*Revista de Estudios Europeos*, n.º 65 Jul./Dic. 2014, 105-121

# NEW FEATURES OF THE EUROPEAN CENTRAL BANK IN THE ECONOMIC GOVERNANCE OF THE EUROPEAN UNION: HOW IT AFFECTS ITS DEMOCRATIC DEFICIT

Mónica PUENTE REGIDOR
Noemí DANS RODRÍGUEZ
Cristina GARCÍA FERNÁNDEZ
*Profesoras contratadas del Departamento de Economía Aplicada V*
*Universidad Complutense de Madrid*

SUMARIO

I.–INTRODUCTION. II..–STATE OF THE ART. A.–Functional independence. B.–Institutional independence. C.–Independence staff. D.–Financial independence. E.–Political independence. F.–Economic independence. III.–THE ROLE OF THE EUROPEAN CENTRAL BANK IN NEW BANKING EU GOVERNANCE: LEGITIMACY, ACCOUNTABILITY AND POLITICAL INDEPENDENCE. IV.–CONCLUSIONS. V.- REFERENCES.

## I. INTRODUCTION

In July 2007, the collapse of the investment bank Lehman Brothers in the USA, in addition to the announce of the deep economic crisis that we suffer for more than seven years, revealed the apparent inability of the existing supervisory and regulation systems to prevent, control and manage the effects of systemic risk in an increasingly global world.

The creation in 2008 of the Financial Stability Board (FSB) by the G20 detected two problems which constitute the basis of the subsequent renewal of the global financial system. First, a need for a close coordination among states (to prevent risks) and second, the urgency to design the tools that are necessary to control the effects of the global crisis. Considering both circumstances, we are trying to rebuild the financial system focusing in re-establishing a supervisory and regulatory system with three main objectives: to create transparency, increase the solvency of financial institutions and create effective protection, especially at small investor.

In this international context, the relevance of the EU as a participant member of that renewed global financial system is crucial, despite the loss of power that the EU has suffered after the global economic crisis.

Since 2008, the EU becomes aware of the effects of not having effective and coherent economic governance, and the need for greater coordination of economic policy. As we know, the EU pre-crisis economic policy was mainly based on consensus, non mandatory standards, except in the context of budgetary policy, which was defined in the context of the Stability and Growth Pact (SGP).

From 2011 on, the EU decides to improve its economic governance system, that is to say, the institutions and procedures designed to achieve the objectives of the Treaty on European Union in an economic frame. Therefore, it has to improve the coordination of economic policies in order to promote economic and social progress of EU citizens. To do this, we try to remodel the three large blocks of European governance: an economic agenda strengthened by closer monitoring of the EU, the European Stability Mechanism and third, new efforts to renew the financial system. In this context, and following the strategy of FSB, we have to provide the system with transparency, awarding solvency to financial institutions and protecting the retail investor. To achieve these goals, the EU has firstly created new rules and agencies to prevent problems and ensure that it regulates and properly monitors the activities of financial agents. Secondly, the EU is provided with actions to ensure that European banks have sufficient capital reserves to withstand the turmoil that may threaten the financial system in the future, so that they can continue operating and providing credit to households and businesses.

In this new governance model, the Banking Union assumes a very important role. The project to create a Banking Union is founded on three pillars: a European Banking Authority (EBA), a Single Banking Supervisor whose role is transferred to the European Central Bank (ECB) and the Deposit Guarantee Fund to liquidate and restructure banks problems. The relevance of the ECB in this project takes unprecedented proportions in the EU Treaties and the Statute of the ECB. Also, this role generates skepticism and political reticence about the political role, philosophy and legal limits that the BCE is up to take.

The aim of this study is to analyze the European Central Bank as an essential political element of the economic and banking system governance. With this purpose, we study its legitimacy (based on the agency theory), responsibility (accountability) and its political independence and security devices. To accomplish this goal, the paper is structured as follows: first, a review of the theoretical framework on the issue. Then we develop each of these three elements: legitimacy, accountability and political independence. Finally, we will establish the final conclusions.

## II. STATE OF THE ART

The processes of regionalization and globalization from the second half of the twentieth century introduced changes in governance systems, previously determined by the liberal tradition since the nineteenth century, aimed at the nation-state.

Questioning the legitimacy of global governance, ie, accountability and political control of the new players from the processes of bureaucratization that has developed through the delegation of functions of independent agents are in the basis of the question called crisis of democracy. Absence of govern ability, privatization of the public, invisible power crisis and rule of law are four aspects, that authors like Held (1995) highlights when he reflects on the changes introduced in the system of democracy.

Given these challenges, different perceptions that are committed to rethinking democracy, like the activity of transnational actors as a source of legitimacy for global governance, are erected. More pessimistic is Dahl (1999) which emphasizes the difficulty of citizen participation, accountability, attention to welfare states and the protection of individual freedoms to the blurring of national boundaries. This question about the crisis of democracy leads to a crisis of democratic legitimacy, for example, the question of consent as a way of legitimizing the actions of elected officials. The crisis of legitimacy is determined by the inability of the State to exercise its sovereignty.

