Competition Policy and Monetary Policy: A Comparative Perspective

Mario Monti

Bern, Switzerland

Sunday, June 25, 2006

Bank for International Settlements
Per Jacobsson Foundation

THE PER JACOBSSON LECTURE

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Bank for International Settlements
Per Jacobsson Foundation
2006

ISSN 0252-3108

Editor: Esha Ray
Composition: Alicia Etchebarne-Bourdin
Cover design and production: IMF Multimedia Services Division

The Per Jacobsson lectures are available on the Internet at www.perjacobsson.org, which also contains further information on the Foundation. Copies of the Per Jacobsson lectures may be acquired without charge from the Secretary.

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Foreword

The first 2006 Per Jacobsson lecture, "Competition Policy and Monetary Policy: A Comparative Perspective" was delivered by Mario Monti, President of Bocconi University, Milan, on Sunday, June 25, 2006. Mr. Monti's presentation was made in the Nationalratssaal of the Swiss Parliament in Bern, Switzerland, in conjunction with the Annual General Meeting of the Bank for International Settlements (BIS) in Basel. Andrew D. Crockett, Chairman of the Per Jacobsson Foundation, and Malcolm D. Knight, General Manager of the BIS, presided over the event, the proceedings of which are presented in this publication.

The Per Jacobsson Foundation was established in 1964 to commemorate the work of Per Jacobsson (1894–1963) as a statesman in international monetary affairs. Per Jacobsson was the third Managing Director of the IMF (1956–63) and had earlier served as the Economic Adviser of the BIS (1931–56).

Opening Remarks

MALCOLM KNIGHT

Ladies and gentlemen, let me welcome all of you to a key event of this weekend, the Per Jacobsson Foundation Lecture to be delivered this morning by our distinguished speaker, Professor Mario Monti.

It is a great honor that we have been permitted to hold this lecture and panel discussion here in the splendid setting of the National Council Chamber of the Swiss Parliament. Just to dispel any misunderstanding: the temporary fences behind which we left our buses have not been placed there for reasons of security. They are there because this historic building will undergo a major renovation in the coming months, starting from tomorrow morning.

The Swiss National Council is made up of 200 elected members, and it represents the voice of the Swiss people. It is therefore most appropriate that the room is dominated by the magnificent fresco behind me, depicting the Rütli meadow in the foreground, representing the cradle of the old Swiss confederacy and the roots of democracy in this country that extend back more than 700 years. In the picture, the Angel of Peace emerges from a cloud and hovers over the meadow. To your right of the picture is a statue of Wilhelm Tell, the legendary Swiss national hero of liberty. I don't need to remind you of the story of his being forced to shoot an apple off his son's head with a crossbow.

The Rütli meadow is situated on the western shore of Lake Lucerne, where in 1291 the people of the three Swiss cantons Uri, Schwyz, and Unterwalden swore an oath—with an eye on their powerful Habsburg neighbors—to stand with each other against anyone trying to oppress them. Perhaps there is an analogy here to the regular meetings of central bank governors in Basel. While central bank governors have not yet been obliged to meet in an open meadow to swear their solidarity and independence from politicians, I hope that the regular discussions and exchanges in the Bank for International Settlements (BIS) Tower in Basel and elsewhere help to reaffirm the shared goals, the cooperation, and the independence of central banks in pursuing their monetary and financial stability policies. The mural behind me reminds us, perhaps, that similar ideals and goals to ours are shared with other domains.

In the spirit of peace and cooperation in confronting the challenges facing the central bank community, it gives me great pleasure to welcome you to this event and also to welcome Mario Monti on behalf of the BIS.

ANDREW CROCKETT

Governors, ladies and gentlemen, good morning and welcome. It is my great pleasure, on behalf of the Per Jacobsson Foundation, to introduce and welcome our lecturer, Mario Monti. I have known Mario for a number of years, and he is well known to you, including through his contributions to monetary economics and, more recently, his work for 10 years as a European Commissioner, with responsibility, first, for the internal market, financial services and financial integration, customs, and taxation (1995–99) and later for competition (1999–2004). Before joining the Commission, he was Professor of Economics and Rector at Bocconi University, where he has been President since 1994. His background clearly makes him the ideal speaker on the subject of his lecture, which is Competition Policy and Monetary Policy. Without more ado, Mario, I will hand over to you.

Competition Policy and Monetary Policy: A Comparative Perspective

MARIO MONTI

Ladies and gentlemen, Governors, I should first say, I am deeply grateful to the Per Jacobsson Foundation and to the BIS for providing me with this opportunity. I am honored to have been invited to deliver this Per Jacobsson Foundation Lecture, and by the presence of so many distinguished guests.

It is, of course, a special privilege to take the floor in this Nationalrat at the heart of the Swiss Confederation, which has been working smoothly as a Confederation for the last 715 years, which is a bit longer than most of our own home countries. And I believe this Parliament is a symbol of democracy, and this Confederation is also a symbol, as one would say today, of subsidiarity.

