



DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY

The Monetary Dialogue

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IN-DEPTH ANALYSIS

Abstract

Central banks must be independent from political influence. As a non-elected bureaucracy with considerable powers, fundamental democratic principles require that they be brought to account of their actions with elected representatives of the citizens. The EU Treaties have entrusted the European Parliament to exercise this essential task. At the formal level, this is happening. In practice, however, accountability is limited. One reason is that the Parliament has no leverage on the ECB. Changing this situation would require a new treaty, which is unlikely to happen any time soon. Improving accountability, therefore, can only be achieved through the practical details of the Monetary Dialogue. At present, both the physical layout and the contents of the dialogue contribute to an asymmetric encounter. This asymmetry is reinforced by the technical nature of the ECB actions. Suggestions to improve the Monetary Dialogue include a different layout, more structured interventions by a limited pre-set number of MEPs and better use of the experts.

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EXECUTIVE SUMMARY

A central bank is a bureaucratic institution with considerable power. In a democracy, such an institution must be accountable to elected bodies. In the euro area, it is accountable to the European Parliament but this accountability is incomplete, in part because the Parliament has no power on the ECB.

The relationship between the ECB and the European Parliament is formally determined by the EU Treaties. Any improvement would therefore require a new treaty, which is most unlikely, at least for the foreseeable future. Changes, therefore, must rely on *de facto* practice. While this offers limited room, some improvements are possible. They depend almost entirely on the Parliament.

Both principles and practice unambiguously back the view that central banks must be independent from politics. Independence, however, is not an absolute concept. There are various degrees of independence because money plays many roles and can serve many means. Central banks should be free to carry their mission without *ex ante* interference but with strict *ex post* accountability. Through their elected representatives, citizens must be able to continuously monitor and criticise their central bank. In addition, mistakes in the face of solidly argued criticism must have consequences.

The Monetary Dialogue involves quarterly testimony by the President of the ECB to the Economic and Monetary Affairs Committee of the European Parliament (ECON). The practice, however, is not fully satisfactory. The President of the ECB presents carefully scripted preliminary remarks, followed by Q&A that cover a bewildering range of issues.

Given its size, the ECON Committee is a small parliament in itself. As a result, the Monetary Dialogue sees the President of the ECB address a large crowd. The very idea that the ECB is brought to account is absent from the start.

The obvious solution would be that the President of the ECB only meets a subcommittee. An alternative would be a limited number of questions by a limited number of Committee members. The choice would be made on the basis of a text, submitted ahead of time by the President of the ECB, possibly an extended version of his oral presentation.

The ECB is a technical institution whose decisions are based on extensive preparatory work by a large and highly qualified staff. MEPs, on the other hand, are not expected to have the same technical level. This situation can create an asymmetry that is detrimental to the quality and intensity of the dialogue. This aspect has long been recognised by the ECON Committee. It has hired a staff of significant size, which includes members with the required competence. It also relies on Briefing Notes produced by external experts; the present Note is part of the series. This is insufficient, however.

MEPs rarely confront the President of the ECB on technical matters, which lie at the heart of the ECB work. They prefer instead to delve into general, sometimes even political questions, which significantly reduce the precision of the accounting procedure. In addition, the Briefing Notes prepared by the experts concentrate on two, sometimes three issues, which may or may not be related to the questions that will be discussed by the President of the ECB. The experts are regularly invited to pre-meetings but ECON Committee members poorly attend these meetings. Various improvements are possible.

A striking feature of the Monetary Dialogue is that the President of the ECB stands on a high podium and looks down upon Committee members. Another feature of the Monetary Dialogue is the wide array of questions put forward by the ECON Committee members.

