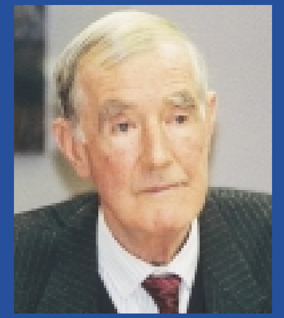

The Author

Michael Palmer was born in London and studied history at Corpus Christi College, Oxford. He worked successively at: the Council of Europe in Strasbourg; Western European Union in Paris; the North Atlantic Assembly in Brussels and the European Parliament in Luxembourg, where he was Director General. He has been Jean Monnet Visiting Professor at the European University Institute, Florence, and is the author of books and articles concerning European integration, East-West relations and Belgian art. He lives in Luxembourg.

THE BANQUE CENTRALE DU LUXEMBOURG IN THE ESCB

MICHAEL PALMER

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IN

THE EUROPEAN SYSTEM OF CENTRAL BANKS

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MICHAEL PALMER

THE BANQUE CENTRALE DU LUXEMBOURG
IN
THE EUROPEAN SYSTEM OF CENTRAL BANKS

May 2001

FOREWORD

It is a privilege to invite you to pay special attention to this book which offers a comprehensive presentation of the Banque centrale du Luxembourg (BCL). The newly created Central Bank of Luxembourg is developing its main activities in the framework of the Eurosystem which is composed of the European Central Bank and the Central Banks of the countries enjoying the benefits of the new single currency, the euro.

European Monetary Union, which has been built up over a number of years, is probably the most important monetary construction since the end of the Second World War. Its primary objective is price stability but it also stimulates economic and political integration.

Who better to write this book than Michael Palmer, a well-known author living in Luxembourg? He has held a number of important posts in European and other international institutions; his wide-ranging interests include European integration and cultural matters.

History is important for Central Banks in general, but is especially so for a very young Central Bank at the moment when Luxembourg joins the European Monetary Union. Mr. Palmer explains the dual capacity of a national Central Bank, devoted both to the interests of its country and to the performance of its tasks inside the Eurosystem.

The author succeeds in presenting most clearly the multifaceted organisation of the Eurosystem and the specific role of the Central Bank of Luxembourg. The BCL had to be established in a very short time in order to guarantee the smooth operation of the new structure. Its successful establishment provides an opportunity to pay tribute to the vision and action of prominent European leaders; so a part of the book is devoted to the work of Mr. Pierre Werner, formerly Prime Minister of Luxembourg and a member of the Council of the BCL.

Central banking is a delicate art (in view primarily of price stability) which has not only to be done, but must also be seen to be done. The BCL intends to be present and active in Luxembourg, a major financial place and one of the capitals of the European Union. This is also a reason for presenting in this book the history of the handsome building where the headquarters of the BCL are located in the heart of the city of Luxembourg.

I wish you interesting reading.

Yves MERSCH
Governor

CONTENTS

PART I

THE EUROPEAN DIMENSION

HISTORICAL BACKGROUND OF ECONOMIC AND MONETARY UNION

Economic and Monetary Union (EMU) has been a consistent objective of the European Communities since the late 1960s. In 1970 the Werner Report (fruit of the work of a group chaired by the then Luxembourg Prime Minister Pierre Werner) laid down the blueprint for the step-by-step construction of EMU. But monetary problems and the deteriorating international environment stood in the way of the plan. The European Monetary System (EMS) came into effect on 13 March 1979 establishing, for the participating Member States, a mechanism to stabilise their mutual exchange rates.

In June 1988 the European Council confirmed the objective of the progressive achievement of Economic and Monetary Union and gave a mandate to a committee chaired by Jacques Delors, the then President of the European Commission, to study and propose specific steps leading to the Union. The committee was composed of the Governors of the National Central Banks (NCBs) - at that time twelve - and three experts. The resulting Delors Report proposed that EMU should be achieved in three evolutionary steps.

On the basis of the Delors Report the European Council decided in June 1989 that the first stage should begin on 1 July 1990 - the date when, in principle, all restrictions on the movement of capital imposed by Member States were abolished. At that time, the Committee of Governors of the Central Banks of the Member States of the European Economic Community, which had played an important role in monetary co-operation since its creation in May 1964, was given additional responsibilities. Those were set out in a Council decision of 12 March 1990. They included holding consultations on, and promoting the co-ordination of, the monetary policies of the Member States with the aim of achieving price stability. The preparatory work for Stage Three of EMU also benefited from the contribution of the Committee of Governors.

In order to establish the requisite institutional structure it was necessary to revise the European Economic Community Treaty (the Rome Treaty). An intergovernmental conference on EMU was held in 1991 in parallel with that on political union. The negotiations resulted in the Treaty on European Union that was signed in Maastricht on 7 February 1992. The present Governor of the Banque centrale du Luxembourg, who was then an official of the

Luxembourg Ministry of Finance, took an active part in the drafting of the Treaty, in his capacity as member and Chairman of the Group of personal representatives of ministers.

The Treaty, which incorporated the Protocols on the Statute of the European System of Central Banks and of the European Central Bank and the Protocol on the Statute of the European Monetary Institute, came into force on 1 November 1993.

The Second Stage began on 1 January 1994. On that date the Committee of Governors was replaced by the European Monetary Institute (EMI). The main objectives of the EMI were: (a) “strengthening the co-ordination of monetary policies with a view to ensuring price stability” and (b) “making the preparations required for the establishment of the European System of Central Banks and for the conduct of a single monetary policy and the creation of a single currency in the third stage”.

To this end the EMI provided a forum for consultation and for exchanges of views and information on policy issues and it specified the regulatory, organisational and logistical framework necessary for the ESCB to perform its tasks in the Third Stage.

In December 1995 the European Council agreed to name the European currency unit to be introduced at the start of Stage Three, the “euro”, which would be introduced as a currency unit at the latest, according to the Treaty, on 1 January 1999.

In June 1997 the European Council adopted the Stability and Growth Pact which aims at ensuring budgetary discipline in EMU. The commitments under the Pact were enhanced by a declaration of the Council in May 1998.

On 2 May 1998 the Council of the EU - meeting in the form of Heads of State or Government - decided that eleven Member States (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain) fulfilled the necessary conditions for the adoption of the single currency on 1 January 1999. These countries took part in Monetary

Union from 1999 and were joined by Greece on 1 January 2001. The members of the European Council also reached an agreement (following consultation with the European Parliament) on the personalities to be appointed as members of the Executive Board of the European Central Bank. Their appointment took effect from 1 June 1998 and marked the establishment of the ECB and the end of the work of the EMI.

On 1 January 1999 there started the third and final stage of EMU. The ECB and the NCBs of all Member States of the EU together form the European System of Central Banks (ESCB). This encompasses the Eurosystem and the NCBs of the three countries which have not adopted the euro. The Eurosystem defines and implements the single monetary policy. As from 1 January 1999 the euro was introduced as a currency unit in view of regulations of the Council of the European Community. The euro has replaced - at fixed conversion rates between the participating states - the former ECU. In 2002 euro notes and coins will replace the national notes and coins of the Eurosystem countries.

WHY MONETARY UNION?

Monetary Union is, in effect, a logical and necessary extension of the single market. Stable exchange rates and price stability were envisaged as being essential to complement the free movement of capital within the single market. The idea of introducing a single currency on a fixed date, to replace national currencies, came into prominence only towards the end of the negotiations which led to the creation of EMU.

But at the level of the European citizen the simplest reason why Monetary Union is necessary becomes clear every time we cross a national frontier into another country, even within the European Union. To buy petrol, to eat in a restaurant or to stay in a hotel, to buy goods in a shop we need the currency of the country in which we happen to find ourselves. If we travel from Luxembourg to Italy by car we could need French, German or Austrian money simply to pay for the needs of the journey quite apart from the Italian money we need for the holiday itself. Over and above the value of the banknotes and coins we buy we have to pay a bank or exchange agent for the cost of the transaction as well.

In another country, too, it is difficult to have an exact understanding of the cost of different goods and services since we must calculate the price in terms of our own national money.

So there are three simple reasons in favour of the euro. First, that it symbolises price stability within the euro area. Second, that from its introduction as everyday money from 1 January 2002 there will be no more need to change money at frontiers within the geographical area of the Eurosystem. Third, prices marked in euros will be comprehensible and transparent.

But there are other major reasons why Monetary Union is important. One is that the progressively integrating European Union should be able to express its policies in the world economic and financial context through a single currency, which should be an adequate instrument to help it achieve its aspirations. In other words a uniting Europe should speak with one voice in terms of its currency.

Then, the euro is one of the many links that bind together the Member States of the European Union in an indissoluble network of shared interests that makes war between them unthinkable. Additional links in this chain that helps to define the zone of peace and prosperity that is the European Union are additional factors for security.

In terms of cross-frontier investment in the euro area and the development of new industries and enterprises, the single currency provided by the euro gives confidence to investors and entrepreneurs. It means that cross-frontier business development can be carried through without the traditional worries about currency fluctuations. Investors no longer have to protect themselves against fluctuations. This helps to reduce costs and to foster investments. Businessmen can carry through transactions knowing that they will pay, or be paid - within the eurozone - a specific sum of money that is not subject to changes.

Finally, maintaining price stability is the primary objective of the ESCB. This is not due to the single currency as such but to the Treaty obligation, imposed on the European System of Central Banks, of fighting both inflation and deflation. This stability allows the European citizen to have confidence - within the euro area - in the value of the money in his pocket, in his financial future and, as he ages, in his pension and savings. The single currency should also accelerate economic and political union, thus adding a political dimension to EMU.

There are other reasons why Monetary Union is desirable. When we use the phrase Economic and Monetary Union we should be careful to make an important distinction. Monetary Union already exists and will take its final concrete form when euro notes and coins replace national ones in 2002. Economic Union, however, in the form of single EU economic, fiscal and other related policies is still in its infancy, so there is a marked imbalance between the economic and monetary parts of EMU.

THE ORGANISATION AND FUNCTIONING OF THE ECB, THE ESCB AND THE EUROSYSTEM

There are two decision-making bodies of the ECB which are mentioned in the Treaty - the Governing Council and the Executive Board. A third, transitional, body, the General Council, associates with the ECB the NCBs of those countries, which, for political and social reasons, have a special status. Three states - Denmark, Sweden and the United Kingdom - have such a status.

