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

European Parliament

Independence with Weak Accountability: The Swiss Case

Policy Department for Economic, Scientific and Quality of Life Policies
Directorate-General for Internal Policies
Author: Charles WYPLOSZ
PE 652.738 - September 2020

EN

Independence with Weak Accountability: The Swiss Case

Monetary Dialogue Papers
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Abstract

The Swiss National Bank is highly independent but weakly accountable. Weak accountability is rooted in the formal legislation on central banking but also in the reputation of the Bank, which is unanimously considered as highly successful. The ECB too is highly independent and weakly accountable but it faces diverse public opinions whose views differ across countries. Buttressing ECB accountability is important, therefore, and the European Parliament should consider strengthening the Monetary Dialogue.

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.

AUTHORS

Charles WYPLOSZ, The Graduate Institute, Geneva

ADMINISTRATOR RESPONSIBLE

Drazen RAKIC

EDITORIAL ASSISTANT

Janetta CUJKOVA

LINGUISTIC VERSIONS

Original: EN

ABOUT THE EDITOR

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To contact the Policy Department or to subscribe for updates, please write to:
Policy Department for Economic, Scientific and Quality of Life Policies
European Parliament
L-2929 - Luxembourg
Email: Poldep-Economy-Science@ep.europa.eu

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: Wyplosz, C., *Independence with weak accountability: the Swiss case*, 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

CPI	Consumer Price Index
ECB	European Central Bank
EP	European Parliament
ESCB	European System of Central Banks
FINMA	Financial Markets Supervision Authority
MEP	Member of the European Parliament
PEPP	Pandemic Emergency Purchase Programme
SNB	Swiss National Bank

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EXECUTIVE SUMMARY

- **The SNB is formally independent and subject to weak accountability requirements**. In addition, on the basis of a strong track record, the consensus is that the SNB is delivering on its mandate. These two elements explain that there is hardly any debate about monetary policy in Switzerland. Experts may quibble with some decisions, but criticism is generally absent from debates within political and media circles and the broader public.
- **The accountability requirements from the ECB are rather weak too**. The ECB is accountable to the European Parliament whose powers are limited and the process, the Monetary Dialogue, is not particularly demanding. Yet, the need for effective accountability is much stronger in the euro area.
- **One reason is that public opinion is divided**. The decisions by the ECB can be simultaneously lauded and criticised, including by policymakers, financial market participants and even academics because of pre-existing prejudices.
- **Another reason is that the hearings of the President and of other members of the Executive Board before the Economic and Monetary Affairs Committee do not allow for precise and in-depth questioning**. In addition, MEPs frequently reflect in their interventions the views of their public opinions. Opposite views make it nearly impossible to focus on important but highly technical issues.
- **A more dynamic Monetary Dialogue would attract more attention from the media, which would translate into heightened public visibility**. It could well emphasise disagreements, which some may see as potentially dangerous.
- **Prejudices will not vanish soon but the European Parliament has a particular responsibility**. The Monetary Dialogue can be much improved by allowing an in-depth discussion of ECB actions.

1. INTRODUCTION

Consensus is rare in macroeconomics, so it is all the more remarkable that the institutional setup of central banks is widely agreed upon. With very few exceptions[1], it is generally accepted that strong theoretical and empirical evidence implies that central banks must be independent and that independence requires accountability.[2] However, while independence is simple to define and establish, accountability is more challenging, because it involves specific arrangements that must take national characteristics into account.

Serving independent states, each with its own specificities, the European System of Central Banks (ESCB) resembles a federal arrangement, as does the European Court of Justice. In both cases, decisions are taken without the involvement of Member States and they apply to the whole membership without further ado.[3]

For this reason, looking at central banks in federal countries is interesting. In many ways, the Swiss National Bank (SNB) is a special case. The Swiss Confederation is a highly decentralised system where cantons retain a large degree of independence in most domains, mainly excluding defence, foreign affairs (including international treaties) and, to some extent, justice or education. Taxation is split, with local tax income exceeding that of federal taxes, and public spending that benefits from an automatic transfer of resources, which are regularly renegotiated among cantons. The federal government is limited in size to seven ministers, who rotate annually to hold the Presidency of the Confederation. In addition, referenda and initiatives (proposals to valid laws or amend the Constitution) are organised regularly (usually four times a year) to contest parliamentary decisions, approve (and often disapprove) changes in the Constitution and international agreements, or propose changes to the Constitution. These referenda take place at the local, cantonal and federal level; in the latter case, approval requires a double majority of votes and cantons.[4] As a result, the powers of (local, cantons and federal) governments and parliaments are weak.

When thinking about the ECB, it may be of interest to examine how the Swiss central bank operates in such a highly decentralised federation. However, there are important differences between the ECB and the SNB, including the continuing existence of national central banks in the euro area and the details of the accountability regimes. More important, perhaps, is the particular status of the SNB, which enjoys nearly total support in the country, which stands in contrast with national divergences among euro area Member States.

[1] The Modern Monetary Theory can be seen as fringe departure from the consensus.

[2] The literature is vast. A few key references are Alesina and Summers (1993), Grilli et al. (1991), Fischer (1995), Berger et al. (2001).

