

# SCOTTISH JOURNAL OF POLITICAL ECONOMY



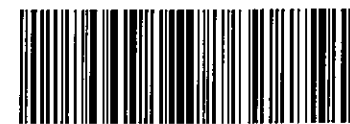
VOLUME 45

AUGUST 1998

No. 3

## Articles

Alec Cairncross	A CENTURY OF SCOTTISH ECONOMICS	225
David Fielding	THE SOCIAL AND ECONOMIC DETERMINANTS OF VOTER BEHAVIOUR: EVIDENCE FROM THE 1992 GENERAL ELECTION IN SCOTLAND	237
I. Theodossiou and H. Williams	EMPLOYER-PROVIDED TRAINING AND TENURE-EARNINGS	258
Jakob B. Madsen	NEW KEYNESIAN VERSUS NEW CLASSICAL THEORIES OF AGGREGATE SUPPLY: EVIDENCE FROM THE OECD COUNTRIES	273
Colin C. Jennings	AN ECONOMISTIC INTERPRETATION OF THE NORTHERN IRELAND CONFLICT	294
M. G. Marshall	SCOTTISH ECONOMIC THOUGHT AND THE HIGH WAGE ECONOMY: HUME, SMITH AND McCULLOCH ON WAGES AND WORK MOTIVATION	309
Peter Howells and Khaled Hussein	THE ENDOGENEITY OF MONEY: EVIDENCE FROM THE G7	329
Henry Tavelli, Giuseppe Tullio and Franco Spinelli	THE EVOLUTION OF EUROPEAN CENTRAL BANK INDEPENDENCE: AN UPDATING OF THE MASCIANDARO AND SPINELLI INDEX	341
<b>Short Reviews</b>		345



0036-9292(199808)45:3:1-E

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*Scottish Journal of Political Economy* is published five times a year in February, May, August, September and November by Blackwell Publishers, 108 Cowley Road, Oxford OX4 1JF, UK or 350 Main Street, Malden, MA 02148, USA.

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**Abstracting and Indexing** This journal is indexed or abstracted in Journal of Economic Literature and Work Related Abstracts.

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## THE EVOLUTION OF EUROPEAN CENTRAL BANK INDEPENDENCE: AN UPDATING OF THE MASCIANDARO AND SPINELLI INDEX

Henry Tavelli, Giuseppe Tullio and Franco Spinelli\*

### ABSTRACT

*In an earlier paper in this journal, Masciandaro and Spinelli computed an index of central bank independence for a number of countries on the basis of the institutional arrangements in place in 1990. Since then the situation has changed and therefore that work needs an updating. This shows that the Bundesbank remains the most independent central bank, but several other central banks have increased their independence: see the cases of Spain, Italy, France, the Netherlands and Great Britain. The Bank of Spain has registered the biggest improvement and the Bank of Portugal remains the least independent.*

In an earlier paper in this journal, Masciandaro and Spinelli (1994) computed an index of central bank independence (CBI), emphasising the difference between the 'functional' and the 'political' independence of central banks—defined as their power to deploy the instruments and to set the targets of monetary policy. The two authors reported values of the index for a large number of European and extra-European countries on the basis of the institutional arrangements in place in 1990.

That work requires some updating because, as also documented in Cottarelli and Giannini (1997), the situation has changed from 1990 in conformity with the Maastricht Treaty which foresees that the European Central Bank and the European members' national central banks must be independent.

So, for instance, the Bank of Italy now enjoys full responsibility in setting the official discount rate and can no longer grant direct credit to the Treasury,<sup>1</sup> and similar developments have occurred in other European countries such as France, Spain and Portugal.<sup>2</sup> As for the United Kingdom, the new Labour government changed the institutional setting immediately after the parliament-

<sup>1</sup> See the two important laws, No. 82 of February, 7 1992 and No. 483 of November 26 1993. In the case of the Bank of Italy much remains to be done on the political independence front; see Banca d'Italia (1995).

