CEuS Working Paper 2002/4

Politics of Accountability in Euroland

Shawn Donnelly

Jean Monnet Centre for European Studies (CEuS)
University of Bremen
SFG, Enrique-Schmidt-Strasse 7
D – 28359 Bremen
Phone +49 – 421 – 218-9037
Fax +49 – 421 – 218-9143

CEuS Working Paper 2002/4

Politics of Accountability in Euroland

Shawn Donnelly

Dr. Shawn Donnelly is Assistant Professor of Political Science at the University of Bremen, and member of the Centre for European Studies since October 2001. He was previously Assistant Professor of International Relations at Koc University in Istanbul (2000-01) and Research Officer at the University of Sheffield (1998-99). He is the author of Reshaping Monetary Union: membership rules and budget policies in Germany, France and Spain. Manchester University Press (forthcoming).

Politics of Accountability in Euroland

Shawn Donnelly, Bremen, March 2002

Key Words: Accountability, European Central Bank, Broad Economic Policy Guidelines, Policy Networks

This paper examines the institutions and networks that link the European Central Bank to various issue publics in the European Union. It identifies two parallel policy communities engaged in dealing with European monetary policy, and argues that the institutional environments they operate within works against the provision of central bank accountability to a broad public. One network comprised of national governments, the Commission and ECB officials channels its members' energies into pursuing structural reforms of European economies and avoiding confrontation with ECB policy rather than questioning it, albeit with only modest success. A second involves the European Parliament and academics, which seek both transparency and a redefinition of goals from the ECB. Its effectiveness is constrained, however, by a combination of limited parliamentary powers, underdeveloped linkages between the European and national parliaments, and the unwillingness of the executive network to share full information.

I. Introduction

The establishment of Economic and Monetary Union (EMU) in Europe has been lauded and decried as a bold political experiment. It has been lauded because national governments sorted out their differences to create the European Central Bank (ECB) and commit themselves to a single monetary policy, despite political and economic disparities of interest. The independence of the ECB from political direction was also heralded by some as a sensible response to the structural power of financial markets to reward and punish macroeconomic policies.

EMU has been decried because the ECB's constitutionally protected independence from political direction casts its political legitimacy in doubt. Not only does political independence of the central bank and its entrenched mission to pursue price stability constitute a break with most European models of national political economy, but normative objections against its anti-majoritarian nature have been raised, as well as practical concerns of backlash from the losers of the ECB's monetary policy. That reaction could range from the establishment of a countervailing institution to check and balance the proclivities of the ECB in favour of more fiscal activism, to a withdrawl of national economies from the EMU system.

It is time to take stock of what has happened in practice to calls for greater accountability. This paper explores the concepts, goals and means of accountability in discourse about monetary policy in Euroland, and then examines how various actors engage the ECB in discussion or negotiation about its activities and predilections. It identifies two parallel networks engaged in discussion of monetary and fiscal policy in Euroland: an executive-oriented system of member state accountability to the institutions and rules of EMU, and a parliamentary-oriented system geared to transparency of ECB operations.

II. Concepts, Goals and Means of Accountability[1]

Accountability as a *concept* is more than simply transparency. This is a necessary component for outsider scrutiny of how an individual or corporate body plans and conducts its activities. Transparency does not incorporate consequences for undesirable behaviour on the part of an individual or institution, even though it is necessary to determine whether such a state of affairs has arisen.

Accountability means that an individual or corporate body must answer to a constituency (Elgie, 1998). This means that constituency concerns need to be taken seriously in the formulation and execution of policy. It would go too far to expect a direct translation of individual constituent wants and needs, nor must we expect that a winning

[1] Taylor (2000) provides a differently structured introduction to existing and possible rules of accountability.

coalition of interests include the preferences of all interested parties. But respect for, discussion of, and where practicable, incorporation of such concerns from stakeholders in the policy process is an integral component of exercising accountability.

Accountability requires some substantive standard against which to make a judgement (De Haan & Amtenbrink, 2000). There are at least two possibilities to speak of. Legislated objectives, of which treaties and constitutions are a special variety, can provide a clear standard of measurement, thereby making courts or surrogate bodies the judges of performance. Legislated objectives have the advantage of imposing conditions on action, whilst relying on transparency and related matters of supervision rather than compelling the body to devote more resources and time to answering constituent demands. Alternatively, an executive, parliamentary or corporatist body might possess the power to decide and revise these standards as they see fit (ibid). This involves more effort and cost on both sides (more so for the side conducting supervision), but responds more readily to shifts in economic, social and political circumstances than statutory, constitutional, or treaty-based standards allow.

The separation of European monetary policy from its previous national frameworks of monetary policy formulation and evaluation opens the possibility that the actors that had hitherto played a role evaluation may form networks transcending national and European level decision centres. The institutional environment surrounding the ECB built into treaties and intergovernmental agreements does not encourage active oversight by any institution. It is not possible to assume, however, that actors with a history of involvement, new actors who are dissatisfied with the existing state of European macroeconomic policy, and European level interest groups will refrain from attempts to influence the process.

