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# Institutionalisation without internalisation. The cultural dimension of French-German conflicts on European Central Bank independence

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**Abstract** When accepting the Maastricht treaty, the members of the Euro-zone agreed on the establishment of a very independent European Central Bank (ECB). Over the years, however, French political leaders systematically brought forward proposals undermining the ECB's independence, much to the dismay of their German counterparts. This pattern of political disagreement on central bank independence has again surfaced during the current sovereign debt crisis, and has contributed to the discord amongst the Euro-zone members on the causes and proper solutions to the problems. This article conducts tests of various factors generally expected to influence the preference for central bank independence. It shows that economic explanations are unable to account for the persistent differences amongst European member-states on this issue. In contrast, national differences in political and economic culture and especially a nation's score on the dimension Power Distance—its acceptance of centralisation of power in political leaders or institutions—does show a correlation with the different levels of internalisation of the norm of central bank independence. These findings show that institutionalisation of economic norms does not imply their internalisation by the political and the economic elite. In the broader

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context of current European politics, this may mean that even if European leaders will be able to come up with a common institutional answer to the current crisis, more profound convergence of their underlying economic and political cultures is needed for the successful and sustainable implementation of these solutions.

**Keywords** Central bank independence · Economic and political culture · European Central Bank · Franco-German relations

## 1 Introduction

The establishment of the Economic and Monetary Union (EMU) has often been ascribed to the existence of a Europe-wide consensus on a low and stable rate of inflation as the primary goal of monetary policy (see e.g. McNamara 1998; Marcussen 1999; Verdun 2000). However, over the years and under the influence of the 2010/12 Euro-zone crisis serious doubts have risen whether such ‘sound economic’ ideas are as broadly shared as is sometimes argued (Segers and Van Esch 2007). Of the different principles in the EMU guarding its sound economic foundations, the consensus on the need for an independent central bank was amongst the least disputed. Provisions concerning the functional and political independence of the European Central Bank (ECB) had already been included in the 1989 Delors Report, and were among the first issues to be settled in the negotiations on the Treaty of Maastricht.

In this article, we argue that on closer inspection the apparent consensus on central bank (CB) independence has been less widespread and internalised than the institutional facts suggest. Despite the similarities in rules and requirements enforced by the Maastricht Treaty, member-states—the French and the Germans in particular—differ systematically in their attitudes towards the independence of the ECB. Germany and The Netherlands passionately advocate the strict independence of the ECB and national central banks (NCBs) under the EMU, while the French and other southern states have tried time and time again to balance the power of the ECB with a political authority, to question its mandate, to interfere publicly in determining the term of office of the president, and actively tried to influence the ECB’s actions. This pattern surfaced again during the current sovereign debt crisis and has complicated finding a timely and unified answer to the problems.

This article argues that these differences in attitude towards (E)CB independence between France and Germany cannot be explained by purely economic interests, and it presents evidence that suggests that differences in national political culture may provide a convincing alternative explanation. More specifically, different attitudes towards CB independence seem to be grounded in different national views on the proper degree of hierarchy and centralization of political power and policy-making.<sup>1</sup> Such structural cultural differences may well be one of the factors underlying the difficulty the EU has been experiencing in finding an adequate and timely solution to the current crisis.

<sup>1</sup> Dodd (2001) also points to the importance of the sociological aspects of the EMU and euro.

This article has been structured as follows. It continues with a further study of the principle of CB independence and illustrates how France and Germany have held different traditions and attitudes towards CB independence. The third section shows that while the establishment of the EMU induced a significant institutional convergence towards stronger CB independence, the attitudes in the different countries towards CB independence continued to diverge. Even after the establishment of the EMU, French leaders have remained critical of the ECB's independence, whereas the German leaders have invariably stressed the need for independence. Section 4 discusses various explanatory factors of central bank independence identified in the literature and investigates to what extent these may offer an explanation for this difference in attitude among the French and German elite. The article concludes that differences in economic interests and political structures themselves cannot explain the continued divergence in attitudes. A first test indicates, however, that underlying cultural differences may provide a more adequate explanation.

## 2 Traditions of central bank independence

The various aspects of central bank independence can be divided into two concepts: functional independence and political independence (Masciandaro and Spinelli 1994). Functional independence of a central bank increases with the possibility to control quantities or prices of money and credit (including credit to the government) and the impossibility to practice monetary accommodation. Political independence is positively related to the statutory definition of price stability as the main goal; the non-interference of the government in the appointment of the members of the board; a fixed and long term of office for the members of the board; the absence of representatives of the government on the bank's board; and the availability of a set of well-defined rules for the settlement of any conflict between the central bank and the government.

### 2.1 Pre-EMU attitudes on CB independence

Historically, EU states differed widely in both their attitude and institutional rules concerning central bank independence. At one end of the spectrum, the stringent German tradition is located, the French dirigism at the other, and with other Euro-zone states falling somewhere in between.

The stringency of the German political and financial elite regarding CB independence is rooted in Germany's shared historical and economic past, and is supported by the German public (cf. Kaltenthaler 2002). The collective memory underlying the German position on CB independence is that of hyperinflation and economic crisis between the two World Wars. These experiences induced a great concern for inflation and a preoccupation with a strong D-Mark in the German collective memory.

