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Comment Pervenche Berès

First of all, I would like to thank Cecchetti and Schoenholtz for their in-depth chapter, taking into account that among seventeen interviews, sixteen were conducted with central bankers. Before anything else, let me tell you that I share their general positive appraisal of the first decade of the European Central Bank (ECB), and maybe especially of the last year. I welcome the fact that the euro has brought stability and fostered economic integration in the euro area, even if internal economic divergences have not diminished enough and productivity has not developed satisfactorily.

Reacting on their chapter, I suggest coming back on key issues to be further explored for the discussion, especially concerning the main challenges ahead.

First, I would like to come back to the ECB's operational framework. Together with Werner Langen, from the Economic and Monetary Committee of the European Parliament, I have drafted a report, *EMU@10: The First Ten Years of Economic and Monetary Union and Future Challenges* (Berès and Langen 2008), following the communication of the Commission last spring. The report addresses many elements of this debate; it was voted in ECON and November 2008 in plenary session. I will now discuss the chapter with elements on monetary policy that are developed in our report.

As regards the definition of price stability, the ECB aims at inflation rates of below, but close to, 2 percent over the medium term. We consider that

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this definition should be examined in the context of increased heterogeneity of the euro area and the need to ensure financial stability. The presentation points out that this would be a good monetary policy, I would, however, specify add in good times, where all central bankers could follow a line of price stability that was eased by the prevailing condition of globalization, with a strong pressure on consumer good prices that was based on outsourcing. Let us not forget that the objective of price stability can be achieved effectively only if the root causes of inflation are properly addressed. And let us keep in mind that article 105 of the EC Treaty also assigned to the ECB the task of supporting the general economic policies of the Community, even though I believe it will become more difficult now for the ECB to argue that the best way to achieve this broader task is price stability. Here and there, the issue of who should set the definition of price stability or the inflation target is also discussed. The question is whether the Council and the European Parliament could or should be involved in such a discussion.

We are also of the opinion that the ECB should move toward a direct inflation targeting regime where a point inflation target is supplemented by a range of permitted fluctuations around the target rate, and should make public its inflation forecasts. This should not preclude paying attention to the dynamics of monetary aggregates in order to avoid new asset bubbles, even if asset bubbles can be better addressed by proper regulation than by monetary policy.

We also stress the necessity of exploring possible improvements in the procedure for appointing the members of the ECB's executive board before 2010. We agree with Cecchetti's and Schoenholtz's view that it is important that a variety of backgrounds be represented among executive board members: I would mention academic or professional experience, and background in the economic, monetary, and financial sector. But let me admit that as regards this nomination procedure and its practice, I have two strong regrets. One is that the Council merely rubberstamps the proposals made by the Member States when they come from a big country and by doing so, does not exert one of its important decision powers related to the shaping of monetary policy. The second one is that the EP is only consulted, contrary to the power it has regarding the appointment of Commissioners and the U.S. Congress has vis-à-vis the Fed.

On transparency and accountability, I regret that your chapter does not make mention—at least once—of the European Parliament, and surprisingly enough, you do not discuss "accountability," but rather "communication" issues. The regular reports of the ECB to Parliament, in particular to its Committee on Economic and Monetary Affairs, as well as the regular ex-change of views with the Pr President of the ECB constitute a monetary dialogue and contribute to the transparency of monetary policy. It improves the accountability of the ECB vis-à-vis the citizens of the Union. I am moreover in favor of stronger public debate on the future common monetary and currency policies in the euro area as part of the convergence process. The truth is that the shaping of the ECB's accountability is an original one, since there is no euro zone country or constituency. Because of this, it could not be shaped on the basis of the previous German model, where the Bundesbank was accountable to the country and its citizens. It does not completely follow the U.S. model either, where the Fed is closely accountable to the Congress (that has nomination powers and can change the statute of the Fed).

A second issue to be further explored is the question of enlargement. I regard an enduring and successful expansion of the euro area as a major challenge for the coming years, whereby both institutional standards for the ECB and the decision-making process of the ECB have to be adapted to this change. Moreover, the rotation model has to take into account the economic weight of the individual member States.

In this context, I draw attention to our calls for an ECB executive board of nine members, thus replacing the system existing now and avoiding the even more complex solution decided upon for the future, with the enlargement of the euro area. This has been the EP's position for years, since the ECB has imposed to the Council its ideas about the future rotation system.