We honor a man, Per Jacobsson, who was not only a statesman of the international economy as head of the Monetary and Economic Department of the BIS, and subsequently as Managing Director of the IMF, but was also gifted with an outstanding ability to communicate complex issues in a straightforward language and in a lively, persuasive style—a challenging benchmark indeed for those called to deliver lectures in his name, especially if such lectures take place early on a Sunday morning, and are delivered to a distinguished audience who in order to take part decided to indulge in a train excursion very, very early in the morning.

Why have I selected for my remarks the rather unusual topic, "Competition Policy and Monetary Policy: A Comparative Perspective?" For two reasons. There is first an objective reason. Monetary policy and competition policy are two key components of public policies needed for a market economy to function well, and indeed to exist, just as money and the market are two defining elements of such an economy.

The other reason is subjective. In my own professional life, it so happens that I first devoted 25 years as an academic economist to money, as a student of monetary and financial economics, and then 10 years to the market, with policy responsibility for the development of a single market in the European Union (EU), and for the maintenance of competitive conditions in that market. So it occurred to me that in addressing distinguished personalities who have key responsibilities in the handling of national and international monetary affairs, I might reflect on these two policies, money and competition, in a comparative perspective.

I should complete this premise by two brief observations. One, in my education as a monetary economist, I owe a lot to the country that is hosting us this morning. Although I was a student of James Tobin at Yale, I benefited from the strong influence of Karl Brunner of the University of Berne and also Rochester. Beginning in 1972, I attended for a number of years his Konstanz seminars on monetary theory and policy not far from here, and I recognize faces who were key actors when I was a young and naive economist on that mosquito-plagued lake at the end of June each year.

Also, it was with a small group of economists chaired by Karl Brunner that I had the unusual experience in September 1980 of having tea with Prime Minister Thatcher at No. 10 Downing Street and discussing what the Bank of England might—she would have said should—have done differently at the time in order to keep some order in a rather messy monetary situation. Of course, the Governor at the time was not invited to that seminar, in the characteristic No. 10 style of those days.

Apropos independence of central banks, the second and last observation of my premise is that when I was a monetary economist, I devoted my best efforts to asserting the intellectual case for the independence of central banks—particularly, of course, starting close to home since the early 1980s in the case of the Bank of Italy, which I must say at that time was not very keen itself to make the case for a form of independence, and then again in

1993 as a member of Eric Roll's panel pleading the case for the independence of the Bank of England.[1]

As you will soon recognize, I have since lost a lot of confidence in my knowledge of monetary policy, so it is with humility that I approach it, even though it is just one of the two key words in the headline of today's presentation.

My first reflection on monetary policy and competition policy compared is that they both serve in different ways the same objective, or at least they have one objective in common, even though their practitioners may not always realize it, and that is price stability. Monetary policy, of course, has the fight against inflation as its paramount objective. One might ask the question, as a recent BIS paper did, is price stability enough? What are the dimensions of stability to be cultivated by a central bank? Price stability may refer to output prices, or asset prices, and so on, but certainly the objective of some price stability is at the core of monetary policy. Also, competition policy, although it is not primarily designed to achieve this, may indeed make an important contribution to price stability by helping to avoid price increases.

I believe that monetary policies in most countries have been largely successful in recent periods in achieving their objectives, and I believe that in some parts of the world, maybe in Europe specifically, this has been facilitated by a number of positive supply shocks, including the setting in motion of conditions in the real economy of greater flexibility and also the creation of the single market, the tearing down of barriers, and the creation and maintenance of competitive conditions. If we put together the creation of the single market, a number of liberalization initiatives, the enforcement of competition rules, plus, of course, the opening up to greater Chinese and other competition, this is a set of supply shocks that probably has helped the monetary authorities in their difficult task.

In this context, one question also comes to my mind: what about the response to cycles of both policies? For monetary policy there was in the past the ambition of fine-tuning it in order to be precisely countercyclical, but at those Konstanz seminars the early

[1]*Independent and Accountable: A New Mandate for the Bank of England* (London: Centre for Economic Policy Research, 1993).

experience of the Swiss National Bank, looked at very carefully by the Deutsche Bundesbank, suggested to many that maybe it was wiser to adopt a longer time horizon for monetary policy decisions. I believe that this is now established practice, in different ways and modalities, although one could hardly say that monetary policy has completely forgotten the objective, or at least side objective, of trying to moderate the business cycle.

You may be aware that a similar discussion has been going on for a while with regard to competition policy. It comes up and down like the Loch Ness monster, as Professor Tobin used to say about his own Tobin Tax. Because when conditions in the real economy become really tough, generally for specific industries, the voice is always there—that competition policy should for a while become more "reasonable," that enforcement should become less tough.

