

Welcome remarks

Workshop on Writing Central Bank and Monetary History arranged by Norges Bank and The Graduate Institute in Geneva.

Dear participants,

It is a great pleasure for me to welcome you all to this international workshop on *Writing Central Bank and Monetary History*, sponsored by Norges Bank's Bicentenary Project. It is an honour for Norges Bank and the Graduate Institute here in Geneva to host a workshop with participation from such a prominent group of international experts in central banking and monetary history.

Norges Bank's Bicentenary Project was initiated in order to mark Norges Bank's two hundred years of existence in 2016. But why did Norges Bank take the initiative to arrange a series of workshops here in Geneva? In short, why are we here? To answer this question we first have to go back in time to the birth of Norges Bank right after the Napoleonic Wars. Six laws about the Norwegian monetary system laid the framework for the establishment of Norges Bank. The Norwegian Constitution of 17 May 1814 specified that the Storting (Norwegian parliament) should oversee the monetary system but made no explicit reference to a central bank. The Constitution was amended in November 1814 after Sweden showed some military muscle to enforce the Treaty of Kiel. The amended Constitution was in place on 4 November 1814, and the main changes reflected the fact that Norway had entered a loose union with Sweden under a common monarch. A change, often overlooked, was that a new paragraph has been added which explicitly stated that Norway should have its own bank and monetary system, both under the auspices of the parliament. Hence the Norwegian parliament preserved an independent legal authority to decide on Norway's monetary system and institutions in the union with Sweden.

Since then, Norges Bank has evolved, as have central banks worldwide, in the face of shifting paradigms, crises and often in tandem with international developments. Norges Bank has throughout its existence pursued objectives similar to those of most other central banks, primarily the twin goals of *price stability* and *financial stability*. But the role of the central bank and its activities has changed over time. Today, the central bank pursues price stability by determining and implementing a path for short-term interest rates with view to maintaining a low and stable rate of inflation over time. Under the gold standard, or prior to that the silver standard, the central bank pursued price stability by guarding the convertibility of paper notes on demand into gold or silver, ensuring that the money supply, and hence the price level, would not vary much. It was taken for granted that financial stability was a major concern and responsibility of the central bank and preserving it implied concerns for upholding the payment system.

Let us, as an alternative, consider the different functions of central banks. Firstly, central banks were typically chartered with a role in supporting a state's financing needs as the designated *banker for the government*. In that pursuit, the central bank had to reconcile the government's desire for cheap finance with the demands of holders of government debt to receive their promised value. Secondly, central banks would also, in many cases provide

credit to the general public, alone or in competition with private banks. Central banks were banks of issue, often with a chartered monopoly, and were responsible for maintaining convertibility of their notes (which were gradually granted the status of legal tender) into metal (silver or gold). However, during the course of years central banks would become specialised as the *banker of private banks*, facilitating transactions between banks, and their role as a direct credit provider to the general public would subsequently be scaled down to a minimum. Central banks' interconnectedness with correspondent banks and their large reserves enabled them to take on a key role in the clearing system. During financial crises these factors allowed central banks to act as lender of last resort and provider of short-term liquidity to the banking system. During financial crises central banks have also expanded into new territories as the market maker of last resort, typically when credit markets are in disarray. The balance between the different central bank functions has also changed over time. While the functions for private banks have been upheld, the central bank's functions as banker for the government have typically been toned down.

From a historical perspective, the dominating concern for central banks has typically varied between normal times (price stability) and extraordinary times (financial stability). What seems to draw the most interest today, in light of the recent financial crisis, is indeed this shifting balance between price stability and financial stability. The future role of central banks is again on the top of the agenda. Are we actually entering a new epoch? Charles Goodhart identified three epochs during which the interpretation of central banks' role was stable; the Victorian era (the 1840s to 1914); the decades of government control (the 1930s to 1960s); and the triumph of the markets (the 1980s to 2007). Following the financial crisis we now face the challenge of finding appropriate ways to implement macroprudential policy and supervision, and jointly, to find the right balance between the responsibilities of central banks, financial supervisory authorities and ministries of finance.

