IN-DEPTH ANALYSIS
Requested by the ECON committee
Monetary Dialogue Papers, September 2020

Accountability at the Fed and the ECB

Policy Department for Economic, Scientific and Quality of Life Policies
Directorate-General for Internal Policies
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PE 652.745 - September 2020

EN

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Abstract

This paper reviews the independence and accountability of the ECB and the Federal Reserve. While the ECB makes significant efforts to be accountable for its actions, there are several improvements that could be made to European institutions to improve its independence and accountability. These include reforming the process of appointing ECB Executive Board members, improving the transparency of ECB decision-making and reforming aspects of the Monetary Dialogue to make the questioning more effective.

This document was provided by Policy Department A at the request of the Committee on Economic and Monetary Affairs (ECON).

This document was requested by the European Parliament's Committee on Economic and Monetary Affairs.

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Original: EN

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Manuscript completed: September 2020
Date of publication: September 2020

This document is available on the internet at:
https://www.europarl.europa.eu/committees/en/econ/econ-policies/monetary-dialogue

For citation purposes, the study should be referenced as: Whelan. K., *Accountability at the Fed and the ECB*, Study for the Committee on Economic and Monetary Affairs, Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, Luxembourg, 2020.

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LIST OF ABBREVIATIONS

ECB	European Central Bank
ECJ	European Court of Justice
ELA	Emergency Liquidity Assistance
FOMC	Federal Open Market Committee
MEP	Member of European Parliament
TFEU	Treaty on the Functioning of the European Union

EXECUTIVE SUMMARY

- **This paper reviews the independence and accountability of the ECB and the Federal Reserve**.
- **While the ECB makes significant efforts to be accountable for its actions, there are several improvements that could be made** to European institutions to improve its independence and accountability.
- These include **reforming the process of appointing ECB Executive Board members**, **improving the transparency of ECB decision-making** and **reforming aspects of the Monetary Dialogue** to make the questioning more effective.
- **Accountability starts with the process of appointing central bankers**. The European Parliament has correctly called for a dialogue with the European Council about how members of the Executive Board are appointed.
- The paper recommends that the European Council should only appoint Executive Board members that have been **recommended by the European Parliament and should avoid appointing people who are currently serving in political roles**.
- **The ECB can improve its communication procedures and accountability surrounding emergency lending to banks** as past failures in this area have been damaging to its reputation.
- **The ECB should consider providing more information about Governing Council meetings**, including explicit vote tallies and meeting accounts that provide names of which Council members made which points.
- **In many ways, the Federal Reserve's institutions are inferior to those of the Eurosystem.** The Eurosystem is far more independent from political control than the Federal Reserve and the process of appointing the executive board of the ECB is less politically charged than the process of appointing members of the Board of Governors of the Fed.
- **However, the US Congressional hearings with the Federal Reserve chairman are more effective at holding the Fed accountable** for its actions than the Monetary Dialogue is with the ECB.
- **This partly reflects the current procedures of the Dialogue meeting**, which does not feature regular back-and-forth exchanges of views with the President.
- **The ECON committee should consider adapting the Dialogue to have fewer Members asking questions**, but with each member given more time.
- **The committee should also consider having specific themed sub-sessions** where all of the questions for a period of time cover the same topic.
- **The Committee should consider moving the Dialogue meetings to a smaller committee room**, allowing the MEPs to sit closer to the President, in a similar way that Senators and Congressmen sit relative to the Fed Chair at their hearings.

1. INTRODUCTION

The past 40 years have seen the emergence of a consensus among policy makers and mainstream academics that monetary policy is best implemented by central banks that are independent from political influence. Former Federal Reserve chairman, Ben Bernanke (2010), summarised the argument for this position as follows:

> "To achieve both price stability and maximum sustainable employment, monetary policymakers must attempt to guide the economy over time toward a growth rate consistent with the expansion in its underlying productive capacity. Because monetary policy works with lags that can be substantial, achieving this objective requires that monetary policymakers take a longer-term perspective when making their decisions. Policymakers in an independent central bank, with a mandate to achieve the best possible economic outcomes in the longer term, are best able to take such a perspective.
>
> In contrast, policymakers in a central bank subject to short-term political influence may face pressures to overstimulate the economy to achieve short-term output and employment gains that exceed the economy's underlying potential. Such gains may be popular at first, and thus helpful in an election campaign, but they are not sustainable and soon evaporate, leaving behind only inflationary pressures that worsen the economy's longer-term prospects. Thus, political interference in monetary policy can generate undesirable boom-bust cycles that ultimately lead to both a less stable economy and higher inflation."