In the eyes of the German financial elite two conditions need to be fulfilled in order to guarantee price stability. Firstly, states must adopt stringent budgetary and fiscal policies and denounce monetary financing of budgetary deficits, as a failure to do so would result in high inflation (Dyson and Featherstone 1999: 276). Secondly, central banks need to have a high level of independence to prevent politicians from

adjusting monetary policies to further (short-term) political and electoral interests, and jeopardise the credibility of the CB.

Moreover, in line with the allies' view after World War II that a centralisation of political power in Germany should be avoided, the fore-runner of the Bundesbank, the Bank Deutscher Länder, had already been awarded far-reaching autonomy from the government (Marsh 1993: 142–59).

The French, on the other hand, have traditionally adhered to a (more) Keynesian and *dirigist* stand on economic issues. Central to French economic ideas is the conviction that a trade-off exists between economic goals such as price stability, on the one hand, and employment and economic growth on the other. Strict fiscal and budgetary policies are seen to prevent governments from using government spending to stimulate economic growth, reduce unemployment, or finance much needed social security measures. In other words, in certain circumstances the French consider expansionist government policy—if necessary funded by international credits—to be beneficial for the economy and for the French.

A second fundamental French conviction associated with this, is the *dirigist* belief in the primacy of the political over the economic. In other words, traditionally the French have viewed monetary, budgetary and fiscal policies to be instruments to further political and social goals. Politicians directly elected by the French people—the French President and the Members of Parliament—are thus considered to be the ultimate and legitimate decision-makers. As such, monetary, budgetary and financial instruments should be in their hands rather than in the hands of the unelected financial experts of the (European) central bank. In accordance, the Banque de France traditionally has enjoyed much less independence than the Bundesbank. Throughout the years, the French have tried to politicize the institutional make-up of European monetary policy-making in order to get decision-making transferred to the political instead of the technical level.

### 2.1.1 Pre-EMU functional independence

Historically, the most prominent difference in opinion on the proper level of *functional* independence of central banks between France and Germany occurred during the negotiations on the establishment of the European Monetary System (EMS).<sup>2</sup> During these negotiations, the independence of the NCBs and the conditions under which they would be obliged to intervene in markets became the most contentious issue. The French have pushed for additional financial support mechanisms, and for obligatory interventions by the CBs. These proposals met with fierce opposition from the Bundesbank that perceived them as threats to monetary stability and blatant breaches of its constitutional independence. Ultimately, Bundesbank President Emminger only agreed to authorise the establishment of the EMS if the Bundesbank would be freed from the obligation of intervening in those situations in which this intervention might jeopardise monetary stability (Van Esch 2009).

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<sup>2</sup> Due to its fragmented political system, it is difficult to speak of a unitary German position on European economic and monetary integration. At times, the position of the German financial elite diverges almost as much from that of the German political elite as from that of the French politicians.

In the run up to, and during the negotiations on the Maastricht Treaty, the debate between the French and Germans concerning the functional independence of the future ECB resurfaced. Guarantees for the formal, personal and political independence of the future ECB were formalised early in the Intergovernmental Conference (IGC) (Schönfelder and Thiel 1994: 91).<sup>3</sup> However, the *actual* independence of the ECB did become a point of contention. In the opinion of the German financial elite, the French assault on the actual independence of the ECB came in three guises: its demands for democratic accountability of the ECB, the establishment of an economic government, and the French proposals concerning external monetary policy making (Van Esch 2007).

With regard to the democratic accountability of the ECB, the Commission—supported by the French—proposed that the future ECB would issue periodic reports to the European Council and to the European Parliament. To the German monetary experts, however, such a provision was an open invitation for politicians to interfere in their domain. The issue was settled in the draft statutes of the ECB which provided that the ECB would present an annual report to all institutions of the EU, and would publicise regular reports on the activities of the system (Schönfelder and Thiel 1994: 83; Van Esch 2012).

The second issue of contention was the French proposal concerning the establishment of an economic government (Howarth 2000: 83; Howarth 2002: 167).<sup>4</sup> As early as 1988, the French Finance Minister Pierre Bérégovoy had argued in favour of such a European economic government. From the outset, however, there was little chance that the French would be able to secure this demand due to the opposition by the German financial elite and Chancellor, and the European Commission (Mazzucelli 1997: 65–6; Schönfelder and Thiel 1994: 78–9). Moreover, the French were internally divided on the issue. For some time, the plan enjoyed the half-hearted support of the French President Mitterrand,<sup>5</sup> but in January 1991 the President forced his Minister of Finance to surrender to the idea (Howarth 2000: 143).

On the issue of external monetary policy making, the German financial elite argued that since external monetary relations have consequences for price stability it should be the responsibility of the ECB.<sup>6</sup> The French, however, argued that given its implications for general economic policy and the relations between the EU and third countries, external monetary relations should be handled by the political authorities (Howarth 2000: 134). This division was only resolved at the last ECOFIN meeting before the Maastricht summit, when it was decided that the general guidelines for external monetary policy were to be set by the ECOFIN, but would not be

<sup>3</sup> According to Szász (1999: 114), for France to accept independent ECB “cannot have been an easy decision. An independent central bank is at variance with French centralist tradition”.