INTRODUCTION

A central bank is a bureaucratic institution with considerable power since its decisions have important implications for the citizens. In a democracy, such an institution must be accountable to elected bodies. In some countries, for example in the US, the central bank is accountable to the Congress. In others, such as in the UK, it is accountable to the Chancellor of the Exchequer. In the euro area, it is accountable to the European Parliament. This accountability, however, is incomplete because the Parliament has no power on the ECB: it cannot change its statutes as in the US, or assign objectives as in the UK. At the end of the day, therefore, the ECB can disagree with the Parliament without any consequence. The situation contributes to the well-known democratic deficit of Europe.

The relationship between the ECB and the European Parliament is formally determined by the EU Treaties. Any improvement would therefore require a new treaty, which is most unlikely, at least for the foreseeable future. Changes, therefore, must rely on *de facto* practice. While this offers limited room, some improvements are possible. They depend almost entirely on the Parliament.

The limited, and ultimately unsatisfying, exercise of democratic control over the ECB has been known since the start.¹ The fact that the Monetary Dialogue has remained virtually unchanged is a clear warning that improvements are difficult to design and implement. The situation has probably worsened since early adjustments have not been made, which has led to a tradition that is now deeply entrenched. Furthermore, the role played by central banks during the financial crisis has brought them closer to fiscal policies, which has raised their political profile; accountability has become even more important.

This note reviews the reason why central banks must be independent (Section 2) and why accountability is the counterpart to independence (Section 3). Section 4 examines the relevant lessons from the financial and sovereign debt crises. The current practice of ECB accountability is critically reviewed in Section 5. Some suggestions to improve the process are advanced in Section 7. The last section concludes.

¹ My comments written after attending a dialogue in September 2001 are presented in the Appendix.

1. CENTRAL BANK INDEPENDANCE

Both principles and practice unambiguously back the view that central banks must be independent from politics. In all continents and in every period, central bank submission to political power has led to bad outcomes, often to crises. The possibility of using the printing press, the legal right to create money, has proved to be an irresistible temptation to politicians under financial pressure, which is bound to happen now and then. The result has been inflation and financial crises, with dramatic implications for citizens and private enterprise. Even before the advent of paper money and the creation of central banks, the sovereign has resorted to inflationary finance in many ways: the debasement of metallic monies, borrowing under threat from private lenders leading to the latter's collapse, issuance of promissory notes that go unpaid and thus ruin subscribers. The evidence is so overwhelming that any discussion of this universal principle is unwarranted.

Independence, however, is not an absolute concept. There are various degrees of independence. Those who consider that a central bank is too independent may be right, but this does not justify the rejection of the principle. Rather it calls for a nuanced and carefully circumscribed discussion of the implementation of the principle. The financial and sovereign debt crises have made such a discussion even more important.

The reason why independence is not a black-or-white issue is that money plays many roles and can serve many means. As a store of value and a unit of value, the purchasing power of money must be stable and foreseen to remain stable. It follows that a central bank must be able to deliver price stability at all times. To achieve price stability, the central bank must have sole effective authority on how much money it creates. Price stability, however, is an elusive concept: is it 0% inflation, or 1%, or 3%? Should it always be exactly 2% or can it vary over time within bounds? Because it is impossible, in practice, to keep the inflation rate absolutely stable, some flexibility is unavoidable. Flexibility, of course, can be abused.

The answer is that a central bank should aim at some low inflation rate within reasonable bounds. Crucially, the central bank should be able to decide on occasional fluctuations of the inflation rate on the basis of some valid reasons such as economic shocks, financial turmoil or, more generally events outside its control. The one reason that is invalid is to help a financially strapped government. That means a rigorous separation between monetary and fiscal affairs. Since intentions are impossible to detect, the separation between monetary and fiscal affairs can easily become a matter of judgment. In addition, the financial collapse of a government is such a momentous event, with disastrous consequences, that even this requirement cannot be absolute.