Take the case of the telecommunications industry in Europe, but not only in Europe, after the bursting of the bubble in the early years of this decade. I was then Competition Commissioner in Brussels, and there were huge pressures from the telecommunications industry to have a sort of a pause in the application of competition rules to that industry—otherwise the industry could suffer too much—and rather daring ideas were coming up to this effect.

Normally, the view of the competition authorities is that it would not be a good idea to insert a cyclical element into the handling of competition policy, precisely because when an industry is in difficulty, if it is an industry characterized by high concentration and incumbents—maybe former monopolists—who still enjoy a dominant position, it is particularly for the (potential or actual) small new entrants that it is difficult to secure financing conditions in those difficult years. And if a competition policy were put in place that was particularly understanding to the needs of the large operators, then it would make entry by potential new entrants even more difficult, leaving as the result a worsening of competitive conditions.

In the financial sector, one way in which monetary and supervisory authorities are linked to competition issues, is, I believe, in their attitudes toward competition. I think it would be fair to say that in most countries, until 15 or 20 years ago—and I want to try to be a bit provocative—monetary authorities had toward competition a similar attitude to the one that you find in business circles; namely, competition is excellent, especially if it concerns the others.

Monetary authorities on average were not particularly keen, and supervisory authorities as well, on having a high degree of competition in the financial sector. But unlike those businesses in the private sector that may not like a high degree of competition in their industries because of their vested interests, in the case of monetary and supervisory authorities, it was because of their belief that if there were overly competitive conditions in place in the financial sector, or even the same degree of competition as in most other sectors of the economy, then the achievement of the public interest objectives of monetary policy and of prudential supervision, financial stability in particular, might be made more difficult.

It is obvious that there is for the financial sector, and each of you knows this better than I do, special justification to look at stability concerns. But of course, if the stability-competition trade-off were too heavily biased in favor of stability, the overall performance of the financial sector in terms of efficiency and the allocation of resources would suffer. And I think it is one of the most interesting developments of the past 15 or 20 years that without renouncing the objectives of price stability and stability of the financial system, monetary and supervisory authorities have implemented monetary policy and supervisory policy in ways that are more compatible with competitive conditions. So in most countries, the time has passed when, for example, monetary policy was largely based on credit ceilings, portfolio constraints, or, in some cases, on central banks openly facilitating cartels among banks. Indeed, monetary authorities have turned, and this is extremely helpful for the overall soundness of competitive conditions, into very strong and authoritative advocates of more competition.

I would like now to say a word on the exercise of the responsibilities of a competition authority in monetary and financial markets. In a number of countries, there are no sectoral exemptions from the competence of the competition authority. Certainly, there are not at the EU level, where competition policy applies equally to all industries in the economy, including the financial industry. No instrument of competition policy is a priori to be left inoperative as regards the financial system. There have been cases where powers against restrictive practices or against cartels have been used: a case in Austria a few years ago comes to my mind. There have been cases where the rules against abuses of dominant positions have been used: a case concerning clearing and settlement comes to my mind here. And, of course, the normal instruments of merger control apply also to mergers between financial institutions.

There are two facets that I would like to underline as regards the interaction between the enforcement of competition policy and the financial services industry. One is specific to Europe, and I am sorry if I have a bit of European bias in my presentation, but I will try to compensate for this in the last few minutes. At any rate, it is not a home bias, as we are speaking about the EU from this Parliament.

One aspect is that at the EU level, but nowhere else in the world, the competition authority has the power and responsibility to control what the governments and the parliaments do in the area of subsidies to companies. This is the control of state aid. You will not find this in the United States or elsewhere, simply because you need a supranational element for a competition authority to be able to tell a government or indeed a parliament, sorry, you cannot do this.

And this state aid control, I want to underline as far as the EU is concerned, also fully applies to financial institutions. Well-known examples here are the actions in which the European Commission recently achieved the elimination of the state guarantees to the German public banks, the Landesbanken and the Sparkassen, or the abolition of certain tax privileges for Italian banks. State aid control will apply also in the case of rescue or restructuring aid, so monetary and supervisory authorities will be well advised to consider that they do not have full room for maneuver in coping with the consequences of a difficulty or an insolvency, because any state aid, also in those circumstances, is subject to scrutiny by the European Commission. One recent complex case, again involving Germany, was the case of the Bankgesellschaft Berlin.

The other observation that I would like to make in relation to government intervention in the markets is not confined to Europe, even though it is in Europe that it may find its greatest manifestation. This is that the competition authorities may find ways to intervene against government-induced restraints on competition, and I know how important this point is considered to be by central bankers when they rightly plead for structural reforms in their economies and the removal of anticompetitive, restrictive regulations.

In the United States, the Federal Trade Commission has started a systematic action to review government-induced restraints on competition, and in Europe, a judgment of the European Court of Justice two–three years ago has underlined that a national competition authority will be empowered to disapply a national law if that law introduces restrictions to competition in violation of the competition articles of the EU Treaty.