[3] The recent decision of the German Federal Constitutional Court is a new development that might challenge this statement. This issue lies far beyond the topic of the present report.

[4] Optional referenda, which are trigger by collecting signatures to oppose laws passed by Parliament, only require a majority of people.

2. THE SWISS NATIONAL BANK

2.1. Legal status

The SNB is a joint stock corporation with a modified status enshrined into a specific law. Its shares are held by the broad public, by the cantons and cantonal banks (owned by the cantons). There is an annual General Assembly of the shareholders but the Assembly's powers are limited. The bank is run by a three-member Governing Board. Oversight and control are entrusted to the eleven-member Bank Council appointed for four-year terms, with a maximum of 12 years. Six of the Council members are appointed by the federal government, the remaining five by the General Assembly of the shareholders. The three members of the Governing Board, and their deputies, are nominated by the Bank Council and appointed by the federal government for six years and can be reappointed indefinitely. The Federal government – officially called the Federal Council – chooses among them a President and a Vice-President. The members of the Governing Board and of the Bank Council cannot be removed from office unless they commit grave offense.

The Swiss Constitution establishes that the SNB is independent and tasked with price stability, oversight powers on banks and financial institutions to establish financial stability, and the production of financial statistics. Independence is described in no uncertain terms while the Constitution articles remain rather vague on the objectives.

Formally, the SNB must inform ahead of time the Federal government of its intentions and present an annual report to the Parliament. The report is also published. Finally, the SNB is also requested to inform the broad public.

The rights of the shareholders are strictly limited by the Central Bank Law. The General Assembly of shareholders can vote on proposals to change some items in the law. A proposal has to come from at least 20 shareholders. If approved by the General Assembly, the proposal goes to the Parliament. Proposals by shareholders may concern only the parts of the Law that deal with the SNB as a company (for instance there have been votes on the selection of auditors). The mission of the SNB is off limits.

2.2. Independence and accountability in practice

The current legislation was put in place in 2003. It mainly refined the policy objectives. Before that, the SNB had already enjoyed strong independence and was tasked with price stability. After the revision, the SNB specified that price stability is achieved when CPI inflation rate is less than 2%. A few years later, in order to quiet down fears of deflation, the SNB formally stated that this means an inflation rate between 0% and 2%.

As previously indicated, the SNB is required to brief the political authorities at the national level (the Federal government and the finance commission of the two chambers of parliament) of its intentions. At the same time, the Constitution stipulates that "the members of the Bank's bodies shall not be permitted to seek or accept instructions either from the Federal Council or from the Federal Assembly or any other body". In practice, this means that the SNB exchanges information with the federal government (the Federal Council) and that its reports to the parliament (the Federal Assembly) are for information only. Its statutory authority, the Bank Council, is not allowed to discuss monetary policy issues.

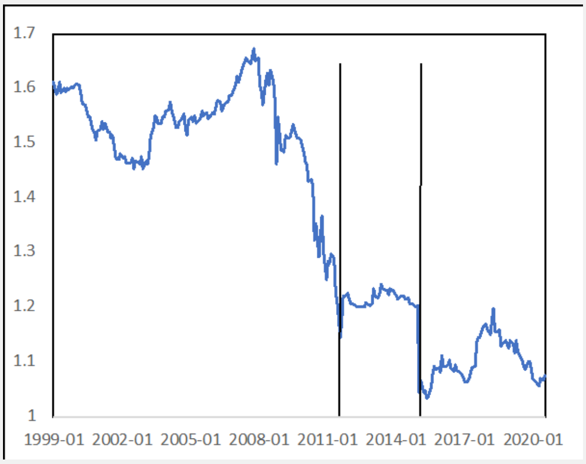
As noted above, the shareholders can only make proposals regarding business practice and this right is barely ever used. In recent years, a group of militant investors offered proposals but most of them could not be voted upon, and the one that could was massively rejected.

Similarly, The SNB's accountability to the People is for information only. The Governing Board members make a large number of speeches to various constituencies to explain their actions. It also holds quarterly press conferences after its policy-making meetings but these are very polite encounters with very few pointed questions. The press typically reports faithfully what the Governing Board has said. Criticism is virtually non-existent. The only exception occurred in January 2015 as recounted in Box 1.

Box 1: January 2015: the end of the floor

In the wake of the global financial crisis, Switzerland came to be seen as a safe heaven. Surprisingly perhaps, this was the case even though its two global banks, Credit Suisse and UBS, faced large losses and UBS was promptly bailed out by the SNB (with a Treasury guarantee). In September 2011, the SNB announced that it would intervene without limit to ensure that the franc would not appreciate below 1.20 francs for one euro. The exchange rate promptly stabilised slightly above the floor. When the Greek debt crisis intensified in late 2014, massive inflows resumed, forcing the SNB to intervene. Its balance sheet hugely expanded. With no end in sight, the SNB announced in January 2015 that it was abandoning the floor. Figure 1 shows that the franc immediately appreciated.

Figure 1: The exchange rate (CHF/EUR)



Source: Swiss National Bank.

