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Culture Matters: French-German Conflicts on European Central Bank Independence

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Culture Matters: French-German Conflicts on European Central Bank Independence

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Abstract

With the Maastricht treaty, the members of the Eurozone agreed on the establishment of a very independent European Central Bank, as well as making their National Central Banks far more independent. However, over the years French political leaders systematically brought forward proposals undermining the ECB's independence, to the dismay of Germany. A pattern that surfaced again during the current sovereign debt crisis and has complicated finding a timely and unified answer to the problems.

The article conducts tests of various factors expected to influence the preference for central bank independence. It shows that economic explanations are unable to account for the persistent differences amongst European member-states on this issue. Instead, cultural differences in attitudes, especially a nation's score on the dimension of Power Distance – its acceptance of centralisation of power in a small set of political leaders or institutions – does show a correlation with the different levels of internalisation of the Central Bank independence norm.

Keywords: Central Bank Independence; Culture; European Central Bank; Franco-German relations

JEL classification: E 58, E 52, F36, B52

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1. Introduction

The establishment of the Economic and Monetary Union (EMU) has often been ascribed to the existence of a Europe-wide consensus on a low and stable rate of inflation as the primary goal of monetary policy (see e.g. McNamara, 1998; Marcussen, 1999; Verdun, 2000). However, over the years and under the influence of the 2010/11 Euro-zone crisis serious doubts have risen whether such 'sound economic' ideas are as broadly shared as is sometimes argued (Segers and Van Esch, 2007). Of the different principles in EMU guarding its sound economic foundations, the consensus on the need for a independent central bank were amongst the least disputed. Provisions concerning the functional and political independence of the European Central Bank (ECB) were already included in the 1989 Delors Report, and were one of the first issues to be settled in the negotiations on the Treaty of Maastricht.

In this article, we argue that on closer look the apparent consensus on Central Bank (CB) independence may have been less widespread and internalised than the institutional facts suggest. Despite the similarities in rules and requirements enforced by the Maastricht Treaty, member-states –the French and the Germans in particular - differ systematically in their attitudes towards the independence of the ECB. Germany and the Netherlands passionately advocate the strict independence of the ECB and National Central Banks (NCBs under EMU, while the French and other southern states have tried time and time again to balance the power of the ECB with a political authority, questioned its mandate and actions, interfered publicly in the term of office of the President, and actively tried to influence the ECBs actions.

This article argues that these differences in attitude towards (E)CB independence between France and Germany cannot be explained by purely economic interests, and presents evidence that suggests that differences in national political culture may provide a convincing alternative explanation. More specifically, different attitudes towards CB independence seem to be grounded in different national views on the proper degree of hierarchy and centralization of political power and policy-making.[1] Such structural cultural differences may well be one of the factors underlying the difficulty the EU has been experiencing in finding an adequate and timely solution to the current crisis.

The article is structured as follows. The article continues with a further study of the principle of CB independence and illustrates how historically France and Germany in particular have held different traditions and attitudes towards CB independence. The third section shows that while the establishment of EMU induced a significant institutional convergence towards stronger CB independence, the attitudes in the different countries towards CB independence continued to diverge. Even after the establishment of EMU, French leaders have remained critical of the ECB's independence, while Germany invariably stressed the need for it. Section 4 discusses various explanatory factors of central bank independence identified in the literature and investigates to what extent these may offer an explanation for this difference in attitude amongst the French and German elite. The article concludes that differences in economic interests and political structures themselves cannot explain the continued divergence in attitudes. A first test indicates, however that underlying cultural differences may provide a more adequate explanation.

[1] Dodd (2001) also points to the importance of sociological aspects of the EMU and euro.

2. Traditions of Central Bank Independence

The various aspects of Central Bank independence can be grouped into two notions: functional independence and political independence (Masciandaro and Spinelli, 1994). Functional independence of a central bank increases with the possibility to control quantities or prices of money and credit (including credit to the government) and the impossibility to practice monetary accommodation. Political independence is positively related to the statutory definition of price stability as the main goal; the non-interference of the government in the appointment of the members of the board; a fixed and long term of office for the members of the board; the absence of representatives of the government on the bank's board; and the availability of a set of well-defined rules for the settlement of any conflict between the central bank and the government.

2.1 Pre-EMU attitudes on CB independence

Historically, EU states differed widely in both their attitude and institutional rules concerning Central Bank independence. At one end of the spectrum, the stringent German tradition is located, the French dirigism at the other, and with other Euro-zone states falling somewhere in between.

The stringency of the German political and financial elite regarding CB independence is rooted in Germany's shared historical and economic experience, and is shared by the German public (cf. Kaltenthaler, 2002). The collective memory underlying the German position on CB independence is that of hyperinflation and economic crisis between the two

World Wars. These experiences induced a great concern for inflation and a preoccupation with a strong D-Mark in the German collective memory.