While these arguments are widely accepted in central banking circles, it could be argued that similar arguments could be made about fiscal policy. Fiscal policy can also work with lags and since budgetary policy making generally occurs in annual cycles, fiscal policy tends to be innately slower to implement than monetary policy. And as discussed in the enormous literature on "political business cycles", there is evidence that governments manipulate tax and spending policies to improve their chances of re-election.

Of course, decisions by governments about what precisely to spend money on and who to tax have clear and direct distributional consequences and turning over these decisions to "technocrats" is not likely to be politically feasible. That said, while monetary policy is seen as a more sensible candidate for technocratic control, it is still the case that monetary policy decisions can have distributional effects. This has always been the case (for example interest rate cuts have a positive effect on borrowers and a negative effect on savers) but as central bank balance sheets have expanded and central banks have taken on new and extensive powers such as "macro-prudential" policies and greater responsibility for banking supervision, the implications of their actions for income distribution have become more obvious.

Given these developments, it is appropriate that more questions need to be asked about how central bank independence should work. Some influential thinkers in the world of central banking, such as Sir Paul Tucker (2018), former Deputy Governor of the Bank of England, have been flagging the dangers associated with central banks having too much independence.[1] Of particular importance is the question of accountability for independent central banks. What should be the mechanisms through which a central bank explains its actions? What should happen if an independent central bank persistently fails to meet the goals set for it by legislation? What happens if an independent central bank acts outside its legal mandate or fails to always operate in the wider public interest?

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[1] This short video interview with Tucker gives a good sense of his arguments: https://www.youtube.com/watch?v=XVN5pk4cbXM.

There are unlikely to be simple answers to these questions and the right answers likely vary depending on the institutional setting. For example, the correct forms of accountability may depend on the extent of the powers central banks are given beyond monetary policy. The political context also matters: Accountability is inherently more complex for transnational bodies such as the European Central Bank than it is for traditional national central banks. For the European Central Bank, political accountability lies largely in the hands of the European Parliament – most notably through the regular Monetary Dialogue with the ECB President – but the interaction between a trans-national independent agency and a trans-national parliament is riddled with political and operational complexities.

Related to central bank accountability is the question of transparency. The more transparent a central bank is, the less need there to use political accountability mechanisms to get central banks to explain their actions to the public. At the same time, independent central banker may feel there is a point where too much transparency threatens their ability to do their jobs as effectively as they would like, in particular making it hard to make decisions that would be politically unpopular in the short run.

This paper explores some issues related to the independence and accountability of the Eurosystem and provides some comparisons with the Federal Reserve System. Section 2 provides a brief outline on the independence of the Eurosystem and current procedures relating to accountability of its monetary policy. Section 3 discusses how the Federal Reserve's independence and political accountability works in practice. Section 4 then provides some recommendations for European Council, for the ECB and for the Economic and Monetary Affairs Committee (ECON) in relation to the operation of the Monetary Dialogue.

2. INDEPENDENCE AND ACCOUNTABILITY FOR THE ECB

To understand the need for accountability at central banks, it is important to understand the full relationship between these institutions and politicians. In the next two sections, I describe how the European Central Bank and Federal Reserve interact with the political sphere in three different ways: How the central bankers are appointed, the level of independence that central bankers have in setting monetary policy and the level of accountability for their actions. I will restrict the discussion to monetary policy and leave aside the various complex issues relating to either central bank's role in banking supervision or regulation.

2.1. Appointments

For those who believe central banks should be "technocratic" institutions, perhaps the ideal appointment procedure would be to have a board of monetary policy experts appoint members of the ECB Governing Council based on which candidate has the best skill set.[2] In practice, the appointment process for Governing Council members is innately political. Most of the members of the ECB's Governing Council are governors of national central banks and these are generally appointed directly by national governments without parliamentary approval. There is nothing in the European Treaty requiring national central bank governors to have expertise in monetary policy or to prevent governments appointing those with strong political links to governing political parties.

The other members of the ECB Governing Council are the ECB Executive Board members. The appointment of these board members and the selection of one of them to be ECB President is made by the European Council in a process that has, from the beginning of the euro, been innately political.[3] Appointments to the ECB Executive Board are an example of the type of "plum jobs" that are subject to a complex haggling process prior to appointment. While the exact process underlying these appointments is never fully clear, it seems they are often bundled in with other appointments and various informal queuing systems are used. For example, it is agreed that one country can have the current ECB Executive Board member but another country gets a senior position at the European Investment Bank and everyone agrees that a third country deserves to get the next plum job that comes up. It is unclear what role qualifications for the job play in these discussions, though Article 11.2 of the legal protocol underpinning the ECB states the appointments must be "*persons of recognised standing and professional experience in monetary or banking matters*."