Accountability as a *goal*, as a benefit in itself, can be thought of in at least three different ways. First, it can be valued as a check or balance against unrestrained activity that would otherwise harm other societal goals. This goal fits particularly well a system of government and administration that makes liberal use of independent administrative agencies. As these institutions are designed with a particular public interest goal in mind, they may not contribute to a satisfying overall policy mix without a counterweight (in a system of checks and balances) or accountability to an institution responsible more generally for defining the public interest.

Second, independent institutions normally have a mandate to issue secondary legislation, regulations, and in the case of the ECB, interest rates that have deep political ramifications without being reviewed by a democratic process. Should they drift too far from politically acceptable norms, or otherwise fail to fulfil the expectations projected on them, then accountability will become very valuable indeed. This is a common concern known as the principal-agent relationship, in which the managers of institutions have the capacity to engage in uncontrolled and undesirable behaviour unless mechanisms are put in place to ensure accountability to the principals. In a principal-agent relationship, the pre-strategic nature of principal interests are considered unproblematic. In the ECB case, therefore, it speaks to how well the bank carries out its fiduciary responsibilities as set out in the various treaties and protocols. These documents place the mission of price stability before other preferences and limit the range of constitutionally sanctioned demands that principals may make. For this reason, it cannot illuminate politics over the mix of goals pursued by the bank.

Another caveat in relying on the principal-agent literature is that it provides no packaged answer as to who the principal stakeholder is. At least since Theodore Lowi's (1979) complaints about the proliferation of independent agencies in the United States, it is clear that a distinction must be made between institutions that incorporate accountability to the extent of capture by a small number of interest groups in the pursuit of selfish rent-seeking activity, and accountability to a legislature, on account of its responsibility for pursuing a broader view of the public interest. Therefore, the pursuit of accountability as a means of democratic influence over policy formulation and evaluation is a final goal of its own that must be mentioned here.

Accountability must finally be thought of as a *means* to other ends, which may mean the exercise of political direction. Where accountability does not result in the replacement of personnel (this is certainly one means of exercising authority over an institution, though one would have to question its independence), it is useful to distinguish between *accountability as political direction* of policies, which is incompatible with independence, and accountability through transparency or as a third possibility, of negotiation. By political direction, I mean that active power to set and change the standards of accountability in a substantive sense are retained and exercised. Each of the latter two options provide for some combination of accountability with institutional independence.

By *accountability as transparency*, I mean that there is an attempt to ensure that an institution has a clearly legislated mission, guiding rules, and that it provides information to a responsible body that shows how it has interpreted and carried out that responsibility. Such a system requires no ongoing definition or elaboration by the actor seeking to make an institution accountable, thereby minimising the prospect of ongoing political direction. Opportunities to 're-orient' a relatively independent institution to changes in political and social priorities are limited to the choice of executive personnel, with a different viewpoint on policy, rather than a change in the legislation and fiduciary duties of the officers concerned. For this reason, institutions designed to possess strong independence pay considerable attention to the length of executive terms of office, as well as the procedure and criteria for appointment and removal.

Here, it should be stressed that this does constitute a view of accountability, albeit a strictly limited one based on the establishment of an anti-majoritarian institution. As in the case of the United States Supreme Court, appointments under this model attract tremendous political scrutiny. The vetting procedures take into account not only ideological persuasions of interest to the body politic, but also matters of technical understanding, and points of difference amongst experts that will guide the institution under its new leadership. This points to an understanding that political issues cannot be divorced from the application of policy, no matter how independent and thickly missioned the institution is, and an expectation that whilst non-majoritarian institutions may lag public opinion and political alignments, that they only fail to respond to short term fluctuations.

By *accountability as negotiation*, I mean a relationship in which principal and agent each enjoy a right to have a say in the definition of final priorities, without either having the right to proceed independently. Neither is able to establish a dominant relationship over the other. The following sections examine the various discussions of accountability for the European Central Bank, from the vague to the specific, keeping in mind the different ambitions and relationships set out above.

The sections may give the first impression that they are concentrated on either the European or the national level, but not both. This is not so. There are two reasons for organising the material in this way. First, although network governance is expected to reflect a pattern of interest articulation and policy formulation that is distinct from pluralist, statist or corporatist models of national political economies (Kohler Koch, 1999), there are also distinctions to be made amongst policy networks in different issue areas (Faulkner, 2000). Organising the material below to account for the prevalence of transnational and multilevel networks that are either group, executive, or parliamentary in nature and membership will help to bring out the distinctive nature of policy networks in monetary policy. Second, EMU has been constructed in such a way as to make it difficult for interest groups or parliamentary representatives to have meaningful input. The European Parliament has fought this impulse with some modest success, and the efforts of interest groups and national parliaments ought to be taken into account as well.