The subject of competition enforcement interventions against government behavior of course becomes sensitive and rather topical in the area of cross-border mergers in financial services and in other industries. We have seen in the last year or so in the United States, in Europe, and elsewhere, cases of re-emerging economic nationalism, with government reluctance to accept cross-border takeovers, and attempts by governments to impose obstacles to them. There are limits to what national governments can do, at least in the EU context, because a number of principles are enforced against "golden shares" or other oppositions to cross-border consolidations. Concrete cases—the one of Santander/Champalimaud in 1999, and the one of ABN Amro/Antonveneta of last year in Italy—show that the principles of enforcement are not only on paper but can indeed be applied.

I would like to devote the last few minutes of my remarks to one quote, and two subjects. First, the quote, which is the title of a paper, and I am sorry that I do not have time to go into its contents. It is rather rare for somebody to have been a member of a monetary authority and then change jobs and become part, or, indeed, the head of a competition authority. But this has been the case for John Vickers in the United Kingdom, and I can only recommend the reading of the very enlightening and amusing paper that he published in June 2002 when he was Director General of the Office of Fair Trading, entitled, "The Hedgehog and the Fox in Economic Policy."[2] One of the two is the monetary authority, and the other one is the competition authority. I leave

[2]"The Hedgehog and the Fox in Economic Policy," Oxford Business Alumni Lecture (London: Office of Fair Trading, June 2002).

you to guess who is who in this zoological analogy for two public policy authorities, but it is really an interesting reading comparing the distinctive features of the two policies that we are discussing this morning.

I would rather like to make some reflections on the institutional setup for the decision making of the two policies, because I believe that there are important similarities. First of all, there are genetic or historical similarities. In the EU and the United States, there is a broadly similar model. Within the EU, monetary policy and competition policy have a common historical lineage that is post-war Germany, with the strong influence of the prewar Freiburg School. There the foundations were laid for the social market economy. Two of the key features of these foundations were, in particular, an independent central bank, and competition policy. They came to be embodied in two institutions of Germany, the Bundesbank and the Bundeskartellamt. Both were transplanted into the European model with the Treaty of Rome for competition policy, and then with the Maastricht Treaty for monetary policy. This, by the way, always makes me puzzled when, particularly in France, but also in Germany, one hears these days people—in particular, politicians—refer to the market economy as "ultraliberal" and "Anglo-Saxon." The market economy in Europe was really established by German, with the help of French and Italian, minds, in the Treaty of Rome of 1956, 23 years before the advent of Margaret Thatcher, at the time when the U.K. economy, with all due respect, was not ultraliberal, but may have been called paleosocialist.

Behind this German-made institutional model of a central bank and a competition authority, we find the influence of the United States—its strong, not only intellectual, influence on Germany in the immediate postwar period, and of course, it is not difficult to see the resemblance of the Federal Reserve model in the Bundesbank's DNA, and the resemblance of the U.S. antitrust principles in the origin of the Bundeskartellamt.

A second similarity between monetary policy and competition policy is institutional. In Europe, there are, in fact, not many policy areas where the EU decides in a unitary way and speaks with one voice. As a matter of fact, there are only three such areas, two of them were born in 1957, competition policy and trade policy, and the third, monetary policy in the euro area, was born in 1999. This unitary feature of policymaking is a key prerequisite, among others, for the EU to be respected as an interlocutor in international coordination.

The third similarity between monetary policy and competition policy, at least in Europe, is organizational. What I believe we have seen in Europe is that monetary policy was born national, and then when it was realized that monetary sovereignty nationally consisted only in having a few minutes available each Thursday afternoon to change one's own interest rate after the spokesperson of the German Bundesbank had said what it had decided, then gradually, but not too gradually, it was decided to have a unitary monetary policy in the European Central Bank (ECB).

For competition policies, the process has been the opposite. With the exception of Germany, no other member state of the then-six members of the European Economic Community had in 1957 a national competition policy, so competition policy was created European.

But just as, recently, the European System of Central Banks and the ECB have emerged from national central banks—bottom-up, one could say—in parallel and apparently in contradiction, a deep reform of the architecture of competition policy has been put in place since May 2004 in the EU, and that is a top-down approach. Now for many aspects of community competition policy, the enforcer is no longer Brussels alone, but a European Competition Network with 26 competition authorities—the Commission and the National Competition Authorities.

The fourth similarity is a crucial one, independence, and in different ways it would be interesting to deepen this subject. In Europe, there is independence both for monetary policy and for competition policy, even though this is not always the case for that part of competition policy that is done nationally, not as a result of the devolution that I just mentioned, but as a result of the original national competition laws introduced in the 1970s, 1980s, and 1990s. For example, to be very concrete, there is now a big case going on between Germany and Spain in the energy sector—you might have heard of this—with E.ON trying to acquire Endesa. Now the Spanish government favors the formation of a national champion by authorizing the merger between Gas Natural and Endesa. That merger was not authorized by the competition authority in Spain, but the government overruled the competition authority because it has that power in Spain. Of course, Germany and E.ON are bitterly critical of this. The only thing is that there is the same original sin at the origin of E.ON because a few years ago, when E.ON acquired Ruhrgas, the German competition authority was against, but the German federal government using the powers that it, too, had authorized the merger. Fortunately, legislation in most member states does not provide for this power.

