COMMAND AND CONTROL IN THE COMMITTEE OF GOVERNORS:

LEADERSHIP, STAFF, AND PREPARATIONS FOR EMU

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The Committee of Governors of the Central Banks of the Member States of the European Economic Community played a substantial and largely unacknowledged role in the institutional development of Economic and Monetary Union, or EMU. Indeed, the Committee of Governors in some ways became the primary incubator of the eventual institutional framework of EMU.

There is, of course, a certain irony to this. Compared with other institutions of the European Community, the Committee of Governors (sometimes referred to hereafter as simply "the Committee" or "the Governors"[1]) had a profoundly conservative bias. Rooted as it was in the culture of central banking, this orientation was hardly surprising. In fact, 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 Committee of Governors came to a formal end at the conclusion of 1993, when its membership was reconstituted as the Council of the European Monetary Institute. During the thirty years of its existence, opinions varied as to whether the Committee 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. These alternative views of the Committee—as an *institution-as-space*, where actors meet, or as an *institution-as-actor*, capable of independent action—roughly corresponded to opposing poles of thought regarding the appropriate organization of Europe's monetary space. Within central banking circles, advocates of monetary organization along national lines insisted the Committee remain an *institution-as-space*, where national central bankers met and discussed mutual concerns. Some supporters of a European monetary identity, on the other hand, saw the Committee as a vehicle towards that end: an *institution-as-actor*, or at least having the latent capacity eventually to become an independent actor.

Limitations of space prevent a full demonstration of the large extent to which the decision-making bodies of the European Central Bank derived from counterparts organized in the last years of the Committee of Governors and its auxiliary bodies. Instead, following a summary review of its origins I focus on two aspects of the Committee's early development: the organization of its leadership ("command") and the role of staff ("control").

This focus on the organization of leadership and staff within the Committee presents a window through which to consider the debate about the appropriate role of the Committee, and by extension of European monetary affairs more generally. It also provides an analytical lever for assessing the remarkable changes that the Committee underwent in the last years of its existence. Following a summary of those changes, the final portion of the paper addresses itself to why the Governors permitted the

[1] In this paper I adopt the following convention: capitalized "Governor" is a title, referring in the singular to an individual and in the plural to the Committee of Governors. Small case "governors," on the other hand, refers to heads of national central banks acting independently of the Committee of Governors.

transformation of the Committee from a rather weak *institution-as-space* to an increasingly strong *institution-as-actor* in those final years.

Early history of the Committee of Governors

On 8 May 1964, the Council of Ministers established the Committee of Governors of Central Banks of the Member States of the European Economic Community. The Council decision provided a rather limited mandate.[2] 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."[3]

Though formed by a decision of the Council of Ministers, the Committee of Governors made considerable efforts to keep both Community institutions and national governments at arm's length. This concern manifested itself in both practical and symbolic actions. There was, for example, the unorthodox venue for the Governors' meetings. Instead of conducting its business at one of the working places of the Community institutions and bodies (e.g. Brussels, Luxembourg), the Committee chose to hold its monthly meetings on the premises of the Bank for International Settlements in

[2] The creation of the Committee of Governors represented a relatively conservative alternative to the European Commission's *Action Programme for the Second Stage* (1962), which called for fixing exchange rates within the Community and introducing a European reserve currency.
[3] Council Decision of 8 May 1964 (64/300/EEC).

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. In short, the Committee was a strange hybrid: a Community body that was at the same time a central bankers' club.

During these early years, the Committee was a very intimate association. Prior to the enlargement of 1973, the Community consisted of only six members; of these, two (Belgium and Luxembourg) formed a currency union, with the result that only five central bank governors were members of the Committee.[4] At their inaugural meeting, held in July 1964, only these five Governors sat at the table, accompanied by their Alternates who sat behind them. Dr. Antonio d'Aroma, the Secretary General of the BIS, was elected to serve in the same capacity on the Committee on an honorary basis;[5] In addition, the Commissioner responsible for monetary affairs in the EEC was invited to attend as an observer.[6]

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 colleagues on the Committee included Baron Ansiaux of the Banque Nationale de Belgique, Karl Blessing from the Deutsche Bundesbank, J. Brunet of the Banque de France, and G. Carli of the Banca d'Italia.