<sup>4</sup> French pleas for the establishment of a ‘gouvernement économique’ should not be regarded as a plea for the supra-nationalisation of member-states’ economic policies (Van Esch 2007), as is also apparent from the most recent plans along this line of Fall 2011 (see Section 3.2.1). French plans to establish a ‘gouvernement économique’ are first and foremost motivated by a desire to transfer decision-making firmly in the hands of democratically elected high politicians rather than the unelected ‘functionnaires’ of the ECB.

<sup>5</sup> Howarth suggests that the issue of an economic government ‘provided a useful bargaining chip in the negotiations with the Germans’ (Howarth 2000: 143).

<sup>6</sup> In October 1990, the *Bundesbank* argued that the ESCB should be given the sole responsibility for interventions in capital markets and should have co-decision rights on all other external monetary policy decisions.

binding. In Maastricht, it was added that these general guidelines should serve the primary objective of the ESCB, which is to maintain price stability (Schönfelder and Thiel 1994: 142; Van Esch 2007: 303).

Although institutionalised in the Treaty on the European Union, the divergence of opinion on the proper level of functional independence kept surfacing after Maastricht. In a TV-interview just before the French referendum in 1992, for instance, President Mitterrand reiterated the French plea for an economic government as a political counterbalance to the ‘technicians’ of the ECB. As such, the latter would have to implement the decisions made by the European Council (Verdun 2000: 134).

### 2.1.2 Pre-EMU political independence

The differences in opinion concerning the right level of the *political* (E)CB independence between Germany and France go back even further to the (failed) negotiations on the 1970 plan for a European Monetary Union, the Werner Report. During the negotiations, the German Minister of Economic and Financial Affairs, Karl Schiller—backed by the Bundesbank Rat—voiced the hope that a future European Central Bank would be as politically independent as the Bundesbank. In contrast, French President Pompidou stressed the need for politicians to have political control over the monetary instruments. The level of democratic control over, and of political independence of the future ECB remained contentious until the end of the Werner-negotiations, and ultimately contributed to their failure (Van Esch 2007: 205–209, 215).

A different aspect of political independence, the non-interference of the government with the appointments of the members of the board (or chief executive officer), has been most prominently attacked by French politicians during the appointment procedure of the ECB’s first President, Wim Duisenberg. In May 1996, the Presidents of the central banks agreed that Wim Duisenberg (at that time President of the Dutch central bank) would succeed Alexandre Lamfalussy as the President of the European Monetary Institute. In their view, this implied that Duisenberg would be the candidate for the first President of the ECB. Aware of the great political impact of this decision, the Presidents of the central banks had asked their governments’ opinions. Except for France and Italy, all CB Presidents were of the impression that their governments would agree. Immediately after the publication of this decision, it became clear that President Chirac did not agree. The French government did not accept such a decision to be made by non-elected civil servants.

In May 1998, the heads of states of the EU had to decide on the presidency of the ECB. Once again it appeared that France did not accept unconditionally the majority’s proposal that Duisenberg would become the ECB’s first president. Chirac wanted the term of office of 8 years to be split into 2 of 4 years, and Duisenberg to sign a document that he would step down on January 1st, 2002. This would introduce the possibility for the French candidate Trichet to succeed Duisenberg in January 2002. Duisenberg agreed to sign that he would not serve the entire term of 8 years, but he refused to announce a date on which he would step down. This upset Chirac who declared “*Je ne me laisse pas faire chanter par un petit fonctionnaire*” (De Haas and Van Lotringen 2003: 25). Still, after a full day of negotiation, Duisenberg was elected as the first president of the ECB.

The fact that Chirac preferred another candidate than Duisenberg as such need not be at variance with the independence of a central bank. In all systems the president of the central bank is appointed by the political leadership. His suggestion to split the term of 8 years into 2 of 4 years, however, clearly is against a main element of independence. This term is long and fixed in order to prevent too much political influence.

### 3 Institutionalisation without internalisation

Despite these historical differences in attitude, the member-states were able to find agreement on the Maastricht provisions concerning CB independence relatively easily. In 1999, the European Central Bank—the most independent central bank in the world—became fully functional. Moreover, with the implementation of the Treaty of Maastricht, the NCBs that became members of the ECB had to adhere to stringent unitary rules concerning their independence.

#### 3.1 EMU-induced institutional convergence

Studies show that the legal implementation of the EMU resulted in the intended institutional convergence towards a greater level of CB independence across the Euro-zone. The degree of central bank independence may be represented by the index of Masciandaro and Spinelli (1994).<sup>7</sup> The index of Masciandaro and Spinelli is constructed such that a higher value corresponds to a higher degree of independence. Tavelli et al. (1998) provide figures of this index for 1997, at which time a great deal of the legislation requested for the EMU membership was included in national legislation. The proxy of the pre-EMU level of central bank independence reflects the legislation in force in the year 1990.

Table 1 shows that in 1997, the national central banks of Belgium, France, Greece, Italy, The Netherlands and Spain had become more independent (see columns 1–3), while those of Austria, Germany and Ireland kept their original level of independence. Due to the coming of the EMU a convergence towards a higher level of central bank independence thus had occurred in the eurozone. The increase in independence in The Netherlands and Spain is mainly due to an increase in functional independence (direct credit facilities for the government had to be cancelled). The increase in independence of the central banks of Belgium, France, Greece, and Italy is also due to an increase in political independence. The change is the largest for Spain, Italy and France. As a result, the level of central bank independence in these countries in 1997 was only slightly less than in Germany. The difference in the degree of central bank independence between France and Germany was reduced from 6 to 1 point.

