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Research Report

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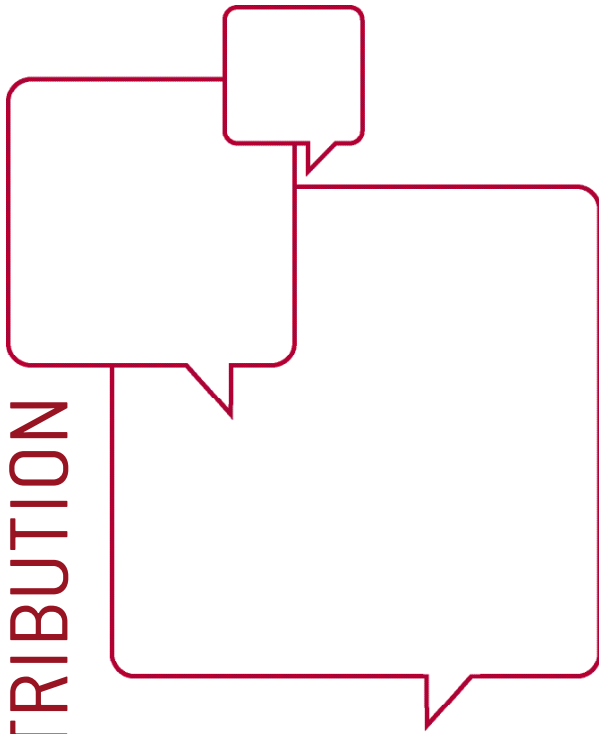
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THERE IS ROOM FOR IMPROVEMENT IN THE APPOINTMENT OF ECB EXECUTIVE BOARD MEMBERS

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There is Room for Improvement in the Appointment of ECB Executive Board Members

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Prepared for Hearing before the Committee on Economic and Monetary Affairs of the European Parliament, 30 May 2006

Since the European Central Bank was established, a clear pattern of its governance has been that the bigger countries in the euro area – France, Germany, Italy and Spain - have been represented on the Executive Board. Furthermore, nationals from those countries whose terms had ended have been replaced by compatriots. There was one exception when Christian Noyer was replaced by Lucas Papademos as Vice-president in 2002, but this was intended to leave room for the replacement a year later of Wim Duisenberg by Jean-Claude Trichet as president.

Nothing in the treaty or the statute of the ECB suggests such a pattern. Article 112 of the Treaty and Article 12 of the ECB Statute only stipulate that the members of the Executive Board must be EU nationals and should be chosen “among persons of recognised standing and professional experience in monetary or banking matters”. The *de facto* distribution of seats within the ECB board according to country size is therefore a disputable interpretation of the Treaty which deserves scrutiny.

There are four main reasons to criticise this practice¹:

1. It does not conform the spirit of the Treaty. The governance system, in which both the Governors of the national central banks and the members of the Executive Board participate in the monetary policy decision, has a distinctive federal character. To quote the Delors report which developed the blueprint for the future Eurosystem, it was explicitly designed as a “federative structure”. As national Governors take part in the Governing council, there is no need for taking national considerations into account also in the appointment of the Executive Board.
2. The practice of replacing an outgoing Board member by a national of the same country unnecessarily limits the choice of the Council. Instead of having the choice between several competent individuals as is the case when they are from smaller countries, the Council essentially endorses the selection of a particular government². Furthermore, as this government is in turn certain that its candidate will be appointed, it does not have an incentive to put a demanding selection process in place. This lack of competition is not conducive to selecting the best possible candidates. In addition, in view of the diversity of the skills, experiences and judgements that are desirable at the head of the ECB, it would be appropriate in the selection process to take into

¹ Several of these arguments were mentioned already by Francesco Giavazzi and Charles Wyplosz in “Selection of the central bank board is a *fait accompli*”, *The Financial Times*, 10 February 2006.

² The Council decision is taken by qualified majority, however this only applies when there are several candidates from different, smaller countries.

consideration professional profiles and policy philosophies. This calls for selecting the Board members from a larger pool of potential candidates.