III. ECB Independence and Responsibilities

The European System of Central Banks (ESCB) has the right and responsibility under Article 105 of the Treaty on European Union to formulate and administer monetary policy, with the primary objective of ensuring price stability in Euroland. Article 107 prohibits the ECB from seeking or taking instructions 'from Community institutions or bodies, from any government of a Member State or from any other body.' The ECB therefore not only enjoys operational independence, but also the political independence to pursue its agenda in an anti-majoritarian fashion (Dyson, 2000; Buti and Sapir, 2000) within the confines of its mandate. Modifications may be made to suit an economic programme or a formal exchange rate commitment made at the political level, provided the price stability directive remains intact. Based on the experience of the Bundesbank's cooperation with the commitments of EMU (Loedel 1999), such political direction is plausible.

Monetary policy is set by the executive board of the ECB (six members, including the President and Vice President) and the heads of the national central banks (NCBs) of the member countries. As none of them may be removed from office once appointed, any possible attempt at political influence could only take the form of political criteria entering the selection of replacements when the terms of incumbents come to an end. This is a tenuous possibility, though one that may not entirely be ruled out.

IV. Executive Accountability

Here executive refers to two sorts of actors: to the national governments acting collectively in the Council of Ministers (or the Council of Europe) in the first instance, and the Commission in the second. As the Council is the primary source of political power, it comes into view for all potential aspects of political direction and negotiation (at least theoretically) in a way that the Commission does not. The latter could be involved in the provision of transparency, however, as a role delegated from the Council.

Relations between the Council and the ECB place the former in a subordinate role. Euroland monetary policy can be discussed and analysed by national governments but not directed or adjusted by them under the existing arrangements, and national economic policies, both individually and collectively, are to be conducted in a manner that does not force a contest of wills with the ECB over the European inflation rate or money supply. Some minimal yet politically significant national commitments on debt and deficit management are contained in the Stability and Growth Pact of 1997, and apply to all members of Euroland. We can think of these as *structural components* of the economic policy decision making system that prevent any individual member government from posing too strong a challenge to the institutionally entrenched norms of prudence in government borrowing and inflation management. Rather than stressing ECB accountability, the thrust of this institutional matrix emphasises the belief that the key problem of accountability lies with national governments fulfilling their treaty obligations. The *process* through which this is accomplished is discussed below as the defining characteristic of an exclusive and non-transparent executive-ECB policy network.

The following discussion is separated into two parts. The first deals with the failed project to create an economic government and the development of the Euro 12 Council in its place. This is designed to answer why neither political direction nor negotiation of goals between the ECB and the Council appears to be a viable option.

The second part deals with the roles of the Council of Ministers and the European Commission alongside the ECB in the context of the European macroeconomic policy architecture. This is designed to show the development of a macroeconomic policy network, but one which is highly secretive and exclusive, and therefore, not capable of providing public transparency. This serves as a point of contrast in Section V, which discusses the contrasting efforts of the European Parliament to secure a prominent position in open and highly informative dialogue on macroeconomic policy.

Economic Government and the Euro 12 Council

The EU has not established an economic government alongside the European Central Bank that might demand more than transparency, despite periodic proposals from Paris. German fears of political direction of the ECB to accept higher inflation levels, and French concern for the political legitimacy of monetary union up until the launch of stage three of EMU are well documented (Dyson, 2000). The one window of opportunity to move beyond this deadlock after the launch of stage three opened between October 1998 and May 1999, when the finance minister of Germany's new Social Democratic government, Oskar Lafontaine, pushed for the establishment of an economic government with full powers of policy direction. Although the Jospin government in France was equally well disposed to such a position, Chancellor Gerhard Schröder was not, eventually forcing Lafontaine's resignation and the jettisoning of the economic government option.
The face saving compromise is the Euro 12, which serves as an informal forum of Euroland finance ministers. The actual impact of the group is difficult to ascertain, as it meets behind closed doors, and because its influence would be felt in ECOFIN, the Council of Economics and Finance Ministers, which is not itself known for its transparency of discussion or even voting. Nevertheless, information and views on the state of the European economy and the policies of the ECB can be traded and common positions formed which could be a powerful influence on ECOFIN if the members hang together to promote a common position.

However, only the Council of Europe and ECOFIN possess the legal authority to make authoritative statements or binding decisions on European macroeconomic policy, and then only by unanimity. Even here, ECOFIN is producing recommendations rather than formally assuming any authority over national economic policy. It alo holds political authority over the Excessive Deficit Procedure, which threatens economic sanctions against governments that break the debt and deficit limits for members protocolled in the Maastricht Treaty. Any more ambitious measures, contained in an economic programme for the EU for example, would still have to respect the ECB's commitment to price stability without an amendment of the treaties. This has two implications for ECB accountability. First, even if the Euro 12 were to arrive at a common position, they would have to convince the three national governments not participating in EMU to cooperate. Second, this dependence on ECOFIN's legal powers to demand more in the way of transparency or fundamental policy goals means that the Euro 12 are most likely to engage in quiet diplomacy to seek what they want from the ECB. This points to a small, secretive policy network linking national executive branches with the ECB as the most that can be accomplished. This appears to be probable, since the institutional makeup of monetary union grants the president of ECOFIN, along with a representative of the Commission, the right to participate in ECB debates about macroeconomic policy in Europe. The problem, of course, is that special arrangements need to be made when the president of ECOFIN is not a member of EMU.

