

The European Parliament's Monetary Dialogue with the ECB and its Panel of Experts*

Anne Sibert
Birkbeck College, University of London
CEPR

In this note I consider the possible influence of the views of the European Parliament's Committee on Economic and Monetary Affairs (ECON) on the actions of the European Central Bank. I discuss how the opinions offered by the Committee's panel of experts may have shaped the beliefs of the Committee. I consider whether the Committee is making the best use of the panel.

As part of its oversight of the European Central Bank, and in accordance with Article 113 (3) of the Treaty establishing the European Community (consolidated version), the European Parliament's Committee on Economic and Monetary Affairs holds a quarterly dialogue with the President of the ECB. Prior to each quarter's meeting, the Committee commissions briefing papers from a panel of monetary experts. After five and a half years of interchange, it is interesting to speculate on the possible influence that the interaction between the Committee and the President of the ECB may have had on ECB policy and the effect of the briefing papers on the issues raised and questions asked during the monetary dialogue.

It is obviously difficult to assess the Committee's influence on the ECB. It is also difficult to measure the effect of the panel of experts on the Committee. During the monthly dialogues, Committee members frequently bring up topics addressed in panel papers. However, it is impossible to say whether the Committee members were influenced by the panel papers or by other commentators. In addition, the Committee typically chooses the topics of the panel papers so it is possible that the Committee members intended to bring up the topics before seeing the panel papers.

A lengthy earlier panel paper on the subject (Eijfinger (Apr. 2004)) presented a detailed statistical analysis; in this note I conduct a small event study, confining myself to analysing the evolution of ECB policy in four areas that the Committee appeared to regard as unusually important. In two of these areas the Committee appears to have successfully influenced the ECB and the panel may have played an important role. In the other two areas the Committee failed to achieve its desired goal. On both of the issues where the Committee was unsuccessful, the panel appeared to have been less useful than it might have been to the Committee. I close this note with a few suggestions for improvement.

Two issues where the Committee appears to have had success

*Briefing note for the Committee for Economic and Monetary Affairs (ECON) of the European Parliament for its November 2005 monetary dialogue with the President of the European Central Bank.

One instance where the Committee may have influenced the actions of the European Central Bank and where the views of the Committee may have been shaped in part by the monetary experts panel is the May 2003 monetary policy reform. This reform removed the special role for the broad money aggregate M3 in the ECB's policy analysis and it made the ECB's definition of price stability more precise. It is uncertain to what extent the Committee influenced the ECB but Mr. Duisenberg commented that the European Parliament's views had been taken into account when the reforms were enacted.¹

The academic panellists were, from the start, part of a wider criticism of the ECB's use of M3 in its analysis. Between April 1999 and February 2003 the panel papers became increasingly forceful and in their monetary dialogue with the ECB, Committee members repeatedly called for the ECB to reconsider matters with regard to M3.² It is difficult to know the role the panel played in shaping the Committee's opinion on this issue but it seems reasonable to suppose that the unanimity and vehemence of the panel's views and the detailed and substantial presentation of the arguments (especially in Svensson (Nov. 2000, May 2002)) must have had some influence.

Also from the start, the academic panellists criticised the ECB's definition of price stability. They may have been slightly less influential with the Committee on this topic than they were on M3's role as they presented a less unified front, with Svensson, for example, repeatedly arguing that the problem was that the goal was ambiguous and asymmetric and Wyplosz arguing that the perceived target band was too narrow.³ Nevertheless, the panel's complaints may have increased the Committee's interest in the matter and Committee members regularly queried Mr. Duisenberg about the ECB's inflation objective.⁴

Another instance where both the panel and the Committee may have been influential was the ECB decision to publish inflation forecasts. The panel repeatedly and from the beginning argued for the release of inflation forecasts.⁵ Panel papers were followed by Committee members asking Mr. Duisenberg for forecasts.⁶ As in the case of the role of M3, the unanimity of panel members on this issue and the seriousness of the arguments presented (for example, in Svensson (Sept. 2000)) suggests that it is likely that the panel played a role. In autumn 2000, the ECB announced it would publish staff forecasts. This was a limited success for the ECON committee as the forecasts are the projections of the staff, rather than the Governing Council, and they are not published at policy-making frequency.

