

The Crisis and Citizens' Trust in Central Banks

Daniel Gros and Felix Roth

26 August 2009

Central banks seem to be enjoying a 'good crisis'. They have lowered interest rates to near zero and have used unconventional approaches to stabilise financial systems. Most observers agree that central banks can at least claim partial credit for the stabilisation that now seems to have been achieved and the prospect of a recovery that now seems tangible (see for example Gerlach et al., 2009 and Cecchetti, 2008).

However, the general public seems to hold a completely different opinion: trust in central banks has declined and the reaction of central banks to the crisis is generally judged as unsatisfactory.

The loss of trust in central banks is particularly striking in Europe. Figure 1 shows the time trend in net levels of trust¹ in the European Central Bank for the 12 member states of the euro area² as measured by the twice annual Eurobarometer (EB) surveys. It is immediately apparent that trust in the ECB has dramatically decreased.

However, the loss of trust in the ECB does not seem to be due to an overreaction to the immediate impact of the crisis, since two observations were gathered after the collapse of Lehman Brothers. Interestingly, in the autumn 2008 (October-November 2008) poll (Standard EB 70), close to the peak of the crisis, the confidence level in the ECB was still within its historical range (albeit at the lower bound). However, by January-February 2009 (Special EB 71.1), confidence in the ECB reached an historically low level and in the meantime recorded an unprecedented fall. For the first time since the start of EMU, more European citizens mistrust the ECB than trust it. The drop between autumn 2008 and January-February 2009 was equivalent to over seven times the standard deviation observed over the previous period. Statistically this has a probability to occur once every million years!

¹ In order to control for the significant variations in the "Don't know" answers, net trust values are given. 'Net trust' here looks only at those respondents who have an opinion and subtracts the percentage of those who say they do not have trust from those who say they have trust in the ECB. Thus a value above zero indicates that overall there are more people who trust than distrust and a value below zero indicates that the majority of people distrusts.

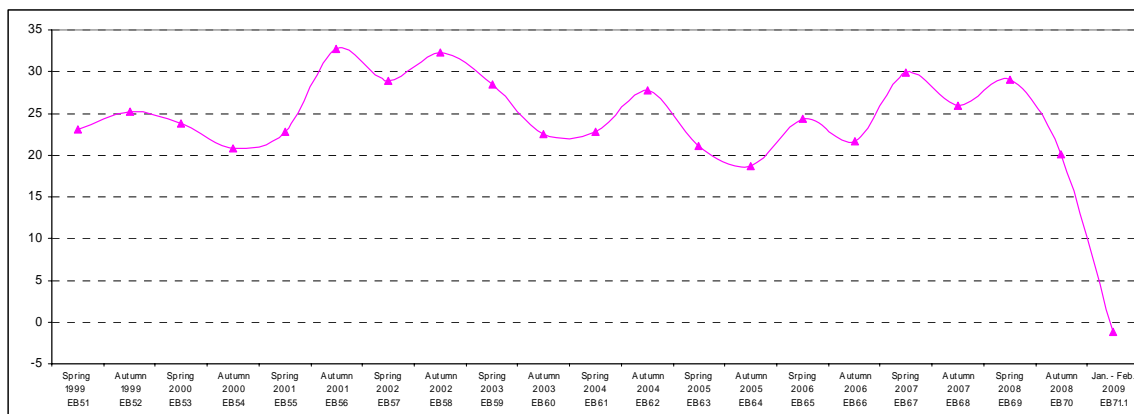
² Data from other EU member countries are also available but not relevant as those countries do not use the euro. The four new members of the eurozone (Slovenia, Cyprus, Malta and Slovakia) have not been included in constructing the average, but their inclusion would not have affected the results in any event.

Daniel Gros is Director and Felix Roth is Research Fellow at the Centre for European Policy Studies (CEPS), Brussels. The research behind this note is part of the research project "Who can be trusted after this financial crisis?", financed by the Austrian Ministry of Finance. This Commentary is being published simultaneously on voxEU.org.

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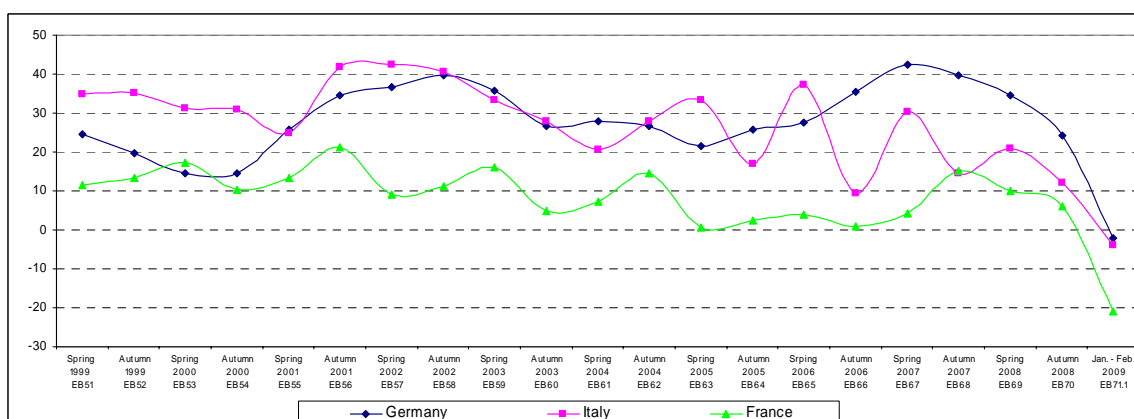
Figure 1. Net trust in the ECB (among euro area 12), 1999-2009



