



国际工商管理 百科全书

.....(第2版).....

International Encyclopedia
of Business & Management

.....

[英] Malcolm Warner 主编

European Central Bank 至 Hypercompetition

.....

第 ③ 卷

清华大学出版社

国际工商管理百科全书

International Encyclopedia of Business & Management

(第2版)

[英] Malcolm Warner 主编

(第3卷)

European Central Bank 至 Hypercompetition

清华大学出版社

Using the encyclopedia

The *International Encyclopedia of Business and Management* is designed for ease of use. The following notes outline its organization and editorial approach and explain the ways of locating material. This will help users to make the most of the encyclopedia.

Sequence of entries

The encyclopedia contains 750 entries arranged in a single, alphabetical sequence through seven volumes. Entries are listed in alphabetical order. Note that the sequence follows the order of words rather than that of letter, and that the words *and*, *in*, *of* and *the* in entry titles are disregarded. A complete alphabetical list of entries is given in Volume 8 (the Index Volume).

The Index Volume

Volume 8 is devoted to a comprehensive index of the key terms, concepts, countries and names covered in Volumes 1 to 7, allowing users to reap maximum benefit from the encyclopedia. A guide to the index can be found at the beginning of the index. The Index Volume also includes permission acknowledgements, listed in alphabetical entry order.

Cross-references

The encyclopedia has been extensively cross-referenced in order to signpost other entries that are likely to be of interest. There are three types of cross-reference in the encyclopedia:

'See' cross-references

Throughout the alphabetical sequence of entry titles, there are cross-references which direct the user to the entry where a particular topic is discussed either under a different entry title or as part of a larger entry. For example:

Corporate taxation: see TAXATION, CORPORATE

Ethics: see BUSINESS ETHICS; MARKETING ETHICS

'See' cross-references within an entry

Cross-references within an entry direct the user to other entries closely related to the theme under discussion. These other entries will normally give a fuller explanation of the specific theme. These cross-references appear in small capital letters.

'See also' cross-references

At the very end of each entry, 'See also' cross-references guide the user to other entries of related interest, such as more specialized entries, biographical entries and geographical entries, as well as related entries in other disciplines. These cross-references appear in small capital letters in alphabetical order.

Structure of entries

A numbered contents list at the beginning of each entry in the encyclopedia gives the headings of its main sections. The scope and structure of the entry can thus be reviewed and sections of particular interest easily located.

Thematic entries begin with an 'Overview' section that serves as a brief introduction to the topic and a useful summary of the entry's contents. Biographical entries begin with a summary of the significant dates and events in the life of the subject and a list of his or her major works. Every entry is followed by a 'Further reading' section (see below).

Authors

The name of the author or authors is given at the end of each entry. A full list of contributors, showing their affiliation at the time of

writing and the titles of the entries they have written, can be found in Volume 8.

Further reading

Each entry has a 'Further reading' section which gives details of all the references cited in the text. Additional suggestions for reading are also provided for those who wish to delve deeper into a particular subject. References cited in the text are preceded with an asterisk (*).

The Further reading list is arranged alphabetically by author/editor and chronologically under the authors'/editors' names. Publications with joint authors are listed under the name of the first author and are listed after any individual publications of that author. Where publications have been issued by an institution, the name of the institution is given as the author. English translations of publications in other languages have been given wherever possible.

Items in the Further reading list have been annotated with a brief description of the level,

importance and usefulness of the publication listed.

References and suggestions for further reading are given in the Harvard style. The authors and editors have attempted to provide bibliographic data in the fullest possible detail.

Editorial style

Spelling and punctuation in the encyclopedia have been standardized to follow British English usage. The use of italics has been kept to a minimum and is normally restricted to foreign words and book or journal titles. Abbreviations and acronyms are spelled out in full on their first appearance in an entry. Chinese names have been westernized (i.e. Chen Derong becomes Derong Chen or Chen, D.). In alphabetical lists of names, *Mc* and *Mac* are treated as *Mac* and the next letter in the name determines the position of the entry.

European Central Bank

- 1 Towards European Economic and Monetary Union and a European Central Bank
- 2 Organization, statutes and independence of the European System of Central Banks
- 3 Operational policy
- 4 Emerging issues

Overview

The European System of Central Banks (ESCB) was conceived by the 1992 Maastricht Treaty to develop and implement monetary policy within the European Union (EU) single currency 'eurozone'. The ESCB came into effect in June 1998 and consists of the fifteen EU national central banks (NCBs) together with a core institution, the European Central Bank (ECB), whose Governing Council is the key decision-making body with regard to the overarching mandate to maintain price stability.

Traditionally central banks provide many facilities but four are core: the issue of the national currency; the conduct of monetary policy; acting as lender of last resort to the financial sector; and managing the exchange rate policy. Arguably a true ECB should manage these functions on an EU-wide basis, hence discussion of the ECB cannot be divorced from that of EMU with its common currency, unified monetary policy and irrevocably fixed exchange rates. However, these aspects imply both a high degree of independence from national governments and a transfer of powers from existing NCBs who now act as agents of the ECB. Such features have proved contentious issues with EU members in the run-up to the launch of the euro in January 1999. Moreover, other features are also proving controversial, notably the appropriate euro exchange rate, and the ECB's supervisory role in the 'eurozone' (see BANKING; BANKING IN WESTERN EUROPE; EUROPEAN UNION; INTERNATIONAL BANKING).