The Governing Council of the ECB

©Photo: Claudio Hills

Governing Council of the European Central Bank

Back row (left to right): Y. Mersch, L. D. Papademos, J. Caruana, A. Fazio, M. Vanhala, G. Quaden, E. Welteke, N. Wellink, J.-C. Trichet, M. O'Connell, K. Liebscher, V. M. Constâncio
Front row (left to right): O. Issing, T. Padoa-Schioppa, C. Noyer, W. F. Duisenberg, S. Hämäläinen, E. Domingo Solans

The Governing Council of the ECB is composed of the six members of the ECB's Executive Board and the Governors of the NCBs of the Member States, which have adopted the euro. The President of the Council and a member of the Commission may participate but may not vote.

The Governing Council is responsible for adopting the guidelines and taking the decisions necessary to ensure the performance of the tasks entrusted to the Eurosystem. The Governing Council establishes the general legal framework within which the Executive Board and the NCBs implement the monetary policy of the Eurosystem. The Governing Council formulates the monetary policy of the Eurosystem and takes decisions on key interest rates and reserves in the system. The Governing Council meets regularly, usually in Frankfurt, and normally once a fortnight. Some meetings, however, take the form of telephone conferences. Every six months the Governing Council meets somewhere other than Frankfurt. The President of the ECB chairs the meetings of the Governing Council. The Governors of the NCBs - the NCBs are the sole shareholders of the ECB - sit in their personal capacity and do not represent their NCBs. The members of the Governing Council are not permitted to "seek or take instructions from Community institutions and bodies, from any Government of a Member State or from any other body." Decisions of the Governing Council are normally taken by simple majority vote, each member of the Governing Council having one vote. The recorded votes of members of the Governing Council are not made public. A system of weighted voting applies to some matters, when the financial interests of shareholders are at stake.

The Governing Council is empowered, under the Treaty, to take decisions on certain different types of legal acts. The most important is the ECB regulation. Regulations, which are legal acts with external effects, have general application and are directly binding in their entirety. The Governing Council may delegate its power to make regulations to the Executive Board so as to implement its own regulations and, also, guidelines. However, whether regulations are decided on by either the Governing Council or the Executive Board, they are essentially legal acts of the ECB.

The Governing Council may take ECB decisions. Decisions, which are also legal acts with external effects, are binding in their entirety upon those to whom they are addressed. Decisions of the ECB may also be taken by the Executive Board by delegation of the Governing Council. Once again, irrespective of whether it is the Governing Council or the Executive Board that takes a decision it is, first and last, a decision of the ECB.

The Governing Council is also empowered to make ECB recommendations - once again legal acts with external effects - which have no binding force and which may also be made by the Executive Board. A recommendation may be used, for instance, to initiate EU legislation - at the level of the Commission of the EU - relating to the ECB and its competences.

ECB opinions, which are legal acts with external effects but which have no binding force, are normally delivered by the Governing Council, expressing the view of the ESCB or Eurosystem. In most cases opinions are delivered in response to consultations either within the Community's legislative process or on the part of EU national authorities. The national authorities are obliged to consult the ECB on draft legislation on currency matters, on means of payment, on the gathering of different types of statistics, on payment and settlement systems and on rules applicable to financial institutions. National authorities are obliged to take ECB opinions into account before adopting legislation.

In addition to the different forms of ECB law which have external legal effects there are two types of legal instruments which are used to address legal relationships inside the ESCB. First, guidelines, adopted by the Governing Council, are normally addressed either to the Executive Board, which executes monetary policy in accordance with such guidelines, or to the NCBs, which act in accordance with these guidelines in view of the Statute. Second, instructions, which may be issued by the Executive Board and which are described below under the powers of the Executive Board.

The Executive Board of the ECB

The Executive Board consists of the President of the ECB, its Vice-President and four other members. The members of the Board are appointed by "common accord" of the governments of the Member States of the EU meeting at the level of Heads of State or Government after consultation of the European Parliament and the Governing Council of the ECB. It is a body which is permanently available in Frankfurt, the seat of the Bank, to take decisions on day-to-day business. The Board is responsible for the everyday management of the ECB and for implementing the Eurosystem's monetary policy, in particular by issuing instructions, in accordance with decisions of the Governing Council, to the NCBs. By delegation of the Governing Council the Executive Board may take decisions and issue recommendations. It may also, on its own authority, issue instructions.

Implementation of ECB law

“ To the extent deemed possible and appropriate” the ECB has recourse to the NCBs to carry out operations which form part of the tasks of the ESCB. Thus ECB law is largely implemented by the NCBs which, with their collective total of some 60,000 staff members - compared to some 1,000 staff members in Frankfurt - constitute the operational part of the ESCB.

Sanctions

The Statute empowers the ECB to impose sanctions on undertakings for non-compliance with ECB regulations or decisions. The infringement procedure may be initiated either by the Executive Board of the ECB or by the NCB of the Member State in which the alleged infringement has taken place. When the infringement procedure is opened the undertaking concerned is informed of the allegations made against it. The undertaking is also requested to terminate the alleged infringement and it is informed that financial penalties may be imposed on it.

Next, the Executive Board of the ECB must take a reasoned decision as to whether the undertaking has committed an infringement and what sanctions, if any, are to be imposed. The undertaking has the right to request, first, an internal review by the Governing Council of the ECB and, eventually, a review by the European Court of Justice. If an undertaking refuses to pay financial penalties the ECB can require the competent national authority to take the necessary enforcement action. Only the European Court of Justice has the power to suspend enforcement.

The charts which follow illustrate:

I. Decision-making bodies of the European Central Bank;

II. The European System of Central Banks;

III. The European Central Bank and the National Central Banks;

IV. Composition of the ESCB and information flows;

V. Legal acts taken by the ECB

I. DECISION-MAKING BODIES OF THE EUROPEAN CENTRAL BANK

Governing Council

Executive Board Members
and
Governors of the NCBs of the Eurosystem:
Austria, Belgium, Finland, France, Germany, Greece, Ireland,
Italy, Luxembourg, Netherlands, Portugal and Spain

Executive Board

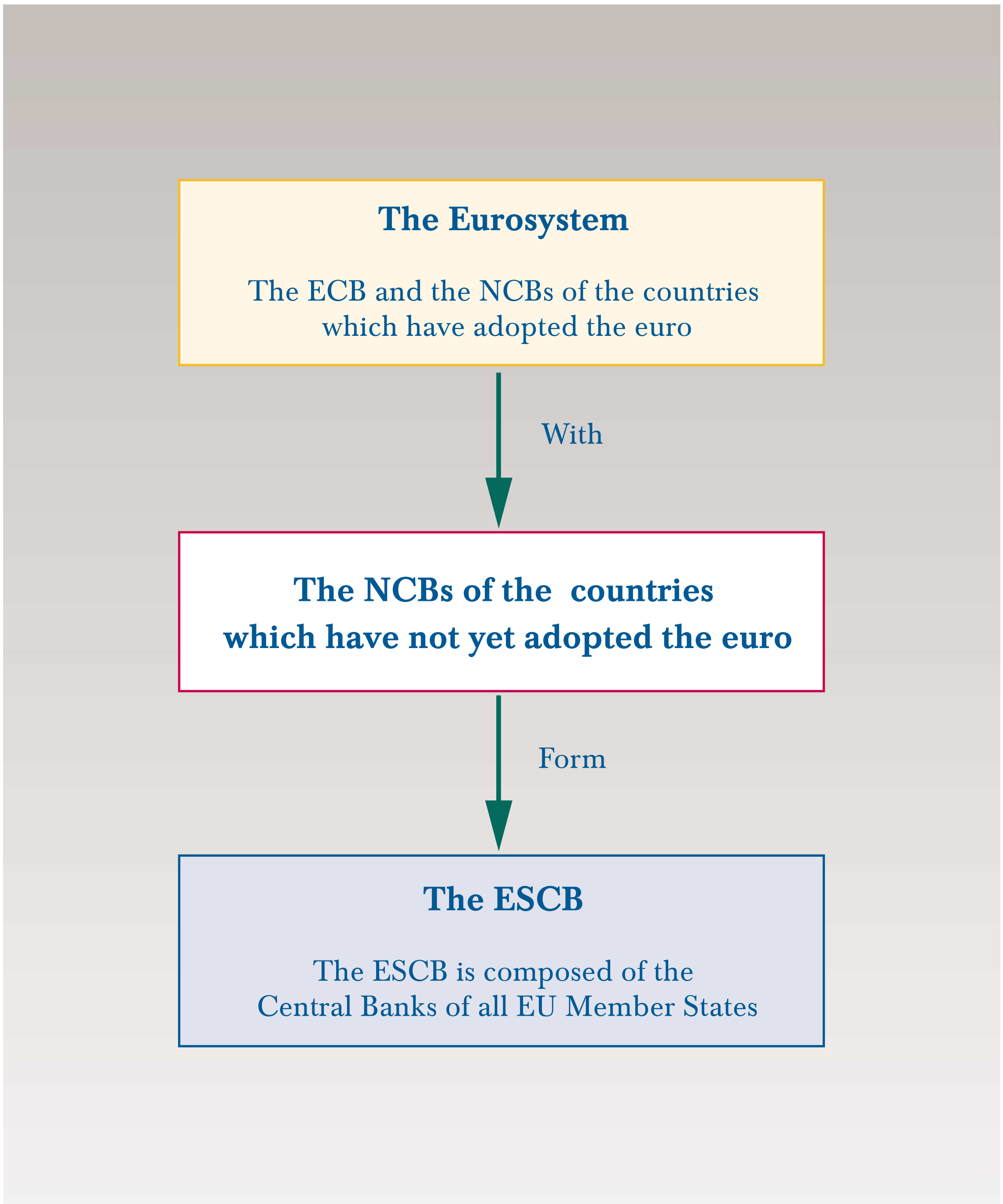
President
Vice-President
Four other members

General Council

President
Vice-President
and
Governors of the NCBs of the ESCB

the Central Banks of the Member States of
the EU including the Member States
which have not yet adopted the euro.

II. THE EUROPEAN SYSTEM OF CENTRAL BANKS



III. THE EUROPEAN CENTRAL BANK AND THE NATIONAL CENTRAL BANKS

Decision-making bodies of the ECB

The Governing Council

"shall adopt the guidelines and take the decisions necessary to ensure the performance of the tasks entrusted to the ESCB under this Treaty and this Statute." It "shall formulate the monetary policy of the Community."

The Executive Board

"shall implement monetary policy in accordance with the guidelines and decisions laid down by the Governing Council. In doing so the Executive Board shall give the necessary instructions to national central banks." The Governing Council may delegate "certain powers" to the Board.

The General Council

incorporates into the ESCB the NCBs of the Member States of the EU which have not yet adopted the euro. It is a transitional body which will no longer exist when all Member States (present and future) of the EU have adopted the euro.

