



The politics of central banking: a tribute to Robert Elgie

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Abstract

In this short article, we present the contribution of Elgie on the theme of the politics of Central Banking. We begin by presenting some bibliometrics, and then we study the Central Bank Independence index constructed by Elgie (in coll.) and his analysis of the accountability of Central Banks (particularly the Banks of England and France). Elgie is also interested in the democratic deficit of the European Central Bank and studies the application of the principal-agent theory to this question.

Keywords Central Banking · CBI index · Bank of England and France · ECB · Democratic deficit

Introduction

Robert Elgie is best-known for his work on semi-presidentialism, political leadership, comparative politics, and French Politics.¹ However, he also made an important contribution to the politics of central banking, a topic which occupies the intersection of comparative politics and economics. Elgie also published on other political economy questions, such as the influence of political fragmentation on fiscal deficits (Elgie and McMenamin, 2008).

Elgie 1998, and Elgie and Thomson 1998 (for simplicity, we will write E&ET 1998, in the rest of the article) developed an interest in the Politics of Central Banking in connection with the birth of the euro area and the establishment of the independent European Central Bank (ECB). Central Banking (in particular the independence of central banks) is studied by many economists, notably Cukierman et al. (1992) and de Haan and Eijffinger (1996). The politics and central banking (or politics and monetary policy) was studied by Alesina in terms of rational partisan cycles (Alesina et al. 1997). Both of these subjects have also attracted the attention

¹ All citation numbers from Google Scholar on March 1, 2022. We can read the article (tribute) of Pasquarelli (2021).

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of political scientists. In particular, the economics of monetary union² is studied by Kempf (2019), de Grauwe (2020), and Jones (2002).

The seminal works of Kydland and Prescott (1977) and Barro and Gordon (1983) justify a central bank's independence by the time inconsistency problem. The time inconsistency problem relates to the situation where, with the passing of time, a policy that was optimal yesterday is no longer perceived to be optimal today and is not implemented. Rogoff (1985) explains that inflation is lower with an independent and conservative central banker than with a non-independent or less conservative one^{3,4}. An independent central bank also reduces political cycles and the negative effects of political uncertainty.

I wish to make to present the contribution of Elgie on the theme of the politics of Central Banking, place it in the context of other work, and evaluate whether his ideas are still relevant today. Elgie gives an essential place to history and does not use any equations.

I begin by making a few bibliometric calculations, and then study the CBI index constructed by E&ET (1998), and the accountability of central banks. Elgie was also interested in the democratic deficit of the ECB and studied the application of the principal-agent theory to this question. A brief conclusion notes the contemporary resonance of these ideas.

Bibliometrics

Robert Elgie published ten books (one co-authored) and notably many peer-reviewed articles. For the research theme “The Politics of Central Banking,” we find one book published in 1998 in collaboration with Helen Thomson, *The Politics of Central Banks*⁵ with 107 Google scholar citations on the March 1, 2022, two peer-reviewed articles, and a reply: one article on the Democratic Accountability and Central Bank Independence published in 1998 with 120 Google scholar citations⁶, and also one article on the Politics of the European Central Bank published in 2002 with 170 citations.

His book published in 1998 (co-authored with Helen Thomson) was quite successful but less than most of his other books, as shown in Table 1. By contrast, his two articles on central banking had substantial citation impact compared to his most cited article, as shown in Table 2.

² The works of Mundell on optimal currency areas influenced the creation of the euro; see notably de Grauwe (2020) for the debate between the pros and cons of monetary union.

³ An independent and conservative central bank has more credibility for a low inflation target. For Rogoff (1985), an excessively low inflation rate when supply shocks are large could also be suboptimal for the society.

⁴ Persson and Tabellini (1993) and Walsh (1995) also justify an independent central bank by an application of the principal-agent model.

⁵ We can also mention a communication presented in 1995, quoted and developed in the book.

⁶ We find a French version published in 1999 in the review *Revue française d'administration publique* (a revised and updated version).