I Towards European Economic and Monetary Union and a European Central Bank

Since the late 1950s Western European nations have followed a process of progressive regional integration. Initially the focus was removing trade restrictions (negative integration) by the creation of a *free-trade area* with the gradual elimination of tariffs, quotas and other trade barriers, followed later by a *customs union*, with a common external tariff (see INTERNATIONAL TRADE AND FOREIGN DIRECT INVESTMENT). During the 1980s the emphasis switched towards policy harmonization (positive integration) via completion of the *single or common market* with factor mobility, and the parallel development of the European Monetary System (EMS), aimed at fostering closer monetary cooperation and stability. During this period integration was accompanied by a widening of the club from the original six European Economic Community (EEC) members (France, West Germany, Italy, Belgium, Luxembourg and the Netherlands) to nine (UK, Ireland and Denmark in 1973), to twelve (Greece in 1981, Spain and Portugal in 1986).

Monetary union and *economic and monetary union* represent higher levels of regional integration. In June 1988 the European Council confirmed the objective of the progressive realization of economic and monetary union and mandated Jacques Delors, then President of the European Commission, to propose concrete steps to attain this goal. The Delors Report defined *monetary union* as the total and irreversible convertibility of currencies; complete liberalization of capital transactions; full integration of banking and financial markets; the elimination of fluctuation margins; and the irrevocable locking of exchange rate parities (see CAPITAL MARKETS, REGULATION OF; SECURITIES MARKETS, INTERNATIONAL). *Economic and monetary union (EMU)* was defined as: a single market with the free move-

ment of goods, services, capital and labour; the strengthening of market mechanisms; and greater macroeconomic policy coordination (European Commission 1989).

The Delors Report proposed a three-phase approach to EMU, with the *first 'convergence' stage* from 1 July 1990, the aims of which were to consolidate the single market programme and encourage convergence of economic and monetary policies among member states. To realize later stages it was necessary to renegotiate the original 1957 Treaty of Rome, which established the EEC, so as to allow for new organizational structures, including a new central monetary institution. The resultant Treaty on European Union, signed in February 1992 ('Maastricht Treaty') incorporated, *inter alia*, the protocols on the Statute of the European System of Central Banks (ESCB), the European Central Bank (ECB), and the European Monetary Institute (EMI).

The establishment of the EMI on 1 January 1994 marked the start of the *second 'institutional' stage*. Located in Frankfurt, the EMI had its own legal personality and a senior decision-making council comprising a full-time President and the Governors of the member states' central banks. The latter endowed it with ECU 61.5 million and from the interest income generated by these financial resources it covered its running costs. Although often referred to as a pro-forma ECB, the EMI had no decision-making powers in the field of monetary policy. Indeed its transitory nature reflected the fact that in stage two, responsibility for monetary policy remained the preserve of national authorities in member states. In essence the two main tasks of the EMI were firstly, to strengthen central bank cooperation and monetary policy coordination, and secondly, to prepare for the establishment of the ESCB in stage three. Thus it provided a forum for consultation, advice and exchange of views on policy issues.

On 2 May 1998 the European Council decided that eleven member states (Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland) met the criteria for participation in stage three. These nations then appointed the ECB Executive Board marking the formal establishment of the ECB on 1 June 1998. The

EMI was liquidated, leaving the remainder of 1998 for testing systems in preparation for the single currency.

On 1 January 1999 the *third 'full EMU' stage* began with the irrevocable locking of exchange rates of the currencies of the eleven participating EU members and the introduction of a single monetary policy under the ECB's responsibility.

2 Organization, statutes and independence of the European System of Central Banks

The ESCB comprises the European Central Bank (ECB) and the national central banks (NCBs) of the EMU participants. Those NCBs of non-participants, for example the UK, are deemed members of the ESCB with special status: they conduct their respective national monetary policies but cannot participate in decision making regarding the single monetary policy for the 'eurozone'.

The 5,000 million euros subscribed capital of the ECB is provided by the NCBs with subscriptions based on respective shares of EU GDP and population. The paid-up capital comes from the eleven participating members who also provide foreign exchange reserve assets equivalent to 50,000 million euros, which the ECB holds and manages. The ESCB is governed by the decision-making bodies of the ECB: the Governing Council; Executive Board; and the General Council.

The *Governing Council* comprises all the ECB Executive Board and the Governors of the NCBs of the EMU participant member states. As the key decision-making body its main responsibilities are:

- to adopt guidelines and make decisions necessary to ensure the performance of tasks entrusted to the ESCB;
- to formulate the monetary policy of the EU, including, as appropriate, decisions relating to the intermediate monetary objectives, key interest rates and the supply of reserves in the ESCB, and to establish the necessary guidelines for their implementation.

The *Executive Board* consists of the President, Vice-President and four other members, all of recognized standing and professional experience in monetary or banking matters. They are appointed by the common accord of the member states' governments on a recommendation of the European Council, and following consultation with the European Parliament and the ECB Governing Council. The main responsibilities of the Executive Board are:

- to implement monetary policy in accordance with the guidelines and decisions laid down by the Governing Council of the ECB, and, in doing so, to give the necessary instructions to the NCBs; and
- to execute those powers delegated to it by the ECB Governing Council.

The *General Council* comprises the President, Vice-President and Governors of all the NCBs, including those without a derogation to participate in full EMU. The General Council performs those tasks taken over from the EMI that, owing to the derogation of some member states, still need to be performed in stage three. It also contributes to the ESCB's advisory, reporting and information-gathering functions.

