

BUILDING CAPACITY: The Institutional Foundations of EMU

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Disagreements about the proper organization of European monetary affairs run deep. This has been true both within Europe's central banking community and in the larger sphere of political and economic life. For some time now (dating back at least to the 1960s) the general contours of this debate have remained roughly stable, even as particular circumstances have varied.

During that period, enthusiasts of deeper European integration longed for the creation of a European "monetary identity," and some dedicated substantial proportions of their professional lives to that end. For such, the inauguration of the third and final stage of Economic and Monetary Union (EMU) on 1 January 1999 constituted not merely a technical achievement but the realization of deeply held desire. Others, of course, did not share that view, nor did they regard the advent of EMU with any great fondness. On the contrary, many regard monetary space as appropriately organized along national lines, whether in order to maximize national policy autonomy or because of strong attachments to a particular conception of state sovereignty.

Among the institutions at the center of this debate has been the Committee of Governors of the Central Banks of the European Economic Community. From its inception in 1964, opinions have varied as to whether the Committee of Governors existed primarily as a forum for cooperation between national central bankers or as a separate institution with needs of its own, requiring the development of independent resources and capabilities.

The argument in this paper is relatively straightforward and can be summarized quite briefly. The Committee of Governors (sometimes referred to hereafter simply as “the Committee” or “the Governors”) was created to facilitate cooperative monetary relations among the Community’s central banks. In order to accomplish this objective, the Committee developed what eventually became an elaborate organizational superstructure. Despite efforts by Europe’s national central banks to remain firmly in control of these institutions, the Committee developed an increasingly independent capacity. When German unification suddenly and dramatically altered the European political environment, that independent capacity was harnessed to form the European Monetary Institute and later the European Central Bank—the pivot point around which the current European System of Central Banks revolves.

Put differently, for over thirty years the Committee of Governors served as the primary incubator of EMU. There is, of course, a certain irony to this. Compared with other institutions of the European Community, the Committee of Governors had a profoundly conservative bias. (Rooted as it was in the culture of central banking, this orientation was hardly surprising.) Indeed, it was in part because of this conservative disposition that the Committee was able to develop the institutional foundations of EMU. Alternative institutional bases for establishing a framework for monetary union—for example, the European Monetary Cooperation Fund, as discussed later in this paper—were not allowed to develop, precisely because they had more radical mandates.

The institutional foundations of EMU were not developed *ex nihilo* during the Maastricht negotiations, despite apparently authoritative accounts to that effect. Instead, the Treaty on European Union endowed many elements of the Committee of Governor’s

increasingly complex structure with statutory authority. The central institutions of EMU—the Governing Council of the European System of Central Banks, the Executive Board of the European Central Bank, and the European Central Bank itself—derive from counterparts organized in the Committee of Governors and its auxiliary bodies, especially as they came to be constituted by the late 1980s.

Of course, the shift from a largely subterranean organization and system of practices to a highly visible public institution is significant, not only in legal but in sociological terms as well. Certain of the well-publicized difficulties of the European Central Bank in projecting a clear and consistent message to the public derive from this transformation: Europe's central bankers are used to doing business with one another, but they are not accustomed to public scrutiny of that business. For this and other reasons, the degree of continuity in Europe's monetary affairs during the transition to EMU should not be overstated.

Having said this, the greater risk—exhibited in both journalistic and scholarly accounts of EMU—is to emphasize the novelty of European monetary unification without acknowledging the substantial degree to which current arrangements represent outgrowths of prior practices. While its pace has been uneven, the trend towards developing a European monetary capacity has been unmistakable. As demonstrated in the summary history of the Committee which follows, the Governors meetings were largely pro forma until the late 1960s; there was a slow accretion of expertise and complexity during the 1970s and most of the 1980s, followed by a burst of activity in the late 1980s and early 1990s.

The pattern, in short, resembles that described by evolutionary biologists as punctuated equilibrium: long periods of modest changes in adaptation, followed by rapid and dramatic changes in response to new environmental challenges.¹ To continue the metaphor, the basic organizational elements of EMU bear the genetic imprint of the Committee of Governors. To understand the evolution of these arrangements is, to a very large extent, to understand their present functions and significance. A full survey of these institutions and their origins is beyond the scope of the present paper.² Instead, following a summary review of the origins and early history of the Committee of Governors, the paper focuses on three aspects of the Committee's development: the question of membership in the Committee; the organization of the Committee's leadership; and the role of the Committee's staff. These characteristics are then briefly compared with their counterparts in the European System of Central Banks, with attention both to continuities and discontinuities.

Early history of the Committee of Governors

Prior to the establishment of the Committee of Governors, the European Economic Community (EEC) lacked a significant monetary personality. Indeed, the only monetary institution created by the Treaty of Rome was the Monetary Committee, formed of representatives from the finance ministry and central bank of each member state. From its beginning, the Monetary Committee played a central role in debates

¹ See, for example, Niles Eldredge, *Time Frames: The Rethinking of Darwinian Evolution and the Theory of Punctuated Equilibria* (Princeton Science Library, 1985).

² For example, this paper will not address the following subjects except in passing: the expert groups founded by the Committee of Governors in the 1970s, from which the present committee structure of the European Central Bank derives; the agenda-setting role played by the Committee of Alternates of the central bank governors during the 1970s and 1980s, and its counterpart institutions in the European System of Central Banks; and the origins of governance structures within the ESCB.

concerning the liberalization of capital markets within the Common Market.³ With respect to monetary and economic policy coordination, however, the Monetary Committee was hardly an activist organization.

As would prove typical of future developments, the initial effort to upgrade the EEC's monetary capacity was sparked by a currency crisis. Even though the German and Dutch revaluations of 1962 had been sanctioned by the International Monetary Fund, the absence of prior consultations with EEC partners was noted in a report of the Monetary Committee. The revaluations were particularly upsetting to European federalists, among them Jean Monnet, who had already been disappointed by the failure of the Treaty of Rome to adopt monetary union as a formal objective or to provide any substantial institutional guidance toward this end.⁴ In October 1962, the European Parliament added its voice to the debate, calling for greater efforts to coordinate monetary policies. The Commission addressed these concerns in November 1962, when it published its ambitious *Action Programme for the Second Stage*.⁵ The report called for exchange rates between the member states to be fixed and a European reserve currency to be introduced in conjunction with the final transition to a customs union (envisioned to take place no later than 1970).

³ See especially the account provided by Age F.P. Bakker, *The Liberalization of Capital Movements in Europe: The Monetary Committee and Financial Integration, 1958-1994*, Boston: Kluwer Publishers, 1996.

⁴ See Kenneth Dyson, *Elusive Union: The Process of Economic and Monetary Union in Europe*, New York: 1994, pp. 67-68.

⁵ See the observations in *The Economist*, November 3, 1962, page 495.

While the customs union was in fact completed ahead of schedule, these long-term monetary objectives remained unrealized for another thirty years. Nevertheless, many of the interim measures envisioned by the Commission as part of the transition to monetary union were in fact soon enacted. Among these was formation of several new institutions. In April and May of 1964 the Council of Ministers established committees for Medium-Term Economic Policy and Budgetary Policy; the Council further directed that consultations be conducted within the Monetary Committee prior to policy changes directed at international monetary problems.

In addition, in May 1964 the Council authorized the creation of the Committee of Governors of Central Banks of the European Economic Community. The Council decision of 8 May 1964 instituting the Committee of Governors provided a rather limited mandate. The Governors were to

“hold consultations concerning the general principles and the broad lines of policy of the central banks, in particular as regards credit and money and foreign exchange markets, and to exchange information at regular intervals about the most important measures that fall within the competence of the central banks and to examine these measures.”

During its early years, the Committee was a very intimate association. Prior to the enlargement of 1973, the Community consisted of only six members; of these six, two (Belgium and Luxembourg) participated in a currency union, with the result that only five central bank governors were members of the Committee.⁶ At their inaugural meeting, held in July 1964, only these five Governors sat at the table; they were accompanied by their Alternates, who sat behind them. Dr. Antonio d’Aroma, the Secretary General of the Bank for International Settlements (BIS), was elected to serve in the same post on the

⁶ The Governor of the National Bank of Belgium represented the BLEU, or Belgian-Luxembourg Economic Union, on the Committee of Governors.

