



Universiteit
Leiden

The Netherlands

On the monetary dialogue between the European Central Bank and the European Parliament: from monetary monologue to dialogue - and beyond?

Diessner, S.; Bongardt, A.; Torres, F.

Citation

Diessner, S. (2023). On the monetary dialogue between the European Central Bank and the European Parliament: from monetary monologue to dialogue - and beyond? In A. Bongardt & F. Torres (Eds.), *The political economy of Europe's future and identity* (pp. 199-209). Lissabon: UCP Press.
doi:10.2870/383521

Version: Publisher's Version

License: [Creative Commons CC BY 4.0 license](https://creativecommons.org/licenses/by/4.0/)

Downloaded from: <https://hdl.handle.net/1887/3718493>

Note: To cite this publication please use the final published version (if applicable).

CHAPTER 17

On the monetary dialogue between the European Central Bank and the European Parliament: From monetary monologue to dialogue – and beyond?

Sebastian Diessner

1. Introduction

This essay traces the evolution of the communication between the European Central Bank (ECB) and the European Parliament (EP) over the past 25 years of Monetary Dialogues between the two supranational institutions. The essay begins with a reflection on the political problem of central bank communication. It then sketches out three distinct phases of ECB-EP relations over time. The main contention is that ECB communication with the EP has started, and should continue, to move from a one-way street to a multi-way street, in the interest of further improving the democratic credentials of EMU.



2. The political problem of ECB communication with the European Parliament

The political conundrum of ECB communication with the EP stems from the inherent tension between the central bank's far-reaching legal independence, on the one hand, and the normative requirement for accountability in representative democracies, on the other (Amttenbrink and van Duin, 2009; Baerg and Cross, 2022; Bongardt and Torres, 2022: ch. 10; Grünewald and van 't Klooster, 2023; Schonhardt-Bailey, 2022). While central bank independence and accountability are often portrayed as 'two sides of the same coin' (cf. Braun, 2017; De Grauwe, 2022), with the latter seen as the 'necessary counterpart' to the former (ECB, 2023), this is only true to some extent in the case of EMU. In particular, it hinges on a distinction between different *types* of accountability, which we might refer to as formal versus substantive accountability (Jourdan and Diessner, 2019: 6-7). Formal accountability merely entails an *ex post* answerability by the central bank for its policy actions, whereas substantive accountability also entails the ability to threaten or issue the central bank with sanctions and rewards (Sibert, 2010; Koop and Reh, 2019). While a high degree of *formal* accountability is generally reconcilable with a high degree of independence, there arguably exists a trade-off between *substantive* accountability and the ECB's statutory independence (Diessner, 2018): the former can only be increased at the expense of the latter, at least in theory (Dawson et al., 2019).

In practice, the issue is less straightforward still. Although the European Treaties enshrine the ECB's independence and stipulate that it shall not 'seek or take instructions' (TFEU Art. 130), this leaves open two vexing questions nonetheless. First, does 'no instructions' amount to 'no coordination'? And second, does not *taking* instructions imply not *giving* instructions either? Due to the vagueness of the ECB's mandate (De Grauwe, 2022), the answers to both questions have remained a matter of interpretation over the past two decades (Diessner and Genschel, 2021; Quaglia and Verdun, 2023: 645). While the ECB has been adamant not to be taking any instructions on its own monetary policy-making, recent research has shown that the central bank has not shied away from formulating and at times even enforcing instructions for euro area governments itself, including in the areas of fiscal policy (Diessner and Lisi, 2020) and structural reforms (Braun et al., 2022), raising awkward questions for its perceived legitima-

cy (see also Chang, 2023, this volume; Fontan, 2018; Jones, 2009 and 2013; Macchiarelli et al., 2020; Schmidt, 2020).

The adequate forum for debating and resolving these tensions has been and continues to be the Monetary Dialogue between the ECB president and the European Parliament’s Committee on Economic and Monetary Affairs (ECON) as the main supranational political counterpart of the ECB.¹ How, then, has the relation between the two institutions evolved over the past 25 years? And how can it be expected to evolve in the future?

