

Introductory remarks prepared for the hearing of the Committee on Economic and Monetary Affairs of the European Parliament on "Improving the Accountability of the European Central Bank", taking place on December 2<sup>nd</sup>, from 13:45 to 15:45, by videoconference

## **ECB Accountability in Comparative Perspective: Past, Present, Future**

Vivien A. Schmidt  
Boston University

As the most independent of all central banks, the ECB has by mandate very little built-in accountability. Accountability can be defined as officials ‘giving and being held to account’ in relevant public forums. By this definition, the ECB has certainly increased its accountability over the past decade, after serious lapses in the early phase of the Eurozone crisis. Our question today is how to ensure greater accountability for the ECB in the future, in particular in light of the major changes in outlook related to the Covid-19 pandemic. For this, I provide a comparative perspective on the ECB with regard not only to the question of accountability ‘to whom’ but also ‘for what,’ meaning the objectives of the ECB. I end with recommendations for the future focused on democratizing ECB accountability via a ‘great macroeconomic dialogue,’ for public deliberation on grand strategies for future economic growth.

### ***Central Banks’ Accountability ‘to whom’***

Accountability ‘to whom’ can best be understood in terms of central banks giving and being held to account for their actions in two kinds of forums: political, made up of legislative bodies engaged in parliamentary oversight; and technical, to ensure ‘best practices’ for optimal performance.

### **Accountability in Political Forums**

National central banks’ accountability in political forums can be characterized as their operating in the ‘shadow of politics.’ Although they are independent bodies, not only are they appointed by the legislature in combination with the executive; they also have an obligation to report regularly

on their actions to parliamentary monitoring committees, to explain their actions, and be subject to formal sanctions if need be. Over time, such ‘discursive accountability’<sup>1</sup> has become more robust not only with regard to legislative forums but also to the public.<sup>2</sup>

Accountability to political forums is much weaker for the ECB. It is not just more independent than other national central banks; it also operates much less in the shadow of politics. This is not only because of the complexity of its appointment process and its farther removal from ‘politics’ but also because by mandate the ECB has much less formal political accountability.<sup>3</sup> Its interactive engagement certainly provides an opportunity to build ‘discursive accountability’—but the ECB President need not heed EP advice. Nor can the EP sanction the ECB.

Be this as it may, the ECB has increasingly been operating in the shadow of EU ‘politics.’ It has sought not just to listen but to ‘hear’ the EP. Moreover, it has used EP hearings as an important tool to bolster its own accountability not only to the EP but to the public at large, as amplified by the media.<sup>4</sup> Additionally, it should be noted that the ECB’s political accountability improved once it moved away from a focus on maintaining ‘credibility’ under President Trichet (who sought to avoid even the hint of responsiveness to political influence) to President Draghi, who increasingly engaged in informal consultations with EU political actors (in the Council).

The question for the ECB, as an independent actor, is how far to go with regard to such informal political engagement. And how far is too far with regard to independent ‘political’ action. Certainly, President Trichet’s secret letters to the Prime Ministers of Greece, Ireland, Spain, and Italy, threatening to pull the plug on their economies (via their banking access) if they did not

---

<sup>1</sup> In the words of Paul Tucker, former Deputy Governor of the Bank of England.

<sup>2</sup> Speaking to the people as well as to the markets has become a fine art for central bankers as their communications serve a dual purpose: to signal to the markets their economic assessments and future expectations (‘forward guidance’) while legitimizing their actions to the general public in the ‘forum of public opinion.’

<sup>3</sup> All the ECB president is required to do is to explain ECB actions and respond to questions in its quarterly meetings with the EP’s Committee on Economic and Monetary Affairs. And the EP plays no role in the appointment of the ECB President.

<sup>4</sup> Its discourse more generally has been focused on building public understanding and trust in the ECB’s work in order to reinforce its authority, to achieve ‘credible commitments,’ and to ensure that the policy is accepted by the public as appropriate and justified. A recent examples of ECB efforts to improve its public interaction is ‘ECB Listens,’ a series of dialogues between the ECB and civil society organizations as well as citizens.

engage in a prescribed set of austerity and structural reform measures, was a massive political overstretch and outside the bounds of any accountability.

### **Accountability in Technical Forums**

Accountability in technical forums is also very important for central bankers. Technical forums serve a dual purpose: They facilitate central bankers' exchange of information on the latest banking principles, technical innovations, and econometrical models. And they enable them to use such information to persuade internal stakeholders of the necessity and appropriateness of shifting banking policies and priorities.<sup>5</sup> We saw this during the financial crisis of 2008 and more recently in ideas related to macroprudential regulation, in debates about increasing central banking activism to address climate change via green bonds or inequality by deploying helicopter money, and naturally in the current pandemic emergency responses.

Although the ECB has always been engaged with such technical accountability forums, in the Eurozone crisis it was initially unwilling or unable to listen or act in accordance with their 'best practices.' While the Fed and BoE engaged in quantitative easing (QE) from the onset of the 2008 financial crisis, the ECB introduced QE only in 2015.<sup>6</sup> The ECB's slowness in policy change came from internal divisions on what to do while its incremental shift in course arguably came from its persuasive engagement with the ideas of its technical forums of expertise.

In short, while being part of technical accountability forums is about the ECB learning and legitimating 'best practices,' being part of political accountability forums involves legislators holding the ECB responsible for engaging in such practices in the best interests of the polity. But what are those best interests? This takes us from the question of 'to whom' the ECB is accountable to 'for what' purposes.