In addition, money is used for financial transactions, nationally and internationally. It is a well-established fact that financial markets are inherently unstable. This instability, in turn, does not just create economic havoc, it also undermines monetary policy. As a consequence, any central bank must concern itself with banks and financial markets. As it does so, however, a central bank can affect overall wealth and its distribution among citizens. Naturally, this prospect leads to intensive lobbying by various interest groups. Independence from these groups – and politicians that may be captured – is essential. On the other hand, wealth distribution is a deeply political issue that can only be decided by elected governments and their parliaments. Even if the central bank is likely to best serve the common good, it cannot operate without any constraint.

2. CENTRAL BANK TRANSPARENCY

The current view is that central banks should be formally independent, with a clear price stability mandate, but they should be able to exercise discretion if and when needed. They should be free to carry their mission without *ex ante* interference but with strict *ex post* accountability. Even so, because the effects of monetary policy occur several quarters after actions, some contemporaneous control is required. The solution is transparency. Those who have a stake in monetary policy decisions, the citizens through their elected representatives, must be able to detect the central bank intentions in real time. Furthermore, like any one, central banks can make mistakes or simply misread the facts. The citizens must therefore be able to continuously monitor and criticise their central bank. In addition, mistakes in the face of solidly argued criticism must have consequences.

This is where accountability comes into play. In the euro area, the European Parliament is tasked with making the ECB accountable for its past actions (*ex post* accountability). It should also be able to discuss openly potential misjudgements mistakes, with the reasonable presumption that its doubts will be taken on board by the ECB. This requires a high degree of transparency. The ECB must be candid about what it is trying to achieve, and how, and it should be willing to acknowledge shortcomings in its views as they happen and shape its policies accordingly.

This, in turn, requires that the Monetary Dialogue be a debate among equals. The ECB must be forthright in divulging its intentions and the European Parliament should have the means to argue on the basis of an in-depth analysis of the situation and of the ECB views. The Dialogue should also have a demonstrated influence on ECB actions when criticism is valid and well demonstrated. Such influence should not be seen as a loss of independence, much less a loss of face, but as an indication that the ECB listens to valid criticism and suggestions, much as it occasionally does in response to views aired by banks and the financial markets.

3. LESSONS FROM THE CRISIS

The financial and sovereign debt crises have made it clear that the role of central banks is considerably wider and more complex than anticipated in the European Treaties. Until then, the official view, strongly supported by the ECB, was that the function of a central bank is to deliver price stability. There was no mention of financial stability. This view has now been discarded, at long last, but all the implications have not been drawn yet.

A first missing element is that no central bank can get rid of the responsibility of being lender in last resort to banks and systemically important financial institutions. The creation of the Single Supervision Mechanism, with a major role for the ECB, is an important step towards realism. The complexity of the Mechanism, though, and the role that national supervisors can still play, show that more remains to be done. The likely shape of the Single Resolution Mechanism is even more disturbing. The debate about resources to be used to restructure ailing banks indicates that the ECB's role as lender in last resort is not yet accepted.

A second missing element is that central banks cannot simply detach themselves from public finances. The reason why the sovereign debt crisis has been circumscribed to the euro area is that elsewhere the financial markets casually take it for granted that each central bank is ready to act as lender of last resort to its government (De Grauwe, 2011). In the euro area, this notion is often considered as perfectly unacceptable in part because it threatens the independence of the ECB.² This is true, but a lesson from the crisis is that 'no' cannot be the only answer. The proper answer involves institutional arrangements that allow the ECB to act as lender of last resort to governments, if needed, while fully protecting its independence in a way that guarantees price stability. Existing federations offer examples of such arrangements (Wyplosz, 2013).

The fact that these lessons have not been fully taken on board is a source of grave concern. The ECB has only slowly recognised publicly this concern, most probably because it feels vulnerable to adverse political reactions. While understandable and quite possibly realistic, this timidity *de facto* exposes a loss of independence. A proper accounting process should have exposed the situation and provided the ECB with the backup that was needed to make better progress on these issues. This would have required a clear understanding of the issue among governments and parliaments.

² Another reason is that such interventions might result in transfers across countries.