The decision had not been announced, and could not be announced for fear of intense speculative pressure. The surprise was resented by the public, especially by exporting firms that faced a stiff worsening of competition and by financial institutions and investors that suffered large book losses on their foreign investments. Public discussions about the SNB, often with a negative tone, represented a rare event. The Bank's communication was seen as less than convincing since it centered on the risk of large losses on its foreign assets along with reassurances that the export sector would be able to adjust. Eventually, following large foregone exchange market interventions by the SNB, the exchange rate depreciated to the range 1.05-1 and the export sector weathered the shock.

It remains that the system of direct democracy gives the possibility to call initiatives by collecting a sufficient number of signatures over a given period of time. Since 2000, four initiatives have concerned the SNB, all of which have been rejected. The three first ones focused on the assets of the SNB. The two first (in 2002 and 2006) aimed at directing SNB's gold and profits toward financing health insurance and the third one (in 2014) intended to have the SNB retain a given proportion of gold. None of them were related to monetary policy. It suggests that most Swiss people see the SNB as a highly profitable operation, a national treasure of sorts. Indeed, its assets already in 2005 large at the time of the initiatives, further grew enormously in the wake of the global financial crisis as the Bank was struggling to prevent large capital inflows from leading to what it saw as an unbearable over-appreciation of the franc.

Table 1: Assets of the Swiss National Bank (% of GDP)

	2005	2019
Gold	6.1	5.5
Foreign currency investments	11.5	110.0
Repo transactions	6.4	1.0
Other	2.7	2.8
Total	26.7	119.3

Source: Swiss National Bank.

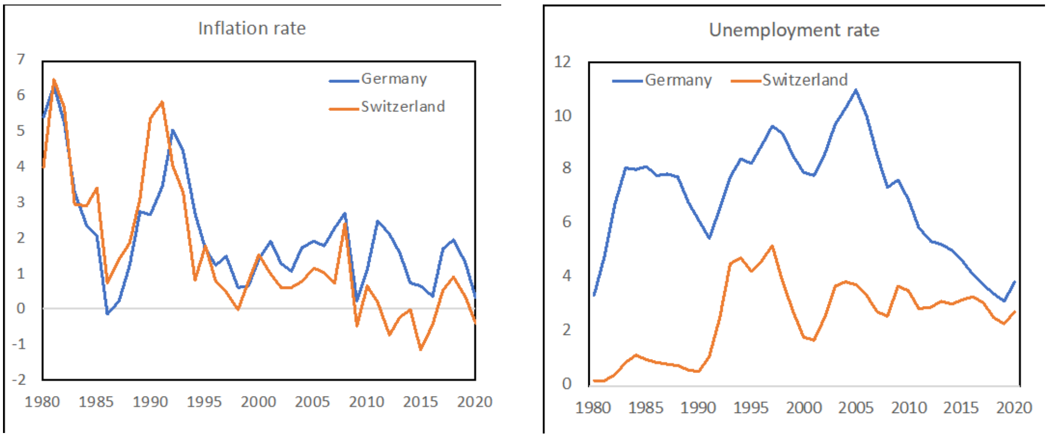
The fourth referendum, held in 2018, directly aimed at monetary policy. The proposal was indeed radical. The proponents denounced the classic two-tier banking system whereby commercial banks create the bulk of fiduciary money. They criticised the resulting profits for commercial banks and the fragility of the architecture, which is open to bank runs and may force the authorities to undertake huge bailouts. The proposal, called "full money" was to restrict any money creation to the SNB. Although it could be seen as a tribute to its trustworthiness, the Bank was alarmed, in part because it would all but destroy large segments of the Swiss financial system, but also because it could make monetary policy much more challenging. The SNB engaged in an unprecedentedly vigorous campaign. In the end, the proposal was strongly defeated (by more than 75% of votes). Yet, it showed that the SNB's independence and integrity was more vulnerable than hitherto believed. Popular initiatives can change the constitution and the SNB needs to avoid to be seen as missing on its mandate, which concerns price stability and financial stability.

2.3. Inflation and accountability

Figure 2 compares inflation and unemployment in Switzerland and Germany, where the Deutsche Bundesbank, which had built a reputation for keeping inflation in check at all times since its creation in 1957 and until the creation of the euro in 1999. The joint evolution of inflation and unemployment is known to shape monetary policy as captured by the Taylor rule. Keeping both rates low is therefore a gauge of the quality of monetary policy.[5] On both counts, the performance of Switzerland has been better than that of Germany.

[5] This is not entirely correct. The Taylor rule is driven by the deviations of inflation from its target and of unemployment from its equilibrium rate. The targets in Switzerland and Germany are similar but the equilibrium unemployment rate is lower in Switzerland than in Germany. The generally higher rate of unemployment is due to a host of factors – including the flexibility of labour markets – that are out of the purview of central banks.

