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Summary

Governing modes in EU monetary policy are often described as hierarchical, although no precise definition of what this label exactly means is available. The following analysis will investigate the establishment of EMU and explore the different procedural and institutional set-ups before arriving at some conclusions on the nature and key features of EU monetary policy.

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I. Historical preludes to monetary integration in the European Communities

The emergence of governing modes in monetary policy cannot be fully understood without having a look at the history of the European Communities, where proposals and models for monetary cooperation and integration have paved the way for the EMU. Already in the sixties, a number of proposals and suggestions circulated within the European Economic Community which included the creation of a single currency that would complete and optimise the functioning of the Common Market. However, the Communities were facing problems of a different kind as to make these ideas come true: "The relative lack of progress of EMU as a policy idea in the 1960s was not simply due to the contested character of the goals of monetary cooperation. Above all, the catalyst was needed of a combination of external structural change in the international political economy with internal pressures to place it firmly on the political agenda of the EEC and to encourage Germany to assume a leadership role that was necessary to EMU's progress" (Dyson 1994: 67).

It was therefore not until the crisis of the Bretton Woods System became apparent in the late 1960s, that concrete plans for a more efficient and effective cooperation among the EC member states regarding the coordination of monetary policy turned into a more promising perspective. The Hague summit in 1969 prepared the ground and launched the plan for a monetary union, but divergent economic policies and strategies by the member states, external shocks – particularly in the wake of the oil crises, and different philosophies over the adequate procedure for arriving at a single currency led to the final failure of the Werner report (Verdun 2000: 56ff.). What became still possible in the late 1970s was the creation of the European Monetary System (EMS), which started from a more pragmatic approach and tried to reduce exchange rate volatility, building upon the experience with the 'snake' in the previous years. Initially brought into the debate by Commission President Jenkins, the idea of a Monetary System was taken up by French President Giscard and German Chancellor Schmidt who pushed the plan that came true in 1978 (Ludlow 1982). National impetus was an indispensable precondition for the success of the project. At the time, the EMS corresponded both to the economic as well as the integrationist philosophy of the governments in Paris and Bonn, and to their joint ambition of exerting a leadership role for the whole of the Communities. The finalité of the EMS, in particular its deepening into a European Monetary (and Economic) Union through a number of progressive stages, was a concept with a long standing tradition (Bofinger 1994: 445). However, in 1980, time was not yet ripe for monetary union.

It was the combination of a concrete project that was working successfully – the EMS – with a political vision, driven by a number of factors in the late 1980s, that made the emergence of monetary union possible. A decisive force came from the completion of the single market project, which led to demands for further-reaching steps in optimising the free exchange of persons, goods, services and capital. Thus, the process of developing further the single market into a true economic space including a single currency started in the mid-1980s, and received a boost by the Hanover European Council in 1988, where the decision on the creation of the Delors Committee was taken (Verdun 2000: 80ff.). This chain of events reflected the combination of different elements in the emergence of a stronger monetary regime in the EU: national preferences, external pressure, internal EC demand, and expert input. The Delors Report foresaw a three stage process of arriving at EMU, starting in 1990 (Dominguez 2006: 4).

Table 1: The Three Stages of Economic and Monetary Union

	Stage II 1 January 1994	Stage III 1 January 1999
Stage I 1 July 1990	establishment of the European Monetary Institute	irrevocable fixing of conversion rates
complete freedom of capital transactions	ban on granting central bank credit to public sector	introduction of the euro
increased cooperation between central banks	increased coordination of monetary policies	conduct of the single monetary policy by the European System of Central Banks
free use of the ECU	strengthening of economic convergence	entry into effect of the intra-EU exchange rate mechanism (ERM II)
improvement of economic convergence	process leading to the independence of the national central banks, to be completed at the latest by the date of establishment of the European system of central banks	entry into force of the stability and growth pact
	preparatory work for stage III	

Source: ECB at <http://www.ecb.int>

What was needed thus was a set of institutional and procedural reforms establishing the structures of EMU from stage II onwards. A decisive factor for the acceleration of the process towards the creation of the Economic and Monetary Union lied in the historical upheavals of 1989 and beyond, which reshuffled the power structure in Europe, and finally led to German unification (Dyson 1994). The interpretation that it was the German government's intention not to trade unification against integration, as is sometimes suggested, but to underline its European credentials by offering the loss of the national currency, and thus to achieve and enhance acceptance by the EU partners for unification and the new weight and responsibility of the country, represents a convincing set of argumentation.

Still these macro-events do not explain in detail the complex and tricky process of negotiations taking place before, at the IGC 1990/91, and after, on the key issues of economic and monetary union. Here, the different national preferences in favour or against a monetary union, became visible, with the UK acting as the most prominent opponent of a single currency, proposing models of parallel currencies at the European and national levels. Furthermore, there were different conceptions on how to organise the institutional and political structure of EMU. Preferences for a strong economic government as a counterweight to a European Central Bank, promoted in particular by the French government, met with the German insistence on a number of key conditions which were regarded as indispensable for the introduction of the single currency. From their view, the autonomy of the future European Central Bank as well as the national central banks from any kind of political influence was considered as a

pivotal element in the construction of monetary policy. Furthermore, the definition of price stability as the prime objective of the European System of Central Banks should ensure that no equivalent principles of political nature would be smuggled on the agenda of the ECB, while support for the general economic policy of the EU was introduced as a complementary component. In the end, the German model proved to be successful, as main traits of the future European Central Bank System reflected the preferences by the federal government in the IGC at Maastricht.¹

Of similar controversy was the question of how to organise the transition into the final stage of EMU. While Germany favoured the introduction of a deadline for deciding which countries having fulfilled the convergence criteria would adopt the single currency – even if these were few – other countries – among them France, Italy, Spain – favoured a model which would allow for the passage to the third stage after a number of convergence criteria had been fulfilled, without setting a clear date.