The very last point: I speak to monetary authorities who have the historical credit of having put in place over the decades very, very advanced forms of international cooperation and coordination. The two institutions in which Per Jacobsson was so deeply involved, the BIS and the IMF, are of course the embodiment of this cooperation.

I must say that until not so long ago, there was very little in the parallel area of competition policy. That is why in the last few years, and really having in mind very much international cooperation in the monetary field, competition authorities around the world have tried to make up lost ground and to put in place much more in terms of international coordination. This is so particularly bilaterally between the United States and the EU, but also multilaterally.

Bilaterally, the attention of public opinion may have been captured by those rare exceptions where the authorities in Washington and Brussels did not converge—the two main exceptions being the General Electric/Honeywell merger and the Microsoft case. But in hundreds of also very important cases, the daily cooperation, albeit in two distinct jurisdictions, between the respective competition authorities has allowed a degree of convergent outcomes that is crucial for business, just as it is crucial for consumers around the world that the competition authorities can get together smoothly in the fight against cartels, in dawn-raid inspections, and so on.

Also, because the EU and the United States have worked very well, hand-in-hand, they have been instrumental in creating, very recently, in 2002, the first embryo of a multilateral cooperation and competition policy. We do not have—sorry, I still say "we"— the competition authorities do not have their IMF or BIS, they simply have their newly born but quite promising ICN, the International Competition Network, now embracing some 90 competition agencies from around the world, including the emerging market countries. A lot of pragmatic, soft convergence is going on in an area where it is so important to avoid contradictions among jurisdictions.

So I believe that the two policies, monetary policy and competition policy, should maybe talk a bit more to each other. As I mentioned, in so many things, competition policy has been able to learn from monetary policy. Perhaps some useful inputs could flow also the other way around. And both—this comes to my mind speaking in this House—have a relationship with parliaments. Both are policies that are more independent than other public policies, and rightly so. Both, nevertheless, ultimately are accountable to parliament, not for individual decisions, but for broad policy orientations.

By the way, I forgot to say that decisions of monetary authorities on monetary policy cannot, as far as I know, be object of appeals before a court of justice. And I am not suggesting that they should be. Whereas, this is, of course, the case, as it should be, for decisions of the competition authorities. But the role of parliament is, ultimately, crucial in both cases. I would add that those policies that do not have to rely on parliamentary approvals for their individual decisions have a particularly strong need to keep public opinion on board, also through parliament. Therefore, the advocacy role of the respective authorities for monetary policy and competition policy to keep this consensus is of great importance.

For all these reasons, I believe that “competition policy and monetary policy: a comparative perspective” was an odd subject to propose for this lecture, as one of the panelists candidly said to me. But I believe that from time to time we should be odd, especially if the links between two elements are more deeply rooted than is normally recognized.

Thank you very much for your attention.

Questions and Answers

Following the formal presentation, Mr. Monti took questions from the audience.

ANDREW CROCKETT: Thank you very much, Mario, for a most comprehensive and illuminating address. We have about 15 minutes or so for observations and questions from the audience. I would ask you to raise your hands high enough so that our BIS friends can see them, and I will then call on you.

QUESTIONER: Thank you for that address. When I was head of my country's competition authority, the very first case I had to deal with related to an alleged restrictive trade practice involving the central bank, which had been helping to organize the distribution of commemorative coins in a quite illegal way. After some thought, we let them off with a warning, but it meant that I have been quite focused on what goes on in the financial system that can be potentially anticompetitive, and the tension that is there in the financial system with regard to electronic payments, payment and settlement systems, potentially lender of last resort, and financial market rules broadly, and I wonder if you have any thoughts about that as an area of competition policy and sometimes the tension that is there between the way the market works, the concern about destructive competition, and so forth.

MARIO MONTI: It is interesting to learn of other cases besides John Vickers of people who have been active on both fronts of monetary policy, as you now are, and of competition policy as you were in the past. Yes, concerning the financial markets, there may be tensions. You know the subject more directly than I do. There may be tensions between competition policy and, particularly, prudential concerns. I referred to the fact that over the years it has been possible to minimize the extent of the inconsistency between the two concerns.