Committee on an honorary basis; he rarely attended future Committee meetings.⁷ In addition, the Commissioner responsible for monetary affairs in the EEC was invited to attend as an observer.⁸

But it was the Governors themselves who formed the Committee. They selected from their own number M.W. Holtrop of the Nederlandsche Bank to serve as the Committee's first chair; his confreres included Baron Ansiaux of the Banque Nationale de Belgique, Karl Blessing from the Deutsche Bundesbank, J. Brunet of the Banque de France, and G. Karli of the Banca d'Italia.

Because of its limited mandate, the Committee's monthly meetings, held on the premises of the BIS, had very little business to conduct and generally lasted less than an hour. Indeed, at first the Committee served largely as a social club for the Community's central bankers (although the resulting increased familiarity of the participants facilitated their cooperative achievements later in the decade).

The initially modest range of activities undertaken by the Committee expanded rapidly in the late 1960s and early 1970s, when a further series of exchange-rate crises prompted European monetary authorities to use the Committee as a forum for cooperation on balance-of-payments issues.⁹ Within the Committee, an *ad hoc* agreement for the extension of monetary support was negotiated over the summer of

⁷ The practice of electing the Secretary General of the BIS to serve as the Secretary General of the Committee of Governors continued until 1990; see the discussion of staff that follows. The position was purely honorary, and the recipient did not normally attend the Committee's meetings.

⁸ The Committee sometimes met in restricted sessions from which the Commission's representative was excluded.

⁹ See Gunther D. Baer, "The Committee of Governors as a forum for European central bank cooperation," in Age Bakker *et al*, editors, *Monetary Stability through International Cooperation: Essays in Honor of André Szász*, Dordrecht: Kluwer Academic Publishers, 1994.

1968 in order to support the French franc; this arrangement was later replaced (in February 1970) by a standardized system for short-term monetary support.

More importantly, when Economic and Monetary Union was adopted by the political leaders of the European Community as a medium-term goal following the Hague Summit of December 1969, the work of the Committee of Governors was suddenly thrust into the limelight. In March 1970, the Committee's chairman—Baron Ansiaux of Belgium had held this post since May 1967—was asked by the Council of Ministers to participate in the proceedings of the Committee headed by Pierre Werner, the prime minister of Luxembourg, charged with developing plans for the progressive realization of EMU. The result was the “Rapport Ansiaux,” presented to the Werner Committee on August 1, 1970, and attached to the Committee's later report.

The Ansiaux Report was distinctive from the rest of the work of the Committee because it represented the views of Europe's central banking community working independently of national finance ministries (at least to the extent that individual central banks were independent of their governments). The Ansiaux group's contribution to the Werner Report was both constructive and critical, lending the prestige and technical expertise of the central banking community to a message of conditional support for the monetary unification project.

Among the Werner Committee's recommendations was the creation of a system for the progressive narrowing of exchange-rate fluctuation margins between the currencies of the Community's member states. The realization of this objective would require substantial technical preparation and coordination; the Committee of Governors was entrusted with this task. The result was the Basel Agreement of April 1972,

discussed in greater detail below. The major point to bear in mind is that the Basel Agreement further expanded the duties of the Committee by making them responsible for the functioning of the Community's exchange-rate system (the "snake").

The question of membership: the Community connection

The preceding account underlines certain ambiguous, even paradoxical features of the Committee of Governors. From its beginning, the Committee was a strange hybrid: a Community institution that was at the same time a central bankers' club. The Committee had been formed by a decision by the European Council, and yet the Governors made considerable efforts to keep both the Community and their respective governments at arm's length.

Indeed, maintaining the independence of the Committee (and by extension of the central banking community more generally) from direct political influence was a continual concern of the Governors. This concern manifested itself in both practical and symbolic actions. There was, for example, the unorthodox venue for the Governors' meetings. Although authorized by a political mandate from the Council of Ministers, the Committee chose to hold its monthly meetings on the premises of the Bank for International Settlements in Basel, Switzerland. By virtue of their association with the BIS, the Governors emphasized their role as central bankers, independent of their national governments. Furthermore, by conducting its business outside the territorial confines of the Community, the Committee underlined its independence from the orbit of the European Commission and from the standard institutions of Community law.

The relationship between the European Community and the Committee of Governors became even more complex following the creation of the European currency snake. The snake was intended to stabilize exchange rates among the Community's member states, but the institution soon lost many Community participants while gaining several non-EEC partners. With time, the snake developed its own informal governing mechanisms, largely independent of both the Committee of Governors and the Council of Finance Ministers.¹⁰ Meanwhile, despite certain early anomalies Community membership was reasserted as the essential criterion for meaningful participation in the Committee of Governors, even as the Community reasserted its formal control over the Community's exchange-rate system.

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In the early 1970s, the members of the Committee of Governors expanded in preparation for the anticipated enlargement of the Community. On 22 January 1972, representatives of four states—Denmark, Ireland, Norway, and the United Kingdom—signed treaties of accession with the European Community. Two months later, in March 1972, representatives of the Danmarks Nationalbank, the Central Bank of Ireland, and Norges Bank were invited to observe the final negotiations of the Basel Agreement.

(Lord O'Brien of Lothbury, Governor of the Bank of England, had already been invited to sit in on the Governors' meetings as an observer beginning a few months earlier, in December 1971, at the time of the Smithsonian negotiations.)

¹⁰ See the account provided by David M. Andrews, "France, Switzerland, and the European currency snake: the Ins and the Outs, 1974-1975," paper presented at the 5th Biennial International Conference of the European Community Studies Association, May 29-June 1, 1997.

The Basel Agreement was signed on 10 April 1972 and took effect two weeks later, on April 24, some nine months before the official enlargement of the Community. The legal status of the accord is significant: the Basel Agreement was both negotiated and signed by the Governors, indicating that it was a central bankers' accord rather than an international treaty. Thus while the snake was the official exchange-rate system of the Community, it was subject neither to Community law nor to the legal jurisdiction of the Community's member states. True, the central banks entered into the Agreement at the direction of their governments. But by insisting on this form, the Governors had once again asserted the independence of the Committee.

The early growth of the snake was impressive. By May 1972, the British pound (and therefore effectively the Irish punt, then participating in a currency union with sterling) and the Danish crown were allowed to join the snake as full members, in anticipation of their governments' eventual membership in the Community. Two weeks later, the currency of the sole remaining Community applicant, Norway, was granted associate status within the snake (a concept provided for in the Basel compact). With Norwegian accession, the snake had expanded from its original membership of six EC states to include four members of the European Free Trade Association in little more than a month.

But disruptions to the international monetary system, and divergence in the performance of different European currencies, were not long in coming. By the end of June, sterling was allowed to float after a period of heavy speculation; within days, the Danish krone exited the Community's exchange-rate system as well. In July, at the Bundesbank's suggestion, the German government instituted capital controls in order to

maintain Germany's exchange-rate commitments within both the Bretton Woods system and the snake (prompting economics minister Karl Schiller to resign in protest).¹¹

Developments were further complicated by national politics in one of the applicant states. In a referendum held over the weekend of September 24-25, Norwegian voters rejected their government's entry application to the Community by a narrow margin. Two weeks later, in fulfillment of its pledge during the campaign, Norway's Labour government resigned.¹²

With Community membership no longer in the offing, the Norwegian central bank lost its observer status on the Committee of Governors; nevertheless, the Norwegian kroner remained associated with the snake. Following the departure of the Norwegian governor, the previously latent potential for confusion in the roles of the Committee of Governors and the snake became apparent. The crux of the matter was both simple and serious: participation in the Committee of Governors depended on Community membership, yet the Committee was responsible for the functioning of an exchange-rate system which was no longer limited to Community members.

Meanwhile, the lull in foreign exchange markets that ensued after German imposition of capital controls helped lure the Danes back into the snake. On October 10, just days after a successful referendum endorsing Denmark's entry into the Community, the krone re-entered the Community exchange-rate system.¹³ For its part, the British

¹¹ See, e.g., John Goodman, *Monetary Sovereignty: The Politics of Central Banking in Western Europe*, Ithaca: Cornell University Press, 1992, pp. 62-3.

¹² The Norwegian referendum was held over September 24-25, with only 46.5% of the electorate endorsing plans to join the Community. The referendum was not binding, but the Labor government had agreed to abide by its outcome and resigned on October 7.

¹³ The Danish vote took place one week after the Norwegian referendum, on September 31 and October 1. An overwhelming 83% of the electorate endorsed Community membership; the krone re-entered the snake little more than a week later.

government—still engaged in parliamentary maneuvering over its own entry into the Community—refused to countenance sterling's return to the joint European venture. Indeed, it was not until October 17, just days before a projected summit of Community leaders, that the European Communities Act was finally adopted by the British legislature.