<sup>7</sup> Another frequently used index of central bank independence is that of Cukierman (1992) and Cukierman et al. (1992). Van Lelyveld (2000: Appendix 7-A) presents an updated version of this index, which includes changes in the legislation up to 1994. At that time, however, not all countries had brought the requirements of the EMU into their national legislation.

**Table 1** Central bank independence

Country	Central bank independence		
	1990 (1)	1997 (2)	Change (3)
Austria	9	9	0
Belgium	7	10	3
Finland	9	9	0
France	7	12	5
Germany	13	13	0
Greece	4	8	4
Ireland	7	7	0
Italy	5	11	6
Netherlands	10	12	2
Spain	5	12	7

Sources: See [appendix](#)

### 3.2 Persistent attitudinal divergence

With the implementation of the EMU, the institutional level of central bank independence in France and Germany thus became practically the same. However, despite this institutional convergence and the high levels of formal independence of the Banque de France and the ECB, French behaviour since the start of EMU and during the current Euro-zone crisis suggests that a true internalisation of the rules among the French politicians has not occurred yet.<sup>8</sup> On various occasions, the French authorities have shown difficulties with the consequences of the high level of central bank independence required under the EMU.

In fact, during the recent financial crisis French politicians argued for the institution of a ‘gouvernement économique’ as a political counterpart for the ECB, tried to exert political influence over the ECB’s policies and to organize an unauthorised mid-term replacement of one of its board-members. French criticism has been aimed at both the functional and the political aspects of the ECB’s independence, and is in stark contrast with the firm adherence to this norm the Germans have displayed.

#### 3.2.1 Post-EMU functional independence

With regard to the functional independence of the ECB, it is clear that the institution of a European economic government—as a political counterpart of the ECB—has remained a steady item on the French European agenda since the establishment of the EMU. Firstly, as a step towards such an arrangement, the French succeeded to re-label the Euro-XI the Euro-group. This group of the EMU Ministers of Finance meets the day before the ECOFIN meeting and now publishes its agenda, holds longer meetings and organizes press conferences after its meetings.

<sup>8</sup> For the period January 1999 to June 2011, the evidence is based amongst others on a systematic search of articles published in the Financial Times (search-items: “ECB” and “the name of the head of state”).

In September 2004, the Ministers of Finance of the Euro-group appointed Jean-Claude Juncker as their chairman for a term of 2 years. Although some member-states feared that the Euro-group president could try to act as a political counterbalance to the ECB, the practise of appointing a Euro-group president for two and a half years was institutionalised in the Lisbon Treaty. In the summer of 2008, President Sarkozy expressed his wish for a Euro-group permanent secretariat to strengthen policy coordination and for closer contact between the Euro-group and the ECB. In October 2008, the French President reportedly sought support to assume the chair of the Euro-group, but failed (Hodson 2009: 239).

During the 2010/12 Euro-zone crisis, however, many viewed the stabilisation and rescue-package as a triumph of Sarkozy, and a historical step towards a European economic government (Hall 2010; Peel 2010). In addition to this, during 2010 several French politicians made overt calls for decisive steps towards a European economic government. Initially, these calls were resisted by the Germany leadership. However, in the fall of 2011, President Sarkozy and the German Chancellor Merkel suddenly came up with a bilateral plan for an 'economic government'. Despite its ambitious name, the proposal was fully intergovernmental and came down to the plan for the euro-zone leaders to meet twice a year, and for the euro-countries to include the obligation to strive for a balanced budget in their national constitutions. During a meeting of the Van Rompuy Taskforce on October 18 2010, the French Minister of Finance, Christine Lagarde, outlined the French reasoning underlying the French calls for the economic governance of EMU. She argued that governance originates from the Latin 'governare' which means to rule. To rule is politics, and thus an essential role has to be played by politicians, rather than the (capital) markets or the unelected technical experts in Frankfurt (Bohn and De Jong 2011: 13)

In addition, in May 2010, Sarkozy urged the ECB to follow the example of the US Federal Reserve System and buy up Greek government bonds. The German Chancellor Merkel and the Dutch government joined ECB President Trichet in denouncing the French calls as a direct violation of the ECB's independence. The decision subsequently made by the ECB actually to buy Greek government bonds—which according to Trichet was made entirely autonomously from French pressures—elicited fierce criticism from economists—amongst whom the President of the Bundesbank, Axel Weber. In their eyes, the ECB interventions constituted a form of quantitative easing which is a direct violation of the Treaty. It was widely speculated that these interventions led to the resignation of Weber. In August 2011, the ECB went even further and bought up Italian and Spanish bonds preemptively in an attempt to prevent their borrowing costs from spiraling out of control. Again this led to a wave of criticism from the German political and financial elite, and the resignation of the German member of the ECB Executive Board, Jürgen Stark (Young and Semmler 2011).