<sup>2</sup> See laws No. 980 of 1993 for France, No. 13 of 1994 for Spain and No. 231 and 8 of 1996 for Portugal.

\* Università degli Studi di Brescia

TABLE 1  
Central Bank political Independence of potential EMU members in 1990 and in May 1997

Countries	1	2	3	4	5	6	7	8	I 97	I 90	R 97	R 90
Belgium				*		*		*	2	1	XII	XII
Greece			*					*	2	2	XII	IX
Portugal					*			*	2	1	XII	XII
Austria						*	*	*	3	3	VIII	VI
UK					*	*	*	*	3	1	VIII	XII
Ireland		*				*	*	*	3	3	VIII	VI
Sweden	*	*			*	*	*	*	3	3	VIII	VI
France		*		*	*	*	*	*	4	2	VII	IX
Italy	*	*	*		*	*	*	*	5	4	V	V
Spain		*	*	*	*	*	*	*	5	2	V	IX
ECB	*	*	*	*	*	*	*	*	6	6	II	II
Germany	*	*	*	*	*	*	*	*	6	6	II	II
Netherlands	*	*	*	*	*	*	*	*	6	6	II	II
Finland	*	*	*	*	*	*	*	*	7	7	I	I

Notes:  
 1. Governor not appointed by government  
 2. Governor appointed for >5 years  
 3. All the Board not appointed by government  
 4. Board appointed for >5 years  
 5. No participation of government representative in the Board  
 6. No government approval of monetary policy formulation is required  
 7. Statutory requirements that Central Bank pursues the goal of monetary stability  
 8. Legal provision that strengthen the Central Bank position in the case of conflicts with the government  
 R: ranking  
 I: value of M-S index

TABLE 2  
Central Bank Independence of potential EMU members in 1990 and in May 1997

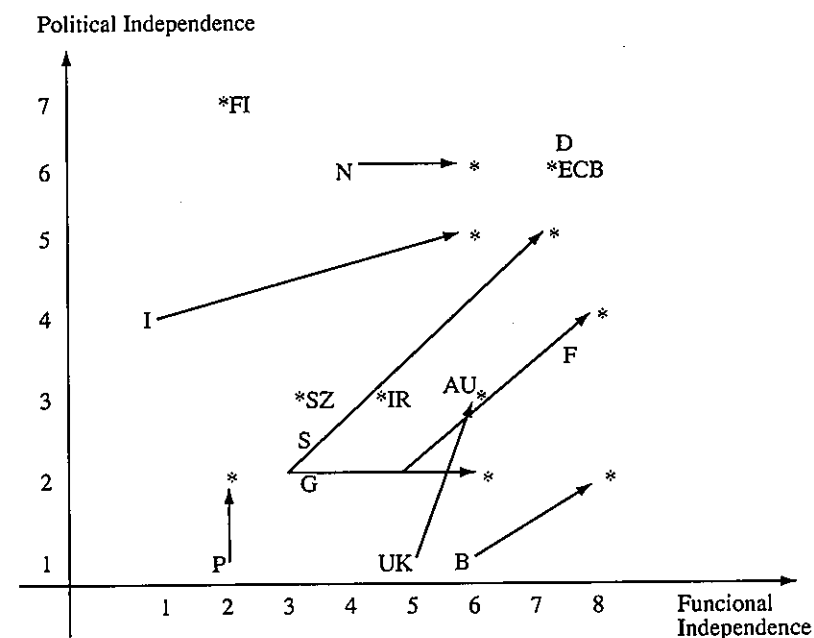
Countries	1	2	3	4	5	6	7	I 97	I 90	R 97	R 90
Finland							**	2	2	XIII	XI
Portugal				*		*		2	2	XIII	XI
Sweden					*	*	**	3	3	XII	IX
Ireland		*	*	*	*	*	*	4	4	XI	VII
Austria			*	*	*	*	**	6	6	VI	III
Greece*		*	*	*	*	*	*	6	6	VI	XI
UK	*	*	*	*	*	*	*	6	5	VI	V
Italy*	*	*	*	*	*	*	*	6	1	VI	XIV
Netherlands*	*	*	*	*	*	*	*	6	4	VI	VII
ECB	*	*	*	*	*	*	*	7	7	III	I
Germany	*	*	*	*	*	*	*	7	7	III	I
Spain*	*	*	*	*	*	*	*	7	3	III	IX
Belgium*	*	*	*	*	*	*	**	8	6	I	III
France*	*	*	*	*	*	*	**	8	5	I	V

