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IS CENTRAL BANK INDEPENDENCE A THING OF THE PAST?

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INTRODUCTION

After the financial crisis, they were praised as saviours and their leaders were sometimes even lauded for their communication talent and vision. Yet central banks are now drawing fierce criticism, to the extent that they must sometimes take on the role of scapegoat for policies for which they had to offset the inadequacies. Arguably, they deserve "*neither this excess of honour, nor this indignity*[1]".

This policy paper is not intended to discuss policies but rather focuses on the independence of central banks. Endowed with a level of relative autonomy upon their creation, compatible with their twofold financial and sovereign role, they only became officially independent in the 1980s. This development reflects a clear drive by governments to delegate the conduct of monetary policy to officials protected from political vagaries, in a better position to act as a credible nominal anchor. The widespread application of independence is inseparable from that of inflation targeting policies. In the space of a few years, independence, which had long been considered of little relevance, became a consensual institutional standard.

However, the de jure or de facto broadening of central banks' responsibilities during and after the crisis and in particular their pivotal role in the macro-prudential field weakened this consensus and gave rise to new questions: do these functions come under their statutes and remit? Can independent institutions which are essentially technocratic be legitimately involved in decisions which, going beyond financial stability in its strictest meaning, influence

1. Racine J. (1669), *Britannicus*, II, 3.

the allocation and redistribution of income or wealth? Do they not run the risk of heading towards potential conflicts of objectives, to the detriment of their primary goal of price stability? Is there not ultimately a misuse of power?

It appears that the question of legitimacy is not raised regarding monetary policy, which is generally subject to a clear mandate entrusted to central banks by political authorities or by means of a treaty. However, the extremely accommodating policies conducted ten years after the crisis (and their underlying strategies) have become the focus of often virulent controversy and hostile reactions have been expressed in relation to central banks. Yet one condition of their actual independence (as for any non-democratically elected institution) is to enjoy a relative consensus, if not unanimous support, with regard to their legitimacy, objectives and the resources rolled out to achieve them.

In addition to their statutory obligations and a form of communication that is often highly formatted, central banks should now meet the increased requirements of transparency and accountability, more in line with their actual responsibilities. This paper makes some proposals as to how this may be achieved.

2 . CRITICISM OF CENTRAL BANKS

An influential representative of the US financial establishment recently expressed concerns regarding the harmful impact on the effectiveness of policies brought about by questioning the independence of central banks. He also theorised that "*the independence of central banks is increasingly looking like a brief period in history that peaked last century*"[2]. These concerns mirror the criticism of the role of central banks, that some deem excessive, particularly since the crisis; but also echo political pressure which is sometimes violent. In the US, the Fed came under fire from Donald Trump, who is impatient to see the Fed lower its interest rates[3]. However, attacks were made before Donald Trump's election and cannot be reduced to his rants. A bill to significantly limit the Fed's independence, introduced in 2016 by the Republican senator (and libertarian) Rand Paul, was narrowly rejected[4]. This bill received support from most Republican candidates, but also from the Democrat candidate Bernie Sanders, which shows that the controversy surrounding the Fed's independence dates back to the age-old opposition, which began in the 19th century, between the followers of Hamilton, who championed a centralisation of the main economic levers on a federal level, and those of Jefferson, who were staunchly opposed to this.

Until recently, criticism of central banks or their independence was more subdued in Europe and the euro area. There are several explanations for this: firstly, unlike the USA, the lack of a clear ideological or historical divide with regard to the concept of independence, which was hardly a subject of debate during the preparation of the Maastricht Treaty; secondly the legitimate and commendable aim of national governments of not adding the European Cen-