[4] The Governor of the National Bank of Belgium represented the BLEU, or Belgian-Luxembourg Economic Union, on the Committee of Governors, as Luxembourg did not have its own central bank.
[5] The practice of electing its Secretary General from the staff of the BIS was formalized later in 1964 and continued until 1990; see the discussion of staff that follows.

Because of its limited mandate, the Committee's monthly meetings, had very little business to conduct and generally lasted less than an hour. Indeed, at first the Committee served largely as a club for the Community's central bankers, although the resulting 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 series of exchange-rate crises prompted European monetary authorities to use the Committee as a forum for practical cooperation on balance-of-payments issues.[7] The resulting arrangements ranged from *ad hoc* agreements for the extension of monetary support to standardized systems for short-term monetary support. Later, following the recommendation of the Werner Committee, the Governors negotiated the Basel Agreement of April 1972, making themselves responsible for the functioning of the Community's new exchange-rate system (the "snake").[8] The Committee likewise took responsibility for running the snake's successor regime, the European Monetary System (EMS), beginning in March 1979. The Committee was ultimately disbanded in December 1993 as part of the transition to EMU, although its membership was recast as the Council of the European Monetary Institute[9].

Command: resistance to centralized leadership

As the preceding account suggests, there was initially little controversy associated with questions of leadership within the Committee. For its first several years the chairmanship of the Committee of Governors was a mostly honorific appointment, as the

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

[7] 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.

[8] Following the Hague summit of 1969, the Werner Committee (so called because it was chaired by Luxembourg's prime minister Pierre Werner) was charged with developing plans for the progressive realization of EMU.

[9] Note, however, that the composition of the Committee and that of the EMI Council were not identical. Unlike the Committee, the EMI Council comprised a full-time President of the EMI who chaired the meetings of the EMI Council and ran the EMI.

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 on seniority or on the alphabetical order of the member states.[10] 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 succession system.

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,[11] the terms of these two chairs were apparently renewed tacitly. This practice was not altogether satisfactory, however, once the Committee achieved increased 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 the longest-serving member of the Committee as chair. Dr. Carli of the Banca d'Italia was elected on this

[10] 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.
[11] 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."

basis, and explicitly acknowledged that he accepted the appointment as the most senior of the Committee's members.[12]

From this point on, the principle of seniority was combined with an injunction against any governor's 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.[13]

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.[14]

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 Nederländsche 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 office per the 1972 agreement. Though Dr. Zjilstra once more became first in line for the

[12] As noted in the minutes of the Committee of Governors, 109th meeting, 8 March 1977, point VI.
[13] The subject was revisited in 1981, following a succession controversy in 1979; see the discussion below.

chair, he again 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. [15]

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.[16] 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 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.

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[14] The male pronoun is well-advised: no woman ever served on the Committee of Governors. (Female governors joined the European Union in the enlargement of 1995, but by that time the Committee had ceased to exist.)

[15] 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.

[16] A complete list of the chairs of the Committee is included in the appendix.

In short, there was no qualified member of the Committee who was willing to serve, and who had not already served, as chair.[17] 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. Zjilstra's having declined the office, Erik Hoffmeyer (who was second in order of seniority) would be the Committee's next chair.[18] 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.[19] The paucity of exceptions to the principle of a single term of office is particular notable in view of the difficulties of selecting a qualified chair from such a small body in accord with any apolitical succession rule.

To summarize, leadership within the Committee of Governors during that body's early years 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 practical significance.

[17] 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.

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

[19] 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.

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 both to matters of succession and to the role of staff, as discussed in the next section, 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, as we shall see—were highly suspect and strongly resisted.

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.

Control: the limited role of staff

As we shall see, control over the staff of the Committee of Governors could be a contentious issue. This was not always the case, however. Indeed, 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 to thirty in 1993 (immediately prior to the formation of the EMI and the transfer of the Committee's work from Basel to Frankfurt). Nor do these figures suggest the full extent of the Secretariat's influence, as the Committee's staff was from the 1970s onwards 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? This question necessarily related to the more general question whether the Committee of Governors existed to coordinate the positions of the national central banks (*institution-as-space*), or to serve some higher functions that transcended the national central banks (*institution-as-actor*). 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. Put differently, the Committee had by that time developed at least the latent potential to act independently of the national central banks.