In accordance with the Maastricht Treaty statutes the primary *objective* of the ESCB is to maintain price stability. It must also support the general economic policies of the EU, provided its inflation objective is not compromised, and act in accordance with the principles of an open-market economy. The main *tasks* of the ESCB are to:

- carry out monetary policy;
- conduct foreign exchange operations in accordance with the prevailing exchange rate regime of the EU;
- hold and manage the official foreign exchange reserves of the participating nations;
- ensure the smooth running of the payments systems; and
- participate as necessary in the formulation, coordination and execution of policies relating to prudential supervision and stability of the financial system.

This is a wide-ranging, demanding set of functions common to central banks, although not always conducted by them. Indeed, Mullineux (1985) suggests that some central banking functions might be operated more efficiently by other private and public sector bodies. He suggests the concentration of activities can create potential conflicts of interest. For example, if a central bank is responsible for the maintenance of financial stability in an economy, it may be forced to inject liquidity to forestall banking failures if there is a crisis of confidence in the banking system. In stimulating demand by expanding the money supply, or lowering interest rates, pressure may be reduced on the banking system. However, such actions may negate the objective of achieving price stability if the money supply growth rate exceeds that of output.

In designing the draft ESCB statutes the NCB governors were strongly influenced by the Deutsche Bundesbank both in terms of its historical success in maintaining the value of the D-Mark and in its organization. However, the ESCB's statutory objective to maintain price stability is narrower than the Bundesbank's mandate to promote also employment, balanced trade and growth.

The ESCB is supposed to be an independent system. The Maastricht Treaty is based on a belief that delegating monetary policy decisions to an independent institution with a clearly defined and specific mandate improves the quality of policy making, leads to more stable prices, and facilitates both sustainable real growth and improvements in living standards.

In examining ECB independence an important distinction is necessary between *political* (or goal) and *economic* (or instrument) independence (see Alesina and Grilli 1992 and Briault *et al.* 1996). *Political* independence may be defined as the ability of a central bank to set its own targets, without constraints or influence from government. To this end one important feature is the provision of long tenure for NCB governors and Executive Boards so as to overcome susceptibility to political pressures and volatility in the conduct of monetary policy. The ESCB statute makes the following provisions:

- a minimum renewable term of office for governors of five years;
- a minimum non-renewable term of office for members of the executive board of eight years;
- removal from office only in the event of incapacity or serious misconduct;
- the European Court of Justice empowered to settle any disputes.

A second feature is that in undertaking ESCB-related work neither the ECB nor any NCB, nor any member of the various decision-making bodies, may accept instructions from external bodies. Thus the ECB is autonomous and independent of national and EU authorities. This requirement has necessitated changes to legislation in some nations, such as the United Kingdom, in order to establish the independence of NCB governors. In any event in stage three member NCBs are effectively branch offices of the ECB without autonomous monetary powers (see BANK OF ENGLAND).

Economic independence implies that the ECB may use, without restrictions, monetary policy instruments to pursue its monetary policy goals. In particular, the monetary financing by governments of budget deficits is prohibited, a significant constraint for nations with traditionally large public sector debts such as Belgium and Italy.

Healey and Levine (1992) suggest that monetary union affects national public finances in three ways. Firstly, the right to issue notes and coin is transferred to the ECB so that 'seignorage' profits are no longer available to national governments. Countries such as Portugal, Italy and Spain are particularly affected because their embryonic financial systems are often relatively dependent on cash and they have experienced traditionally high inflation rates. Accordingly, currency issues are an 'inflation tax' by which governments can fund current expenditure by issuing non-redeemable debt with a negative return equal to the inflation rate. In recent years the importance of this 'inflation tax' has reduced under the ERM/EMU convergence effect on EU interest rates and the completion of the single market fostering financial market integration. A sec-

ond impact is that economic independence forbids the opening of ECB lines of credit for community or national public institutions, in contrast to pre-existing arrangements in countries such as France and Italy where central banks granted credit to their Finance Ministries for residual budget deficit financing. The ECB is banned from participating in the primary money market for national government bonds so monetarization of debt occurs only as a by-product of open-market operations consistent with the price stability objective. Thirdly, EMU prevents the use of 'surprise inflation' to amortize outstanding government debt by eroding its real value.

However, ECB independence has long been a contentious aspect of EMU (see, for example, Henderson 1993; Wood *et al.* 1993). At one level, no other part of the integration process has involved such a significant transfer of sovereignty from member states to the EU authorities. Mrs Thatcher, UK Prime Minister at the time of the Delors Report, objected to the 'centralization' in the operation of the ESCB; that control of core elements of national economic policy would be transferred from parliaments to an unelected and unaccountable European body. The concern lingers that a powerful central decision-making organization is created which lacks transparency and over which weaker members may have relatively little influence with regard to their domestic affairs. Hence there have been worries as to how the ECB can be made accountable yet remain independent. While statutes, strict reporting requirements, explicit objectives and plans may provide the accountability consistent with independence, they do not necessarily legitimize it, leaving the ECB open to political attack (see BANK OF ENGLAND; BANKING IN WESTERN EUROPE).