In the eyes of the German financial elite two conditions need to be fulfilled to guarantee price stability. Firstly, states must adopt stringent budgetary and fiscal policies and denounce monetary financing of budgetary deficits, as a failure to do so would result in high inflation (Dyson and Featherstone, 1999: 276). Secondly, central banks need to have a high level of independency to prevent politicians from adjusting monetary policies to further (short-term) political and electoral interests, and jeopardise the credibility of the CB.

Moreover, in line with the allies' view after World War II that centralisation of political power in Germany should be avoided, and thus federalised, the fore-runner of the Bundesbank, the Bank Deutscher Länder, was already awarded far-reaching autonomy from the government (Marsh, 1993: 142-59).

The French, on the other hand, have traditionally adhered to a (more) Keynesian and *dirigist* stand on economic issues. Central to French economic ideas is the conviction that a trade-off exists between economic goals like price stability on the one hand and employment and economic growth on the other. Strict fiscal and budgetary policies are seen to prevent governments from using government spending to stimulate economic growth, reduce unemployment, or finance much needed social security measures. In other words, in certain circumstances the French consider expansionist government policy – if necessary funded by international credits – to be beneficial for the economy and its people.

A second fundamental French conviction associated with this, is the *dirigist* belief in the primacy of the political over the economic. In other words, traditionally the French have viewed monetary, budgetary and fiscal policies to be instruments to further political and social goals. Politicians directly chosen by the French people – the French President and Members of Parliament – are thus considered the ultimate and legitimate decision-makers. As such, monetary, budgetary and financial instruments should be in their hands rather than in the hands of unelected financial experts of the (European) central bank. In accordance, the Banque de France traditionally has enjoyed much less independence than the Bundesbank. Throughout the years, the French have tried to politicize the institutional make-up of European monetary policy-making in order to get decision-making transferred to the political instead of the technical level.

2.1.1 Pre-EMU Functional Independence

Historically, the most prominent difference in opinion on the proper level of *functional* independence of central banks between France and Germany occurred during the negotiations on the establishment of EMS.[2] During these negotiations, the independence of the NCB's and the conditions under which they would be obliged to intervene in markets became the most contentious issue. The French push for the instatement of additional financial support mechanisms, and obligatory interventions by the CBs met with fierce opposition of the Bundesbank that perceived this to be a threat to monetary stability and a blatant breach of its constitutional independence. Ultimately, Bundesbank President Emminger only agreed to authorise the establishment of EMS if the Bundesbank was freed from the obligation of intervening in any situation when this would jeopardise monetary stability (Van Esch, 2009).

[2] Due to its fragmented political system, it is difficult to speak of a unitary German position on European economic and monetary integration. At times, the position German financial elite diverges almost as much from that of the German political elite as the French.

In the run up, and during the negotiations on the Maastricht Treaty, the debate between the French and Germans concerning the functional independence of the future ECB resurfaced. Guarantees for the formal, personal and political independence of the future ECB were formalised early in the Intergovernmental Conference (IGC) (Schönfelder and Thiel, 1994: 91).[3]

However, the *actual* independence of the ECB did become a point of contention. In the opinion of the German financial elite, the French assault on the actual independence of the ECB came in three guises: its demands for democratic accountability of the ECB, the establishment of an economic government, and the French proposals with regard to external monetary policy making (Van Esch, 2007).

With regard to the democratic accountability of the ECB, the Commission – supported by the French – proposed that the future ECB would issue periodic reports to the European Council and to the Parliament. To the German monetary experts, however, such a provision was an open invitation for politicians to interfere in their domain. The issue was settled in the draft statutes of the ECB which provided that the ECB would present an annual report to all institutions of the EU, and would publicise regular reports on the activities of the system (Schönfelder and Thiel, 1994: 83; Van Esch, forthcoming).

The second issue of contention was the French proposal for the establishment of an economic government (Howarth, 2000: 83; Howarth, 2002: 167).[4] As early as 1988, the

[3] According to Szasz (1999: 114) for France accepting an independent ECB "cannot have been an easy decision. An independent Central Bank is at variance with French centralist tradition".

[4] French pleas for the establishment of a 'gouvernement économique' should not be regarded as a plea for the supra-nationalisation of member-states' economic policies (Van Esch, 2007), as is also apparent from the most recent plans along this line of fall 2011 (see Section 3.2.1). French plans to establish a

French Finance Minister Pierre Bérégovoy had argued in favour of such a European economic government. From the outset, however, there was little chance that the French would be able to secure this demand due to opposition by the German financial elite and Chancellor, and the European Commission (Mazzucelli, 1997: 65-6; Schönfelder and Thiel, 1994: 78-9). Moreover, the French were internally divided on the issue. For some time the plan enjoyed the half-hearted support of the French President Mitterrand,[5] but in January 1991 the President forced his Minister of Finance to give in (Howarth, 2000: 143).

