One Country, One Vote?
Labor Market Structure and Voting Rights in the ECB

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Abstract

The pending enlargement of the European Monetary Union (EMU) has brought to the fore the discussion of the voting right distribution in the European Central Bank (ECB) council. We show that, in a model where labor unions internalize the inflationary consequences of wage setting, deviating from a voting scheme based purely on economic size can be beneficial. Preliminary evidence on unemployment and voting rights in the ECB council seems broadly in line with this idea. We also point to possible policy implications for EMU enlargement and ECB restructuring.

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- Key words: Monetary Policy, Wage Setting, European Monetary Union, European Central Bank, Euro Area, ECB Reform, EMU Enlargement, Accession Countries

I. Introduction

Voting in the council of the European Central Bank (ECB) is organized according to the “one country, one vote” principle, with the national central bank
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One governor of, for example, Luxembourg holding similar voting power as the French governor. This is in remarkable contrast to the way the number of commissioners in the European Commission is distributed among EU member countries or the number of representatives in the European Parliament, both of which are a function of relative population sizes. Without a reform of the ECB decision-making process, these differences between political and economic weights will become even more pronounced as most accession countries to the European Monetary Union (EMU) are relatively small in size.

Misrepresentation of economic size could distort the European perspective of the ECB council (Berger 2002) - but should a reform of ECB decision making go as far as to fully abandon the idea of "one country, one vote"? A number of considerations suggest that some asymmetry in the representation of economic size in the ECB council might have its benefits. Casella (1992) argues that smaller countries might require a political premium in terms of a more than proportional weight in common decisions as a precondition to joining a political union. Thus (some) overrepresentation could be an integral part of EMU itself. Another argument in favor of asymmetry in representation might be differences in transmission mechanisms. As pointed out by, among others, De Grauwe (2000), Gros and Hefeker (2002), and Benigno (2003), it might be advisable to take into account differences in the impact of monetary policy on real and nominal variables when weighing economic developments in the euro area. A corollary of this result is that voting rights should under some circumstances differ from economic size. In addition, the "one country, one vote" principle could help foster ECB independence by decentralizing the appointment process to the council (Berger 2002).

The present paper stresses another channel to explain over- and underrepresentation of countries in the ECB's council: the interaction of monetary policy and labor market structure within a currency union. Building on a recent literature exploring the relation between labor unions and central banks in a closed economy, we show that deviating from a voting scheme based purely on economic size can be beneficial if unions internalize the inflationary consequences of wage setting.1

To illustrate the underlying idea, consider a monetary union with two member countries of equal size but asymmetric labor market structure - in particular, assume a large number of unions in one country (country 1) and very few unions in