Finally, the question of controlling the Secretariat necessarily related to the source of its personnel. The members of the Secretariat were initially employees of the Bank for International Settlements, the "central bankers' bank." As the responsibilities of the Committee and of its staff grew, should this continue to be the case? 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 wholly separate institution from both the BIS and the national central banks? If so, 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? These questions were repeatedly debated over the thirty-year history of the Committee. The nature of that debate changed, however, with the strategic situation of the Committee.

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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.[20] 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

[20] *Résolutions adoptées par le Conseil d'administration de la BRI lors de la 268eme seance*, tenue le 12 Octobre 1964.

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.[21]

To a certain extent, these rules simply formalized a relationship that was already under development. Dr. 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.[22] The title was largely honorific, cementing the legal connection between the Bank and the Committee of Governors, while a secretary from the BIS staff initially 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 assisted 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. Initially, the Committee's reliance on BIS staff had been 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

[21] Article 7, *Règlement intérieur du Comité*, 12 Octobre 1964.
[22] These included Gunther Schleiminger (September 1975-September 1979) and Giampietro Morelli (October 1979-May 1993). The case of Gunter Baer, who was named Secretary General of the Committee in June 1993, is discussed below.

the Bank became more controversial. A series of sometimes awkward discussions ensued on this subject during 1971 and 1972, discussions that involved the BIS, the Governors, national political authorities and officials of the European Community.

The final result of these deliberations was the creation of the European Monetary Cooperation Fund. The Fund—better known by its French acronym, FECOM—was created by a Regulation of the Council of Ministers in April 1973. The Fund was supposed to serve "as an agent for administering the Community exchange rate system set up by the Basel Agreement of April 1972."[23] But due to language inserted into its founding statutes that formally subordinated FECOM to the Council, the Fund never met with the approval of the Governors; they saw it instead as an effort to limit their independence from political authorities.[24] Inasmuch as the national central bank governors were designated as FECOM's Board of Governors, they were in a position to vitiate the new institution—which they did. They refused to hire any staff for the new institution, and instead conducted the Fund's official business in short and extremely formal sessions at the close of meetings of the Committee of Governors (which retained its formal autonomy).[25]

Once again, the Governors refused to participate in any arrangement that would compromise their independence. Instead of hiring staff for FECOM, the Committee added a second professional staff member (Hanspeter Scheller) to its Secretariat in 1973 while the BIS was appointed Agent of the FECOM and held the books of this body.

[23] *Bulletin of the European Communities*, 12-1974, p. 42.
[24] 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.
[25] Gros and Thygesen 1992, p. 21.

In addition to the Committee's traditional information-sharing tasks, the expanded Secretariat became responsible (in fact if not in principle) for the preparation of FECOM's annual reports.

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. Instead, the Committee soon developed the habit of establishing expert groups to study specific issues and to prepare the discussion of the Committee. These expert groups were both chaired and staffed by employees of the national central banks, suggesting once again the decentralized nature of the institution. Nevertheless, the expert groups were quite reliant upon the Committee's Secretariat.

Once an expert group was convened by the Governors, the Committee's chair would typically develop an outline of the report in conjunction with the Secretariat; this draft would then be submitted to the experts for review. The expert groups themselves would then meet once or, if the subject was especially complex or contentious, twice to review and amend the draft. At the monthly meetings of the Committee, the chair of the expert group—a national central bank employee—would then briefly summarize the contents of the report, in the event that the Governors had not actually read it prior to the meeting.

While this format limited the visibility of the Secretariat in the Governors' monthly meetings—formal questions directed to the Secretariat were typically limited to such mundane topics as the details of the Committee's statutes—there was no doubt that the Secretariat was bearing the brunt of the work in developing the expert reports.