The protocol on the ECB does have one mechanism for encouraging transparency in the appointment of Governing Council members because it requires the European Council to only make these appointments after it has consulted the European Parliament. The need to consult with the European Parliament has likely had an influence on the type of candidates selected by the European Council but the consultation process is non-binding and the Council can ignore the Parliament's recommendation. This happened in December 2012 when Yves Mersch was appointed to the Executive Board despite failing to get approval from the European Parliament, due to concerns about the implication of Mr.

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2 This does, of course, raise the question of the appointment procedure for the board of monetary experts who then appoint the central bankers.

3 The appointment of the first ECB president proved to be highly contentious, ending with the Dutch nominee, Wim Duisenberg, agreeing to serve only half of his eight-year term to make way for the proposed French nominee, Jean-Claude Trichet. While officially Duisenberg was free to decide to serve a full term, it was clear that he was honouring a political agreement and this agreement could be said to have undermined the independence of the ECB presidency from that start of the euro.

Mersch's appointment for the gender balance of the board. While the European Parliament's objections delayed the appointment for six months, ultimately it did not affect the outcome.[4]

More recently, there was clear unhappiness among many MEPs at the process in 2018 to appoint Luis de Guindos as Vice-President of the ECB. The ECON committee held informal hearings with Mr. de Guindos and the other candidate for the job, Philip Lane, and communicated that it found Mr. Lane's performance "*more convincing*."[5] However, following a recommendation of the Eurogroup of finance ministers that Mr. de Guindos should be appointed, the European Parliament approved his appointment. However, in a formal statement the parliament noted that it[6]

> "expresses concerns regarding gender balance, the selection procedure, the timing of the appointment and political independence, and requests that the Council engage in a dialogue with Parliament as regards how to improve the process for upcoming appointments."

I am unaware of whether this dialogue has occurred.

2.2. Independence

By international standards, the ECB is a highly independent central bank. This independence is enshrined in law via Article 130 of the Treaty on the Functioning of the European Union (TFEU) which states

> "When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB and of the ECB, neither the European Central Bank, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body. The Union institutions, bodies, offices or agencies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the European Central Bank or of the national central banks in the performance of their tasks."

This influence of this article is not restricted to the ECB. It also affects how decision-making bodies at national central banks operate. To give an example I know, the Central Bank of Ireland is run by a politically appointed board known as the Central Bank Commission. However, this Commission does not discuss the Governor's role in setting monetary policy at the ECB Governing Council.

In relation to "not seeking to influence members" of the Governing Council, there have not (to my knowledge) ever been any legal cases brought against politicians or other groups for trying to influence the ECB and I suspect such cases would be difficult to prosecute, but at least thus far in its history, the principle is generally well respected by European politicians. One would worry, however, if members of the euro area began electing populist, nationalistic leaders, whether this pattern would be sustained.

The Treaty-based nature of the Eurosystem's goals and operational procedures also strengthens the ECB's independence because the rules for changing the Treaty are so arduous – and unanimous

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[4] See Rakic (2019) for more detail on the history of the European Parliament's consultative role in the appointment of Executive Board members.

[5] European Parliament (2018). "Informal exchanges of views with candidates for ECB Vice-President". Press Release 15 February 2018. https://www.europarl.europa.eu/news/en/press-room/20180215IPR97911/informal-exchanges-of-views-with-candidates-for-ecb-vice-president.

[6] European Parliament report on the Council recommendation for appointment of the Vice-President of the European Central Bank. 6 March 2018. https://www.europarl.europa.eu/doceo/document/A-8-2018-0056_EN.html.

agreement on changing the monetary policy elements is so unlikely to be achieved – meaning it is highly unlikely the ECB's legal framework will be changed in the foreseeable future. The fixed nature of its legal framework may prove to be a disadvantage for policy making in the future: As economic thinking and research progress, experts may agree on new goals or functions for the ECB that would improve social welfare but an ECB bound to honour the existing Treaties would be limited in how much it could change. However, from the point of view of independence, the unlikelihood of treaty change is a positive, since it means that Eurosystem central bankers can carry out their tasks without being concerned that politicians could pass new legislation to change the terms and conditions under which the central bank operates.

