

# At the crossroads: the euro and its central bank guardian (and saviour?)

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## Abstract

This paper investigates the role of the European Central Bank (ECB) in the (mal)functioning of Europe's Economic and Monetary Union (EMU), focusing on the German intellectual and historical traditions behind the euro policy regime and its central bank guardian. The analysis contrasts Keynes's chartalist conception of money and central banking with the peculiar post-World War II German traditions nourished by the Bundesbank and based on a fear of fiscal dominance. Keynes viewed the central bank as an instrument of the state, controlling the financial system and wider economy but ultimately an integral part of, and controlled by, the state. In contrast, the 'Maastricht (EMU) regime' (of German design) positions the central bank as controlling the state. Essentially, the national success of the Bundesbank model in pre-EMU times has left Europe stuck with a policy regime that is wholly unsuitable for the area as a whole. But regime reform is complicated by severely unbalanced competitiveness positions and debt-overhang legacies. Refocusing the ECB on growth and price stability would have to be a part of any solution, as would refocusing area-wide fiscal policy on growth and investment.

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