Several of the expert groups were maintained over many years, providing regular reports on such topics as monetary policy, foreign exchange policy, and (later) banking supervision. Indeed, the relationship between the Secretariat and these "standing" expert groups was to a certain extent symbiotic. The Secretariat relied on the chairs of the expert groups to promote its work with the Governors, while the chairs benefited from the excellent work of the Secretariat. 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 such routine matters 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.[26]

Efforts to provide such enhanced services included proposals for regular 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 take place 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 doubt the high turnover at the helm of the Committee made it difficult for staff to develop 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 accurate 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 nominally 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 have wanted to know the reason why.

The Pöhl revolution

The preceding discussion of the Committee of Governor's organization of leadership and staff should be sufficient to demonstrate the Governors' collective preference for a relatively weak, decentralized institution that could serve as a forum for discussion—an *institution-as-space* rather than an *institution-as-actor*. Leadership succession practices were designed to enforce the Governors' stated preference that no member of the Committee be allowed to exercise undue influence over the group as a whole. Likewise, the Governors preferred to hire a small staff, officially employees of the BIS, rather than to develop a large Secretariat. Far from being independent, this staff

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[26] Interviews with senior European central bankers.

served as an adjunct to expert groups of national central bankers, under the chairmanship of national central bank staff.

Yet within a short period, all this was to change. By 1990, with the Committee serving an important function in preparations for the intergovernmental conference on EMU, there could be no such informal laxity. Instead, the imminence of monetary union meant that the Committee required greater continuity, and a greater concentration of power, at its helm. 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 up on the basis of seniority; moreover, he was infamous among the Governors for leaving in the middle of Committee meetings when he became bored.[27] Yet he did accept the chair in January 1990, by which time pressures for convening an intergovernmental conference had become intense.

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 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 against concentrating power in the hands of any individual. At the same time, some may have argued that since the Committee would soon be disbanding the significance of this precedent would be limited. Furthermore, there was 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. In the end, the Committee's Rules of Procedure were amended (in June 1990) to reflect Pöhl's preferences regarding the chair's tenure.[28]

Additional changes to the Rules of Procedure adopted at the same time enhanced the role of the Committee's staff, and the chair's direct control over them. To begin with, the 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.[29] The Governors stressed the autonomy of this new institution. Both the Secretariat, which for the most part retained its previous functions,[30] and the Economic Unit were to be "independent—in their work—from any other national or international institutions or governments."[31]

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[27] Interview with senior Bundesbank official, January 1998.

[28] 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 this 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).

[29] 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.

[30] 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.

[31] 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.

Within the Committee, the Secretariat and Economic Unit were to be "under the authority of the Secretary General" of the Committee.[32] 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 managers of the Committee's staff had been the Assistant Secretary General (André Bascoul) and his deputy (Hanspeter Scheller). The revised Rules of Procedure departed from this precedent, endowing the Secretary General with real authority.

Furthermore, the 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 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 "report to the Chairman" rather than to the Committee as a whole.[33] While this had already been the general practice within the Committee, Pöhl's amendments codified this previously informal arrangement. 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 Gunter 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. Hanspeter Scheller remained on the Committee's staff, with his title elevated to Head of Secretariat.

[32] 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.
[33] 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.

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 explicit and complete.

While Pöhl succeeded in persuading the Governors to accept these changes, the reforms remained controversial and resented by some. While certain of the transformations he had instituted were acknowledged to have been wise and necessary, the effort to expand the chair's powers while simultaneously extending his own tenure as chair was widely regarded as self-aggrandizement.[34] Suddenly, however, much of the resentment became moot. After all the turmoil associated with initiating this revolution within the Committee, Mr. Pöhl's term as 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. 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 generally an effective antidote to the ill feelings generated by this episode.

Following Hoffmeyer's completion of Pöhl's term, Wim Duisenberg was elected 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

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[34] Similarly, Pöhl's 1990 decision to exclude a representative of the secretariat of the Monetary Committee from attending the Governors' meetings was not well-received (predictably, the Monetary Committee retaliated in kind). Age Bakker, *The Liberalization of Capital Movements in Europe: The Monetary Committee and Financial Integration, 1958-1994*, Dordrecht: Kluwer Academic Publishers, 1996, p. 78.
[35] Pöhl resigned following differences with his government regarding the appropriate means of achieving German economic and monetary unification.
[36] See again footnote 28.

under the Chairmanship of its President, Alexandre Lamfalussy,[37] 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.[38]

Summary: centralization of command and control

As we have seen, command and control remained very substantially decentralized during the first twenty-five years of the existence of the Committee of Governors. The national central bank governors had a strong and longstanding preference that the Committee remain a forum where they could meet and discuss problems of mutual concern; they did not wish for the Committee to develop a strong, independent identity, and they took elaborate measures to ensure that it did not. Within the Committee, 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. Indeed, for years the Governors resisted the development of an independent staff that would serve the Committee or its chair.