II. The establishment of monetary policy at the EU level: sets of explanation

The emergence of modes of governance in monetary policy is linked to the establishment of EMU as a comparatively young area of EC activity, guided by the specific conditions which determined the constitutional engineering in monetary union, and the prevailing national interests in play at the time (see for an overview Verdun 2000).

Wayne Sandholtz (1993) in his widely recognised article identifies a number of factors that may account for the creation of the Economic and Monetary Union, which have become part of a broad consensus in the research community:

- Domestic support for monetary and price stability in the European Communities;
- The single market and its initial success created the need for further reaching steps in the integration process, stabilizing the exchange of goods, services, capital and persons;
- The desire by a number of countries to gain a greater influence in monetary policy, i.e. diminishing the dominance of the German Bundesbank and the German government;
- The will of the German government to provide proof of its European credentials after unification by offering the Deutschmark on the altar of European integration;
- The wish for an institutionalization of national commitments to low inflation.

Sandholtz offers a menu that has meanwhile become part of the standard explanatory arsenal of scholars on EMU. Beyond doubt, these factors reveal convincing arguments for the surprising and historical step taken by the governments to create a single currency.

Other authors in contrast emphasize to different degrees the importance of further factors or try to single out specific conditions which they perceives as highly pervasive in driving the momentum towards monetary union. Basically, rational approaches identify strategies of interest-driven actors for the sake of increasing national influence in history-making decisions of the EU (Moravcsik 1999), while others put emphasis on the existence of shared values, principles and norms that led to the definition of a common institutional framework (Dyson 1994; Maes 2002), describing the emergence of EMU as case of "a policy learning" (Dyson 1994: 169): "[...] in order to understand the specific character and dynamics of EMU, it is

¹ For an overview of the IGC itself see Dyson 1994; Verdun 2000.

important to focus on the specific circumstances out of which it flourished from the mid-1980s: the ideological consensus and convergence around the priority to price stability; the incentive of other EMS members to borrow monetary stability from Germany [...]; the consensus that the EMS had been a relative success around which integration could build; an emerging recognition of the incompatibility of free capital movement, fixed exchange rates and national economic policies; a new irritation with the unequal distribution of the costs of adjustment in an asymmetrical EMS, and the eager impulsion imparted by the single European market programme and its provisions for complete capital liberalisation" (Dyson 1994: 169).

The question of how to organise EMU has seen a number of disputed issues:

- the degree of independence of European monetary policy from political influence;
- the definition of the overall objectives and principles of European monetary policy, in particular regarding price stability and economic growth;
- issues of relating monetary policy to other, neighbouring, policy areas. Here, economic coordination, fiscal policy and structural aid were among the key themes.

Economic coordination would finally be reinvigorated by the Maastricht Treaty, without revealing the strict and binding features of monetary policy, leading to a structural asymmetry in the coming years. Fiscal policy should become a major concern for the governments after the entry into the third stage of EMU, enabling the adoption of the Stability and Growth Pact (Verdun 2000).

In the end agreement to a European monetary authority was only possible by following in key features the German model of an independent, stability-oriented and rather technocratic, i.e. politically neutral European Central Bank. But EU monetary policy governance in this system reveals a number of features which are not simply a copy of a national template, typical for central banking worldwide, but the result of a mixture of elements taken from general central banking systems worldwide, from peculiar national models (foremost the German), and from the features of the European multi-level system of governance.

III. Preparing the Emergence of Monetary Policy Governance

Before the ECB took over its responsibilities in monetary policy, the European Monetary Institute (EMI) was charged with fulfilling a number of tasks in stages 2 and 3 of the EMU. Its importance might have become underestimated, but it was a crucial element in paving the way and initiating a number of specific developments on which the ECB could build.

In stage 2, the tasks of the EMI were mainly the following, according to Art. 109f TEC (Maastricht version):

- to strengthen the co-operation between the central banks of the EU member states;
- to foster the co-ordination of monetary policies aiming at ensuring price stability;
- to contribute to the examination of convergence in the context of Treaty Article 109j;
- to submit opinions and recommendations on monetary and exchange rate policies;
- to monitor the functioning of the European Monetary System;
- to organise consultations on issues lying in the sphere of responsibility of the national central banks and affecting the stability of financial institutions and markets;
- to facilitate the use of the ECU and oversee its development.

The EMI's preparatory work for Stage Three of Economic and Monetary Union included (Art. 109f para3 TEC, Maastricht version):

- to specify and develop the technical and organisational infrastructure for the European System of Central Banks and the European Central Bank;
- to define the concepts and develop the framework for carrying out the future single monetary policy of the European System of Central Banks, in particular with regard to:
 - devising a monetary policy strategy and the appropriate set of monetary policy instruments;
 - promoting the harmonisation of statistics;
- to develop the framework for conducting foreign exchange operations as well as holding and managing the official foreign exchange reserves of the participating Member States;
- to promote the efficiency of cross-border payments, in particular by preparing the technical infrastructure for a trans-European payment and settlement system;
- to supervise the technical preparation of the euro banknotes.

It is also required to facilitate the use of the ECU, in particular in the financial markets, and oversee its development, and ensure that the ECU Clearing and Settlement System functions smoothly, to be consulted by the EU Council of Ministers on any proposed Community legislation, and by the national authorities on draft domestic legislation which falls within the EMI's field of competence, and to administer the mechanisms of the European Monetary System (EMS) (the creation of ECUs, the Very Short-Term Financing mechanism and the Short-Term Monetary Support mechanism) and the borrowing and lending operations concluded by the Community under the Medium-Term Financial Assistance mechanism, and finally to address a report once a year to the EU Council of Ministers on the state of the preparations for Stage Three.