### 3.2.2 *Post-EMU political independence*

Regarding the terms and appointment of the members of the executive board of the ECB, the historical pattern of contention also has continued after the establishment of the EMU. In April 2001, French politicians once again discussed the length of the presidency of Duisenberg. President Jacques Chirac and Prime Minister Lionel Jospin

publicly urged Duisenberg to make clear at what date he would resign as the President of the ECB. The French head of the European Bank for Reconstruction and Development, Jean Lemiere, even said there was an arrangement struck in May 1998 that Duisenberg would serve half of the 8-years term and then step down in favour of Trichet. The German authorities—the Finance Ministry, the Foreign Ministry and the Bundesbank—were all resolute in declaring that there should be no formal commitment on the succession issue (Barber 2001).

Early 2011, a public discussion on the desired composition and the nationality of the members of the ECB Executive Board broke out in the wake of the debate about the succession of Trichet. Initially, when the former Bundesbank President Axel Weber was still seen as a possible candidate for ECB Presidency, commentators criticised the possibility of having two German Board-members (Weber and the sitting Board-member Jürgen Stark). After Weber's resignation, the Italian CB President Draghi was put forward as Trichet's successor. Then Sarkozy allegedly vowed to support his candidacy only if the second Italian member of the Board, Smaghi, would step down to make room for a new French member. This clearly represents a breach of the political independence of the ECB.

The French have also continued to raise discussion about the statutory goals of the ECB. In the 2007 election campaign for the French presidency, the two main candidates, Ségolene Royal and Nicolas Sarkozy, accused the ECB of paying insufficient attention to economic growth. Both asked for changes in the ECB's statutes to include employment protection and growth as its objective (MacShane 2007). This criticism set off alarm bells in Germany (Atkins and Parker 2007). Sarkozy reiterated his criticism on the ECB's one-sided quest for price stability during the 6-month French Presidency of the EU in 2009.

More surprisingly, in June 2009 Merkel also criticised the ECB policy in the banking crisis. In a marked contrast to the French calls for a change in its primary goals, however, Merkel felt the ECB's decision to buy up to €60 billion of covered bonds from struggling banks jeopardized its proper goals and autonomy. Although Merkel thus called for a return to a more independent ECB, the simple fact that she uttered criticism was exceptional and constituted a breach with the German political culture.

In sum, all these events illustrate that, although all member-states have agreed to form an independent ECB, from the beginning France had difficulties in accepting the consequences of this independence. The Germans accompanied by the Dutch always defended the ECB's independence. Despite enjoying the same formal level of (E)CB independence since Maastricht, the attitudes towards this provision thus continue to differ markedly.

#### 4 Understanding differences in central bank independence

While with the introduction of the EMU the institutional lay-out of France and Germany was thus harmonised, their attitudes towards central bank independence continued to diverge. As of yet, France does not seem to have internalised the norm of (E)CB independence to the extent the Germans have. This pattern suggests that—despite the institutional changes required by the Maastricht Treaty—France and Germany still score very differently on one or more structural factors underlying

their attitudes towards the degree of central bank independence. In the next section, we will discuss various causal factors for explaining central bank independence suggested in the literature, and investigate whether these may offer an explanation for this divergence in attitude between France and Germany.

#### 4.1 Central bank independence and economic interests

In the literature, several factors are identified that underlie central bank independence. Amongst the variables that are mentioned are: government debt and deficit, checks and balances in the political system, and political instability.<sup>9</sup> For each of these factors, we have determined to what extent each of these explanations provide an adequate explanation for the difference in attitudes towards CB independence found above.

The first factor that may determine a state's preference for CB independence is the level of the government's budget deficits and debts (see e.g. De Haan and Van't Hag 1995; De Jong 2002). Countries with high levels of debt and deficit prefer central banks that are branches of the Ministry of Finance so that they can easily monetise government debt. Before EMU, France (and Belgium and Italy) passed the debt on to domestic and foreign bond holders by inflation and devaluation of the national currency, respectively. Due to the ECB's independence such a strategy is no longer possible. Politicians of these countries regret the loss of this inflation/devaluation instrument because they now have to impose fiscal austerity on a population used to solving fiscal problems by printing money.

If this proposition would be correct, France should show much larger deficits than Germany. Data, however, do not confirm this hypothesis. Over the 1980s and the 1990s, the differences between France and Germany with respect to the government's net liabilities as a percentage of GDP are very small (Table 2, columns 1 and 2). Similarly, the French government deficit as a percentage of GDP is not systematically much higher than the corresponding German figure (Table 2, column 3).

The second factor associated with the independence of central banks is the structure of the political system. In this view, the legal independence of central banks should be in accordance with the rules in the rest of the political system. In a system with extensive checks and balances, the central bank is expected to be more independent. France and Germany differ on this variable. According to Moser (1999 Table 1), Germany has strong and France weak checks and balances (Table 2, column 4). The Netherlands also belongs to the group of weak, and Belgium and Italy to that of no checks and balances. For Germany and France the scores are not as extreme as to warrant the conclusion that this is the main reason for the differences in attitude.