These practices—more or less automatic succession, limited terms, and modest privileges—succeeded in depoliticizing the leadership selection process and in preventing any single governor from dominating the Committee. They also very substantially limited the capacity of the Committee to act independently of its members—that is, the

[37] See footnote 9

ability of the Committee to function in any other role than as a forum for the national central bank governors (*institution-as-space*).

Near the end of the Committee's life span, however, these practices changed very substantially. Especially during Karl Otto Pöhl's one-and-a-half year tenure as chair of the Governors, control over the Committee was radically 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. Although Pöhl's sudden resignation from public life probably prevented the full effects of these statutory changes from being immediately realized, the result was nevertheless a much more powerful chair and a much more independent institution.

In short, the Committee had taken radical steps towards its transformation from an *institution-as-space* to an *institution-as-actor*, capable of independent action and, to a lesser extent, independent decision-making. The question remains, why did the Governors permit this sudden transformation, after successfully resisting similar developments for so long? The answer cannot lie simply in Karl Otto Pöhl's quest for greater personal power, although that may help explain certain aspects of the transformation. Nor is it likely that the Bundesbank's great influence as the *de facto* center of the European Monetary System suddenly manifested itself, after remaining latent for the previous quarter century. The other governors at the very least acquiesced in the centralization of power in the Committee's chair sought by Pöhl, as well as in his efforts to develop an independent analytical capacity for the Committee. Why did they

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

choose to do so, and why at this moment? While a full response is beyond the scope of this article, we can offer some general points for consideration.

The Committee of Governors and the coming of EMU

Although there was undoubtedly an element of opportunism in Pöhl's bid to centralize power within the Committee of Governors, there was also a significant element of truth in the rationale that he offered for these changes. The events of the late 1980s did in fact considerably alter the political environment in which the Committee functioned and, as a consequence, the strategic basis of the Governors' longstanding preference for a weak and decentralized institution no longer obtained. The two key developments responsible for altering this strategic situation were the publication of the Delors Report and the fall of the Berlin Wall. The near simultaneity of these two events can only be regarded as an accident of history, but the nature and consequences of that accident bear careful attention.

The Committee for the Study of Economic and Monetary Union was formed in the wake of the Hanover summit of the European Council in June 1988. The Council asked the central bank governors, acting in their "personal capacity" (i.e., neither as representatives of their governments nor as the Committee of Governors), plus a few academic experts, to serve on this committee under the chairmanship of the Commission's president, Jacques Delors.[39] Importantly, the committee members were

[39] As chair, Delors' name is generally associated with both the Committee and the Report that it produced, although central bankers—preferring to emphasize the key role that the governors of the national central banks of the European Community played on this Committee—are understandably reluctant to employ this vernacular.

instructed to develop the best possible charter for EMU, leaving the question of whether or not the project ought to be undertaken to the Community's political authorities.[40]

Fairly early in their deliberations, Delors apparently reasoned that a unanimous report from the Community's central bank governors outlining the modalities of EMU would have the maximum likelihood of achieving political success.[41] As a result, he committed himself to encouraging a unanimous report regardless of its substantive conclusions. In a further bow to the central bank governors, he moved the location of the committee's meetings to Basel, allowing its deliberations to take place immediately following the regularly scheduled meetings of the Committee of Governors. And, following a July telephone conversation with Pöhl, Delors accepted the German central bank governor's recommendation for one of the committee's two rapporteurs: Gunter Baer.[42]

These and other concessions left the governors in an awkward position.[43] Although several of the central bank chiefs, including Pöhl, were not keen to see a report that would bear their signatures become a battering ram for eliminating national monetary sovereignty, they could hardly refuse to support a document that spelled out as clearly as possible their professional concerns about how monetary union ought to be organized. Delors' willingness to cede the substance of the report's recommendations to the central

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[40] 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.