Broad Economic Policy Guidelines

The Broad Economic Policy Guidelines (BEPG) are the mechanism for promoting economic coordination and convergence for the EU as a whole. ECOFIN has the responsibility to set substantive guidelines for macroeconomic policy (though not hard rules) and in areas of real economic convergence felt to significantly influence macroeconomic performance. The BEPG for 2000, for example, included wage developments, investment in knowledge-based industry, and measures to increase the efficiency and vigour of product, capital and labour markets, and pension insurance reform in addition to fiscal policy. Macroeconomic performance is evaluated in terms of European benchmarks, but there is also a significant element of drive for supply-side reforms to a broad range of policies that goes beyond the comparison of national employment, inflation and deficit figures (CEC, 2001). Whereas the terms of the Maastricht Treaty and the Stability and Growth Pact set the structural parameters within which possible policy preferences are considered, the BEPG constitute a *process* of carrying out the intent of the debt, deficit and inflation commitments of EMU membership.

The participating individuals form a fairly small network based on executive and ECB officials, dominated by the Council. The Commission makes recommendations to the Council on the BEPG for the coming year, and reports on implementation in all EU countries, whether they participate in EMU or not. The Council, on the other hand, makes the final decisions on the plan for the upcoming year, and after the Commission's report, passes judgement on the programme performance of national governments, sometimes criticising them for doing too little to conform to the common goals, as happened in the case of the Irish budget in the spring of 2001. During these processes, it is customary for the ECB to be consulted.

In essence, the BEPG allows a policy network involving national finance ministers & central bankers, ECB and Commission officials to operate, but in a way that emphasises scrutiny of national policies rather than making demands on the central bank. It is aided in its supervision of national policies by an even smaller and cohesive group known as the Economic & Financial Committee, represented by two members each from the Commission, Council, and ECB. The European Parliament has no formal rights of consultation in this process. This might be interpreted as the overwhelming influence of common ideas shared by a close knit epistemic community (McNamara, 1998).

However, there are already signs that the explanatory capability of ideas tell us less about the relationship between national executives and the ECB than the political pressures facing each national government at home, modified somewhat by the institutions that shape their behaviour. The confrontation between the Irish government and the rest of ECOFIN over its inflation rate, and grumblings from Germany about a continuing recession whilst economies boom on the EU's outer rim belie the fact that agreement over economic doctrine is a thin veneer over the more urgent imperatives of national politics.

The national governments are faced with the task of coordinating economic policies closely (if they are agreed on the best course of action), or of attempting to shift the burden of adjustment on others if divergent economic circumstances divide Euroland into a clear set of winners and losers. This was the scenario conjured up by optimal currency area enthusiasts: economic differences would make a division of European countries into winners and losers from a common monetary policy unavoidable, leading to political discord over the desirability of a strong currency, failure to adhere to the economic policy targets, or even a breakup of the union (Goldstein & Frenkel, 1994; de Grauwe, 1994). This scenario appears to have begun taking shape, and should be brought into a model of how economic policy networks form and participate effectively, in this case, to provide some measure of accountability. Currently, European governments acting through the Council appear to be too divided to consider acting collectively to demand anything of the ECB.

The effect of doing so is that we will move away from the past literature, which focused on the structure of the decision making system in Euroland, emphasising central bank independence (Cukierman, 1992) and normative agreement on membership criteria and macroeconomic policy goals (Verdun, 2000), and shifting attention to the processes of budgetary politics and economic policy coordination taking place within it. This will look at the *res publica* allowed for by the treaty within ECOFIN, where the process of political agreement over problem identification, policy priorities and concrete goal selection is carried out. The process still allows for (without mandating) governments to collectively question and review the general direction of their economic policy programmes. But to present, the literature has taken the rules of EMU as a given *acquis communautaire*, preferring to ask whether candidates and members could and would adhere to the criteria, rather than whether the norms of the system could be reshaped or significantly altered by creating a balancing institution like the economic government. This is particularly so within the German literature on EMU, which was concerned with inflation and associated commitments first and foremost.

V. Parliamentary Accountability

The Accountability Project

The European Parliament (EP) has developed a role in European monetary policy that can be best described as promoting transparency of the European Central Bank's decision making processes. Neither European nor national parliamentarians are impressed with their capacity to make this happen in some way (Katz & Wessels, 2000). The European Parliament itself prefers a model of partnership that would allow it to negotiate policy goals with the ECB and to second guess its interpretation of economic trends in

Euroland. In 2000 and 2001, this meant whether the balance of risks had shifted from inflation to poor growth.

The Committee on Economic and Monetary Affairs (CEMA) is responsible for arranging quarterly meetings with the President of the ECB. These meetings are not required by the treaties establishing the European Central Bank, but have been held since the time it took over from the European Monetary Institute in June 1998, with the stated desire to fulfil a perceived need for information on the reasoning going into monetary policy decisions. The minutes of the hearings are made available to the public soon afterward. In addition, CEMA evaluates the BEPG process, including both Commission and Council reports. Since mid 1998, CEMA has co-opted the Parliament's Committee on Labour and Social Affairs into the process, and its evaluations are appended to CEMA reports. This has been particularly important since the European Council committed itself to stronger employment measures at the Lisbon summit in 1999.

