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**TRAPS IN THE MEASUREMENT OF INDEPENDENCE AND  
ACCOUNTABILITY OF CENTRAL BANKS**

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## Traps in the measurement of independence and accountability of central banks

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### Abstract

Measures of central banks' independence and central banks' accountability which are based on an interpretation of their statutes provide, in themselves, no guidance for the assessment of legislative proposals. In the effectiveness of monetary policy, the crucial considerations relate to how central banks and other policymakers behave. The pattern of incentives is not determined by the statutes, which may be wholly irrelevant, and therefore one cannot discover the effectiveness of policy by inspecting the statutes. On the other hand, an assessment of the democratic acceptability of an arrangement requires a normative argument. Depending on that argument, statutory characteristics may be the crucial ones, but for the assessment to be worthwhile, the argument must be explicit.

### I. Introduction

Many authors have supposed that it is appropriate to measure the independence of central banks by some interpretation of their statutes. These measures are typically used both to test (and generally speaking, confirm) the hypothesis that independence reduces inflation, and as the foundation of a proposal for statutory reform in the high inflation countries. More recently, Robert Elgie (1998), has sought to take the methodology further. In work closely related to that of Elgie and Thompson (1998), he seeks to identify separately the statutory characteristics which are said to give a central bank 'economic independence' and those which give it 'political independence',<sup>1</sup> and he says in Elgie (1998 p56) that,

This twofold classification provides the necessary and sufficient criteria by which to judge central bank independence.

Whilst it is supposed that 'independence' provides for low inflation, the importance of 'political independence' is that it offers a normatively significant measure of the political

acceptability of an arrangement.<sup>2</sup> Consequently, Elgie (1998) is led to claim in his abstract that,

By constructing an index of central banks' independence, this article shows that the recent moves towards central bank independence in Britain and France have not challenged the basic foundations of indirect political accountability. However, it also shows that the proposed institutional architecture of the European Central Bank is a departure from the norms of political accountability and that, in this case, there is a distinct 'democratic deficit'

However, I believe Elgie's argument is deficient in three ways. First, it adopts a methodology of measurement of independence which is inappropriate. Although he, and Elgie and Thompson, have sought to remedy problems which have arisen with earlier variants of the approach, they have not succeeded. Secondly, his argument contains no convincing picture of the nature of accountability, and therefore no reliable measure of it. Thirdly, it becomes clear from close attention to his argument that his conclusions are not in any case derived from it. It may, of course, still be that Elgie's major conclusion – that policymaking in the euro area should be reformed – is correct, but that conclusion has not been reached *by constructing an index of central banks' independence*. Although I do not wish to dispute his conclusion, the grounding of it is important for a number of reasons, including the issue of what will constitute an appropriate response to it.

I begin with a discussion of the limitations of the statute-reading approach to the measurement of independence in order to argue that Elgie and Thompson's developments of it do not remedy them; then I consider the additional problems that arise when one attempts to distinguish political and economic independence in the manner in which Elgie does; and

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<sup>1</sup> The way of computing independence in the two studies seems to be the same. But only in Elgie (1998) is much made of the distinction between political and economic independence.

<sup>2</sup> He says on p60 'a low level of central bank political independence equates with a high level of indirect democratic accountability'. It is clear from his policy proposals that this is intended to be normatively significant. The view that independence reduces inflation is left implicit but it is entirely clear that this presumption is being made, perhaps more so in Elgie and Thompson (1998) than in Elgie (1998).

then argue that he does not in any case base his conclusion on his argument. Finally, I argue that clarity about the true reasons for Elgie's conclusions is essential to a proper understanding of the issues and therefore that acceptance of his conclusion in no way limits the seriousness of the critique of his methodology.