Related to the previous argument is the hypothesis that an unstable political environment, in the sense that governments are often replaced before the end of their term, will lead to a dependent central bank. An unstable political culture is here

<sup>9</sup> In addition to these, the structure of the banking sector and the exchange rate regime are mentioned. However, we will not discuss these since France and Germany (as well as the other Euro-zone states) did not differ on these variables since the inception of EMS. Therefore, these factors cannot offer an explanation for the current difference in attitude towards central bank independence (De Jong 2002; Posen 1995; Van Lelyveld 2000: Chapter 7).

**Table 2** Some explanatory variables of central bank independence

Country	Government				Political instability		RUA		Power distance	
	Debt		Deficit		Change	Sign	1976	1997	Hofstede Hoppe	
	1980s	1990s	1990s	C&B					(9)	(10)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Austria	-23.8	-36.2	-2.5	w	2	3	-	1.33	11	43
Belgium	-101.3	-95.6	-1.3	n	4	8	1.15	1.48	65	50
Finland	16.6	35.3	1.9	w	3	4	-	1.57	33	38
France	-39.8	-39.5	-1.6	w	4	6	1.20	1.48	68	47
Germany	-38.2	-39.6	-2.9	s	1	4	1.12	1.43	35	39
Greece	-37.5	-82.1	-5.1	w	3	5	-	1.42	60	61
Ireland	-95.8	-14.1	1.3	w	5	5	1.24	1.33	28	38
Italy	-67.0	-97.0	-3.5	n	6	10	-	1.42	50	55
Netherlands	-55.9	-39.4	-1.3	w	3	5	1.39	1.29	38	34
Spain	-29.2	-41.0	-1.3	w	1	4	-	1.70	57	48

Sources: See Appendix, C&B: checks and balances in the legislative system, coding: s = strong, w = weak, and n = no checks and balance; Change is the frequency of government changes during the 1980s; SIGN is the frequency of government changes when another party comes into power; RUA is the Relative Unemployment Aversion

considered as a proxy for lack of discipline by political parties and a high degree of disagreement about the preferred institutional setting. Both hamper the establishment of an independent central bank. Whilst France is indeed politically more unstable than Germany (see Table 2, columns 5 and 6), the difference is again not as extreme as may be expected. Moreover, The Netherlands with its tradition of CB independence is only mildly more stable than France. Belgium and Italy may be categorised as far more politically unstable than France.

Finally, some authors argue that an independent central bank has to be grounded in a society-wide consensus in favour of low inflation (Howarth and Loedel 2004: 835; Hayo 1998; Van Lelyveld 2000: Chapter 7). Hayo and Van Lelyveld use Eurobarometer respondents' answer to the question of the importance of fighting inflation to measure such an anti-inflation consensus. Van Lelyveld uses the answers on the question: "Do you think the (Insert nationality) government should give higher priority to reducing inflation or higher priority to reducing unemployment?"<sup>10</sup> From the answers he derives a measure of relative unemployment aversion (see Table 2, columns 7 and 8). The reverse is an indicator of inflation aversion. France

<sup>10</sup> This method is superior to methods in which one calculates the relative inflation aversion by dividing the scores on two separate questions one on inflation fighting and the other on fighting unemployment. Since in these questionnaires the respondents are not forced to make the trade-off between inflation and unemployment, they regard both fighting inflation and fighting unemployment as important, so that these methods have to deal with a very high number of ties. As these methods, the current method has the disadvantage that the answers are influenced by the stance of the business cycle (level of unemployment). Moreover, this question is asked only twice: in 1976 and 1997.

consistently scores higher than Germany (West) indicating a higher degree of inflation aversion in Germany. Once again these differences are not extreme. For both samples the scores of Germany and France are very close to the sample's mean which is 1.15 in the 1976 sample and 1.43 in the 1997 sample.

All in all, the review of these factors indicates that divergences in economic interests and political structure alone cannot adequately explain the pattern of 'institutionalisation without internalisation' established above. In the next section, we will review to what extent an alternative factor, culture, may add to our understanding of the Euro-zone member-states' different attitudes towards CB independence.

#### 4.2 Culture and CB independence

As argued above, divergences in economic interests and political structure alone cannot adequately explain the continued divergences in attitude toward CB independence among EMU member-states. De Jong (2002), however, has come up with an alternative hypothesis. He proposes that a preference for independent central banks is rooted in deeper layers of society, more specifically in its national culture.

Culture may be defined as the collective programming of the mind that distinguishes the members of one group (country or society) from another.<sup>11</sup> In his research, De Jong proxies the concept culture by the dimensions Hofstede derived from an employee attitude survey of employees of IBM in 1968 and 1973. Hofstede distinguishes four dimensions: Uncertainty Avoidance, Individualism/Collectivism, Power Distance and Masculinity/Femininity.

De Jong (2002) argues that both Uncertainty Avoidance and Power Distance (PD) could be cultural dimensions that are related to central bank independence. The population in Uncertainty Avoiding countries has a preference for rules and judgement by experts, so that he expects a positive relation between Uncertainty Avoidance and central bank independence. The expected relation between Power Distance and central bank independence is negative. A high score on Power Distance is associated with a concentration of power by a few and hence a dependent central bank. His empirical analysis of 17 OECD countries supports the relation between central bank independence and Power Distance, but not that between the former and Uncertainty Avoidance. In this study we therefore concentrate on Power Distance.

