

NEWS

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Editorial

While Building Europe ...

„And the Goat shall bear upon him all their iniquities unto a Land not inhabited.“ (Leviticus 16:22). In this manner, the goat that departs – the (e)scape goat – is blamed and punished for the crimes or sufferings of others. The usefulness of such an animal should not escape a reformer bent on changing the French economy but expecting some unavoidable suffering along the way. Thus, it is easy to understand that French presidential candidates Ségolène Royal and Nicolas Sarkozy repeatedly pointed fingers at the European Central Bank’s “euro fort” policy during the electoral campaign.

More recently, President Sarkozy has refrained from further calls for changing the ECB’s policy mandate. The reactions of other European government officials, such as the German, Dutch and Austrian finance ministers, made clear that allies for such an initiative would be hard to find. Similarly, the lack of a reaction in foreign exchange markets emphasized market participants’ belief that the ECB’s independence will remain undisputed for now.

Central bankers taking a longer-term perspective, however, should not relax just yet.

Any time a Euro area head of government will be faced with severe economic recession, the temptation will be there to blame overly restrictive interest rates set by the ECB and to call for changing its mandate. Of course, as long as other Euro area economies are performing satisfactorily and remain supportive of the ECB’s independence, Euro



The Scapegoat by William Holman Hunt (1854)

area central bankers may easily brush this criticism aside. But what if the economic business cycle in the Euro area becomes more synchronized? Ironically, this is a long-held wish by central bankers who hope that the task of designing a common monetary policy would become easier in such an environment. However, synchronization would also bring along stronger political pressure on the ECB in bad economic times.

To carry the thought experiment further let us think of a scenario such as the 1970s, when

several adverse oil shocks lead to the Great Inflation in the United States, the United Kingdom and many other countries. Of course, the Great Inflation was no must. Germany, for example, was able to avoid the sustained rise in inflation. The Bundesbank was independent, determined to fight inflation, had a strategy, and, importantly, she could always rely on the

inflation aversion of the German public.

While the ECB is similarly independent and committed by treaty to fight inflation, she cannot count on a single national public to stand behind it.

As a supra-natio-

nal institution she conducts monetary policy for a large number of nations whose people identify with the ECB’s goal of price stability to very different degrees.

As Chancellor Merkel and President Sarkozy sit down to discuss how to ensure the long-term success of the European Union they may be well advised to guard against long-term vulnerabilities of its youngest institution.

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