## II: The weaknesses of statute-reading

### i constructing measures

Although it has become fairly routine to assert that the benefits of central bank independence have been established by studies that have found better economic performance in countries with more independent central banks, this conclusion should not be accepted too readily. The studies in question, beginning with Parkin and Bade (1978),<sup>3</sup> use measures of central bank independence which are calculated on the basis of a selection of characteristics of central bank statutes.<sup>4</sup> Typically, a list of characteristics is drawn up, such as whether the central bank is formally responsible for policy, who appoints the governor, for how long, etc and the measure of each central bank's independence is then determined by counting the number of such characteristics met.<sup>5</sup>

An important limitation of this approach was pointed out by Woolley (1994 p62-3) who observed that the measures do not provide data on the point that should be of central interest which is whether the 'independent' central banks ever actually act contrary to the wishes of the elected government – whether policy is ever different from what it otherwise would be because of the status of the central bank. This distinction is important because,

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<sup>3</sup> This paper appears to be the first published study of this kind. Parkin and Bade (1980) presented a slightly different measure which was later slightly adapted by Alesina (1988) and applied to a larger group of countries. His study, which became well known, was largely adopted by Emerson et al (1992). Alternative measures, which are also widely cited are those of Grilli, Masciandaro and Tabellini (1991), and minor variations of the one produced by Cukierman, Webb and Neyapti (1991). There are numerous other, less widely cited studies.

<sup>4</sup> In addition to the methodological limitations of the approach, numerous doubts have been raised about the accuracy of the data in the various studies, for example, by Kloten (1978), Jenkins (1996), Prast (1996), Forder (1998), de Haan (1998), and Mangano (1998).

<sup>5</sup> Some studies are arithmetically more sophisticated, attributing fractional points depending on the degree to which a criterion is met, but the basic pattern of analysis is as described in all the well-known studies, and in particular they all rely on statutory data.

although economists have tended to ignore it, it is well known to historians and political scientists that the true power of an institution is determined by much more than the surface appearance of the law and one needs to know the actual practice in policymaking rather than the formal rules. Certain examples of this distinction resonate through generations of analysis. For example, it is hard to see that there is any doubt that the Constitution of the United States makes the Supreme Court 'independent', but volumes have been written about how much practical ability it has to defy the wishes of elected politicians.

Elgie and Thompson (1998 p26), note the concern precisely, saying that the determinants of independence are

not purely formal; they are not simply to be found in legal statutes and standing orders. Instead, they reflect the practice of core executive/central bank relations. In this sense, they reflect the behavioural relationship between the central bank and the core executive rather than just the statutory relationship (Woolley 1994: 62-3)

The difficulty, however, comes in Elgie and Thompson's proposed remedy to this problem. Their approach is to include data on the actual ('informal') procedures adopted in determining which central banks have which characteristics featuring in the index of independence. Therefore, for example, if the central bank's right to appoint its own governor is one of the criteria of independence, the earlier studies would treat this condition as satisfied when and only when the law said that the central bank had this right. In the Elgie and Thompson methodology, it would be satisfied in those countries when the central bank in practice was able to choose its own governor, and not satisfied where it could not, whatever the law says.<sup>6</sup> In addressing the question of how the central bank governor is

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<sup>6</sup> Previously, none of the major studies consider such issues. Alesina (1989) and Emerson et al (1992) say they do, but as I have shown in Forder (1998), when their sources are scrutinised, no such data comes to light. Even Elgie and Thompson give no account of when or how such adjustments have been made, so it is impossible to tell how much effect they have on the overall independence scores, or indeed, whether the adjustments made are in themselves reasonable.

appointed, that approach clearly has great merit, but when applied to the question being addressed, it is seriously limited.<sup>7</sup>

However, the inclusion of non-statutory data about the criteria in the independence index does not turn the resultant index into a measure of the extent to which monetary policy is set independently. This is apparent from attention to the nature of the limitations of the earlier statute-reading approach. The objective of those studies was to test the hypothesis that when policy is electorally motivated, the results are poor.<sup>8</sup> Such a test however requires a measure of the extent to which policy is so motivated in different countries. Parkin and Bade (1978 p2) noted the limitation in connection with their own work, saying,

How robust these conclusions will be. . . to systematically controlling for other informal rules and procedures as well as the broader constitutional and intellectual environment in which monetary policy is made, only further work can reveal.

It is an investigation of the broader constitutional and intellectual environment (and perhaps other things) that is required to augment (or replace) the statute-reading methodology. The extension of the statute-reading methodology into the realm of the backroom agreements on matters other than policy is itself no advance.