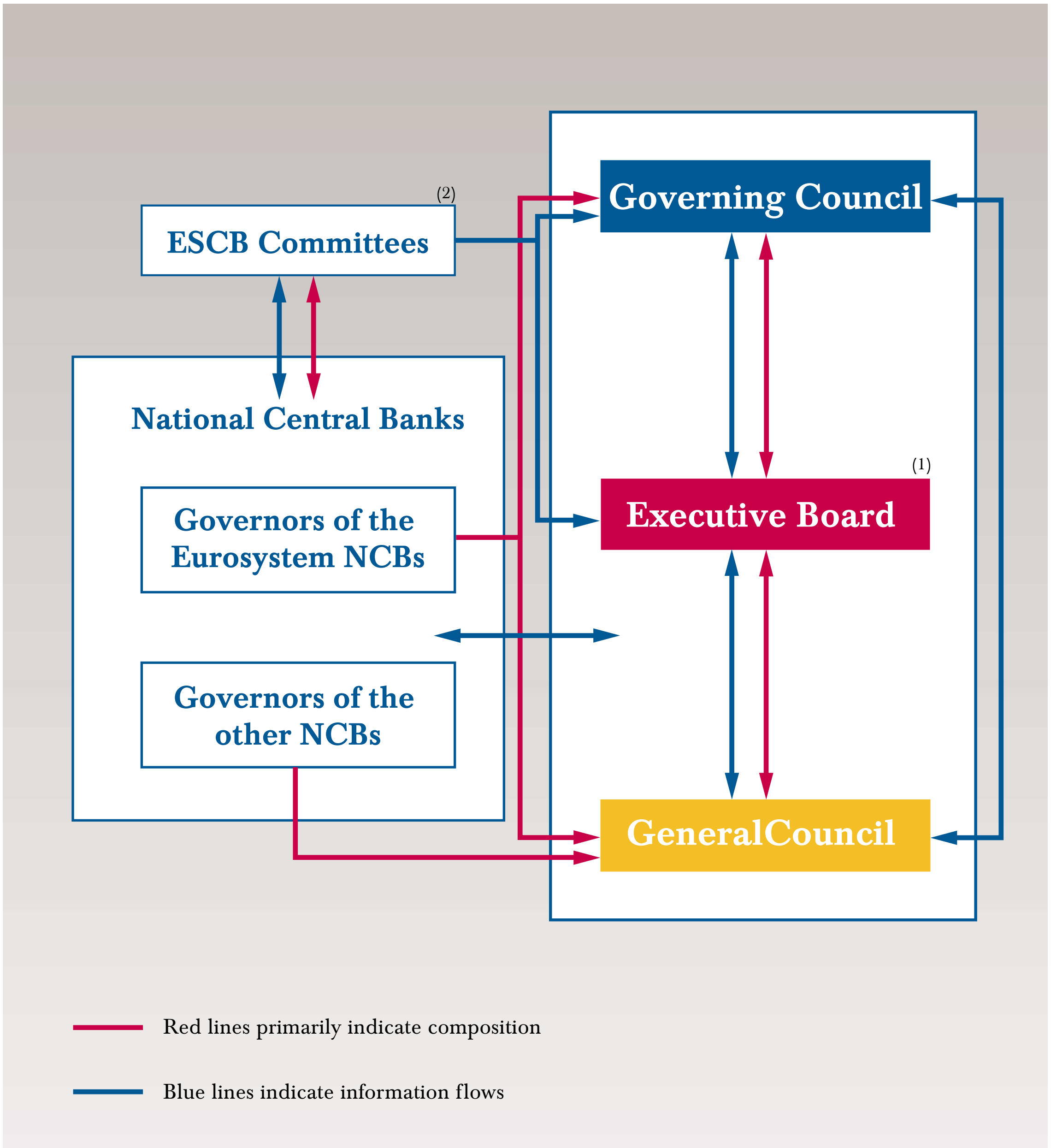
National Central Banks

are the sole shareholders of the ECB; Governors of the Eurosystem NCBs are members of the Governing Council and of the General Council.

ESCB Committees

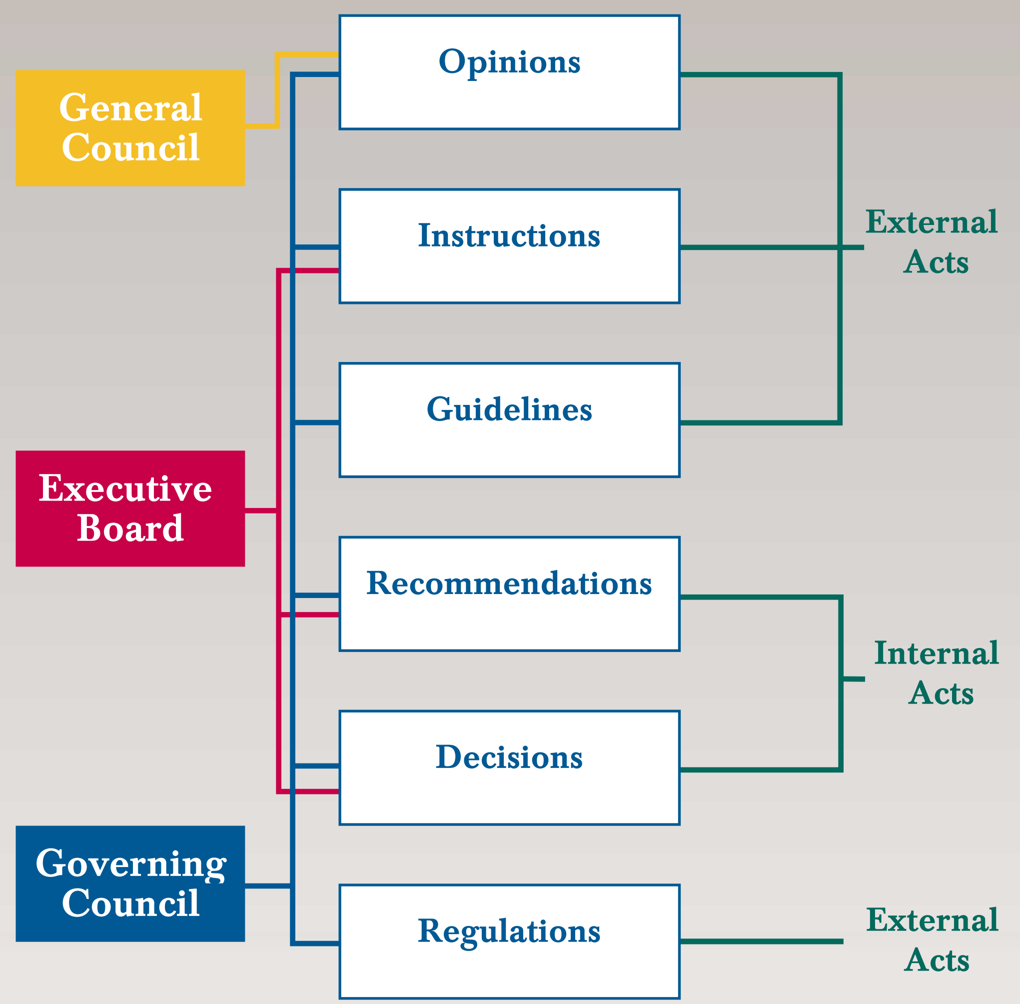
the thirteen committees of the ESCB, composed of representatives of the ECB and of the National Central Banks, whose work prepares decisions taken by the Governing Council of the ECB.

IV. COMPOSITION OF THE ESCB AND INFORMATION FLOWS



(1) The President and Vice-President are members of the General Council.
(2) The Budget Comitee reports to the Governing Council and the other twelve Comitees to the Executive Board.

V. LEGAL ACTS TAKEN BY THE ECB



Regulations:	have general application, are binding in their entirety and directly applicable
Decisions:	are binding in their entirety upon those to whom they are addressed, may also be adopted by the Executive Board by delegation of the Governing Council
Recommendations:	have no binding force, may also be adopted by the Executive Board by delegation of the Governing Council
Guidelines:	are binding in their entirety for the NCBs
Instructions:	are binding in their entirety for the NCBs
Opinions:	have no binding force

PART II

THE LUXEMBOURG DIMENSION

ADVANTAGES OF EMU FOR LUXEMBOURG

Apart from the general reasons in favour of EMU there are a number of specific reasons why EMU is beneficial for Luxembourg. Luxembourg has a very small and open economy and its external trade needs monetary stability, which has been provided, historically, by German and Belgian currency zones. For many years Luxembourg has been Belgium's partner within the Belgo-Luxembourg Monetary Association. In the past the monetary zone worked reasonably successfully despite some inevitable hiccups, notably in the form of devaluations of the Belgian franc. But the economic policies of Belgium and Luxembourg are divergent and the fixed parity of the Belgian and Luxembourg francs cannot conceal real and growing differences between salaries and prices in the two countries. The new Europe-wide context offered by EMU provides Luxembourg with a more appropriate monetary framework.

Then there are a number of political and institutional advantages for Luxembourg in becoming part of EMU. The main political one is that EMU adds an extra element of stability to the zone of peace that is the European Union. If the European Union was created to ensure peace in Europe a single currency helps to complete the fabric of European integration by including another important domain in the European construction. Luxembourg has been, traditionally, a buffer between France and Germany. In that situation it can only profit from Franco-German reconciliation within the European Union. Germany has agreed, together with its European partners, to transfer much of its sovereignty to the European Union. Luxembourg can help to ensure the further success of this peace process by sharing its monetary sovereignty with its partners in a wider framework than that of the Belgo-Luxembourg Monetary Association.

Institutionally Luxembourg plays a full part with the other participants in the ESCB and the Eurosystem. By giving up its sovereignty in monetary matters to the European Union it acquires, paradoxically, an international management role.

In the context of EMU further advantages for Luxembourg stem directly from the Maastricht Treaty. Most notably the Treaty reconfirmed, irreversibly, the free movement of capital that is so vital for the Luxembourg financial place.

WHY DOES LUXEMBOURG NEED A CENTRAL BANK?

The Banque centrale du Luxembourg (BCL) came into being on 1 June 1998, as successor of the former Institut Monétaire Luxembourgeois (IML). It started to function as a National Central Bank (NCB) within the European System of Central Banks (ESCB) and the Eurosystem of the NCBs of those countries which had adopted the euro as from 1 January 1999. Why was it necessary to set up a fully-fledged Central Bank, in a country which had never had a real one before[1], just three years before euro banknotes and coins were to start circulating? Why, too, at the very time that the Member States of the European Union transferred the exclusive competence to define monetary policy - the single monetary policy - to the European Central Bank or, in effect, to the Eurosystem?