Another element strengthening the independence of the Eurosystem is the relatively long terms of Governing Council members. Article 11.2 of the ECB protocol ensures that members of the Executive Board, including the President and Vice-President are appointed to non-renewable terms of eight years. The terms of national central bank governors must also be at least five years in length.

These long terms provide some protection for members of the Governing Council from political influence. Executive Board members know their term will not be renewed so they do not feel pressure to make politically popular decisions to get reappointed by the European Council. Most national central bank governors are appointed relatively late in their careers and plan to serve only one term anyway.

That said, it is likely that political reputation is important for at least some members of the Governing Council, particularly those who have either come from a political career or those who are perhaps planning such a career after their term on the Governing Council. One way to reduce the influence of political concerns would be for the European Council to decide to not nominate people to go directly from elected or governmental positions to the ECB Executive Board.

2.3. Accountability

There is very little in the European Treaties in relation to making the ECB accountable for its actions. The ECB's legal protocol commits it reporting a weekly financial statement, a report on its activities that must be at least quarterly and to provide an annual report on its activities and monetary policy to the European Parliament. Article 284 of TFEU also allows a member of the European Commission and the President of the Council of the EU to attend Governing Council meetings, thus allowing the politically-appointed executive leadership of the EU to be informed as to how and why the ECB takes its decisions. To my knowledge, the Council President does not attend the Governing Council meetings but a member of the European Commission usually does.

Thankfully, the ECB operates with a much higher level of transparency than this legally-required minimum level. Here, I will outline the various ways in which the ECB's can be held accountable. For now, I will describe the various modalities and hold off on making normative judgements or recommendations about any of them until Section 4.

1. **Press conferences**: The ECB has, in some dimensions, been a leader in the areas of transparency and accountability. The lengthy press conference after each monetary policy meeting of the Governing Council is a crucial element of the ECB's communications of its policies and the reasons for its decisions.

2. **Meeting accounts**: Since 2015, the ECB has provided a series of "accounts" of its Governing Council which appear a month after the meetings.

3. **Annual report**: In addition to publishing its annual report, the ECB leadership attends meetings of the European Parliament to discuss its contents and answer questions. The current tradition is that

the ECB Vice-President appears before the ECON committee and subsequently the ECB President appears before the full plenary session.

4. **Monetary dialogue**: While press conferences play an important role in establishing transparency and accountability for the ECB's decisions, these press conferences are ultimately controlled by the ECB itself. The ECB decides which journalists to admit, who to call on to ask questions and the ECB President can evade or dismiss questions from journalists should they chose. This is why the quarterly Monetary Dialogue between the ECB and the European Parliament's ECON Committee is so important. It is based on a rule of procedure of the European Parliament rather than the EU Treaties but the ECB has agreed to fully cooperate with the process and it provides a unique opportunity for elected politicians to relate concerns about the ECB's actions directly to its President. The status of MEPs as public representatives means there is a greater moral incentive for ECB officials to respond to their concerns than to questions from journalists.

5. **Written questions**: The rules of procedure of the European Parliament allow MEPs to submit written questions to the ECB with the understanding that if the ECB has not responded to the question prior to the next Monetary Dialogue meeting, then the question may be asked at that meeting. My sense is that these written questions have often been useful in obtaining information from the ECB, particularly in relation to more technical matters that are less easily understood when debated in public meetings.

6. **European Court of Justice**: While the Eurosystem may be independent and free to pursue its monetary policies without political interference, this does not mean the central bankers are free from constraints. The European Treaties set down a strict legal mandate and place a number of clear restrictions on the Eurosystem's potential actions. Ultimately, the ECB is accountable to European Court of Justice (ECJ) and the various cases presented before them in recent years has meant that the ECJ has been active in setting out opinions on the limits to the ECB's activities. It is important to stress that this form of accountability only applies to the ECJ. Despite the recent opinion offered by German Constitutional Court, the ECB is not accountable to national courts or parliaments.

Taken together, these various mechanisms provide a substantial amount of accountability for the ECB. Still, there is room for some improvements. I will list some recommendations for improvements in Section 4.

3. INDEPENDENCE AND ACCOUNTABILITY FOR THE FEDERAL RESERVE

This section discusses how the Federal Reserve operates under the same three headings just discussed for the Eurosystem.