Just a word on the conditions of enlargement: if equal treatment of the Member States in the euro area and Member States wishing to join must be ensured, long-term stability of the euro area must be regarded as an aim of common interest. Enlargement and stability must go hand in hand.

On communication, a topic that is stressed several times in your chapter, I indeed share the view that communication is of utmost importance to prepare the introduction of the euro in the Member States planning to join the euro area; I would add that communication on the enlargement of the euro area is also important for all Member States in the euro area. But if you realize that the ECB celebrated the tenth anniversary of the euro on the 1st of January 2009 and that the citizens were celebrating the fifth anniversary of coins and notes on the 1st of January 2007, you can measure the gap in terms of communication.

The major issue is the challenge of financial stability, as stated by Cecchetti and Schoenhotz. The papers seem to open space for a certain confusion between the need for EU regulation and supervision. In reality, the single EU regulator already exists; what is lacking in this field is a coherent implementation of the regulation and an EU supervision.

I believe that the EU urgently needs to enhance its supervision structure, taking into account the specific role of the ECB. The European Parliament has been extremely active on this issue. An initiative report from the Economic and Monetary Committee with recommendations to the Commission on Lamfalussy follow-up and the future structure of supervision has just been voted in plenary session last month.

A "Europeanization" of the financial supervision structure, financial market transparency, effective competition rules, and appropriate regulation is necessary in the medium term, in order to improve crisis management and cooperation between the European System of Central Banks, supervisory authorities, governments, and market participants. An integrated, comprehensive (covering all financial sectors), consistent, and coherent supervisory framework starting with a balanced approach in regulating the cross-border spread of financial risk on the basis of harmonized legislation would decrease compliance costs in the case of multijurisdiction activities. In recent different reports, the Parliament calls on the Commission to put forward proposals for revising the existing supervisory architecture along those principles. If we want to have a two-step approach, what is needed is to start with an upgrade of the three level-three committees and then to move toward a European system of national supervisors along the lines of the European System of Central Banks (ESCB). In any solution, the role of the ECB will need to be increased and defined so as to ensure and define a good articulation between a macro and a micro prudential approach.

Finally, let me briefly refer to topics that we cannot develop here, because time is limited, but that are worth mentioning. Of course, as Cecchetti and Schoenholtz have mentioned, many disappointments of the first decade come from "outside the ECB." I can only echo this point. But we need to recall that they are not the only ones responsible for this situation. We have already mentioned the lack of initiative or involvement when it comes to nominations to the board or to supervision issues. But it could also be said regarding the way the Council up to now has used its powers regarding exchange rates or the power to speak at the Council of governors meeting, where the absence of the Council results in Jean-Claude Trichet being the only one to speak on wages but also on the level of public spending. I agree that future challenges concern not only the ECB, but structural and fiscal reform, as well as economic governance.

In particular, I am convinced that the European Monetary Union (EMU) policy agenda for the next decade will be marked by the challenges presented by the recent financial market turmoil and its implications for the real economy. I note in this context that Member States within the euro area are better equipped to face major shocks than in the past thanks to the common monetary policy and reforms carried out in recent years. However, in the interest to largely combat economic slowdown and high inflation, I would suggest:

- A coordinated response at the EU level, based on common understanding of the problems and common follow-up measures while accepting some national specificities.
- Ambitious and adjusted National Reform Programmes and their committed implementation, including strong dialogues with social partners.

- Fully and timely implementation of the Financial Services roadmap, including follow-up actions and increased effectiveness of supervision to the ongoing financial turmoil.
- Completing the tools used for designing monetary policy by the thorough analysis of factors that influence the stability and functioning of the financial system.
- A proactive European reaction within international fora, notably at the Financial Stability Forum (FSF) and International Monetary Fund (IMF) and the increase of common political decision-making processes.
- Organizing the European voice within the G8 and reflecting on its role as a more efficient worldwide economic decision-making body while adjusting it to the consequences of globalization and more dominant worldwide acting financial markets.

In conclusion, I would like to underline that more needs to be done to reap the full benefits of EMU and to strengthen citizens' understanding and commitment to the ECB and the single currency.

I recall that during the first decade of EMU, Parliament has done a huge amount of work to ensure more transparency and democratic accountability of the ECB. In the background of the financial crisis, the European Parliament is currently playing an active role, on legislative or nonlegislative files, to help build adequate answers to the challenges that face the ECB, in particular in the area of financial stability.

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