Table 1 Books by Elgie

Title	Google scholar citations
Semi-presidentialism in Europe (1999)	469
The Politics of Central Banking (1998)	107

Table 2 Articles by Elgie

Title	Google scholar citations
Devlin and Elgie (2008)	306
Elgie (2002)	170
Elgie (1998)	120

The Independence and Accountability of the Central Bank⁷

The first works in this literature study and measure the legal independence of Central Banks.⁸ Bade and Parkin (1988) study the cross-country relationship between monetary policies and the laws of central banks and show that, between 1972 and 1986, inflation is lower with an independent central bank, but the variability of inflation is not lower (1972).⁹ Grilli et al. (1991) evaluate the political independence and the economic independence of central banks with indexes.¹⁰ Cukierman et al. (1992) calculate an aggregate index of central bank independence for 72 countries over the 1950–1989 period.¹¹

The main originality of the work of E&EG (1998)¹² is the exceptionally long time period. We also find the construction and calculation of a CBI index for Central Banks: the explanation of the calculation of the political independence and the economic independence is detailed (see appendix 1). It is of great interest to find a CBI index constructed by a political scientist as Elgie. E&ET (1998) build on the Cukierman et al. (1992) but consider 37 indicators (30+7), while Cukierman et al.

⁷ The transparency and the communication of the central bank are also studied: see notably Eijffinger and Geraats (2006) for the former and Blinder et al. (2008) for the latter. For de Haan and Amtenbrink (2000), transparency is necessary for accountability.

⁸ It is necessary to distinguish: legal (or de jure) independence and de facto independence; the latter can be measured by the central bank governor's turnover rate.

⁹ See also Alesina and Summers (1993).

¹⁰ Elgie and Thomson (1998) remind us in their chapter 2 the definition of political independence (policy decisions) and economic independence (monetary policy instruments); see also Elgie (1998) p. 55.

¹¹ Eijffinger and de Haan (1996) is a highly-cited article with notably a section entitled: Measures of Central-Bank Independence with also some developments for accountability.

¹² In the section Measuring central bank independence, see note 2 p. 54; Elgie (1998) writes that "this section draws upon some of the information and the Appendices in Robert Elgie and Helen Thompson, *The Politics of Central Banks*."



Table 3 Bank of England Independence 1694–1997

Year	1694	1931	1946	1997
Weighted Political independence (0.50)	0.38	0.39	0.13	0.23
Weighted Economic independence (0.50)	0.21	0.07	0.07	0.25
Overall independence	0.59	0.46	0.20	0.48

see Elgie (1998), appendix 2 p. 71–72 and Elgie and Thomson (1998), appendix 2

Table 4 Bank of France Independence 1800–1993

Year	1800	1808	1936	1945	1973	1993
Weighted Political independence (0.50)	0.39	0.23	0.10	0.06	0.11	0.27
Weighted Economic independence (0.50)	0.18	0.18	0.04	0.07	0.07	0.32
Overall independence	0.57	0.42	0.13	0.13	0.18	0.59

see Elgie (1998), appendix 3 p. 73–74 and Elgie and Thomson (1998), appendix 3

(1992) only consider 16 indicators (8 + 8).¹³ E&ET (1998) take into account the sub-governors and the board of governors for political independence.¹⁴ They move mission, monetary policy, and budget from political to economic independence (Cukierman et al. 1991).

E&ET (1998) measure the Bank of England's independence over the 1694–1997 period (appendix 2) and for the Bank of France independence over the 1800–1993 period (appendix 3). There are also measures of the independence of the Bundesbank and the ECB.

The CBI index of Cukierman et al. (1992) calculated and updated for the Bank of England by Bodea and Hicks (2015) equals 0.65 in 1997¹³ (LVAW index) and is higher than that of E&EG (1998), as shown in Table 3.

The CBI index of Cukierman et al. (1992) calculated and updated by Bodea and Hicks (2015) for the Bank of France equals 0.90 in 1993 and is also higher than that of E&ET (1998) as shown in Table 4.

For the Bundesbank, E&ET (1998) calculate that the weighted political independence is 0.32 and the weighted economic independence is 0.36, then the overall independence was 0.67. The CBI index of Cukierman et al. (1992) has also been calculated and updated by Bodea and Hicks (2015) equals 0.68 in 1993.

For the ECB, E&ET (1998) calculate the weighted political independence: 0.36 and the weighted economic independence: 0.32, then the overall independence equals 0.68 in 1997. Bodea and Hicks (2015) calculated the CBI index of Cukierman et al. (1991) equals 0.87 in 1999. Elgie (1998) explains that the ECB (political

¹³ Political independence is particularly detailed with Governor (0.3 with 7 items), Sub-governors (0.2 with 8 items), Board of governors (0.2 with 9 items), Decision making-process (0.3 with 6 items); Economic independence (7 items).