Looking beyond these formally prescribed tasks and responsibilities, the role and importance of the EMI for shaping governance in monetary policy must be regarded in four ways:

- The EMI has organised a policy space for coordination, consultation and harmonisation of monetary policy in close interaction with national central banks and financial institutions in the member states, as well as officials and political actors in the Brussels and the national arenas; the organisational structure of the EMI offer an insight into the close interrelation between the European and national levels of interaction, in particular the role played by national central banks. The EMI Council was supported by a number of committees, sub-committees and working groups whose members came from the central banks of the member states. The Committee of Alternates composed of senior officials was charged with the preparation of the EMI Council, while the different sub-committees included experts from the central banks on different issues arising from the tasks of the EMI.
- The EMI has pre-shaped key directions in terms of policy strategy and instruments for the future European Central Bank, as neither the ESCB statute, nor the Treaties or secondary legislation had defined a specific set of provisions in this regard; thus it is important to have a look at the principles that ruled the EMI's considerations. According to the EMI Secretary General, Hanspeter K. Scheller, a number of criteria must be fulfilled: efficiency, conformity with market principles, equal treatment (of financial institutions), simplicity and transparency, decentralisation and continuity (Scheller 1996). These principles have to be interpreted with a view to the respective institutional context. In particular,

transparency and simplicity follow less the demands for a democratic and legitimate policy-making, but the requirements for efficient markets. At the same time, a process of learning emerged, hinting at the exploitation of the experiences gained at national level, in order to make them available for the conduct of the European monetary. In the words of the first President of the EMI, Alexandre Lamfalussy: “Les banques centrales connaissent, en effet, des expériences variées dans le choix de la stratégie de la politique monétaire et dans la gestion de leur marché monétaire. La variété de ces expériences a déclenché un processus d'apprentissage mutuel dont l'importance pour l'avenir ne doit pas être sous-estimée. Cet apprentissage constitue une étape nécessaire dans la préparation de l'Union monétaire” (Lamfalussy 1996).

- The EMI has contributed to the emergence of an expert culture in monetary policy which the ECB could build upon; this culture includes not only the members and officials of the national central banks, but also of member states financial institutions in general, the press and the media, the interested public taking part in a process of information, communication and debate on the course of monetary policy.

Finally, the EMI is a kind of institutional test model for the ECB, particularly with a view to autonomy from national governments. The EMI Council was designed as free from any instructions by Community institutions or member state governments. Decision-making in the Council followed a formally differentiated system, the 'normal', i.e. unspecified case being the simple majority procedure, while a qualified majority (two thirds of the members) was required for recommendations or opinions on monetary or exchange rate policy, decisions on the EMI's financial resources, or guidelines for the implementation of measures necessary for the ESCB to perform its tasks. Unanimity should be applied in the case of decisions related to the regulatory, organisational or logistical framework of the ESCB in stage three, the use of the ECU and some specific conditions for its operation. In fact, consensus was beyond the formal requirements of decision-making the dominant way of taking decisions, while majority decisions were basically avoided and regarded as a sign of weakness.

IV. The Legal Constitution of EU Monetary Policy: A System of Governance in the Making

With the entry into force of the third stage of EMU and the transfer of national sovereignty in the area of monetary policy, the creation of "a '*sui generis*' supranational central bank in the international monetary system" (Hornig 2005: 803) took place. The European System of Central Banks consists of the ECB and the national central banks of the EU member states, i.e. also of those that have not introduced the single currency. However, the central banks of those countries not taking part in the third stage of EMU do not participate in the definition and implementation of the single monetary policy within the ESCB.

The key feature of this policy-making system has been labelled as 'hierarchical', where the key responsibility for taking decisions has been transferred to a new centre at the EU level, whose core is the ECB. By addressing the hierarchical dimension of monetary policy, distinctive features may be addressed: the supranational character of decision-making, where national authorities have lost competence (although national actors are still represented, like the governors in the Governing Council of the ECB), the relatively closed circle of decision-makers without substantial parliamentary control and influence, the discretionary nature of legislation in the shape of EC legal acts that may be issued by the ECB, and the high degree of bindingness of specific conditions ruling EMU, like the objectives, the instruments and the strategy. Thus, EU monetary policy was organised as a peculiar sub-set of decision-making

that deviates from the orthodox model of the Communities. At the same time, the result was an asymmetrically structured multi-level system with possibly the clearest hierarchical mode of governance of all EU policy areas. The system of monetary governance in the EU did not only include new institutional and procedural provisions, but also detailed and specific statements on the policy objectives and requirements. With the Maastricht Treaty, the establishment of the EMU found its way into the EU Treaty and the EC Treaty which provided the legal basis for the institutional and procedural set-up in connection with the statute of the ESCB and the ECB which was attached in a protocol to the TEC.

In Article B of the TEU (Maastricht version), the first objective of the Union was defined as:

“[...] to promote economic and social progress which is balanced and sustainable, in particular through the creation of an area without internal frontiers, through the strengthening of economic and social cohesion and through the establishment of economic and monetary union, ultimately including a single currency in accordance with the provisions of this Treaty [...]”

Under the EC Treaty more specifically, Article 2 defined the objectives as follows:

“[...] The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing the common policies or activities referred to in Articles 3 and 3a, to promote throughout the Community a harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social production, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States [...]”

In Art. 105 TEC, first paragraph, (and also in Article 2 of the Statute of the ESCB) the tasks and responsibilities of the ESCB were specified:

“The primary objective of the ESCB shall be to maintain price stability. Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2. The ESCB shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 3a”.

