Reconsidering the Independence of the European Central Bank

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Abstract

We argue that the doctrine of the economic advantages of central bank independence cannot be uncritically transferred to the European Central Bank (ECB). To our opinion, it is the State, not its central bank, who bears the ultimate responsibility for the purchasing power of its paper money. Now, the ECB is not the central bank of a single State but an association of States - the 19 Member States of the 'Eurozone' – whose decisions demand unanimity. As a de-facto result, the ECB is as independent as a public administration can be. Now, the agreement on the European Monetary Union (EMU) as part of the Maastricht Agreement is an incomplete contract written in the form of a complete contract. It cannot be read to the letter. Furthermore, as long as EMU is in its stadium nascendi, president and governors of the ECB have to do 'whatever it takes' to get EMU moving. Consequentially, they must assume the role of a subsidiary government of the 19 EMU member States. Understandably, the European Commission (EC) is pondering over a "deeper and completed" European Union. Exactly this is also the answer given by contract theory. At this point, however, Albert Hirschman knocks at the door with his book *Exit, Voice, and Loyalty.*

Keywords: Maastricht Agreement, European Monetary Union, European Central Bank, deeper and completed European Union, time consistency, incomplete contracts, transaction cost economics, credible commitments.

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