

## Diplomatic fudge will not get the best people

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At their meeting on Monday night, the eurozone's finance ministers were due to start discussions on replacing Eugenio Domingo Solans, the member of the European Central Bank's executive board who steps down in June. Whoever is eventually selected will not be taking on an easy job. For eight years, the length of the mandate, he or she will share responsibility for running the bank and will have an important influence on monetary policy.

It is vital that Mr Solans' replacement be chosen purely on the basis of competence. Yet there is a risk that diplomatic horsetrading could be a more important factor. The selection process is a secretive one and comes just as European Union governments are starting to think about the composition of the next European Commission - to be selected in June - and also have an eye

on a possible leadership succession at the International Monetary Fund within the year.

Even without such pressures, the selection procedure is likely to be troubled. Viewed from outside, these appointments seem to be based on implicit quotas that have nothing to do with knowledge of economics. One of the board positions, for example, appears to be reserved for women. The influence of nationality is less direct than one might think, but only because there are six seats and, currently, 12 member countries. The emerging practice is to have three or four members from the four large countries, with the smaller countries fighting for the remainder. There also seems to be a presumption in favour of central bankers. This helps to keep the field of candidates down to a manageable size and to placate the ECB, which has a preference for central bankers.

This should not be the way appointments are made. Executive board members ought to be chosen on the basis of their personal competence, with a view to achieving a good mix of expertise, not of nationalities. This is the only way to make sure that debates at board meetings are lively and that all options are considered - even those that lie a little beyond conventional practice. Otherwise, how can we be confident that the ECB's decisions are the best possible and that it will be able to adapt to changing circumstances?

The current members of the ECB's executive board are all distinguished central bankers who moved to Frankfurt after successful careers in their own national central banks. They are men and women of considerable experience who are unlikely to make egregious mistakes. Yet at the same time, they all come from within the same small world. They share a penchant for caution and secrecy, a distance from the markets' logic and from the latest academic thinking.

A number of big central banks have followed a different approach, reaching out to people from financial markets and academia. Look at the Bank of England, for instance. Most members of its Monetary Policy Committee, including the governor, joined the bank after spending their formative years in other institutions. By all accounts, the Bank of England has been a source of original ideas in the way it thinks, acts and communicates. Similarly, most members of the US Federal Reserve Board have been appointed from outside the bank. The same goes for top officials at two of the best and most innovative central banks in the developing world, those of Chile and Brazil.

How can such people be identified? The Maastricht treaty assigns to the European Council the decision of whom to appoint to the ECB's executive board. What is needed is not a change in the treaty but a more open nomination procedure. The ECB should start by publicly stating what qualifications it wants candidates to have. For example, when Tommaso Padoa-Schioppa leaves next year, the ECB should say it wants his successor too to have financial markets experience. Similarly, when Otmar Issing steps down in 2006, the ECB should specify expertise in economic analysis. Eurozone members should then suggest candidates - not limited to their own nationals - who meet these criteria.

A better way of picking ECB executive board members would be good for the eurozone. It could also set a good example for other organisations that have been bedevilled by over-politicised appointment-making, such as the IMF. Ultimately, economic competence, not diplomatic compromise, is the only sound basis for managing a modern economy.

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