3.1. Appointments

Like the Eurosystem, the Federal Reserve has a "hub and spoke" system with a central board (the Board of Governors in Washington DC) combining with a decentralised set of geographically-based institutions (the Federal Reserve Banks) to implement monetary policy and the Fed's other tasks. However, unlike the Eurosystem, the hub of the system plays a dominant role. Monetary policy is set by the Federal Open Market Committee (FOMC) which has twelve members: The seven members of the Board of Governors, the President of the New York Fed and four other regional Fed presidents who rotate on and off the committee.

Members of the Board of Governors are appointed by the President, subject to Congressional approval. The appointments process has often generated political controversy. For example, when President Obama nominated Nobel-prize-winning economist Peter Diamond to fill a position on the Board, the nomination failed to get congressional approval because Senate Republicans argued that Mr. Diamond did not have sufficient competence to serve on the board. The difficulty with getting Congressional approval for these positions has increasingly led to Board positions being unfilled for large amounts of time. For example, the current Board of Governors only has five members and filling the remaining two positions has been held up by controversy over President Trump's nomination of Judy Shelton, who has advocated in the past for a return to the gold standard.

The position of Chairperson of the Board of Governors (who is also by tradition chair of the FOMC) is a critical one. While technically only one vote on the FOMC, the Chair is the public face of the Fed and controls the substantial resources of specialist expertise employed by the Board of Governors. Transcripts of FOMC meetings generally show the Chair as leading the discussion and instigating policy recommendations and, traditionally, the other Governors tend to vote with the Chairperson of the Board. The position of Chairperson of the board comes with a four-year term, meaning each President gets to pick who they want to be Chair. Should a Fed Chair not be reappointed, they can continue to serve on the Board of Governors but in practice, Fed chairs that were not reappointed have chosen to resign from the Board.

Over most of the past 50 years, the re-appointment of Federal Reserve chairs has been relatively uncontroversial with bipartisan agreements that successful chairs should be re-appointed. Presidents have regularly reappointed Fed chairs that were appointed by predecessors from the different parties. However, this is no legal requirement for this approach and President Trump broke with historical convention by deciding not to reappointed Janet Yellen as chair in 2018, despite widespread agreement that she was highly qualified and had performed well in the role. Several respected news outlets reported that a key reason why President Trump chose not to reappoint Yellen was because he thought she was too short.[7]

The appointments procedure for the Reserve Bank Presidents that serve on the Board is a complex one. The current procedure is that Presidents are appointed by subcommittees of boards of the Reserve Banks equally made up of two types of directors: Directors directly appointed by the Board of

[7] See, for example, the following story from the Washington Post. https://www.washingtonpost.com/business/2018/12/03/trump-thought-yellen-was-too-short-be-fed-chair-thats-not-how-any-this-works/.

Governors (who are themselves appointed by the President) and directors appointed by banks in the district. In this sense, Presidents can either directly or indirectly control the appointment of every member of the FOMC.

3.2. Independence

Unlike the Eurosystem, the Federal Reserve has no formal legal declaration of independence and it is one of the less independent central banks in modern advanced economies.

The Federal Reserve Act is the key piece of legislation underpinning the Fed and it makes no explicit reference to the type of independence that the ECB has. Indeed, the history of the Fed shows many examples of monetary policy being set to suit the wishes of the governing administration. Only in the era since the appointment of Paul Volcker as Fed chair in 1979 did a broad cross-party consensus emerge that it was best for the President to not interfere in monetary policy making. It appears, however, that President Trump does not agree with this consensus. During his term in office, he has regularly made public comments expressing his desire for the Fed to lower interest rates and his decisions to not reappoint Yellen and to nominate an unsuitable candidate such as Shelton indicate a politicisation of the appointments process that has not been seen over the past forty years.

The relatively short terms for Fed chairs and the fact that presidentially-appointed Board of Governors make up a majority of the FOMC combine to mean that US Presidents (in particular Presidents that serve two terms) have the ability to reshape the composition of the FOMC to their liking, potentially having consequences for the implementation of monetary policy.

The Federal Reserve Act was designed to limit the ability of politicians to influence the Board of Governors by giving board members non-renewable 14-year terms, with new 14-year terms starting every two years. The motivation for this system was that board members with a 14-year term would not feel under pressure to please the ruling party in order to get re-appointed and with new terms only starting every two years, there would only be two new appointments during each four-year Presidential term. In practice, however, board members regularly resign before the end of their term. Conti-Brown (2015) documents that the average length of time for board members to serve is under seven years, meaning there tends to be an average of one Presidential appointment per year. This means that even one-term Presidents can end up appointing a majority of the members of the board.