As a consequence, of the four countries previously applying for membership in the Community, only three were present at the Paris summit of October 19-20, 1972; and of these three, only Denmark was still a member of the snake. Indeed, even the Danish currency had already been forced out of the system temporarily. Despite these unsettling circumstances, the Paris summit was remarkably positive in tone. The communiqué released at the meeting's end focused on monetary unification and included the following “solemn declaration”:

The member states of the Community, the driving force of European construction, affirm their intention before the end of the present decade to transform the whole complex of their relations into a European union.¹⁴

But this happy prospect seemed increasingly out of step with events on the ground. On 13 February 1973, the Italian government withdrew the lira from the snake. Rome invoked the British precedent as a justification for its decision. How was monetary union to proceed with two of the four largest Community members no longer participating in the Community's exchange-rate system?

By March, European monetary relations reached an even more critical juncture. Beginning on the first of the month, the Bundesbank abandoned its Bretton Woods parity and allowed the mark to rise on foreign exchange markets. Almost immediately, other

¹⁴ Commission, *Sixth General Report of the Activities of the Communities*, Brussels: February 1973, p. 9.

western European central banks abandoned their Bretton Woods parities as well. In effect, European monetary authorities had chosen to abandon the dollar and instead to follow the D-mark.¹⁵ This decision was formally ratified a little more than two weeks later, when on March 19 the members of the snake formally agreed to continue their joint float in the absence of the international system of parities.¹⁶ Technically, the snake had left its Bretton Woods “tunnel.” In fact, the dollar tunnel had collapsed, and with it postwar planners' vision of international exchange-rate stability.

Even as the Bretton Woods system was collapsing, however, the European joint float was expanding. The March 19 announcement by the snake's membership included an additional participant, Sweden. Consistent with Norway's continued partnership in what was now the “floating snake,” and with widespread expectations that the Scandinavian states would soon be joining the Community as a bloc, the Swedish krona was granted associate status.¹⁷

The krona's participation in the snake underlined the growing disjunction between the Committee of Governors and the currency arrangement it was charged with overseeing. Nor could the addition of another relatively minor currency hide the snake's fundamental problem: monetary policies in the largest Community members were significantly at odds. While this had been true for some time, including during the final convulsions of the Bretton Woods system, policy divergence became even more

¹⁵ See for example the insider's account provided by Erik Hoffmeyer, *The International Monetary System: An Essay in Interpretation*, Amsterdam: North Holland, 1992.

¹⁶ In conjunction with this decision, the West German government agreed to revalue the D-mark by 3 percent within the snake.

¹⁷ Interviews with senior European central bankers.

pronounced following the Arab-Israeli war of October 1973 and the ensuing international oil crisis. By the end of 1974, even France had left the snake.¹⁸

At the same time that the snake was thus changing its complexion—shifting from a bloc of Community currencies to a mixed collection of EEC and EFTA participants—the Committee of Governors was becoming more strict in its membership requirements. The Danish, Irish, and British governors had their membership in the Committee formally ratified with the accession of their states to the European Community in January 1973, whereas (as noted previously) the Norwegian governor had already lost observer status in the Committee following his country’s unsuccessful referendum on Community membership. (Perhaps because of this latter experience, the Swedish governor never enjoyed even associate status on the Committee.) Conversely, governors from those states whose currencies left the snake remained seated on the Committee. In short, the criterion for participation in the meetings of the Governors remained as it had always been: Community membership. Participation in the snake was not a consideration, and could no longer guarantee even observer status.

Indeed, the confusion that reigned between the Committee and the snake—two groups with increasingly divergent memberships, but with the former officially responsible for latter—helped prompt reforms to the Community exchange-rate system as well. When discussions began in 1977 concerning the formation of a successor

¹⁸ For more on the development of the snake in these early years, and in particular its governance following the December 1974 departure of the French franc, see again Andrews 1997

institution to the snake, it became evident that Community membership would be a prerequisite for full membership in the new arrangement.¹⁹ Recognition of this fact led Norwegian authorities to abandon the snake shortly before the inauguration of the new European Monetary System (EMS) in early 1979.²⁰

While the EMS was in many respects simply an extension of the snake,²¹ the frameworks for membership in the two institutions differed slightly. The difference lay in drawing a distinction between national membership in the new system as opposed to participation by the member's currency in the system's exchange-rate mechanism. Thus while participation by Community members in the exchange-rate mechanism of the EMS was non-compulsory,²² and in fact the terms of participation eventually even became selective,²³ all Community members were automatically "members" of the new Community exchange-rate system (in at least a passive sense).

The new membership framework meant, *inter alia*, that the currencies of all member states were included (on a weighted basis) in the new financial unit created by the system: the European Currency Unit, or ECU. Likewise, membership in the Committee of Governors—which was the body charged with the governance of the EMS, among other matters—continued to be automatically extended to the central banks of all

¹⁹ The charter of the European Monetary System includes provisions for associate membership; however, this status was never extended to any currency, despite expressions of interest by some governments and central banks of non-members of the Community.

²⁰ Interviews with two senior European central bankers. The Swedes left somewhat earlier than the Norwegians, prompted by the desire to engage in macroeconomic policies that were incompatible with the exchange-rate peg.

²¹ The communiqué issued at the close of the Bremen summit of July 1978 indicated that "the snake...[would] remain intact" in the proposed new system.

²² For example, the United Kingdom did not permit sterling to participate in the exchange-rate mechanism of the EMS until 1990; the Greeks did not immediately involve the drachma; and Italian authorities initially permitted the lira to participate only within a special "wide band" created expressly at their insistence.

²³ Dissatisfaction with the unilateral announcement by British authorities of both the date and—more importantly—the level of sterling's 1990 entry into the exchange-rate mechanism led the Governors, in conjunction with the Monetary Committee, to tighten the rules for ERM participation.

Community member states, including new members. Thus when Greek membership in the Community became imminent, the drachma was included in the ECU and the governor of the National Bank of Greece joined the Committee. Indeed, recalling its own practice during the period prior to the January 1973 expansion of Community membership, the Committee decided to extend observer status to the Greek governor in anticipation of his country's formal accession to the Community. Thus Mr. Zolotas, the Greek governor, began attending meetings of the Governors in November 1980, two month's before Greece formally joined the European Community in January 1981.

Similar procedures were employed with the Portuguese and Spanish accessions in 1985. By the time of the next Community enlargement—the Austrian, Finnish, and Swedish accessions of 1995—the Committee of Governors was, of course, no longer in existence. Instead, governors representing the central banks of the accession states joined the Committee's successor institution, the Council of the European Monetary Institute, in accordance with the rules laid down in the Treaty on European Union.

The relationship between the European Monetary Institute and the European Union was obvious, and even enjoyed treaty status. Nevertheless, the Treaty on European Union merely ratified what by the end of the 1970s had become the established practice of Europe's leading monetary institution. The influence of the EMS extended far beyond the borders of the Community. Nevertheless, formal and effective participation in the system, as in the Committee of Governors that directed its functioning, was reserved for Community members.

The organization of leadership: resistance to centralization

In its early years, leadership within the Committee of Governors was essentially uncontroversial. It was a small, mostly homogeneous group without any substantial authority; hence questions about how leadership should be organized—specifically, the powers and duties of the Committee’s chair—remained rather abstract. As the Committee began to accumulate genuine responsibilities, however, these same questions acquired a practical significance.

The chair’s most obvious functions included conducting the Governors’ monthly meetings and establishing their agenda. Later, with the expansion of the Committee’s staff (or Secretariat) and other auxiliary bodies, the question arose whether staff responded to the Governors as a body or specifically to the chair. With respect to each of these matters, the collective preference of the Governors was for the chair to have sufficient power to conduct the (rather limited) business of the Committee efficiently, but nothing more. Central bankers regard independence as a paramount virtue, and the Governors were not about to have their own independence restricted by a powerful and overbearing chair.

Indeed, there was continuing concern among the Governors that no member of the Committee exercise the office of chair in such a fashion as to increase either personal influence or that of any particular central bank. As a consequence, much attention was devoted to matters of succession, in order to develop practices of leadership that were both decentralized and depoliticized. Efforts to concentrate power in the chair, such as occurred during the Committee’s final years, were highly suspect and strongly resisted.

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The chairmanship of the Committee of Governors was initially a mostly honorific appointment, as the Committee conducted little business of real consequence. As the Committee's responsibilities grew, so did those of the chair (assisted by the Secretariat, the subject of the next section). As a result, initially lax procedures for electing the chair became subject to greater scrutiny.