The theory of the crisis of legitimacy that Habermas (1975) refers to as a result of economic history itself preaches a distancing of society with the procedural aspects of democracy.

The EU is an example of global governance that needs to respond to the challenges of a model of democracy in profound change. The legitimacy of the EU, following the classical designation of Weber (1921) in economics and society, is a legal legitimacy, based on treaties signed by governments to acquire political commitments.

From the Weberian conception, legitimacy gradually evolves through Lipset (1963), Habermas (1975), Rogowski (1974) Beetham (1991) or O'Kane (1993). One of the last representatives of the theory of legitimacy is Scharpf (2000), which focuses the problem of the democratic legitimacy of the EU on the questioning of the legitimacy origin (input) based on the popular will, ie, based the legitimacy of political elections from the preferences of the members of the community and the belief of a collective identity. Following this reasoning, the crisis of democracy creates a problem of discrediting. That is, as Castells (1999) explains, the crisis of legitimacy adds credibility crisis.

Opposite positions is a Scharpf Moravcski criticism, (2002) focused on the importance of the legitimacy of the result (out) based on the effectiveness of the decisions taken, the resolution of the problems in order to generate common welfare of citizens. Following this argument, Moravcski (2004) points that isolation and autonomy of the political bodies is legitimate and that even this process of delegating some political bodies without democratic accountability can increase the legitimacy, primarily derived from two main aspects: first, the delegation to supranational bodies makes policies less vulnerable to domestic pressures, prevent the «tyranny of the majority» and special interests and thus generates the government to commit to consistent policies dynamically. And secondly, improving the skills of managers and politicians justified the need of expertise and rational ignorance of voters. That is, helps save costs in decision making. Thus, in order to mitigate these costs, «technocracy» and «government of experts» appear as a solution.

However, this delegation of Member States to supranational institutions is leading authors, such as Scharpf et al. (2006), to argue that the governance of the EU has a democratic deficit where accountability, political control and independence are standards review.

The need for expertise and efficiency leads governments to make a delegation of power to politically independent institutions, ie, to be directed by unelected officials. In fact, much of the criticism of the democratic deficit welcomes the development of technocrats in Brussels and Frankfurt where the government of the people is replaced by the administration of things. The problem of delegation to non-majoritarian institutions has to do with the formal legitimacy, ie the issue of responsibility and accountability.

Majone (2003) states that the institutions on which authorizes are isolated from the political and democratic control are to give greater efficiency and credibility of political commitments in the long term. The hypothesis is that cycles are limit democratic alternation condition, temporarily making short-term decisions.

The theory of delegation to non-majoritarian institutions, whose exponent is the work of Majone (1996), Pollack (1997, 2003) or Tallbert (2000, 2002) is dominated by the approach of the «Principal-Agent», the «principals», politicians, agents decide to delegate tasks only if the expected benefits of delegation exceed the costs. This is where we introduce the analysis of the legitimacy of the ECB, on the theory of agency, where the agent or institution to which competition has been delegated to (ECB) cedes sovereignty.

Thatcher and Stone Sweet (2002) identified three categories of benefits associated with, first, the credibility of the promises made to citizens (commitment), secondly, the need for policy experts to resolve information asymmetries, and, finally, that the policies of the agents maximize policy objectives through unpopular programs for certain sectors of society.

In the case of the EU, the application of this analysis is even more complex because the delegation at Community level, the Community institutions within the problem of externally delegation (transfer of decision making power to independent institutions) is added. To solve this problem of democratic deficit in the EU, we can perform various actions. One of the most important is the changes introduced by the Treaty of Lisbon. The Treaty of Lisbon comes into force on December 1, 2009. It implemented several changes to try to reduce the democratic deficit. We can summarize this change basically in two fundamental ways. Firstly, get a compromise of national parliaments and secondly, a greater role for the European Parliament.

However, the Lisbon Treaty is itself an example of democratic deficit, ie, is the result of the inability to articulate a referendum by the Member States in order to validate transmission channels of responsibility. Hence, this trend seems to show that the Lisbon Treaty fails to enhance the democratic legitimacy of the EU. In fact, this argument is supported with the consequences of changes in the banking system and economic governance in the EU from 2011.

The creation of the ECB is an extraordinary exercise of transfer of sovereignty from the member countries of the Eurozone. This unprecedented agreement should be understood as a transfer under whom member states bear responsibility. As defined by the Dictionary of the Royal Academy of monetary policy to a common central bank. In no case should be understood as a transfer, ie as the «waiver of a right or an action that makes someone in favor of another person» as that term is defined the same source. This means that the ECB's tasks originate in a delegation of monetary policy by the member states should make the definition of its status and its operational framework.