The key reason for the creation of the BCL is a legal one, due to the fact that the Member States of the European Union decided to create what might be called a federal-type system in which the European Central Bank and the NCBs would co-exist and act together within the ESCB. Thus the Treaty requires that each Member State shall have a Central Bank mainly to implement, in decentralised manner, the single monetary policy as decided on by the Eurosystem. The Statutes of the ESCB and the ECB specify explicitly that the (former) "Institut Monétaire Luxembourgeois will be the Central Bank of Luxembourg". In creating the new system the governments never envisaged - for historical, political and other reasons - a merger under which NCBs would lose their identity.

Second, the Governing Council of the ECB is composed of the Governors of the Central Banks which participate in the Eurosystem of those countries which have adopted the euro, together with the six members of the ECB's Executive Board. Since the Governing Council is the principal decision-making body of the Eurosystem it is necessary that the Governor of the BCL, like the Governors of the other eleven NCBs should be present and take part when decisions are taken. However, when taking monetary policy decisions the members of the Governing Council do not act as national representatives but as independent experts. This is manifest in the principle of "one person, one vote". Quite apart from the Treaty obligation to create a Luxembourg NCB, it would have been politically inappropriate to have continued the

[1] The Banque Nationale du Grand-Duché de Luxembourg – which was, despite its name, a commercial bank – was created in 1873 and was authorised to issue banknotes. It went bankrupt in 1881, mainly because the Banque Internationale à Luxembourg which had been set up in 1856 was also authorised to issue banknotes and Luxembourg was simply too small to support two competing issuing banks.

former system, within the framework of the Belgian-Luxembourg Monetary Association, under which Luxembourg had only a putative NCB which issued some Luxembourg banknotes and coins and relied for the other central bank monetary operations on the facilities offered by the Banque Nationale de Belgique. Throughout the history of the Monetary Association Luxembourg retained its sovereignty, expressed in a separate currency, and created, in 1983, the IML which was endowed with certain limited operational monetary functions and which could therefore be considered as an embryonic central bank.

Third, at the time of the negotiations concerning the creation of the ESCB the financial situation of its partner in the Belgo-Luxembourg Monetary Association was such that Luxembourg did not wish to run the risk of being excluded from the first group of countries qualified to adopt the euro because of the possible non-eligibility of Belgium.

The IML was partly responsible for representing Luxembourg in the external monetary and banking supervision domains. Paradoxically an increased national input into the new Eurosystem was required to provide a more fully integrated or federal-type model.

If much of the work of the BCL is carried out within the ESCB in the form of its input into the work of the Eurosystem in particular[1] and if many of its operations are performed for the ESCB and the Eurosystem within Luxembourg, part of its work is concerned with national tasks[2]. These include: its operations in the payment field - multilateral payment settlements within Luxembourg as well as bilateral ones on a European basis; the opening of accounts by credit institutions and the responsibility for issuing and storing banknotes and coins, which will become specially important after 1 January 2002 when euro notes and coins will start to circulate. The prudential supervision of the banking sector which was formerly a responsibility of the IML was transferred in January 1999 to a newly created body, the Commission de surveillance du secteur financier. But the BCL has a supervisory function concerning payments and securities settlement systems.

Without the BCL Luxembourg would have no influence in the making or role in the implementation of the single monetary policy.

[1] As described later in this text.
[2] Described in more detail later in this text.

THE MANDATE AND ROLE OF THE BANQUE CENTRALE DU LUXEMBOURG IN ITS EUROPEAN SETTING

The Banque centrale du Luxembourg (BCL) has a dual role. It is at once an integral part of the European System of Central Banks (ESCB) and, also, the National Central Bank of Luxembourg. It came into being on 1 June 1998 under the law of 22 April of that year. The Luxembourg law of 23 December 1998 established the BCL formally while another created the Financial Sector Supervisory Commission which took over prudential supervision.

The law of 23 December 1998 provides that the BCL, as a member of the ESCB, "shall act in accordance with the guidelines and instructions of the European Central Bank". It states, further, that "the principal mission of the Central Bank shall be to take part in the accomplishment of the missions of the ESCB so as to achieve the aims of the ESCB".

It is clear from these two statements that under Luxembourg law the mandate of the BCL is primarily to act as an operational element within the framework of the ESCB. Paradoxically, although it is a national public body the main function of the BCL is to play not only a European role but what could, in effect, be described as a European federal role. It is only when we arrive further in the text of the Luxembourg law that we discover that the BCL is empowered to carry out national functions which are not part of its role as an integral part of the ESCB and to the extent that they are not incompatible with its ESCB role.

In establishing the BCL Luxembourg complied with the provisions of the Maastricht Treaty on European Union, particularly regarding the independence of the National Central Banks (NCBs). Neither the BCL nor any member of its different organs may seek or take instructions from Community institutions, from any member government or from any other body.

Within the ESCB the BCL is one of the NCBs which, together with the ECB, participate in the Eurosystem and manage the euro. The Governor of the BCL is a member of the Governing Council of the ECB. The BCL helps to achieve the aims of the Eurosystem, the main one being to maintain price stability, which involves fighting not only inflation but deflation also. The Eurosystem, without prejudice to the objective of price stability, should also lend its support to general economic policies in the EU, for instance in trying to achieve balanced economic growth and full employment.

In general terms, notably concerning decisions on monetary policy, the Council applies the “one member, one vote” principle. However, there are some exceptions concerning financial matters not related to monetary policy. For decisions on these matters the votes in the Governing Council are weighted according to the shares of each NCB in the subscribed capital of the ECB. Decisions requiring a qualified majority are passed if the votes cast represent at least half of the shareholders and two-thirds of the subscribed capital of the ECB - the NCBs being the sole shareholders. The votes of members of the Executive Board are weighted at zero, and they do not vote on financial matters. The BCL’s vote has the smallest weighting. At this point it should be remembered, however, that the BCL provides roughly 5% of the liquidity in the Eurosystem.

The NCBs make an important contribution to the work of the ECB through the ESCB committees. There are thirteen of these[1] composed of ECB and NCB representatives normally, though not always, chaired by an ECB representative. The composition of these committees enables the ECB and the NCBs to co-operate fruitfully even if there are, inevitably, some healthy differences of view. Many of the decisions taken by the Governing Council are based on work carried out by the committees, which thus play an important role in the decision-preparing process. A significant role is also played by a number of working groups and task forces. Representatives of the NCBs of those countries which have not yet adopted the euro take part in the work of the committees when agenda items that concern them are discussed.

[1] Accounting and Monetary Income Committee (AMICO); Banking Supervision Committee (BSC); Banknote Committee (BANCO); Budget Committee (BUCO); External Communications Committee (ECCO); Information Technology Committee (ITC); International Auditors Committee (IAC); International Relations Committee (IRC); Legal Committee (LEGCO); Market Operations Committee (MOC); Monetary Policy Committee (MPC); Payment and Settlement Systems Committee (PSSC); Statistics Committee (STC)

NATIONAL ROLE OF THE BCL

In the national context the BCL is responsible for implementing the monetary policy decided by the Governing Council of the European Central Bank. To do this it disposes of the set of instruments available to the ESCB: open market operations, standing facilities and minimum reserves.

Apart from operating these instruments:

- The BCL assures the smooth function of payment systems, particularly through Real-Time gross settlement (RTGS) systems for the rapid and personalised processing of payment orders. The Luxembourg national RTGS system, LIPS-Gross, forms part of TARGET (Trans-European Automated Real-Time Gross settlement Express Transfer system) which links the national RTGS systems in the fifteen Member States of the EU. LIPS-Gross enables credit institutions in Luxembourg to shift sums (mainly large) to credit institutions in EU Member States and Luxembourg itself very quickly through the BCL. The BCL facilitates some 1,900 payments per day which total - daily - some euro 26 billion. These figures include domestic and inward and outward cross-border payments. The system functions from 7.00 a.m. to 6.00 p.m. on working days.

- The BCL also manages the supervision of the payment and securities settlement systems in Luxembourg.

- The BCL is responsible for the settlement aspect of LIPS-Net, the domestic electronic netting system for retail payments within Luxembourg. 13 credit institutions, the Post Office and the BCL are direct participants. There are five payment and clearance cycles per day.

- The BCL maintains appropriate links with the Government and public bodies though these do not prejudice its independence as a Central Bank.

- It takes part in the work of international organisations, including the IMF, and is involved in external relations within its sphere of competence.

- The BCL issues legal-tender banknotes and circulates metal coins issued for and on behalf of the Treasury - at present in national form and in the form of euro from 1 January 2002.

- It collects, processes and publishes relevant statistical information, especially in the monetary and balance of payments fields. It maintains close links with Statec (the official statistical institute of Luxembourg).

- It contributes to the communication policy of the Eurosystem. It is a privileged interlocutor of the different national economic players. It complements information concerning monetary policy by means of its own studies, notably concerning the national economy. It publishes an Annual Report and Bulletins analysing the economic and financial situation, more especially in Luxembourg. It has a website.

- Within the ESCB the BCL contributes to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system.

- It has a range of committees which are active in the different areas of its competence including: payment systems; notes and coins; information technology, monetary policy operations; and, legal questions. These committees, which are chaired by members of the BCL, are composed of outside experts and members of the Bank.

Financial Resources

The Government holds all the BCL's capital, which is fixed at 25 million euros. The BCL's own resources are augmented by the reserve fund, the use of which is subject to prior agreement of the Council.

Internal organisation of the BCL

The BCL is run by the Council and the Executive Board. The Council is composed of the three members of the Executive Board - the Governor and two Directors - and a further six members appointed by the Government. Appointments are made for a period of six years and are renewable. The law lays down that the mandate of two of the six members appointed by the Government shall come to an end after two years, according to the drawing of lots. The same procedure shall apply in the case of two other members appointed for a four-year period. The Council is chaired by the Governor. It formulates the BCL's business policy and draws up guidelines concerning its financial situation. Its tasks include approving, on an annual basis, the budget, the financial accounts and the Executive Board report. It considers the implications of monetary policy and its consent is necessary before the BCL's reserve funds can be used. It has certain responsibilities concerning the administration of the Bank.

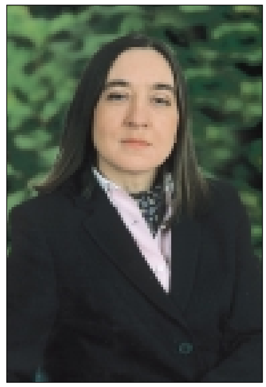
The Executive Board
Andrée Billon, Yves Mersch, Serge Kolb

The three members of the Executive Board - the Governor and two Directors - are appointed by the Grand Duke, on a proposal from the Government, for a period of six years. Appointments are renewable. The Executive Board is the highest executive authority of the BCL. It is responsible for the decisions and measures required to fulfil the tasks of the Bank.