4. THE STATE OF PLAY

The Monetary Dialogue involves quarterly testimony by the President of the ECB to the ECON Committee of the European Parliament. Occasionally, the Committee invites other Members of the ECB Executive Board, and they dutifully accept these invitations. Formally, therefore, the ECB is brought to accountability, the counterpart to independence.

The practice, however, is less satisfactory. The President of the ECB appears before the ECON Committee with carefully scripted preliminary remarks, designed to shape the discussion. During the following Q&A part, he fields questions from any member of the Committee. The questions cover a bewildering range of issues and speakers can only ask one follow-up question. The result is an unstructured and often superficial exchange of views.

The ECB rightfully insists that it also makes itself accountable through the press conference that follows its monthly monetary policy meeting. This meeting is indeed the one with most visibility and transparency. The press conference also begins with a careful preliminary presentation, so careful that the press has developed skills to detect the use of code words. The Q&A part is occasionally challenging and this is where, sometimes, new information is gathered. It must be noted that the current President has reduced the formatted preliminary presentation and shown some more willingness to engage the media than its predecessors. The fact that the press conference has become a very visible event, in contrast to the Monetary Dialogue, should lead the European Parliament to review the way it discharges this essential responsibility.

Another source of concern is that several national parliaments also invite their national governors to hearings. More recently, the ECB President has also felt the need to appear in front of some national parliaments. There is nothing wrong with this evolution but it is another signal that the Monetary Dialogue is not *the* key accountability exercise initially foreseen in the Maastricht Treaty. With one currency and one central bank, accountability can only be centralised in the European Parliament. National parliaments and national central banks do not have any formal power and should not attempt, or even be seen as attempting to exercise power.

5. DESIREABLE CHANGES

In the best of worlds, the Monetary Dialogue would be a process through which the European Parliament scrutinises in detail the ECB's past actions, critically follows on-going policies and has the ability to influence decisions when there is a glaring discrepancy with its mission. The latest requirement would need some authority that the Parliament does not have. In the US, for instance, the Congress never misses an opportunity to remind the Federal Reserve that it can change its statutes. In the UK, the Chancellor of the Exchequer can do the same and, anyway, he decides what the inflation target should be. In the euro area, the Parliament has no authority whatsoever over the ECB, which is arguably the most independent central bank in the world. A good case could be put forward that the ECB is excessively independent but any change would require a new treaty, which is not a realistic possibility at this time. The implication is that the Parliament can only rely on internal changes to improve the situation.

5.1 The Economic and Monetary Affairs Committee

Given its size, the ECON Committee is a small parliament in itself. As befits a parliament, its members represent the whole spectrum of nationalities and political parties. All of them are allowed to attend and take part in the Monetary Dialogue. This means that it is not a dialogue at all: the President of the ECB addresses a large crowd. The very idea that the ECB is brought to account is absent from the start.

The obvious solution would be that the President of the ECB only meets a subcommittee, with the other ECON members allowed to attend – possibly in reserved seats separate from those for the public at large – but not to intervene. Such an arrangement should be an internal matter for the Parliament to settle and should not require any new treaty.

An alternative would be to agree *ex ante* on a limited number of questions by a limited number of Committee members. The choice would be made on the basis of a text, submitted ahead of time by the President of the ECB, possibly an extended version of his oral presentation.

5.2 Preparation of monetary dialogues

The ECB is a technical institution. Its decisions are based on extensive preparatory work by a large and highly qualified staff. During the Monetary Dialogue, the ECB draws on this work, as well as on a large amount of data, some of which are produced by the central bank staff. MEPs, on the other hand, are not expected to have the same technical level. This situation can create an asymmetry that is detrimental to the quality and intensity of the dialogue. This aspect has long been recognised by the ECON Committee. It has hired a staff of significant size, which includes members with the required competence. It also relies on Briefing Notes produced by external experts; the present Note is part of the series. This is insufficient, however.

