of democratic political systems to attain preferences that would otherwise be frustrated. It can also be institutionalised through well-established democratic practices of public control: agency, residual powers of supervision, and a separation of powers. The EU's political system is best suited to a hybrid of the first and the third.

A widely acknowledged view is that a transfer of central banking from the national to the supranational arena widens the scope for independence. A less noticed effect, however, is that it may also create new possibilities for combining parliamentary accountability with independent central banking. If this article began by observing that parliamentary involvement has often been seen in Western Europe as a threat to independent central banking second only to explicit instruction by government, it was because the two are likely to amount to much the same thing in the case of executive-dominated national parliaments. In contrast, the supranational character of the EU's political system constrains it from developing a pattern of executive-legislature relations in which governments are formed from parliamentary majorities (Dehousse, 1995). The result is that there is scope for the EP to develop a role in relation to the ECB that is closer to that between the US Congress and the Federal Reserve than to any between an independent central bank and a national parliament in Western Europe.

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