Moreover, the central banks of the countries of the euro area the ECB entrusted the design of the euro monetary policy based on the principle of price stability and this overlapping any other purpose. The ECB should define what is meant by price stability and also had to design the instruments of monetary policy. By decision of the Bank itself, the level of inflation that reflects price stability is equivalent to less than 2%, which is what has set target inflation. In terms of instruments, the decision has been reducing interest rates; the management is therefore the only remedy of monetary policy of the ECB. Increasing the money supply is expressly and strictly excluded.

Numerous articles of the EU Treaty and the Statute of the Euro System of Central Banks and of the ECB itself that emphasize and reinforce the independence of the latter in the institutional, functional, operational and human resources field, preserving especially the influence of the governments of the member states and possible short-term political interests. However, as noted in Goebel (2005), there are two important aspects in the constitutional framework in relation to the business of the ECB. First, the Maastricht Treaty included the Economic and Monetary Union within the framework of the Treaty establishing the European Community, rather than place it as a single institution in the EU along with Foreign Policy and Security and along with Cooperation in Justice and Home Affairs. Second, the Treaty establishing the European Community authorizes the Council to regulate certain aspects of the business of the ECB. Moreover, the European Court of Justice has assigned the role of judicial review of the business of the ECB. In this context, the ECB should not be influenced either by the political institutions of the EU nor member states, despite how reluctant were shown several of these, led by France, the second largest economy in the Eurozone, to be excluded from this area. The result is a much more independent than they were the central banks of the Eurozone countries and what is the Federal Reserve ECB. Again a short discussion of terminology arises here, because independence is conceived in relation to the member states, but not for the Board. Furthermore, in regard to the relationship with member states, these being nothing less than the authors of the transfer of sovereignty, the ECB has adopted a strict independence, rejecting the possibility of a functional autonomy, preserving independence operational, would allow them some participation in priority setting monetary policy in the short term. This is without prejudice, of course, the objective of price stability and policy in the medium and long term.

Now that devolution does not become an absolute assignment of a crucial component of economic policy of the euro area, this strict independence with which the ECB has adopted the first European supranational entity, should be reconciled with guarantees of legitimacy and accountability. This combination of independence and responsibility legitimacy does not arise with the courage to counter but as sine qua non for the credibility and sustainability of the institution.

Accountability is a concept that goes beyond «held accountable». It is a term that encompasses two dimensions. First, being responsible means having the ability to take, recognize and accept the consequences of actions and decisions. When we talk about responsibility in relation to a particular case, this dimension of accountability requires that the objectives of the task entrusted to be well defined and the procedures to be developed by the responsible subject are clear. But responsibility also carries the implicit obligation to report on the actions and their results. This second dimension is especially relevant in the case of the liability associated with tasks that have been delegated to an institution, especially when dealing with an institution like the ECB born within consolidated democracies and which is necessary for thus, plural exercise control.

This being so, we can expect a bilateral relationship between the organization that takes responsibility, the countries of the Euro Zone, and recognizing that responsibility and full transparency, the ECB agrees. However, this bilateral relationship need not collide at all with the ECB's independence. Indeed, the extent to which the ECB is an independent institution not reduces the degree to which must be responsible. Independence does not free if accountability and transparency but on the contrary, the two must go hand in similar levels as they are a counterpart of the other. It would be a terrible mistake to deliberately increase the independence of an institution by cutting their duty of transparency, as the result would be a reduction of its legitimacy. The relationship between independence and accountability must be direct, especially when it is democratically legitimate institutions.

In Article 113 (3) of the Treaty on European Union and Articles 15.1 and 15.3 of the Statute of the European System of Central Banks (ESCB) lie the principle of transparency and the relationship of the ECB with the European Parliament. Articles 113 (3) and 15.37 of the Statute requires that the ECB President to submit an annual report to Parliament on the activities of the ESCB and on the monetary policy. In addition, the President and other members of the Executive Board may be required to by the European Parliament to testify before the Committee on Economic and Monetary Affairs. Finally, Article 15.19 of the Statute adds the obligation to publish reports at least quarterly basis. Given that the European Parliament is the representation that citizens of the EU have democratically elected, is the appropriate institution for accountability to which the ECB is required. To properly fulfill this role, the European Parliament needs to have enabled a forum is qualified to discuss the financial and monetary issues ECB activity. The aim is to provide a monetary dialogue with all stakeholders affected by it, including consumers and citizens of the countries of the euro area.

Two issues underlie the democratic character of the ECB and its obligation to accountability. It is first necessary to consider whether to impose the supremacy of economics over politics, or vice versa. This matter is a core principle in the creation of supranational institutions and the definition of the functions to be developed. Must be the conduct of monetary policy in the hands of a team of technocrats who have not been elected by the people or, on the contrary, must lie in the political arena? No doubt there are arguments for the former in order to keep people away monetary policy short-term political interests, especially at election time. The argument that monetary policy should be designed to maintain price stability over the medium and long term, protecting the EU economy inflation risk, brings a high degree of consensus in the Eurozone. However, it is also necessary to note that the jobs and growth should not be excluded in any case the objectives of economic policy. If we believe that monetary policy is part of economic policy and having an impact on employment and growth, it seems reasonable that the latter among the objectives of the first. If no goals are for the ECB so compromising containment of inflation, at least expect from this institution that does business without harming them in the extreme.