PD refers to the extent to which the society accepts that power, within its organisations and society as a whole, is distributed unequally. In societies with a high PD-score, people perceive that there should be an order of inequality in which everybody has a rightful place, and such an order provides the best protection for everyone. In societies with a low score on Power Distance, people value equality high and any inequality of roles is established only for convenience. Studies have shown that the score on PD is positively correlated with centralisation of political power and political strength (Hofstede 1980: 97–98). As such, it may be expected that in high-PD countries central banks will be dependent. In other words, PD and central bank independence are expected to be negatively correlated.

<sup>11</sup> This and similar definitions of culture are found in Hofstede (1980: 21), DiMaggio (1994: 25), and Inglehart (1997).

Within the group of countries concerned here, France and Germany score at the extreme on the PD-dimension. The French score is the highest, whereas the German score on Power Distance belongs to the lowest figures (Table 2, column 9). Moreover, Belgium and Italy belong to the high-PD countries, whereas The Netherlands score low on this dimension. These scores as well as the contents of Power Distance described in the previous paragraph suggest that from the various explanations offered in the literature for central bank independence, differences in Power Distance are in all likelihood the best explanation for the continued controversy between France and Germany on the ECB's independence.

#### 4.3 Exploring the power distance-CB independence relationship

From the previous discussion, we expect that a relation between Power Distance and central bank independence existed in the Euro-zone countries before EMU, whilst it disappeared after the implementation of the Maastricht Treaty. Multivariate regression analysis is used to test this proposition. Our discussion of the German versus French attitude towards central bank independence refers to the attitudes of national political elites while Hofstede's survey consists of all sorts of employees of an international firm. Hence, one could criticize the results of regressions based on his dataset as not representing the view of key actors. In contrast to De Jong (2002), we therefore also test the hypothesis by means of Hoppe's replication of Hofstede's method to a group of highly educated persons. Hoppe used Hofstede's questionnaire for surveying the alumni from an elite conference and training centre, the Salzburg Seminar.<sup>12</sup> For this index the scores of France are not as extreme as in the original dataset of Hofstede (Table 2, last column).

Our study shows that the index of Power Distance derived by Hofstede has a negative and mostly significant influence on the degree of central bank independence in the pre-EMU period (see Table 3, upper part, first column) providing evidence for our expectation that central banks depend more on politicians in countries that score high on Power Distance. In the mid 1990s when a major part of the requirements of EMU were incorporated in national legislation, this relationship disappears. The coefficient of PD is positive and insignificant, and the overall fit of the equations is bad (bottom part of Table 3). The result is similar but even clearer for Hoppe's index of elite's score on Power Distance before (Table 4, upper part, first column), and after Maastricht (bottom part of Table 4). Although the  $R^2$  (not reported) is still positive, the adjusted  $R^2$  becomes negative. This is another indication that none of the factors concerned can explain the differences after many requirements for the EMU have been implemented. After the implementation of all requirements of the Treaty, all indices have the same value, so that no regression could be made.

As a robustness check additional regressions are run including all explanatory factors mentioned in section 4.1. Since there are ten observations only, each regression can include only few explanatory variables to obtain meaningful results. One

<sup>12</sup> On average the respondents in Hoppe's survey, conducted in 1984, have five more years of formal education than the Hofstede IBM employees. More than two-thirds held doctorates or master's-level degrees (see Hofstede 2001: 126–127). Results for the Cukierman-index are similar to those reported in the text and can be obtained from the authors.

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**Table 3** Central bank independence and power distance (Hofstede)

Before changes in legislation: 1990	(a)	(b)	(c)	(d)	(e)	
Constant term	11.22 (6.15)	11.93 (4.92)	11.88 (5.27)	12.57 (4.98)	8.98 (3.12)	15.18 (14.0)
Power-Distance	-8.14 (2.43)	-7.88 (2.20)	-6.63 (1.48)	-7.13 (1.81)	-8.08 (2.37)	-6.22 (2.01)
Additional Variable		-0.016 (0.63)	-0.024 (0.68)	-0.563 (1.02)	2.260 (1.07)	-5.27 (7.46)
No checks and Balances						-5.60 (3.71)
R <sup>2</sup> (adjusted)	0.22	0.14	0.14	0.25	0.31	0.52
Constant term	8.85 (5.85)	10.52 (6.15)	9.89 (4.36)	9.21 (5.90)	8.59 (2.22)	11.48 (9.47)
Power Distance	3.25 (1.12)	5.61 (2.44)	3.15 (1.04)	0.04 (1.10)	3.20 (1.05)	4.34 (1.26)
Additional Variable		-0.035 (1.91)	-0.413 (0.94)	-0.947 (0.59)	0.224 (0.09)	-3.45 (4.21)
No checks and Balances						-3.48 (3.21)
R <sup>2</sup> (adjusted)	-0.0	0.15	-0.08	-0.11	-0.16	0.07

Additional variables: (a) debt as a percentage of GDP, (b) number of changes of governments during the period concerned, (c) number of government changes where there new cabinet consists of other parties, (d) exchange rate regime; his index runs from 0 (fixed exchange rate) to 2 (fully flexible exchange rate), and (e) weak checks and balances. The coefficient of Power distance has been multiplied by 100 in order to improve the presentation. The numbers between brackets represent *t*-values of the coefficients. The standard errors of the estimated coefficients are corrected by means of White's method for correcting heteroscedasticity

