

**THE FEDERAL DESIGN OF A CENTRAL BANK IN A MONETARY UNION: THE
CASE OF THE EUROPEAN SYSTEM OF CENTRAL BANKS**

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- I would like to thank the organisers first, for putting together such a fine variety of papers to discuss what I consider to be a most relevant topic: the experience gained by the European Monetary Union and the potential prospects for other regions of the world. And second, for inviting me to discuss a paper as thought-provoking as that presented by professor Eijffinger.
- I shall commence by commenting on Eijffinger's results on the research performance at the ESCB. Then I will move to the more general issue of the functioning of the Eurosystem, which Eijffinger's paper covers very broadly, considering the role I think the economics and research departments of the national central banks should play.
- I am deeply convinced of the usefulness of economic research on the design and implementation of monetary policy. As central bankers we need at this stage to promote economic research to broaden our knowledge of the euro-area economy. This will also enhance the reputation and credibility of the Eurosystem.

Moreover, research activities must be of the highest possible quality and, to that end, we need rigorous evaluation processes.

- Nevertheless, the two statistics considered in this paper, the relative size of the economics and research staff and the relative weight of journal publications, do not suffice for me to evaluate properly the quality of the research activities of central banks. We are comparing highly heterogeneous institutions. Not only the functions for which each central bank is responsible should be taken into account (the most obvious example is banking supervision) but also the responsibilities of each economics department. It is not a simple division between conjunctural and research activities, as the author thinks, that may also come into play. But the organisational structures that include 'doing research' usually cover other activities. For example, statistics, communication with the ECB or other international institutions, publications and language services, computer and library services may, in some cases, come under the economic and research bodies. Since this possible bias may be correlated with the size of the central bank, I am not surprised that the ranking of quality supports the conclusion that "small is beautiful".
- When considering the organisation of the ESCB, professor Eijffinger compares the Governing Council voting system and the relative size of the ECB/ESCB with the Federal Reserve System and the Deutsche Bundesbank. He concludes that both aspects indicate the over-representation of the national central banks. But the past experience of the institutions making up the Eurosystem and the fact

that it is their constituencies who assess their performance cannot be forgotten. In the case of the Eurosystem, some of the principles guiding decision-making are based on the distinctive multi-country nature of the euro area.

- The ESCB is a newly created institution with a federal system, and its design has been based on similar principles to those implemented by the Federal Reserve. These are a long-term commitment to price stability, the independence of their government bodies and, finally, the accountability and transparency of its policy strategy. But as a means of retaining a balance between these principles, the existence of sovereign states and the need for the Eurosystem to act as a single and unified decision-making entity, it was decided to establish a one-person-one-vote principle in the Governing Council.
- Some critics have noted that the ESCB's decision-making process entails the risk that regional (national) considerations may prevail in policy decisions. Rather, I think that since January 1999 we have observed some divergences in the economic performance of the European countries and that monetary policy actions have been guided by the performance of the overall euro area. Naturally, in the future, the decision-making bodies must be adapted to the enlargement process in order to preserve efficiency principles. That will probably require reforms in the voting procedure on the basis of the Nice agreement, following a representativeness rule but retaining the principle of 'one member, one vote'. The extent to which this reform is made consistently and appropriately

(in accompaniment of economic and monetary union) will also have a significant impact on monetary policy credibility.

- For an example of this new and complex ESCB framework, we must think of the new functions actually being performed by the economics and research departments of the NCBs. For one thing, the differences in euro-area economic structures pose difficulties for obtaining a clear picture of overall economic developments and how the transmission of monetary and non-monetary shocks operates. In this context, the NCBs currently play a pivotal role gathering and analysing information for the proper assessment of the monetary policy in the euro zone. For example, the contribution of the economics departments is particularly important in the production of the ECB's macroeconomic forecasts and in analysing the economic policies that remain decentralised, such as fiscal policies and wage-setting procedures.
- For another, the NCBs are responsible for explaining the implications for the national economies of decisions taken at the euro-area level. National central banks should be the voice of the Eurosystem as regards the specific situation and problems of each national economy to their economic agents.
- Moreover, the economics departments of the NCBs have to follow continuously the current economic conditions and give a public opinion about how the monetary policy stance interacts with the non-monetary policies that remain under the sovereignty of the national economies. This is more relevant for those

countries for which there are not other public or private agencies making a regular analysis of its corresponding macroeconomic performance.

- Finally, let me say that if there is an area in which decentralisation has clear advantages and best reflects the functioning of the ESCB is on research activities. Competition among institutions will incentive new ideas and results, enhancing the quality of our decision process. Moreover, being part of the Eurosystem does not exclude the existence of idiosyncratic economic policy issues that must be incorporated into the research agenda of each national central bank. An example is that the existence of a monetary union obliges us to inquire into the possible causes of real and financial regional imbalances and the best policy to implement in each case. Another example is that in a monetary union the concept of aggregate competitiveness is not only a matter of relative prices and costs but also of analysing concepts more related to the long-run growth performance, such as the degree of sectoral competitiveness, specialisation or research and development activities. This is why I think, more than ever, each central bank needs to have its own research agenda.