Second, the ultimate goal of the ECB has been strongly questioned during the crisis, when the defense of the euro has forced him to participate in the financing of several member states. When the economic environment deteriorates seriously and puts pressure on monetary policy, it is advisable to a certain degree of flexibility in the latter. Monetary policy should be at the service of citizens; in no case should these captives of the first. Given that monetary policy has an impact on employment and growth, ie in the lives of citizens, the fact that its scope beyond the merely technical and also includes social aspects. Since it is part of their consequences, the social welfare should also be the responsibility of the ECB, especially in a recession as it has gone through the Eurozone and even if necessary temporarily put aside monetary stability as the only goal.

Moreover, the independence of the European Central Bank is reflected in Article 108 of the Maastricht Treaty, which clearly states that the European Central Bank (ECB) cannot receive instructions or the Council or the European Commission or from any bank center neither of any member country nor of any individual or agency decisions. The ECB was created in the image and likeness of the Bundesbank, the German central bank, which was noted for its independence from political power. This allowed it to carry out very orthodox monetary policies, which led to the German economy from enjoying decades of low inflation, high growth and high employment.

The ECB aims only to achieve price stability. This represents an important difference from the Federal Reserve, which aims both price stability and job creation and economic growth. The ECB does not reject entirely the achievement of the second objective (economic growth and job creation), but it clearly subordinated to the control of inflation.

Even the most impetuous of the degree of independence of the European Central Bank should be similar to the Bundesbank imagined the level of independence that should be given to the first defenders. The ECB, now without a doubt, is the most independent central bank in the world.

The independence of the ECB and the national central banks (NCBs) of the Euro system has 'constitutional' character, as it is enshrined in the Treaty on the Functioning of the European Union and the Statute of the European System of Central Banks (ESCB Statute), rather than in legislation. Independence is an essential element that facilitates the maintenance of price stability.

This independence is based on a number of regulatory provisions that constitute the necessary condition so that it can indeed arise. The most important of these is not an explicit provision, but is implicit in the context of the ECB law insertion in the institutional framework of the European Union itself. Thus, the statute of the ECB and, with it, their independently nature, have been included as a protocol to the Treaty itself of the European Union, has acquired the same legal value as the Treaty and, therefore, processing and approval have been an exercise of true «economic constitutionalism» (Louis, JV (1993). This, removed any intervention by the Community institutions in the definition and operation of the ECB. Thus, it has managed to break level of the European Communities traditional state-level connection between the central bank and the parliament, constitutional body with authority to approve or modify its statute (Montero, A, 2000).

Along with this constitutional guarantee of independence, the text of the Treaty on European Union (TEU) contains other safeguards designed to consolidate effectively. These guarantees refer basically to a number of dimensions of the independence of the central bank that are necessary to assess the independence of the ECB itself. In this sense we can speak of functional, institutional, personal, financial, economic and political independence.

### A. Functional Independence

Functional independence requires a clearly defined degree of legal certainty necessary for the central bank to have the means and tools to achieve it, regardless of every other priority. The primary objective of the ESCB, established by the Treaty on the Functioning of the European Union and the Statute of the ESCB is to maintain price stability.

### B. INSTITUTIONAL INDEPENDENCE

Articles 130 and 282 of the Treaty on the Functioning of the European Union and Article 7 of the Statute of the ESCB are referring explicitly to the principle of institutional independence. According to their terms, neither the ECB, nor the NCBs, nor any member of their decision-making bodies shall seek or take instructions from Union institutions or bodies, from any government of a Member State or from any other body. Additionally, it is forbidden for the institutions and bodies of the Union and the governments seeking to influence the members of the governing bodies of the ECB.

### C. INDEPENDENCE STAFF

This refers to the statutory guarantees that try to avoid the influence of political power on the central bank members by reason of his appointment, term of office or any renewals. In the case of the ECB, this kind of independence is provided with the best guarantees in regard to members of the Executive Committee (art. 11 of the Statute of the ESCB and ECB), being particularly significant the safeguards introduced for possible removal of any of its members, and it is only at the request of the bodies of the ECB's to take actions that could lead to such removal (art. 11.4 of the Statute of the ESCB and ECB).

### D. FINANCIAL INDEPENDENCE

Guarantees trying to safeguard such independence are perfectly under Articles 29 to 33 of the Statute of the ESCB and the ECB. They provide that the sole subscribers and holders of the capital of the ECB are the national central banks and the principles governing both the eventual distribution of benefits and the support for the losses. Moreover, this independence is reinforced by the fact that its annual budget is not approved by any Community institution but by the Governing Council of the Bank and also as stipulated in art. 27 of the Statute of the ESCB, by the exclusion of the possibility that its financial statements or any of the central banks of the ESCB remain subject to audit by the Court of Auditors.

