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### **In search of a balanced view of the European Bank**

Among French presidential hopefuls, bashing the European Central Bank seems to be a must. Nicolas Sarkozy is the clear front-runner in this game. He has blamed the ECB for Airbus's woes and attacked Lucas Papademos, its vice-president, for helping conceal his country's fiscal deficit while governor of the Bank of Greece. But Ségolène Royal, who complains about the central bank's autism and adamantly calls for a revision of its mandate, is not far behind. Only François Bayrou has abstained from the bashing game.

The Germans (and many other Europeans) are understandably shocked: do French politicians mean what they say? Are they unaware of what their country has signed up to? The answer is that they know very well that the independence and the mandate of the ECB are set in stone. But they regard central bank bashing as a way of signalling to those of their fellow citizens who rejected the constitution that they have not been forgotten.

Whether embarking on populist rhetoric and committing to changes that have no likelihood of being implemented is a clever political strategy is disputable. However, this is a matter that can be left to French voters (who are neither stupid nor uninformed). What is an issue for all Europeans is whether ECB-bashing by senior politicians is acceptable behaviour – and if not, how to prevent it.

It is not an easy issue. Robust controversies are part of the democratic debate in many countries. Great responsibilities and independence go hand-in-hand with exposure to public scrutiny and controversies.

Even the Queen of England is sometimes treated without deference. Why should the ECB, which has far greater responsibilities, escape critique and even irreverence?

Experience suggests that there is no single template for the relationship between elected politicians and an independent central bank. In post-war Germany, there was considerable public respect for the central bank and there were very few incentives for politicians to engage in controversies with it. But in the US it is common for congressmen to criticise the Federal Reserve and until recently this applied to the administration too; Robert Rubin, a former Treasury secretary, explains in his memoirs that within Bill Clinton's administration he had to argue against criticising the Fed.

The eurozone is, however, not a country, but a young and evolving entity. The ECB's legitimacy is partly based on its treaty-based statute, partly inherited from the Bundesbank and partly grounded in its short track-record. It has been given a clear price stability mandate but is also held responsible for the

exchange rate of the euro and, often, for growth and employment developments. Furthermore, divergence within the eurozone means that its policy is never perfectly attuned to the situation of any particular country. Last but not least, communicating directly with the public in 13 different countries and 10 languages is almost impossible. For these reasons, the ECB is both a powerful and a fragile institution, which can easily serve as a populist target. The risk for the central bank may thus not only be to succumb to political pressure, but to be left isolated if and when public opinion turns against it.

This is why national governments (and those who aspire to lead them) should exercise restraint when speaking publicly about the ECB. This is not to say that they have no right to criticise it. They should, however, balance criticism with a recognition of the collective ownership that resulted from their countries' joint decision to create the euro.

Ministers of finance and especially heads of state do not seem to have realised the full extent of their responsibility. A better sense of it would help signal to would-be French presidents what are the rules of the club.

Self-restraint cannot, however, be a one-sided commitment. The ECB frequently expresses public judgments about the national governments' policies. It is entitled to do so whenever those policies impinge on its ability to fulfil its mandate, such as structural reforms that improve the responsiveness of the economy to shocks. But the members of its governing council also express views on other issues, such as levels of taxation and public spending. As recently pointed out by Willem Buiter of the London School of Economics in a critique of the International Monetary Fund's assessment of the British economy, this is debatable because very different levels of public spending are compatible with sound public finance and with price stability.

There is a lesson here for the ECB: it also should exercise self-restraint and refrain from expressing judgments on issues which are both unrelated to its mandate and a matter for democratic choices.

French political philosopher Montesquieu once said that democracy can only be based on virtue. In the same vein, economic and monetary union can only be based on intellectual discipline. For it to prevail amongst national politicians, the ECB itself should set the example.

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