Moreover, even sensible central bank statutes are no guarantee of success; what matters more is the attitude and culture of those in charge. However, in an influential paper, Rogoff (1985) suggests that a welfare-improving point on the credibility-flexibility frontier could be secured by delegating monetary policy making to an authority with greater inflation-aversion than society as a whole – a *conservative* central banker. Under the model some loss of flexibility is traded for a gain in

credibility, but Rogoff shows that provided that the degree of central bank conservatism (inflation-aversion) is not excessive, then society's overall welfare improves. The model implies that an independent central bank should lower average inflation but raise output variability.

Empirical tests of such models suggest that independent central banks out-perform more dependent ones (see Wood *et al.* 1993). Greater goal and instrument independence are associated with lower inflation. Moreover, most studies have failed to find a significant link between independence and the mean or variability of output growth or employment. At face value independence provides an inflation gain without the attendant costs of output or employment variability.

Making a central bank independent imposes a constraint on government interference in monetary policy; making the central bank accountable imposes a constraint on how it exercises this independence. In the context of the ECB its independence and primary objective are established in the Maastricht Treaty, which itself was subject to intense public scrutiny, debate and ratification, hence in turn affording some democratic legitimacy to ECB independence. Moreover, the Treaty imposes standards of accountability via regular quarterly reports, and an Annual Report to the European Parliament, Council and Commission. The European Parliament holds a general debate on the report received and its committees have the right to question the ECB President and Executive Board members. In addition, regular press conferences, statements on the economic situation, discussion and technical papers form part of a wider remit of intended accountability.

3 Operational policy

The ECB interprets the primary price stability objective as a 'year-on-year' increase in the Harmonized Index of Consumer Prices (HICP) for the 'eurozone' of less than 2 per cent. This definition signifies that the ECB is concerned about both inflation and deflation, as the term 'year-on-year increases' implies that prolonged decreases in the HICP would be inconsistent with price stability. Moreover,

medium-term stability is sought, acknowledging that there may be short-term price volatility that cannot be controlled by monetary policy alone.

The operation of monetary policy in EMU raises two basic issues: the choice of variable(s) to serve as the *target(s)* for the price stability objective; and the *instrument(s)* used to attain the target(s). The Governing Council's own monetary strategy reflects the unique circumstances prevalent at the start of EMU. However, there is also a desire to inherit the success of member NCBs, hence there is some continuity with past strategies. The monetary policy rests on two pillars. The first and 'thicker' one is a broad monetary target, similar to that applied by the Deutsche Bundesbank, although for the ECB this is more a 'reference value' (initially an annual rate of 4.5 per cent) for the growth of a broad 'eurozone' money aggregate, M3. The second, 'thinner' pillar includes an assessment of a basket of economic indicators, including an inflation forecast, the exchange rate and estimates of output gaps. This twin-pillar policy does not fall neatly into the traditional classification of 'rule-based' or 'discretionary' monetary policies. The Bundesbank's monetary targeting, as per the ECB's first pillar, was deemed rule based, whereas the US Federal Reserve policy with its various instruments, is deemed discretionary. If anything, the ECB is more akin to the latter with the combination of a pliant monetary reference range, an unpublished inflation forecast and a mix of other indicators.

In order to implement monetary policy three types of instrument are available to the ESCB: open-market operations; standing facilities; and a minimum reserve system.

Open-market operations are important for steering interest rates, managing liquidity in the market and signalling the monetary policy stance. Five sets of tools are available, the most important of which are reverse transactions (applicable on the basis of repurchase agreements or collateralized loans). The ESCB may also use outright transactions, the issuance of debt certificates, foreign exchange swaps and the collection of fixed-term deposits. In initiating open-market operations the ECB decides on the instrument(s) to be used,

and the terms and conditions for their execution. Four categories of operations exist:

- *Main Refinancing Operations (MROs)* are regular, liquidity-providing reverse repurchase transactions with a weekly frequency and fortnightly maturity executed by the NCBs on the basis of standard tenders.
- *Longer-Term Refinancing Operations (LTROs)* are liquidity-providing reverse transactions with a monthly frequency and three-month maturity.
- *Fine-Tuning Operations* are executed on an *ad hoc* basis in order to manage the liquidity situation in the market, and also to steer interest rates, notably to smooth the effects of unexpected liquidity fluctuations.
- *Structural Operations* occur via the issuance of debt certificates, reverse transactions, and outright transactions executed when the ECB wishes to adjust the structural position of the ESCB relative to the financial sector.

The ESCB operates two *Standing Facilities* to provide for, and absorb, overnight liquidity. These are administered by the respective NCBs. The *Marginal Lending Facility* provides counterparties with liquidity against collateral assets. The interest rate applied is the normal ceiling for overnight money market rates, while the *Deposit Facility* allows counterparties to deposit funds at an interest rate which represents the floor for overnight money market rates.

The ESCB also applies a *Minimum Reserve System* to credit institutions in the 'eurozone'. This has the twin objectives of monetary control, by stabilizing money market interest rates creating (or enlarging) a structural liquidity shortage, and money market management, by inducing (or enlarging) the banks' demand for reserves and the control of money expansion. Reserve requirements are calculated by applying a 2 per cent reserve ratio to deposits, debt securities and money market paper issued by credit institutions (except for maturities over two years). This requirement is met on an average over the reserve maintenance period, not

on a daily basis. There is an allowance of 100,000 euros so that credit institutions with small reserve bases will not have to hold minimum reserves. However, the recent widespread trend to lower reserve requirements reflects increasing recognition of the implicit tax that unremunerated reserve requirements entail (Enoch and Quintyn 1996) (see SECURITIES AND EXCHANGE REGULATION; SECURITIES MARKETS, INTERNATIONAL).