On the issue of external monetary policy making, the German financial elite argued that since external monetary relations have consequences for price stability it should be the responsibility of the ECB.[6] The French, however, argued that given its implications for general economic policy and the relations between the EU and third countries, external monetary relations should be handled by the political authorities (Howarth, 2000: 134). This division was only resolved at the last ECOFIN meeting before the Maastricht summit, when it was decided that the general guidelines for external monetary policy were to be set by ECOFIN, but would not be binding. In Maastricht, it was added that these general guidelines

'gouvernement économique' are first and fore-mostly motivated by a desire to transfer decision-making firmly in the hands of democratically elected high politicians rather than the unelected 'functionaires' of the ECB.

[5] Howarth suggests that the issue of an economic government 'provided a useful bargaining chip in the negotiations with the Germans' (Howarth, 2000: 143).

[6] In October 1990, the *Bundesbank* argued that the ESCB should be given the sole responsibility for interventions in capital markets and should have co-decision rights on all other external monetary policy decisions.

should serve the primary objective of the ESCB to maintain price stability (Schönfelder and Thiel, 1994: 142; Van Esch, 2007: 303).

Although institutionalised in the Treaty on the European Union, the divergence of opinion on the proper level of functional independence kept surfacing after Maastricht. In a TV-interview just before the French referendum in 1992, for instance, President Mitterrand reiterated the French plead for the instatement of an economic government as a political counterbalance to the 'technicians' of the ECB who had to implement the decisions made by the European Council (Verdun 2000: 134).

2.1.2 Pre-EMU Political Independence

The differences in opinion concerning the right level of *political* (E)CB independence between Germany and France go back even further to the (failed) negotiations on the 1970 plan for European Monetary Union, the Werner Report. During the negotiations, the German Minister of Economic and Financial Affairs, Karl Schiller – backed by the Bundesbank Rat - voiced the hope that a future European Central Bank would be as politically independent as the Bundesbank. In contrast, French President Pompidou stressed the need for politicians to have political control over the monetary instruments. The level of democratic control over, and political independence of the future ECB remained contentious until the end of the Werner-negotiations, and ultimately contributed to their failure (Van Esch, 2007: 205-209, 215).

A different aspect of political independence, the non-interference of the government with the appointments of the members of the board (chief executive officer), has been most prominently attacked by French politicians during the appointment procedure of the ECB's first President, Wim Duisenberg. In May 1996, the Presidents of the central banks agreed that Wim Duisenberg (at that time President of the Dutch central bank) would succeed Alexandre Lamfalussy as President of the European Monetary Institute. In their view, this implied that Duisenberg would be the candidate for becoming the first President of the ECB. Aware of the great political impact of this decision, the Presidents of the central banks had asked their governments' opinions. Except for France and Italy, all CB Presidents were of the impression that their governments would agree. Immediately after the publication of this decision, it became clear that President Chirac did not agree. The French government did not accept such a decision to be made by non-elected civil servants.

In May 1998, the heads of states of the EU had to decide on the presidency of the ECB. Once again it appeared that France did not accept unconditionally the majority's proposal that Duisenberg would become the ECB's first President. Chirac wanted the term of office of eight years to be split into two of four years, and Duisenberg to sign a document that he would step down on January 1st, 2002. This would introduce the possibility for the French candidate Trichet to succeed Duisenberg in January 2002. Duisenberg agreed to sign that he would not serve the entire term of eight years, but he refused to announce a date on which he would step down. Chirac was upset "*Je ne me laisse pas faire chanter par un petit fonctionnaire*" (De Haas and Van Lotringen, 2003: 25). After a full day of negotiation, Duisenberg was elected as the first President of the ECB.

The fact that Chirac preferred another candidate than Duisenberg as such need not be at variance with the independence of a central bank. In all systems the President of the central bank is appointed by the political leadership. His suggestion to split the term of eight years into two of four years, however, clearly is against a main element of independence. This term is long and fixed in order to prevent too much political influence.

3. Institutionalisation without Internalisation

Despite these historical differences in attitude, the member-states were able to find agreement on the Maastricht provisions concerning CB independence relatively easily. In 1999, the European Central Bank - the most independent central bank in the world – became fully functional (see, e.g. Tavelli *et al.,* 1998). Moreover, with the implementation of the Treaty of Maastricht, the NCBs that became members of the ECB had to adhere to stringent unitary rules concerning their independence.