3. Three stages of ECB communication with the European Parliament, 1998-2023

3.1 1998-2008: ECB-EP communication as a one-way street or ‘hearing but not listening’

The first period of ECB communication with the European Parliament broadly corresponds to the first decade after the inception of the Monetary Dialogue in 1998, on the initiative of former MEP and ECON Chair Christa Randzio-Plath (European Parliament, 1998).² While the ECB has been perceived to be modelled ‘largely’ on the German Bundesbank (Schmid, 1997), what is less appreciated is the fact that the supranational central bank also appears to have been influenced by the views of its predecessor in terms of democratic accountability – namely, that central bank independence should preclude extensive accountability and policy coordination (Tucker, 2018).³ During one of his first appearances before the European Parliament, for example, ECB president Wim Duisenberg pushed back against proposals for creating a ‘macroeconomic dialogue’, stressing that “such a dialogue should be clearly distinguished from any attempts to coordinate policies

1 Note that the Single Supervisory Mechanism (SSM) Regulation has created a separate accountability framework for the ECB’s banking supervision-related tasks in 2014, known as the Banking Dialogue (Fromage and Ibrido, 2018; Högenauer, 2023; Högenauer et al., 2023, this volume; Maricut-Akbik, 2020). Another area of interest that lies beyond the scope of this essay is the democratic accountability of national central banks in the Eurosystem towards their national parliaments (Högenauer and Howarth, 2019). For new light on this long-standing blind spot in research on EMU, see do Vale and Malherbe (2023).

2 This section draws substantively on Diessner (2022; 2023) and a presentation given at SCEUS in 2022.

3 This mantra appears to hold sway until today: in a recent comparison of accountability arrangements among national central banks, the Bundesbank scored the lowest (do Vale and Malherbe, 2023: 13-19).

ex ante” (Duisenberg, 1999; see Braun et al., 2022). Instead, the ECB’s approach to democratic legitimation became one of *ex post* answerability – or in Duisenberg’s own half-joking words to MEPs: “I will fully inform you *after* the event” (Adams and Osborn, 2001, emphasis added). In another infamous exchange during one of the ECB’s regular press conferences, the president also ventured to suggest that when it came to political contestation of the ECB’s monetary policy, the central bank preferred to “hear but not listen” (Duisenberg, 2001).

In sum, it seems fair to say that substantive democratic accountability played a subordinate role for the ECB during the first years of EMU.⁴ Duisenberg’s successor Jean-Claude Trichet sought to build on these foundations by making the ECB’s price stability target the be-all and end-all of debates about its monetary policy-making (cf. Claeys and Domínguez-Jiménez, 2020). During his exchanges with ECON, for example, Trichet “frequently stopped technical questions by referring to the ECB’s mandate”, which meant that debates “covered broad macro-economic issues and remained more superficial” (Collignon and Diessner, 2016: 1305; see Diessner, 2023). This state of affairs would change eventually, if only partially, after the Eurozone crisis.

3.2 2009-2019: ECB-EP communication as a one-and-a-half-way street or ‘silence and voice’

As the ECB’s responsibilities widened in response to the Eurozone crisis, so did the central bank’s attempts to improve the perception of its democratic accountability (Heidebrecht, 2015). This manifested itself in a ‘strategic partnership’ between the ECB and the ECON Committee (Torres, 2013), with exchanges becoming reflective of a ‘more emancipated’ accountability relationship between the two institutions and with Trichet’s successor Mario Draghi displaying an increased “will[ingness] to answer even hypothetical questions” by MEPs, at least compared to his predecessors (Collignon and Diessner, 2016: 1305; see also Diessner, 2023). The longer the crisis dragged on, however, the more the ECB found itself confronted with a political pushback that saw MEPs use their ‘political voice’ to press the central bank on EMU’s sluggish recovery and persistently high unemployment (Ferrara et al., 2022; Schmidt, 2020).