Notes:  
 1. Direct credit facility: not automatic  
 2. Direct credit facility: market interest rate  
 3. Direct credit facility: temporary  
 4. Direct credit facility: limited amount  
 5. Central Bank does not participate in primary market for public debt  
 6. Discount rate set by Central Bank  
 7. Banking supervision not entrusted to the Central Bank (\*\*two points) or not entrusted to the Central Bank alone (\* one point)  
 \* In these countries the Central Bank is not allowed to grant direct credit facility to Treasury  
 R: ranking  
 I: value of M-S index

TABLE 3  
Total independence and ranking in 1990 and in May 1997

Countries	TI 90	TI 97	TR 90	TR 97
ECB	13	13	I	I
Germany	13	13	I	I
France	7	12	VI	III
Netherlands	10	12	III	III
Spain	5	12	XI	III
Italy	5	11	XI	VI
Belgium	7	10	VI	VII
Austria	9	9	IV	VIII
Finland	9	9	IV	VIII
UK	6	9	IX	VIII
Greece	4	8	XIII	XI
Ireland	7	7	VI	XII
Sweden	6	6	IX	XIII
Portugal	3	4	XIV	XIV

Source:  
 EMI reports 1996  
 Notes:  
 TR: total ranking  
 TI: total of M-S index



FI: Finland, D: Germany, N: Netherlands, ECB: European Central Bank, S: Spain, B: Belgium, G: Greece, UK: United Kingdom, AU: Austria, P: Portugal, SZ: Sweden, I: Italy, IR: Ireland, F: France

Figure 1. CBI graphic evolution (from 1990 to May 1997)

ary elections of May 1997 so as to make the Bank of England more independent in managing the monetary policy instrument, with an inflation target set by the government.<sup>3</sup>

By updating the Masciandaro and Spinelli indices of the functional, political and total independence, this note provides some compact evidence of how the situation of the European central banks has changed from 1990 to mid-1997.

The results are presented in Tables 1–3 and in Figure 1; in each case, for ease of comparison, we also give the situation as it was in 1990 as computed by Masciandaro and Spinelli (1994).

The Bundesbank remains the most independent central bank, but several potential European Monetary Union members have sharply increased the degree of independence of their central banks: see the cases of Spain, Italy, France, the Netherlands and Great Britain.

The Bank of Spain has registered the biggest improvement in that its overall index jumped from 5 to 12 mainly thanks to the sharp increase in political independence. The Bank of France now has a high degree of functional independence, but is still lacking full political independence because of the way its governor is appointed and because of the presence of a government representative in its Board.<sup>4</sup> The Bank of England does not enjoy full political independence because inflation targets are still set by the government and because it is still allowed to grant direct credit to the Treasury; however, its overall index has gone up from 6 to 9.

In spite of recent reforms, the Bank of Portugal remains the least independent together with the Swedish Riksbank and the Bank of Ireland.

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Date of receipt of final manuscript: January 1998.

<sup>3</sup>For a critical evaluation of the new institutional setting regarding the Bank of England, see the article by Samuel Brittan in the *Financial Times* of 25 September 1997.

<sup>4</sup>Note that this is not in conformity with Articles 111 and 109 of the Maastricht Treaty.

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(Miller, 1991, p. 3); (Allen and Gale, 1994a); Fuerbach (1989) has shown that . . .

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