3.1 EMU induced Institutional Convergence

Studies show that the implementation of EMU resulted in the intended institutional convergence towards a greater level of CB independence across the Euro-zone. The degree of central bank independence may be represented by the index of Masciandaro and Spinelli (1994).[7] The index of Masciandaro and Spinelli is constructed such that a higher value corresponds to a higher degree of independence and provides measurements of the change in

[7] Another often used index of central bank independence is that of Cukierman (1992) and Cukierman *et al.* (1992). Van Lelyveld (2000, Appendix 7-A) presents an updated version of this index, which includes changes in the legislation up to 1994. At that time, however, not all countries had brought the requirements of the EMU into their national legislation. Results for the Cukierman-index are similar to those reported in the text and can be obtained from the authors.

the degree of central bank independence resulting from the introduction of EMU (Tavelli *et al.,* 1998). The proxy of the pre-EMU level of central bank independence used reflects the legislation in force in the year 1990. The EMU level of this index reflects legislation in effect in 1997. All the changes in national legislation between these dates were compulsory for participation in the EMU.

Table 1 shows that with the introduction of EMU, the national central banks of Belgium, France, Greece, Italy, The Netherlands and Spain have become more independent (see columns 1-3), while those of Austria, Germany and Ireland remained their original level of independence. With the introduction of EMU a convergence towards a higher level of central bank independence thus occurred in the Eurozone. The increase in independence in The Netherlands and Spain is mainly due to an increase in functional independence (direct credit facilities for the government had to be cancelled). The increase in independence of the central banks of Belgium, France, Greece, and Italy is also due to an increase in political independence. The change is the largest for Spain, Italy and France. As a result, the level of central bank independence in these countries is now only slightly less than in Germany. The difference in degree of central bank independence between France and Germany was reduced from 6 to 1 point.

<Insert Table 1 about here; full page>

3.2 Persistent Attitudinal Divergence

With the implementation of EMU, the institutional level of Central Bank independence in France and Germany thus became practically the same. However, despite this institutional convergence and the high levels of formal independence of the Banque de France and ECB, French behaviour since the start of EMU and during the current Euro-zone crisis suggests that true internalisation of the rules amongst French politicians has not occured yet.[8] On various occasions, French authorities have shown difficulties with the far-reaching central bank independence required under EMU.

In fact, during the recent financial crisis French politicians argued for the institution of a ‘gouvernement économique’ as a political counterpart for the ECB, tried to exert political influence over the ECB's policies and an unauthorised mid-term replacement of one of its board-members. French criticism has been aimed at both the functional and political aspects of ECB independence, and is in stark contrast with the firm adherence to this norm the Germans have displayed.

3.2.1 Post-EMU Functional Independence

With regard to the functional independence of the ECB, it is clear that the institution of a European economic government – as a political counterpart of the ECB -has remained a steady item on the French European agenda since the establishment of EMU. Firstly, as a step towards such arrangement, the French succeeded to re-label the Euro-XI the Euro-group. This group of the EMU Ministers of Finance meets the day before the ECOFIN meeting and now publishes its agenda, holds longer meetings and to holds press conferences after meetings.

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8 For the period January 1999 to June 2011, the evidence is based amongst others on a systematic search of articles published in the Financial Times (search-items: “ECB” and “name head of state”).

In September 2004, the Ministers of Finance of the Euro-group appointed Jean-Claude Juncker as their chairman for a term of two years. Although some member-states feared the Euro-group President could try to act as a political counterbalance to the ECB, the practise of appointing Euro-group President for two and a half years was institutionalised in the Lisbon Treaty. In the summer of 2008, President Sarkozy expressed his wish for a Euro-group permanent secretariat to strengthen policy co-ordination and for closer contact between the Euro-group and the ECB. In October 2008, the French President reportedly sought support to assume the chair of the Euro-group, but failed (Hodson, 2009: 239).

During the 2010/11 Euro-zone crisis, however, many viewed the stabilisation and rescue-package as a triumph of Sarkozy, and historical steps towards a European economic government (Hall, 2010). In addition to this, during 2010 several French politicians made overt calls for decisive steps towards a European economic government. Initially, these calls were resisted by the Germany leadership. However, in the fall of 2011, President Sarkozy and the German Chancellor Merkel suddenly came up with a bilateral plan for an 'economic government'. Despite its ambitious name, the proposals were fully intergovernmental and came down to the plan for the Euro-zone leaders to meet twice a year, and for the euro-countries to include the obligation to strive for a balanced budget in their national constitutions. During a meeting of the Van Rompuy Taskforce on October 18 2010, French Minister of Finance, Christine Lagarde, outlined French reasoning underlying the French calls for the economic governance of EMU. In her view, to governance is equal to politics, and an essential role has to be played by politicians, rather than the (capital) markets or the unelected technical experts in Frankfurt (Bohn & De Jong, 2011: 13)

In addition, in May of 2010, Sarkozy urged the ECB to follow the example of the US Federal bank and buy up Greek government bonds. The German Chancellor Merkel and the Dutch government joined ECB President Trichet in denouncing the French calls as a direct violation of the ECBs independence. The decision subsequently made by the ECB actually to buy Greek government bonds – which according to Trichet was made entirely autonomously from French pressures - elicited fierce criticism from economists – amongst whom the German President of the Bundesbank Weber. In their eyes, the ECB interventions constituted a form of quantitative easing which is in direct violation of the Treaty. It was widely speculated that these interventions lead to the resignation of Weber. August of 2011, the ECB went even further and bought up Italian and Spanish bonds preemptively in an attempt to prevent their borrowing costs from spiraling out of control. Again this lead to a wave of criticism from the German political and financial elite, and the resignation of a German member of the ECB Executive Board, Jurgen Stark (Young and Semmler, 2011).