The most clearcut reason that the statute-reading methodology, even as augmented by Elgie, does not give a proper picture of relative independence is that statutes can be changed and this must give the government some degree of control over policy. How much control it

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<sup>7</sup> A minor point is that there is a peculiarity about the attempt to incorporate data on actual behaviour of the European Central Bank in a study conducted before European Monetary Union was launched. In some cases this seems to have significant effects. For example, it is brave of Elgie (1998 p64) to place much weight on the greater economic independence of the Bundesbank than the European Central Bank when it scores higher on only one criterion, and that because it has in practice sometimes advised the German government on budgetary policy (and sometimes been ignored). The European Central Bank could hardly have had much chance to give such advice, and in any case is operating in the rather unusual framework created by the Growth and Stability Pact which seeks to regulate national governments' fiscal policies.

<sup>8</sup> In many treatments, this view seems to be axiomatic, but there is no difficulty in constructing arguments to the effect that electoral motivations are an encouragement to good policy since that

gives it will of course depend on the political feasibility of changing the statutes.<sup>9</sup> Equally, actual legislation may not be required since if a government is perceived to be ready to legislate to allow itself to direct the central bank, that may induce co-operative policy.<sup>10</sup> This is not to say, it should be noted, that in a democracy central bank independence is impossible. There is a certain evident sense in which that claim is trivial, and another in which it is false. But the point here is that the independence of a central bank should not, in the light of the possibility of legislation in the event of a dispute, be considered as arising straightforwardly from the statutes. Rather, one needs a picture of the circumstances in which the possibility of such legislation might become a factor in policymaking.

Still more difficult to assess, but potentially just as important is the issue of whether the informal understandings about how policy is made might have the effect of preventing the central bank from ignoring the wishes of the elected government. There is not much difficulty in imagining that a central bank might understand that there are expectations on its behaviour which prevent it from exercising its legal independence, perhaps as a result of a consciousness of its own lack of legitimacy.<sup>11</sup> It should be noted that the alternative possibility – that policy might be more 'independent' than the statutes would suggest – is just as real. It might be, for example, that a dispute between the elected government and the central bank, perhaps because of the esteem in which the central bank was held, is likely to damage the government. Then, the central bank might, in practice, be able to set the policy it thought best with little or no attention to the government's wishes. It is possible that this might happen even if the central bank lacked statutory independence.

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thought has been central to the idea of protective democracy since Locke, and has been applied specifically to monetary policy by Friedman (1982).

<sup>9</sup> Parkin and Bade (1978) come close to identifying this problem in their discussion of the independence of the Bank of Canada. Legislation in 1967 gave the government the right to direct the policy of the central bank, and they say that before that the central bank 'appears' to have been independent, perhaps hinting that they doubt that it really was.

<sup>10</sup> Grier (1991), arguing in the spirit of Weingast and Moran (1983) puts a strong version of this claim, but the general thought that political circumstances determine the security of statutory independence and this affects the likelihood of the central bank defying the government is probably not too controversial.

<sup>11</sup> An improbable outcome for a central bank recently and deliberately made independent perhaps, but the statute-reading measures are based on data from before the current fashion for independence. It is not too implausible that there may be cases where central banks which were 'independent' in virtue of

These considerations relate only to the power of the central bank, and a further issue concerns the central bank's inclinations. Here, I think it is possible that the designers of statute-reading measures have tended to assume that given the power, central banks will always set what they believe to be the best policy.<sup>12</sup> But, as I have tried to suggest in Forder (1996), this assumption is unsafe. There are many circumstances in which unelected central bankers may have electoral objectives. Some may simply have political ideals, an ideological preference for one government rather than another. Or it might be that a potential government adopts a platform which threatens the future independence of the central bank. Then if we suppose that it has any bureaucratic incentive to maintain its own independence - again a supposition which is fairly normal in political science - it has an incentive to seek to affect the election.<sup>13</sup>

Even if one takes the view that central bankers have no direct political or bureaucratic incentives, and care only about inflation, an incentive to seek to affect elections will still arise when policies outside their direct control affect prices. For example, if different possible governments have different attitudes to fiscal policy, exchange rate management, minimum wages, or a host of other matters, a central bank which seeks only to achieve low inflation will have a perfectly clear incentive to seek to affect electoral outcomes. Indeed, in such a case this incentive arises directly from the assumption that the central bank cares only about the control of inflation. Once again, therefore it is clear that one cannot expect to learn from central bank statutes whether policy is set with electoral objectives.<sup>14</sup>

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old statutes ceased to think of themselves as having any role but that of advising the government and implementing its decisions.