2. Fels J. (2019) *La perception que les banques centrales ne sont plus indépendantes risque d'affaiblir l'efficacité de leur politique*, *Le Monde*, 21 July.
3. He called its Chair Jerome Powell a "*stuborn child*", even threatening to demote him to a mere governor.
4. In addition to tight controls of the Fed's internal management and its financial stability prerogatives (which were however granted under the cross-party framework of the Dodd-Frank Act following the crisis), it proposed to reduce the Fed's discretionary power by incorporating its monetary policy decisions in a strict set of Taylor-like rules. During a hearing in congress, in December 2016, John Taylor distanced himself from this proposal, stressing that monetary policy "*should not be run by a computer*".

tral Bank and single monetary policy to the various grounds for intra-European discord; and lastly the benefits that these governments enjoy from a policy which, by drastically reducing the cost of public debt, makes it solvent and facilitates compliance with nominal budgetary targets. In addition, academics and market economists, particularly in countries in the south and east of the euro area and some rare exceptions, mostly support this extremely accommodating line.

However, the favourable consensus that the ECB's action has enjoyed since the crisis seems to be broken today. Head-on attacks came from the financial community in Germany, which echoed the exasperation of savers who claimed to be deprived by the erosion of the return on their investments in bonds and term accounts. The latest measures taken or announced with regard to interest rates or the asset-purchase programme were criticised by many economists, bankers and even former central bankers[5], as widely reported in the press. Admittedly, unlike the USA, such criticism is levelled more in the direction of monetary policy than central banks' status of independence per se. It is contradictory that the most radical questioning of the ECB's policy comes from the country in which the independence of the central bank is a pillar of the culture of monetary stability.

3 ■ OFFICIAL INDEPENDENCE, AN ISSUE THAT HAS LONG BEEN OF LITTLE RELEVANCE, HAS BECOME THE INSTITUTIONAL STANDARD

Central banks' status puts them in a category of their own from the outset. Their creation was the result of a twofold objective, both political (sovereign function) and financial. This was the case of the Bank of England, founded in 1694 to finance wartime damage. It was endowed with a monopoly on issuing banknotes. The US Federal Reserve System (1913) was given the role of lender of last resort to ensure the stability of the banking system, almost half a century after the American Civil War (1861-1865)[6]. The Banque de France, created by Napoléon Bonaparte in 1800 following the Coup of 18 Brumaire, enjoyed a monopoly on issuing money and refinancing instruments which aided the rise in French capitalism in the 19th century.

However, the founding texts of central banks only vaguely state their monetary policy functions (a fortiori their objectives). Neither do they specify their level of autonomy from governments leaning towards ambiguity. Napoléon Bonaparte had a rather reserved idea of this ("*I want the bank to be sufficiently in the hands of the government but not excessively so*"!).

Two main factors explain why, until the end of the 1960s, the official independence of central banks was not considered to be a subject of interest:

5. Arnold M. (2019) *Former central bankers attack ECB's monetary policy*, Financial Times, 4 Nov.Hannoun et alii (2019): "*Memorandum on the ECB's Monetary Policy* ", Bloomberg, 4 Nov.
6. On the history of the creation of the US Federal Reserve, refer to the benchmark publication by Roger Loweinstein (2015): *America's Banks – The Epic Struggle to Create the Federal Reserve*, Penguin Press.

- The almost universal system of the gold exchange standard provided an external nominal anchor that limited the leeway of monetary policies. This system continued in various forms on both sides of the Atlantic from the end of the 19th century to the 1971 suspension of the convertibility of the dollar into gold (Bordo, 2017)[7];
- Following World War II and during the subsequent "*trente glorieuses*" boom period, the priority (at least in Europe and Japan) was reconstruction requirements met by expanding credit and a selective allocation of savings to fund the State or the sectors it deemed the most important, using a wide range of interest rates and quantitative instruments. Monetary policy could therefore not be subject to specific and official objectives.