What is of particular interest in these provisions is the fact that policy objectives and missions have been ‘constitutionalised’, something which not even the rigid German monetary regime had foreseen, where the foundation for the autonomy of the Bundesbank and the fixing of price stability as the primary objective of the Bundesbank had been inserted into a law adopted by Parliament (Bundesbankgesetz). The ‘constitutionalisation’ of major features of the ESCB was intended in order to assure that price stability would become and should remain *the* key objective of EU monetary policy, not being subject to changes by political actors. Furthermore, it contributed to a de-politicisation of monetary policy in the sense that it precluded any debate or decision on the basic monetary philosophy underlying the creation of the ESCB. At the same time, it was left open how far the support to the economic policies should go. The wording of the TEC is rather ambiguous: speaking of the economic policies *in* the Communities - and not of the Communities, there is reason to assume that it is primarily

the member states to which this provision refers. This formulation provides the ECB with considerable leeway, as it is not bound to a specific set of economic policy and may profit from divergences in national policies to the extent as not to support any at all.

Beyond the definition of the key task of the ESCB, the Treaties have also given a clear picture of the economic model to which the ESCB should be attached, speaking of an “open market economic with free competition”. This however, goes well beyond the strict limitations of monetary policy and reaches out to the overall idea lying behind the integration process itself. There would not have been a necessity for explicitly presenting a credo in favour of an open market economy, which is rather atypical for national constitutions; not even in the German case does the Grundgesetz prescribe a specific economic model in such a way.

In Art. 105, paragraph 2, TEC (Maastricht version) the key functions of the ESCB were defined:

- “[...]
- to define and implement the monetary policy of the Community;
 - to conduct foreign exchange operations consistent with the provisions of Article 109;
 - to hold and manage the official foreign reserves of the Member States;
 - to promote the smooth operation of payment systems.”

This enumeration confirms the almost exclusive control of the ESCB for monetary policy except the exchange rate policy where the Council takes the lead. The Statute of the ESCB, which as an annex to the EC-Treaty enjoys the quality of primary law, contains a number of provisions which confirm, specify and supplement the Treaty articles. Of special interest is the enumeration of monetary policy operations; in Art. 18 open market and credit operations are mentioned, Art. 19 deals with minimum reserves, Art. 20 provides for instruments of monetary control, Art. 21 contains provisions on operations with public entities, and Art. 22 on external operations (see the Protocol on the Statute of the ESCB and the ECB 1992).

The ECB as the core element of the ESCB represents the institutional focus for decision-making in monetary policy. The formal provisions in this regard are laid down in the primary law, the statute of the ECB and the ESCB (annexed to the TEC), as well as a number of decisions by the ECB itself on rules of procedure, including:

- Decision of the ECB of 12 October 1999 concerning the Rules of Procedure of the Executive Board of the ECB (ECB/1999/7) OJ L 314, 8.12.1999;
- Decision of the ECB of 19 February 2004 adopting the Rules of Procedure of the ECB (ECB/2004/2) OJ L 80, 18.3.2004;
- Decision of the ECB of 17 June 2004 adopting the Rules of Procedure of the General Council of the ECB (ECB/2004/12) OJ L 230, 30.6.2004.

These documents reveal some key features of the decision-making process in ECB. According to the rules of procedure of the ECB (Art. 4.2.), voting is only taking place at the request of the President of the ECB, or if a member of the Governing Council requests from the President to initiate such a procedure. In fact, the President has a pivotal role to play in handling these provisions, as so far formal voting has been avoided in favour of finding a consensus, which is identified by the President. This does not exclude divergent positions among the Governing Council members, but seems to hint at unwritten rules of behaviour conveying the impression of consistency and effectiveness of the ECB.

Still, the ECB is not the only decision-making actor in monetary policy, although the classical Community method is generally not applied in this field. The Council and the European Council are also key institutions. It is the European Council (in the shape of the Council in the composition of heads of state and government) which takes major institutional and constitutional decisions like amendments to the Statute of the ESCB or the ECB, on which the ECB itself is consulted, as well as the appointment of the members of the Executive Board and particularly the President of the ECB. These decisions have been guided by national interest and aspirations in the past, where different governments tried to push their candidates or those they considered amenable to their concerns, running counter to the self-styled image of the ECB as a purely European 'expert bureaucracy' without political or ideological commitment.

The Council has particular responsibility for exchange rate agreements with non-EU countries, while the execution of foreign exchange operations falls under the responsibility of the ECB. External representation of the Euro in the respective international institutions also constitutes a case of mixed and combined exercise of competencies of EU and national actors, where so far no clear and definite solution has been found (Hornig 2005). Thus, the ECB only enjoys "partial external competence" (Hornig 2005: 804) in monetary policy. The key question thus remains in place: "Will the euro bring about a new stage in the evolution of the EU towards a more complete international actor with real influence?" (McNamara and Meunier 2002:850).

The European Parliament's role has been defined in Art. 113 (3) TEC as well as Art. 15.1 and 15.3 of the ESCB statute. An annual report by the President of the ECB to the Parliament on the activities of the ESCB and on monetary policy is required, and the EP may ask the President or other members of the executive board to appear before the Committee on Economic and Monetary Affairs. The EP has tried to use these provisions in order to set up a "monetary dialogue" (Randzio-Plath 2000: 5) with the ECB since 1999, trying to establish a regular exchange and debate on key issues of monetary policy. The EP's role is mainly channelled through the Committee on Economic and Monetary Affairs – from 1999 until 2004 through the Sub-Committee for Monetary Affairs – as an instrument to advance the EP's "new role in monetary affairs" that was "geared towards building up a tradition by which the European Parliament [...] becomes widely accepted as the appropriate institution in charge of the democratic accountability of the ECB" (Randzio-Plath 2000: 6).