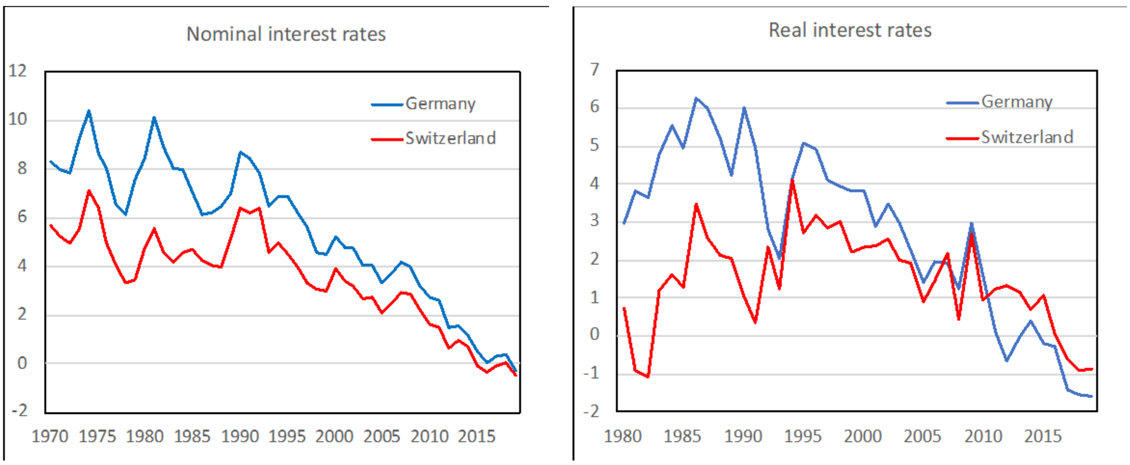
Figure 2: Switzerland and Germany



Source: *World Economic Outlook*, IMF.

Indeed, the SNB is keen to observe that its credibility is superior to that of any other central bank in the world. As a supporting "proof", it regularly mentions that interest rates in Switzerland are lower than elsewhere, including Germany, because the Swiss franc benefits from a credibility premium. The left-hand chart in Figure 3 confirms that it is the case but this is not exactly a proof because the difference partly reflects lower inflation in Switzerland. The right-hand chart, which displays the real interest rates, indicates that the real German rate has been lower since the 2010s. But this corresponds to the period when inflation has been negative in Switzerland while monetary policies in both countries were pushing the nominal interest rates down to their effective lower bounds. Careful studies by Kugler and Weder di Mauro (2005) and Baltensperger and Kugler (2016) formally confirm that the Swiss franc interest rates are indeed unique in displaying a premium. They relate this result to the safe haven nature of Switzerland, which they trace back to the aftermath of World War I. The safe haven effect is due to the neutral position of the country, its strong legal system and confidence in the stewardship of the SNB.

Figure 3: Long term bond rates in Switzerland and Germany



Source: *Economic Outlook*, OECD.

Accountability, however, requires more than this. In a democracy, an independent institution under the aegis of non-elected officials – a.k.a. bureaucrats – must be subjected to precise objectives. As noted, the SNB is committed to keep the inflation rate between 0% and 2%. Figure 2 shows that, in the 13 years 2008-2019 since the global financial crisis, inflation has been negative seven times. The stated target range has been missed more than half of the time. In the first part – entitled *Accountability Report* – of its *Annual Report* for 2016, the second consecutive year of negative inflation, the SNB reminds the readers that:

> "The SNB equates price stability with a rise in the Swiss consumer price index (CPI) of less than 2% per annum. Deflation is also regarded as a breach of the objective of price stability." (p.19).

Thus, the objective has been breached more often than it has been met during this twelve-year period. How has the accountability mechanism dealt with such repeated breaches? The only reference concerning the missed objective in the 2016 *Accountability Report* is as follows:

> "In 2016, the Swiss consumer price index (CPI) fell by 0.4% on average, declining less strongly than the year before (– 1.1%). This was primarily due to the stabilisation of the nominal Swiss franc exchange rate and the pick-up in oil prices. It also became evident that the price-dampening effects of the Swiss franc appreciation had faded." (p. 12)

This short statement apparently was sufficient to dispel any notion that something was amiss. There has been no public discussion of what could be seen as a failure, neither this year nor in other years. A number of issues could have been raised:

- The policy interest rate was set in 2016 at -0.75%, as in the previous year. It showed that the SNB was determined to carry out a nonstandard policy to achieve its own definition of price stability, but then why was it not delivering? Was Switzerland getting caught in a "Japanese trap"? That the policy rate is still at the same level in 2020, suggests that this is a valid topic.
- The explanation explicitly refers to the 2015 exchange rate appreciation described in Box 1. Was the outcome a consequence of a policy mistake?
- Could the SNB have taken other measures to meet its mandate of price stability?

Somehow, the institutions – the federal government, the federal parliament, the people – to which the SNB is accountable were satisfied by the above statement.[6]

2.4. Financial stability and accountability

The SNB's mandate includes financial stability, although supervision is the responsibility of another institution (FINMA). The financial sector is an important component of the Swiss economy. Two banks operate at the global level with balance sheets which far exceed the country's GDP. In the aftermath of the 2008 crisis, one of these banks (UBS) had to be rescued. In agreement with the federal government and FINMA, the SNB promptly created a "bad bank", the StabFund. It was set up as a special-purpose vehicle, which took over close to USD 40 billion of toxic assets from UBS at (low) market price, technically a loan to UBS. The SNB was protected from the associated risk through a complex arrangement with UBS and by a capital injection from the federal government. The arrangement stipulated that a first tranche of any loss would be borne by UBS.