In the early 1970s, then during the next two decades, two events urged the political authorities in the main developed nations to gradually step up the scope and effectiveness of their economic policy levers[8]:

- The widespread rise in inflation from the 1960s onwards, at the same time as the peak in the trente glorieuses, together with wage pressures and expansionary budgetary policies. Inflation rose still further after the first oil crisis in 1973. For example, it reached 8% in Germany and even 25% in the UK and subsequently remained at a high level;
- The weakening of the fixed exchange rate regime of the Bretton Woods system until its collapse in 1973. The main advanced economies then had an incentive to replace the failing external anchor with an internal nominal anchor[9];

Initially, central banks adopted monetarist strategies in line with their operational expertise (control over currency and credit), with governments retaining control over the ultimate goal. However, the wave of deregulation and financial innovations in the 1980s put an end to this short monetarist phase which had failed to provide a stable and credible nominal anchor[10]. From this point, direct inflation targeting strategies (i.e. without passing by "intermediate" monetary targets) became widespread in the main currency areas (BoE in 1992, ECB since its creation in 1999, BoJ in 2009, Fed in 2012, as part of its "dual" strategy of maximum employment and price stability).

Yet this movement is inseparable from the choice made by most governments to grant central banks their independence. Furthermore, it is remarkable that a fundamentally political choice was able to be based on the theoretical contributions of authors such as Kydland and Prescott (1977)[11], Barro and Gordon (1983)[12], Rogoff (1985)[13] and Walsh (1995)[14], questioning monetary policy as a tool for cyclical adjustment and indicating the risks of time inconsistency of decisions subjected to election cycles. American in origin, this literature

7. Bordo D.M. (2017) *An Historical Perspective on the Quest of Financial Stability and the Monetary Policy Regime*, NBER Working Papers, No 24154, December.
8. Jaillet P. & Mojon B. (2019) *Les politiques d'objectifs des banques centrales en perspective, Revue française d'économie*, Vol.XXXIII, January.
9. The implementation of the "European monetary snake" in 1972 aimed to offset the loss of external anchor related to the end of the Bretton Woods system. However, this regional agreement proved to be unstable, even if it prefigured the European Monetary System established in 1979, a preliminary step to adopting the future single currency.
10. Various works have demonstrated the difference between the announced monetary objectives and the actual response functions of central banks (Bernanke and Mihov, 1997).
11. Kydland F.E. & Prescott E.C. (1977) *Rules rather than Discretion: the Time Inconsistency of Optimal Plans*, *Journal of Political economy*, Vol.85, pp.473-492.
12. Barro R. & Gordon D. (1983) *Rules, Discretion and Reputation in a Model of Monetary Policy*, *Journal of Monetary Economics*, Vol.12, pp.101-121.
13. Rogoff K. (1985) *The Optimal Degree of Commitment in an Intermediate Monetary Target*, *Quarterly Journal of Economics*, Vol.100, pp.1169-1190.
14. Walsh C. (1995) *Optimal Contracts for Central Bankers*, *American Economic Review*, N°85, pp.150-16.

enjoyed a sort of intellectual hegemony that was strangely barely challenged and the idea that the State may relinquish some of its sovereign power to a "guardian" institution (i.e. with a strong aversion to inflation) gradually became commonplace.

During the 1990s, central banks' independence gradually became an institutional standard (and even an obligation of legal compliance for countries wishing to join the euro area[15]). However, independence has its downsides, in terms of governance (collegial decision-making), transparency and accountability, with regard to governments, parliaments and public opinion.

4 ▪ WAS THE FINANCIAL CRISIS THE PEAK IN CENTRAL BANK INDEPENDENCE?

The 2008 crisis brought out the need for an overall vision of the risks related to the interactions and externalities of the global financial system. "Macro-prudential" concerns[16], until then limited to academic circles, became a key topic in international financial cooperation, in particular for the Financial Stability Forum and the G20.