**Table 4** Central bank independence and power distance (Hoppe)

Before changes in legislation: 1990	a)	(b)	(c)	(d)	(e)	
Constant term	18.91 (6.48)	19.62 (6.29)	18.90 (6.22)	19.38 (7.51)	16.64 (5.51)	21.46 (14.76)
Power- Distance	-25.0 (4.62)	-24.6 (4.96)	-24.0 (4.15)	-22.9 (4.68)	-24.7 (5.09)	-21.69 (5.82)
Additional Variable		-0.017 (0.74)	-0.081 (0.42)	-0.433 (0.83)	2.189 (1.55)	-4.600 (7.79)
No checks and Balances						-4.073 (6.22)
R <sup>2</sup> (adjusted)	0.56	0.54	0.51	0.58	0.69	0.82
After changes in legislation: 1997						
Constant term	11.89 (3.05)	11.21 (2.51)	11.74 (2.82)	12.09 (2.99)	11.62 (2.67)	13.97 (3.63)
Power Distance	-3.51 (0.44)	2.45 (0.21)	-1.06 (0.12)	-3.32 (0.39)	-5.17 (0.57)	-2.47 (0.25)
Additional Variable		-0.026 (1.00)	-0.401 (0.86)	-0.464 (0.32)	0.810 (0.43)	-3.020 (2.63)
No checks and Balances						-2.166 (1.51)
R <sup>2</sup> (adjusted)	-0.10	-0.13	-0.19	-0.24	-0.23	-0.12

See note Table 3

variable at a time is added to the relation with a constant term and PD. Except for the dummies of the checks and balances in the legislative system, all coefficients of other explanatory variables are insignificant in all regressions. In most cases Power Distance significantly explains the 1990-index of central bank independence, whereas except for one case it does not explain the 1997-index of central bank independence. In particular for Hoppe's elite index, the differences are large between central bank independence indices including and those excluding the requirements of EMU (Table 4, the differences between the upper and lower part). The fact that alongside Power Distance, the dummies of checks and balances in the legislative system are the only significant factors explaining central bank independence reinforces the idea that the degree of centralization of power is crucial.

The overall conclusion from the regressions is that until 1990 legislation about the independence of the national central bank reflected the widely accepted views in societies about the degree of concentration of power. This relation vanishes after 1990. The degree of central bank independence in the members of the euro-zone no longer reflects their society-wide accepted concentration of power. The difference in results for the period before and after the changes in legislation due to the EMU requirements, suggests that the new legislation is not internalised in the national popular culture and even less in that of the elite. Particularly, in states with a tradition of dependent CBs, central banks are now legally more independent than accepted by their national culture and their elite's values. This holds in particular for the French, and may explain their recurring criticism of the ECB's independence as well as their efforts to reduce this independence.

## 5 Conclusion

The analysis presented in this article provides evidence that culture, and especially a nation's acceptance of the concentration of power, is in all likelihood the most adequate explanation for France's continued difficulty in accepting the independence and legitimacy of the ECB. In France (and to a lesser extent in other Latin countries) centralisation of power in a small set of political leaders or institutions is considered more legitimate than in Germany and some northern states. At the European level, these politicians find it hard to accept the authority of other governments and independent institutions such as the ECB. So even when EU member-states find a way to agree on institutional change and have amended their laws, the underlying attitudes and political cultures may not change accordingly, at least not readily.

While the point of the article is made in the context of central bank independence in Europe, the role of cultural differences on political attitudes underlying institutional realities may have wider applicability. Cultural differences may also help to explain the different reactions in Germany and France to the current sovereign debt crisis on aspects like budgetary discipline, transfer of sovereignty and the curtailing of financial markets. In addition, these cultural differences shed light on the EU's difficulty to come up with a coordinated response to the Euro-zone crisis (Spiegel 2011). The argument put forward in this article suggests that even if European leaders are able to come up with a common institutional answer to the crisis, more profound convergence of their underlying economic and political cultures is needed for these arrangements to be implemented sustainably and successfully.

## Appendix: Data sources

Central bank independence: Masciandaro and Spinelli (1994) for 1990 and Tavelli et al. (1998: 343) for 1997.

Government debt as a percentage of GDP in the 1980s: De Haan and Van 't Hag (1995, Appendix).

Government debts and deficits as a percentage of GDP during the period 1995–2007: Eurostat, Summary Table Consolidated General Government;

Checks and balances in the legislative system.

Strong checks and balances: at least two decision bodies exist which are independent of each other, which have different preferences, and each body has veto power.

Weak checks and balances: At least two decision bodies exist with different preferences, but one body is decisive while the other can only delay a decision.

No checks and balances: there is only one decision body,... or if several exist, they have identical preferences. See Moser (1999: 1580, 1581).

Change is the frequency of government changes during the 1980s: De Haan and Van 't Hag (1995, Appendix).

SIGN is the frequency of government changes when another party comes into power: De Haan and Van 't Hag (1995, Appendix).

RUA is the Relative Unemployment Aversion, the higher the number the higher (smaller) the aversion for unemployment (inflation), Van Lelyveld (2000, Table 7.1).

Power distance: Hofstede (2001) for both Hofstede's and Hoppe's measure.

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