Another area where the Fed is considerably more vulnerable to political interference than the Eurosystem is the possibility of new legislation that changes its mandate or operational procedures. Bills to change how the Federal Reserve operates have regularly appeared in Congress over the years. For example, Senator Rand Paul has promoted an “Audit the Fed” campaign, which is not really about auditing the Fed (the Fed’s accounts are externally audited every year and its spending is overseen by the Government Accountability Office) but rather about increasing political influence over monetary policy.[8]

Thankfully for the Fed, the gridlocked nature of Washington politics has prevented any of these legislative attempts from passing. It is relatively rare for one of the parties to control the House, Senate and Presidency and, even when they do, the filibuster tradition in the Senate prevents many bills from passing. However, just as the Fed’s appointments process under President Trump has become more politicised, a scenario in which the filibuster is dropped and one of the parties changes the Fed’s mandate or independence seems more realistic now than it did in the recent past. There is a real

[8] See Bernanke (2016).

possibility that the threat of legislative changes could be used by future administrations to influence Fed officials to take decisions they may not be comfortable with.

3.3. Accountability

Federal Reserve governors and officials regularly appear before Congress to testify and answer questions on the Fed's work in relation to monetary policy, financial regulation and supervision, payments systems and financial stability. In relation to monetary policy, the key appearances are set out in Section 2 of the Federal Reserve Act. The Fed is required to submit a report to Congress twice a year on monetary policy and economic developments and the Chair is required appear before the Congress after the release of the reports. Specifically, the Chair appears on successive days before the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Banking and Financial Services.

In many ways, these Congressional appearances are similar to the Monetary Dialogue. The quality of the questioning from politicians is widely variable and it is common to see politicians ask about issues that are largely irrelevant to the Federal Reserve's mandate, to attempt to get the Fed Chair to support positions of their political party or to use the appearance to promote businesses in their home districts. However, overall, I believe these meetings do a pretty good job in keeping the Federal Reserve accountable.

In particular, while the committees are large (particularly the House committee which has about 60 members) and questioners are usually given only five minutes, there is a strong culture of investigation and exploration among the committee members. Many of the politicians are well-briefed and come prepared to explore specific issues in depth. The Chair is regularly exposed to relatively forensic examination on specific issues, with politicians asking a series of inter-linked questions related to a particular issue.

As documented here, the Eurosystem should not in any way envy the Federal Reserve's position in terms of its political independence. However, I believe the Congressional hearings do a relatively good job in making the Fed accountable for its monetary policy and in explaining its actions to the public. As I discuss below, it is my opinion that the European Parliament could learn several useful things from these hearings and should consider adapting its procedures to resemble them more closely.

4. RECOMMENDATIONS

I conclude with some recommendations that could improve the independence and accountability of the ECB.

4.1. European Council

The starting point for accountability of a central bank should be the process by which central bankers get appointed. The current process for appointing ECB Executive Board members is not transparent and does not necessarily produce the best qualified candidates. While the European Treaties do not explicitly require the European Parliament to approve all appointments, decisions to appoint candidates that are not approved by the European Parliament seems to run counter to the spirit of the law. However, it seems likely the legal requirement to consult with the European Parliament was inserted to avoid candidates being appointed that did not have parliamentary approval.

While it is not easily possible to change the Treaty to make this requirement explicit, the European Council should take up the Parliament's request for a dialogue about the appointments process. Ideally, the result of this dialogue would be a new process in which the Parliament holds exploratory hearings with potential candidates and the Council agrees to appoint the candidate favoured by the Parliament.

Considering the need to keep the ECB Governing Council independent from political control, the Council should also avoid nominating candidates for the Executive Board who are coming directly from a political or ministerial role.

4.2. ECB

While the ECB is to be commended for its commitment to accountability via the availability of the President at press conferences and appearances at the European Parliament, there are still a number of aspects of ECB communications that could be improved.

Emergency Liquidity Assistance: One area where there have been serious problems with transparency and accountability has been emergency lending to banks in distress. As I have written about on several occasions (Whelan, 2014, 2015, 2016) there have been several controversies associated with how Emergency Liquidity Assistance (ELA) programmes have been operated. There have been examples of lending to severely insolvent banks, a lack of clarity surrounding the terms under which the Eurosystem caps or withdraws ELA and a series of decisions made where the granting or curbing of ELA appeared to be directly related to political developments in various countries. In my opinion, the uncertainty surrounding the ECB's performance of its role as lender of last resort to the banking system has tended to worsen banking crises and the politicisation of this role has damaged the reputation of the ECB as an institution in a number of Member States.