I think that this is a subject on which actually more and more, both the monetary and supervisory authorities and the competition authorities are working. I mentioned at the end of my presentation the ICN, the International Competition Network. Last year in Bonn when the ICN met, a list of recommended best practices was issued on the application of competition in the regulation of banks. That document goes a long way toward articulating principles of competition policy that could enhance the competitive tone of the financial and banking markets while giving due regard to stability. Similarly, I mentioned earlier cross-border mergers. In the European merger regulation there are three legitimate grounds for national governments to obstruct cross-border mergers. These are national security, the protection of pluralism in the media, and, indeed, prudential concerns as regards financial institutions. It is all too clear that the reference to prudential concerns can be used in a disproportionate way so as to create an obstacle to any disliked cross-border merger. That is why the European Commission is currently working on possible changes to the banking directive, which would define more narrowly and with a more specific burden of proof the use of prudential concerns as a good reason for a national authority to oppose a cross-border merger.

ANDREW CROCKETT: Thank you. Mario, could I take up your last point and the point you made toward the end of your address concerning international collaboration? Do you think it is either feasible or desirable for the ICN, as it is now, which I understand is an informal network, to develop in the direction of the organization that is our host here today, that is to say, in some respects developing minimum standards that will be done by agreement among the relevant authorities such as we have in banking regulation? And/or to develop in the direction of regular meetings to discuss current issues as takes place in the bimonthly meetings of Governors in the BIS?

MARIO MONTI: The creation of the ICN in 2002 came after many years of discussion between the United States and the European

Union. The European Union was in favor of something closer to what Sir Andrew mentioned now. We would have liked to see within the World Trade Organization (WTO) the establishment of key binding principles on competition legislation. This would not have involved giving to the WTO the power of reviewing decisions taken in individual cases by the national or EU competition authorities—not even the EU dared to consider this—but at least giving it the power to establish principles like transparency, non-discrimination, and due process, to be respected in drawing up national legislations. And we thought that if that was done in the context of the WTO, there could have been a binding element that would have been helpful.

The United States at the time was against all forms of multilateral cooperation in antitrust, much as they were keen, on the other hand, on the bilateral cooperation. There was an interesting change in policy at the end of 2001, when the United States, following a review conducted by the Justice Department, was open for the first time to some sort of multilateral cooperation, but definitely not in the binding context of the WTO. So we welcomed this opening and we settled for an informal multilateral cooperation, the ICN.

Could this evolve one day toward something more similar to the BIS? I think not for the short to medium term insofar as binding elements are concerned; but, yes, in terms of having closer and closer discussion. Indeed, the ICN is a virtual organization that works mainly through working groups conducted electronically, and it has already produced a number of guidelines, for example, in the handling of merger cases that are being respected, by the different jurisdictions, even though there is no binding element. So it is a very soft convergence process. I believe it is the most that can be achieved so far. I hope one day there will be something more structured and formalized.

ANDREW CROCKETT: The next question?

QUESTIONER: How should competition authorities view the attempts by monetary authorities to maintain the separation of commerce and industry on one side, and banking on the other?

MARIO MONTI: Do you mean in terms of ownership? Separation between commerce and industry on one side, and banking on the other side: well, as far as I know, the laws and the practices to that effect diverge remarkably in different countries.

In general, I would say that so far, competition authorities have been concentrating more on the markets for goods and services, although they have on occasions dealt with the markets for corporate control. Let me note here that there is an aspect of the ownership issue that is of crucial importance, but where in Europe the treaties have established neutrality, that is, private or government ownership of companies.

So for example, if an industrial company or a financial institution is owned by a government that does not intend to put on the market the shares of that company, the control of that company will not be contestable. Does this violate EU competition rules? No, it does not. Nevertheless, of course, that company, even though it is government controlled, has to observe the competition rules in the market for its products and cannot be helped by state aid.

I believe your subject is not government versus private ownership, but is on the ownership and the control of financial institutions by nonfinancial entities. At least in Europe, I do not see elements of competition policy that could allow the EU to challenge a national law that puts restrictions on who can own a bank because that restriction is anticompetitive. But if I were still a competition authority, I would reflect with keen interest on your question because there might be something to be developed. Sorry for this very approximate answer.

ANDREW CROCKETT: We have time for one last brief question.

QUESTIONER: Thank you. I found your remarks both intriguing and stimulating indeed on the relationship between competition policy and monetary policy. I am not sure I have a question or an observation, which basically says, for competition policy, when you see a monopoly, I guess you get very nervous and you are planning to do something about it. And yet, one of the fundamental points in creating a monetary system is that you want to ensure that a central bank has the monopoly over the production of what we call base money, or something of that type, because we want to ensure that it is the right amount of the public good that is generated, etcetera. Which suggests, therefore, that while there are fantastically interesting relationships between competition policy and monetary policy, there are some fundamental distinctions between them because we do probably want to ensure that that kind of monopoly stays.

There were some attempts by the Hayekians and Mises, the free banking and the like, which created tremendous difficulties in understanding how monetary systems should work. I assume there is a counterpart to it also in the discussions of fixed versus flexible exchange rates—do you allow competing monies to be side by side or not? The Gresham's Law: do you allow relative prices of monies to adjust in order to prevent bad money driving out good? So those are fundamental issues in monetary economics.