The Executive Board is composed of: Yves Mersch, Governor, and Andrée Billon and Serge Kolb, Executive Directors.

The composition of the Council is as follows - Governor: Yves Mersch. Members: Andrée Billon, Jean Hamilius, Mathias Hinterscheid, Serge Kolb, Patrice Pieretti, Nico Reyland, Michel Wurth. Pierre Werner was also a member of the Council until the end of 2000.

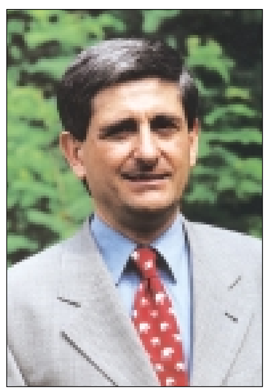

Yves Mersch


Andrée Billon


Jean Hamilius


Mathias Hinterscheid


Serge Kolb


Patrice Pieretti


Nico Reyland

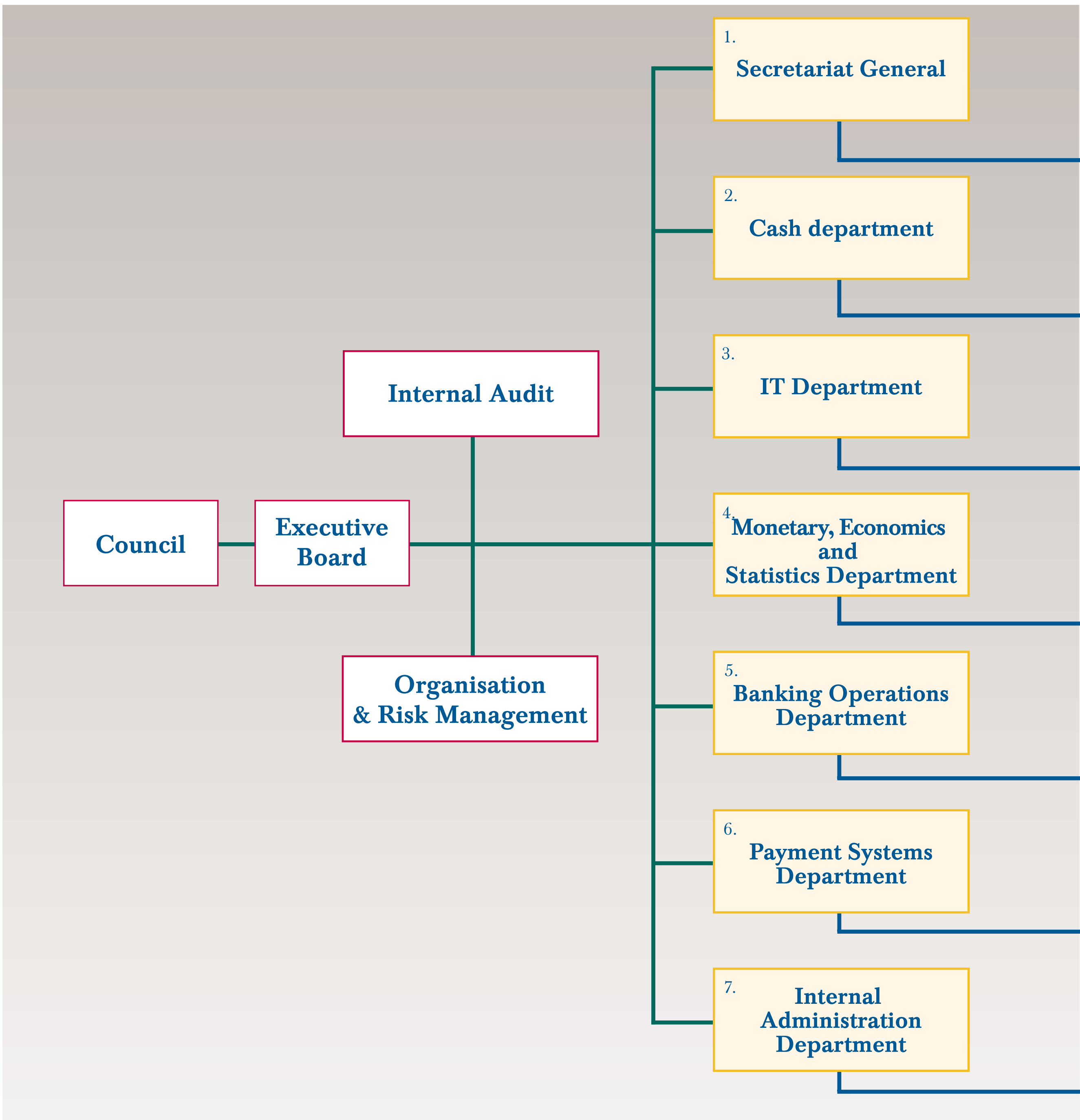

Michel Wurth

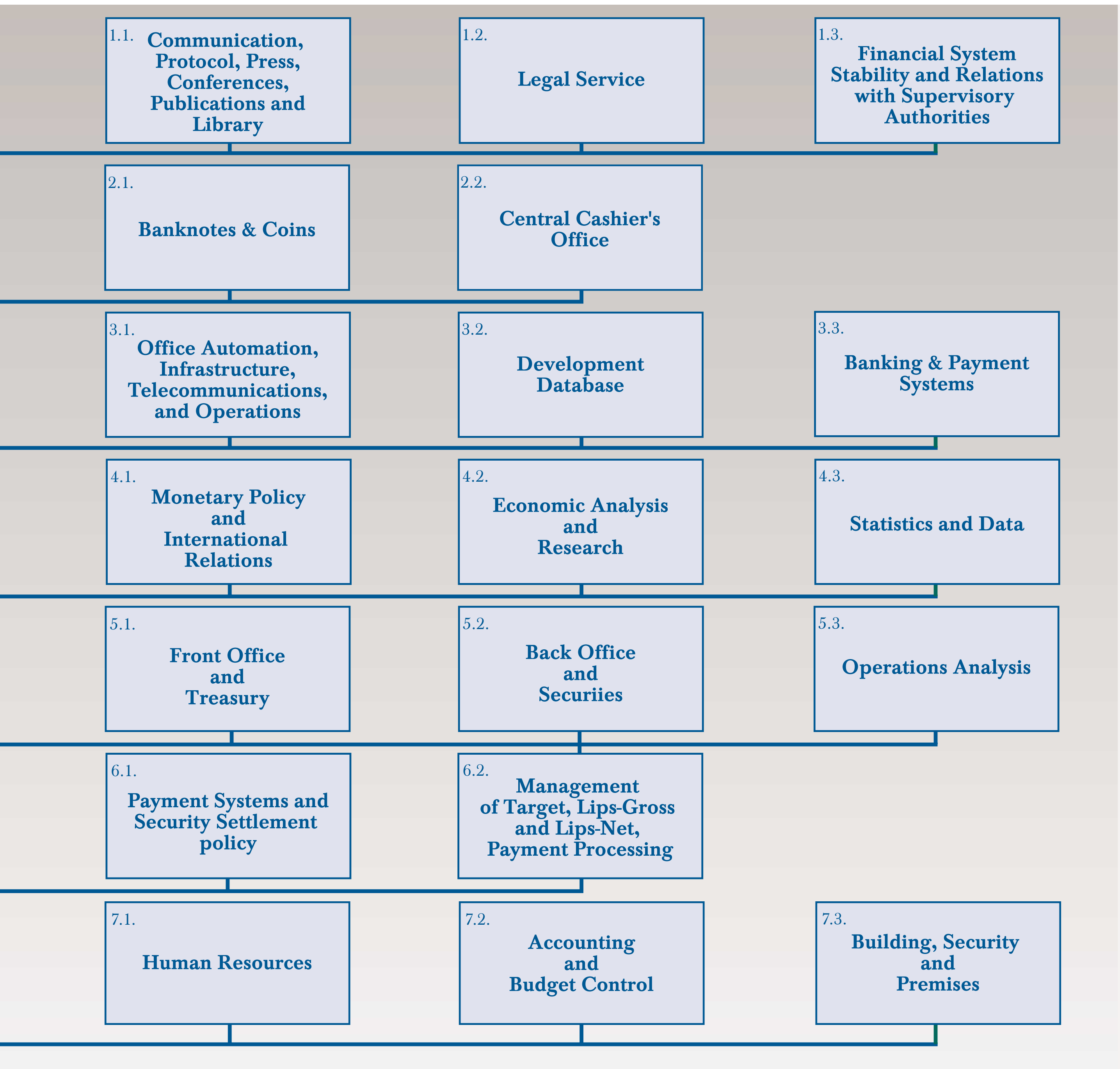
As of 1 May 2001 the BCL employed some 170 staff members. They are divided into seven departments as follows:

1. Secretariat General;
2. Cash and Coins Department;
3. IT Department;
4. Monetary, Economics and Statistics Department;
5. Banking Operations Department;
6. Payment Systems Department;
7. Internal Administration Department.

The chart shows the structure of the Central Bank of Luxembourg:

STRUCTURE OF THE BANQUE CENTRALE DU LUXEMBOURG




1.1. Communication, Protocol, Press, Conferences, Publications and Library
1.2. Legal Service
1.3. Financial System Stability and Relations with Supervisory Authorities
2.1. Banknotes & Coins
2.2. Central Cashier's Office
3.1. Office Automation, Infrastructure, Telecommunications, and Operations
3.2. Development Database
3.3. Banking & Payment Systems
4.1. Monetary Policy and International Relations
4.2. Economic Analysis and Research
4.3. Statistics and Data
5.1. Front Office and Treasury
5.2. Back Office and Securiies
5.3. Operations Analysis
6.1. Payment Systems and Security Settlement policy
6.2. Management of Target, Lips-Gross and Lips-Net, Payment Processing
7.1. Human Resources
7.2. Accounting and Budget Control
7.3. Building, Security and Premises

CONCLUSIONS

CONCLUSIONS

It is possible to draw many conclusions and to put many questions on the basis of the brief history of the BCL, the Eurosystem and the ESCB. Here are a few very simple conclusions.

First, the making of the single European monetary policy has now been entrusted to the Eurosystem composed of the ECB and the NCBs of the Member States of the EU which have adopted the euro - the others having a special status. The operational aspects of the Eurosystem are decentralised, and the BCL and the NCBs of the other participating countries are responsible for them.