3.2.2 Post-EMU Political Independence

With regard to the terms and appointment of the members of the executive board of the ECB, the historical pattern of contention has also continued after the establishment of EMU. In April 2001, French politicians once again discussed the length of the presidency of Duisenberg. President Jacques Chirac and Prime Minister Lionel Jospin publicly urged Duisenberg to make clear at what date he would resign as President of the ECB. The French head of the European Bank for Reconstruction and Development, Jean Lemiere, even said there was an arrangement struck in May 1998 that Duisenberg would serve half of the eight-years term and then step down in favour of Trichet. The German authorities, Finance

Ministry, Foreign Ministry and Bundesbank, were all resolute in declaring that there should be no formal commitment on the succession issue (Barber, 2001).

Early 2011, a public discussion on the desired composition and nationality of the members of the ECB Executive Board broke out in the wake of the debate on the succession of Trichet. Initially, when the former Bundesbank President Weber was still seen as a possible candidate for ECB President commentators criticised the possibility of having two German Board-members (Weber and the sitting Board-member Jurgen Stark). When after Weber's resignation, the Italian CB President Draghi was put forward as Trichet's successor, Sarkozy allegedly vowed to support his candidacy only if the second Italian member of the Board, Smaghi, would step down to make room for new French member. This clearly represents a clear breach of the political independence of the ECB.

The French have also continued to raise discussion concerning the statutory goals of the ECB. In the 2007 election campaign for the French presidency, the two main candidates, Ségolene Royal and Nicolas Sarkozy, accused the ECB of paying insufficient attention to economic growth. Both asked for changes in the ECB's statutes to include employment protection and growth as its objective (MacShane, 2007). This criticism set off alarm bells in Germany (Atkins and Parker, 2007). Sarkozy reiterated his criticism on the ECB's one-sided quest for price stability during the 6-month French Presidency of the EU in 2009.

More surprisingly, in June 2009 Merkel also criticised the ECB policy in the banking crisis. In a marked contrast to the French calls for a change in its primary goals, however, Merkel felt the ECB's decision to buy up to €60 billion of covered bonds from struggling banks jeopardized its proper goals and autonomy. Although Merkel thus called for a return to a more independent bank, the simple fact that she uttered criticism was exceptional and constituted a breach with German political culture.

In sum, all these events illustrate that, although all member-states have agreed to form an independent ECB, from the beginning France had difficulties in accepting the consequences of this independence. The Germans accompanied by the Dutch always defended the ECB's independence. Despite enjoying practically the same level of (E)CB independence since Maastricht, the attitudes towards this provision thus continue to differ markedly.

4. Understanding Differences in Central Bank Independence

While with the introduction of the EMU the institutional lay-out of France and Germany was thus harmonised, their attitudes towards Central Bank independence continue to diverge. As of yet, France does not seem to have internalised the norm of (E)CB independence to the extent the Germans have. This pattern suggests that – despite the institutional change required by the Maastricht Treaty - France and Germany still score very differently on one or more structural factors underlying their attitudes towards the degree of central bank independence. In the next section, we will discuss various causal factors for explaining central bank independence suggested in the literature, and investigate whether these may offer an explanation for this divergence in attitude between France and Germany.

4.1 Central Bank Independence and economic interests

In the literature, several factors are identified that underlie central bank independence. Amongst the variables that are mentioned are: government debt and deficit, checks and balances in the political system, and political instability.[9] For each of these factors, we have determined to what extent each of these explanations provide an adequate explanation for the difference in attitudes towards CB independence found above.

The first factor that may determine a state's preference for CB independence is the level of the government's budget deficits and debts (see e.g. De Haan and Van 't Hag, 1995; De Jong, 2002). Countries with high levels of debt and deficit prefer central banks that are branches of the Ministry of Finance so that they can easily monetise government debt. Before EMU, France (and Belgium and Italy) passed the debt on to domestic and foreign bond holders by inflation and devaluation of the national currency, respectively. Due to the ECB's independence such a strategy is no longer possible. Politicians of these countries regret the loss of this inflation / devaluation instrument because they now have to impose fiscal austerity on a population used to solving fiscal problems by printing money.