To start with, individual MEPs are perfectly entitled to develop their own views, which may not coincide with the technical advice provided by the ECON staff. They may ask their own assistants to provide analytical support but it seems – I hope that I am not wrong – that few of them have a technical background comparable to the staff of the ECB. Of course, the ECON Committee deals with a wide range of issues, so its staff cannot be entirely specialised in monetary matters. In the same vein, the parliamentary assistants must deal with various issues. The natural outcome is that MEPs rarely confront the President of the ECB on technical matters, which lie at the heart of the ECB work. They prefer instead to delve into general, sometimes even political questions, which significantly reduce the precision of the accounting procedure.

Second, the Briefing Notes presented by the experts concentrate on two, sometimes three issues, which may or may not be related to the questions that will be discussed by the President of the ECB. Over the many years that I have been preparing such notes, I have witnessed increasing precision – and quality – of the questions put to us. At the same time, I have rarely seen that these notes have been actually used during the Q&A period.

Finally, the experts are regularly invited to a pre-meeting of the Monetary Dialogue where they present their Briefing Notes. These meetings are well attended but most of the participants are ECON staff members and parliamentary assistants. Few ECON Committee members attend these meetings, and they tend to be the same from one meeting to another. It seems that an overwhelming majority of the ECON Committee never attend any meeting, and yet they will be active during the Q&A session.

This all seems to be insufficient use of the resources of the Committee. The aim should be to provide Committee members with the kind of technical support that the President of the ECB receives from his staff. There should be a tighter link between ECON members who intend to contribute to the Monetary Dialogue and the experts. One possibility would be to reduce the role of Briefing Notes, possibly to suppress them, and enhance direct contacts between MEPs and the experts. One could envision face-to-face meetings between ECON Committee members and the experts to carefully prepare questions. Another possibility would be for the ECON Committee members who will intervene during the Monetary Dialogue to seek written advice from the experts. This could be achieved by assembling a wider pool of experts who could be asked to intervene only on issues that correspond more closely to their area of knowledge.

5.3 Conduct of monetary dialogues

A striking feature of the Monetary Dialogue is that the President of the ECB stands on a high podium, alongside a few ECON Committee members. He looks down upon the other members who ask for the floor pretty much like journalists during a press conference. Many interventions are full of praise and respect. The difference with the US congressional hearings is stark: there, a limited number of Committee members sit on a high podium and look down at the Chairperson of the Fed who sits in front of a large table, facing the podium. These are 'hearings', not a dialogue. The physical layout makes it clear that the Chairperson of the Fed is brought to account by the relevant Committee, which represents the authority of an elected body.

Another feature of the Monetary Dialogue is the wide array of questions put forward by the ECON Committee members. In many instances, these questions are repetitive. In other instances, they deal with national issues, which lie outside the remit of the ECB. The impact on the quality of the discussion cannot be overestimated. Naturally, freedom of speech must be an integral part of the work of the European Parliament. Yet, the Monetary Dialogue is the only accountability tool imposed on the all-powerful ECB. Freedom of speech must take into account this constitutional requirement. In that sense, the European Parliament has not yet found a way of delivering fully its duty.

Finally, as in the US, the Committee might ask various experts, including former central bank officials, to immediately comment briefly on the statement of the President of the ECB. This could provide Committee members with on-the-spot technical advice and leads that can feed the Q&A discussion.

CONCLUSIONS

The European Parliament is the only institution that has the right to bring the ECB to account. This is a duty of considerable importance. It is also a potential source of redistribution of power away from the bureaucracy toward elected representatives of citizens. The Monetary Dialogue does not have the teeth that it could, and should have. It may be normal that we have not yet found a good balance of powers; after all the euro is barely 15 years old, a very short period when viewed in the relevant historical perspective. The time should come to rethink the procedure. There is nothing in the EU Treaties that prevents the changes suggested above, and more.

