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Selection of the central bank board is a fait accompli

By June, with the departure of Otmar Issing, all six members of the executive board appointed when the European Central Bank was created in 1998 will have been replaced. Each member is appointed by Ecofin, the European Union finance ministers' committee (in practice, by the Eurogroup, representing eurozone countries) to serve a non-renewable, eight-year mandate. These are among Europe's most important jobs. How well has Ecofin performed in filling them? The record is not quite satisfying.

It is now clear that the four large countries - France, Germany, Italy and Spain - have a reserved seat. They were represented on the initial board and will continue to be represented once the much-rumoured appointment of Germany's Jürgen Stark to replace Mr Issing is confirmed. This is at odds with the principle, explicitly stated in the treaty, that board members are not country representatives.

If that is so, why should their passports play a determining role? One answer could be that the four large countries account for nearly 80 per cent of the euro area's gross domestic product, and that it makes sense for the board to include members well informed of the situation in these countries. This is true, but then why did the treaty not recognise this argument? There are four good reasons for what was definitely not an oversight.

First, policy decisions are made by the governing council of the Eurosystem, where national central bank governors join the executive board members: it is the governors who are supposed to bring national economic conditions to the council's attention. Second, presumably there is intimate knowledge of national economic developments within the ECB's staff. Third, the smaller countries would never have acquiesced in such an arrangement. In

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effect, they have been cheated. Last, given the importance of the jobs, it would make sense to identify the best people, wherever they hail from.

Quite clearly, European politics has moved things against the spirit of the treaty and the first round of rotation has now created a fait accompli that is not about to be challenged. Assuming that there are now four reserved seats, how should they be filled? It would seem natural that when the time comes to replace its member, the large country in question should submit a list of people that it sees as qualified. This is what happens when a non-reserved seat - one of the remaining two allocated to the eight small countries - is up for replacement; several smaller countries suggest names to Ecofin and a selection process takes place.

This not what happens for the reserved seats. So far, each country has come up with just one name, promptly ratified. Presumably, the name has been subject to detailed discussions within the country in question, much like when a national central bank governor is appointed. Is that not adequate? No. This is an appointment to a European institution. The presumption must be that the criteria are different, if only because the ECB board members must have a deep understanding of European affairs.

Finally, the initial board members and their replacements have all come from the ranks of central bankers or Treasury officials. There is no denying these have an adequate background but others must be qualified as well. Looking at the world's best central banks, one can see that boards include outsiders. Alan Greenspan had a career in academia and business before joining the Federal Reserve. Ben Bernanke, his successor, joined the Fed straight from Princeton University at the same rank as an ECB board member. So did Mervyn King when he was appointed to the Bank of England's monetary policy committee, which includes academics and professional financiers. Research by Princeton professor Alan Blinder, himself a former Fed vice-president, shows that member diversity improves the quality of group decision-making. The ECB is widely seen as suffering from a lack of democratic accountability. Restricting its board to a narrow group of people does not help. Officials raised in the tradition of secrecy are unlikely to be willing to be transparent. Outsiders are likely to make the ECB more transparent.

We do not question the appointments themselves - all these people are fit to serve - but we find the unstated principles that underpin the process deeply objectionable and risky for the future of the ECB.