A small amount of progress has been made in recent years in clarifying the procedures surrounding ELA. The ECB first published a short document describing these procedures in 2013 and updated it in 2017.[9] These documents are clear in that ELA should not be provided to insolvent banks and with the Single Resolution Board in place, there is no reason why the ECB should provide liquidity in this situation. So hopefully, some of the more serious errors in this area—such as the large amounts of Eurosystem credit provided to Laiki Bank and Anglo Irish Bank—will not be repeated.

That said, the guidelines for providing ELA to banks remain *ad hoc* and rely on a complex set of arrangements in which ELA is granted by the national country central banks but ELA programmes then

[9] The current ELA agreement is available at https://www.ecb.europa.eu/mopo/ela/html/index.en.html.

need to be continually renewed by the ECB Governing Council with a two-thirds majority required to stop a programme. Given the importance of a well-functioning lender of last resort function to any banking system, I recommend the ECB adopt a new policy structure in this area. Since ECB is now the supervisor for all of euro area banks and the importance of "legacy issues" has begun to recede, there is also a stronger moral argument than in the past that decisions about emergency liquidity should be taken at a central level and profits or losses from these operations should be shared.

Voting: In its early years, the ECB acted as though all important decisions were taken with unanimous approval by the Governing Council. It is clear that this has not been the case in recent years but the ECB has not given clear explanations of the extent of disagreement. For example, a number of members of the ECB Governing Council disagreed with the package of monetary policy measures introduced in September 2019. In the subsequent press conference, President Draghi was evasive about the extent of disagreement on the package, preferring to emphasise that all members were in favour of introducing a package of some sort.

The motivation for not holding explicit votes and revealing the outcomes is likely to reduce controversy over difficult decisions and to prevent media coverage that emphasises which countries' representatives support or oppose particular policies. The problem, however, is that Governing Council members have tended to quickly leak their opposition to policy decisions to the press. See, for example, the Bloomberg story on 12 September 2019 (the day of the press conference) titled "*Draghi Faced Unprecedented ECB Revolt as Core Europe Resisted QE*."[10] The article suggested that countries accounting for a majority of euro area GDP opposed the resumption of the Asset Purchase Programme. While this is not the criteria used to make monetary policy decisions, the package of measures could be interpreted by some as possibly "undemocratic" because representatives of countries with smaller populations appear to have outvoted some that had larger populations.

The ECB should consider whether an open and transparent approach to explaining how its decisions were made may be preferable to its deliberations being reported by the press via leaks.

Meeting Accounts: The meeting accounts that have been published since 2015 have provided insights into how the Governing Council meetings operate and the considerations taken into account when making monetary policy decisions. However, there are a number of odd aspects to these accounts.

The only two Governing Council members named in the accounts are the Executive Board members responsible for financial markets (currently Isabel Schnabel) and economics (currently Philip Lane). The accounts describe how the board member responsible for markets discusses recent events in financial markets while the "chief economist" discussing economic developments and the outlook for price stability and then makes proposals for decisions on monetary policy. I am sure these are a fair description of how the meetings begin but one can assume that the ECB President has played a key role in preparing the policy proposals and in explaining them to the other members of the Governing Council. The absence of names for other individuals also requires guessing to figure out what really happened. For example, for the September 2019 meetings we are told "*A number of members assessed the case for renewed net asset purchases as not sufficiently strong*" but we are not told how many or who these members are.[11] Perhaps in relation to the latter, it is felt that if particular members of the Governing Council are recorded as objecting to a package of measures, then these members will not be able to defend the policy decisions effectively. The counterpoint to that is that if these same

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10 Randow, Jana (2019). Draghi Faced Unprecedented ECB Revolt as Core Europe Resisted QE. Available at https://www.bloomberg.com/news/articles/2019-09-12/draghi-faced-unprecedented-ecb-revolt-as-core-europe-resisted-qe.

11 ECB (2019). Account of the monetary policy meeting of the Governing Council of the European Central Bank held in Frankfurt am Main on Wednesday and Thursday, 11-12 September 2019. Available at https://www.ecb.europa.eu/press/accounts/2019/html/ecb.mg191010~d808650 5d0.en.html.

members leak their objections to the press, then perhaps it would be better for the ECB to provide a more complete account of the meeting.