The relationship between the ECB and the BCL and the other NCBs is a complex one. The Eurosystem is responsible for the definition and implementation of monetary policy. In the Governing Council of the ECB, which is the principal decision-making body of the Eurosystem, the Governors of the NCBs, who sit in a personal capacity, take part alongside the members of the Executive Board.

The work of the various sectoral committees and working groups of the ESCB provides an opportunity for staff members of the BCL and other NCBs to make an input into the decision-preparing process of the Eurosystem.

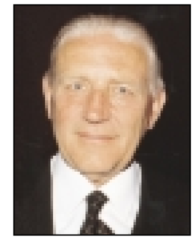
Perhaps the most interesting conclusion to be drawn from the experience of the Eurosystem is that it represents the most integrationist step yet taken by the Member States of the EU. The governments have taken the historic step of handing over their power of policy-making concerning monetary policy to a supranational institution. In the legislative domain it is the Council - the member governments in another form - which takes decisions on Commission proposals, sometimes together with the European Parliament. Within EMU, monetary policy and its definition are the responsibility of the Eurosystem. It is independant but actively pursues cooperation with the other institutions of the European Union . It is a cause for surprise that an integrative approach has been applied in the case of such a sensitive and significant field as that of monetary policy. If the taboos of national sovereignty can be broken, successfully, in the case of monetary policy might not the single monetary policy provide some kind of a precedent, in the years to come, for integration in other sensitive areas such as, for instance, foreign policy or defence?

PART III

A MAN AND HIS VISION:

PIERRE WERNER
AND HIS REPORT

A MAN AND HIS VISION: PIERRE WERNER AND HIS REPORT



“During my university studies, in the middle of the 1930s, I developed a passion for monetary theory and followed the courses given by outstanding experts such as Charles Rist, Jacques Rueff and others. No thought of becoming rich tainted this fixation. I came to learn how the monetary behaviour of states affected the economic and social aspects of life in general and more particularly the distribution of wealth between nations and individuals. I meant to penetrate the secret workings of this machinery. I was not discouraged by the abstract nature of monetary theories. My efforts could have seemed useless with little likelihood of practical consequences in view of the tightly corseted monetary system of the Grand Duchy.

Nonetheless when I became a part-time official at the Ministry of Finance in the autumn of 1944, the problems I had to deal with fascinated me in the context of the knowledge I had acquired. I have continued to deal with these problems throughout my administrative and political career.”

Pierre Werner[1]

Pierre Werner is one of those who most deserve credit for the creation of Economic and Monetary Union and of the euro. Others, including Richard Coudenhove-Kalergi and Jean Monnet, had a similar vision, but Pierre Werner was the one statesman with governmental responsibilities who took this vision and had the mandate and the authority to place it before the governments, institutions and peoples of Europe, to make it acceptable and to put it on the road to what was to become - thanks to the work of Jacques Delors and others - reality. The achievement of EMU was due to many heads and many hands but the underlying vision, as expressed in his report of October 1970 addressed to the Presidents of the Council and the Commission of the European Communities, was that of Pierre Werner’s Group[2].

[1] Paul Margue and Marie-Paule Jungblut, Le Luxembourg et sa monnaie, L’Institut Monétaire Luxembourgeois, 1990.
[2] The members of the Group were: P. WERNER, assisted by J. SCHMITZ; BARON ANSIAUX, assisted by J. MERTENS DE WILMARS; G. BROUWERS, assisted by A. JOOIJEN; B. CLAPPIER, assisted by J.-M. BLOCH-LAINE; U. MOSCA, assisted by J.-C. MOREL; J.-B. SCHÖLLHORN, assisted by H. TIETMEYER; G. STAMMATI, assisted by S. PALUMBO. Secretary: G. MORELLI.

Pierre Werner was born on 29 December 1913 at Saint-André, near Lille in France, of Luxembourgish parents. He went to school in Luxembourg and later studied law at the University of Paris. In 1938 he obtained his law doctorate and began his career as a lawyer. After a short while he was recruited by the Banque Générale for which he worked during the war years. In 1939 he married Henriette Pescatore by whom he had three sons and two daughters. She died in 1984. At the end of the war M. Werner was appointed to a part-time position in the Ministry of Finance and in 1945 - having gained the confidence of Pierre Dupong, then Minister of Finance, and having drafted a report for the Government on the problems of banking surveillance - he was named to the newly created post of Commissioner for Banking Surveillance. From 1949 he combined that task with that of Adviser to the Government. In these two positions he was concerned with the organisation of Banking Surveillance, the credit market and international financial co-operation - specially with respect to the IMF, the World Bank and Benelux.

On 29 December 1953, six days after the death of Pierre Dupong, Pierre Werner was appointed Minister of Finance. Between 1954 and 1974 he held numerous ministerial appointments, including those of Prime Minister, Foreign Minister and Finance Minister. M. Werner was Prime Minister again from 1979 to 1984.

Pierre Werner's determination to see an Economic and Monetary Union put in place alongside the European Communities as a step towards not only monetary integration but also towards ever closer union in the economic and political spheres came from his realisation that nothing else could provide Europe with the economic stability that it needed but which it lacked. Recent history had taught him that the beggar-my-neighbour devaluations of the 1930s led to inflation, unemployment and social and political chaos. He understood fully what the changes in monetary systems that Luxembourg had known in 1921, 1940 and 1945 had meant for Luxembourg's economy. M. Werner had seen and approved the strengthening of the world monetary order in the form of the Bretton Woods agreements, based on gold and the dollar, which led to the creation of the IMF and the World Bank, and he admired also the resolute American leadership, in the form of the Marshall Plan initiative, which enabled Europe to achieve post-war economic recovery, with the European Payments Union in particular contributing to monetary stability. Finally, he welcomed the new ideas of those such as Robert Triffin or the members of Jean Monnet's Action Committee for a United States of Europe concerning European monetary solidarity.

It was on 21 November 1960 that Pierre Werner gave a lecture in Strasbourg, to the Bas-Rhin Chamber of Commerce and Industry, in which he opened his personal campaign for European monetary integration. Public attention was attracted, in particular, by his idea of using a European unit of account - to be known as "Euror" - in public and private business alike.

In October 1962 the Commission submitted its memorandum on an action programme for the second stage of the Common Market including a chapter on monetary relations. In meetings of the Finance Ministers it was M. Werner alone who supported the Commission's proposal that, after the transitional period, it would be necessary to move to fixed exchange rates, with small margins of fluctuation, since any major changes could endanger the efficient operation of the Common Market itself.

One month later Pierre Werner proposed, in a lecture given at the Cercle Royal Gaulois, in Brussels, the creation of a Community Monetary Institute which would direct and implement a common monetary policy. This idea was well received by the public but for official circles he was a man preaching in the desert, and the most eminent monetary experts turned a deaf ear to his proposals. For his part, Pierre Werner remained struck by the imbalance between the ambition of the Rome Treaty to achieve free movement of persons and goods and its insufficient emphasis on monetary harmonisation - an imbalance that created unequal economic opportunities.

M. Werner returned to the attack on 24 January 1968 when, in the crisis-ridden atmosphere engendered by the devaluation of the pound sterling, and other monetary disorders, he addressed a "Euroforum" organised by the CDU at Saarbrücken. In his speech, which received wide publicity, he set out a monetary action programme, which included the definition of the unit of account, the organisation of balance of payments support and the development of monetary co-operation. Shortly afterwards he developed these ideas further at a meeting of the Finance Ministers at Rotterdam.

At the end of 1969 the European situation deteriorated, with France and Germany failing to reach agreement on parities, the French refusing to devalue and the Germans to revalue. The Commission reacted by publishing the "Barre Plan"[1] on 12 February 1969. This text nudged Community thinking into a new direction, most specifically by proposing the creation of a mechanism which could provide short-term monetary support and medium-term balance of payments support.

Pierre Werner approved the general thrust of the Commission's memorandum, but he did set out some detailed comments and criticisms in the monthly newsletter of the Dutch branch of the European Movement. He stressed, in particular, that credit lines should not be provided automatically to a government in need of aid from its partners since that could provide too easy a solution, thus discouraging the country concerned from taking effective corrective measures. He also expressed his preference for a Community mechanism that would limit the margins of fluctuation in exchange rates rather than resorting to a system of free floating. But no new monetary mechanisms were in place within the Community when the French franc was devalued by 11.1% on 8 August 1969 and when the German mark was revalued by 9.3% on 24 October 1969.

In this disturbed and disturbing state of affairs the goal of EMU was first set out at a meeting of the Heads of State or of Government at The Hague on 2 and 3 December 1969 with 1980 being set as the target date for its achievement. A number of governments then made their own detailed proposals concerning the creation of an Economic and Monetary Union, among them the Belgian, German and Luxembourg Governments, in January and February 1970. The Commission presented its own plan on 4 March. The governmental plans were discussed at a meeting of the Ministers of Finance

[1] Memorandum on the coordination of economic policies and monetary coordination in the Community. Raymond Barre, after whom the plan was named, was then Vice-President of the Commission.

held in Paris on 24 February. The author of the Luxembourg plan was M. Werner and in it he developed the ideas he had expounded in his Saarbrücken speech of January 1968. He recommended a step-by-step approach to EMU, with seven stages to be completed over a seven-to-ten-year period, leaving the sequence of the stages to be determined according to the circumstances.

Underlying these plans there were two distinct approaches. One, the thesis of the "Economists", advocated by the German Government, was that monetary union could be achieved only after convergence in economic and budgetary policies. The German Government also argued that majority voting should apply in meetings of the Finance Ministers concerning monetary matters, but such a transfer of national sovereignty to a European body was unacceptable to the French Government. The other thesis, that of the "Monetarists", backed by the French Government, was that there had to be a rapid freezing of exchange rates. Once that had been achieved convergence of member states' economies would ensue.

It was perhaps the existence of such differences that led the member states to decide, at The Hague Summit of 3 and 4 December 1969, to set up a Working Party under the chairmanship of Pierre Werner, then Prime Minister of Luxembourg, which was instructed to submit a global report covering all aspects of the measures that were required to achieve full Economic and Monetary Union after a series of intermediate stages[1]. The Working Party started its labours on 20 March 1970.

After five meetings, marked by fierce confrontations between "Economists" and "Monetarists", the Working Party completed an interim report, which was sent to the Ministers of Finance and the Presidents of the Council and the Commission on 22 May. On 9 June the Council gave the green light to the Working Party to conclude its work on the basis of the interim report.