The process of reports and hearings has also attracted a small community of academic, interest group and other experts who regularly prepare and submit research reports on matters of related interest in preparation of the quarterly hearings. These documents are also made available to the public over CEMA's internet site. This component has grown from just a few contributions to more than ten in preparations for an average hearing. Written contributions from interest groups tend to come from the national level and do not reflect the broad range of national or European interest groups with a stake in the pronouncements. European employer, banking and trade union federations do not make submissions, preferring instead to prepare press releases, discussed in the section on interest groups below. Despite the reports, there is no evidence from committee minutes that they attend or participate in such hearings.

The primary stated goal of the hearing and report process is transparency of the ECB decision making process. They seem to have done this to some degree, in the sense that the central bank discusses its assessments of economic activity in Euroland, the various domestic and international factors influencing it, and the balance of risks between inflation and recession. In January 2002, due to concern that the introduction of euro notes and coins had led to inflation in Euroland, President Duisenberg also discussed the measurement of inflation rates (CEMA, 2002). The parliamentary committee has not been successful, however, in securing the publication of minutes from the meetings where interest rates are decided. The ECB steadfastly justifies this secrecy on the grounds that if its decisions, and particularly, the individual votes were to be made public, that national central bank governors would come under pressure from national governments to promote their own country's interests at the expense of the Euroland community (CEMA, 1999). Whether this would be government pressure or public pressure is left unsaid, but the close network of executives that already exists makes it likely that the ECB means public pressure more broadly.

The failure to secure full transparency is important for two reasons. First, the Parliament suspects that secrecy of ECB monetary policy meetings serves not to protect it from lobbying by national governments, but rather to encourage it in a clandestine fashion. There are two possible ways in which this might be done. In either case, the impact would be seen in ECB council discussions, if they could be seen. The first and most obvious, is that the president of ECOFIN sitting in the Council, or that national finance ministers in discussion with their national central bank (NCB) governors, attempt to impress on them the importance of defining the best interests of Euroland in a way that supports their national economies first and foremost. Given the security of NCB governor offices, however, the impact of such lobbying is uncertain at best.

The independence of central bank governors, and even the strength of their commitment to price stability, however, is subject to qualification when they are selected. The monetary policy committees of the various NCBs, which have a key influence on national positions on macroeconomic policy within the ESCB, vary in their composition between those made up of bankers only and those on which a cross-section of economy and society is represented. The German system heavily favours bankers comfortable in a technocratic setting, including officials who are selected from the regional central banks or from the private bank sector. The French system favours individuals trained as state functionaries, but also includes functional representation of economic groupings on its monetary policy committee. As the ECB matures, it would be interesting to see whether these differences have any perceptible effect, though it is as yet too early to tell.

The German experience of dealing with a federal structure of its own central bank, the Bundesbank, suggests that determined national governments may still attempt to politicise appointments to their respective NCBs, regardless of legal restrictions. After reunification, the Bundesbank and the federal government successfully put an end to the principle that each state in the federation should have its own central bank (Landeszentralbank, or LZB), and that each LZB would have a seat on the Bundesbank's executive committee responsible for monetary policy (Lohmann, 1997). Ostensibly, this decision was justified in the interests of preserving efficiency in the decision making process. However, the Bundesbank also feared that governments from the eastern Länder and from more activist social democratic Länder in the old states would appoint LZB governors more understanding toward a looser macroeconomic policy for the country, thereby shifting the Bundesbank toward a stance less concerned with the risk of inflation than the risk of poor economic growth. Since stage three of EMU was launched, the Bundesbank has launched yet another proposal that would eliminate its federal structure altogether.

The lesson from Germany, therefore, is that federal structures, such as the ECB shares, allow an executive-based multilevel politics of macroeconomic policy to flourish behind the scenes of a legal commitment to focus on ensuring that value of the currency. There is nothing necessarily sinister about this, to avoid misunderstanding. Rather, disagreements on the existing state of the national economy (in this case, the European economy), and the specific economic lessons that prevail in a particular region of the economy are natural occurrences for which national governments may wish to ensure a measure of understanding in their central bank leadership. Just as American politicians pay close attention the inclinations of their Supreme Court justices, European politicians are likely to pay attention to the inclinations of the central bankers with great interest, and with the national interest in mind. Therefore, scrutiny of the executive-central bank network by the parliament-based network could go a long way to ruling out the possibility of naked intergovernmental political pressure on the ECB.

CEMA's second objective in pushing for transparency of ECB minutes is that it wishes to enter a negotiation role with the ECB about the mix of priorities that it pursues, rather than simply transparency. Whereas the ECB steadfastly maintains that the best contribution it can make to growth of output and employment is to ensure price stability first and foremost, the Committee is not as sanguine and would prefer to see a re-orientation of preferences to more closely resemble the balance of growth and stability priorities entrenched in the Humphrey Hawkins Act in the United States, which also requires regular reports to Congress. It has been remarked repeatedly in the popular press, however, that such reports are remarkable in their ambiguity, and so the effects of such a change in the ECB's mandate, would it occur, are uncertain. What is fairly certain is that calls for transparency are unlikely to be the end of the demands for greater accountability.