[6] There is currently a growing discussion on the investments of the SNB in equity of private firms (20% of assets in foreign currencies held by the SNB), especially regarding environment and human right impact. There will be a vote on a proposal to ban investment in the weapon industry.

Over time, Stabfund proceeded to gradually sell its portfolio, which reduced UBS's debt to the SNB. After five years, UBS bought back the remaining assets and thus extinguished its debt to the SNB, which ended up making a sizeable profit from the operation (more than USD 5 billion).

At the inception phase, the federal government was directly involved but the operation was entirely controlled by the SNB, which designed and then managed the Stabfund. As the large central banks (from the US, the euro area, the UK, Japan) forcefully intervened in September and October 2008, the financial markets promptly stabilised, which made it unlikely that the SNB would suffer losses. Given the complexity of the operation, the public and parliament were told that the SNB had prevented a collapse of UBS, which would have had incalculable consequences for the Swiss economy, and that it well protected taxpayers. Grumbles, limited to small parts of the population, were focused on the political aspects of saving a bank.

2.5. Profits distribution

Probably the most visible – and potentially controversial – role of the SNB is its wealth and the distribution of its profits. As noted above, the SNB is a special-statute joint-stock company and its shares are held by the cantons and the cantonal banks, which own just under half, and the rest by private individuals. The special status affects the distribution of profits. Not all profits are distributed. The SNB equity includes its capital, reserves for future payments (the tool to smooth payments to cantons and the Confederation, see below) and a "provision for currency reserves" which is the bulk of the equity. This last provision grows each year (currently by 8%). The remaining profits are distributed to shareholders, to cantons and to the Federal government, which is not a shareholder, according to a rule agreed with the government, which is renegotiated every five years.

In a nutshell, shareholders receive a very small amount, which is capped by law at CHF 2.5 millions (6% of shares nominal value). The bulk of distributed profits are shared between the cantons, which receive 2/3 of the total[7], and the federal government, which receives the remaining third. Since profits are very volatile, the rule is designed to smooth payments through a reserve fund. The amounts are significant for the cantons. In 2017, in average they received amounts representing 0.22% of GDP, or 1.7% of their expenses. The amount was multiplied by 4 in 2019 and 2020, a consequence of large SNB profits.

Even though the distribution of profits is codified, the SNB enjoys quite a lot of freedom in deciding what share of its profits is to be distributed. Each year, unless it suffers losses, it sheds aside money for its monetary operations, for its foreign exchange interventions and for the distributions reserve. In 2019, a record year, the amounts distributed amounted to 11% of profits worth 5% of GDP. As a result, at end 2019, the total equity of the SNB represents 24% of GDP (the size of the balance sheet is 123% of GDP, the result of large foreign exchange interventions since 2008, the Swiss version of QE).

2.6. Evaluation

The SNB is special in being very independent with weak formal accountability, in practice negligible accountability. This is in line with the constitution and the law on the central bank which specifies that the SNB should not seek or receive instructions from the federal government and parliament, to which it is accountable. As a result, the SNB and the federal government exchange information on their respective intentions but the government does not try to influence the SNB and stays clear from airing any criticism. The parliament receives the Bank's annual report but does not discuss monetary policy in any meaningful way. The SNB is also tasked with reporting to the public at large, which it does through numerous meetings and conferences. The general perception is that the Bank is delivering on its

[7] The repartition among cantons is based on a formula that combines population size, total income and a few other criteria.

mandate better than any other central bank. Importantly, this perception does not vary among cantons. While public opinions diverge between the linguistic groups on various issues, monetary policy is not subject to any noticeable cleavage.

All in all, the SNB enjoys great respect to the point that its independence, which goes back to the aftermath of World War II, is never questioned, nor is its performance, which is indeed impressive. Backed by an efficient economic system, which balances economic effectiveness though the market mechanism, and a highly developed welfare system, which corrects and complements the markets, the SNB has achieved a high degree of price stability while unemployment has remained low. Its safe haven status delivers a strong currency: since 1973, its effective exchange rate has appreciated by 260% nominally, and by 40% in real terms. It has been able to cope with this real appreciation; its current account has been above 10% of GDP over the last 25 years. The result is that there is no perceived need to make the SNB really accountable (beyond the possible use of its asset holdings to exercise on environment and human right issues).

3. ACCOUNTIBILITY OF THE ECB

3.1. Comparison with the SNB

3.1.1. Formal differences

The accountability requirements are formally more demanding for the ECB than for the SNB. The quarterly sessions of the Monetary Dialogue provide for direct, public contact between the ECB President and the European Parliament. Along with other Board members' testimonies and written questions and answers, the ECB is subject to substantial oversight.

In addition, the large Governing Council of the ESCB naturally implies that consensus is more difficult to achieve than among the three members of the SNB's policymaking body. Since disagreements often leak out, the public – media, academics, financial market participants – are aware of issues that are delicate to grapple with, while disagreements at the SNB are never known outside the Governing Board.

