

28.01.2010

How not to select the ECB President

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Once again the procedure the Eurogroup is following in designating new members of the Governing Council of the European Central Bank is unlikely to select the candidates best suited for the job. This time, however, the damage could be more serious: on February 15 the Eurogroup—because of the way it decides--will de facto select two candidates, the vice-president and the President. Both will serve eight-year mandates: the first starting in July of this year, when the term of Lucas Papademos, the current vice-president expires; the second starting next year when the term of Jean Claude Trichet will also come to an end.

Deciding on the new President so long ahead of time (the formal decision will only be taken by the European Heads of State in the Spring of 2011) is clearly against the Treaty. This, however, is what will happen if the Eurogroup accepts to follow the Brussels practice of assigning jobs based on the size and geography of countries: one from a big one, the other from a small one, one from the North, one from the South. The only difference this time is that gender will not be a parameter in the decision—it has in the past. This is why, on February 15, the vote on the new vice-President might become a proxy vote for the new President. If the vice President will come from a southern European small country the President – some will contend - should come from a large country in the North—guess which. If instead he will be a national of, say, the Benelux, the President should come from a large country in the South.

Let us remind ourselves what the European Treaties say (Protocol 18 on the Statute of the European System of Central Banks and of the ECB, article 11.2): “The President and the vice President, and the other members of the Executive Board, shall be appointed from among persons of recognized standing and professional experience in monetary and banking matters.” No mention is made of nationality. What the Eurogroup is about to do is thus blatantly against the Treaty. By indicating so early the successor of Jean Claude Trichet, it also risks turning the President into a lame duck—and this could hurt the credibility of the ECB.

The ECB is the most independent central bank in the world. Not only because its independence is so strongly enshrined by the European treaties: it is so independent because, contrary to any other central bank in the world, it faces not a single government, by 16 different ones, not a strong national assembly, but a rather weak European Parliament, and this mitigates the pressure that politicians can exert on the bank. Just compare the anxiety that transpires from Ben Bernanke's expression when he testifies on Capitol Hill, with the celestial calm with which Jean Claude Trichet lectures the members of the Economic and Financial Committee of the European Parliament. Independence is the biggest asset of the ECB and the main reason why the Euro has defied the critics and established such a high reputation in such a short period of time. But the more independent is the bank, the more careful the selection of its board members must be. This would not happen if the Eurogroup allowed geography to constrain its choices.

We often read European Finance ministers and Heads of State complaining when Jürgen Stark, a member of the Executive Board, airs his tough views. Such complaints are unacceptable. When they agreed to the German proposal and filled the job Otmar Issing was leaving with Jürgen Stark, they knew exactly what his views were. If they

had any doubt, why didn't they ask that the Treaty be obeyed and the discussion be opened to alternative candidates?

The argument that the Executive Board must reflect the Euro area does not hold. The decision-making body of the bank, the Governing Council, already includes the national central bank governors. Although governors are there to represent their own views, and not the views of their own countries, they are the vehicle through which the variety of economic and financial conditions throughout the Euro area get represented around the table where monetary policy decisions are

taken. What is more important than a geographical balance of the six members of the Executive Board is that they should simply be the best.

Whoever they will choose as the new vice-President, Eurogroup ministers should say very clearly that their choice in no way will constrain the selection of the new President a year from now.

Before evaluating alternative candidates for the presidency the Eurogroup should ask itself which are the profiles and the experiences most needed on the central bank's board. Sometime it will be an expert in monetary policy, another someone with more direct experience of financial markets. Rather than working around a geographical map of the Euro area these are the four questions that should inform its decision:

1) modern monetary policy is about effective communication. Communicating is particularly difficult in the Euro area, as it requires a President able to reach out to over 300 million citizens, recognizing their diverse cultures and without moving markets. Who could best match the talent of Jean Claude Trichet at doing this?

2) the crisis has put a premium on financial experience, both direct experience in financial markets and institutional experience in designing financial regulation. Which candidate comes on top on financial market experience?

3) one of the President's most important tasks is steering the Governing Council, a group that by now is very large and risks becoming ineffective. Who could match the talent of Jean Claude Trichet?

4) if the Eurogroup was worried about the candidates independence, not only from domestic political pressure but also from the pressure that some national ailing banking systems may put to unduly prolong central banking support, which personality has proved more independent? With an important, and still very weak, fraction of the German banking industry controlled by local politicians, would it be wise to select a President who is a German national?

Avoiding that these considerations drop off the table of the Eurogroup is one of the roles of public opinion. There are still three weeks before a decision is taken. Let's open a discussion.