### E. POLITICAL INDEPENDENCE

This is defined as the power that has the Central Bank to choose the ultimate goal of monetary policy. In the case of the ECB, the ultimate goal is unique and is perfectly defined in Article 105, in terms of achieving price stability. Thus, although the article adds that «without prejudice to this objective, it shall support the general economic policies in the Community with a view to contributing to the achievement of Community objectives», the ECB only supports them to the extent that are consistent with price stability and, therefore, «rather than talking about» primary objective «we speak of exclusive objective, since the secondary is only operational since it contributes to the realization of the «principal» (Betancor, 1995 p. 276).

### F. Economic Independence

This refers to the ability of the central bank to choose instruments that will be used to achieve the goals or objectives that are imposed. In this regard, the TEU is exhaustively in Article 107, closing the possibility that it may interfere, both national and EU authorities, on the approach of the ECB or some of the national central banks of the ESCB.

This statement is further complemented by a series of provisions designed to break the relationship between the central bank and government finances, the latter being understood in its broadest sense (art. 104.1 TEU). Thus, it is to remove any kind of disturbance on monetary policy arising from the budgetary performance of different states, while prescriptions for achieving and maintaining public finances (art.104 down. C TEU).

Ultimately, all these elements were located well above the ECB's independence standards of central banking known far and ahead in the effective implementation of the theoretical proposals of more advanced institutional reform.

However, the theoretical underlying link between increasing independence of the ECB and better results in terms of inflation goes around the concept of credibility (Montero, 2000). Independence has now become the guarantor of the credibility of the ECB's monetary policy and, therefore, an asset that must be preserved at all costs.

This explanation, which justifies the granting of independence to the ECB for the sake of credibility, it has also been widely assumed in political circles. Thus, in a European Parliament resolution of 15 December 1993, states or «even countries with correct basic economic indicators may suffer difficulties because markets do not consider long term credible monetary policy aimed at stability,» and that in this sense, «the independence of a central bank is an important guarantee of its credibility».

But this relationship of «independence-credibility» attributed to the ECB and the independent central bank is broken when one reads the work of Professor Montero based on the Posen studies (1995). According to Montero, Posen argues that «if the central bank independence is a mechanism that allows the government to increase the credibility of its commitment to price stability, then an increase in the degree of independence of the central bank of a country will lead to agents leave private behaviors to try to protect the «surprises» of government induced inflationary. Thus, the inflation rate will be lower in countries whose central bank is more independent, but only as an observable result of differences in the behavior of private agents.

Thus, there is evidence that the mechanism through which the independence of the central bank leads to lower inflation is improving the credibility through a commitment to price stability.

The next part of the study analyzes how these changes have affected the banking governance in the EU and concentrate on the new political role acquired by the ECB and its impact on the democratic legitimacy, responsibility (accountability) and political independence.

## III. THE ROLE OF THE EUROPEAN CENTRAL BANK IN NEW BANKING EU GOVERNANCE: LEGITIMACY, ACCOUNTABILITY AND POLITICAL INDEPENDENCE

The Banking Union as the project that aims to set the governance of the EU bank has three cornerstones: a European Banking Authority (EBA), a Single Banking Supervisor whose role is transferred to the European Central Bank (ECB) and the Deposit Guarantee Fund to liquidate and restructure troubled banks. In this new context, the ECB acquires exceptional importance as a cornerstone of the Union Bank.

The new role of the ECB involves micro and macro supervisory functions of entities that have considered as systemic entities. National supervisors are responsible of monitoring local authorities and gathering information

From the Ecofin meeting of 13 December 2012 in which it was agreed to advance the process of banking union, a strong schedule has been established in addition to the creation of the single banking supervisor, the direct recapitalization of the banks, the establishment of the mechanism for resolving financial institutions and the common guarantee fund deposits. Thus, from March 2014 the ECB has been set up as the direct supervisor of banks whose assets exceed 30,000 million or 20% of national GDP. In total, 200 banks out of 6000 existing in the EU.

Questioning the legitimacy of the ECB has been one of the most debated issues since the creation of the institution. Different theories have been used to study where the legitimacy of the ECB comes and thus analyze one of the serious problems it faces, its democratic deficit. None of these theories is final, as any consensus has been achieved among scholars yet. However, one of the most widespread theories that attempt to approach the problem more successfully is the Agency Theory.

In agency theory, «principal» gives some powers to «agent», via contract, to defend their interests delegating decision-making in this institution.

As evidenced by Shove (2003), the problem is generated when analyzing who is the principal in certain situations. If this dilemma is considered in the case of the ECB, one question arises first: if the agency is the ECB, who has given it its legitimacy? In any case, the legitimacy of the ECB has an institutional character that comes from the whole European financial system.