<sup>12</sup> The fact that the issue of the central bank's motives is so rarely discussed is one pointer. Another is that a large amount of theoretical work in economics makes it a defining characteristic of independence that policy is set with a view exclusively to the control of inflation, for example Schaling (1995 p185-6) says, 'we define independence as the degree of conservativeness [of policy]'. As a matter of logic this divorces those studies from the statute-reading methodology, but that is evidently none too clearly perceived as I pointed out in Forder (1997) and (2000).

<sup>13</sup> The idea that central banks might have bureaucratic objectives was raised by Chant and Acheson (1973) although they did not consider specifically the issue of a central bank seeking to maintain its independence.

<sup>14</sup> And again, the opposite case where policy is not set with electoral objectives although in the hands of the government remains a possibility.

Once the nature of these difficulties with the statute reading approach is appreciated, it becomes clear that Elgie and Thompson's development of the methodology does not incorporate the appropriate non-statutory data. Woolley's concern was not a doubt about whether, when it is said that a central bank appoints its own governor, this is in practice the case. It was about whether, when the statutes say a central bank sets policy, the result is different from what the government wants. The sensitivity to historical and political reality that Elgie and Thompson have introduced is sensitivity only to the reality of things like who appoints the governor. But these things are not the matters of primary concern in any case.

#### ii selecting measures

Even if one takes the alternative view that in principle, statutory measures might be useful, there is another serious obstacle to effective arguments based on them. That is that one would have to know how to determine which measures are good measures of independence, and which are poor. In practice, as I have argued in Forder (1999), the literature has tended to assume that if a measure is related to inflation, then it is a good measure, and measures which do not have this characteristic have been discarded as poor measures. That approach is obviously one that cannot lead to the desired scientific insight.

On this issue of how to identify a good measure, Elgie (1998 p56) correctly notes that in the economics literature there are several competing measures, and implies that the best one is the one that uses the largest number of characteristics. He says that the approach of Cukierman et al (1992) is 'by far the most sophisticated' to date, in virtue of the fact that it uses the largest number of indicators. Elgie's own measure, however, is described as providing a 'comprehensive list' (p55) of indicators, and as being a two-fold refinement of Cukierman et al's because it (p57),

'considers a larger number (37) of indicators than the Cukierman et al study (16) and, in particular, it considers a much greater number of indicators of political independence, so making the methodology more suited to the purposes of this study.'

Thus, Elgie's opinion would seem to be that the larger the number of indicators, the better the measure. However increasing the number of characteristics contributing to the measure of independence might be thought to be damaging, rather than helpful if the additional criteria are irrelevant to the practical ability of the central bank to resist government pressure, but in the measure have the effect of reducing the weight given to more relevant criteria. Since neither Elgie nor Elgie and Thompson offer an account of why they believe their criteria are important, this issue is difficult to resolve, but at first sight, some of the criteria contributing to their measure do seem to be of doubtful relevance. For example, they include issues like whether the senior staff of the central bank are required to have professional qualifications. But there is no explanation of why such a requirement makes them less political accountable.

### III: The nature of accountability

Elgie takes a further step, however, and demands more from his measure than previous authors have, namely that it should determine the degree of accountability of a central bank. Of 'political independence', he says (p55) that it 'may be defined as the central bank's ability to make policy decisions without interference from the government', and economic independence is defined, as the central bank's ability 'to use the full range of monetary policy instruments without restrictions from the government'.<sup>15</sup>

Having constructed these indices, he then says (p60)