Central banks then found themselves playing a pivotal role. They were criticised, however, for having neglected the dynamics of the financial cycle[17], or even for having exacerbated it through excessively accommodating monetary policies ("*Greenspan put*"). They nevertheless emerged as the natural candidates for this role, through their function of issuing liquidity and as lenders of last resort, but also due to their close relations with the financial markets and their analytical and operational expertise.

This de jure or de facto expansion of central banks' prerogatives resulted in heated debates in the USA, in academic circles and in Congress. Following Alan Meltzer, Calomiris[18], for example, believes that expanding the Fed's remit leads to a risk of politicising and diluting its responsibilities, which would consequently weaken its actual influence and independence. He recommended that its remit should focus on a strict objective of price stability and that its financial regulation capacities should be restricted. This argument fell in line with a significant fringe in Congress wishing to curtail the Fed's powers (see above).

In Europe, granting central banks new prerogatives after the crisis was a default decision against the traumatic post-crisis backdrop. Governments, which were generally divided when it comes to allocating new Community competences, granted extended competences to the ECB without discussion. The creation in 2010 of the European Systemic Risk Board

15. The ECB is in this respect doubly exceptional: firstly, it results from the merger of central banks on a model directly taken from the Bundesbank model, with a long-standing culture of independence; secondly it is not the independent central bank of a single State but of a group of States, which further strengthens its independence, which is already firmly enshrined in the Treaty.
16. The term "macro-prudential" appeared for the first time in 1979 in a report of the Cooke Committee, the ancestor of the current Basel Committee on Banking Supervision (BCBS). Its use only became common after 2008, however. Cf. P. Clement (2010), "*The term Macroprudential: Origins and Evolution*", BIS Quarterly Review, March.
17. Borio C. (2012) *The financial cycle and macroeconomics: what have we learnt? BIS Working Papers* No 395, December.
18. Calomiris C. (2017) *Reforming the Rules that Govern the Fed*, *Columbia Business School Research Paper*, No17.41, April.

(ESRB) and in 2015 of the Single Supervisory Mechanism were adopted by (simple) regulations of the European Parliament and of the EU Council, without any real political debate. This indicates the drive of national and European authorities to find a swift and reassuring solution by placing micro- and macro-prudential oversight under the aegis of the ECB[19]; and these decisions were praised by almost all commentators and the academic community.

5 . IS THERE A RISK OF MISUSE OF POWER?

While, as we have seen, central banks have enjoyed relative independence since their creation, the official independence granted to them in the 1990s concerned a clear mandate on price stability, and not all of their activities. While this may seem obvious for public service activities excluding monetary policy (management of scriptural money, of the amount of money in circulation, statistical functions, etc.), it may be less so for its roles related to financial stability and macro-prudential policy.

The term macro-prudential is not clearly defined and its interpretation varies greatly[20]. In its strictest meaning, it describes a micro-prudential policy that the crisis made more forward-looking, less focused on the supervision of individual financial institutions and incorporating dynamic interactions and systemic risk. In short, macro-prudential is smart micro-prudential (which is already a significant step forward)[21]. In a broader sense, it covers all actions which contribute to varying degrees to macro-economic and financial regulation, which, in addition to the oversight of financial institutions and markets, includes monetary policy and budgetary policy, as they influence the financial arbitration of agents, the functioning of markets and asset price formation.

With this in mind, independent central banks, key players in macro-prudential policy, naturally take part in decisions that influence the allocation or redistribution of income and wealth, which could result in potential conflicts of objectives and raises the question of legitimacy. This may be the case, for example, of measures concerning household debt, the real estate market and the taxation of savings. This institutional risk was flagged by various authors, including several former central bankers. For Issing (2018), "*In a democratic society, independence for the central banks can be justified only if actions are limited to fulfilling a specific mandate*"[22]. Tucker (2015) raised the question of the balance of power ("*Central Banks have emerged from the financial crisis as the third pillar of unelected power alongside the judi-*