This issue can be raised from two points of view of legitimacy. On one hand the procedural legitimacy which is determined by the Treaties and the Statute that regulates ECB´s actions. On the other hand, a more problematic legitimacy related with the fact that all operators in the European financial system are affected by its decision making. In fact, regular meetings by the ECB and the person of the President to inform the decisions taken, is one of the fundamental elements of control exercised over the institution.

Regarding the responsibility that the ECB assume in this new phase, the recent EU crisis has highlighted the need for central banks to be involved in the management of financial crises in an agile and fast manner. This activity of central banks can and should be done without too much interaction with medium and long term monetary policy objective of price stability. Throughout the crisis, the ECB has been forced to ease monetary policy by reducing interest rates and encouraging bank lending to preserve the functioning of the market. To counteract malfunction of private banks it was also necessary to boost the central bank intermediation in banking activity. The result has been quite satisfactory, especially if we consider that this activity was combined with the maintenance of price levels well below the target of 2% inflation.

To celebrate its new role as guarantor of financial stability, the ECB pointed emphasizing the principles that have characterized this institution since its inception, and has been reaffirmed in maintaining them. As Jean Claude Trichet himself said at the symposium held in honor of the ECB Lucas Papandreou in May 2010 (ECB, 2010): the principles of i) independence, ii) inflexibility with the objective of containing inflation and iii) away from any form of increase in the money supply, or quantitative easing remain strict on the activity of the ECB sits pillars. The organization is fully determined to maintain its pillars of monetary policy even in the development of its new function related to the health of the European financial system.

This being so it is necessary to rigorously define the ECB role in promoting stability in the financial system, especially in a context of systemic, as we have experienced, crises, and distinguishing what governments should develop through their economic policies. The financial crisis in Europe has led to a crisis in the sovereign debt market in which the ECB has intervened by buying government bonds issued by countries whose economic weakness threatened the stability of the euro. This intervention by the Central Bank in the context of systemic crisis in the financial sector is consistent with the functions that might be called a classic Central Bank. However, it is new in that it adds additional features to the mere maintenance of inflation. In addition, the ECB must reconcile macroeconomic policies aimed at financial stability to monetary policy aimed at price stability. For the first time we talked about two goals and two different instruments to achieve them. It remains to be seen if the ECB will be able to combine both without interfering with one another.

Irrespective of the specific mandate in its role in promoting financial stability and how this reconciles with the maintenance of price stability, what is indisputable is that the ECB must meet the same requirements for transparency and accountability. Maintaining financial stability requires more interaction with governments that containment of inflation. It could seem that this activity has direct implications on the independence and democratic accountability requirements of the ECB. One would expect that a necessary interaction with governments reduce their independence and rigor. However, greater integration with the governments should not compromise their autonomy. The requirement to ensure their autonomy lies in the clear definition of the responsibility to be moved and the scope of its mission. It may require enforcing the ECB transparency regarding its strategy and decisions, including those that require intensive interaction with governments. Transparency will not be impaired to the extent that reports to citizens and accountability in the European Parliament incorporating aspects of achieving stability in the financial system along with those relating to price stability. In this sense, it matters little whether a specific forum for discussion of the new role of the ECB is created or unifying in the same forum where containment measures of inflation are discussed in the European Parliament.

The commitment to accountability and transparency of the exercise should be strengthened further, if possible, as a result of i) the fact that they should be involved in two goals, and not a single, and ii) the greater independence that, somehow, the ECB must develop to prevent excessive involvement with governments, given that his new job requires him to interact with the latter. Independence disclaims far but even increases the need for an equivalent counterpart of transparency and accountability. As Randzio (2000) states, the governors of the central banks of Denmark and the Netherlands are not obliged to attend their parliaments, which in our view reflects a misunderstanding of independence. In consolidated democracies as Europeans, to skip transparency and accountability equals misinterpret independence, especially in the case of issues that have direct impact on social welfare.

Regarding the latter, the interaction with the political sphere, which requires ensuring financial stability, has very positive consequences from the point of view of democratic legitimacy. Awarding the ECB a predominant role in macroeconomic policy as a guarantor of financial stability brings this institution closer to economic objectives related to social welfare. The price goal is due to be managed without consideration of the impact it may have on other variables, possibly causing a marked deterioration in employment and growth due to the action or inaction of the ECB. Instead, the prevention of financial crises leads implicit to avoid measures that have a high social cost. All this assuming that bank losses can be assumed by public sectors.

In relation to the new role of the ECB and its political independence, enhancing mutual economic program increased oversight of the European Union, safeguarding the stability of the euro area and restoring the financial system are the three major labeled shares in the new governance economy of the European Union to deal with the crisis.

As for the ECB, although the forms and regulations are to be discussed yet, it has already been assumed that new tasks will have to be performed, such as single supervisor, which takes effect in November this year. The ECB shall ensure risk levels of the largest Eurozone banks (banks with assets in excess of EUR 30,000 million or 20% of GDP of the member participant). It shall also determine whether they should be closed, merged, salvaged or recapitalized by European Stabilization Mechanism (ESM). This means that the ECB will be the judge of bailouts in the Eurozone.