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<sup>15</sup> There appears to be some confusion over these definitions. In the case of economic independence, Elgie cites Alesina and Summers (1993 p153). They give a slightly different definition, but say of it that it 'essentially measures how easy it is for the government to finance its deficits by direct access to credit from the central bank' whereas Elgie has a much wider scope in mind. In any case, Alesina and Summers are reporting the distinction between 'political' and 'economic' independence used by Grilli, Masciandaro and Tabellini (1991 p366). They define political independence as 'the capacity [of the central bank] to choose the *final goal* of monetary policy' and economic independence as its 'capacity to choose *the instruments* with which to pursue these goals'. (italics in original) This leads them to include the issue of whether the central bank has the objective of price stability in their 'political' measure, whereas Elgie has it in his 'economic' one. The Cukierman study, on which Elgie builds, does not make this distinction at all, and indeed, neither Alesina and Summers nor Grilli, Masciandaro and Tabellini seem to make any use of it – when it comes to their analysis, they simply add up the two measures and call the result 'independence'. Parkin (1978) and (1987), both cited by Elgie and Thompson makes a distinction between 'policy' and 'financial' independence, but this is only a prelude to disregarding financial independence. A closer precedent for Elgie's distinction might be found in Debelle and Fischer (1995), who distinguish 'goal' and 'instrument' independence, the former being the power to set objectives, the latter control of policy tools in their pursuit. But those authors did not attempt to quantify either, and are not referenced by Elgie.

' . . . all other things being equal a low level of central bank political independence equates with a high level of indirect democratic accountability . . . The indicators of political independence consist of items which are traditionally associated with the requirements for such accountability'

Elgie has therefore equated by definition three things: the expression 'political independence'; his list of 'necessary and sufficient' indicators of it and the requirements of democratic accountability. There are two peculiarities of this. The first is that an assessment of accountability requires some normative argument as to what the requirements are. But beyond the claim that the indicators are traditionally associated with those requirements, there is none. Elgie is therefore arguing as if he feels that he has circumvented the need for such a discussion of accountability by an act of definition.

The second peculiarity is that several of the indicators in question do not seem to have much relevance to political accountability. It is not clear what Elgie has in mind as the 'traditional' conception of accountability, but one would not have expected to find amongst the indicators such things as who appoints the senior staff of the central bank; whether they are required to have professional qualifications, or are permitted to hold other posts; and who owns the capital of the central bank – all of which are included by Elgie.

Some argument – normative or otherwise – might be offered that in an advanced democracy one would expect to find things one way or the other, or that there is a technical reason to prefer central banks with or without these characteristics. But the assertion that is being made is not that these things are for one reason or another desirable, or to be expected, but rather that they are constitutive of accountability. It is difficult to see that once staff have been appointed, the degree of their accountability depends on who it was who appointed them, rather than on the conditions relating to their conduct and retention of their appointment. Nor do we make institutions more accountable – on a normal understanding of that word – by requiring that their staff have qualifications. Similarly for central bankers to hold other posts may well be undesirable, it may well create conflict of interest, and perhaps should be prohibited, but it is not clear that this impinges specifically on their accountability.

It might simply be said that they must account for their actions in the light of their other interests. The ownership of the capital of the central bank is a peculiar case. One might normally expect that if the capital of an institution is state owned, then state control of it will be fairly complete, but in the present case, those characteristics of control are mainly measured by some other indicator, such as whether the bank formally controls policymaking. It is difficult to see that state ownership of the capital of the central bank, in and of itself, as distinct from the control that normally brings, enhances accountability.

On the other hand, Elgie also includes criteria which appear to match normal conceptions of accountability more closely, such as whether the elected government has a veto on central bank policy decisions, and perhaps most importantly, whether the senior staff can be dismissed by the government. Indeed, one might argue that the elected government's right to dismiss the senior staff, perhaps combined with an obligation on them to report on their activities, would alone be sufficient to satisfy most conceptions of accountability. Certainly this would be the case thinking along the lines of Burke (1774) and (1780) – a reasonable starting point for the 'traditional' conception of accountability.

Clearly there is a parallel between the limitations of the view that statutory independence determines inflation and those of view that statutory political independence determines accountability. The first lacks a powerful reason to suppose that the actual causal process determining policy is captured by the statutes. The second lacks not causal, but normative significance. In each case, however, one is invited to believe that a material problem about social organisation is solved by consulting statutes.