19. The prerogatives of the ESRB are, however, limited to the analysis of financial risks and the presentation of non-binding recommendations to Member States, which have maintained and even developed their own national bodies, such as the High Council for Financial Stability in France, thereby retaining their decision-making powers.
20. The term "macro-prudential" appeared for the first time in 1979 in a report of the Cooke Committee, the ancestor of the current Basel Committee on Banking Supervision (BCBS), its use only became common after 2008, however. In a 2010 report of the CGFS, the BIS proposed a general definition ("*Macroprudential policy focuses on the interactions between financial institutions, markets, infrastructure and the wider economy*"), leaving all options open concerning the range of instruments that can be used and the sharing of tasks between the various stakeholders concerned.
21. There is not a single model for the attribution of the oversight function for banks and insurance companies. It is shared between various agencies (as is the case in the USA) or more generally placed under the authority of the central bank (Bank of England or ECB), the main arguments being in this case that central banks, in addition to their role as a lender of last resort, also have the expertise and overall vision of the banking and financial markets. In contrast, including the oversight of banks in the duties of central banks raises the question of potential conflicts of objectives with monetary policy.
22. Issing O. (2018) *The Uncertain Future of Central Bank Independence*, Vox CEPR Portal, 2 April.

ciary and the military")[23]. Eichengreen (2017)[24] recommended enhancing transparency and accountability standards. Balls et alii (2016)[25] and Blot (2019)[26] proposed strengthened coordination mechanisms within ad hoc committees of central banks, supervisory and regulatory bodies and finance ministers.

Such criticism and proposals are relevant but their scope should be put into perspective. Firstly, while it is true that macro-prudential policy has redistributive consequences, this is also the case of monetary policy and their transmission channels are often the same (Domanski et alii, 2016)[27]. Secondly, in most countries, macro-prudential oversight is currently conducted by a collegial body chaired by government authorities. While central banks have the power of initiative and conceptual and operational leadership in such bodies, they cannot impose their choices. Possible conflicts of competence or sovereignty are resolved through dialogue and where necessary require political arbitration[28]. Another argument is that the active presence of independent central banks in these bodies may facilitate the taking of necessary decisions that are politically costly (Müller, 2019)[29].

Ultimately, arguing a lack of legitimacy for central banks to take on the financial stability responsibilities that have been at the core of their mandates from the outset (see above) does not seem appropriate. Furthermore, redefining mandates may, under the current conditions, amount to opening Pandora's box, with unforeseeable consequences. It is, however, appropriate to consider the obligations and counterparties that these extended responsibilities entail.

6 . ENHANCING REQUIREMENTS OF COLLEGIALITY, TRANSPARENCY AND ACCOUNTABILITY

Perhaps due to the somewhat rushed conditions of their implementation, the bodies responsible for monitoring financial stability are not subject to collegiality, transparency and accountability requirements for their new functions. The European Systemic Risk Board (ESRB), founded in 2010 and hosted by the ECB, illustrates this point. Central bankers have an

23. Tucker P. (2018) *Unelected Power – The quest for legitimacy in central banking and regulatory state*, Princeton University Press.
24. Eichengreen B. (2017) *Des banques centrales indépendantes mais plus transparentes*, Le Monde, 30 Nov.
25. Balls E. *et alii* (2016) *Central Bank Independence Revisited*, Harvard Kennedy School, Working Paper N°87.
26. Blot C. (2019) *Les banques centrales peuvent-elles être encore indépendantes ?*, Revue française d'économie, Vol. XXXIII, January.
27. Domanski *et alii* (2016) *Wealth Inequality and Monetary Policy*, BIS Quarterly Review, March. By partially removing the traditional distinction between monetary and budgetary policy, the intensive use of monetary policy for unconventional measures makes such interference more striking.
28. This model is not, however, universal. In the United Kingdom, for example, macro-prudential oversight is placed under the direct authority of the Bank of England.
29. Müller K. (2019) *Electoral Cycles in Macroprudential Regulation*, Princeton University, October. The author stresses a risk of time inconsistency like that related to monetary policy: *"Tightening macro-prudential policies may be politically costly, particularly when elections are approaching (...). This may limit the ability of regulators to 'lean against the wind'"*.

overwhelming influence on the Board (30 out of 36), while Member States' finance ministers are excluded[30]. It is only subject to minimal transparency and accountability obligations[31].