If this proposition would be correct, France should show much larger deficits than Germany. Data, however, do not confirm this hypothesis. Over the 1980s and the 1990s, the differences between France and Germany with respect to the government's net liabilities as a percentage of GDP are very small (Table 1, columns 4 and 5). Similarly, the French

[9] In addition to these, the structure of the banking sector and the exchange rate regime are mentioned. However, we will not discuss these since France and Germany (as well as the other Euro-zone states) have not differed on these variables since the inception of EMS. Therefore these factors cannot offer an explanation for the current difference in attitude towards Central Bank independence (De Jong, 2002; Posen, 1995; Van Lelyveld, 2000: Chapter 7).

government deficit as a percentage of GDP is not systematically much higher than the corresponding German figure (Table 1, column 6).

The second factor associated with the independence of central banks is the structure of the political system. In this view, the legal independence of central banks should be in accordance with the rules in the rest of the political system. In a system with extensive checks and balances, the central bank is expected to be more independent. France and Germany differ on this variable. According to Moser (1999, Table 1), Germany has strong and France weak checks and balances (Table 1, column 7). The Netherlands also belongs to the group of weak, and Belgium and Italy to that of no checks and balances. For Germany and France the scores are not as extreme as to warrant the conclusion that this is the main reason for the differences in attitude.

Related to the previous argument is the hypothesis that an unstable political environment, in the sense that governments are often replaced before the end of their term, will lead to a dependent central bank. An unstable political culture is here considered as a proxy for lack of discipline by political parties and a high degree of disagreement about the preferred institutional setting. Both hamper the establishment of an independent central bank. Whilst France is indeed politically more unstable than Germany (see Table 1, columns 8 and 9), the difference is again not as extreme as may be expected. Moreover, The Netherlands with its tradition of CB independence is only mildly more stable than France. Belgium and Italy may be categorised as far more politically unstable than France.

Finally, some authors argue that an independent central bank has to be grounded in a society-wide consensus in favour of low inflation (Howarth and Loedel, 2004: 835; Hayo, 1998; Van Lelyveld, 2000: Chapter 7). Hayo and Van Lelyveld use Eurobarometer respondents' answer to the question of the importance of fighting inflation to measure such anti-inflation consensus. Van Lelyveld uses the answers on the question "Do you think the (Insert nationality) government should give higher priority to reducing inflation or higher priority to reducing unemployment?"[10] From the answers he derives a measure of relative unemployment aversion (see Table 1, columns 10 and 11). The reverse is an indicator of inflation aversion. France consistently scores higher than Germany (West) indicating a higher degree of inflation aversion in Germany. Once again these differences are not extreme.

All in all, the review of these factors indicates that divergences in economic interests and political structure alone cannot adequately explain the pattern of 'institutionalisation without internalisation' established above. In the next section, we will review to what extent an alternative factor, economic culture, may add to our understanding of the Euro-zone member-states' different attitudes towards CB independence.

4.2 Economic Culture and CB independence

As argued above, divergences in economic interests and political structure alone cannot adequately explain the continued divergences in attitude toward CB independence amongst EMU member-states. De Jong (2002), however, has come up with an alternative hypothesis. He proposes that a preference for independent central banks is rooted in deeper layers of society, more specifically in its national economic culture.

[10] This method has two drawbacks: Firstly, this question is asked only twice: in 1976 and 1997. Secondly, the scores of this relatively direct measure of inflation aversion are likely to be influenced by the stance of the business cycle (level of unemployment).

Culture may be defined as the collective programming of the mind that distinguishes the members of one group (country or society) from another.[11] In his research, De Jong operationalises the concept culture by applying the dimensions Hofstede derived from an employee attitude survey of employees of IBM in 1968 and 1973. Hofstede's distinguishes four dimensions: Uncertainty Avoidance, Individualism/Collectivism, Power Distance and Masculinity/Femininity.

De Jong (2002) finds empirical support for the hypothesis that central bank independence is negatively related to the dimension Power Distance (PD). PD refers to the extent to which the society accepts that power, within its organisations and society as a whole, is distributed unequally. In societies with a high PD-score, people perceive that there should be an order of inequality in which everybody has a rightful place, and such an order provides the best protection for everyone. In societies with a low score on Power Distance people value equality high and any inequality of roles is established only for convenience. Studies have shown that the score on PD is positively correlated with centralisation of political power and political strength (Hofstede, 1980: 97-98). As such, it may be expected that in high-PD countries central banks will be dependent. In other words, PD and central bank independence are expected to be negatively correlated.

Within the group of countries concerned here, France and Germany score at the extreme on the PD-dimension: The French score is the highest, whereas the German score on Power Distance belongs to the lowest scores (Table 1, column 12). Moreover Belgium and Italy belong to the high-PD countries, whereas The Netherlands score low on this dimension.

[11] This and similar definitions of culture are found in Hofstede (1980: 21), DiMaggio (1994: 25), and Inglehart (1997).

This makes the PD-thesis a plausible alternative explanation for the continued controversy between France and Germany on the ECB's independence from the various explanations offered in the literature on central bank independence.

