



Public attitudes towards central bank independence: Lessons from the foundation of the ECB

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ABSTRACT

This study examines public opinion in 15 European countries, on the proposal to establish an independent European Central Bank (ECB). Using data from Eurobarometer surveys for 1998 to 2000, which included a specific question on this issue, we show that inflation performance is not sufficient to explain people's preference for an independent central bank: personal characteristics and circumstances have a stronger impact, with gender, employment status, education level, income quartiles, and degree of information and civic concern showing particular relevance.

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1. Introduction

In the most recent decades, academics and governments have endorsed central bank independence as a decisive feature in the achievement of lower, actual and expected, inflation rates. Crowe and Meade (2007), notably, observe that countries with higher levels of inflation in the past, have granted their central banks greater independence.¹ On the one hand, independence implies that the central bank is insulated against influence and pressure from government officials, especially the elected ones. On the other hand, the central bank has to shoulder the blame if its policy does not align with the needs of politicians or particular pressure groups. Central bank “bashing” might produce interesting payoffs for critical politicians (Waller, 1991) unless the bank has the support of the population, in which case it may produce a backlash, and the politicians' political capital may be impaired, to the benefit of the central bank's credibility.

It is somewhat surprising, that public support for a central bank has not received much research attention, with the exceptions of Leertouwer and Maier (2001), Maier (2002), and Maier and Bezoen (2004), who focus on the Bundesbank and the European Central Bank and their policies, and rely mostly on media content analysis.

It could be argued that central bank would receive stronger support, and would be able to implement even restrictive policies if the pros and cons of these policies are understood by the general public, among which stand the foundations of its statutes, i.e. its independence.

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¹ Hielscher and Markwardt (2012) show that central bank independence delivers better results if the changes in the degree of independence are larger, and that the benefit is conditioned by the quality of political institutions.

Our aim in this paper is to analyze public attitudes to central bank independence. To do so, we make use of the case study provided by the foundation of the European Central Bank (ECB). This historic event received great official attention and provoked the inclusion in the Eurobarometer survey of a specific question in the period of its founding. Although some authors study inflation aversion (Hayo, 1999) or support for the Euro (Gärtner, 1997), the attitude of the general public towards central bank independence has been overlooked. We rely here on the Eurobarometer surveys conducted in 1998 to 2000, in 15 European countries to analyze opinions on central bank independence.

Using data on the socio-demographic profiles of respondents and on inflation, this paper examines the variation in the degree of support for an independent ECB and investigates the following questions. First, how much does inflation performance, and overall inflation history, influence public support for an independent central bank? Second, to what extent are public attitudes to central bank independence shaped by political ideology and demographic attributes?

Our results show that a country's inflation history cannot, by itself, explain variations in the preferences of its population in favor of an independent central bank, except if one considers that the current level of central bank independence reflects such a history. If not, then it appears that individual personal characteristics and circumstances have a much greater impact. Among those characteristics, gender, education, income, satisfaction with national democracy, interest in politics, level of knowledge about regional policies and institutions, importance given to EU Parliament, access and use of media, and employment status are shown to have the greatest relevance. The stakes are high because they involve the ECB's legitimacy (and, ultimately the Euro area's sustainability) and a lack of understanding may threaten the support for its degree of independence. This historical experience also offers lessons for building, or reinforcing, independent monetary institutions.

The paper is structured as follows: Section 2 reviews the background literature; Section 3 discusses the data and methodology; and Section 4 presents the results of the estimates. Section 5 concludes with some suggestions for further research.

2. Literature review

Studying attitudes and values is now recognized as an important source of information for economists. For instance, Walstad (1997) and Walstad and Rebeck (2002) show that economic knowledge has a direct and significant effect on public viewpoints on many economic issues, and that this knowledge is affected by factors such as education, income, age, gender, race, and political party affiliation. Mayda and Rodrik (2005) study attitudes to protectionism in a large set of countries and find that attitudes towards trade are shaped by a complex set of both economic and non-economic determinants. They find that the latter (socio-demographic background, values, identities, attachments) play a very important role in explaining variations in attitudes to trade. In another study on attitudes to trade, Hainmueller and Hiscox (2006) examine the impact of education and find that individuals with college-level educations are far more likely than others to favor trade openness.

In macroeconomics more particularly, survey data has proved to be useful. Scheve (2004), for example, uses data on 20 advanced economies to examine public preferences about macroeconomic priorities, defined by inflation and unemployment performance. He finds that lower income earners and women are less inflation averse, while the politically conservative population is more inflation averse. Scheve also finds a substantial difference in inflation aversion across countries and an increased inflation aversion over time. Along similar lines, Jayadev (2006) assesses the preferences of rich and poor towards anti-inflationary and anti-unemployment policy, using data from the 1996 wave of the ISSP (International Social Survey Program) survey. He finds that the poor are less likely than the rich to prioritize combating inflation rather than unemployment.

The Eurobarometer survey data has been given relevance in several contexts. For instance, Gabel (1998) analyzes the surveys conducted in the period 1978–1992 to assess the relative significance of five theories of European integration. He shows gender, age, and occupation to be relevant variables in explaining support for the European integration process. Nelsen and Guth (2000) analyze the attitudes of men and women to European integration. Based on data from Eurobarometer 42, they find that gender has a significant impact on attitudes to European integration across the European Union (EU) and Norway, with women showing less enthusiasm for the process than men. They also show that women's attitudes are influenced more by greater knowledge about the EU and economic pessimism; men's attitudes are determined more by an interest in politics and a working-class status.²

Some studies examine macroeconomic and specific monetary issues using such datasets. Hayo (1999), for example, investigates public attitudes to European Monetary Union (EMU), making use of survey data from Eurobarometer 39 for the 12 original members of the EU. He concludes that a high level of knowledge about EMU positively influences people's opinions on monetary integration. Gärtner (1997) observes that public attitudes towards the Euro as a single currency depend on the experience of past national monetary and fiscal policies and on the length of membership in the European Monetary System. People in countries that had experienced high inflation and looser fiscal policies in the past were more in favor of the Euro.

In a study that is closer to our research, Hayo (1998) finds that inflation is explained not just by central bank independence, and that public attitudes towards inflation exist and are interconnected with central bank independence.³ Based on Eurobarometer

² In terms of European integration where heterogeneities inside countries can also be a concern for the sustainability of the process, variations in domestic attitudes have been scrutinized. For example, Méon (2002) studies approval rates during the referendum on the Maastricht Treaty in France in 1992. His results show that approval rates were higher in departments where unemployment, long-term unemployment and past geographical mobility were low and social mobility was high.

³ Results in Vaubel (2003) also point to the fact that the sensitivity of the general public to inflation is more significant than central bank independence to explain inflation performance.

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