¹⁴ This may give too much weight to the sub-governor of the ECB.



independence=0.72) is slightly less politically accountable than the Bundesbank (political independence=0.63), which served as a partial model for the ECB.

A democratic deficit for the European Central Bank

Elgie made a robust contribution to the debate about the democratic deficit of the ECB. In his book with Thomson (1998), there is detailed review of core executive/central bank relations with an emphasis on the economic and political rationales for central bank independence. For Elgie, there is a political loss for the governments of the Eurozone countries because they lose the control of monetary policy. Haan and Amtenbrink (2000) reject this criticism and justify the delegation of the monetary policy of the eurozone to an independent authority.¹⁵ The ECB is independent of the governments; its monetary policy is influenced by monetarism¹⁶, and its first objective is a robust anti-inflationary policy while some other central banks as the Federal Reserve System of the United States (Fed) also have an objective of economic growth employment^{17,18}, Fitoussi (2000, 2012) and Monnet (2021) also speak of a democratic deficit¹⁹.

Elgie (2002) begins by presenting the principal-agent theory: this theory has been developed first in economics²⁰ and also in politics. In the principal-agent theory, there is asymmetric information between two parties. Countries of the euro area (the principal) delegate the monetary policy to an agent (the ECB). Elgie (2002) applies principal-agent theory to “the debate about the accountability of the ECB.” The ECB has both supporters and critics. Elgie argued that the ECB could and should be made more accountable to the Euro group. This suggestion is interesting. However, the Euro group has remained an informal body.

Dincer and Eichengreen (2014) show that the ECB is as transparent as the Fed over the 1998–2010 period, but it seems to be accepted that it is less accountable than the Fed. For the ECB itself and some researchers, independence and

¹⁵ Romelli (2021) also calculates and updates a CBI index.

¹⁶ Elgie (2001) answers to various critics.

¹⁷ One important reference for monetarism is the article of Friedman (1968) with the natural rate of unemployment. See also de Grauwe (2013), who reminds us that monetarism was dominant in the 1980s and Clift (2020) for the debate between monetarism and (new) Keynesian approach in the UK and USA. For about ten years some (new) Keynesian ideas are applied by the ECB to purchase government bonds.

¹⁸ The ECB is an independent central bank with a high degree of conservatism.

¹⁹ In practice, the economists of the ECB are also influenced by the new neoclassical synthesis, see notably Clarida et al. (1999) with a short-run trade-off between inflation and output variability. De Grauwe (2010) p. 168 reminds that the ECB is also concerned about other objectives as economic and financial stability.

²⁰ For Fitoussi, there is no real government in the eurozone. The possible creation of a European economic government could be possible to take into account budgetary policy at the European level (Eurozone) and in addition to the budgetary policy for each country of the Eurozone. For Fitoussi (2000) p. 168-169, there should be in Europe a robust economic policy that wants price stability and budgetary stability. A European economic government would help for the constitutional instability of the Eurozone; see Fitoussi (2012) p. 71.



accountability are “two sides of the same coin,” but others tend to agree with Elgie that there is a trade-off between independence and accountability.

Conclusion

On the subject of the politics of central banking, Elgie has written an historical political and economic work without mathematical formalization. One originality aspect of his work see (E&ET, 1998) is the calculation of a CBI index (independence and accountability) over a very long period for the Bank of England and the Bank of France²¹. E&ET (1998) also provide a detailed chronology of the political and economic situations of England and France.

For Elgie, the justification of central bank independence is not obvious. He criticizes the democratic deficit of the ECB and he studies the possibility of reforming the ECB²². The concerns of Elgie on the democratic deficit of the ECB continue to be relevant²³, see notably Monnet (2021). There is also a debate on the ECB and a possible European economic government with the question of a common European budgetary authority in addition to national budgetary authorities.

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²¹ Health care insurance, the market for lemons with adverse selection: sellers are better informed than buyers, industrial organizations, and other fields. De Grauwe (2020) p. 137 gives an example of moral hazard with a last resort central bank lender.

²² A possible continuation of his work is to study the influence of this CBI index on inflation and monetary and fiscal policies.

²³ The ECB could be more accountable, but recently made some efforts.



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