4 In a now-notorious exchange between Willem Buiter and the ECB’s first chief economist Otmar Issing, the former bemoaned that it was “do[ing] no good either to the European Parliament or to the ECB to have the President of the ECB walk all over the MEPs” (Buiter, 1999: 207; cf. Issing, 1999; de Haan and Eijffinger, 2000).

The ECB's advocacy for structural reforms across EMU member states is a case in point here. While the central bank has been calling on national governments to implement reforms since its very inception, this advocacy gained a new quality throughout the crisis, as the ECB also obtained reform *enforcement* powers through its participation in the Troika (Braun et al., 2022). Before long, a political backlash ensued: the EP launched several inquiries into the handling of macroeconomic adjustment programmes by the Troika institutions, while President Draghi repeatedly faced critical questions from MEPs about the ECB's insistence on reforms. In 2016, he eventually had to concede in front of the Monetary Dialogue that it was "certainly not in the ECB's mandate to suggest specific structural policies and agendas to different countries" (Draghi, 2016). Soon after, the ECB's two-decade push for structural reforms came to an end, and the central bank went all but silent on the subject in its public discourse (Braun et al., 2022).

The structural reform saga can serve as an illustration of how ECB-EP communication has moved to what we might call a one-and-a-half-way street – away from a monetary monologue and towards a more genuine monetary dialogue, so to speak. Another recent example of this tendency is the ECB's discourse on climate action and the greening of its operations, which was co-created by a coalition of 'green' central bankers and like-minded MEPs (Deyris, 2023; Massoc, 2022; Quorning, 2023; Siderius, 2022; Thiemann et al., 2023). However, silence or voice on politically thorny issues like structural reforms or climate action can arguably hardly be enough for substantive accountability in and as of themselves.

3.3 2020-2023: ECB-EP communication as a multi-way street or 'ECB listens, but to whom?'

In response to the above challenges to its accountability and legitimacy, the ECB has ramped up its communication strategy in recent years, including and especially towards the general public (Gardt et al., 2021) rather than towards the European Parliament. In addition to a stronger presence on social media (Ehrmann and Wabitsch, 2021), the central bank has organized a series of 'ECB Listens' events that were intended to inform its monetary policy strategy review of 2020, which had to be postponed by a year due to the COVID-19 pandemic (see Begg, 2021). Beyond such outreach activities towards the wider public, however, a perennial question remains in terms of how to further improve the interactions between the ECB and the EP. Several adjustments to the structures and to the practices of the Monetary Dialogue could help foster a more genuine 'back-and-forth'

between the ECB president and the ECON Committee (Jourdan and Diessner, 2019). Recent proposals have included the creation of a sub-committee dedicated to holding the ECB to account as well as a European Credit Council to deliberate macroeconomic policies, an enhanced use of the EP's resolution on the ECB's annual report, or new mechanisms to provide the ECB with guidance on how to deliver on its secondary mandate, for example (ibid.; Béres et al., 2021; de Boer & van 't Klooster, 2021; Monnet, 2023).

A first step in this direction could be to start talks about an inter-institutional agreement (IIA) between ECON and the ECB, as recently promoted by the Socialists and Democrats (2021) and by the Greens/EFA in the EP (van 't Klooster and Grünewald, 2022). As of February 2023, the ECB now appears to have committed to participating in such a process (Tinagli, 2023). Importantly, however, the existence of an inter-institutional agreement does not automatically make a difference for how the ECB is held to account by the EP. This is exemplified by the fact that the Banking Dialogue – for which an agreement has been in place since the beginning in 2014 – and the Monetary Dialogue – for which an IIA has not been put in place until now – are perceived very similarly by the actors involved, with the processes and contents of both dialogues having become increasingly alike over time (Akbik, 2022; Akbik and Diessner, 2023). As such, negotiating and concluding an IIA arguably only make sense if it results in further improvements in the structures and practices of the Monetary Dialogue along the lines of the above or other recent proposals, instead of codifying the *status quo*. What has become evident over the past 25 years of ECB-EP relations is that the way forward in EMU should be toward a multi-way street – not solidifying a one-and-a-half-way nor moving back to a one-way street – if the monetary union is to be made democratically fit for the next 25 years and beyond.