Admittedly, the stakes seem somewhat limited, as the work of the ESRB is generally deemed more academic than operational (which is a separate discussion). However, the constraints applied to national bodies, which are endowed with real decision-making powers, seem even less stringent. In the case of France, for example, the High Council for Financial Stability (HCSF) issues an annual report for the French parliament and its Chairperson may attend hearings by the commissions of the National Assembly or the Senate. It only publishes a short press release following its meetings and there are no subsequent press conferences or minutes.

There is a striking difference between the importance given to the overall oversight of financial systems (in official communications, international relations and academic papers) and the relative lack of transparency and accountability obligations in this area, of a poorer standard than those required for monetary policy (and for budgetary policy). This isolation from public debate creates a democratic "deficit" which limits the visibility and influence of bodies which are primarily technocratic. Central banks are clearly not the only bodies to blame, but their independent status subjects them to specific requirements in view of the prominent role they play in them.

In this respect, Europe could draw inspiration from international best practices, in particular those in force on the other side of the Atlantic. The Financial Stability Oversight Committee (FSOC) was established in 2010 under the Dodd-Frank Act to oversee all financial systems. It only grants the Fed one seat out of ten for voting members (which does not at all affect its key role in a committee chaired by the Secretary of the Treasury). Moreover, the FSOC publishes minutes of its meetings within a few weeks. Its Chairperson and the other committee members are interviewed at length by Congress on any subject it deems important. Lastly, its meetings are open to the public and even broadcast via webcasts, unless a high level of confidentiality is required.

7 . INDEPENDENCE AND POLICY OBJECTIVES

In most monetary areas, the objective of price stability comes under a mandate granted by public authorities or a treaty[32], leaving central banks relative leeway in defining their strategy. For the ECB, its Council sets the target and can adapt it as it so wishes according to circums-

30. Yet macro-prudential discussions are supposed to take into account interactions between policies, markets and externalities between the economies in the area. In addition, the absence of government representatives does not facilitate coordination between national bodies and the ESRB.
31. The ESRB must submit an annual report to the European Parliament and its President must attend a hearing at least once a year; its "warnings and recommendations" are only made public upon the President's initiative. It is not obliged to publish press releases or minutes after its meetings, which are not followed by press conferences (See Art 19 of Regulation 1092/2010 of the Council and the European Parliament, JECE - 15/12/2010).
32. In the euro area, article 282 of the TFEU provides that *"The primary objective of the ESCB shall be to maintain price stability. Without prejudice to that objective, it shall support the general economic policies in the Union in order to contribute to the achievement of the latter's objectives."*

tances[33]. In the case of the US Fed, former Chairperson Alan Greenspan had a discretionary understanding of the price stability objective and refused to allow his hands to be tied by a specific target. In 2012, his successor Ben Bernanke selected a 2% inflation target as part of his twofold mandate (price stability and maximum employment). In the UK, the government defines the inflation target (a 2% medium-term goal), leaving the Bank of England to select its instruments. In Canada, the government and the central bank decide on a target together for the next five years (range from 1% to 3%), etc.

