4 Central Banking Tasks in a European Monetary Union*
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INTRODUCTION

Henry Thornton was a perceptive observer of monetary events and a major contributor to the principles of central banking as we know them today. Had the term ‘monetary regimes’ been known in his times, an important part of his magnum opus, Paper Credit, could be put under that heading. He would have had much to say on how to reconcile short-run flexibility with long-run stability, the central task of monetary management, in a national economy as well as in a group of countries trying to develop an appropriate institutional framework for joint management of monetary policy. His ability to distil guidelines from practical experience and to derive inspiration from current events is more than ever necessary as we watch the debate on monetary integration and union in Europe.

The inspiration is not lacking, though his talents may be missing. Within the last few days two events have underlined the momentum of Europe’s debate on future arrangements of its monetary affairs. I could not have foreseen the first of them: the resignation of the Prime Minister of the United Kingdom prompted by an intensified debate about the UK attitude to the plans of her EC partners to accelerate the move towards monetary union and a single European currency. The other event has been more predictable for some time. The Committee of Central Bank Governors in the European communities on 27 November forwarded a fairly complete draft of the statutes for a European System of Central Banks to the Finance Ministers. This documents is so far the main input into the Intergovernmental Conference (IGC) on Economic and Monetary Union which starts in Rome on 15 December. Though the draft statutes

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remain confidential, the main points in them have become well known in the public debate in recent weeks, in part through explanations given by the current Chairman of the Committee of Governors, President Pöhl, in London and elsewhere. So this is the right time to discuss and interpret these points, particularly in the country where they are already subject to more intensive and critical scrutiny than anywhere else in Europe.

It is not my task tonight to go through the arguments for or against giving up permanently the use of changes in exchange rates among the currencies likely to participate in a monetary union. I do believe there is a good case for the view that the benefits are likely to outweigh the costs for most, if not all, of the EC member states; that case is set out well, with a number of necessary qualifications, in the EC Commission’s recent monumental study One Market, One Money. But regardless of the personal preferences of myself, or of those more critical of monetary union, it seems useful to discuss central banking tasks in a monetary union under the assumption of a political decision to have the latter, as indeed repeatedly confirmed by the European Council. Though what follows may sound too assertive for many in the audience, the discussion does not assume that a definitive case for monetary union has been made. It could be read in a less prescriptive perspective, quite fairly advocated by the Governor of the Bank of England in the Delors Committee and subsequently in the Committee of Governors: it is useful to define the responsibilities and functions of a possible future European System of Central Banks and review the implications of various institutional and operation choices. By producing a largely agreed draft of the ESCB statutes, the central bankers have effectively said to the IGC: ‘If you decide to have monetary union, this is how we would propose to design the common policy framework.’

It is a consequence of this less prescriptive perspective that more attention is devoted to the final stage than to the transition. Political agreement on the content of the final stage is essential to the proper design of the transition. This explains why the Committee of Governors has chosen to make proposals for the transition only during the course of the IGC. This lecture will follow a similar pattern of emphasis, though I share the concern of pragmatically oriented observers at the present lack of concreteness of the transitional stage.

MANDATE, AUTONOMY AND ACCOUNTABILITY OF THE ESCB

The basic characteristics of a monetary union and its institutional prerequisites are well described already in the Delors Report of 1989. The two