

## **Berichte**

### **What Monetary Policy for the European Central Bank?**

By Peter Bofinger, Würzburg

The creation of the European Central Bank provides the challenging opportunity to design a policy regime that reflects the state of the art of economic theory. In order to support this process Peter Bofinger and Richard Portes organized a joint Centre for Economic Policy Research (London) and Irving Fisher Society (Würzburg) conference in Königstein on June 9/10, 1995. The conference brought together central bankers from many countries as well as prominent academics.

In his paper "*How Can the European Central Bank Become Credible?*" Alex Cukierman discussed various options to enhance the credibility of the ECB. One major issue is the effect of Central Bank Independence (CBI) on credibility. Empirical studies show that inflation is lower the higher the degree of legal independence of the central bank. But the author expects that legal independence alone will not assure perfect credibility under all circumstances as legal and actual independence are seldom perfectly correlated. Thus, it is necessary to supplement legal independence by additional factors like fiscal policy etc. Discussing possible conflicts between financial and price stability, Alex Cukierman concluded that in the case a central bank prefers to achieve both there is no long-run trade-off. But, due to free rider problems guidelines are necessary for the distribution of seignorage among countries. As the establishment of credibility is enhanced by fiscal constraints the author argued that the Maastricht Convergence Criteria for fiscal policy point in the right direction. However the criteria for the inflation rate and the interest rates are of secondary importance because in the long run they are determined by the stance of fiscal and monetary policy. As credibility is fostered by nominal targets, Alex Cukierman recommended for the ECB a rule that combines a base target and an inflation target.

*Lorenzo Bini-Smaghi* made the general criticism that CBI can hardly be assessed only on the basis of objective criteria. He regarded seigno-