In order to avoid politicking among the Committee members, there was a general preference by the Governors for the development of a simple and decisive succession rule. The mechanisms most often discussed involved variations either on seniority or on alphabetical order of the member states.²⁴ As is often the case with a rotating leadership in a small organization, however, it became periodically necessary to resort to more and more complex subsidiary rules in order to develop a satisfactory system of succession.

The Committee's first two chairs—Dr. Holtrop of the Nederlandlandsche Bank and Baron Ansiaux of the Banque Nationale de Belgique—served three and almost four years respectively, in each case until their retirement as governors of their respective central banks. While the Committee's Rules of Procedure called for the chair to be elected annually by majority vote,²⁵ the terms of these two chairs were apparently renewed tacitly. This practice was not altogether satisfactory, however, particularly following the Committee's increasing prominence beginning in the late 1960s.

Following Baron Ansiaux's retirement in April 1971, the Committee agreed to interpret the one-year rule rather more strictly; furthermore, they began the practice of selecting

²⁴ The six-month Presidency of the Council of Ministers of the European Community rotated on the latter basis, a fact that simultaneously attracted and repelled the Governors

²⁵ Article 4 of the *Rules of Procedure of the Committee of Governors of the Central Banks of the European Economic Community*: "Voting by simple majority, the Committee shall appoint a Chairman from among its members for a period of one year."

the longest-serving member of the Committee as chair. Dr. Carli of the Banca d'Italia was elected on this basis, and explicitly acknowledged that he accepted the appointment as the most senior of the Committee's members.²⁶

From this point on, the principle of seniority was combined with an injunction against any governor serving more than one term as chair, and certainly against the practice of successive terms by the same governor. In meetings in 1972 and 1975, the Governors formally reaffirmed the principle that the longest-serving member of the Committee who had not previously held the chair should be awarded the office.²⁷

In practice, however, the rotation of the chair was subject to other, mostly practical considerations as well. These included the desire that no new (and hence inexperienced) member of the Committee serve as chair, and a similar injunction against electing a chair who was due to retire before the end of his term.²⁸

There was also a desire for the leadership of the Committee to rotate among the different national central banks. For example, on the basis of the seniority rule Dr. Zjilstra of the Nederlandsche Bank should have taken office in April 1972; however, on that occasion he requested that he serve last among the remaining members of the Committee. Dr. Zjilstra's decision to defer his appointment as chair was apparently in recognition of the fact that his predecessor from the Dutch central bank (Dr. Holtrop) had served a long period as chair, while representatives of several other national central banks had never had this privilege. This experience was repeated in 1975, after the governors of the central banks of France, Germany, and Belgium had completed their terms of

²⁶ As noted in the minutes of the Committee of Governors, 109th meeting, 8 March 1977, point VI.

²⁷ The subject was revisited in 1981, following a succession controversy in 1979; see the discussion below.

²⁸ The pronoun is well-advised: no woman ever served as chair of the Committee of Governors.

office per the 1972 agreement. Though Dr. Zjilstra had once again become first in line for the chair, as before he asked for the appointment to be deferred—this time in favor of the governors of the three central banks who had joined the Committee as a result of the Community expansion of 1973.²⁹

By this time, rotating the leadership of the Committee was generally understood to serve several different purposes, including providing the Committee with qualified leadership, insuring a non-political succession of the chair, and guarding against repeated terms of leadership by the same individual. But the retirement of Bernard Clappier as Governor of the Banque de France at the end of November 1979 (and hence from his position as chair of the Committee of Governors) admitted no easy resolution of these various objectives. There were at that time seven other members of the Committee. Four of these members had previously served as chair: Erik Hoffmeyer of the Danmarks Nationalbank, during 1975-6; Gordon Richardson of the Bank of England, during 1976-7; C.H. Murray of the Central Bank of Ireland, during 1977-8; and Cecil de Strycker of the Banque Nationale de Belgique, during 1978-9. A fifth member, Mr. Zjilstra of the Nederlandsche Bank, once again declined (this time definitively) to assume the chairmanship of the Committee, citing his duties as President of the BIS and Chairman of

²⁹ Dr. Zjilstra's preference for the chair to rotate among the different central banks was evidently personal, and did not reflect a formal commitment by the Committee to this end. Note for example that Robert Vandeputte did not decline to the opportunity to serve in 1974-5, despite the fact that his predecessor at the Banque Nationale de Belgique had held the chairmanship of the Committee from 1967 through 1971.

the G-10 Governors. Of the two remaining Committee members, Otmar Emminger of the Deutsche Bundesbank was, like Mr. Clappier, close to retirement, while Carlo Ciampi had assumed the helm of the Banca d'Italia only a few weeks previously.

In short, there was no qualified member of the Committee who was willing to serve, and who had not already served, as chair.³⁰ Under these circumstances, Mr. Clappier exercised his prerogative as the retiring chair to resolve this dilemma. He informed the Committee that under the seniority rule and in view of Dr. Zijlstra's having declined the office, Erik Hoffmeyer (who was second in order of seniority) would be the Committee's next chair.³¹ Thus Dr. Hoffmeyer became the first Governor to serve two terms as chair of the Committee.

Overall, the chairmanship of the Committee rotated 24 times over the life of the Committee, with Gordon Richardson, Carlo Ciampi, and Wim Duisenberg joining Dr. Hoffmeyer as the only Governors to be elected to multiple terms of office.³² (A complete list of the chairs of the Committee is included in the appendix.) The paucity of exceptions to the principle of a single term of office is particularly notable in view of the difficulties of selecting a qualified chair from such a small body in accord with any apolitical succession rule.

³⁰ The selection of Mr. Clappier's own successor at the Banque de France as chair of the Committee was out of the question: it would have simultaneously violated the principle of seniority, the preference for rotation among the different central banks, and the injunction against selecting an inexperienced member of the Committee.

³¹ Committee of Governors, Secretariat, 26 October 1981: "Chairmanship of the Committee of Governors," pp. 2-3.

³² Mr. Hoffmeyer was elected to an unprecedented third term in 1992, as the Committee's penultimate chair; see the discussion below. Indeed, due to his extraordinary tenure at his national central bank, Dr. Hoffmeyer might have served on the Committee of Governors for the entire term of its existence had Denmark been a member of the European Community in the 1960s.

The preceding discussion of succession practices should be sufficient to demonstrate that the Governors were prepared to enforce their stated preference that no member of the Committee be allowed to exercise undue influence over the group as a whole. Nevertheless, in its final years the Committee partially (and reluctantly) reverted to its earlier practice of strong chairs serving lengthy terms. Recall that the lengthy terms of service by the Committee's first two chairs had only taken place because the other Governors had collectively turned a blind eye to their own recently-adopted Rules of Procedure, including the explicit call for the chairmanship to rotate annually. By the late 1980s, with the Committee serving an important function in preparations for the intergovernmental conference on EMU, there could be no such informal laxity.

Indeed, it was precisely because of the imminence of monetary union that the Committee required greater continuity at its helm—or at least that was the argument of Karl Otto Pöhl. Mr. Pöhl had been the Bundesbank's president since 1980. He had previously refused the chairmanship of the Committee when his "turn" came on the basis of seniority; indeed, he was infamous among the Governors for leaving in the middle of Committee meetings when he became bored.³³ Yet he did accept the chair in January 1990, on the eve of the intergovernmental conference.

Upon taking office, Pöhl argued that the ongoing negotiation of the Treaty on Economic and Monetary Union, as well as the subsequent transition period expected to lead to the formation of the European Monetary Institute, necessitated more firm and consistent leadership within the Committee than had previously been the case.

Accordingly, shortly after assuming the chair he introduced proposals to expand both the

³³ Interview with senior Bundesbank official, January 1998

size and the functions of the Secretariat of the Committee; to give the chair greater formal powers over these institutions; and to extend the chair's tenure from one to three years.

Several of the governors were understandably reluctant to endorse these violations of the Committee's long-standing principle of concentrating power in the hands of any individual. At the same time, there was at the same time a widespread understanding that the Bundesbank—as the *de facto* central bank of Europe—had the largest stake in the technical discussions that would lead to EMU. Furthermore, some may have argued that since the Committee would soon be disbanding the significance of this precedent would be limited.

In the end, the Committee's Rules of Procedure were amended (in June 1990) to reflect Pöhl's preferences.³⁴ Still, the reforms remained controversial and resented by some. Suddenly, however, much of the resentment became moot. After all the turmoil associated with initiating these changes, Mr. Pöhl's term as the Committee's chair was suddenly cut short by his resignation from the Bundesbank in June 1991.³⁵ With only half of his three-year term expired, his replacement as chair of the Committee was the venerable Mr. Hoffmeyer.