The use of experts can also be enhanced in numerous ways, some of which are suggested above. Experts are expensive resources, and they should be able to provide technical advice on issues that directly feed into the Dialogue. Most of them, in fact probably all of them, deeply wish to enhance the quality of the Monetary Dialogue. My own experience, which spans three Parliaments, has been rewarding in a limited way: the hope, which was renewed every quarter, that my notes will serve a useful purpose; I also have appreciated the generally interesting questions put forward by the ECON staff. The pre-session meetings have often been disappointing, due to the limited presence of MEPs and, sometimes, to superficial exchanges. The greatest frustration has been the quasi absence of any link between my work as an expert and the content of the Monetary Dialogue.

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APPENDIX

THE MONETARY DIALOGUE OF 12 SEPTEMBER 2001: DEBRIEFING NOTES

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1. The setting

The title and the physical layout already suggest the limits of the exercise. A “dialogue” is much less than reporting. The Chairman of the ECB speaks from a podium, physically dominating the ECON members. He takes questions much like in a press conference. It is a dialogue, but not among equals.

The setting partly reflects the ambiguity in the Treaty’s Article 113 which calls for one annual presentation of the ECB’s Annual Report while allowing the EUP to call for more hearings. Thus the Chairman is not bound to report to the EUP, only to present a publicly available document and to respond to requests for more appearances with an unspecified agenda.

From the outside, the Monetary Dialogue resembles a gentleman’s agreement whereby the Chairman will appear four times a year in front of ECON, but not for reporting. This is less than the Treaty allows for: the EUP may very well request hearings and run them in a more US-style form of hearings. This, however, would require a change in ECON’s own approach. The sheer fact that the whole Committee is involved creates a deep asymmetry: one person facing tens of others who, furthermore, are politically divided. A more symmetric arrangement would call for a small-size sub-committee to run the hearings.

2. Public interest

It is clear that there is little public interest in the Monetary Dialogue, with minimal press coverage. There are several reasons for that:

- The Chairman of the ECB does not use the Monetary Dialogue to present new information. Instead, he holds his own monthly press conference and keeps most of the scoops for the occasion. These monthly press conferences are not frequent central bank practice and, coming immediately after Governing Council meetings, they appear to create considerable pressure to promptly summarize a decision that may have been controversial. It is not unconceivable that another Chairman will adopt a different approach. The EUP is keenly interested in this possible evolution.
- It is in the interest of the ECB to keep the Monetary Dialogue as a low profile event since it is the only public obligation to which it is bound.
- Monetary policy is not an exciting topic for the media, except in special circumstances (the attacks in the US provided for some drama, but the Dialogue occurred a bit too soon to allow for serious questioning). There is typically little new that happens every three months, so there is no drama.
- The Chairman does not appear to be in difficulty. He simply repeats familiar earlier statements.

3. General observations

The ECB Chairman has little to offer and may reasonably be expected to be criticized. Given his early record of *gaffes*, the best strategy for him is to re-state as forcefully as possible the ECB's position on each issue. He may occasionally deliver some new information, and he did on 12 September (readiness to support the dollar following the terrorist attacks, early signals of end of slowdown), but that is more courtesy than accountability.

The questions put to the Chairman are of four kinds:

- Factual questions on recent events/decisions
- General questions on the ECB's approach
- Critical interventions designed to prompt a defence
- Local interest questions

The last two categories clearly do not work. Criticism is rarely new, so the Chairman has answers at the ready. There would be a need to follow-up with increasingly tighter criticism, which is not possible under present rules (only one follow-up question, no grouping by theme) and is undermined by the physical layout. Local interest questions are out of place, they only offer the Chairman a chance to diplomatically state that he cares about this or that country.

Factual questions are crucial but they need to be well thought through. The ECB spends considerable time and effort (with a large staff as backup) preparing its decisions, so any question put to the Chairman must be based on the premise that there is a good answer. In fact, there are many acceptable ways of dealing with any monetary policy issue, so the questions should always outline the alternatives and seek the reasons why the alternatives have not been adopted.