The only consolation for the ECB is the fact that the actual confidence level in the ECB is still higher than the confidence levels in national governments and parliaments, which were already low before the crisis. With a value of minus 1% on our scale, there only a few (1%) more people who do not trust the ECB than those who do. By contrast, national governments and parliaments usually had to be content with values ranging from -24% to -27% (see Roth, 2009). However, trust in national political institutions, while remaining at a low level, has actually increased slightly in 2009.³

The fall in trust in the ECB occurred in almost all euro area countries. However, as one would expect, the level remains significantly higher in the eight smallest euro area countries (including Ireland) than the three largest (Germany, France and Italy), which account for about two-thirds of the population. In the three large euro area countries, more people mistrust the ECB than trust her, where as the opposite is true in all but one of the smaller euro area member countries. This relatively higher trust in the ECB is what one would expect given that the experience of Iceland (and that of the Baltic states) has shown the potential benefits from belonging to the euro area.

Figure 2. Net trust in the ECB among the European G3, 1999-2009



But there are also interesting differences among the three largest European area economies Germany, France and Italy. It is apparent that trust in the ECB was always lowest in France, but it was still usually in positive territory. However, between October-November 2008 and January-February 2009, it fell by 27% points (from 6% to -21%). Trust in the ECB used to be highest in Italy (close to +40 at the start of EMU) but even there it has now dropped to a negative level, as in Germany. In rounded numbers the drop in the net trust level for the ECB since the start of EMU has been 40 points in Italy and around 30 points in both France and Germany.

³ As shown in Roth (2009), trust in the European Commission has also dropped considerably since the start of the crisis. However, trust in the Commission has always been more variable than trust in the ECB, presumably as it is related to the personality of the President of the Commission. The net trust values for the Commission have fallen to the low level recorded in 1999, following the Santer scandals.

But is this loss of trust in the central bank a uniquely European phenomenon? This does not seem to be the case. A series of FT/Harris public opinion polls initiated since the start of the crisis in 2007 suggests that the ECB is not alone in having lost the trust of the people.

The last poll (from July 2009) is particularly instructive. In this survey, respondents were asked: “Do you feel the European Central Bank/Bank of England/Federal Reserve has responded appropriately to the challenges of the economic downturn and its consequences?”

In the case of the US, 18% more answered “no” than answered “yes”. In continental Europe the verdict on the ECB was even more negative, with a balance of 24% for those answering “no”. In this poll the Bank of England scores best with a negative balance of only 6 percentage points.

In three of the four large euro area countries surveyed in continental Europe, citizens are more negative towards the ECB than US citizens are towards the Federal Reserve. See Panel A in Table 1 for details. In analysing each of the four European cases individually (Panel B), one sees that Spanish and Italian citizens, with a net value of -39% and -30%, hold an even lower opinion of the ECB than French or Germans, with scores of -22% and -11%, respectively.

Table 1. Replies to the question: “Do you feel the Central Bank has responded appropriately to the challenges of the economic downturn?”

Panel A

	Great Britain (BoE)	Euro area (ECB)	United States (Fed)
Yes	28	19	23
No	34	43	41
Not sure	38	38	36
Net balance	-6	-24	-18

Note: Euro area (ECB) population weighted based on data from panel B.

Panel B

	France	Italy	Spain	Germany
Yes	21	17	13	23
No	43	47	52	34
Not sure	36	36	35	43
Net balance	-22	-30	-39	-11

Source: Own calculations based on http://www.harrisinteractive.com/news/datatables/HI_FT_HarrisPoll_July2009.pdf

The move towards central banks’ independence had broad public support (see Cukierman, 2007 for review) because independent central banks, as institutions, were widely perceived to be much more trustworthy than the governments or parliaments that previously had been their political masters. However, this no longer seems to be the case, at least not to the extent that it used to be. Central bankers all over the world should redouble their efforts to regain the trust of the people towards their institution. The recent criticism of the Federal Reserve in the US Congress (see Hubbard et al., 2009) might otherwise turn out to be harbinger of tougher times to come.

The formal independence of the ECB is much more strongly protected than that of its counterparts elsewhere (Federal Reserve, for example), because it is enshrined in the Treaty which can only be changed with the consent of all 27 member states of the Union. Nevertheless, the loss of trust in the ECB should still be a cause for concern since there is a widespread feeling that the institutions of the EU lack democratic accountability. In reality, the EU and its institutions ultimately depend for their proper functioning on the support of the people. A monetary union whose central institution does not have the trust of its citizens is bound to run into political problems sooner or later.

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