THE INTERNATIONAL ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
220 I Street, N.E., Suite 200
Washington, D.C. 20002
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Rotation Is Not the Problem

On the ECB governing council, size is the problem.

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As of January 2015, Lithuania will become the nineteenth member of the European Monetary Union. With an equivalent number of governors of national central banks, a rotation system will be implemented in the governing council of the European Central Bank. Governors will be divided into two groups. The first group will comprise the five largest economies (measured by GDP and size of financial market) and the other fourteen countries will form the second group. The first group will have four votes; the second group will have eleven votes. This implies that the members of the first group have a voting right in 80 percent of the cases and members of the second group of about 69 percent. Voting rights rotate in every group every month. (When the number of governors reaches twenty-two, a new system with three groups will be installed.) The six members of the Board always have voting rights. All members retain the permanent right of active participation.

The rotation scheme goes back to a unanimously approved proposal by the governing council of the ECB. It was criticized as being too complex. The underlying algorithm is complex, that is true. But it is easy to implement and gives a clear signal who is allowed to vote when. The major advantage of this scheme is that it is automatic and protects the ECB against any political interference from outside for an indefinite future (as long as the Treaty has not been changed or the number of member countries has not exceeded twenty-seven). With over twenty members, the governing council has certainly transgressed its optimal size. However, any suggestions for a more efficient decision making process with a smaller committee—that is, only the six executive board members having voting rights—would need a change of the treaty. This is not only illusionary, but there would also be a high risk that other changes like limiting the independence of the ECB might be included in such a change.

The special character of the euro area demands that the ECB's monetary policy decisions are defended and explained in all member countries.

Before Maastricht, the council of central bank governors proposed the principal of "one member, one vote," despite initial severe reservations, especially from Karl Otto Pöhl, the former president of the Bundesbank. The idea behind this is that central bank governors as members of the governing council are not representatives of their respective countries, but they have a personal responsibility to fulfill the ECB's mandate to maintain price stability. This principle was strictly observed in the early years of the euro with cases where a governor explicitly supported a monetary policy decision which was in contrast to the economic situation in his home country, but appropriate for the euro area as a whole.

It would be naïve to expect that a governor of a central bank would ignore his or her nationality in cases of decisions which are explicitly in favor of his or her country of origin. This unavoidably is the case when it comes to preferential purchases of bonds of individual countries. In this case, those governors who show a "national bias" might expect similar preferential treatment in the future.

Therefore, it is not the rotation system that is the problem. It should work as smoothly as in comparable cases such the Federal Open Market Committee of the U.S. Federal Reserve. Yes, size is a problem, but this can be overcome. And the special character of the euro area demands that the ECB's monetary policy decisions are defended and explained in all member countries. This cannot be achieved without the support of the national central banks. This can hardly be expected if some or even all governors of those central banks would be excluded from voting by principle. ◆

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