After ten more meetings the Working Party finished its drafting during the night of 7/8 October and on 15 October Pierre Werner sent its report to the Ministers of Finance in the first instance. These final meetings of the Working Party were devoted to in-depth discussions of the more controversial proposals

[1]The report was to be drafted in view of both the decision of the Heads of State or of Government at The Hague, of December 1969, and of the mandate given to the Working Party by the Council on 6 March 1970.

made in the interim report. M. Werner's aim was to reach compromises on the points at issue and thus to enable the Working Party to attain consensus on the contents and recommendations of the report as a whole. In this aim he was successful. The Werner Report achieved a delicate balance between the competing preferences of "Economists" and "Monetarists". The Report proposed a three-stage move to full EMU in the period between 1971 and 1980. Whereas the first stage would ensure that the economic infrastructure was appropriate and could prepare the ground for institutional progress, the second stage would build on the economic and institutional developments of the first, leading in the third stage to the irrevocable fixing of exchange rates and possibly the adoption of a single currency. A strong preference was expressed for the adoption of a single currency as opposed to the maintenance of national currencies though a move to a single currency was not considered to be absolutely essential. A progressive narrowing of currency fluctuation margins was foreseen. During the first and second stages the economic policies of the member states would be increasingly closely co-ordinated so as to promote convergence. Institutionally, the creation of a Community System of Central Banks - to replace the Committee of Central Bank Governors - was proposed and, also in the second stage, that of a European Monetary Co-operation Fund to manage a proportion of the reserves of member states and to intervene to provide balance of payments support required by weaker economies. An "economic policy decision-making centre" would be responsible for co-ordinating macro-economic policy in co-operation with the Community System of Central Banks. The Werner Report suggested that there should be an especially important general co-ordinating role for the Committee of Governors of Central Banks, or its successor body, in the general context of moves towards EMU. Although the Report did not suggest the creation of a European Central Bank as such, its proposals to establish an "economic policy decision-making centre" and to give an increased role to the Committee of Governors of Central Banks were moves in the direction of the establishment of such a body, particularly in view of the proposal that the "economic policy decision-making centre" would be responsible for modifying the exchange rates of the single currency or those of the basket of national currencies, thus foreshadowing one of the roles of the European Central Bank.

It should not be forgotten that the Werner Report made a number of ambitious comments and proposals that went beyond the strict limits of EMU. Thus, in general terms, the Report pointed out that the transfer of responsibilities from national to Community bodies and the creation of new Community bodies represented “ a profoundly significant political process which would involve the progressive development of political co-operation. EMU thus appears as a seedbed for the development of that political union by which it must, in the long-term, be accompanied.” More specifically, it suggested that the preliminary draft budgets of the member states should be examined at a Community level, by the Council, before each individual government finalised its draft budget. Further, it proposed that national budgetary procedures should be synchronised. These ideas were meant to ensure that the budgetary policies of the member states were drawn up in the light of the objectives of the European Community. The Report also made wide-ranging proposals concerning capital markets, regional and structural policy and, stargazing, pointed to the possibility of some degree of fiscal harmonisation.

From October 1970 the Werner Report was the benchmark for all discussion of EMU. But although most member states were sympathetic to the aims and proposals of the Report, the French Government was not prepared to accept more than cautious and evolutionary institutional consolidation since it could not agree to the overt transfer of monetary sovereignty from the national to the European level. As a result of the differences of approach between France and its partners the Ecofin Council could only agree, in March 1971, on achieving EMU “during the coming decade” by stages - only the first of which was defined in any detail.

The turbulent economic climate of the early 1970s prevented much real progress being made in implementing the Werner Report. The unilateral revaluation of the German mark took place in May 1971, the coming into being of the Snake, planned for June, had to be postponed, and in August the dollar became a floating currency and the whole Bretton Woods system collapsed. There ensued the worldwide recession triggered by the first oil crisis of 1973-1974. Thus although the Werner Report opened the way, the achievement of EMU was delayed for three decades during which only piecemeal progress was made. However, in 1979 the European Monetary System (EMS) entered into force. It had been proposed jointly by Valéry Giscard d'Estaing, President of the French Republic, and Helmut Schmidt, the German Chancellor. The EMS was intended to create "a zone of monetary stability in Europe". The EMS had three main features: an exchange-rate mechanism open to all members of the System, though not obligatory; credit facilities between the NCBs of member states; and its unit of account, called the ECU (European Currency Unit). The EMS incorporated the monetary Snake, in which five countries took part on a regular basis. It was not until 1989 with the publication of the report by Jacques Delors, President of the Commission, that the next major step towards EMU was taken, a step which was to lead to an Intergovernmental Conference on EMU and, eventually, to the signature of the Maastricht Treaty in February 1992 which in its turn gave form to the dream of Monetary Union by detailing the second and third stages of EMU - the first having started in 1990.

Since progress towards EMU has been based largely on the blueprints contained in the Werner and Delors Reports, it might be of interest to compare some of their salient features. First, the Werner Report enjoys the historical precedence of having been, in 1970, the first fully worked out official plan for achieving EMU. Of the proposals made in the Werner Report only a small number were implemented, but these were significant. The European Monetary Co-operation Fund was set up (to be replaced by the European Monetary Institute in 1994), mechanisms for closer co-operation between central banks were agreed, and a new exchange rate arrangement, the Snake, came into being in 1972. In 1974 the Council took a decision on the attainment of a high degree of convergence and adopted a Directive on stability, growth and full employment.

Nineteen years after the Werner Report, the Delors report followed in April 1989. From the point of view of its timing it enjoyed the advantage over the Werner Report of there being, in 1989, a more general awareness of the need to move to EMU. But if the French Government had emasculated the Werner Report, the British Government attempted, in its turn, to denature the Delors Report.

As concerns a single currency, the Werner Report, while expressing its preference for a single currency left open the option between that solution and that of the irrevocable fixing of exchange rates. The Werner Report did, nonetheless, express its desire, "for psychological and political reasons" to move to a "single currency which would affirm the irrevocability of the enterprise". The Delors Report went one small but significant step further in stating, rather more definitely, that " the replacement of national currencies by a single currency should take place as soon as possible after the locking of parities."

Regarding the creation of a European Central Bank, the Werner Report proposed reconstituting the Committee of Central Bank Governors as a "Community System of Central Banks" with the task of co-ordinating monetary and exchange-rate policy. The Report suggested that this system could be modelled on the American Federal Reserve System. The authors of the Report also proposed that macro-economic policy should be co-ordinated by an "economic policy decision-making centre" responsible to the European Parliament. That was as close to an ECB that M. Werner's Working Party got. The Delors Report did not mention a European Central Bank as such but it did mention a "central institution" and the idea was implicit - indeed 99 % implicit - in the following passage : "Considering the political structure of the Community and the advantages of making existing central banks part of a new system, the domestic and international monetary policy-making of the Community should be organised in a federal form, in what might be called a European System of Central Banks (ESCB). This new System would have to be given the full status of an autonomous Community institution. It would operate in accordance with the provisions of the Treaty, and could consist of a central institution (with its own balance sheet) and the national central banks. At the final stage the ESCB - acting through its Council - would be responsible for formulating and implementing monetary policy as well as managing the Community's exchange rate policy vis-à-vis third currencies. The national central banks would be entrusted with the implementation of policies in conformity with guidelines established by the Council of the ESCB and in accordance with instructions from the central institution."

It is, of course, the words “central institution” that are all important. Paradoxically, however, there is no further mention of the “central institution” in the following paragraphs of the Report which describe the mandate and functions of the ESCB, its policy instruments, its structure, organisation and status.

The third aspect of the Werner and Delors Reports which it seems interesting to note is that both documents proposed stage-by-stage or step-by-step approaches to the completion of EMU. In 1989 Jacques Delors was clearly better placed, from the point of view of timing, than had been Pierre Werner, two decades earlier, to make specific detailed proposals concerning the nature and sequence of the steps to be taken in each stage, though M. Werner’s broad approach of a stage-by-stage move to EMU was echoed by Jacques Delors.

Much of the Delors Report drew on the rich seam of arguments and proposals made by Pierre Werner in 1970, notably as concerned: a single currency, a European System of Central Banks, and a step-by-step path to the completion of European Monetary Union.

The Delors Report redefined both the goals of EMU and the practical measures required to achieve it in the positive political climate of 1989, but the seminal creative thinking had already been carried out in the Working Party chaired by Pierre Werner. It is for this reason that Pierre Werner is known as “the architect of the euro”[1].

[1] The sources for this chapter are:
Author’s interview with Pierre Werner, Luxembourg, 9 July 1999
Pierre Werner, Itinéraires luxembourgeois et européens, Tome I, Editions Saint-Paul, Luxembourg, 1992
Rapport au Conseil et à la Commission concernant la réalisation par étapes de l’Union économique et monétaire dans la Communauté (Werner Report), of 8 October 1970, published in the Journal Officiel des Communautés européennes, 13th year no. C 136, 11 November 1970.
Report on economic and monetary union in the European Community (Delors Report), of the Committee for the Study of Economic and Monetary Union, Commission of the European Communities, Brussels, April 1989
Paul Margue and Marie-Paule Jungblut, Le Luxembourg et sa monnaie, Institut Monétaire Luxembourgeois, 1990

PART IV

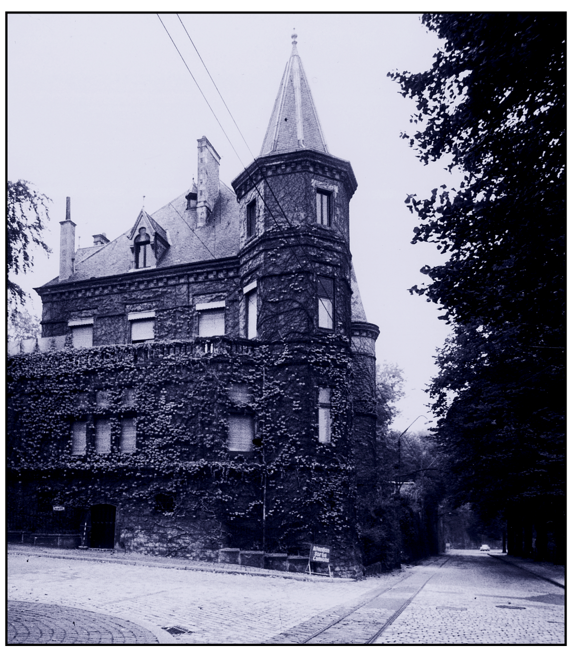
A HOUSE AND ITS HISTORY

A HOUSE AND ITS HISTORY[1]

The offices of the BCL are emplaced on a small plot of land at the corner of the Boulevard Royal and the Côte d'Eich in the city of Luxembourg.