During the first operational year of monetary policy in 1999, the main refinancing operation rate (MRO) was 3 per cent throughout the first quarter, 2.5 per cent from April, then 3 per cent from November. Very short-term rates, measured by the Euro Overnight Index Average (EONIA), remained close to the ECB main refinancing rate throughout the year. Most of the euro-system liquidity was provided to credit institutions through the weekly MROs (75 per cent) with much of the rest from LTROs and only a negligible amount from standing facilities. In principle all credit institutions in the 'eurozone' are potential counterparties (over 8000), although they must meet eligibility criteria set by both individual NCBs and the ECB. In practice only around 2500 are signed up, of which only 800 or so are active in the weekly MROs. It seems that many prefer to access liquidity from larger correspondent banks rather than the central bank.

4 Emerging issues

Various potential difficulties could arise between national governments and the ECB, linked to the traditional dual objectives of central banks: firstly, to stabilize prices and general economic activity via monetary and exchange rate policies; and, secondly, to maintain a stable financial and payments system.

With regard to the former, earlier reference was made to how the Maastricht Treaty forbids central bank financing of government deficits. In addition, under a Stability and Growth Pact EMU participating governments agreed penalties for running excessive deficits, for example a fine of 0.2 per cent of GDP for a deficit of 3 per cent of GDP, rising to 0.5 per cent for one of 6 per cent. However, the

liberal interpretation of the EMU entry requirements raises doubts as to how binding such constraints might be. If excessive budget deficits arise, then ECB independence is compromised, yet if the ECB refuses to finance an excess, the result could be higher interest rates, 'crowding out' of domestic spending resulting in weak growth, and high unemployment with ensuing economic and political tensions.

The early history of EMU suggests, however, that the most likely area of dispute would be over the appropriate policy for the euro. The Maastricht Treaty (article 109.2) permits the European Council to 'formulate general orientations for exchange rate policy'. Thus the monetary independence of the ECB may be compromised as any exchange rate intervention will impact on the money stock. Either a central bank (via monetary policy) concentrates on restricting inflation or it maintains an exchange rate policy. This contrasts with the situation faced by the Deutsche Bundesbank whose mandate was safeguarding the currency and thus in active control of exchange rate policy. However, arguably the exchange rate mechanism (ERM) of the European Monetary System (EMS) worked well during the 1980s because of Bundesbank concern with inflation. If it had worried about avoiding ERM realignments it would not have forced disinflation and convergence on EU members. Although the Maastricht Treaty stipulates that exchange rate policy must be consistent with the price stability goal, there is still scope for members to debate how this is interpreted, especially the orientation and level of the exchange rate.

Indeed, just prior to the 1 January 1999 launch of the single currency, the feeling was that a strong, overvalued euro might harm EU competitiveness and the ECB would not permit benign neglect of the currency. However, by April 1999 Wim Duisenberg, President of the ECB, was expressing concern at the 10 per cent fall in the value of the euro against the US dollar. This decline revealed a paradox in that the weak euro had been one factor reducing the need for the ECB to cut interest rates. However, market sentiment suggested that a cut associated with efforts to spur growth might support the euro in contrast to con-

ventional economic theory. In a low-inflation environment with growth at a premium, a cut in short-term rates may lead to expectations of higher long-term interest rates on the back of faster growth and these may cause the currency to rise. In the event the April 1999 ECB interest rate cut had little impact on the euro's prevailing downward spiral. In November 1999 a rise in the refinancing rate was explained as tightening monetary policy in the face of accelerating private credit and money supply growth, rising producer prices and wage expectations.

In one sense the euro is more of a psychological than economic issue. Within the EU the euro's external exchange rate matters less if 'eurozone' members trade mostly with each other. Indeed, if anything, the currency weakness in 1999 spurred EU exports yet did not raise the spectre of rising inflation as core inflation levels were low in most member states. However, in an international currency context, the economic size and potency of the 'eurozone' suggest that the euro should be a major future international intervention and invoicing currency. Much will depend on investor confidence in ECB monetary policy as well as the economic performance of the 'eurozone' (see TERM STRUCTURE OF INTEREST RATES; INTEREST RATE RISK).

Other areas of potential difficulty relate to the structure and supervision of the overall EU financial and payments system. The ECB is only one institution in the ECSB and, moreover, is a lean organization with a limited budget and staff. Sceptics might argue that it will not enjoy the same popularity that the Bundesbank had in Germany and faces political diversity in its dealings with the EC, EU Council of Finance Ministers (ECOFIN) and European Parliament.

The broader maintenance of a stable financial and payments system is not an explicit ECB objective. However, banking supervision is an important, if uncertain issue in Europe where the trend has been towards supervisory agencies that operate independently of their central banks, even though ultimately NCBs dominate through their 'lender of last resort' functions. Moreover, traditionally supervision has focused on a bank's balance sheet strength and compliance with capital ad-

equacy and portfolio components requirements. This approach may be less relevant in increasingly liquid, securitized and integrated financial markets in which banks are active participants and crises can develop rapidly (see FINANCIAL MANAGEMENT, INTERNATIONAL). As banks take on more market risks, they may depend on their central bank's willingness and ability to provide liquidity in times of need. While the ECB has some influence when levying minimum reserve requirements, it has no statutory regulatory responsibilities and in this sense is less likely to provide liquidity than conventional NCBs.