V. The Living Constitution of EU Monetary Policy: Actors, Competencies and Patterns of Decision-Making

V.1 The ESCB as a political sub-system in the EU in the making

Decision-making in ECB does not take place in a vacuum, but is embedded into the broader institutional and political context of the European Union, where the authority for fiscal and economic policy is highly fragmented: "Eurozone monetary policy is complicated [...] by the lack of a single fiscal authority. While Alan Greenspan at the US Federal Reserve or Sir Edward George at the Bank of England have only one fiscal authority with which to co-ordinate policy, the president of the ECB has 12, all making individual tax and spending decisions constrained only loosely by the EU's broad economic policy guidelines and the stability and growth pact."² This situation has led to regular waves of criticism by national finance minis-

² Financial Times, 8 February 2002.

ters or heads of government, like the comments made by former French Finance Minister Sarkozy on the narrow target definition of the ECB with regard to combating inflation, or Silvio Berlusconi's proposal to create a political committee for guiding the ECB.³

The ECB as the core of the ESCB and the main decision-making body in EU monetary policy has become the key player in this field. Its functions are exercised by the Executive Council and the Governing Council, while the General Council (including the presidents of all EU member states central banks) does not enjoy a crucial role. The President of the ECB plays a particular part, as a broker, mediator, and catalyst for decisions to be taken. Furthermore, he is by far the most prominent spokesperson for the single currency; his media presence gives him a peculiar role and weight compared to his colleagues in the Executive Board and the Governing Council of the ECB.

The Governing Council as the main decision-making body of the ECB has been a focus for research and the interested public in recent years. Its role, status and performance have come under critical observation; a heavy discussion turned around the question of whether to make public the protocols of the Council's meetings, as well as of the committees and subcommittees of the ECB (Issing 1999a; Buitter 1999; Waisman 2002). While Issing argues that the publication of the minutes and also of the voting behaviour in the Governing Council would weaken the position of the ECB, Buitter (1999) argues in the opposite direction. Both interestingly start from the assumption that there is pressure exercised on the members of the Governing Council, and that external actors will try to influence their behaviour. Issing therefore regards it as necessary to avoid verification of whether individual pressure has been successful (Issing 1999a), pleading for a "culture of collective responsibility" (Issing 1999a). In the political sphere, demands for making voting behaviour in the Governing Council public have been regularly voiced, by political actors such as Pascal Lamy and Jean Pisani-Ferry in a joint paper in January 2002, but also by market actors calling for a higher predictability of the ECB's behaviour (Financial Times, 12 February 2002).

Nevertheless, there are signs so far that a peculiar culture of decision-making has indeed emerged within the Governing Council, where consensus appears as the dominant decision-making, with the President as the key moderator and package dealer. Thus, formal voting is avoided, reflecting also the intention of presenting the ECB as a collective actor, with the Governing Council as an exclusive club of experts. However, the image of a technocracy exclusively devoted to the pursuit of the European interest has been questioned by academics who identify some evidence for an impact of regional divergence in ECB decision-making, thus pleading for an inclusion of the national perspective into the analysis of Governing Council decisions (Heinemann and Huefner 2002). In comparison to the US Fed and the pre-1999 Bundesbank, the regional dimension is by far more pronounced in the ECB Governing Council, where the ratio of regional votes (i.e. the presidents of the national central banks) per central votes (executive board) is 2, while in the Fed the comparable figure is 0.71 and in the former Bundesbank it has been 1.13 (Heinemann and Huefner 2002: 2).

Before the last enlargement of the EU demands for institutional reform have been voiced: "The basic problem is that under the current institutional structure the Governing Council of the ECB, which is composed of the six members of the Executive Board plus all the Governors of the National Central Banks (NCB) participating in the Euro area (currently eighteen members), may increase up to thirty three. Such a number appears excessive if one is to maintain the ability of the Governing Council to make efficient and timely decisions" (Cukierman

³ See Financial Times, 10 June 2004.

2003: 1). Thus, the decision was taken by the Council in the composition of the heads of state or government after consulting the ECB to resort to a minimum representation model based upon a rotation of the national central bank presidents as members of the Governing Council.

According to this Council decision of 21 March 2003, the statute of the ESCB shall be amended at the moment when the number of members of the Governing Council exceeds 21. The members of the Executive Board will keep their voting rights, while the governors of the national central banks will be faced with the introduction of a rotation system in two stages. In each of the stages, the governors will be located into different groups, "according to a ranking of the size of the share of their national central bank's Member State in the aggregate gross domestic product at market prices and in the total aggregated balance sheet of the monetary financial institutions of the Member States which have adopted the euro" (Art. 1, Council Decision 2003/223/EC). Within the groups, different cycles of rotation in different speed will apply, so that it will be assured that the key players, i.e. the governors of the most important Eurosystem economies, are represented in a higher frequency than those of smaller economies.

At the same time, the Council describes the principles guiding the reform, revealing a set of poorly compatible or even contradictory criteria. On the one hand, the principle of "one member, one vote" shall apply to those members allowed to vote, but it is clear that not all members of the Governing Council are indeed entitled to cast their vote, so that equality is giving way to differentiation. Most strikingly, this priority becomes apparent when the explanation is given for the differentiated system or rotation: "the rotation system avoids producing situations in which those governors having a voting right are from the national central banks (NCBs) of Member States which, taken together, are perceived as unrepresentative of the euro area economy as a whole" (Council Decision 2003/223/EC). Representativeness thus acquires a different meaning in EMU compared to the overall EU system, leading to features of the decision-making system that are specific and peculiar for monetary policy, but scarcely compatible with the principles guiding the EC institutional framework as a whole. Finally, the Council stresses the transparency of the solution found, as it has been published as a legal act in the Official Journal. Formally, this criterion is fulfilled, but again substantially, the highly complex and differentiated procedure of rotation is hardly to be communicated to the wider public – which apparently has not been the key concern by the heads of state or government.

What is also important to keep in mind is that there is no change in the number of members of the Executive Board or in their voting rights. The reform does not touch upon the share of "central voting" in the ECB, compared to "regional voting" (Heinemann and Huefner 2002). Thus, another trend seems to lie in the preservation and stabilisation of the key actors not committed to a national context, but representing the ECB as a European institution.