Four years ago we met (at least some of us) here in Geneva at a workshop in October 2008. We outlined the ambitious targets we had set for Norges Bank's Bicentenary Project. Earlier anniversaries had usually given birth to a book, written in Norwegian, by a former governor, focusing on Norway's own economic history. We stated here four years ago and reiterate today: this time is indeed different.

This time we want our history to be written by academic experts, and we have underlined the need for a strong international perspective. Firstly, for the obvious reason that we want to achieve a high degree of objectivity, but also for benchmarking purposes. Central banking in a national perspective is a lonely business. It is easy to become a national champion. So we are meeting in Geneva, and not in Oslo, to underline the international aspect of central banking and writing central bank history. Another reason for the international dimension is that in substance central banking has indeed always been an international activity, with its inherent links to the international monetary system. Developments in one country can come before, at the same time or after those of other countries, but it is always a part of an international development. The financial crisis had its roots in the US but quickly engulfed the world and was met with internationally concerted measures, both at government level and by central banks.

We want to give birth to three high-quality books: *The History of Norges Bank 1816–2016*; *The Monetary History of Norway 1816–2016*; and last but not least a book on central banking viewed from an international historical perspective, *What is a useful Central Bank? Evolution over two centuries*, in the form of a conference volume. All three books will be focused on the same substance: central banking over the past two centuries, but written from different angles. The first book is to be written by economic historians in their tradition. The second book is being written by economists focusing on the economic analysis of the monetary history of Norway, and finally we have the book that attempts to answer the perennial question of what is the role of the central bank today and how that role has evolved over the past two centuries. Norway will only appear in the latter book if we have contributed something special to the evolution.

In addition to the end product, the three books, it was stated at the very beginning of the project that the road towards the end products would also be an end in itself. There are two aspects of this, competence and communication. Firstly, the first phase of the project has produced numerous research publications, in books and journals, ten master theses at Norwegian universities, and two PhD projects which are in progress. Hence, the project has already increased our insights in central banking and monetary history. Secondly, inspired by the Swiss 100-year anniversary project, which we learned about at the 2008 workshop here in Geneva, we have recently published the first version of *Norges Bank's historical time lines* on the internet. We will continue to develop this application, it will be translated into English, and Norges Bank's Bicentenary Project will continue to document high-quality historical data and sources, and supply more long time series and broader data sets.

Before ending my opening remarks, let me elaborate a bit on the third book. This book will be based on contributions to a Norges Bank conference on questions surrounding the role of a central bank from an *evolutionary* perspective. In a world where publications on central banking tend to become outdated very quickly (some, even before they go to press!), this choice will ensure that the value of the book will be resilient to the wearing effect of time. One of the very few publications of the kind which has maintained popularity over the years is the Bank of England's tercentenary volume (edited in 1994 by Forrest Capie, Stanley Fischer, Charles Goodhart and Norbert Schnadt), which precisely adopts an evolutionary perspective.

However, it can be argued that an updated book on the evolution of central banking is of relevance today. Firstly, an additional 20 years give rise to new experiences, insights and perspectives. Secondly, the 1994 book by Capie et al. was centered on the Bank of England. Thirdly, it had a strong focus on the recent evolution of the monetary policy regime to inflation targeting and central bank independence. We believe that there is now room for revisiting the evolutionary aspects of central banking and making a valuable contribution to the literature. Our aim is to have a pre-conference here in Geneva next year and a "real" conference in Oslo in June 2014.

But we are starting already today with this warm-up session for next year's conference. Today's workshop has been divided into four sessions in the following order; monetary policy implementation and money market operations; regional aspects of central banking;

times of war and instability; crisis management. I would like to thank all of you for devoting a share of your valuable time to preparing your contributions to this workshop.

Thank you for your attention.