Constitutional Efficiency and the European Central Bank

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Constitutional efficiency, as opposed to the term "efficiency," used without the modifying adjective, applies the criterion for judgment to the operation of an institution over a whole sequence or series of separated instances rather than to the operation in a particular circumstance (Buchanan 2004). The notion here is related closely to the whole discussion about the efficiency or efficacy of rules as opposed to discretionary actions. Whereas the operation of a rule may almost always be improved upon in a particular circumstance, the relevant question is whether or not a rule might generate better results over a whole sequence of events than the exercise of event-by-event discretion.

We can think of an institution, such as the European Central Bank, as a rule in this sense, as an existing framework for monetary action, even if, within this framework, the specific actions are themselves emergent from discretionary decisions of the bank rather than from a rule, as such. To ask, then, whether or not the ECB is constitutionally efficient is to ask whether or not this institution, as it exists, can be predicted to generate results over a whole sequence of separate events and circumstances that are superior to those that might be expected to emerge under alternative institutional arrangements.

Two Distinct Steps

There are two distinct steps in any such evaluative inquiry, and these steps have not always been kept separated in discussion. First,

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there is the question concerning whether or not the ECB might be expected to generate a series of results that are superior to any that might have been produced had some alternative institutional structure been put in place. In other words, when the initial set of arrangements were being established, was the ECB the best structure? Second, there is the quite different question concerning whether or not, as it now exists in place, the predicted operation of the ECB is superior to an alternative set of monetary arrangements for the European Union. As posed in this way, it should be evident that an affirmative answer to the second question need not imply an affirmative answer to the first question.

The Initial Choice

My own position has long been to the effect that the EU missed out on a great opportunity to set up something akin to Hayek's competitive currency regime, even if limited to issue authority by separate national central banks. This arrangement would have been less dramatic to the public and, more important, would have placed restrictions on discretionary authority that do not now exist. But I emphasize that this is a response to the first question posed rather than the second. We start from the here and the now, from that which exists.

The Choice among Existing Institutions

The ECB and the euro are institutional realities. They exist. The relevant question then becomes the second one that I posed. Are these institutions superior to alternatives that might be put in place? And here my answer is positive. That is to say, the ECB does pass muster as being "constitutionally efficient" in this sense.

I am, in a sense, saying that, in this case, "whatever is, is efficient." But note that this judgment does not emerge from either of the two standard arguments—either the Hayekian resort to evolutionary survival or the modern Chicago extension of rational contracting. The euro and the ECB did not emerge from a long evolutionary process; nor do these institutions define an equilibrium attained from contractual agreement among affected parties. Instead, these institutions were quite explicitly "laid on," imposed as it were, by those who served in roles as constitutional agents for the emerging EU.

To argue that these institutions are constitutionally efficient must invoke both the costs of transition to any alternative set of arrangements and the relative efficacy predicted from the operation over time. In one sense, the most singular feature of the ECB and the euro is their existence, as such. The elementary fact that these institutions exist would have been beyond the range of reasonable expectations a half-century past. The concentrated determination of European leaders to end intra-European wars by achieving genuine political integration exerted spillover effects on the separate constructive proposals for constitutional change. Arguments based on the economic efficiency of the enlarged market nexus would never have carried the day. And despite the genuinely innovative ideas contained in the technical analyses of optimal currency areas, such ideas, in themselves, could never have served as the motivation for institutional construction. It was fortuitous that both the logic of economic integration and monetary union fit so well within the overriding thrust toward Europeanization, as a means of securing guarantees against armed conflict.

Once the subsidiary institutions are in place, however, and so long as these do not seem demonstrably to fail, the fact of their existence must be assigned a positive weight in any evaluation for constitutional efficiency. Economic considerations were not the dominating elements in the processes through which these institutions came into being, and it seems highly unlikely that economic considerations, even should these prove relevant, would play a major role in any major reform. Recognition of this fact does not, of course, imply that "that which is" must be accepted as permanent and not subject to proposals for change.

Criteria for Constitutional Efficiency

How does the ECB measure up against independent criteria for constitutional efficiency? More than four decades ago, I suggested that "predictability" in the value of the monetary unit was the most important criterion for a monetary constitution (Buchanan 1962). The basic fact that the ECB retains substantial discretionary authority would seem to counter this basic requirement. Ideally, we might want actions to be automatically triggered by shifts in objectively agreed-upon economic parameters. Failing this ideal, however, the selection and usage of a specific target for the exercise of discretionary authority broadly meets the criterion. And in this sense, the ECB seems to measure up well. Its announced target has been and remains stability in the value of the euro—a target that does lend itself to independent and external determination.

The ECB, in part because of its supranational structure, seems less vulnerable to political pressures to depart from this strictly monetary target than would be the case for a single national central bank. For the latter, the temptation to go beyond the concentrated monetary objective and to act in questionable efforts to affect macroeconomic goals such as growth and employment might prove irresistible. For the ECB, so long as comparable pressures emerge separately from national polities, there should be little or no difficulty in resisting. A "runaway" ECB, one that exploits its range of discretionary authority in allowing gross departures from monetary stability to be generated, seems much less likely to emerge than in the case of any single-country central bank.

The Constitutional Efficacy of the ECB

In one sense at least, this feature becomes the flip side of some of the objections to the European Monetary Union and the euro. The EMU has been criticized because it is alleged to take away one dimension of adjustment to shifting economic circumstances in particular countries and to force internal institutional adjustments in place of exchange rate shifts. It may be argued, however, that because exchange rate adjustments cannot take place that serve to cover up the requirement for internal reforms, and, further, because the ECB, as it is organized, cannot and will not act in vain efforts to shore up separately defined areas of macroeconomic distress, the institutional structures will be moved in directions of enhanced efficiency. Such a roseate vision of the future EU is dimmed by the recognition of the immobility of labor, encouraged by the profligacy of the welfare states, and by the continuing efforts of the large countries, acting through the Brussels bureaucracy, to use regulatory authority to prevent efficiency-enhancing adjustments. But these offsetting prospects cannot and should not be allowed to cast doubt on the constitutional efficacy of the ECB in its limited, but essential, role in the emerging European Union.

It is beyond my competence to speculate about the future of the euro. Europeans seem very reluctant to give up the extended welfare programs in existence, while at the same time they seem unwilling and perhaps unable, privately, to finance these programs through taxes. This set of attitudes more or less guarantees relatively retarded growth. But this central feature of the European political-economic landscape should not be allowed to become an excuse for forcing the ECB into a role beyond its proper constitutional limits. Perhaps a simple recognition that, as it stands and as it has operated, the ECB does broadly meet criteria for constitutional efficiency that may forestall misguided efforts to make the institution do more than is within the possible.

References

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