V.2 The ECB in Practice: Legal Acts and Monetary Policy Operations

From a more comprehensive view, still central banking at the international scale has been marked by a number of transformations in recent years, in which the ECB may be regarded as a forerunner: a trend towards independent central banking, inflation targeting, governance by committees rather than decisions taken by single individuals, and a trend towards greater transparency (Begg 2005).

When the ECB came into function in 1998, its key tasks and responsibilities as well as the standard methods of operation had been partially prepared and pre-defined under the EMI regime. In order to systematically understand the different decision-making modalities and the patterns of governance arising from these, it is necessary to distinguish between the formal Treaty-based powers of the ECB and their implications for EU governance on the one hand,

and the monetary policy instruments at the disposal of the ESCB for managing the Eurosystem on the other.

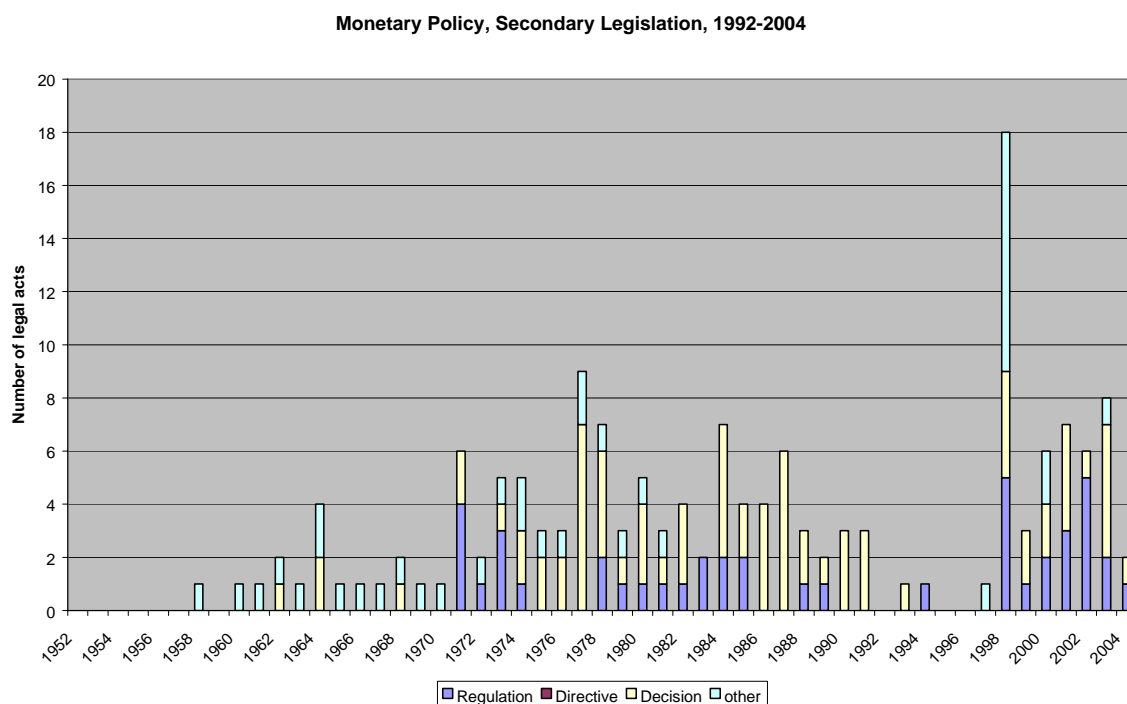
According to Art. 108 a TEC (Maastricht version) the ECB is involved in the Community legislative system in a variety of ways. Its formal legal instruments according to the Treaties are (ECB 1999):

- the right of initiative or of consultation: according to Art. 105 para 4 TEC (Maastricht version), the ECB is to be consulted on any proposal for an EC legal act falling within its sphere of competence, as well as by national authorities on any piece of legislation also falling under its competence, in a way defined by the Council through a legal act. This means that when amendments to the Statute of the ESCB, or complementary legislation by the EC are adopted by the Council the ECB is to be consulted; the ECB may itself also propose such legislation to the Council.
- advisory functions: The ECB may voice opinions on EC or national legislation, which so it has done with great intensity. Including the EMI's activities, 124 opinions were issued since 1994 on national legislation in EU member states, based on Art. 109f para 6 TEC (Maastricht version) and the Council Decision 98/415/EC of 29 June 1998 on the consultation of the ECB by national authorities regarding draft legislative provisions.
- adoption of legal acts: The ECB may issue directives, regulations, decisions, recommendations and opinions in its own capacity without following the Community method, i.e. in deviation of the Commission monopoly of legal initiative and without influence by the Council and the EP. These provisions may be regarded as a deviation from EC orthodoxy; what is even more striking is that the ECB is given the right to act as a legislator on formally equal ground as other institutions in the Communities.
- adoption of legal instruments like guidelines, instructions and internal decisions.

The legal acts are used for strategic and for administrative decisions and thus cover a broad range of elements of different nature. The monetary strategy defined by the ECB provides a framework for the meso-level objectives and mid-term course of monetary policy, like the criterion of "a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2 percent".

The following graph reveals the amount of Treaty-based legislation in the EU on monetary policy according to the EURLEX databases. The highest amount of legal acts was observed in 1999, the date of entry of the third stage of EMU. The total number of legal acts, compared to other policy areas, is rather modest, not surmounting the number of 18 acts per year. The mere amount of legal acts per year hints at the fact that these forms of classical EC instruments does not seem to be the only or most important steering instruments in monetary policy.