The EP has also criticised the executive branches of the EU, both the Commission and the Council, for maintaining a closed network for discussing economic policy in Euroland. It has also criticised them for failing to take up the cause of mixed goals publicly (CEMA, 1999).

Should the European Parliament exercise accountability alone, or is a transnational effort comprising members of both national (MNPs) and European parliaments (MEPs) more likely and desirable for parliamentarians? Katz has found that the majority of MEPs support a central role for the European Parliament in assuring democratic legitimacy, whilst MNPs, with some country variations, prefer a mixed solution (Katz, 1999: 27-30). This means multilevel networks situated in both the national and European parliaments. In pursuit of such networks, MNPs are focused on controlling the behaviour of their own governments only, and are disproportionately supported by those MEPs who are critical of existing policy at the European level (Katz, 1999a: 84). However, parliamentarians have indicated that the national supervision is rarely strong enough to satisfy the need for proper accounting of national governments and their activities, say, in the Eurogroup (Katz, 1999: 41).

Problems and Prospects

The EP is handicapped in its mission to enhance accountability in any way by the lack of rights it enjoys to participate in policy hearings and to demand the kinds of information it feels is necessary to conduct proper oversight of the ECB's activities. This is part of a larger and continuing project for the European Parliament to redress the democratic deficit within the European Union through extension of the co-decision procedure so that the EU looks increasingly like a parliamentary democracy. Progress reported by COSAC, which brings together European parliamentarians, shows uneven and insufficient progress in much of the EU (COSAC, 2001).

A second obstacle to developing a coherent parliamentary system of review at the European level is the lack of a cohesive European party system relating to a European demos (Mair, 2000; Schmitt, 1999). As in the United States, more so in fact, the party groupings of the EP are really federations of independent national parties that can be grouped more or less roughly under a similar label, such as that of social democracy or conservatism. Their claim to represent a cohesive European force to counterbalance the executive network is therefore tenuous. To the contrary, support for or opposition to European policies cuts across the ideological differences associated with the various political parties in the European Parliament (Wessels, 2000). It is sufficient to demand transparency and engage the ECB in discussion about its policies, thereby mitigating the perceived intergovernmentalism and/or technocracy they see in the executive network, but insufficient to constitute a cohesive partner speaking unequivocally for the people of the EU with whom the ECB might negotiate, much less take some sort of political direction.

The lack of European party organisation also appears to mitigate the prospects for an alternative form of party network resting on the capacity of national parliaments to scrutinise the activity of their governments and NCBs. This would constitute the rise of parliaments in Europe rather than the rise of the EP in the singular as a collective mechanism for supervision and negotiation. But it would require resources, organisation, and a determination to extend coordination to the relevant parliamentary committees in charge of finance and employment policies outside of the European affairs committees that normally handle EU issues. And here, although a great deal of progress has been made in ensuring that national parliaments have standing committees on European affairs, and that national governments provide information on decision making in Brussels with legislative content, compliance has been patchy and satisfaction rather low in many countries, as evidenced by calls by the conference of European parliaments, COSAC (2001), for better cooperation in this regard from national and European executives.

The hope of the parliamentarians, both at the European and the national level, appears to lie in the strength and quality of a transnational, truly European political party structure. This would ensure a degree of organisation in research, programme development and political activity to make coordination of European and national scrutiny of executive activity possible. Currently, national parliaments have European affairs committees incorporated into their structures, and European regulations require national governments to inform them of pending activity coming through the Council. However, this applies only to measure of legislative significance rather than European economic policy. There are complaints about follow through on executive obligations, and it has been noted that national scrutiny differs significantly in its powers and effectiveness (Bergman, 1997).

VI. Interest Groups

Wessels (2000) has found that a European system of interest group representation has not developed, and that a European form of corporatism has no signs of developing. National interest groups keep an eye on what goes on at the European level, and about half of MEPs report having contact only with national interest groups and not their European counterparts (114-117). Furthermore, most have only highly selective contact.

UNICE, the European federation of national employers' associations, publishes regular reports (*Economic Outlook*) for its members and for public consumption on the economic outlook in Euroland, including the perceived direction of ECB monetary policy. These reports do not support particular policies on the part of the European Central Bank. Rather, they conduct and publish the results of business confidence surveys to convey a sense of what business thinks about existing interest rates. References to an economic government for Europe are not present. This approach allows UNICE to represent a constituency with divergent interests in European monetary policy.

ETUC, the European Trades Union Congress, takes a direct stand on monetary policy that contrasts with its counterpart in UNICE. ETUC has three principal messages to get across. First, it advocates a monetary policy for Europe that emphasises growth and stimulus more than the current arrangements provide for. Second, it advocates an economic government for the European Union. Third, and unlike other groups, it advocates a macroeconomic dialogue involving itself, UNICE, the ECB and the Council.