As already noted, the primary mandate of the ECB is to ensure «price stability», but since the latest financial crisis other functions have been added: to foster growth (liquidity programs), to maintain the dynamism of the financial system and fund big banks.

All this will give the ECB more supranational powers which imply that countries make concessions of sovereignty. But this is not without risks. For example, the necessary disconnection between monetary policy and bank supervision would not be guaranteed if the ECB is in charge of both. In addition, political independence may be compromised from the moment in which the recent ECB liquidity measures approved as carry interest rate to its minimum, after numerous requests from heads of state of the Eurozone or the same director IMF executive. It seems clear that the ECB is increasingly into the hands of the national government of the Eurozone as having taken their rates to 0%. This means that the tools available have limited impact in the context of fractured monetary conditions across countries.

## IV. CONCLUSIONS

Following the completion of this study, we have reached the following conclusions:

First, after 2011 and as a result of international negotiations within the G20 (articulated through the FSB) the EU has reformed its economic governance mechanisms, being the restructure of the banking governance one of the key elements. The bank governance takes shape in the creation of the Banking Union where the ECB takes a decisive political role as a supervisor and guarantor of the European financial system functions in addition to the monetary policy.

Second, we have presented our analysis by examining three factors that we consider relevant in this new role: its legitimacy, issues regarding responsibility and political independence.

Regarding the ECB new role and its legitimacy, the new functions that we are providing it at present (in a context where the ECB legitimacy has serious doubts about its sources) accentuate the debate on the legitimacy «out or result», because it creates a greater distance between the ECB decisions and EU citizens, increasing the democratic deficit problem of the Institution.

Regarding the ECB accountability mechanisms, the new role of the ECB is fully consistent with the traditional functions of a central bank, but no doubt it is a challenge and a threat to the liability standards of the institution, already badly damaged. As we said, the ECB must reconcile macroeconomic policies, aimed at financial stability, to monetary policy, aimed at price stability, and should do so without harming each other. But that's not the only challenge. Maintaining financial stability requires more interaction with governments than even the inflation containment. The BCE must perform this new role without compromising its autonomy and, of course, meeting the transparency and accountability requirements. It remains to be seen whether it will be able to accomplish both challenges.

Regarding the independence of the ECB, all elements analyzed in this paper indicate that, so far, the ECB continues to be well above the standards of independence of any central bank known so far. However, the financial crisis in Europe has led to a crisis in the sovereign debt market in which the ECB has intervened and, therefore, has challenged the stability of the euro. This intervention is new and it adds additional features to the mere maintenance of price stability. Although the ECB new functions (growth and funding) give the ECB more supranational powers, political independence can be compromised since the ECB might continue adopting measures of liquidity that could jeopardize the transmission mechanism of monetary policy.

Finally, the debate on the new role of the ECB in the economic governance of the EU is more alive than ever, specifically as to the Union Bank project. In fact, much of its potential success stems from Member States capability to resolve the doubts that may arise on issues such as the ECB democratic legitimacy, accountability and political independence.

## V. REFERENCES

BEETHAM, D. (1991). The legitimation of power. Atlantic Highlands, NJ: Humanities Press International.

BETANCOR RODRÍGUEZ, A. (1995): «La posición del Banco Central Europeo en el sistema institucional comunitario: independencia y equilibrio interinstitucional. El federalismo horizontal en el manejo de la moneda», *Revista de Estudios Políticos*, n. 90, pp. 267-297.

CASTELLS, M. (1999). *La era de la información: Economía, sociedad y cultura. Vol. II. El poder de la identidad.* (2ª reimpr.; C. Martínez Gimeno, Trad.). Madrid. Alianza Editorial. (Trabajo original publicado en 1997).

DAHL, R. A. (1999). Can international organizations be democratic? A skeptic's view. en I. Shapiro & C. Hacker-Cordón (Eds.), *Democracy's edges* (pp. 19-36). Cambridge: Cambridge University Press. *Discussion Paper Series* 11-23. Utrech School of Economics.

ECB, EUROPEAN CENTRAL BANK (2010): «The great financial crisis, lessons for financial stability and monetary policy». An ECB colloquium held in honors of Lucas Papademos, 20–21 May 2010, pp. 7-11.

FOLLESDAL, A. y HIX, S. (2006). Why there is a democratic deficit in the EU: A response to Majone and Moravcsik. *Journal of Common Market Studies*, 44(3), 533-562.

GOEBEL, ROGER J. (2005): «Court of justice oversight over the European Central Bank: delimiting the ECB's constitutional autonomy and independence in the OLAF Judgment». Volumen 29, n. 4, Artículo 4.

HABERMAS, J. (1975). *Legitimation of crisis* (Th. McCarthy, Trad.). Boston: Beacon Press. (Trabajo original publicado en 1973).