A related issue is thus whether EU banking supervision should be centralized. Apart from the provision of liquidity quickly at low credit risk, there are several arguments in favour of centralization. The advent of cross-border banking mergers, the growth of pan-European universal banks and a generally more competitive financial marketplace in Europe create coordination burdens for national supervisors. Furthermore, EMU requires a single clearing and payments system related to monetary policy and overseen by the ECB. At present the Trans-European Automated Gross Real-Time Settlement System (TARGET) is being developed for all NCBs. Indeed, if EU financial markets become more liquid with high-volume wholesale payments, then for effective monetary control the ECB may need to combine a defined 'lender of last resort' together with supervisory responsibilities. However, in so doing the ECB may be perceived as too powerful, especially in view of aforementioned concerns over its accountability. An independent regulatory agency, distinct from the ECB, may be more acceptable, however, there remains the issue of liquidity provision to the EU financial system in times of need.

ROGER HENDERSON
LEEDS BUSINESS SCHOOL

Further reading

(references cited in text marked *)

- * Alesina, A. and Grilli, V. (1992) 'The European Central Bank: reshaping monetary policies in Europe', Ch. 3. in M.B. Canzoneri, V. Grilli and

P.R. Masson (eds), *Establishing a Central Bank: Issues in Europe and lessons from the US*, Cambridge: Cambridge University Press. (A text which draws on US experience in setting out the design of an ESCB.)

- Begg, I. and Green, D. (1996) 'Banking supervision in Europe and Economic and Monetary Union', *Journal of European Public Policy* 3 (3), September: 381–401. (Outlines approaches to future regulation and supervision of banking in EMU.)
- * Briault, C., Haldane, A. and King, M. (1996) 'Central bank independence and accountability', *Bank of England Quarterly Bulletin*, February, 36 (1): 63–68. (Discusses the link between central bank accountability and independence.)
- * Enoch, C. and Quintyn, M (1996) 'European Monetary Union: operating monetary policy', *Finance and Development*, September: 28–31. (Examines monetary policy targets and instruments under EMU.)
- * European Commission (1989) *Report on Economic and Monetary Union in the European Community (Delors Report)*, Committee for the Study of Economic and Monetary Union, Luxembourg. (The proposal setting out the steps towards EMU.)
- * European Commission (1992) 'Treaty on European Union' (Maastricht Treaty), Conf-upuem 2002/92, Brussels: EC. (The Treaty setting out the protocols for the ESCB, ECB and EMI.)
- * Healey, N.M. and Levine, P. (1992) 'Unpleasant monetarist arithmetic revisited: central bank independence, fiscal policy and European Monetary Union', *National Westminster Quarterly Review*, August: 23–37. (Examines conflicts in the roles of central banks in operating monetary policy.)
- * Henderson, R. (1993) *European Finance*, Maidenhead: McGraw-Hill Europe. (Text covering various aspects of European banking and finance.)
- * Mullineux, A.W. (1985) 'Do we need the Bank of England?', *Lloyds Bank Review* 157: 13–24. (Examines who should perform central bank functions.)
- * Rogoff, K. (1985) 'The optimal degree of commitment to an intermediate monetary target', *Quarterly Journal of Economics*, November: 1169–90. (Argues that central bank independence can lower average inflation and raise welfare.)
- Williams, D. and Read, R. (1998) 'The European Central Bank', Ch.10. in P. Templeton (ed.),

The Euro, 2nd edn, Chichester: Wiley: 123–45.
(Edited text on practical impacts of the euro.)

- * Wood, G.E., Mills, T.C. and Capie, F.H. (1993)
'Central bank independence: What is it and
what will it do for us?', Institute of Economic
Affairs, Current Controversies No. 4, London:
IEA. (Examines the concept of independence
with reference to empirical data.)

Further resources

European Central Bank website with up-to-date publications, working papers, speeches, press releases, monthly bulletins and annual report: <http://ecb.int>

See also: BANKING; EUROPEAN UNION; FINANCIAL MANAGEMENT, INTERNATIONAL; INTERNATIONAL BANKING; INTERNATIONAL TRADE AND FOREIGN DIRECT INVESTMENT

European Free Trade Association (EFTA): see

ECONOMIC INTEGRATION, INTERNATIONAL

European management, perspectives on

- 1 Integration in Europe**
- 2 FTAs and globalization**
- 3 Conventional assessments**
- 4 Major management assets**
- 5 Management challenges in Europe**

Overview

The evolution of capitalist Europe over the past five decades has been the focus of great attention and countless scholarly studies. The locus of the two great wars of this century, Europe was immediately thereafter at the epicentre of the Cold War between East and West. In fact, the perceived communist threat largely galvanized the unprecedented experiment in economic integration that six continental countries undertook in the 1950s. By the 1970s, others were coming to join the economic community until, today, fully 15 have achieved membership and still more societies await their turn. By almost any measure, the experiment must be counted as a major success. The usual aggregate indicators of gross national product (GNP), inter-group trade and per capita income have grown dramatically. In turn, the economic successes served as a bulwark against the appeals of communist ideology. And, crucially, the total absence of overt warfare among the members of the carefully crafted 'security community' for over five decades has been the ultimate vindication of the integration experiment through the second half of the twentieth century (Deutsch *et al.* 1957).

Now, in the decade since the official conclusion of the Cold War, Europe has continued to draw close scrutiny. Its political economy is among the most powerful in the world and its firms are among the world's leaders in

virtually all sectors of commercial activity. As the European Union (EU) takes its next long stride towards achieving a true single market, European managers draw upon all their resources in the face of both major new opportunities and very real challenges.