Despite his departure, Mr. Pöhl's maneuvering resulted in some abiding resentment among the Governors. While certain of the changes he had instituted were acknowledged to have been wise and necessary, the effort to expand the chair's powers

³⁴ Article 4.1 of the *Rules of Procedure of the Committee of Governors of the Central Banks of the European Economic Community*, revised 11 June 1990, includes the following: "The Committee of Governors shall appoint a Chairman from among its members for a period of three years. Should the Chairman not complete his term, the Committee of Governors shall choose a new chairman for the remainder of the term. Should the Chairman be unable to officiate, his duties shall be carried out by the longest serving Member of the Committee of Governors." On the chair's expanded duties, see the discussion of the Secretariat (below).

³⁵ Pöhl resigned following differences with his government regarding the appropriate means of achieving German economic and monetary unification.

while simultaneously extending his own tenure as chair was widely regarded as self-aggrandizement. Having said this, Mr. Hoffmeyer's willingness to serve out the remainder of Pöhl's term of office (as called for in the Committee's recently revised *Rules of Procedure*³⁶) was an effective antidote to the ill-feelings generated by this episode.

Wim Duisenberg was then elected as the final chairman of the Committee of Governors, serving during calendar year 1993. The Committee held its last official meeting in Basel on 14 December. One month later the Governors, now reconstituted as the Council of the European Monetary Institute, met for the first time on Community soil, convening at the "Römer" in Frankfurt on 11 January 1994 before taking up their new offices at the European Monetary Institute on the Kaiserstrasse.³⁷

The role of staff: origins of the European Central Bank

As the Pöhl incident demonstrated, control over the staff of the Committee of Governors could be a contentious issue. This was not always the case: the Committee's Secretariat was initially so small, and its duties so limited, that it was once hardly considered a prize worth fighting for. But as the Committee grew in importance, so did the role of the Secretariat.

The Secretariat grew in size as well, from two individuals (a professional staff member and a secretary) in 1965 to seven in 1989 and thirty in 1993 (immediately prior to the formation of the EMI and the transfer of the Committee's work from Basel to

³⁶ See again footnote 34.

³⁷ Press Release, Committee of Governors of the Central Banks of the Member States of the European Community, 14 December 1993.

Frankfurt). Nor do these figures suggest the full extent of the Secretariat's influence, as the Committee's staff was eventually charged with coordinating the work of several expert groups made up of technical staff from the national central banks.

As these changes took place, several questions repeatedly arose. Just what functions should the Secretariat serve, and (relatedly) just how large should the Secretariat eventually become? Raising these questions necessarily drew attention to the normative issues raised at the outset of this paper. Did the Committee of Governors exist to coordinate the positions of the national central banks (*institution-as-space*), or did it exist to serve some higher functions that transcended the national central banks (*institution-as-independent-entity*)? While the Governors regularly asserted the former position, by the late 1980s the Committee's coordinating functions had become so complex that they had, to a certain extent at least, taken on a life of their own.

In addition to its appropriate size and functions, a third recurrent question about the Secretariat concerned the source of (and control over) its personnel. Should the Secretariat be supplied by the Bank for International Settlements, the "central bankers' bank," as was the case at the outset of the Committee's operations? Should staff members instead be supplied by the national central banks themselves, with their ultimate loyalties to these institutions? Or should the Secretariat be a separate institution from both the BIS and the national central banks? If the latter, what should be the relationship of the resulting body to the institutions of the European Community? As a practical matter, who would direct the work of the Secretariat?

This debate, conducted over twenty-five years, was eventually resolved (at least in principle) during the Maastricht Treaty negotiations. To a significant degree, however,

the Treaty on European Union simply codified the preferences that the Committee of Governors had come to hold by the late 1980s.

...

In October 1964, three months after the Committee's first session, the Governors adopted formal Rules of Procedure to govern their meetings. At the same time, they entered into an agreement with the BIS on the establishment and functioning of a Secretariat for the Committee. Staff functions of the Committee were in essence "outsourced" to the Bank: the 1964 agreement called for the BIS to supply personnel, equipment and facilities as the Committee deemed necessary, with the national central banks belonging to the Committee responsible for reimbursing the BIS for these expenses.³⁸ The agreement stipulated that staff members of the Secretariat must be nationals of one of the member states of the Community, whether working as employees of the BIS or of one of the national central banks of the Community's member states. For its part, the Committee agreed to choose its Secretary General from the staff of the BIS, subject to the proviso that the office-holder must once again be a national of one of the Community's member states.³⁹

To a certain extent, these rules simply formalized a relationship that was already under development. Dr. Antonio d'Aroma, the Secretary General of the BIS, had been serving as the Committee's Secretary General since the Governors' inaugural meeting in July; this role was now institutionalized. In fact, Mr. d'Aroma rarely attended the

³⁸ *Résolutions adoptées par le Conseil d'administration de la BRI lors de la 268e séance, tenue le 12 Octobre 1964.*

³⁹ *Article 7, Règlement intérieur du Comité, 12 Octobre 1964.*

Governors' meetings, nor did his successors at the BIS.⁴⁰ The title was largely honorific, cementing the legal connection between the Bank and the Committee of Governors, while a BIS secretary took the Committee's minutes.

Since the national central banks of the Committee's members paid the BIS for its services, and since the Committee's duties were at this point quite minimal, the Governors were understandably reluctant to have the Secretariat grow in size. Soon, however, a professional staff member was assigned to the Secretariat to serve as rapporteur at the Governors' meetings. First appointed in July 1965, André Bascoul was an employee of the BIS. Mr. Bascoul's post was later elevated (in September 1967) to Assistant Secretary General, and he represented the normally absent Mr. d'Aroma at the Committee's meetings.

As the Committee grew in importance, questions arose about the propriety of this close relationship between the Governors and the BIS. Indeed, the relationship of the BIS to the Committee was controversial in European capitals for many of the same reasons that it was attractive to the Governors. The Bank for International Settlements was not a Community institution; it did not conduct its business within the territory of the Community; and it was not subject to the effective control of the governments of the member states of the Community. Initially, the Committee's reliance on BIS staff was unremarkable. However, with the increased responsibilities of the Committee following the DM-FF exchange crises of 1968-9, and especially at the height of EMU discussions in the early 1970s, the continuing partnership of the Governors with the Bank became

⁴⁰ These included Gunther Schleiminger (September 1975-September 1979) and G. Morelli (October 1979-May 1993). The case of Günter Baer, who was named Secretary General of the Committee in June 1993, is discussed below.

more controversial.

It was under these circumstances that the President of France, George Pompidou, and his finance minister, Valeri Giscard d'Estaing, proposed the creation of a new institution—variously referred to as an “executive organ” and a “Permanent Secretariat”—supplementary to the Committee.⁴¹ These public utterances were accompanied, in private bilateral talks between the French and German finance ministries, by Mr. Giscard d'Estaing's suggestion that Paris serve as the venue for the new institution.⁴²

The BIS soon mounted a counteroffensive. Officials from the Bank of course noted the convenience of conducting the Committee of Governors' work in conjunction with the monthly meetings of the central bankers of the G-10. Furthermore, they argued that the BIS had (in connection with its present role with the Committee) demonstrated its capacity to work effectively with the institutions of the Community. For example, BIS staff met regularly with representatives of the Commission who attended the Governors meetings. In addition, the Bank already supplied both the Committee of Governors and the Monetary Committee with the sort of professional assistance envisioned in the French proposals. Finally, Bank officials even hinted that the BIS could supply staff to an offsite office—presumably in France—as it had during the days of the European Payments Union.⁴³

⁴¹ Presidential press conference on 23 September 1971, and hearings before the Commission des Finances on 27 January 1972 respectively (the latter reported in *Agence Economique et Financière*, 28 January 1972).

⁴² According to correspondence at the BIS.

⁴³ As the official Agent of the EPU, the BIS maintained an office in Paris during the 1950s.

Perhaps as a part of the Bank's bid to retain its role, a second professional staff member (Hanspeter Scheller) was added to the Committee's Secretariat in 1973. The change was justified by the new duties anticipated to devolve upon the Committee following the establishment of the European Monetary Cooperation Fund. The Fund, better known by its French acronym (FECOM), represented a genuine threat to the BIS in its role as staff to the Committee. The governors of the Community's central banks were designated as the Fund's Board of Governors, and were authorized to hire staff in order to accomplish the mandate of the new institution. That mandate was considerable: the Fund was to serve "as an agent for administering the Community exchange rate system set up by the Basel Agreement of April 1972."⁴⁴ As a practical matter, this would have meant managing the very-short-term and short-term credit facilities of the snake, a considerable expansion of the work previously conducted by the Committee of Governors.