This overview demonstrates that price stability mandates entrusted to central banks leave them with varying levels of discretionary leeway to define their target and that a price stability objective can give rise to different types of specifications. There is no evidence, notably, that targeting inflation is in all times and places the optimal monetary policy strategy. Other options have been proposed: targeting of price levels (Bernanke, 2017[34]) and of nominal GDP (Billi, 2017). These options have provided good results in the last twenty years (Jaillet and Mojon, 2018)[35]. Similarly, calibrating the inflation target to 2% is no longer a subject of consensus, with some recommending an increase (Blanchard et alii, 2010)[36] and others a decrease (Larosière, 2019[37] or Holzman, 2019)[38], and others arguing to retain this figure. Without setting a synthetic financial stability target and without prejudice to the priority given to their price stability objective, it has been proposed that central banks clearly incorporate a few key variables into their strategy and communications (e.g. credit, debt, asset prices, etc.), for which development is a twofold challenge of monetary and financial stability[39].

Going beyond these academic debates, central bank strategies are highly controversial. The ECB was criticised in particular for conducting an extremely accommodating policy since 2014 in line with its 2% inflation target, for which it attempts to offer justification (Draghi, 2019)[40]. Among the criticism are its weak macro-economic efficiency, risk premia compression and asset price distortion, "dispossession" of savers, implicit redistributive effects, the weakening of banks, the moral hazard inciting governments to postpone budget adjustments, etc. It is also argued that the ECB's independence (and that of other central banks which have reached or exceeded the limit of zero rates) would only be virtual in future, as it could not standardise its policy without jeopardising the creditworthiness of States and market stability. It is therefore locked in a twofold trap of "fiscal dominance" and "market dominance".

Such criticism may sometimes appear unfair or excessive, perhaps in keeping with the hope invested in central banks to act alone to resolve the damage done by the crisis. Our aim is not to discuss the relevance of these arguments here, but to stress that these controversies, initially restricted to a few circles of experts and economists, are now passed on in sometimes violent manners by the leaders of financial institutions, politicians and even by former central bankers. By creating uncertainty with regard to the merit and goals of the ECB's strategy,

33. Upon its creation in 1999, the ECB Council initially conducted a so-called "two-pillar" strategy with a reference value set at a 4.5% growth rate for aggregate M3 and a second pillar defined as an inflation rate "below 2%". This strategy was amended in 2003, when the inflation target was redefined to a value "below but close to 2% over the medium term", while the monetary pillar was downgraded to "monetary analysis".
34. Bernanke B. (2017) *Temporary Price-Level Targeting: An Alternative Framework for Monetary Policy*, Brookings, 12 Oct.
35. Billi R. (2017) *A Note on Nominal GDP Targeting and the ZLB*, Macroeconomics Dynamics, 21(8), pp.2138-2157.
36. Blanchard O. *et allii* (2010) *Rethinking Macroeconomic Policy*, IMF SPN 10/03, 12 Feb.
37. De Larosière J. (2019).
38. Holzmann R. (2019) Bloomberg Interview, 13 Oct.
39. Vredin A. (2015) *Inflation Targeting and Financial Stability: providing policy-makers with relevant information*, BIS Working Papers N° 503, July.
40. Draghi M. (2019) *Twenty Years of the ECB's Monetary Policy*, Speech at the ECB Forum, Sintra, 18 June 2019.

they run the risk of weakening its credibility and independence. The obsidional reflex of a criticised independent institution is to close itself off. Yet a probably more useful means of defusing the controversy would be to clarify the policy of objectives and its short- and long-term economic and financial implications. In this respect, we can make a few proposals:

- The ECB should regularly conduct a public review of its policy objectives (for example when a new President is appointed). This review would be based on the expertise of the Eurosystem teams and on that of an advisory committee which meets the highest standards of competence and independence and represents the diversity of schools of thought and opinions. It would then be the ECB's task to present the proposals to the European Council and Parliament[41]. The strategy would then be approved at the highest level of EU institutions, which would protect the ECB from criticism regarding isolation and a lack of transparency. The ECB would naturally retain full autonomy in the selection of monetary policy instruments and terms. These provisions would be relatively similar to those in force in the UK and in Canada.
- The ECB (Eurosystem) should be able to explain its policy and interact openly with a broad spectrum of the population. In this respect, it could do its own version of the "Fed Listens Events" (Clarida, 2019)[42], which have involved since early 2019 the leaders of the Federal Reserve Board and the twelve Chairpersons of regional federal reserve banks in meetings held with various groups (academics, companies, financial institutions, local authorities, different communities, etc.) to openly discuss all subjects concerning monetary policy strategy, instruments and communications[43].
- In a more general sense, communications by the ECB and Eurosystem should be less tight or geared towards ex-post justification of past decisions or directions and more towards dialogue and explanation. In this instance, the press conferences held after each meeting of the Governing Council and bankers' hearings at parliamentary commissions should authorise more open and in-depth exchanges with the President and governors of the central bank[44].

