Introduction

Global Monetary Order: 1992 and Beyond

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> Most economists recognize the mutual incompatibility of fixed exchange rates as maintained under the current European Monetary System (EMS), free capital mobility as sought by the single-market objective, and national monetary sovereignty. The EEC [European Economic Community] will face a choice: sacrifice one of these three to protect the other two.
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> —W. Lee Hoskins (1989, p. 1)

Monetary Stability in an Integrated World Economy

Most of the papers in this volume were first presented at the Cato Institute's eighth annual monetary conference, "Global Monetary Order: 1992 and Beyond," which was cosponsored with the Institute of Economic Affairs in London, February 22–23, 1990. By carefully considering the central issues facing policymakers in the creation of a single European market, the contributors to this volume shed further light on the consequences of alternative monetary regimes and help determine the conditions necessary for achieving global monetary order.

The movement toward a single European market is part of an ongoing globalization of money, commerce, and finance. A number of key issues are raised by the globalization process, one of the most important being how to achieve monetary stability in an integrated world economy. With the dismantling of capital controls and the liberalization of trade in Europe by the end of 1992, Europeans will

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have to decide on the future shape of their monetary institutions and exchange rate regime.

The present European Monetary System, in which members tie their currencies to the D-mark but make periodic adjustments, will not be viable once all capital controls are lifted. Europe will have to decide whether it wants to follow the Delors blueprint for a common currency and a European central bank or whether it wants to take a more liberal approach and let competition among national (and private?) currencies determine the best money (or moneys) for Europe.

In theory, monetary stability could be achieved by having a single currency for Europe controlled by a European central bank. But, in practice, a super-national central bank is unlikely to be any more successful than national central banks in bringing about stable money. Public choice theory points to the inherent instability of discretionary monetary (and fiscal) regimes, and gives one little confidence in leaving the fate of money and markets to nation states, let alone to international organizations—whether in Brussels or Washington. (Should greater credence be given to a European central bank than to the Federal Reserve System? Should we trust bureaucrats in Brussels more than those in Washington?)

As long as the monetary authority has discretionary power over a fiat money, one should not expect long-run price stability. The relevant question is, can we do better by moving to an alternative monetary regime? If we are to answer this question, it is necessary to consider the possibility of adopting a monetary constitution for Europe—one that would liberalize money by constraining the monetary powers of government.

A Monetary Constitution

The choice of a monetary constitution implies a choice among possible monetary rules, of which there are many. Europe could adopt a real gold standard with fixed exchange rates; it could move to freely floating exchange rates and let market forces—plus a selected rule such as a price rule, a nominal demand rule, or a money growth rule—discipline national monetary authorities; it could develop a new currency defined in terms of a commodity bundle and provide for convertibility on demand; or it could allow the evolution of whatever monetary institutions the people of Europe freely choose.

Whatever choice is finally made, it is important to first consider the implications of the various monetary regimes. The tunnel vision that characterizes the Delors Report's approach to monetary unification blocks out competing visions that are more consistent with the European cultural diversity and freedom of choice that are supposed to characterize the new European order.

Experience has taught us to be wary of government power; it has also taught us that without constitutional constraints, the state is almost sure to grow in ways that undermine individual sovereignty—not the less so by debasing the value of money and interfering with the free-market process. Another key issue discussed in this volume, therefore, is how to implement and maintain an economic constitution that will provide for the liberalization of money and markets.

Competing Visions of the Unification Process

The planning mentality that characterizes much of the Delors Report assumes that coordination and order can be generated only from the center, a view that conflicts with the liberal vision of a spontaneous market order arising from the voluntary decisions of individuals within a system of private property and a rule of law. These two visions—one of a planned European order and the other of an unplanned, spontaneous order—underlie the current debate over the future of European economic and monetary unification. If power is lodged in Brussels and European policy coordination is directed from the center, then European unity of the Delors variety will limit the policy competition and spontaneous coordination that could otherwise occur through voluntary agreements. Thus, at the heart of the discussion over the economic and monetary unification of Europe is the question of the role of government in a free society.

Whether Europe emerges as a freer, more liberal, *economic* system will depend in large part on the *politics* of unification. If the political process leads to a new constitution of liberty for Europe—so that individuals will be free to choose where to trade, invest, and work, and what money to use as a medium of exchange—then Europe will prosper along with its trading partners. But if politics as usual dominates, then a fortress Europe could emerge with a new bureaucracy, and possibly a powerful, discretionary European central bank. In this case, neither Europe nor the world are likely to benefit from the unification process.

Reference

Hoskins, W. Lee. "A Market-Based View of European Monetary Union." Federal Reserve Bank of Cleveland *Economic Commentary*, 1 April 1989.