#### IV: Independence and low inflation

A second difficulty raised by Elgie's analysis is that the characteristic that he supposes makes a central bank undesirably unaccountable is substantially the same as the characteristic that previous authors have believed is desirable for its anti-inflationary consequences. Indeed all of the major earlier statute-reading studies treat something close to Elgie's idea of political unaccountability as being central to the notion of independence. For example, all of the

criteria used by Parkin and Bade to assess what they call 'independence' are treated by Elgie as determining 'political independence' and hence accountability.<sup>16</sup> Comparing Elgie's measure with other leading measures of independence reveals a similar, if less dramatic picture. For example, Grilli, Masciandaro and Tabellini (1991 p377) say

'Any institutional feature that enhances the central bank capability to pursue this goal [of low inflation] will, on our definition, increase central bank independence'.

Many such features are those which Elgie regards as decreasing political accountability. Similarly, Cukierman, Webb and Neyapti (1992) include some of Elgie's criteria of 'political independence' in their measure of independence; Alesina and Summers (1993) say, amongst other things that the benefit of independence arises from the central bank being 'free from political pressure' – a freedom which they suppose to be enhanced by such things as appointments of the senior staff being made by the central bank rather than the elected government. Parkin and Bade (1988 p32), go as far as to say that the 'critical element' generating low inflation in West Germany and Switzerland is that,

'the central bank is independent in the double sense that its policy independence is explicitly provided for in the statute and also, the key distinguishing characteristic, that the appointments of the board members in these two banks are not entirely controlled by the governments'

Thus, their claim is that the 'key' element in generating low inflation is one of those things that, according to Elgie, counts against democratic accountability.<sup>17</sup>

Consequently, it would be erroneous to draw any inference from Elgie's study that the benefits of independence which have been claimed by the earlier literature are available by

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<sup>16</sup> The criteria are whether the government has final authority over policy; whether it appoints all the Board members; and whether there are government officials on the central bank Board.

<sup>17</sup> It should be clear that it is not my objective to advocate the approach of any of these authors. The point is merely to substantiate the point that Elgie's idea of political independence is largely subsumed in the major studies' idea of 'independence'.

making central banks 'economically' independent, whilst any danger of unaccountability can be avoided by denying them 'political' independence. What the literature has claimed is that the benefit and cost arise substantially from the same source.<sup>18</sup> The literature, properly understood, does not admit the possibility of distinguishing the thing which makes policy independent from that which makes it unaccountable since in terms of the characteristics which have been used to make the case for independence, independence substantially arises from unaccountability.

#### V. Elgie's conclusions and his grounds for them

Much as I doubt the value of Elgie's index of independence, this is obviously not equivalent to differing with his conclusions. For example, he says (p54),

'in a national context the recent moves towards central bank independence in Britain and France have not challenged the basic foundations of indirect political accountability'

If this claim were based simply on the fact that in Britain, for example, the government has required the Bank of England to aim for a particular rate of inflation and specifically reserved the right to change that target at will, it would be hard to argue that the breach of democratic principles, if any, was on the scale of that of the Maastricht Treaty, where every effort appears to have been made to insulate the central bank from any political influence. Article 107 of that Treaty reads,

Neither the ECB nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Community institutions or bodies, from any government of a Member State or from any other body. The Community

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<sup>18</sup> The leading studies of independence were conducted before it became fairly common practice to adopt arrangements like those in the UK where the government retains the right to set a particular target for inflation but the central bank remains otherwise fairly independent in meeting it. Consequently, although the point is suppressed in many discussions, it cannot be the case that those studies give empirical support to the view that such arrangements are economically beneficial.

institutions and bodies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB or of the national central banks.

And as Elgie (1998, abstract) says,

'the proposed institutional architecture of the European Central Bank is a departure from the norms of political accountability and that, in this case, there is a distinct 'democratic deficit'

What is open to question, however, is whether there is any sense in which this conclusion has been drawn from Elgie's index. Certainly he presents the claim as if it is, saying (p63-4)

in political independence 'the ECB scores 0.72, whereas the two other banks [of Britain and France] score 0.46 and 0.53 respectively. . . in other words, the ECB is much less politically accountable than either of the other two banks' . . . The ECB's score for political independence (.72) is greater than the Bundesbank's score (0.63) whereas its score for economic independence (0.64) is less than the score for its German counterpart (0.71).

