

New CER pamphlet

## **HOW TO REFORM THE EUROPEAN CENTRAL BANK**

By Jean-Paul Fitoussi and Jérôme Creel

Europe's macro-economic policy framework is in trouble. Eurozone inflation continues to overshoot the ECB's 'reference value' of 2 per cent. Yet businesses and policymakers are pleading with the ECB for lower interest rates. Eurozone growth has stalled again. And governments in some of the largest member-states are wary of boosting their economies through public spending, since they are already pushing against the fiscal limits of the Stability and Growth Pact, the EU's rulebook for budgetary policy.

Jean-Paul Fitoussi and Jérôme Creel, two eminent French economists, can claim to have seen it coming. In their thoughtful and timely pamphlet, 'How to reform the European Central Bank', they argue that – although the ECB has done well overall – both the Bank and the Stability Pact need radical change.

- ★ The ECB's most urgent task is to re-think its policy objectives. Inflation below 2 per cent is obviously too tight a target for the eurozone economy. The authors suggest that, rather than leaving target-setting to the ECB itself, the European Parliament should have a say. This would improve the ECB's political standing in Europe. Since European citizens often perceive the Bank as arrogant and aloof, the Bank contributes to Europe's notorious 'democratic deficit'.
- ★ The EU's impending enlargement may well lead to policy gridlock in the Governing Council, the ECB's main decision-making body. Fitoussi and Creel examine various ways of keeping the ECB working after eurozone membership has swelled from 12 to 20 or more. They recommend that Europe's heads of state and government should appoint only a small number of central bank governors to the Governing Council.
- ★ Finally, the authors take a critical but constructive look at the Stability Pact. Although the Pact's theoretical foundations are shaky at best, they are against scrapping it altogether. Instead, they advocate a revision that would leave governments free to react to economic slumps, and to keep public investment at levels that are needed for future growth and prosperity.

### **Note for editors:**

1. Jean-Paul Fitoussi is president of the Observatoire Français des Conjonctures Economiques (OFCE) and a member of the council for economic analysis of the French prime minister. He is also professor of economics at the Institut d'Études Politiques de Paris and an advisor for the Committee on Monetary and Economic Affairs at the European Parliament.
2. Jérôme Creel is a researcher at OFCE. The CER pamphlet draws extensively on his previous research into the Stability and Growth Pact and the performance of the ECB.

**For further information, please contact Catherine Hoyer or Katinka Barysch on 020 7233-1199, or [catherine@cer.org.uk](mailto:catherine@cer.org.uk), [katinka@cer.org.uk](mailto:katinka@cer.org.uk)**