Two instances where the Committee was not successful

A long-standing concern of the Committee is the lack of procedural transparency associated with ECB policy making. In April 1999 Mrs. Randzio-Plath pointed out that the European Parliament attaches great importance to transparency in monetary policy and she promised Mr. Duisenberg that the Committee would continue to press, not just for the reasons behind decisions, but for the opposing arguments as well. She kept her word and for years, she and others complained about the lack of transparency in the decision-making process and asked for more discussion, the minutes or the details of the votes.⁷ Unfortunately, the monetary dialogue has had little success in either changing ECB behaviour or even in engaging the ECB's representative in serious discussion: Mr. Duisenberg usually countered the Committee by

extolling the ECB's transparency or asserting that additional information would be useless or confusing.⁸

The monetary experts panel appears not to have been of great assistance to the Committee on this issue. One reason is that while some panel members have called for openness about the decision-making process, others have not favoured the same degree of transparency that some of the Committee members have called for.⁹ Another reason is that the panel as a whole appears not to have attached the same importance to this issue that the Committee has and the panel has provided little serious analysis of either transparency or committee decision making.¹⁰ There are a number of recent academic papers that address how the quality of information about committee decision making affects outcomes; if the Committee continues to have an interest in this issue it might solicit papers on this topic.

One issue that the European Parliament has been greatly interested in is the ECB's attitude toward its secondary goal. The ECB's primary mandate, stated in Article 105 (1) of the Treaty establishing the European Community is to maintain price stability. However, "without prejudice to the objective of price stability", the Eurosystem should also "support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community". These objectives include a "high level of employment" and "sustainable and non-inflationary growth". For years the European Parliament has fruitlessly attempted to engage the ECB in a dialogue about the role of the secondary objective and about how and when the ECB might attempt to influence employment and growth.¹¹ The representatives of the ECB have tenaciously refused to be drawn in. Mr. Duisenberg tirelessly repeated his stock response that monetary policy cannot influence real variables over the medium term and that the best thing that the ECB can do for employment and growth is to pursue price stability. Mr. Trichet typically responds that price stability is necessary for growth.¹²

On this issue, it may be that the Committee might have been more aggressive in pursuing the matter and might have made more use of the expert's panel. There is near consensus among academics that monetary policy cannot be used to increase growth and output in the long run, but that it does have real effects in the short run. There is no accepted definition of "medium run" and it is not clear how the ECB's definition of the term differs from the "short run" in the empirical literature; members of Parliament might have asked Mr. Duisenberg to be more specific.

Mr. Duisenberg's repeated assertion that the best thing that the ECB can do for employment and growth is to pursue price stability is certainly defensible. Monetary policy cannot systematically affect output and growth; the most it can do is smooth business cycle fluctuations if the central bank has an informational advantage over the private sector. But, even this is difficult. There are difficulties in observing shocks and formulating the optimal response to them; there are long, variable and uncertain lags associated with monetary policy; there is a danger that monetary policy will be used opportunistically if not directed solely at attaining price stability. However, it is not the consensus of academics that the second objective specified in the Treaty should be ignored. In his Sept. 2000 briefing paper, Svensson advocates a regime that appears consistent with the two objectives: the central bank aims for price stability, but attempts to avoid excess variability in real variables. In practice, this may mean that if inflation deviates from its target it is brought back into line more slowly than if the central bank cared about inflation alone. The Committee might have argued the merits of such a regime.

Suggestions

There are a number of ways that the Committee might be more effective and might make better use of the panel.

First, it might be desirable for the meetings to be more tightly focussed on issues of direct importance to Committee. The quarterly dialogue is supposed to be a *monetary* dialogue, but no less than 22 of the panel briefing papers have been on the stability and growth pact and much of the discussion has been on this topic. It is true that the representative of the ECB tends to be more engaged in this topic than on other topics, but perhaps discussing public finances is a way to avoid discussing transparency of monetary policy.