1 Integration in Europe

For decades now, observers have watched Europe closely because it seems to augur the future of 'globalization', and the European Union is seen as leading the way down this path (see EUROPEAN UNION; GLOBALIZATION). The EU countries have progressively deepened the degree of their 'vertical' integration. The successive unfolding of major agreements first moved the EU countries from the original free-trade area of 1957 to a common market. Next came a customs union and now, with the undertaking of monetary union, an eventual economic union may well be in store. Meanwhile, the original six members (Belgium, the Netherlands, Luxembourg, France, Italy and West Germany) have complemented 'vertical' with 'horizontal' integration as they have come to admit additional countries into the group. The UK, Denmark and Ireland joined in 1973, Greece in 1981, and Spain and Portugal in 1986; 1995 brought Sweden, Finland and Austria into the fold, bringing the total to 15 countries by century's end. Nor has this process ended. The EU has signed agreements of association with the Czech Republic, Slovakia, Hungary and Poland, and they are the most probable next members. The addition of new members has raised special problems for the organization because Ireland and the southern European states are so much poorer than their northern neighbours, com-

petitive in neither industry nor agriculture. Accordingly, the EU has been compelled to finance a number of compensatory schemes in order better to integrate the weaker national economies into the whole.

In the context of the ambitious expansion of EU activities over the decades, and the exceptional degree of resultant interdependence, it is unsurprising that most European states have necessarily positioned their foreign economic policies at the tops of their agendas. The perennial and pressing task for these states has long been the struggle to adjust their domestic policies in a way that is compatible with the ever-changing international political economy of the region in which they have become so tightly enmeshed (Katzenstein 1978). And the trade-off amounts to balancing the promised gains from increased integration against issues of both threatened national identity and potential short-run economic sacrifice. Both separately – and jointly in the EU – states must strive to protect those whose livelihoods are jeopardized as trade and investment barriers fall. Lurking in the background, compounding the political pressures that such groups generate, are broader questions of the state's sovereignty, and of the preservation of a revered national culture and indeed a national identity. These are powerful forces that greatly slow the pace of both vertical and horizontal integration in the region. As one study (Stopford and Strange 1991) has expressed it, governments are routinely pulled in three directions at once. One requirement is to sustain the health of the macroeconomy, meaning that overall growth, interest rates, unemployment rates and the like must be kept at acceptable levels. Simultaneously, at a microeconomic level sectors and industries particularly vulnerable to increased international competition must be either protected or compensated. Finally, all of this must be managed while also attending to the need for cordial diplomatic relations with one's allies and commercial partners. Most acutely in Europe, the EU states have willingly engaged a process of integration that has magnified these trade-offs.

2 FTAs and globalization

Beyond the intrinsic interest that the EU generates, its successes have in fact inspired a number of similar attempts to launch free-trade areas (FTAs) elsewhere in the world. In West Africa and Central America, these efforts failed. Elsewhere, as in the Caribbean and South America, results to date have been only modest. On the other hand, in North America – where the USA–Canada pact was expanded to include Mexico in 1994 – and in southeast Asia the effects have been considerably greater. Furthermore, leaders of business and governments continue both to promote and to entertain plans for still larger undertakings, including the further expansion of the North American Free Trade Agreement (NAFTA) and the Association of South-East Asian Nations (ASEAN), and the implementation of plans by the leaders of the Asia-Pacific Economic Cooperation (APEC), the enormous Pacific Rim group. Still, the EU remains the exemplar of economic integration because it has long since moved far beyond a free-trade arrangement and continues to push forward even now (see ASSOCIATION OF SOUTH-EAST ASIAN NATIONS; ASIA-PACIFIC ECONOMIC COOPERATION; NORTH AMERICAN FREE TRADE ASSOCIATION).

The energy and attention given to these various FTAs and the economic interdependence they have promoted have contributed to the common assertion that the international economy is fast becoming globalized. But the meaning of this term is at best fuzzy. 'Globalization' is applied, for example, to unfettered and massive capital movements which daily eclipse all annual trade and direct foreign investment combined. More broadly, 'globalization' is sometimes also invoked to connote the cultural homogenization or 'convergence' of societies. And still different is the attempt to suggest that the authority of states is being eroded by forces beyond their control. Finally, with respect to firms more narrowly, the term appears to promote the quest for foreign markets, to encourage new business strategies, and to call for an international division of production. In other words, globalization is used in so many ways that it is in danger of meaning nothing.

In an effort to bring some clarity to the term, it may prove helpful at least to note two things that globalization is not. First, whether in reference to macro- or microeconomics, the great majority of international commerce is not truly global in reach. Thus, some 90 per cent of all goods and services produced in Japan, the USA and the EU are consumed domestically. Furthermore, and despite advances in telecommunications that make the transmission of information and capital nearly instantaneous around the globe, nearly all firms engage in most of their international transactions regionally; both trade and foreign investment continue to concentrate in proximate countries (Ohmae 1995). Second, a plan for 'globalization' means different things in different industries and, indeed, it may imply different strategies for different firms within the same industry. It is entirely fruitless to assume that a successful globalization strategy must emphasize either exports, overseas production for particularized markets, or a restructured organization in which different elements of the final product are produced at scattered sites for eventual worldwide distribution. Accordingly, European businesses – and their competitors elsewhere – need to appreciate the vagueness of this overworked term as they strive to prosper.