However, due to language formally subordinating FECOM to the Council of Finance Ministers, the Fund never met with the approval of the Governors and was allowed to languish.⁴⁵ Officially established in April 1973, it was almost immediately vitiated. The Governors refused to hire any staff and instead conducted the Fund's official business in short sessions at the close of meetings of the Committee of Governors

⁴⁴ *Bulletin of the European Communities*, 12-1974, p. 42.

⁴⁵ See OJ L 89 of 5.4.1973, and the analysis in Daniel Gros and Niels Thygesen, *European Monetary Integration: From the European Monetary System to European Monetary Union*, New York: St. Martin's Press, 1992, pp. 21-22.

(which retained its formal autonomy).⁴⁶ Once again, the Governors refused to participate in any arrangement that would compromise their independence.⁴⁷

Efforts to resurrect the Fund began almost immediately after it became clear that the still nascent institution was not going to fulfill its original mandate. Attempting to rescue the embattled institution in December 1974, the Commission proposed certain amendments to the 1972 regulation establishing FECOM. These proposals were the subject of a plea by the Commission's vice-president, Walter Haferkamp, in February 1975 for a revitalization of the EMU process. A review of these matters was conducted at the March 1975 meeting of Council of Finance Ministers (ECOFIN). The Council, despite having before it an enthusiastic report from the European Parliament, relied instead on the cooler opinions of the Committee of Governors and the Monetary Committee: the finance ministers simply chose to resume debate on the issue at some later date.⁴⁸

In effect, FECOM was a dead letter. Despite additional efforts to resurrect the Fund, most notably at the time of the formation of the European Monetary System in 1979,⁴⁹ the institution was never allowed to develop as intended. This fact was the subject of periodic debate in the discussions of the Committee of Alternates of the Central Bank Governors throughout much of the 1980s, however, a forum that kept the

⁴⁶ Gros and Thygesen 1992, p. 21.

⁴⁷ "Le Comité des Gouverneurs exerce en fait toutes les compétences qui ne sont pas réservées au Conseil des Communautés Européennes ni attribuées au Conseil d'Administrative du FECOM;" Rey and Vigneron 1976, p. 5.

⁴⁸ *Bulletin of the European Communities* 3-1975, p. 32.

⁴⁹ EMS discussions included plans for the development of a European Monetary Fund (EMF), an institution that would have taken over many of the functions previously envisioned for FECOM. The timetable established for the launch of the EMF was allowed to pass unobserved.

issue very much alive.⁵⁰ These debates served a practical purpose. At the end of the decade, when political authorities pressed central bankers for a report on the prospects for EMU,⁵¹ the Governors were already well-versed in the merits of various different approaches to developing Europe's "monetary identity."

Meanwhile, the expanded Secretariat had considerable work to do. In addition to the Committee's traditional information-sharing tasks, the FECOM debacle meant that preparation of the Fund's annual reports was, in fact if not in principle, the responsibility of the Committee and its staff. More importantly, there were practical questions to be solved regarding the functioning of the snake and later the EMS. The Secretariat was in no position to resolve these questions independently—it lacked both the resources and the mandate—but it nevertheless became the fulcrum of the various expert groups formed by the Governors to work on issues of monetary policy coordination, foreign-exchange intervention, and the like.

The expert groups themselves, chaired and staffed by employees of the national central banks, supplied the Committee (which only convened on a monthly basis) with their reports via the Secretariat. The relationship between the Secretariat and these groups (several of them maintained over many years⁵²) was to a certain measure

⁵⁰ Beginning in 1974, the Committee of Alternates was instructed to establish the formal agenda of meetings of the Committee of Governors. The Alternates' meetings were generally more free-wheeling than those of the Governors: formal minutes were not kept, and wide-ranging discussion was encouraged.

⁵¹ At the Hanover summit of June 1988, the heads of state and government of the European Community authorized the formation of a committee to study EMU. The committee was to be chaired by the Commission president, Jacques Delors, and would include the governors and three "wise men" (outside experts). The governors were invited to participate in their "personal capacity," meaning that they were not to accept instructions from either their governments or their employers (the national central banks).

⁵² With the Pöhl reforms of June 1990, the three most important expert groups (on monetary policy, foreign exchange policy, and banking supervision) were endowed with "sub-committee" status, presaging the committee structure of the European System of Central Banks. The Governors retained the right to organize further expert groups on an *ad hoc* basis.

symbiotic: the experts relied on the Secretariat to promote their work with the Governors, while the Secretariat benefited from having a quality product to present. Thus despite the effort of the Governors to limit both the size and functions of the Committee's permanent staff, the Secretariat remained critical to the proper functioning of the various different groups that served the Governors.

In the late 1970s and over the course of the 1980s, the Secretariat sought to solidify and even to expand this pivotal role by providing additional services to the Committee—services that, once delivered, might later come to be seen as indispensable. But the Secretariat had limited contact with the full membership of the Committee. For the most part, staff engaged in correspondence with the Governors only to inform them of routine matters (such as the agenda of upcoming meetings) or at the request of the Committee's chair. Upgrading the role of the Secretariat therefore logically entailed upgrading the Secretariat's relationship with the chair.⁵³

Efforts to provide such enhanced services included proposals for regularly briefings of the chair on the work of the expert groups, as well as for surveillance of the different central banks' compliance with initiatives formally endorsed by the Governors. The Secretariat correctly reasoned that these services would only be regarded as valuable if the information provided was accurate, timely, and sensitive; these conditions entailed the corollary that the briefings be off the record.

It is not clear how these proposals were acted upon, nor the extent to which they were effective in winning the appreciation of the Committee's various chairmen. No

⁵³ Interviews with senior European central bankers.

doubt the high turnover at the helm of the Committee made it difficult for staff to develop particular close relationships with many of the chairmen; this had been, after all, among the reasons why the Governors opted for a system of substantial turnover and apolitical succession. But by playing the role of an honest broker—that is, by providing quality information to a series of Committee chairs, without respect to the leaders’ nationality or personal inclinations—the Secretariat established a reputation of unbiased professionalism. Furthermore, the regular dissemination of written reports (including those authored by the various expert groups) kept the work of the Committee’s staff in common view. Should any incoming chair have chosen to cut back on the material produced by the Secretariat, the other Governors would surely want to know why.

The increased prominence of the Secretariat did not escape Karl Otto Pöhl, nor did the opportunity for him to enhance the role of the Committee’s staff—and his direct control over them—during his tenure as chair. As mentioned previously, the amendments to the Committee’s Rules of Procedures successfully advanced by Pöhl included codifying and enhancing what had previously been a largely informal relationship between the Committee’s chair and staff. But this was only the beginning. In addition to enhancing the chair’s control over staff, Pöhl’s amendments permitted, and his subsequent actions realized, a very substantial expansion of that staff.

To begin with, staff grew to include an “Economic Unit” parallel to the Secretariat. The Economic Unit was to be a group of professional economists that would allow the Committee—for the first time—to develop technical analyses independently of the national central banks. The new group’s duties were to include the preparation of

research papers and the identification of issues for discussion by the Committee.⁵⁴ The Governors stressed the autonomy of this new institution. Both the Secretariat, which for the most part retained its previous functions,⁵⁵ and the Economic Unit were to be “independent—in their work—from any other national or international institutions or governments.”⁵⁶

Within the Committee, the Secretariat and Economic Unit were to be “under the authority of the Secretary General” of the Committee.⁵⁷ Previously, the Secretary General’s office had been an honorific position, awarded *pro forma* to the Secretary General of the Bank for International Settlements; the real manager of the Committee’s staff had been the Assistant Secretary General (André Bascoul). The revised Rules of Procedure departed from this precedent, endowing the Secretary General with real authority.

Furthermore, revised Rules placed the Secretary General’s office more directly under the control of the Committee’s chair (as opposed to the Governors collectively). The revised Rules called for both the Secretary General and indeed all the professional members of both the Secretariat and the Economic Unit to be “appointed by the Committee upon the proposal of its Chairman.” In addition, the Secretary General was to

⁵⁴ Article 9.4 of the *Rules of Procedure of the Committee of Governors of the Central Banks of the European Economic Community*, revised 11 June 1990.