References

- Adams, R. and A. Osborn (2001), “ECB defends U-turn”, *The Guardian* [last access 23/04/2023]: <https://amp.theguardian.com/business/2001/may/29/emu.theeuro>.
- Akbik, A. (2022), “SSM Accountability: Lessons Learned for the Monetary Dialogues”, Study for the European Parliament Committee on Economic and Monetary Affairs, PE 699.545.
- Akbik, A. and S. Diessner (2023), “Police Patrols, Fire Alarms, or Ambulance

- Chasers?”, Parliamentary Oversight of European Monetary Policy and Banking Supervision, Unpublished Manuscript.
- Antenbrink, F. and K. Van Duin (2009), “The European Central Bank before the European Parliament: Theory and Practice after 10 years of Monetary Dialogue”, *European Law Review*, 34(4), 561-583.
- Baerg, N. and J. P. Cross (2022), “Central Banking in the 21st Century: A crisis of Accountability?”, *European Journal of Political Economy*, 102294.
- Begg, I. (2021), “The European Central Bank’s Revised Monetary Policy Strategy”, *LSE EUROPP* [last access 24/04/2023]: <https://blogs.lse.ac.uk/europpblog/2021/08/20/the-european-central-banks-revised-monetary-policy-strategy/>.
- Béres, P., G. Claeys, N. de Boer, P. O. Demetriades, S. Diessner, S. Jourdan, J. van ‘t Klooster and V. Schmidt (2021), “The ECB Needs Political Guidance on Secondary Objectives”, *Bruegel-Blogs*, 22 April.
- Bongardt, A. and F. Torres (2022), *Lessons on the Political Economy of European Integration: Selected Topics*. Lisbon: UCP Press.
- Braun, B. (2017), *Two Sides of the Same Coin? Independence and Accountability of the European Central Bank*, Berlin: Transparency International EU.
- Braun, B., D. Di Carlo, S. Diessner and M. Düsterhöft (2022), “Between Governability and Legitimacy: The ECB and Structural Reforms”, *SocArxiv*.
- Buiter, W. H. (1999), “Alice in Euroland”, *JCMS: Journal of Common Market Studies*, 37(2), 181–209.
- Chang, M. (2023), “Legitimizing Central Bank Independence under the Post-Maastricht Framework”, in A. Bongardt and F. Torres (eds), *The Political Economy of Europe’s Future and Identity: Integration in Crisis Mode*, Florence: EUI Press, and Lisbon: UCP Press.
- Claeys, G. and M. Domínguez-Jiménez (2020), *How can the European Parliament better oversee the European Central Bank?*, Study for the European Parliament Committee on Economic and Monetary Affairs, PE 652.747.
- Collignon, S. and S. Diessner, S. (2016), “The ECB’s Monetary Dialogue with the European Parliament: Efficiency and Accountability during the Euro Crisis?”, *Journal of Common Market Studies*, 54(6), 1296-1312.