3.1.2. Public opinions

As noted above, monetary policy is not a topic that elicits divergences of opinion among the various groups, mostly linguistic, that make up the Swiss electorate. The situation in the euro area is radically different. It always has been the case that national public opinions held different views of monetary policy. From its inception, the ECB has recognised this challenge. Its response has been to formally ignore that different countries may, at times, require different policy actions. By insisting that it only looks at the area as a whole, the ECB officially manages the "average member country". Since this "average country" does not exist, it is not surprising that ECB decisions may not please occasionally most countries. In practice, in some instances, the ECB has paid particular attention to a country. A good example is the Pandemic Emergency Purchase Programme (PEPP) that allows asset purchases not in proportion to the usual key.

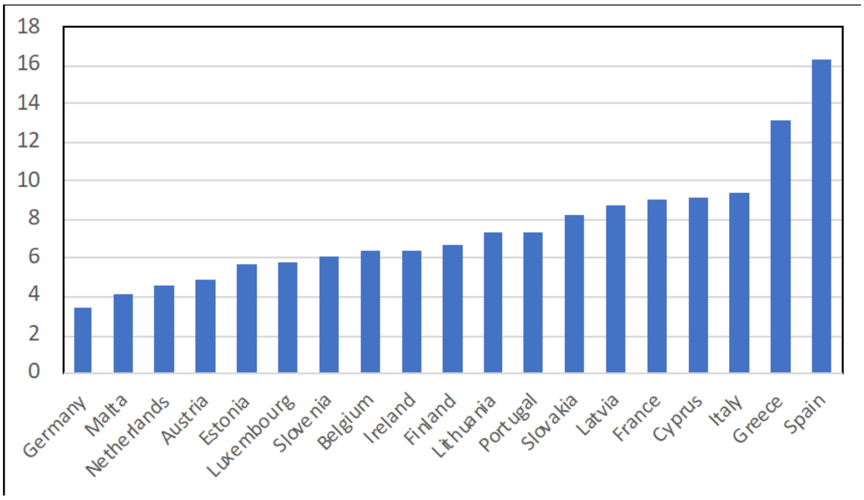
One lesson from the SNB experience is that when they are satisfied, public opinions do not ask for accountability. Since the ECB cannot always please simultaneously all national public opinions, the democratic demand for accountability is high. What makes the situation even more complicated is that the European Parliament is occasionally torn along national lines by divergences in public opinions.

3.1.3. Performance

The other lesson from the SNB experience is that the ultimate accountability test for a central bank is to deliver a faultless performance, or at least to convince the broad public that such is the case. The previous section warns that this is mission impossible for the ECB because there will almost always be a member country that feels poorly treated by the common monetary policy. Evaluating ECB policies since the creation of the euro is far beyond the limits of this report. This section only looks at national outcomes in terms of unemployment and inflation, the drivers of the Taylor rule as examined in Section 2.3.

The unemployment rate differs quite substantially across the euro area member countries. Most of these differences are due to structural differences, especially concerning the functioning of the labour markets. This is captured by the equilibrium rate of unemployment, which is intended to measure what would the unemployment rate be if the economy would be "in macroeconomic equilibrium", i.e. neither in a boom nor in a slump. Figure 4 presents estimates of equilibrium unemployment rates by the European Commission (the NAWRU concept). The differences are huge.

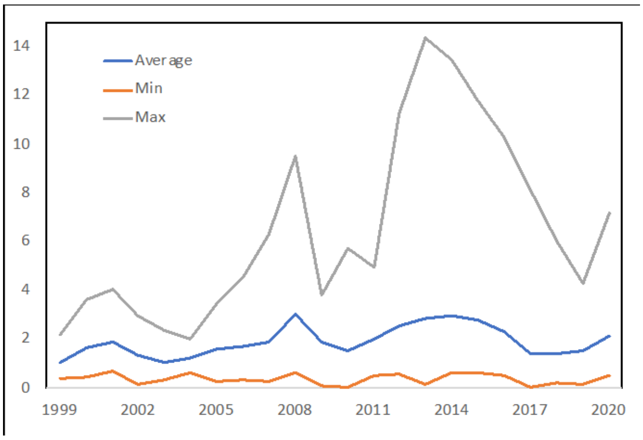
Figure 4: Equilibrium unemployment rates in the euro area - 2019



Source: *AMECO Database*, European Commission.

Monetary policy is powerless as far as labour market structures are concerned. Therefore, the ECB is not expected to deal with the level of the equilibrium unemployment rate, only with cyclical deviations of the unemployment rate from its equilibrium value. This is why Figure 5 looks at the deviations of inflation from the (unofficial) target of 1.75% and at deviations of the unemployment rate from its equilibrium value at national levels. It uses a version of the "misery index", here the sum of these deviations.[8] For each year since 1999, the figure displays the average value of the index among member countries along with minimum and maximum values.[9] If monetary policy could stabilise equally well inflation and unemployment in each and every member country, there would be no difference in the average, minimum and maximum values of the misery index. Clearly, this is not the case. Each year some countries face much less satisfactory macroeconomic conditions than others.

Figure 5: The misery index



Source: *AMECO Database*, European Commission.

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[8] More precisely, the index is the square root of the sum of both deviations squared: $\sqrt{(\pi - 1.75)^2 + (u - u*)^2}$, where π is the annual inflation rate, u is the unemployment rate and u* its equilibrium level.