HAUTER, P. (2011): «The independence and democratic legitimacy of the European Central Bank in the public debt crisis». Disponible en http://www.e-ir.info/2011/12/13/the-independence-and-democratic-legitimacy-of-the-european-central-bank-in-the-public-debt-crisis/. Consultado en marzo 2014.

HELD, D. (1995). *Democracy and the global order: From the modern State to cosmopolitan governance*. Cambridge: Polity Press.

LIPSET, S. M. (1963). *Political man: The social bases of politics*. New York: Doubleday.

LOUIS, J.V. (1993): «Aspectos jurídicos de la realización de la Unión Económica y Monetaria»,en Rodríguez Iglesias, G.C. y Liñán Nogueras, D.J. (dir.): *El Derecho comunitario europeo y su aplicación judicial.* Civitas. Madrid.

MAJONE, G. (1996). Regulating Europe. New York-London: Routledge.

MAJONE, G. (1998). Europe's «democratic deficit»: The question of Standards. *European Law Journal,* 4(1), 5-28.

MAJONE, G. (2003). The politics of regulation and European regulatory institutions. En J. Hayward & A. Menon (Eds.), *Governing Europe* (pp. 297-312). Oxford: Oxford University Press

MONTERO, A (2000). «Independencia del banco central y credibilidad: una retórica seductora».

MORAVCSIK, A. (2002). In Defense of the 'Democratic Deficit': Reassessing Legitimacy in the European Union*. Journal of Common Market Studies*, 40(4), 603-624.

MORAVCSIK, A. (2004). Is there a 'Democratic Deficit' in world politics? A framework for analysis. *Government and Opposition*, 39(2), 336-363.

O'KANE, R. H. T. (1993). Against legitimacy. *Political Studies,* 41(3), 471-487.

POLLACK, M. (1997). Delegation, agency and agenda-setting in the European Community. *International Organization*, 51(1): 99-134.

POLLACK, M. (2003*). The engines of integration? Delegation, agency and agenda setting in the European Union.* Oxford: Oxford University Press.

POSEN, A. (1995): «Central Bank Independence and Disinflation Credibility: A Missing Link», Federal Reserve Bank of New York, n. 1, may.

RANDZIO-PLATHAND, C. (2000): «A new political culture in the EU: democratic accountability of the ECB», en RANDZIO-PLATHAND, C. y PADOA-SCHIOPPA, T. (2000): *European Central Bank: Indecency and Accountability*. Centre for European Integration Studies, Universidad de Bonn.

REPULLO, R. (1993): «Sobre la independencia de los bancos centrales*», Papeles de Economía Española*, n. 57, pp. 78-92.

ROGOWSKI, R. (1974). *Rational legitimacy: A theory of political support*. Princeton, NJ: Princeton University Press.

SCHARPF, F. W. (2000). *Gobernar en Europa: ¿Eficaz y democráticamente?* (J. Alborés Rey, Trad.). Madrid: Alianza (Trabajo original publicado en 1999).

SCHARPF, F. W. (2005). Conceptos de legitimación más allá del Estado-nación. *Revista Española de Ciencia Política*, No. 13, 13-50.

SHOVE, E. (2003). «Principals, Agents, Actors and Research Programmes», *Science and Public Policy,* Special issue on principal agent theory edited by D. Braun, 30(5) pp. 371-381.

SIEDENTOP, L. (2001). *La democracia en Europa* (A. Resines Rodríguez & H. Bevia Villalba, Trads.). Madrid: Siglo Veintiuno. (Trabajo original publicado en 2000).

TALLBERG, J. (2000). The anatomy of autonomy: An institutional account of variation in supranational influence. *Journal of Common Market Studies,* 38(5), 843-864.

TALLBERG, J. (2002). Delegation to supranational institutions: Why, how, and with what consequences? *West European Politics*, 25(1), 23-46.

THATCHER, M., y STONE SWEET, A. (2002). Theory and practice of Delegation to non-mayoritarian institutions. *West European Politics*, 25(1), 1-22.

VAN ESCH, F. y DE JONG, E. (2011): «*Culture Matters: a French-German conflict in European Central Bank independence*». Tjalling C. Koopmans Research Institute.

WEBER, M. (1964*). Economía y sociedad* (2.ª ed.). México: Fondo de Cultura Económica. (Trabajo original publicado en 1921).

**Resumen**

Este artículo tiene el objetivo principal de analizar la dimension política del Banco Central Europeo en el nuevo modelo de gobernanza económica de la Unión Europea a partir de 2011, focalizando el estudio en tres variable: Su independencia política, su legitimidad democrática y la rendición de cuentas a otras instituciones comunitarias.

**Résumé**

Cet article a pour but d'analyser la dimension politique de la Banque Centrale Européenne dépuis 2011 dans le nouveau modèle de gouvernance économique de l'Union Européenne. L´étude présente trois aspects: Son independance politique, sa légitimité démocratique et sa responsabilité envers d'autres institutions communautaires.