- Dawson, M., A. Maricut-Akbik and A. Bobić (2019), “Reconciling Independence and Accountability at the European Central Bank: The False Promise of Proceduralism”, *European Law Journal*, 25(1), 75–93.
- de Boer, N. and J. van ‘t Klooster (2021), *The ECB’s Neglected Secondary Mandate: An Inter-Institutional Solution*, Positive Money Europe, October.
- De Grauwe, P. (2022), *Economics of Monetary Union*, Oxford: Oxford University Press, 14th edition.
- de Haan, J. and S.C.W. Eijffinger (2000), “The Democratic Accountability of the European Central Bank: A Comment on Two Fairy-Tales”, *JCMS: Journal of Common Market Studies*, 38(3), 393–407.
- Deyris, J. (2023), “Too green to be true? Forging a climate consensus at the European Central Bank”, *New Political Economy*, 1-18.
- Diessner, S. (2023), “The Politics of Monetary Union and the ECB’s Democratic Legitimacy as a Strategic Actor”, in D. Adamski, F. Amtenbrink and J. de Haan (eds), *Cambridge Handbook on European Monetary, Economic and Financial Market Integration*, Cambridge: Cambridge University Press.
- Diessner, S. (2022), “The Promises and Pitfalls of the ECB’s ‘Legitimacy-as-Accountability’ towards the European Parliament Post-Crisis”, *Journal of Legislative Studies*, 28(3), 402-420.
- Diessner, S. and P. Genschel (2021), “The ECB during the COVID-19 and Eurozone Crises: Supranational Agency, De-Commitment, and Principal Loss”, Unpublished Manuscript.
- Diessner, S. and G. Lisi (2020), “Masters of the ‘Masters of the Universe’? Monetary, Fiscal and Financial Dominance in the Eurozone”, *Socio-Economic Review*, 18(2), 315–335.
- do Vale, A. and L. Malherbe (2023), “Shedding Light on a Blind Spot: New Evidence on the Accountability of Eurosystem National Central Banks”, Positive Money Europe.
- Draghi, M. (2016), “Hearing of the Committee on Economic and Monetary Affairs of the European Parliament”, Monetary Dialogue, Brussels: European Parliament, 26 September.
- Duisenberg, W. (2001), “Press Conference”, Frankfurt: European Central Bank, April 11.

- Duisenberg, W. (1999), “Introductory Statement”, Strasbourg: European Parliament, 26 October.
- Ehrmann, M. and A. Wabitsch (2021), “Central Bank Communication with Non-Experts: A Road to Nowhere?”, *ECB Working Paper*, 2594.
- European Central Bank [ECB] (2023), “Accountability”, ECB website [last access 23/04/2023]: <https://www.ecb.europa.eu/ecb/orga/accountability/html/index.en.html>
- European Parliament (1998), “Report on Democratic Accountability in the 3rd Phase of EMU”, Committee on Economic and Monetary Affairs and Industrial Policy, Brussels: European Parliament.
- Ferrara, F.M., D. Masciandaro, M. Moschella and D. Romelli (2022), “Political Voice on Monetary Policy: Evidence from the Parliamentary Hearings of the European Central Bank”, *European Journal of Political Economy*, 74, 102143.
- Fromage, D. and R. Ibrido (2018), “The “Banking Dialogue” as a Model to Improve Parliamentary Involvement in the Monetary Dialogue?”, *Journal of European Integration*, 40(3), 295–308.
- Gardt, M., S. Angino, S. Mee and G. Glöckler (2021), “ECB Communication with the Wider Public”, *ECB Economic Bulletin*, Issue 8/2021.
- Grünewald, S. and J. van ‘t Klooster (2023), “New Strategy, New Accountability: The European Central Bank and the European Parliament After the Strategy Review”, *European Banking Institute Working Paper Series*, 139.
- Heidebrecht, S. (2015), “Wie transparent ist die Europäische Zentralbank? Eine international vergleichende Betrachtung vor dem Hintergrund der weitreichenden Neuerungen zum Januar 2015”, *Zeitschrift für Politikwissenschaft*, 25(4), 501–526.
- Högenauer, A.L. (2023), “The ECB as a banking supervisor: transparent compared to what?”, *Journal of European Integration*, 45 (1): 121–137.
- Högenauer, A.L. and D. Howarth (2019), “The Parliamentary Scrutiny of Euro Area National Central Banks”, *Public Administration*, 97(3), 576–589.
- Högenauer, A.L., D. Howarth and L. Quaglia (2023), “The Challenge of Completing Banking Union, in A. Bongardt and F. Torres (eds), *The Political Economy of Europe’s Future and Identity: Integration in Crisis Mode*, Florence:

- EUI Press, and Lisbon: UCP Press.
- Issing, O. (1999), “The Eurosystem: Transparent and Accountable or ‘Willem in Euroland’”, *JCMS: Journal of Common Market Studies*, 37(2), 503–519.
- Jones, E. (2009), “Output Legitimacy and the Global Financial Crisis: Perceptions Matter”, *JCMS: Journal of Common Market Studies*, 47(5), 1085–1105.
- Jones, E. (2013), “The Collapse of the Brussels-Frankfurt Consensus and the Future of the Euro”, in V.A. Schmidt and M. Thatcher (eds), *Resilient Liberalism in Europe’s Political Economy* (145–170), Cambridge: Cambridge University Press.
- Jourdan, S. and S. Diessner (2019), “From Dialogue to Scrutiny: Strengthening the Parliamentary Oversight of the European Central Bank”, Brussels: Positive Money Europe.
- Macchiarelli, C., M. Monti, C. Wiesner and S. Diessner (2020), *The European Central Bank between the Financial Crisis and Populisms*, London: Palgrave Macmillan.
- Maricut-Akbik, A. (2020), “Contesting the European Central Bank in Banking Supervision: Accountability in Practice at the European Parliament”, *JCMS: Journal of Common Market Studies*, 58(5), 1199–1214.
- Massoc, E. (2022), “Climate Change versus Price Stability: How ‘Green’ Central Bankers and Members of the European Parliament Became Pragmatic (Yet Precarious) Bedfellows”, Brussels: Positive Money Europe.
- Monnet, E. (2023), “The Democratic Challenge of Central Bank Credit Policies”, *Accounting, Economics, and Law: A Convivium*. <https://doi.org/10.1515/ael-2022-0113>
- Quaglia, L. and A. Verdun (2023), “Explaining the response of the ECB to the COVID-19 related economic crisis: inter-crisis and intra-crisis learning”, *Journal of European Public Policy*, 30(4), 635–654.
- Quorning, S. (2023), “The ‘Climate Shift’ in Central Banks: How Field Arbitrageurs Paved the Way for Climate Stress Testing”, *Review of International Political Economy*, 1–23.
- Schmid, J. (1997), “Bundesbank chief says euro could spawn wage conflicts”, *International Herald Tribune* [last access 23/04/2023]. www.nytimes.com.

com/1997/02/28/business/worldbusiness/IHT-bundesbank-chief-says-euro-could-spawn-wage.html.

- Schmidt, V.A. (2020), *Europe's Crisis of Legitimacy: Governing by Rules and Ruling by Numbers in the Eurozone*, Oxford: Oxford University Press.
- Schonhardt-Bailey, C. (2022), *Deliberative Accountability in Parliamentary Committees*, Oxford: Oxford University Press.
- Sibert, A. (2010), "Accountability and the ECB", Paper Presented at the 38th Economics Conference of the Central Bank of Austria, Vienna, 2 June.
- Siderius, K. (2022), "An Unexpected Climate Activist: Central Banks and the Politics of the Climate-Neutral Economy", *Journal of European Public Policy*, 1–21.
- Socialists & Democrats (2021), "Enhancing ECB's democratic legitimacy must accompany its rise to crucial crisis fighter", Press Release.
- Thiemann, M., T. Büttner and O. Kessler (2023), "Beyond market neutrality? Central banks and the problem of climate change", *Finance and Society*, 9(1), 14–34.
- Tinagli, I. (2023), Twitter @itinagli [last access 24/04/2023]: <https://twitter.com/itinagli/status/1626155735854850049>.
- Torres, F. (2013), "The EMU's Legitimacy and the ECB as a Strategic Political Player in the Crisis Context", *Journal of European Integration*, 35(3), 287–300.
- Tucker, P. (2018), "Opening remarks at New City Agenda Event on Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State", London, 12 June.
- van 't Klooster, J. and N. de Boer (2023), "What to Do with the ECB's Secondary Mandate", *JCMS: Journal of Common Market Studies*, 61(3), 730–746.
- van 't Klooster, J. and S. Grünewald (2022), "An EP-ECB Interinstitutional Agreement on Monetary Policy", Brussels: Greens/EFA Group.