But on the other hand, he also seeks to substantiate his major conclusions by other means. For example, he appeals to other authors, such as Hirst and Thompson (1996 p162) who have no index of independence but assert that the European Central Bank will

'The effect of the 'independence' of a European central bank would be to allow virtually unaccountable officials to dictate economic policy

And in making the case himself, Elgie uses arguments about particular aspects of behaviour. For example, in arguing that the European Central Bank is less accountable than the Bundesbank, he says, (p66) 'Clashes between Bundesbank and government are common, with each trying to influence the other'. He goes on to say that 'recent evidence suggest that in the last four years the same sort of policy-making process has been at work in France'.

These claims, important as they may well be, are evidently not being deduced from the index of political independence.

Perhaps most significant in this regard is Elgie's (1998 p67) final proposal, which is to create a body that would 'oversee the ECB's work and, perhaps have the power to veto, delay, or at least discuss its decisions'. Such a body would certainly go a long way to establishing the democratic acceptability of monetary policy in the Eurozone, but in the context of Elgie's index, it would be almost meaningless. 'Delay' and 'discuss' do not feature at all,<sup>19</sup> 'veto' does, and if there were a body that had this power over the European Central Bank, its 'political independence' would fall by 0.05 – from 0.72 to 0.67. If that is a difference worth worrying about, then the fact that it would remain 0.04 more politically independent than the Bundesbank and much more so than the Bank of England or the Bank of France, is also presumably troubling, and demonstrates that the proposal does not go nearly far enough.

I think it is fairly clear that Elgie's (entirely reasonable) presumption is that the existence of a democratically accountable body with veto powers over the European Central Bank's decisions would make a vast difference to its independence, and indeed its democratic legitimacy. The point is that in taking the view he does, he is presumably not depending on the output of his index, but rather on a normative judgment and a sensible assessment of the practicalities. And in that case, the value of the index can be neither heuristic nor didactic, but at most decorative.

#### VI. Why nit-pick about poor arguments for a good conclusion?

One might question the value of complaining about a methodology when the author reaches the right conclusions, but I think this would be a mistake. First, the requirements of good scholarship hardly need emphasising. The economics profession has been diverted for some years by – I believe – the increasingly sophistic search for the magical statutory ingredients

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<sup>19</sup> Unless, as may be the case, the idea of 'collective decision making' means that the elected government and the central bank discuss policy before the central bank decides – but the term is not explained either in Elgie or in Elgie and Thompson.

that will deliver certain policy outcomes. To imagine now that normative decisions as to how we should be governed can be dispensed by a parallel process and that such rich traditions of political thought which have previously sought to analyse these issues should also be dismissed is a large, remarkable, and mistaken step.

Furthermore, there is a danger, once one adopts the statute reading approach, of construing details of legislation as having a great significance which is far from the minds either of legislators or participants. What is required is a proper normative argument as to why and in what ways accountability is important together with an account of how, in practical terms, the important aspects of it can be achieved. For example, a number of authors have argued to the effect that the requirements of accountability are fully satisfied if a central bank is required to aim at some specific rate of inflation, report on its actions and perhaps answer questions on them. That would seem to be rather a low standard, since it contains no penalties for incompetence, deception or laziness, but no amount of index construction can resolve the issue.<sup>20</sup>

In the context of Elgie's measure, the danger of the statute-reading approach is manifested by some of the things which would constitute increases in accountability. Changing the rules so that the Governor was not required to have any professional qualifications would reduce the political independence of the central bank just as much as making its decisions subject to a veto. If one extends the same rule to other senior staff, and perhaps prohibits them from simultaneously holding other jobs outside the central bank, the total effect would be much greater – indeed the 'political independence' of the European Central Bank would fall to 0.525. Thus it would be less politically independent than the Bank of France, but Article 107 of the Maastricht Treaty could remain unchanged.

To discover that most of the European Union has degraded its democracy does not require, and indeed, is not aided by Elgie's methodology. His measure is not, contrary to his claim,

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<sup>20</sup> Roll et al (1993), Goodhart (1994) King (1999) and Huhne (1999), for example, all assert some such standard of accountability.

sufficient to make the normative judgements he wants from it, and it is certainly not necessary. And nor is it in any way helpful in deciding what should be done. Indeed, it can only displace proper argument and corrode proper judgment.

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