[9] The sample expands as new countries adopt the euro.

It must be emphasised that the cyclical evolution of inflation and unemployment are not driven only by monetary policy. National policies, including fiscal policy and structural policies, also have powerful influences on cyclical variations. The ECB cannot be held responsible for the divergences observed in Figure 5. The danger is that it is easy to scapegoat the ECB. This observation carries important implications for accountability.

3.2. The challenges of accountability in the euro area

While the ECB is formally accountable only to the European Parliament, the experience of other countries, as exemplified by the Swiss case, indicates that any central bank must establish its reputation with its population. This is the issue discussed in this section, while the next one considers the relationship with the European Parliament.

3.2.1. Many countries

While the three members of the SNB's Governing Council devote a significant amount of time and effort to address the broad public, the situation is much more complicated in the euro area. In effect, each country is a different constituency and has its own central bank. In principle, national central bank governors and other officials can act as spokesperson for the ESCB, and many do. But there occasionally exists disagreements within the Governing Council and national central bank governors often air their viewpoints, presumably to reassure their constituents that they are in tune with national public opinion, and possibly also as a way to reinforce their positions within the Council. This is notably the cases when the ECB faces difficult decisions, which are naturally controversial. The resulting "cacophony" alerts the public and observers that there are disagreements, which may overlap with differing national interests and conventional wisdoms. The members of the ECB's Governing Council could travel to all member countries, and many travel a lot, but language barriers are bound to reduce the effectiveness of communication.

The official position is that there is no cacophony, which is sporadically proven wrong. There is no magic bullet here.[10] It is worth remembering that the same situation arose in the early years of the Federal Reserve of the US, where the regional governors were appointed locally. This has changed following the Banking Act of the 1935, 22 years after the creation of the Federal Reserve, which strengthened the hand of the Board – the equivalent of the ECB Executive Board – and led to a considerable reduction of local influence of the regional banks.

3.2.2. Unclear performance

Section 3.1 argues that any evaluation of the performance of the ECB is bound to depend on which country is looked at. As noted, this means that the overall performance is difficult to ascertain.

To make matter worse, differences of opinions within the Governing Council inevitably weigh on decisions. In difficult times, this affects the overall performance of the Bank. Two cases can be mentioned. In the wake of the global financial crisis, the ECB has been slow to cut its interest rates and engage into quantitative easing, which has worsened the subsequent crisis (Orphanides, 2018; Wyplosz, 2016). Then, during the European debt crisis, the ECB has let two years pass before acting as lender of last resort (De Grauwe, 2012; Wyplosz, 2015), allowing the crisis to spread and deepen.

The result is that criticism of the ECB is unavoidable. It is unfortunate that the ECB be made a scapegoat of poor national policies.

[10] Burda (2013) makes the original proposal, based on the US experience, to establish regions that do not overlap with national borders.

3.3. Relations with governments

A key condition for central bank independence is that the political authorities not be allowed to interfere, or even be seen to try. This applies first and foremost to the governments. Yet, a central bank does not operate in a vacuum, it needs to cooperate with its government. In the short to medium run, inflation is influenced by government policies and most issues of financial stability require government involvement. The situation of the ECB requires even more cooperation because it faces many governments and because public opinion support is essential to preserve independence while, as noted, there are as many public opinions in the euro area as there are countries.

The ECB has ostentatiously chosen to not engage in systemic exchanges with its governments but, in fact, the contacts are numerous and continuous. These exchanges could be usefully made more formal and systematic. It would be better than the current practice which includes ritual statements about fiscal policies at ECB press conferences. By the way, while the ECB cringes when public officials make critical statements about monetary policy, rightly so, it does not hesitate to complain about fiscal policies.

3.4. The role of the European Parliament

In the end, the only formal accountability obligation of the ECB is to the European Parliament, and this is how it should be. Fraccaroli et al. (2018) describes the procedure and show that the practice has evolved in the wake of the debt crisis. However, since the start, the "Monetary Dialogue" has been shaped in a way such that accountability is de facto limited. An indication is that the formal quarterly auditions of the President of the ECB attracts limited press coverage – and therefore limited awareness by the broad public – and rarely affects the fickle and information-hungry financial markets (Fraccaroli et al., 2018). Wyplosz (2015) has identified a number of shortcomings, most of which remain intact.

3.4.1. The current situation

- Accountability is about evaluating past actions. The President of the ECB, instead, is more interested in sharing his/her thoughts about future actions. Because of the sensitivity of such statements, the President's presentation is carefully scripted presentation and he/she sticks to it during the Q&A session that follows.
- Monetary policy is highly technical, if only because it operates through financial markets. Technical discussions do not appeal to non-economists while economists relish in technicalities. While some Members of the European Parliament (MEPs) are highly competent, for lack of time they are not able to cross-examine the ECB's testimonies.
- Indeed, the format of these testimonies precludes in-depth examination of ECB actions. Within the few minutes and at most one follow-up question that they are allotted, MEPs can only scratch the surface of the issues that they raise.
- Written questions, which have increased in numbers, do not add much.
- The papers written by the experts are usually of a high quality and could help the exchanges during the Monetary Dialogue, but the limits mentioned above (time available, follow-up) make it impossible.