V. Networks and EMU

Kohler-Koch (1997) sets out network governance as a distinctly European form that combines a consociational principle of organisation, which seeks to include and 'manage differentiation,' with a constitutive logic of individual and group interests which seeks to 'upgrade the common interest' amongst these groups. This combination distinguishes network governance from majoritarian forms of government, whether statist or pluralist, and from corporatist integration pursuing a more robustly defined 'common good.' Policy networks, finally, are thought to form a tightly integrated system within the broader political system that dominates the discussion of governance priorities, from the policy formulation to the evaluation process (Daguerre).

The distinctiveness of network governance is related to the orientation of group activity to the European Commission, due to the monopoly on legislative proposals in pillar one, and with regard to EMU, the role it plays in overseeing fiscal policy in Euroland member states. This is accompanied by the exclusive nature of a charmed circle, concerns about poor transparency and the possibility of rent-seeking behaviour. This is made possible by the lack of a broader pluralist mode of interaction between civil society and public authorities. It is conceived of as a system with actors, interaction, and through the repeated participation of the same actors, a structure (although the relative influence of the various actors is difficult to assess without process transparency).

In the area of EMU politics (incorporating monetary policy and fiscal policy of the member states), it is possible to speak of two parallel networks. The first, which I call an executive network, consists of the ECB, the Commission, and the members of ECOFIN, which includes the members of the Euro 12 Council. The constituent rules of EMU ensure that these actors or their designated representatives have access to the deliberative processes leading to the formulation of European monetary policy, to the development of the Broad Economic Policy Guidelines governing budgetary and other policies in Euroland countries, and to the surveillance and sanction procedure coupled to it. This network, accustomed to working in private, came into public view in early 2002 when German officials rallied support in ECOFIN to resist the application of a warning letter on failed budget deficit reduction targets from the European Commission.

The second, which I call a parliamentary network, consists of the ECB, the European Parliament's Committee on Economic and Monetary Affairs, and a group of business and academic actors. The goals of these actors range from assessments of the business environment in Euroland to critiques of the relative weight assigned to inflation control and economic growth promotion in monetary policy, admonitions for greater transparency of ECB internal deliberations, and speculation about the spillover effects of asymmetric shocks within Euroland on European redistributive policies, particularly structural funds.

It is justified to look at both of these configurations as networks, due to the absence in either policy environment of majoritarian pretenses or a desire to pursue a common good over and above finding a common interest. This has a few notable implications for the way in which we think about networks. First, whilst we tend to think of policy networks as defined functionally, they may also be defined institutionally, i.e. with reference to their institutional orientation if European Union institutions find themselves in rivalry with one another over access to the policymaking process, as is the case with monetary and fiscal policy. The logics of interaction within policy networks will vary significantly, so that impulses to infuse expertise or accountability will be separated.

Thinking about networks in this way opens up further questions for research. If the parliament's desire to become involved in monetary policy despite the lack of formal powers it possesses led to the creation of a parallel network, are there similar developments in other policy areas, particularly in the third pillar covering justice and home affairs?

V: Conclusions

Accountability is still defined largely by the ECB itself, though it is willing to discuss with both the executive and parliamentary branches of the EU on its own terms. To the extent that it is willing, the ECB feels that maintaining an open dialogue with the public is beneficial as a means of legitimating its decisions. In doing so, it refers almost exclusively to the Euroland economy as a whole, and to national governments primarily in terms of structural reforms that it wishes carried out. Coupled with the Broad Economic Policy Guidelines, this places the burden of initiative for those seeking higher growth and employment rates on national governments and deflects public criticism from national governments over ECB thinking.

Accountability as political direction has to be seen to include not only threats to the price stability directive (to which it has been reduced, largely in the German literature), but also the more benign options of seeking international monetary coordination (exchange rate agreements) or achieving a balanced mandate similar to that of the Fed. This leaves open a question of which vision should prevail, something which is likely to produce more discord that benefit amongst the European governments, given their current differences of opinion and their fears, despite claims that they have all adopted the same policy ideas. (MacNamara, 1998).

Accountability as negotiation requires cooperation of both the ECB and the controlling body. The possibility of a mass dismissal right on the part of the European Parliament, such as the right it exercised with regard to the European Commission, has been brought up as one possibility that would allow the EP some negotiating power without either allowing it to micromanage European macroeconomic policy. Given current divisions amongst European governments over the prospect of an economic government, even with only the capacity to negotiate with the ECB, it appears that an executive controlling body is unlikely at the present time. That makes the European Parliament proposal more interesting. For the moment, however, it is the lack of party organisation at the European level linking together the national parties (and their activities in national parliaments, where scrutiny of executive activity is most possibly) that appears to prevent them from demanding and obtaining more from the executive-ECB network.

References

Buti, Marco & Andre Sapir (1998) *Economic Policy in EMU: A Study by the European Commission Services*. Oxford: Clarendon Press.