⁵⁵ Article 9.3 of the revised *Rules of Procedure of the Committee of Governors of the Central Banks of the European Economic Community* outlines the Secretariat’s functions in some detail, including provision of operational support to the Governors, to the Alternates, to the (newly-named) sub-committees, and to the other expert groups of the Committee.

⁵⁶ Extract from Article 9.6 of the *Rules of Procedure of the Committee of Governors of the Central Banks of the European Economic Community*, revised 11 June 1990.

⁵⁷ Extract from Article 9.2 of the *Rules of Procedure of the Committee of Governors of the Central Banks of the European Economic Community*, revised 11 June 1990.

“report to the Chairman” rather than to the Committee as a whole.⁵⁸ Pöhl immediately employed these new powers to install his own handpicked lieutenant to administer the Committee’s new and improved staff. André Bascoul, the Committee’s Assistant Secretary General of over twenty years, was replaced by Günter Baer (with whom Pöhl had previously worked in the German government). Baer’s title was elevated, consistent with the Committee’s new rules, to Secretary General.

In short, the new chairman of the Governors thoroughly reorganized both the Committee’s staff and his relationship to it. Staff size, staff functions, and the chair’s term of office were all multiplied, while the chair’s control over staff was made more complete. Although Pöhl’s sudden resignation from public life prevented the full effects of these statutory changes from being immediately realized, a trend toward the (relative) concentration of power was clearly in place well before the Committee’s formal dissolution at the end of 1993.

Analysis: from the Committee of Governors to EMU

In economic terms, the formation of EMU radically alters the European policy environment. A monetary union with a single currency is altogether different from a collection of currencies, each managed separately, that are supposed to limit their mutual exchange-rate movements. In institutional terms, however, the creation of the European System of Central Banks was not nearly so radical. Even the name of the new arrangement suggests continuity with the past. Nor did EMU reflect a revolution in the thinking of European central bankers. The change, both in Europe’s central banking

⁵⁸ Extracts from Articles 9.1 and 9.2 of the *Rules of Procedure of the Committee of Governors of the Central Banks of the European Economic Community*, revised 11 June 1990.

arrangements and in the collective preferences of the central banking community, was more evolutionary than revolutionary.⁵⁹

These changes in preferences can be traced, and partly explained, by examining the evolution of practices within the Committee of Governors of the Central Banks of the European Community. This paper has been limited to an examination of three aspects of the Committee's practice, namely, how questions of membership and participation in the Committee's meetings were addressed; how the leadership of the Committee was organized; and what role the Committee's staff was to play. A more complete account would have to engage other issues as well,⁶⁰ but even the relatively brief consideration of these three matters offered here can provide substantial analytical leverage with which to consider the origins and functions of the institutions of EMU.

a. Membership: continuity in the Community connection

To begin with, the Committee of Governors' connection with the European Community was crucial. Despite its eccentricities (including an unwillingness to be governed by Community law), the Committee was a creature of the Community: full membership within the institution was always contingent upon national participation in the European Community. This fact had important ramifications for the governance of the different systems that have been intended to stabilize Europe's monetary space. Despite the only partial participation of Community member states in the active components of these systems, monetary stabilization—both internal and external—has remained a Community objective. As a consequence, important decisions regarding the

⁵⁹ Compare Kathleen McNamara, *The Currency of Ideas: Monetary Politics in the European Union*, Ithaca: Cornell University Press, 1999.

⁶⁰ See again footnote 2.

evolution of these arrangements have been made exclusively by the Community's members, despite the relevance of these decisions for other (non-member) states.

Perhaps because of the absence of precedents, the question of participation in the meetings of the Committee of Governors was most perplexing during the era of the European currency snake. By the end of its brief existence, the membership of the snake no longer resembled that of the European Community: non-Community members (Norway and Sweden) participated as associates, while Community members (Denmark, France, Ireland, Italy and the United Kingdom) had each dropped out of the system at one time or another. Nevertheless, the snake remained "the Community's exchange-rate system" and as such continued to be governed by the Committee of Governors.⁶¹

By the time negotiations to form the European Monetary System had begun in earnest, the disjunction between participation in the Community and in the Community's currency arrangement had become quite pronounced. In fact, the organization of the EMS was partially intended to rectify such incongruities. Community member states were automatically made members of the new currency arrangement, while their currencies were allowed (but not obliged) to participate in the system's exchange-rate arrangement. Though peculiar in its own way, this organizational framework tightened the relationship between the Community and the EMS—a relationship that had been allowed to deteriorate during the tenure of the snake (despite the intentions of its founders).

With the formation of the EMS, the Community connection was reinvigorated. Although the arrangement's founding charter allowed the currencies of non-member

⁶¹ With the proviso that the actual participants in the currency arrangement formed a caucus within both the Committee of Governors and ECOFIN; see again Andrews 1997.

states to be named as associates, such status was never conferred. Observer status in the Committee of Governors for the governors of central banks of associated currencies of the snake had already been phased out in the mid-1970s; the functioning of the EMS confirmed that the new system was, in fact as well as in name, a Community arrangement.

For the central banks of Community non-members, the EMS signaled an end to the ambiguous relationships that had been permitted during the early years of the snake. It was plain that the dominant European monetary arrangement was to be organized along Community lines, and that even limited status (such as participation as an observer in the meetings of the Committee of Governors) was unlikely to be forthcoming. Of course, non-members could (and several did) unilaterally peg their currencies to the ECU, or to the D-mark, or to any other currency participating in the exchange-rate mechanism of the new system, and thereby enjoy some of its disciplinary benefits. But they could not participate in the governance of the system, nor were they eligible for monetary support through the system's credit facilities.

The formation of EMU raised similar issues. While the European System of Central Banks can in principle extend associate status to the currency of non-member states, it has shown no inclination to do so. Meanwhile, for members of the European Union (EU) the tiers of participation in the Community's monetary regime have become even more complex. Eleven of fifteen member states participate in the single currency; the remaining four are all technically members of the European Monetary System. Of these four, only three participate in the system's modestly reformed exchange-rate mechanism (ERM II). Thus EU member states can be members of the EMS without

participating in the exchange-rate mechanism (the United Kingdom); or EMS members that participate in the ERM II (Denmark, Greece, and Sweden); or full participants in EMU (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain).

b. Leadership: modest centralization

Within the Committee of Governors, leadership rotated on an essentially automatic basis. The Governors generally chose the member with the longest tenure on the Committee, and yet who had not previously served in that position, to be their chair. With exceptions only at the beginning and the end of the Committee's existence, the chair's term of office was a single year. The chair had limited privileges and for most of the Committee's existence was served by only a modest staff. These practices—more or less automatic succession, limited terms, and modest privileges—succeeded in depoliticizing the selection process and in preventing any single governor from dominating the Committee.

Near the end of the Committee's life span, however, these practices began to change. Especially during Karl Otto Pöhl's one-and-a-half year tenure as chair of the Governors, control over the Committee began to be centralized (at least in relative terms). Pöhl's reforms extended the chair's term of office, enhanced the chair's direct control over staff, and greatly enlarged staff size and functions. The result was an institutionally more powerful leader—even if Pöhl himself was to exercise that leadership for only a brief period before his unexpected retirement from the Bundesbank.

The organization of the European System of Central Banks continues the trend begun during Pöhl's tenure of concentrating power at the center of Europe's monetary

regime. In many respects the Executive Board of the European Central Bank, and in particular the Board's President, is the functional successor to the Committee's chair. The ECB president chairs the meetings of the Governing Council; he is accompanied by the members of the ECB's Executive Board, all of whom have voting privileges and can act as a caucus on behalf of the system's new center (the European Central Bank). Whereas Pöhl represented one vote on a committee composed of twelve governors, Wim Duisenberg and his colleagues from the ECB command six of the Governing Council's seventeen votes. Consequently, an alliance with any three governors from the eleven national central banks participating the European System of Central Banks can provide the Executive Board with a functioning majority. Thus while the ESCB remains more decentralized than other contemporary federal monetary arrangement—compare, for example, the current systems in the United States or in Germany—the new arrangement concentrates power rather substantially more than did any of its predecessors.

c. Staff: from the Secretariat to the ECB

For years, the Governors resisted the development of an independent staff that would serve the Committee. The relationship with the BIS—the latter supplying the Committee with staff as the Governors deemed necessary—was satisfactory on a number of levels. Among these was the Governors' preference to associate themselves with the global central banking community that convened in Basel rather than with the institutions of the European Community centered in Brussels. Basel was superior for practical but especially for symbolic reasons: it represented the Governors' independence from political influence, whether generated at the Community level or within the various member states.