4.3. Exploring the Power Distance- CB independence relationship

From the previous discussion, the expectation may be derived that a relation between Power Distance and central bank independence existed in the Eurozone countries before EMU, whilst it disappeared after the implementation of the Maastricht Treaty. Multivariate regression analysis is used to test this proposition. Our discussion of the German versus French attitude towards central bank independence, however, refers to the attitudes of national political elites while Hofstede's survey consists of all sorts of employees of an international firm. Hence, one could criticize the results of regressions based on his dataset as not representing the view of key actors. In contrast to De Jong (2002), we therefore also test the hypothesis by means of Hoppe's replication of Hofstede's method to a group of highly educated persons. Hoppe used Hofstede's questionnaire for surveying the alumni from an elite conference and training centre, the Salzburg Seminar.[12] For this index the scores of France are not as extreme as in the original dataset of Hofstede (Table 1, last column).

Our study shows that the Hofstede-index of Power Distance has a negative and mostly significant influence on the degree of central bank independence in the pre-EMU period (see Table 2, upper part, first column) providing evidence for our expectation that central banks depend more on politicians in countries that score high on Power Distance. After the

[12] On average the respondents in Hoppe's survey, conducted in 1984, have five more years of formal education than the Hofstede IBM employees. More than two-thirds held doctorates or master's-level degrees (see Hofstede, 2001: 126-127)

introduction of the legislation required for EMU this relationship disappears: the coefficient of PD is positive and insignificant, and the overall fit of the equations is bad (bottom part of Table 2).The result is similar but even clearer for Hoppe's index of elite's score on Power Distance before (Table 3, upper part, first column), and after Maastricht (bottom part of Table 3).

<Insert Table 2 and Table 3 about here, full page>

As a robustness check additional regressions are run including all explanatory factors mentioned in section 4.1.[13] Except for the dummies of the checks and balances in the legislative system, all coefficients of other explanatory variables are insignificant in all regressions. In most cases Power Distance significantly explains the 1990-index of central bank independence, whereas except for one case it does not explain the 1997-index of central bank independence. In particular for Hoppe's elite index, the differences are large between central bank independence indices including and those excluding the requirements of EMU (Table 3, the differences between the upper and lower part). The fact that along side Power Distance, the dummies of checks and balances in the legislative system are the only significant factors explaining central bank independence reinforces the idea that the degree of centralization of power is crucial.

The overall conclusion from the regressions is that until 1990 legislation about the independence of the national central bank reflected the widely accepted views in societies about the degree of concentration of power. This relation vanishes after 1990. The degree of

[13] Since there are ten observations only, each regression can include only few explanatory variables to obtain meaningful results. One variable at a time is added to the relation with a constant term and PD.

central bank independence in the members of the Euro-zone no longer reflects their society-wide accepted concentration of power. The difference in results for the period before and after the changes in legislation due to the EMU requirements, suggests that the new legislation is not internalised in the national popular culture and even less in that of the elite. Particularly, in states with a tradition of dependent CBs, central banks are now legally more independent than accepted by their national culture and their elite's values. This holds in particular for the French, and may explain their recurring criticism of, and efforts to reduce (E)CB independence.

5. Conclusion

The analysis presented in this article provides evidence that culture, and especially a nations score on the dimension of Power Distance, may be the most adequate explanation for France's continued difficulty in accepting the independence and legitimacy of the ECB. In France (and to a lesser extent in other Latin countries) centralisation of power in a small set of political leaders or institutions is considered more legitimate than in Germany and some northern states. At the European level these politicians find it hard to accept the authority of other governments and independent institutions such as the ECB. So even when EU member-states find a way to agree on institutional change and implemented these changes, the underlying attitudes and political cultures may not change accordingly, at least not readily.

While the point of the article is made in the context of central bank independence in Europe, the role of cultural differences on political attitudes underlying institutional realities may have wider applicability. For example, cultural differences may also help to explain the different reactions in Germany and France to the 2008/9 banking and the current sovereign debt crisis on other aspects, or shed light on the EU's difficulty to come up with a coordinated response to the Euro-zone crisis. The argument put forward in this article, suggest that a more profound convergence of the member-states' attitudes on both means and ends may be needed for successful and sustained coordination and implementation of European policies to be possible. Since Europe is characterized by a large variation in national cultures, and these may partly inform member-states policy-preferences, this is no easy task.