Graph 1: Secondary legislation in Monetary Policy



Source: EURLEX database

As to the steering of monetary policy in interaction with the financial markets, open market operations (OMOs) may be regarded as the "key instrument in steering day-to-day developments in the money markets. They are seen as the main instrument for providing or withdrawing liquidity, steering interest rates, and, if needed, performing signaling functions" (Enoch and Quintyn 1996: 30). They serve to manage the liquidity of the markets and to steer short-term interest rates. Their implementation is carried out in close cooperation between the ECB and the national central banks, and also relies on the partnership of financial institutions in the member states (Issing 1999b). The main refinancing operations are carried out as standard weekly tenders for liquidity-providing reverse transactions. Therefore, the weekly tender rate can be regarded as a key variable for the steering of monetary policy, reflecting the Eurosystem monetary policy stance. The longer-term refinancing operations are executed as standard monthly tenders for liquidity-providing reverse transactions. They serve the purpose of fulfilling longer-term refinancing needs of the financial system. The management of these operations is far less centralised than traditional national central banking systems are. In fact, there is an intense interplay between the ECB and the national central banks in order to carry out these operations: "The GC makes the day-to-day and longer-term monetary policy decisions, but the National Central Banks actually undertake the monetary operations. Indeed, refinancing operations are done simultaneously by all the NCB's in the Euro-system in combination with over 500 counterparty institutions and a wide range of government securities (the list of acceptable collateral differs by country). The case for more efficient liquidity provision, via a more centralized process, is easy to make when one considers the complexity of the simultaneous operations that currently take place" (Dominguez 2006: 10).

V.3 The ECB in the EU institutional context: alien or ally?

An intensive debate related to the ECB revolves around its tasks, role and political responsibility. Already within the early days of EMU the controversy between the advocates of an in-

dependent central bank committed to price stability and the adherents of a sort of "gouvernement économique" providing for a political control and overall direction to the ECB in order to adjust its activities to broader economic and political objectives defined by the member states, had been in play. The Maastricht Treaty and the following decisions on the Stability and Growth Pact seemed to have reflected the victory of the 'German' views of an independent ECB; but the debate went on. It reflected at least three different, albeit interrelated issues (Dominguez 2006: 10; Barysch 2002: 101ff.):

- the presumed 'monocultural' definition of tasks and objectives, neglecting neighbouring fields like employment, economic growth and social development;
- the lack of democratic accountability, reflected primarily in the lacking rights for participation of the European Parliament;
- the missing political counterweight to the ECB, revealed by an incomplete role for the Council and the Eurogroup.

Often several of these items have been presented in combination, but it is important to separate them for analytical reasons, as the ultimate consequences of each of them do not converge. Although the ECB is regarded as probably "the most independent central bank in the world", it "can and should do more to strike a better balance between splendid isolation and democratic accountability" (Barysch 2002: 102).

Thus, although the creation of the ESCB has led to the emergence of a new institutional player on the EU scene, it had to find a relationship with the traditional actors; thus from the start, there have been considerable efforts to establish contacts and interactions. The European Parliament tried to organise a monetary dialogue already before the third stage of EMU entered into force with the President of the committee of governors of the central banks and with the national central banks on different aspects and dimensions of monetary policy and the convergence process (Randzio-Plath 2000: 6). The EP at this stage already put high emphasis on the interconnection of different policy areas and on the impact of monetary policy on fields like employment and economic growth. Meanwhile, the ECB has used the offer by the EP to present its programme and discuss it with the MEPs four times instead of only once a year (Barysch 2002).

So far, efforts for enhancing coordination between the main institutional players in EU monetary policy, the ECB, the Commission and the Eurogroup, have not led to definite results. The letter by Jean-Claude Juncker from June 2006, in which he proposed regular meetings with Commissioner Almunia and Jean-Claude Trichet, was not taken up by the ECB, which instead hinted at the existing amount of meetings and exchanges between the partners of the "Euro triumvirate" (FAZ, 12.06.2006) as sufficient. This de facto rejection revealed tensions between the three institutions, for which more fundamental reasons may be accounted. Behind the scenes loomed a struggle over the political profile of the Eurogroup which Juncker apparently tries to establish as a political counterweight to the ECB, thus appealing to French criticism on the weak visibility of the group; for the ECB, this represents primarily an interference in its sphere of influence. Thus, institutional self-interest hinders enhanced coordination, as the political architecture of EU monetary policy is still in flux. This becomes also relevant in the case of external representation of the Euro, where the Council and the ECB dispute each others primary responsibility.

Behind the struggle lies a fundamental dispute inherited from the creational phase of EMU: the question about the political accountability of the ECB and the degree to which there would be a counter-element to an independent central bank that centralises monetary policy making. For this purpose, it is important to distinguish between discursive patterns and under-

lying models of decision-making. Accountability very often appears as a key term in this regard, but it acquires very different meanings in different contexts; discursive contexts only partially reveal these differences; there is a need for making them explicit in order not to fall victim to the discursive strategies by the different actors in play.

V.4 The Emergence of Governing Modes in EU Monetary Policy: Three Views

Against the background of the described inter-institutional tensions and conflicts, the emergence of hierarchical modes in monetary policy may be approached from different theoretical and conceptual angles. Three divergent visions will be briefly presented that describe and explain the rationale lying behind this process.

- *The technocratic view: EU Monetary Policy as a functional sub-set of EU policy making:* From a technocratic and functionalist point of view, the emergence of EU monetary policy follows the logics of defining and setting up an effective and efficient system of central banking that meets the demands of modern interdependent economies. Independence of the ECB is viewed less as an expression of a specific national model, but rather a functional requirement for the proper working of the system.

Therefore, the ECB shall only gain credibility from the markets if it remains free from political influence; monetary policy is a technical and an economic, but not a political process, requiring thus only "minimalist governance" (Le Heron 2005: 6). Thus, the ECB's rejection of closer coordination with the Commission and the Euro Group which both are represented by political actors becomes understandable. The hierarchy in monetary policy is under this perspective closely related to independence as a pre-requisite for ensuring price stability. On the other hand, the idea of ECB as a technocracy has come under heavy criticism, sustaining that the creation of an "a-political" sphere in which a central bank could act creates rather than solves problems in accountability and legitimacy: "To claim that the ECB is now governed by Platonic guardians removed from politics is to practice the politics of the apolitical, asserting power by ignoring political feedback" (Rose 2002: 259).