3. In the design of the Eurosystem, as well as in practice since the start, considerable attention has been given to envisaging monetary policy decisions from the perspective of the euro area as a whole, rather than from that of any particular country. There are numerous manifestations of this choice, the most notable being that the Governors do not represent their central bank when they vote in the Governing Council and that the ECB publishes data for the euro area as a whole only. To have created ex-nihilo a new monetary entity, out of a group of countries that were only selected a year before monetary union entered into force, has been a remarkable achievement that is primarily attributable to the consistent approach followed by the ECB. The perpetuation of a national approach to the appointment of the Executive Board members appears to be inconsistent with this approach.
4. The institutions of a central bank need to be designed for stormy as well as for fair weather. This is even truer for the ECB which is in charge of a diverse monetary union. The question must thus be asked, what would happen in an economically difficult and politically tense situation? Imagine that monetary policy needs to be tightened while one of the member countries is in a slump, or that a government starts alluding to the benefits of withdrawing from the euro. What should then be the desirable composition of the Board? For the countries with a reserved seat, the potential benefit of having a national on the Board is that he or she may be better able to engage in a dialogue with public opinion. However, there are two potential drawbacks to this practice. First, the perception that EMU is dominated by a cartel could develop in smaller countries *not* represented in the ECB Board, and this might fuel populist anti-euro campaigns in those countries. Second, in countries with a reserved seat at the Executive Board, the perception could develop that the corresponding national is “our man (or woman) at the ECB” and that he or she is therefore first and foremost an ambassador – which would be in complete contradiction with the spirit of EMU³. All in all, there are most probably more risks than safeguards involved in the practice of reserved seats.

The coming enlargement of the euro area is bound to make the current practice even more questionable. The complex rotating system put in place for the Governing Council already goes in the direction of giving precedence to country size over other criteria. To combine two rotating systems based on the country-size criterion, a formal one within the Governing Council and an informal one within the Executive Board, could only compound the problems that are already apparent.

What should thus be done?

There are several years ahead before a new appointment takes place. When it takes place, the euro area will have enlarged to several new members. The context will thus be different. This provides a good opportunity for reflecting on reform and for discussing proposals.

³ This is what has gradually happened with Commissioners in several countries, in spite of the provisions of the Treaty which states that they are completely independent from their home country. Interestingly, it is frequently observed that this perception has been reinforced by the fact that all countries now appoint a single Commissioner.

There is no point in contemplating a revision of the Treaty. What is needed is to forge a consensus on a better way to appoint the members of the Executive Board, while ensuring consistency with the letter and the spirit of the Treaty.

Desirable features of such a reform are that it gives priority to the experience and competence of individual candidates, irrespective of their nationality, and that it ensures diversity of experience, skill and policy philosophy within the Board.

A modus operandi consistent with those goals could be as follows:

- a) A search committee composed of senior European personalities should be appointed by the Eurogroup. The task of this search committee would be to identify suitable candidates, interview them and propose a shortlist of three. In order to avoid the designation of the committee itself to be dominated by short-term tactics it should be appointed for a sufficient term, say four years.
- b) Ahead of the selection of candidates, the search committee should hold consultations on the professional profile expected from the candidates. In view of the desired diversity of skills within the Board, as well as of the distribution of responsibilities among its members, both the President of the Eurogroup and the President of the ECB should be given the opportunity to indicate whether some particular expertise would be appropriate. For example, they could indicate a wish for a candidate with first-hand experience of financial markets, or macroeconomic forecasting, or international matters, etc..
- c) Once a shortlist has been selected the European Parliament should organise hearings with the three candidates. This would be an opportunity for learning about their expertise and their views on monetary policy.
- d) The appointment decision would remain with the Council.

A consensus around a procedure of this kind should be sought well ahead of the appointment of the next Executive Board member. It could include an agreement within the Council on the need for national balance within the Executive Board.

Variants of this procedure can be contemplated. What is important is to create a framework for selection that focuses the discussion on the skills and policy philosophies of the candidates rather than on their nationality. For the important issue for Europe is not what passport the members of the Executive Board have in their pocket, but what policy they design and implement for the whole of the euro area.

The euro is an asset we share. It needs to be managed according to the best standards of central banking, not to the routines of international diplomacy.