4.3. European Parliament

I believe the current format of the Monetary Dialogue meetings is not well suited to the necessary detailed exploration of the various complex monetary policy issues that have emerged in recent years. The format could be improved by making some changes to procedures, including learning some lessons from the Federal Reserve's Congressional hearings.

The format for the Monetary Dialogue hearings is as follows. After an opening statement from the ECB president, the meetings proceed with a large number of questions (usually over fifteen) from MEPs. MEPs are given up to two minutes to ask questions and then there is a response from the ECB President with the total time taken up being five minutes. There is no tradition of follow-up questions, so that, relative to US Congressional hearings, the meetings are more "stilted" with less focus and far less interaction. The ECB Presidents tend to "run down the clock" by taking right up to the allocated five minutes of time. There is very little MEPs can do if they view the ECB President as having provided an inadequate answer.

Perhaps unsurprisingly, given the large number of questions, the quality of questioning during the Dialogue varies widely in content and usefulness. While many of the questions asked are well-informed and address key issues relating to the ECB's policies, questions that focus on narrow national interests (and thus add little to our understanding of the ECB's role or policies) are also common. Overall, my biggest concern is that the Dialogue sessions generally do not allow for a sustained focus on a smaller number of important (and potentially complex) issues.

I would recommend that the ECON committee consider adapting the format of the Monetary Dialogue meetings be changed in a number of ways.

First, the committee should consider changing the "culture" of the Dialogue to be closer to US Congressional hearings. Rather than asking each questioner to bundle questions together for two minutes, it would be better for MEPs to often ask short questions and then follow up on them based on the answers given. I believe this more inquisitive style of questioning would shed more light than the current hearings. I am aware, of course, of some important complexities that make the ECON Committee meetings different from US Congressional hearings. In particular, if MEPs want to ask a question in a language that it is not either English or the President's mother tongue, then the questions need to be translated, which makes a back-and-forth discussion almost impossible. That said, most of the questions asked can be directly understood by the President.

Second, it may be preferable to facilitate more intense questioning by having a smaller number of MEPs ask questions in any given session. I understand this may be difficult to achieve given the large size of the committee, which has 60 members, but this could be offset by making more use of written questions to coincide with the dialogue.

Third, I would also note that the room the Dialogue takes place in is very large and the questioners are often very far away from the ECB President. This may partly explain the lack of interaction during these meetings. A setting that allowed those MEPs designated to ask questions to sit closer and be more engaged with the President would be preferable. Committee staff should examine the seating arrangements at US Congressional hearings to get a sense of how these meetings can work well. Media and staff assistants who currently attend the Dialogue meetings could observe the sessions via a live webcast. The current period, in which the Dialogue will be taking place online for a while, perhaps offers an opportunity to change the format to be more interactive.

Fourth, the dialogue could benefit from themed sub-sessions. For example, the ECB President could be informed that a first group of MEPs will be asking questions on a particular topic and that the sub-session on this topic will run for 45 minutes. Questions from MEPs could be co-ordinated to avoid repetition.

5. CONCLUSIONS

In many ways, the institutions underlying the Eurosystem's monetary policy are superior to those of the Federal Reserve. The Eurosystem is far more independent from political control than the Federal Reserve and the process of appointing the Executive Board of the ECB is somewhat less political than the process of appointing members of the Board of Governors of the Fed.

Nevertheless, there are a number of ways to improve the accountability of the Eurosystem. These include requiring European Parliament approval as a condition for appointment to the Executive Board. The ECB could also improve communications in various ways, including providing more information about its meetings.

In addition, the Federal Reserve's processes for accountability are, in my opinion, more effective than the European Parliament's current procedures. I recommend that the ECON committee consider changing the culture and format of the Monetary Dialogue meetings to allow a more inquisitorial approach, featuring longer time limits for questions and the encouragement of back-and-forth exchanges with the President.

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This paper reviews the independence and accountability of the ECB and the Federal Reserve. While the ECB makes significant efforts to be accountable for its actions, there are several improvements that could be made to European institutions to improve its independence and accountability. These include reforming the process of appointing ECB Executive Board members, improving the transparency of ECB decision-making and reforming aspects of the Monetary Dialogue to make the questioning more effective.

This document was provided by Policy Department A at the request of the Committee on Economic and Monetary Affairs (ECON).

PE 652.745
IP/A/ECON/2020-39

PDF ISBN 978-92-846-7092-5 | doi:10.2861/967542 | QA-03-20-608-EN-N