3 Conventional assessments

Conventional wisdom credits the growing integration of the EU economies with having two types of impact on management. One consequence is of course the incentive for firms to grow larger as their regional market has progressively opened. The larger market and accompanying increase in competition has also translated into the emergence of fewer large firms, often via mergers and acquisitions. Larger firms face more direct competition with other large firms in the expanded and more diverse market. This evolution of the integration process in turn intensifies attention to matters of cultural adaptability and national management styles.

The standard view from the USA and Japan is that European managers are typically more cosmopolitan by virtue of the smaller size and intimate proximity of the regions' countries.

European leaders are much more likely to be multilingual and multicultural simply because of their exposures. The result is an ease of movement through the world of business unrivalled by managers from other regions.

Within the European Union, of course, this advantage is particularly important as the world's largest market continues to widen and deepen. The multiculturalism of European managers better prepares them to reach across national borders in search of markets. It similarly facilitates the formation of transnational partnerships among firms. In consequence, Europeans are thought to have a significant edge in the quest for increased economies of scale and scope. Moreover, there is some evidence that the business advantages conferred by multiculturalism travel well (Hofstede 1980; Stening and Hammer 1992). That is, the greater cultural adaptability of the typical European manager will translate into a business advantage not only on the continent, but equally in any other corner of the globe (see CULTURE, CROSS-NATIONAL).

The image of European managers as multicultural is compatible with the perception that there are distinct and consequential nationality types within Europe; they can share the advantage of multiculturalism while nonetheless maintaining distinct national traits. It is often thought by outsiders that there are, for example, typically 'German', 'French' and 'UK' management styles. The French are believed to be more receptive to innovation than the Germans, while UK managers are thought to be more autonomous from the state than are their German counterparts. To some degree, these perceptions are rooted in history and are valid (Whitley 1992). French firms have historically tended to be relatively small and somewhat quicker to seize upon innovations than the Germans. In the UK, firms operate in an environment of a capital market rather than a credit-based system, thereby being less subject to any concerns of the state to engage in industrial policy.

It is doubtless valuable to be comfortable in other cultures and to appreciate differences among national business cultures (see BUSINESS CULTURES, EUROPEAN). Nevertheless, these images of Europe's business leaders, accuracy aside, do not directly address the ques-

tion of whether European firms thereby gain the upper hand in the competitive arena of the marketplace. What does leading research indicate? There are some intriguing – if not always compelling – propositions based on case study materials.

4 Major management assets

Major studies point to the conclusion that European managers today confront largely the same central issues as do business leaders elsewhere around the world. Their presumed worldliness may afford them some advantages on balance, but it is unclear that those weigh heavily. Indeed, any such advantages may often be offset by traits more commonly found in their North American and Asian competitors, for that matter.

A more telling distinction among businesses may be whether a firm's strategy is properly tailored to its industry and, in particular, its competitive position within that sector. For example, the slow emergence of a single market in Europe has developed against a backdrop of national fragmentation in which regulatory climates varied substantially from one country to another. Some of the most successful European firms adapted to this as they expanded beyond national borders, overcoming fragmentation by adopting the 'local face' of a good multinational citizen (Hamel and Prahalad 1985). As the single market materializes, however, firms must adapt differently if they are to reduce costs and remain competitive.

Indeed, one important investigation concludes that what seems to distinguish successfully managed multinational corporations (MNCs) has little to do with whether managers grasp the challenge of the *strategic tasks* they face. Instead, the greater difficulties lie in the need to develop and manage the *organizational capability* to implement the complexities of global strategies. In particular, as firms grow larger and come to serve more diverse markets with multiple products, their strategic understandings may begin to pale in importance next to their capacities to be adroit at making quick and efficient adaptations to changing circumstances (see MULTINATIONAL CORPORATIONS).

Nor is this organizational flexibility easily come by. In their landmark work, Bartlett and Ghoshal (1989) compared a variety of firms based throughout the industrial triad of Europe, North America and Japan. Because the administrative heritage of the firms varied according to national business cultures stemming back to at least the nineteenth century, there is no single formula by which managers can convert business practices of the past into competitive arrangements today. Moreover, national business cultures are reflected in the ways that firms have initially ventured overseas. Thus, the classic MNC arrangement of European firms from the first half of the twentieth century can be described as a *decentralized federation* in which owners and central managers delegate authority greatly across divisional structures that operate as virtually independent businesses. Here, top management retains access to information as the principal means of control, while exercising simple financial control systems and relying considerably on informal personal (often familial) coordination. This extreme decentralization enjoys the virtues of great sensitivity both to local market differences and to national political demands.

A second model, commonly adopted by US firms in the post-war decades, is organized as a *coordinated federation*. In this design, top managers ensure that knowledge and expertise are transferred to foreign environments that lack advanced technology or markets. The opportunity for overseas managers to innovate is limited, and the parent company continues to provide new products and processes. All of this entails much more coordination and control by specialized staffs at the centre than in the classic MNC. The great strength of this arrangement is the capacity for knowledge and skill transfers from the parent company outward while allowing for their adaptation to local needs.

The third configuration, the *centralized hub*, came to characterize Japanese firms by the 1970s and 1980s. This form features a still greater concentration of assets, resources and responsibilities at the centre. Thus, overseas subsidiaries function essentially to provide only sales and service, with a one-way flow of goods, knowledge and organizational sup-