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Table 1: Central bank independence and some explanatory variables

Country	Central bank independence Masciandaro & Spinelli			Government debt debt		deficit		Political instability		RUA		Power Distance	
	1990	1997	change	1980s	1990s	1990s	C&B	Change	Sign	1976	1997	Hofstede	Hoppe
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Austria	9	9	0	-23.8	-36.2	-2.5	w	2	3	-	1.33	11	43
Belgium	7	10	3	-101.3	-95.6	-1.3	n	4	8	1.15	1.48	65	50
Finland	9	9	0	16.6	35.3	1.9	w	3	4	-	1.57	33	38
France	7	12	5	-39.8	-39.5	-1.6	w	4	6	1.20	1.48	68	47
Germany	13	13	0	-38.2	-39.6	-2.9	s	1	4	1.12	1.43	35	39
Greece	4	8	4	-37.5	-82.1	-5.1	w	3	5	-	1.42	60	61
Ireland	7	7	0	-95.8	-14.1	1.3	w	5	5	1.24	1.33	28	38
Italy	5	11	6	-67.0	-97.0	-3.5	n	6	10	-	1.42	50	55
Netherlands	10	12	2	-55.9	-39.4	-1.3	w	3	5	1.39	1.29	38	34
Spain	5	12	7	-29.2	-41.0	-1.3	w	1	4	-	1.70	57	48

Sources: Central bank independence: Masciandaro and Spinelli (1994) and Tavelli et al. (1998: 343), government debt in the 1980s: De Haan and Van 't Hag (1995, Appendix), Government debts and deficits during the period 1995- 2007: Eurostat, Summary Table Consolidated General Government, C&B is a measure of checks and balances in the legislative system, coding: s=strong, w=weak and n=no checks and balances: Moser (1999, Table1), Change is the frequency of government changes during the 1980s, SIGN is the frequency of government changes when another party comes into power: De Haan and Van 't Hag (1995, Appendix), RUA is the Relative Unemployment Aversion, the higher the number the higher (smaller) aversion for unemployment (inflation), Van Lelyveld (2000, Table 7.1), Power distance: Hofstede (2001).

Table 2: Central bank independence and power distance (Hofstede)

		(a)	(b)	(c)	(d)	(e)
Before changes in legislation: 1990						
Constant	11.22	11.93	11.88	12.57	8.98	15.18
term	(6.15)	(4.92)	(5.27)	(4.98)	(3.12)	(14.0)
Power-	-8.14	-7.88	-6.63	-7.13	-8.08	-6.22
Distance	(2.43)	(2.20)	(1.48)	(1.81)	(2.37)	(2.01)
Additional		-.016	-.024	-.563	2.260	-5.27
Variable		(0.63)	(0.68)	(1.02)	(1.07)	(7.46)
No checks and						-5.60
Balances						(3.71)
R^2 (adjusted)	0.22	0.14	0.14	0.25	0.31	0.52
After changes in legislation: 1997						
Constant	8.85	10.52	9.89	9.21	8.59	11.48
term	(5.85)	(6.15)	(4.36)	(5.90)	(2.22)	(9.47)
Power	3.25	5.61	3.15	0.04	3.20	4.34
Distance	(1.12)	(2.44)	(1.04)	(1.10)	(1.05)	(1.26)
Additional		-.035	-.413	-.947	0.224	-3.45
Variable		(1.91)	(0.94)	(0.59)	(0.09)	(4.21)
No checks and						-3.48
Balances						(3.21)
R^2 (adjusted)	-0.0	0.15	-.08	-.11	-.16	0.07

Additional variables: (a) debt as a percentage of GDP, (b) number of changes of governments during the period concerned, (c) number of government changes where there new cabinet consists of other parties, (d) exchange rate regime; his index runs from 0 (fixed exchange rate) to 2 (fully flexible exchange rate), and (e) weak checks and balances. The coefficient of Power distance has been multiplied by 100 in order to improve the presentation. The numbers between brackets represent t-values of the coefficients. The standard errors of the estimated coefficients are corrected by means of White's method for correcting heteroscedasticity.

Table 3: Central bank independence and power distance (Hoppe)

		(a)	(b)	(c)	(d)	(e)
Before changes in legislation: 1990						
Constant	18.91	19.62	18.90	19.38	16.64	21.46
term	(6.48)	(6.29)	(6.22)	(7.51)	(5.51)	(14.76)
Power-	-25.0	-24.6	-24.0	-22.9	-24.7	-21.69
Distance	(4.62)	(4.96)	(4.15)	(4.68)	(5.09)	(5.82)
Additional		-.017	-.081	-.433	2.189	-4.600
Variable		(0.74)	(0.42)	(0.83)	(1.55)	(7.79)
No checks and Balances						-4.073 (6.22)
R^2 (adjusted)	0.56	0.54	0.51	0.58	0.69	0.82
After changes in legislation: 1997						
Constant	11.89	11.21	11.74	12.09	11.62	13.97
term	(3.05)	(2.51)	(2.82)	(2.99)	(2.67)	(3.63)
Power	-3.51	2.45	-1.06	-3.32	-5.17	-2.47
Distance	(0.44)	(0.21)	(0.12)	(0.39)	(0.57)	(0.25)
Additional		-.026	-.401	-.464	0.810	-3.020
Variable		(1.00)	(0.86)	(0.32)	(0.43)	(2.63)
No checks and Balances						-2.166 (1.51)
R^2 (adjusted)	-0.10	-0.13	-.19	-.24	-.23	-.12

See note Table 2.