3.4.2. How could the EP exercise accountability?

To be effective, accountability needs to delve into past decisions in detail. It does not have to be systematically critical but it has to be so when warranted. Monetary policy decisions occasionally are difficult, with several possible options. The options are based on assumptions – forecasts, channels of transmission, risks – that need to be examined with an open mind. The purpose is to evaluate all options that were available, the reasons why one of them was chosen and to compare outcomes with anticipations. Here are a few suggestions:

- These inevitably technical issues must be tackled at great depth. It requires a fluid debate, with a limited number of participants who can intervene in the discussion and jointly pursue various lines of thoughts. This is incompatible with the current format that packs a large number of interventions, each of which is time-constrained and with just one follow-up question, thus barely scratching the surface.
- Those who will intervene could prepare the discussion with the experts ahead of time.
- Going further, the MEPs could be allowed to interrupt the President who may move away from pointed questions.
- Finally, it is difficult to understand why the sessions have a time limit. Given the importance of accountability, the hearings should be allowed to last as long as needed.

This approach has three important advantages.

- It prevents the superficial nature of current exchanges on issues that require a high degree of precision.
- It will affect future decisions once the ECB officials know how carefully scrutinised they eventually will be.
- Focusing on past actions greatly reduces the prudence and confidentiality that ECB officials naturally require when discussing future actions.

Such an approach would be a major change to current practice. It would challenge agreements with the ECB and it would require rethinking the way the Economic and Monetary Affairs Committee has been operating since 1999. Given the utmost responsibility of the Parliament in a crucial collective policy domain, continuation of past practice amounts to accepting weak accountability. What is acceptable, maybe, in the case of the SNB, is not in the case of the ECB.

3.4.3. Accountability and the broad public

The Swiss case shows that accountability is not really exercised when the broad public is fully satisfied by the actions of the central bank. This may be a unique case, not necessarily desirable because the technical nature of monetary policy may deter the public from trying to understand the actions of the central bank, with the result that occasional mistakes go largely undetected. Nor is it generalisable to the case of the euro area where, as noted, there are as many public opinions as there are countries.

Nevertheless, an important implication is that accountability and public opinion are intimately linked. The accountability body's deliberations are more effective when the broad public is cautious and public opinions can be shaped, partly at least, by the views of the accountability body.

This link is largely lost in the euro area by the multiplicity of public opinions. The European Parliament cannot hope to build its effectiveness on diverging public opinions. In fact, during the Monetary Dialogue sessions, MEPs often visibly convey the views of their public opinions, which prevents the emergence of a common assessment. Similarly, diverging public opinions will not be swayed by the current format of the Monetary Dialogue.

Dealing with public opinions remains an important weakness for accountability, and it affects the conduct of monetary policy. The ECB seems to recognise the importance of this observation since its new President has clearly stated that she intends to speak a bit less to the financial markets, in technical terms, and a bit more to the broad public.[11] The Parliament too should make efforts to publicise its work. It is suggested here that a deeper Monetary Dialogue stands to attract the attention of the media, which can then translate the technical discussion into their own communication with the broad public.

[11] She has announced her intention in her first meeting with the Economic and Monetary Affairs Committee on 4 September 2019.

4. SUMMARY AND CONCLUSIONS

The SNB is formally independent and subject to weak accountability requirements. In addition, on the basis of a strong track record, the consensus is that the SNB is delivering on its mandate. These two elements explain that there is hardly any debate about monetary policy in Switzerland. Experts may quibble with some decisions, but criticism is generally absent from debates within political and media circles and the broader public.

The accountability requirements from the ECB are rather weak too. The ECB is accountable to the European Parliament but its powers are limited and the process, the Monetary Dialogue, is not particularly demanding. Yet, the need for effective accountability is much stronger in the euro area.

One reason is that public opinion is divided. The decisions by the ECB can be simultaneously lauded and criticised, including by policymakers, financial market participants and even academics because of pre-existing prejudices.

Another reason is that the hearings of the President and of other members of the Executive Board before the Economic and Monetary Affairs Committee do not allow for precise and in-depth questioning. In addition, MEPs frequently reflect in their interventions the views of their public opinions. Opposite views make it nearly impossible to focus on important but highly technical issues.

A more dynamic Monetary Dialogue, as suggested in the previous section, would attract more attention from the media, which would translate into heightened public visibility. It could well emphasise disagreements, which some may see as potentially dangerous.

Prejudices will not vanish soon but the European Parliament has a particular responsibility. The Monetary Dialogue can be much improved by allowing an in-depth discussion of ECB actions.

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The Swiss National Bank is highly independent but weakly accountable. Weak accountability is rooted in the formal legislation on central banking but also in the reputation of the Bank, which is unanimously considered as highly successful. The ECB too is highly independent and weakly accountable but it faces diverse public opinions whose views differ across countries. Buttressing ECB accountability is important, therefore, and the European Parliament should consider strengthening the Monetary Dialogue.

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

PE 652.738
IP/A/ECON/2020-32

PDF ISBN 978-92-846-7084-0 | doi:10.2861/134178 | QA-04-20-474-EN-N