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The German public and its trust in the ECB: The role of knowledge and information search



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In this paper, we analyse the effects of objective and subjective knowledge about monetary policy, as well as the information search patterns, of German citizens on trust in the ECB. We rely on a unique representative public opinion survey of German households conducted in 2011. We find that subjective and factual knowledge, as well as the desire to be informed, about the ECB foster citizens' trust. Specific knowledge about the ECB is more influential than general monetary policy knowledge. Objective knowledge is more important than subjective knowledge. However, an increasing intensity of media usage, especially newspaper reading, has a significantly negative influence on trust. We conclude that the only viable way for the ECB to generate more trust in itself is to spread monetary policy knowledge.

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1. Introduction

The last 25 years have witnessed a worldwide surge in central bank independence (CBI). The European Central Bank (ECB), a supranational central bank, may be the most independent central bank of all, and is perhaps 'the culmination of this trend' (Hayo and Hefeker, 2002, 653f.). Benefits of central bank independence include a reduction in political influence, more credible management of expectations, and the possibility of focussing on price stability (Eijffinger and de Haan, 1996). Empirically, there is evidence of a negative relationship between CBI and inflation (Cukierman, 2008).

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However, delegating monetary policy to a small group of unelected central bankers contradicts democratic principles such as representation and accountability (Stiglitz, 1998). Arguably, this delegation obligates the independent central bank to explain its decisions to the public, a duty that may be even more important in turbulent times, for instance, during the ongoing economic and financial crisis. Transparency and accountability are hence the 'quid pro quo for that independence' in a democracy and 'it is the duty of independent central banks to be transparent and to communicate' (Trichet, 2005).

In this paper, we argue that the public's knowledge about monetary policy is a key factor in creating confidence in an independent central bank. Although the ECB engages in communication, e.g., it publishes the *Monthly Bulletin* and holds press conferences after monetary policy decisions, it is not at all clear whether this information is actually understood and processed appropriately by private households and small firm owners. Thus, in order to assess monetary policy and hold the ECB accountable, the general public needs to be able to decode the information provided by ECB. This will require a basic knowledge of how the ECB works and some understanding of monetary policy in general. In the end, knowledge might be a key factor in the ECB gaining public support and legitimating its independence: 'the best way to strengthen trust, also during a financial crisis, is to increase the public's knowledge about the central bank itself and its policies' (Ehrmann et al., 2013, 798).

Our analysis contributes to several branches of the literature. We combine research on central bank transparency and accountability, economic knowledge, institutional trust, and central bank communication. Walstad (1997), Hayo (1999), Blinder and Krueger (2004), and van der Crujisen et al. (2013) analyse the link between economic knowledge and public attitudes towards economic issues. Economic knowledge is found to significantly influence public opinion and appears to bring public opinion more in line with economic theory. There are two papers that investigate knowledge about the ECB, one as to its transparency (Van der Crujisen and Eijffinger, 2010) and the other in regard to its mandate (Van der Crujisen et al., 2010), but they are unrelated to the question of trust in a central bank. Knowledge levels are higher the more intense respondents' media usage. Moreover, knowledge helps anchor inflation expectations at the level targeted by the ECB.

Several papers analyse trust in national or international institutions (Mishler and Rose, 2001; Hudson, 2006; Hessami, 2011). This work finds that people who are familiar with a certain institution and interested in news about it are more likely to trust that institution. Some recent studies analyse trust in the ECB using Eurobarometer data. The first group of papers studies trust at a country-level based on averages of individual responses (Fischer and Hahn, 2008; Roth et al., 2012; Wälti, 2012). A trust-enhancing effect is found for per capita GDP growth, whereas inflation and unemployment diminish trust in the ECB. During crisis times, trust in the ECB decreased in countries where sovereign bond yields rose significantly. A second group of papers focuses on individual Eurobarometer responses (Farvaque et al., 2011; Bursian and Fürth, 2013; Kaltenthaler et al., 2010; Ehrmann et al., 2013). The latter two analyses find respondents who previously heard about the ECB to be more trusting of it. Similarly, Mosch and Prast (2008) show people in the Netherlands who are aware of the DNB's existence have more trust in the financial sector. Finally, Blinder et al. (2008) provide a survey on central bank communication and discover a lacuna in the literature on the topic of central bank communication with the broad public.

Employing novel survey data for Germany, our paper links both individual monetary policy knowledge and information search to the literature that analyses citizens' trust in central banks. We make two novel contributions. First, this is the first analysis to consider three aspects of monetary policy knowledge: (i) subjective monetary policy information, (ii) objective knowledge about the ECB's primary objective and decision-making process, and (iii) general knowledge about monetary policy. Second, we link these knowledge issues with information-search-related indicators to discover determinants of German citizens trust in the ECB. The empirical analysis is based on a specially designed, representative survey of more than 4000 German households, conducted on our behalf in summer and autumn 2011 by Gesellschaft für Konsumforschung (GfK), one of the biggest private German institutes specialising in collecting public opinion data.

Methodically, we employ ordered logistic regressions to study the following research questions. First, does subjective and/or objective knowledge about the ECB and monetary policy in general influence trust in the central bank and, if so, what are the transmission mechanisms? Second, what type of knowledge about the ECB is especially important for the trust-forming process? Third, does a higher

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