MARIO MONTI: Thank you. That is extremely interesting, though I am not sure that what you say, which is of course perfectly correct, points to such a difference, because competition authorities hate monopolies, but they also are a monopoly themselves, just like a central bank. So this brings us to the notion that to exercise certain categories of public policy powers, you have to enjoy a monopoly situation.

To develop a bit, in the case of competition authorities, it is generally felt that there should be a monopoly, and in the United States, they feel a bit uneasy because of the fact that at the federal level there are two antitrust agencies, the Justice Department and the Federal Trade Commission, in part with overlapping competences which the Congress, by the way, refuses to clarify. So normally it is felt that it is a good thing also in the competition arena that those enforcing public rules be monopolists. With one exception, though—and it would be interesting to explore whether something similar exists in the monetary area, probably not. The exception is that there should be monopoly as to public enforcement in a given jurisdiction, but the enforcement of competition law does not need to be done exclusively by public enforcers. So the public enforcer in the jurisdiction should be one. But there is also a complementary modality of enforcing competition law which is called private enforcement, that is, enforcement through the courts, with damages for violations of competition law.

To give you an idea, in the United States it is estimated that of all the competition enforcement actions taking place in one year, roughly 10 percent are done by the two combined federal agencies, and 90 percent by the courts under private enforcement. In Europe, the situation is completely different, and only now is an attempt beginning to have some private enforcement alongside public enforcement.

So an element of monopoly is probably required in the two policies we have been discussing this morning. Normally it tends to exist both for the central banks and for the competition authorities. In the case of competition policy, there is also this other element—private enforcement.

ANDREW CROCKETT: Mario, thank you very much for both the very thought-provoking address and the very open way in which you have answered our questions.

Mario Monti

Mario Monti is President of Bocconi University, Milan. He is also Chairman of Bruegel (the new Brussels-based European think tank on international economics).

Since December 2005 Mr. Monti has been an international advisor to Goldman Sachs and member of the Research Advisory Council of the Goldman Sachs Global Markets Institute.

Mr. Monti served for ten years as member of the European Commission, in charge first of the Internal Market, Financial Services and Taxation (1995–99), and then of Competition (1999–2004).

Prior to joining the Commission, he was Professor of Economics at Bocconi and then Rector. He was President of SUERF (Société Universitaire Européenne de Recherches Financières), Chairman of the Italian Treasury's committee on the banking and financial system, member of the committee that drafted Italy's first competition law, and member of the Roll Committee recommending independence for the Bank of England.

Mr. Monti contributes regularly to the *Corriere della Sera*. He is a member of the Senior European Advisory Council of Moody's; the Board of Directors of the Institute for International Economics in Washington, D.C.; the Steering Committee of the Bilderberg Meetings; the Trilateral Commission; and the Executive Committee of Aspen Institute Italia.

Born in Varese in 1943, he graduated from Bocconi University and did graduate work at Yale University. He holds honorary degrees from, among others, the University of Padova, Leipzig University, and the University of St. Gallen.

The Per Jacobsson Lectures

2006 *Competition Policy and Monetary Policy: A Comparative Perspective*. Lecture by Mario Monti (Bern).

2005 *International Financial Institutions: Dealing with New Global Challenges*. Lecture by Michel Camdessus.

2004 *The U.S. Current Account Deficit and the Global Economy*. Lecture by Lawrence H. Summers.

Some New Directions for Financial Stability? Lecture by C.A.E. Goodhart, CBE (Zurich).

2003 *The Arab World: Performance and Prospects*. Lecture by Abdlatif Yousef Al-Hamad (Dubai).

2002 *The Boom-Bust Capital Spending Cycle in the United States: Lessons Learned*. Lecture by E. Gerald Corrigan.

Recent Emerging Market Crises: What Have We Learned? Lecture by Guillermo Ortiz (Basel).

2001 No lecture took place due to the cancellation of the Annual Meetings of the IMF and the World Bank.

2000 *Ten Years On—Some Lessons from the Transition*. Lecture by Josef Tošovský (Prague).

Strengthening the Resilience of Financial Systems. Symposium panelists: Peter B. Kenen, Arminio Fraga, and Jacques de Larosière (Lucerne).

1999 *The Past and Future of European Integration—A Central Banker's View.* Lecture by Willem F. Duisenberg.

1998 *Managing the International Economy in the Age of Globalization.* Lecture by Peter D. Sutherland.

1997 *Asian Monetary Cooperation,* Lecture by Joseph C.K. Yam, CBE, JP (Hong Kong).

1996 *Financing Development in a World of Private Capital Flows: The Challenge for International Financial Institutions in Working with the Private Sector.* Lecture by Jacques de Larosière.

1995 *Economic Transformation: The Tasks Still Ahead.* Symposium panelists: Jan Svejnar, Oleh Havrylyshyn, and Sergei K. Dubinin.