Bergman, Torbjörn (1997) 'National Parliaments and EU Affairs Committees: notes on Empirical Variation and Competing Explanations,' *Journal of European Public Policy* vol. 4 no. 3, pp. 373-387.

CEC, see Commission of European Communities

CEMA, see Committee on Economic and Monetary Affairs

Commission of European Communities (2001) *Report from the Commission on the Implementation of the 2000 Broad Economic Policy Guidelines*. Brussels, COM 105.

Committee on Economic and Monetary Affairs (2002*) Monetary dialogue with Dr. Wim Duisenberg*. Brussels, 23 January.

Committee on Economic and Monetary Affairs (1999*) Monetary dialogue with Dr. Wim Duisenberg* Brussels: 19 April.

COSAC, see Conference of Community and European Affairs Committees

Conference of Community and European Affairs Committees (2001) *National Parliaments after Amsterdam: Adaptation, Re-Calibration and Europeanisation by Process*. Paper for working group meeting, XXIV COSAC, Stockholm, April 8-9.

Cukierman, Alex (1992) *Central Bank Strategy, Credibility and Independence*. Cambridge, MA: MIT Press.

Daguerre, Anne (2000) 'Policy Networks in England and France: the case of child care policy 1980-1989,' *Journal of European Public Policy* 7, 2: 244-60.

De Haan, Jakob and Fabian Amtenbrink (2000) 'Debate: Democratic Accountability and Central Bank Independence: A Response to Elgie,' *West European Politics* vol. 23 no. 3 (July), 179-90.

Dyson, Kenneth (2000) *The Politics of the Euro-Zone: Stability or Breakdown?* Oxford University Press.

Elgie, Robert (1998) 'Democratic Accountability and Central Bank Independence: Historical and Contemporary, National and European Perspectives,' *West European Politics* vol. 21 no. 3 pp. 53-76.

European Banking Federation (1997) *Response of the European Banking Federation to the EMI Report on Monetary Policy in Stage III*. Brussels.

Faulkner, Gerda (2000) 'Policy Networks in a Multi-Level System: Convergence towards Moderate Diversity?' *West European Politics*.

Gabel, Matthew (2000) European Integration, Voters and National Politics,’ *West European Politics* vol. 23 no. 4 pp.52-63.

Gamble, Andrew (1995) ‘Economic Recession and Disenchantment with Europe,’ in Jack Hawyard (ed) *The Crisis of Representation in Europe*. London: Frank Cass, pp. 158-174.

Goldstein, Morris & Jacob Frenkel (1994) 'The Macroeconomics of Currency Zones,' in Berhanu Abegaz, Patricia Dillon & Paul Whitely, eds, *The Challenge of European Integration: Internal and External Problems of Trade and Money*. Boulder: Westview Press, 169-198.

Grauwe, Paul (1994) *The Economics of Monetary Integration*. (2nd ed.) New York: Oxford University Press.

Katz, Richard (2000) ‘Representation, the locus of democratic legitimation and the role of the national parliaments in the European Union,’ in Richard Katz & Bernhard Wessels, eds, The European Parliament, the National Parliaments, and European Integration. Oxford University Press. pp. 21-44.

--- (2000a) ‘Role orientations in parliaments,’ in Katz & Wessels, pp. 61-85.

Katz, Richard & Bernhard Wessels (2000) ‘Parliaments and Democracy in Europe in the Era of the Euro,’ in Katz & Wessels, pp. 231-252.

Kohler-Koch, Beate (1997) ‘The Evolution and Transformation of European Governance,’ in Beate Kohler-Koch and Rainer Eising (eds) *The Transformation of Governance in the European Union*. London: Routledge, 14-35.

Loedel, Peter (1999) *Deutsche Mark Politics: Germany in the European Monetary System*. Boulder: Lynne Rienner.

Lohmann, Susanne (1997) ‘Federalism and Central Bank Independence : the Politics of German Monetary Policy, 1957-92,’ *World Politics* 50,3: 401-446.

Lowi, Theodore (1979) *The End of Liberalism*. New York: Norton.

Mair, Peter (2000) ‘The Limited Impact of Europe on National Party Systems,’ *West European Politics* vol. 23 no. 1 pp. 27-51.

Schmitt, Hermann, ed. (1999) *Political Representation and Legitimacy in the European Union*. Oxford: Oxford University Press.

Taylor, Christopher (2000) ‘The Role and Status of the European Central Bank: Some Proposals for Accountability and Cooperation,’ in Colin Crouch (ed) *After the Euro*. Oxford University Press, pp.179-202.

Thomassen, Jacques & Hermann Schmitt (2000) ‘Partisan Structures in the European Parliament, in Richard Katz, ed. Pp. 129-148.

UNICE (2001) *Economic Outlook*. Brussels.

Verdun, Amy (2000) 'Monetary Integration in Europe: Ideas and Evolution,' in Maria Green Cowles & Michael Smith (eds) *The State of the European Union: Risks, Reform, Resistance and Revival*. Oxford: Oxford University Press, 91-109.

Wessels, Bernhard (2000) 'Institutional Change and the Future Political Order,' in Richard Katz, ed, pp. 213-228.