[41] On the internal dynamics of the Delors Committee, see Karl Otto Pöhl, "Der Delors-Bericht und das Stutut einer Europäischen Zentralbank," in Theo Waigel, editor, *Unsere Zukunft heisst Europa: der Weg zurWirtschafts- und Währungsunion*, Düsseldorf: Econ Verlag, 1996; André Szász, *The Road to European Monetary Union*, New York: St. Martin's Press, 1999, pp. 110-119; and Kenneth Dyson and Kevin Featherstone, *The Road to Maatricht: Negotiating Economic and Monetary Union*, Oxford: Oxford University Press, 1999, pp. 713-720.

[42] As discussed earlier, following Baer's successful service on the Delors Committee he was appointed Secretary General of the Committee of Governors.

[43] Amongst these other concessions was Delors' reluctant decision to allow the proceedings to take place entirely in English, without the use of interpreters.

banking community made overt resistance to the committee's task difficult. Ultimately, the governors opted to make the strongest possible case for an EMU conforming to central bankers' preferences.

That their report was delivered to the European Council in the midst of the greatest political revolution the continent had known in fifty years was, of course, completely coincidental. But the fact was that the Delors Report outlined a map for deeper European integration at roughly the same moment that Europe's political leadership began searching, almost desperately, for precisely such a mechanism in response to the dramatic changes in eastern Europe and, soon afterwards, to the imminent prospect of German unification. In this environment, an Intergovernmental Conference on monetary union became, at least in the minds of many of Europe's elite, the best available instrument to address what was widely regarded as an international emergency: anchoring the new Germany to a fortified European Community.[44]

In this new environment, the significance and potential of the Committee of Governors for its members underwent a profound change. Previously, the governors used the Committee to secure the *institutional* independence of their central banks (that is, the banks' independence both from their governments and from the European Commission). In this context, centralization within the Committee itself had been seen as a threat to the central banks' *national* independence (that is, their independence from one another). Now, with some form of EMU imminently possible, or even probable, the significance of centralization within the Committee changed. Once it became clear that the Governors'

[44] Speaking near the close of the Maastricht conference, André Szász, the deputy president of the Nederlandsche Bank, publicly argued that "Germany, in the next two decades, will be a different country." "If we do not grasp this opportunity [to bind a unified Germany to the west through EMU], there may not

preferred guidelines for EMU would be accepted as the basis for convening an Intergovernmental Conference on monetary union, the key strategic aim of the Committee became insuring that the final outcome of that conference continued to conform to those guidelines, and especially the preference for an independent monetary authority. The best way of accomplishing that end was to work out the groundwork of monetary union posthaste within the Committee, and see to it that the IGC endorsed the Governors' collective will.

In short, the Committee of Governors became the mechanism for continuing the work that the governors had reluctantly but effectively undertaken on the Delors Committee: imposing the will of the central banking community on the framework for future European monetary integration. That this future would be realized sooner rather than later was an unexpected but not insurmountable challenge. Given this context, modest centralization of the work of the Committee became a vehicle for promoting their preferred vision of monetary union.

Recognizing this, Pöhl and his colleagues agreed to progressively terminate the Governors' long-term relationship with the BIS in order to establish an independent professional staff—a staff that would serve as the foundation of the European Monetary Institute and, later, the European Central Bank. The Committee itself would be reconstituted as the Council of the EMI, and the national central banks would become an integral part of the future European System of Central Banks; in this manner, the joint aims of institutional and (at least limited) national independence would both continue to be realized within the new monetary framework. As mentioned earlier, the complete

be another one." Quoted in David Marsh, "Dutch fearful of Germany going its own way," *Financial Times*, 28 November 1991, p. 2.

story of this transformation cannot be told here. But the expansion of the chair's authority and tenure, the growth of the Committee's Secretariat, the creation of the Economic Unit, and the redefinition of the Secretary General's office—in short, the centralization of "command and control" within the Committee of Governors—all aimed at establishing, on the central bankers' own terms and quite independently of the formal political negotiations of the Intergovernmental Conference, the actual working institutions of EMU.

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'Cofaigh	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