General questions are important but should not become ritual, because they invite ritual answers. The ECB has been sharply criticized for its monetary policy framework, in fact it is criticized daily in the media. But it is entitled to define its strategy so that new criticism should only be brought up as new events illustrate the problems generated by the strategy. Put differently, such questions ought to be put in a very precise frame.

One structural weakness of the Chairman is that he is bound to be occasionally proven wrong, although that is not apparent at the time of the hearing. It is essential that he be reminded of what he previously said. There is a need for a follow-up of previous sessions, with a precise use of the minutes.

4. Detailed comments on some exchanges

One question dealt with the ECB's forecasts. It was observed that it had been far too optimistic and may have failed to take action to prevent the slowdown. This is a good issue for ECON but it would have been necessary to take into account the obvious answers:

- the ECB's record in terms of forecasting is no worse than that of others
- the ECB's main objective is price stability defined as inflation less than 2% and HICP inflation still exceeds 2%

Another way of asking the question would have been to acknowledge that forecasting is imprecise and that the ECB must decide whether to err on the side of a more or a less restrictive stance, noting that it has chosen the more restrictive option. The Chairman would have noted the overwhelming importance of price stability, leading to a follow-up that would have noted that the ECB has already been missing its inflation target for a year and is now possibly contributing to a slowdown that is sharper than anticipated because it did not realize the restrictiveness of its stance: why are stock prices so depressed while Europe is growing? Why is the euro appreciating?

Another question returned to the ECB's forecasts in view of recent events. The Chairman answered that the ECB was constantly reassessing its forecasts and would release new ones in December as planned. There should have been a follow-up asking why the reassessment was not made public; when the economic situation is so very volatile, shouldn't the ECB share its changed perception? What is democratic accountability about if the ECB keeps to itself the most critical information that is used for monetary policy decisions? ECON could request that the Chairman comes to the Monetary Dialogue with the latest quantitative forecasts (he made a lot of qualitative statements about the impending end of the slowdown, but did not substantiate them with actual figures).

One question dealt with fiscal policies and the overall policy mix. It asks what could the ECB's contribution be. The Chairman answered that the monetary policy stance is appropriate but that governments need to abide by the broad economic policy guidelines. The question should have noted that the medium term commitments embodied in the broad economic policy guidelines adopted in early 2001 were made obsolete by the then unexpected slowdown and that the way-out was either a relaxation of monetary policy, or tolerance towards reviewing the fiscal policy commitments, or both. The Chairman would have argued that economic policies should be oriented towards "stability in the medium run" and not preoccupied with short term ups and downs which, by definition, take care of themselves. The follow up would have observed that Europe's citizens live in the short run and that the Chairman's distantiation was highly technocratic, that unemployment was rising again, etc. so that EMU may be receiving bad press for good reasons.

There were several questions about Article 2, the ECB's mission, and how it differs from the Fed's and other central banks. One question aptly dealt with the ECB's own interpretation of price stability. The only time when the Chairman was put in difficulty occurred when he was asked why the ECB is the only central bank with such a narrow objective. This a good example of a precise question dealing with a general issue. Faced with the Chairman's answer that he needed to look into what others are doing, a US Senator would have chided him for being unaware of international best practice...

5. Conclusions

The role of ECON can be of two kinds:

- questioning US-style, i.e. bringing the Chairman to accountability. This is not possible as long as every ECON member is allowed to ask questions, thus diluting the examination and cross-examination process.
- thinking through the issues in a friendly atmosphere, thus prompting the Chairman to lower his defensive threshold and to share his own doubts. This would require a change of attitude of ECON, with some members being openly supportive while others are openly critical.

At present, none of the two options is followed. Any change of strategy would seem to require an agreement within ECON. In both cases, there would be a need for agreeing on speakers and for in-depth preparation.