---

<sup>5</sup> This has proven very important over time, in particular as central bankers were confronted with unprecedented financial crises for which they had to develop new policies and instruments; needed to persuade more cautious actors in their own ranks of the required policies; and often also had to act collaboratively across borders to ensure the effectiveness of their responses.

<sup>6</sup> The ECB interpreted its mandate very narrowly at first, citing the no bail-out clause and insisting on its inability ever to become a lender of last resort (LOLR). What is more, it led the push to shut down fiscal stimulus much earlier than was warranted, and later raised interest rates for the Eurozone to soon, precipitating a double dip recession.

## *Central Banks' Accountability 'for what'*

Part of the problem for the ECB with regard to accountability 'for what' has to do with the fact that its primary objective is price stability, its secondary objective is to support the general economic policies in the union, including employment, growth, and the quality of the environment, so as to ensure sustainability and solidarity. Central banks like the Fed and the Bank of England have both such objectives largely aligned.

But in this, too, the ECB has changed over time. Its past restrictive reading of its mandate, which led it to focus mostly on its primary objective, has slowly changed in such a way that the ECB's secondary objective comes close to being on a par with the first—as exemplified in the new Pandemic Emergency Purchase Program (PEPP).<sup>7</sup> This makes good sense in technical terms—and matches the 'best practices' of the technical accountability forum of central banking experts.<sup>8</sup> The challenge for the ECB is therefore how to define what those secondary objectives should be for the EU, and how to legitimate them in a politically accountable manner.

Given the more active monetary policy expected of the ECB than in the past, do we nonetheless simply leave the ECB to decide yet again what to do, without political guidance? Is its discursive accountability to the EP sufficient?

In its response to the pandemic, the ECB played an important role in saving the Eurozone economy in a way that ensured, this time around, that all member-states were protected as needed. But what if it had not? What if it had waited longer, or remained with the unfortunate initial reaction of President Lagarde—that her job was not to deal with the spreads between German and Italian bonds? Who or what would hold it to account? Or better, which body could have pushed it to support the general economic policies of the EU effectively? There is none! Moreover, going forward, how is the ECB to decide what to do? And to whom to legitimize it?

---

<sup>7</sup> I note (from a sampling of recent speeches and public events) that the ECB's public discourse seems to focus primarily on its primary objective, despite discussions in technical settings and within the bank on these issues

<sup>8</sup> In a situation in which inflation has been way below par for the past decade, with deflation the main worry since 2013, that primary target of around 2% can't even work as a guideline. Moreover, even with the pandemic-related increase in levels of debt focused on investment for growth via the green transition and digital transformation, the historically low interest rates ensure that inflation will be of little concern for a long time to come.

## *The Future of ECB Accountability*

In sum, over time, the ECB has increased its accountability, going from an actor focused on its credibility alone, emphasizing its independence from politics, to one actively engaged in seeking to build accountability via its forum of political oversight (the EP), its forums of technical expertise, its consultations with political actors (Council), and its communication to the forum of public opinion. But is this enough, in particular given that the ECB's narrow primary objective of inflation targeting is no longer a useful guide to appropriate monetary policy while its secondary objective of supporting the economic policies of the EU is so vast and vague?

In short, our final question is: without undermining the ECB's autonomy, what can be done to provide it with the kind of political guidance that is appropriate and measured, and ensures the ECB's own accountability?

There are many different possible answers. But many of these involve pitfalls. Changing the treaties to elevate the secondary objective to a primary one is not only perilous but not really necessary, since the secondary objective is now key, the primary one moot. Creating another accountability forum, such as the Eurogroup of Finance Ministers, cannot guarantee that the best interests of the EU as a whole would be considered—just remember their role in the Troika (giving orders to the Commission) or on the governing board of the ESM in the third Greek bailout. Even increasing the powers of the EP as an accountability forum would not provide an optimal solution. The only thing truly missing is formal sanctions. But this would not address our main question, regarding providing guidance to the ECB—although a start would be for the EP to outline priorities in the secondary objectives.

Better yet would be to create a new venue for democratic debate and deliberation on EU economic governance. Call it the 'Great Macroeconomic Dialogue,' and make it a yearly conference to outline the grand economic strategies for the coming year.<sup>9</sup> This could be a space

---

<sup>9</sup> Unlike the MED (Macroeconomic dialogue) in that this would be much more inclusive of EU actors, including the ECB, and have a formal mandate to set the guidelines for the future

in which the ECB engages with other EU level actors responsible for economic policymaking—not just ministers of finance and relevant Commission officials—but also representatives of industry, labor, and civil society from across Europe. Importantly, this would not be focused on the ECB’s monetary policy *per se* (for which it alone has jurisdiction) but rather on all aspects of its secondary objective to support European economies. Now that the Stability and Growth Pact is no longer operative—with its ‘governing by rules and ruling by numbers’<sup>10</sup> currently suspended but certainly in need of reform in light of the new realities, this is the moment for a new, more democratic yearly dialogue to set the direction for economic policy in the Eurozone and the EU more generally. It would make the ECB more accountable, and EU economic policymaking generally more transparent as well as more democratically legitimate and effective.

---

<sup>10</sup> See my book: Vivien A. Schmidt (2020) *Europe’s Crisis of Legitimacy: Governing by Rules and Ruling by Numbers in the Eurozone* Oxford: Oxford University Press