Second, the briefing papers often appear to be not well related to the questions that are asked. If the Committee wants to ask about, say, the secondary objective of the ECB – discussed above – why not ask for a note on this point? That way, when, for example, the President asserts that monetary policy has no effect on real variables in the medium run he can be effectively challenged.

Third, the committee solicits papers on particular topics. Generally this is quite sensible, but the committee might occasionally allow panel members to suggest topics. Panel members might be able to raise issues that the committee has not thought of.

Fourth, the committee often asks questions of the ECB representative and receives answers that must not be satisfying. Panel members might be asked to provide ammunition – or even coaching – for additional questions. Panel members might also be asked to respond to the previous meetings transcripts and to suggest follow up questions.

Fifth, the committee should probably avoid spending too much time discussing the minutia of current monetary policy decisions. Rather they should devote time to more general issues, such as improving the ECB's transparency.

Finally, Article 113 (3) of the Treaty specifies that the European Parliament may request that the President of the ECB or *other members of the Executive Board* may be heard by the competent committees of the Parliament. Although the President usually insists that there is consensus, it might be interesting, on occasion, for the Committee to learn if there are alternative views.

End Notes

1. Opening comments in the Jun. 2003 meeting.
2. Relevant panel papers include Bofinger (Apr. 1999), Bean (Nov. 1999), Gros (Nov. 1999, May 2001), Svensson (Nov. 2000, Mar. 2001, May 2001, Jan. 2002, May 2002, Feb. 2003), de la Dehessa (May 2001), Mazier (Sept. 2001), Eijfinger (Sept. 2001, Feb. 2003), Boissieu (Feb. 2003), Wyplosz (Feb. 2003). Relevant comments and questions by ECON members include those of Mr. Katiforis (Apr. 1999, Jun. 2000), Mr. Pérez Royo (Sept. 1999), Mr. Goebbels (Jun. 2000), Mrs. Randzio-Plath (May 2001, Jan. 2002)
3. Relevant papers include Bofinger (Apr. 199), Bean (Sept. 1999), Wyplosz (May 2001, Feb. 2003), Svensson (May 2001, May 2002, Oct. 2002, Feb. 2002)

4. Relevant comments and questions include those of Mr. Pérez Royo (Sept. 1999) and Mr. Huhne (Oct. 2002), Mrs. Beres (Nov. 2002).
5. See Gros (Apr. 1999), Thygesen (Jun. 2000), Svensson (Sept. 2000).
6. Mrs. Randzio-Plath (Apr. 1999, Sept. 2000), Mr. Huhne (Mar. 2000)
7. Mrs. Randzio-Plath (Jan. 1999, Apr. 1999, Nov. 1999, Mar. 2001, May 2001), Mr. Pérez Royo (Apr. 1999), Mr. Tannock (Sept. 1999, Nov. 2000), Mr. Huhne (Nov. 2000, May 2002), Mr. Skinner (Nov. 2000), Mr. Schmidt (Sept. 2003). Note that either the members (or the translators) sometimes confuse transcripts and minutes.
8. Apr. 1999, Nov. 1999, Sept. 2000, Nov. 2000, May 2001.
9. Mazier (Jun. 2000) calls for the full publication of the internal debates and the publication of the minutes, but Eijfinger (Sept. 2000) claims that making votes public is of limited usefulness. Wyplosz (Dec. 2001) argues against publishing the minutes as long as there is national representation, however in Feb. 2003 he, Svensson and Boissieu ask for an (unattributed) summary of the discussion.
10. Wyplosz (Feb. 2003) is an interesting exception.
11. See for example the questions of Mrs. Randzio-Plath (Nov. 1999, Mar. 2001, Sept. 2001, Oct. 2002, Dec. 2003), Mr. Goebbels (May 2001), Mr. Abitbol (Dec. 2001), Mr. Katiforis (Feb. 2003), Färm (Feb. 2004).
12. See the transcripts of the meetings from Apr. 1999, Nov. 1999, Mar. 2001, May 2001, Dec. 2001, Oct. 2002, Feb. 2003, Dec. 2003, Feb. 2004.