From this site, which was once a sunken garden of the former fortress, there is a view across the sharply contoured valley of the river Alzette to the Kirchberg Plateau, home of the European institutions. What we can see today is the principal building of the bank, whose main frontage gives on to the Boulevard Royal, together with a modern annex. The main building was previously the seat of the Banque Internationale à Luxembourg, commonly known as the BIL and now Dexia. It was purchased for what was then the future BCL by its predecessor the Luxembourg Monetary Institute in 1998.

The plot of land on which the bank stands was bought in 1883 by a widow, Madame Charles Gillard, née Collart, for the sum of 18,000 francs. Madame Gillard contracted a second marriage with Baron Jacquinot and the couple sold the property, with a substantial house (the Villa Gillard) they had built, to the BIL on 27 April 1898 for 208,803 francs. From 1891 the villa was let to the



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The Villa Gillard - 1961

Photothèque de la Ville de Luxembourg

[1] All the historical information in this chapter is derived from Une Banque raconte son Histoire, Christian Calmes, Imprimerie St. Paul, Luxembourg, 1981 or correspondence in the archives of the former Banque Internationale à Luxembourg, now Dexia.

French Foreign Ministry and housed the French Legation. The BIL bought the property to be the site of its new headquarters. The architects chosen by the bank to plan their project were Pierre and Paul Funck, the builder Jean Ledrut.

In 1900, after the purchase of the Boulevard Royal site, the BIL set aside two million francs to cover the cost of its new building. On 11 May 1901 the President of the bank's board, Heinrich von Stein, laid the foundation stone. Work proceeded rapidly and the staff moved in to the new location during 1902. The board of directors held its first meeting in the new premises on 10 May 1903. One of the directors, Joseph Wurth, installed himself in lodgings in the main building of the bank while another, Adolphe Turk, lived in the neighbouring Villa Gillard.

Much importance was attached, during the construction of the new offices to practical questions such as the installation of new drains and the provision of points at which deliveries of coal and coke could be made. The correspondence between the bank, on the one side, and the state and town authorities, on the other, is extremely detailed and precise concerning these problems.

One amusing incident in the construction of the building was when Pierre Funck, the bank's chief architect, wrote on 15 May 1902 to the Division des Travaux Publics of the Government to ask for the plans of the Villa Gillard. The Public Works Division replied that "despite the most careful search the plans in question have not been found either in the archives of the Government or in those of the Public Works Division.".[1]

Over the years a number of changes were made to the bank's structure, but from the records it is difficult to tell exactly what happened when. The main alteration came in 1963 when the Villa Gillard, or the Villa Lambert as it had become known during the last years of its existence, was replaced by a functional rectangular building which was required to provide additional office space. This annex has been transformed into a glass structure thus permitting the concentration of the BCL's staff together in one complex. The architect responsible for the transformation is Théo Worré.

[1] "… malgré des recherches minutieuses les plans dont (il) s'agit n'ont (pas) été retrouvés, ni dans les archives du Gouvernement ni dans celles de l'administration des travaux publics."

The effects on the building of the First and Second World Wars were minimal. In 1918 the management decided not to transfer its stocks of precious metals and banknotes elsewhere but to place them for safe keeping in the cellars which were to be strengthened with sandbags. These arrangements were to have been completed by 15 November but on 11 November the armistice intervened.

In 1936 the bank considered how to ensure the safety of its deposits in the event of a war and bombing. One possible solution was to link its cellars with the Casemates - the underground passages and chambers of the former fortress - which would have involved digging a tunnel some twenty metres long. That was rejected. The alternative solution of building a shelter with a three-metre-thick reinforced concrete ceiling remained under study, but when the war broke out nothing had been done.

In 1937 the bank considered selling its seat to the Government which had thought of installing the National Library and the Pescatore Museum in the Boulevard Royal. Had the sale gone through the bank would have transferred its activities to a new central agency in the town centre, which, it was estimated, would have cost four million francs to build. In the event the Government offered only two million francs for the bank's main building and the villa so the bank pursued the idea no further.

The main building of the BCL as we see it now presents a dignified formal frontal façade. In style it owes nothing to art nouveau architecture which had already conquered Brussels, Paris and Vienna by the time this building was begun in 1901. It is, rather, an example of "eclectic" or " historismus" architecture - a style which carried all before it in the last decades of the nineteenth century, especially as concerned town planning, public buildings, banks, insurance companies and large private houses. The buildings on the Ring in Vienna are prime examples of that taste. Historismus was so named because the architectural elements used were drawn from a range of different historical periods or styles. Preferred features were Greek or Roman classical columns, renaissance courtyards, Mansard roofs like those of French châteaux and gothic or renaissance carved stone decoration. Whatever the constituent elements used the aim was almost always the same - to impress. It could be argued that this very eclecticism was a negation of style, a non-style, and indeed there was a time when people dismissed this kind of architecture as "nineteenth century" and therefore valueless. Times have changed and we can see now that the very heterogeneity of historismus, its magpie character, was a style in itself and one that could be handled in more or less vulgar, opulent, refined or sober ways.

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The Old Building - 1947
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The bank's front elevation consists of two principal floors surmounted by an attic floor and supported by a half-floor in the form of a basement. The two main floors and the roof each display nine windows, symmetrically disposed, The central section projects slightly and on its ground floor there is an arched entrance instead of a window. The central windows on the first and attic floors are larger than the other ones, stressing the importance of the entrance. At the left and right of the façade there are further slight projections, which continue round the corners, giving something of a towerlike effect. The symmetry of the window arrangement is relieved by the placing of balconies on these semi-towers.

These balconies help, also, to provide some element of horizontal balance to the vertical thrust of the windows and the entrance and the corner "towers", a verticality that is prolonged by the steeply rising roof sections and by the sharply pronounced projecting roof windows.

The material used is a pleasant light brown stone, while slate is used for the roofing. Decorative elements in the stonework include the timid rustication of the stone blocks used in the semi-basement, the lower surface of the cornice, and the carved frieze which acts as a dividing line between the roof and the façade. Other decorative elements include two pairs of free-standing pillars in the main entrance, two pairs of columns that flank the central first-floor balcony and the pair of pilasters that flank the main first - floor windows over the side balconies. The central entrance is approached by six steps of dark grey stone.

Taking the main ingredients that make up this historismus pudding, we find the basic appearance of a traditional French château - symmetrical window arrangement and Mansard roof - with a dash of Italian renaissance in the rustication of the lower stonework and some Italian renaissance decorative elements - the pillars and pilasters and the cornice and the frieze. But if this is historismus it is not opulent or vulgar but sober.

The side elevations of the bank echo, to some extent, the main façade and incorporate some of its principal features though they do not share its symmetry and balance. Thus the disposition of the windows on the Avenue Pescatore frontage is irregular, with three rows of windows in the centre - representing three clearly visible floors - with two only at each end, in the towerlike

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Pierre Werner Building

corners. Towards the main façade the roof windows are traditional Mansard ones, harmonising with those towards the Boulevard, those to the left or rear of the building being modern. The Côte d'Eich elevation is obscured by a new glass-clad construction which replaced the former cubic annex built in 1963.

The rear elevation has largely conserved its original character, apart from the roof. It is simpler than the Boulevard Royal façade and the stylistic elements are less mixed. So a sober pale brown stone frontage is relieved by a shallow central projecting section showing three large windows on each of the ground and first floors. On the ground floor the central window is flanked by two plain pilasters whereas on the first floor a pair of fluted pilasters flank the window. To each side, four simple windows are arranged in severe straight lines on both the ground and first floors. Below, this façade is underpinned by a semi-floor of lightly rusticated blocks - the upper part of the basement. The roof of the rear elevation is modern. It is made of slates and rises steeply to provide room for offices. Some very simple decorative stone lines, raised in bas relief, help to soften the severity of the overall design of this frontage.

The bank's interior boasts two features of interest, the monumental staircase and the central hall. At the centre of the Boulevard Royal frontage a very shallow entrance hall, really no more than a doorway, leads to a flight of ten stone steps, flanked by panels of veined dark grey marble, which double back on each side mounting upwards, forming parallel stairs, of fourteen steps apiece to double back once more into a final single flight of fourteen steps rising up to the first floor. The inner edges of the second and third flights of stairs consist of handsomely designed brass banisters. Both the metalwork and the grey marble are typical of the art deco[1] style, which flourished throughout Europe in the late 1920s and 1930s. The large window, set over the staircase, is, also, a fine example of art deco design. From the top of the staircase corridors lead, on either side, towards offices.

Beyond the steps leading from the bank's front entrance lies the central hall; formerly this was where clients came to conduct business at the cash counters. In its present form, stripped of the counters, we discover a large, spacious rectangular hall longer than it is broad and with champfered corners. Natural overhead lighting is provided through square glass panels in the wooden

[1] Named after the Exposition des Arts Décoratifs held in Paris in 1925.

ceiling. The walls of the hall are formed by a series of veined white marble pilasters, six on each of the longer sides, running from floor to ceiling, and four at the front and rear ends. In between the pilasters the former cash counters, with their metal grilles, have been blocked in by wooden panels, which are due to be replaced by glass ones.

Above the panels, towards the ceiling, coloured glass windows with art deco motifs, separate the pilasters. Nearly halfway up each pilaster there is placed an open cup-formed lamp, projecting its light upwards.

A decorative metal strip runs downwards, under every lamp, towards the base of each pilaster. At the hall's champfered corners, over the doorways, and at the front entrance end, there is some dark green marble cladding. The floor is lined with veined white marble, edged by two bands of dark green marble. Although the stylistic effect of the hall is art deco it seems that its present form is due, at least in part, to relatively recent decorative modifications.

The central hall and the monumental staircase form an impressive central core to the building. Appropriately for a bank this core has a temple-like or almost sacramental character: "Praise ye the god of gold. Praise ye the god of silver. Praise ye the god of brass. Praise ye the gods!" (Book of Daniel)

ACRONYMS

BCL	Banque centrale du Luxembourg
BIL	Banque Internationale à Luxembourg
BIS	Bank for International Settlements
CDU	Christian Democratic Union
ECB	European Central Bank
ECOFIN	Council of Economics and Finance Ministers
EEC	European Economic Community
EMI	European Monetary Institute
EMS	European Monetary System
EMU	Economic and Monetary Union
ESCB	European System of Central Banks
EU	European Union
IMF	International Monetary Fund
IML	Institut Monétaire Luxembourgeois
LIPS-Gross	Luxembourg Interbank Payment System - Gross Settlement System
LIPS-Net	Luxembourg Interbank Payment System - Net Settlement System
NCB	National Central Bank
OECD	Organisation for Economic Co-operation and Development
RTGS	Real-Time gross settlement
TARGET	Trans-European Automated Real-Time Gross settlement Express Transfer system

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NOTES