41. A more official avenue would be approval by the European Parliament and Council according to the ordinary legislative procedure (co-decision). Its implementation would require a slight amendment to article 284 §3 of the Treaty of the EU. In addition, it would be logical that debate at the European Parliament takes place among MEPs of the euro area and not on an EU level.
42. Clarida R.H. (2019): *The Federal Reserve's review of its monetary policy strategy, tools and communication practices*, Cato's Institute, Washington DC, 14 Nov.
43. This exercise would not replace public outreach initiatives and in particular educational campaigns in schools.
44. During the press conferences following meetings of the FOMC, for example, journalists are not restricted to one or two questions without any hope of obtaining an answer, as is the case during the press conferences following meetings of the ECB's Governing Council. Similarly, interviews with Fed leaders led by the competent commissions of the Senate or the House of Representatives are much longer and exacting than interviews with the ECB President at the European Parliament.

CONCLUSION

"Independence is simply means to an end. As such, it is not a right and must be earned by retaining public legitimacy." (C. Borio)[45]

- Central bank independence remains a relevant concept in an unstable world, characterised by volatile financial markets focused on the short term and governments under significant political and social pressure;
- Granting central banks broader responsibilities in terms of financial stability or macro-prudential policy is in line with their original mandate and functions. The issue of legitimacy appears to be of little relevance in this case;
- These responsibilities interfere with the overall economic policy; they must therefore be conducted in a collegial framework in which governments have the final say and central banks have a right of initiative (and a right to disclose their proposals);
- An appropriate question is the degree of transparency and accountability related to this expansion of competence. In this respect, Eurosystem still seems at a remove from international best practices, which seem to be incompatible with its situation as a "federal" central bank at the centre of a heterogeneous economic unit and in the absence of a political union;
- Ten years on from the crisis, extremely accommodating monetary policies give rise to fierce criticism regarding their strategies, instruments and their potential economic and financial repercussions at different levels. The obsidional reflex of an independent institution is to close itself off, which may well add fuel to the fire, confirm doubts on the merit and goals of its strategy and ultimately weaken its actual independence;
- This paper puts forward a few specific proposals on the ECB with a view to bolstering its legitimacy to public authorities, markets and above all the public. The ECB could, at regular intervals, conduct an in-depth and public review of its strategy, which would then be approved by the European Council and Parliament. Other proposals aim to improve its ability to listen and interact, beyond the omnipresent communication that is ultimately tightly sealed. Communication and transparency are not necessarily synonymous[46].
- Lastly, financial globalisation increases the effects of monetary policy externalities (heightened by the large-scale purchase of securities). They affect in particular emerging economies and raise the question of international monetary cooperation. Until now, central banks have avoided this, hiding behind the territorial integrity of their objectives or their independence. These arguments do have their relevance, but they cannot be used to justify an international monetary and financial situation that is intrinsically unstable.

45. Borio C. (2019): *"Central Banking in Challenging Times"*, SUERF Policy note N°114.
46. In this respect, forward guidance has emerged as an effective means of influencing expectations. However, markets' hypersensitivity to messages, even subliminal ones, from central banks may in turn limit their leeway, restrict their communication and limit the scope for dialogue with civil society.

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