By the end of the 1980s, however, the threat to central bank independence from national governments had considerably eroded: in Europe as elsewhere, the trend was towards enhancing, not diminishing, central bankers' autonomy. In this environment, the European Council's invitation, extended in June 1988, for the governors to report on the prospects for EMU represented a rare opportunity. The members of the Committee were placed in a position to shape public debate along the lines of the consensus that already emerged in the meetings of the Governors and their Alternates.

Not surprisingly, their report called for the development of an institution at the center of EMU that would be both strong and independent. What was surprising, however, was that this document very quickly became the centerpiece of an intergovernmental conference on monetary union. Convened almost simultaneously with the first pan-German elections in fifty years, monetary union had suddenly become the best available instrument to address what was widely regarded as an international emergency: anchoring the new Germany to a fortified European Community.⁶²

These developments left the Governors with a dilemma on their hands. They had provided the European Council with a blueprint for monetary union that underlined the principle of central bank independence, both at the national and supranational levels. The document represented their best collective effort at establishing appropriate guidelines for the development of EMU, even though several of the Governors retained considerable misgivings about the project as whole.⁶³ Once it became likely that their guidelines

⁶² For a more complete account of these developments, see David M. Andrews, "The global origins of EMU: closing the window of opportunity," in Alan Cafruny and Glenda Rosenthal, editors, *The State of the European Community, Volume 2*, Boulder, CO: Lynne Rienner, 1994.

⁶³ Delors wisely instructed the members of his committee to develop the best possible charter for EMU, leaving the question of whether the project ought to be undertaken to political authorities. The Governors for the most part accepted this division of labor, although several of them (for example, Erik Hoffmeyer) later spoke out against the project.

would be accepted, and in fact implemented on an expedited basis, it was up to the Governors to create (in embryonic form) the institution that they had previously only described: an independent European Central Bank.

It was this task that prompted Karl Otto Pöhl, as chair of the Committee, to suggest the progressive termination of the Governors' long-term relationship with the BIS in order to establish an independent professional staff. The staff's functions were already considerable, and included coordination of the work of the various groups of national central bank experts formed by the Committee. In the future, however, the center of the new system would have to be able to assess developments more independently, and to rely rather less on analysis developed at the system's periphery. The growth of the Secretariat, the creation of the Economic Unit, and the redefinition of the Secretary General's office were all justified on these grounds.

These reforms were, of course, combined with changes in Committee's leadership structure that were rather less enthusiastically received by the Governors. As discussed, Pöhl's term as chair was extended to three years. His new Secretary General, Günter Baer, might have been expected to remain in office for some time as well; his predecessor, after all, had served in four different decades. Perhaps inadvertently, Pöhl's reforms had thoroughly Germanicized the institution as well: the Committee's chair, its Secretary General, and the head of the reformed Secretariat (Hanspeter Scheller) were all German nationals.

Given the heavy-handedness associated with some of these latter changes, it is little wonder that they did not all remain in place following Pöhl's 1991 resignation. As mentioned previously, Erik Hoffmeyer served the remaining eighteen months of Pöhl's

extended term as chair. Nor did Pöhl's top administrative selection remain in place very long. Günter Baer continued to serve as Secretary General until the Committee's formal dissolution in 1993, but was not offered the parallel position at the European Monetary Institute.⁶⁴

That honor went instead to his deputy, Hanspeter Scheller, who had served the Governors (first as the subordinate of Bascoul and then of Baer) since 1973. Scheller's selection meant that a smooth transition from the Committee of Governors to the European Monetary Institute was assured. While Alexander Lamfalussy, the first president of the new institution, was the public face of the EMI, Scheller was afforded substantial discretion in organizing the actual functioning of the Institute.⁶⁵ He brought with him all those members of the Secretariat and Economic Unit willing to relocate from Basel to Frankfurt, where they formed the core of the permanent staff of the EMI—and eventually of the European Central Bank.

Conclusions:

Outside observers, particularly from the United States, tend to draw an unrealistically sharp distinction between the discussions of EMU in the 1960s and 1970s (which failed) and those of the late 1980s and 1990s (which succeeded). In fact, Europe's central banking community has more or less continuously debated the

⁶⁴ Baer did not remain unemployed for long, as he was soon named Secretary General of the BIS.

⁶⁵ Scheller's work with the enlarged staff of the Committee prepared him well for these duties. For several years, no director of the Economic Unit was named (although several professional economists were hired to the new body). As Head of the Secretariat, and subordinate only to an inexperienced Secretary General, Scheller was in effect responsible for all the expanded functions of the Committee's staff.

appropriate organization of Europe's monetary space for over thirty years. The core components of that dialogue have been relatively stable: a contest between the relative merits of a decentralized system of exchange-rate stabilization, conducted and controlled by national central banks, and of a currency union built around a central institution controlling substantial resources of its own.

The eventual emergence of EMU in the 1990s represents an evolutionary (rather than revolutionary) change in these discussions. The organization of the European System of Central Banks reflects the consensual position that obtained among central bank governors on this question prior to the negotiation of the Maastricht Treaty. That consensus was by no means decisively in favor of centralization. Indeed, the resulting system will remain considerably decentralized (compared to its contemporary counterparts elsewhere in the world). True, the agreement to form the ESCB, and especially to endow the center of the new system with important (if limited) powers, represented an important reorganization of Europe's monetary architecture. Yet that transformation had been very substantially foreshadowed by incremental developments over a considerable period of time, followed by an explosive period of change that began shortly before the Maastricht negotiations.

Plainly, EMU and the ESCB are more than simply a collection of national central banks. The latter are instead tightly bound together by the policy implications of jointly managing a single currency, and by their mutual reliance on a modest but increasingly important central institution (the European Central Bank). But the institutions of EMU did not simply appear out of nowhere at the direction of Europe's political leadership.

Rather, those institutions and the practices they embody developed over a thirty-year period, and were substantially in place by the late 1980s. The Treaty on European Union crystallized certain elements of that organization, and endowed them with statutory authority.

Put differently, EMU has much deeper institutional roots than are generally acknowledged. Tracing these roots provides an important analytical window on how EMU actually works. Indeed, acknowledging the institution's long history allows one to begin to appreciate why this extraordinary monetary experiment works at all.

APPENDIX:

**Chairmen of the Committee of Governors
of the Central Banks of the European Community,
1964-1993**

Name	Central bank	From	To
M. W. Holtrop	Nederlandsche Bank	1st July 1964	31st March 1967
Baron H. Ansiaux	Banque Nationale de Belgique	1st May 1967	31st March 1971
Guido Carli	Banca d'Italia	1st April 1971	31st March 1972
Oliver Wormser	Banque de France	1st April 1972	31st March 1973
Karl Klasen	Deutsche Bundesbank	1st April 1973	31st March 1974
Robert Vandeputte	Banque Nationale de Belgique	1st April 1974	28th February 1975
M. Erik Hoffmeyer	Danmarks Nationalbank	1st March 1975	31st March 1976
Gordon Richardson	Bank of England	1st April 1976	31st March 1977
C.H. Murray	Central Bank of Ireland	1st April 1977	31st March 1978
Cecil de Strycker	Banque Nationale de Belgique	1st April 1978	31st March 1979
Bernard Clappier	Banque de France	1st April 1979	30th November 1979
Erik Hoffmeyer	Danmarks Nationalbank	1st December 1979	31st January 1981
Gordon Richardson	Bank of England	1st February 1981	31st December 1981
Carlo Ciampi	Banca d'Italia	1st January 1982	31st December 1982
Renaud de la Genière	Banque de France	1st January 1983	31st December 1983
Tomas F. O'Coifagh	Central Bank of Ireland	1st January 1984	31st December 1984
W.F. Duisenberg	Nederlandsche Bank	1st January 1985	31st December 1985
R. Leigh-Pemberton	Bank of England	1st January 1986	13th January 1987
Carlo A. Ciampi	Banca d'Italia	14th January 1987	31st December 1987
Jean Godeaux	Banque Nationale de Belgique	1st January 1988	31st December 1988
Demetrios J. Chalikias	Bank of Greece	1st January 1989	31st December 1989
Karl Otto Pöhl (elected for 3 years)	Deutsche Bundesbank	1st January 1990	31st July 1991
Erik Hoffmeyer	Danmarks Nationalbank	10th September 1991	31st December 1992
W.F. Duisenberg	Nederlandsche Bank	1st January 1993	31st December 1993