- *The intergovernmental view: ECB as an agent of the member states:* From this view, the member states have lost political power in the EU by agreeing to create the ECB, but are prepared to regaining influence by trying to bind the ECB closer into the EU institutional set-up. The ideas of *gouvernement économique* as well as the creation of the eurogroup serve as an expression of this political will, leading to severe tensions between the different institutions in the future (Howarth 2005: 2ff.).

Under this perspective, the legal system defined by the original Treaties did not provide an adequate institutional and procedural framework into which a monetary policy could be embedded, leading to the creation of an autonomous sui generis system in the EU framework, encapsulated rather than integrated. The case is not made in favour of supranationalism, but of increased national influence over an institution whose decisions impact upon member states' policies.

While it is true that monetary policy will not be substantially handed back to the national level, the idea of building a structure into which the ESCB can be inserted and made politically more accountable. The debate on the French referendum has sharpened critics also on the role of the ECB which is seen as a irresponsible and democratically insufficient body incarnating not only the bureaucratic nature of EU politics but also the con-

straining features of a global monetary and financial system whose rules and rationale are rejected by a large number of citizens.⁴

- *The communicative view: the emergence of an innovative expression of supranationality in the EU:* The creation of the EDSCB and the ECB reflect a tendency towards innovative forms of governance in the EU, as the need for communication and coordination in both formal and informal terms has increased. The result was the creation of a multi-faceted network characterised by patterns of mutual participation and coordination, constituted by a range of actors from different backgrounds (Wessels and Linsenmann 2002).

The split competence with regard to foreign exchange rate policy may also provide an incentive for cooperative forms of governance leads to a mixed system where monetary governance does not lie exclusively in the hands of one institution (Howarth 2005). Moreover, the interconnectedness of different policy fields like fiscal and economic policy also reinforces the need for coordination and cooperation among the different institutional actors. The EU's monetary policy is therefore less hierarchical than it may appear in the first place, due to the fact that even formal autonomy of an institution does not mean that it is politically free of constraints in the shape of checks and balances. It remains to be seen whether the broader EU institutional framework will be able to better integrate monetary policy and thus to trigger a process of 'normalisation' of this policy area.

VI. Conclusions: The emergence of modes of governance in EU monetary policy

From the analysis undertaken, a number of conclusions may be drawn on modes of governance in EU monetary policy:

- The emergence of modes of governance in the area of monetary policy cannot be sufficiently grasped if described as primarily hierarchical. There are indeed elements of hierarchy, but also a number of important components which justify the characterisation of governance in monetary policy as a set of "mixed decision-making and steering modes", in which hierarchy plays a role, among others.
- Monetary Policy in the EU is supranational in the sense that national competence is excluded. But still national actors have been granted access to the decision-making system, in particular the national central bank presidents in the Governing Council of the ECB. Besides, the European Council remains the crucial actor for shaping the basic institutional and constitutional environment for the ECB, while the Council is responsible for aspects of external arrangements and national actors are still present in the international financial institutions.
- Steering modes are to a considerable extent located in the shadow of formal legislation, i.e. the legal output of the ECB in terms of directives, regulations, or decisions, tells us relatively little about the real shaping of monetary policy in Europe by the different operations undertaken by the ECB, which follow the patterns of a market-responsive monetary policy.
- Operations in monetary policy are crucially defined in the interaction between the ECB and financial institutions in the EU, which act as partners, transmission belts, and addresses, of European monetary policy. The steering of monetary policy is only possible if

⁴ See: "Référendum du 29 Mai 2005: le 'non' un an après", Le Monde, 25 May 2006.

the financial markets cooperate and accept the offers made by the Central Bank. Trust by the markets into the currency, the expertise and competence of the actors, and the soundness of the longer-term strategy adopted by the Central Bank are therefore key factors for governance. Instruments used for monetary policy operations are therefore based upon a mix of an extremely low degree of formal legal bindingness, but their impact on the financial markets is potentially extremely high, creating visible constraints and options.

- The ECB has developed so far a culture of consensus, nurturing the image of an expert institution which reflects monetary expertise and knowledge, free of any political influence. While it is true that consensus is working as the main mode of decision-making within the Governing Council, the issue of influence and power potentials should be addressed without ingenuity. The reforms introduced for enlargement reveal that some members of the Governing Council will be "more equal than others", while the Executive Board might also be strengthened as the durable element in the Governing Council.
- The President of the ECB enjoys a prominent role, without leading to personalised decision-making; instead, the ECB follows patterns of governance by committee, which seems to reflect a more general trend in central banking worldwide, with a *primus inter pares*, responsible foremost for consensus-building.
- Main traits of the EC decision-making system (Commission monopoly of legal initiative, legislation in the institutional triangle between Commission, Council and EP, the generation of binding EC law) are not relevant in this system, but specific elements like the Economic and Financial Committee, or specific methods of coordination linked to monetary policy, reveal a certain "European" print.
- Issues of legitimacy, transparency and accountability reveal a double dimension in monetary policy. They may be related to the broader public, or to the financial markets, which both have different expectations, needs and influence on monetary policy in the EU. The tension between these two dimensions may result in a double deficit by the ECB, in terms of trust, acceptance and knowledge. To deal with this tension will probably be a constant feature of the EU monetary policy-making system.
- It is open to different views and conceptualisations in which way the emergence of modes in monetary policy is to be interpreted. At the moment, there is no definite dominant pattern of explanation but competing visions which reflect not least the ongoing political tensions and conflicts among institutional actors in the EU.

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