1994 *Central Banking in Transition.* Lecture by Baron Alexandre Lamfalussy (London).

Capital Flows to Emerging Countries: Are They Sustainable? Lecture by Guillermo de la Dehesa (Madrid).

1993 *Latin America: Economic and Social Transition to the Twenty-First Century.* Lecture by Enrique V. Iglesias.

1992 *A New Monetary Order for Europe.* Lecture by Karl Otto Pöhl.

1991 *The Road to European Monetary Union: Lessons from the Bretton Woods Regime.* Lecture by Alexander K. Swoboda (Basel).

Privatization: Financial Choices and Opportunities. Lecture by Amnuay Viravan (Bangkok).

1990 *The Triumph of Central Banking?* Lecture by Paul A. Volcker.

1989 *Promoting Successful Adjustment: The Experience of Ghana.* Lecture by J.L.S. Abbey.

Economic Restructuring in New Zealand Since 1984. Lecture by David Caygill.

1988 *The International Monetary System: The Next Twenty-Five Years.* Symposium panelists: Sir Kit McMahon, Tommaso Padoa-Schioppa, and C. Fred Bergsten (Basel).

1987 *Interdependence: Vulnerability and Opportunity.* Lecture by Sylvia Ostry.

1986 *The Emergence of Global Finance.* Lecture by Yusuke Kashiwagi.

1985 *Do We Know Where We're Going?* Lecture by Sir Jeremy Morse (Seoul).

1984 *Economic Nationalism and International Interdependence: The Global Costs of National Choices.* Lecture by Peter G. Peterson.

1983 *Developing a New International Monetary System: A Long-Term View.* Lecture by H. Johannes Witteveen.

1982 *Monetary Policy: Finding a Place to Stand.* Lecture by Gerald K. Bouey (Toronto).

1981 *Central Banking with the Benefit of Hindsight.* Lecture by Jelle Zijlstra; commentary by Albert Adomakoh.

1980 *Reflections on the International Monetary System.* Lecture by Guillaume Guindey; commentary by Charles A. Coombs (Basel).

1979 *The Anguish of Central Banking.* Lecture by Arthur F. Burns; commentaries by Milutin Ćirović and Jacques J. Polak (Belgrade).

1978 *The International Capital Market and the International Monetary System.* Lecture by Gabriel Hauge and Erik Hoffmeyer; commentary by Lord Roll of Ipsden.

1977 *The International Monetary System in Operation.* Lectures by Wilfried Guth and Sir Arthur Lewis.

1976 *Why Banks Are Unpopular.* Lecture by Guido Carli; commentary by Milton Gilbert (Basel).

1975 *Emerging Arrangements in International Payments: Public and Private.* Lecture by Alfred Hayes; commentaries by Khodadad Farmanfarmaian, Carlos Massad, and Claudio Segré.

1974 *Steps to International Monetary Order.* Lectures by Conrad J. Oort and Puey Ungphakorn; commentaries by Saburo Okita and William McChesney Martin (Tokyo).

1973 *Inflation and the International Monetary System.* Lecture by Otmar Emminger; commentaries by Adolfo Diz and János Fekete (Basel).

1972 *The Monetary Crisis of 1971: The Lessons to Be Learned.* Lecture by Henry C. Wallich; commentaries by C.J. Morse and I.G. Patel.

1971 *International Capital Movements: Past, Present, Future.* Lecture by Sir Eric Roll; commentaries by Henry H. Fowler and Wilfried Guth.

1970 *Toward a World Central Bank?* Lecture by William McChesney Martin; commentaries by Karl Blessing, Alfredo Machado Gómez, and Harry G. Johnson (Basel).

1969 *The Role of Monetary Gold over the Next Ten Years.* Lecture by Alexandre Lamfalussy; commentaries by Wilfrid Baumgartner, Guido Carli, and L.K. Jha.

1968 *Central Banking and Economic Integration.* Lecture by M.W. Holtrop; commentary by Lord Cromer (Stockholm).

1967 *Economic Development: The Banking Aspects*. Lecture by David Rockefeller; commentaries by Felipe Herrera and Shigeo Horie (Rio de Janeiro).

1966 *The Role of the Central Banker Today*. Lecture by Louis Rasminsky; commentaries by Donato Menichella, Stefano Siglienti, Marcus Wallenberg, and Franz Aschinger (Rome).

1965 *The Balance Between Monetary Policy and Other Instruments of Economic Policy in a Modern Society*. Lectures by C.D. Deshmukh and Robert V. Roosa.

1964 *Economic Growth and Monetary Stability*. Lectures by Maurice Frère and Rodrigo Gómez (Basel).

The Per Jacobsson lectures are available on the Internet at www.perjacobsson.org, which also contains further information on the Foundation. Copies of the Per Jacobsson lectures may be acquired without charge from the Secretary. Unless otherwise indicated, the lectures were delivered in Washington, D.C.

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