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Monetary sovereignty in the 21st century

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Ladies and gentlemen,

I am very honoured to have been invited to take part in this conference on sovereignty. I realise, however, that this has very little to do with me personally, but a great deal to do with the object that I represent: money is the natural and almost obvious participant here. Money has been a standard attribute of sovereignty, ever since the theory first advanced by Jean Bodin in the 16th century that: "only he who has the power to make law can regulate the coinage".[i] This power to create money was for a long time embodied in the person of the King: In France, Philippe IV the Fair (1285-1314) was the first to mint gold coins bearing his effigy. But it was Louis XIII in 1640 who first named them after himself: the term "Louis d'or" even lasted throughout part of the Revolution, before gradually being replaced by the "Napoleon". Through metonymy, the "Sovereign" is the name of an English gold coin first minted in 1489. This equivalence between money and sovereignty is therefore centuries old, but I would like to revisit it this evening from two angles: (I) first, by looking at the relationship between monetary sovereignty and political sovereignty, and two of its contemporary metamorphoses; and (ii) by examining the most acute, but probably less perceived, challenge that we face today, which is that of the renewed competition from private "currencies" – due to technology – vis-à-vis public money.

I. Monetary sovereignty and political sovereignty

The assertion of monetary sovereignty was one of the most powerful instruments in the construction of national unity and state sovereignty. The gradual centralisation of the minting monopoly – from the Middle Ages onwards in France – and the promotion of national currencies, were a means of fostering national economic integration. The objective was twofold: to establish the boundaries of the domestic market, and to face up to competition from international currencies such as the florin or ducat. Currencies were also used for their symbolic value, to forge a sense of national unity and serve as a medium to convey national imagery.

It was in this context of the joint assertion of monetary and national sovereignty that central banks were created between the 17th and 20th centuries.[ii] Their history was strongly influenced by respective national experiences: some, such as the Bank of England (1694), were created to meet the state's financing needs; others, such as the Bank of the Estates of the Realm in Sweden (1668), were set up to facilitate payments. The Banque de France, for its part, was founded in 1800 under The Consulate – just a few weeks after the Council of State... – as part of a much vaster initiative to build France's institutions, the "granite blocks" capable of unifying the "grains of sand" of the nation. Created as an autonomous institution, albeit allied to the government, the Banque de France was granted a monopoly over banknote issuance (1803, 1848) and helped to consolidate national unity throughout France, notably by developing its network of branches. In general, central bank functions converged from the 19th century onwards, and the institutions gradually took on their modern role: as operators of monetary policy, managers of payment systems and guarantors of financial stability... but not, lest it need repeating, as lenders to the state.

As a result of this historical heritage, a very "Westphalian"[iii] understanding of monetary sovereignty persists, whereby money issuance and monetary policy management are sovereign privileges, managed by nation states. It is at this point that I would like to look at two potential contemporary metamorphoses.

a) ***The euro, a currency without a state... or the beginning of European sovereignty?***

For the Westphalian vision, the European Monetary Union advocated notably by François Mitterrand and Helmut Kohl as of 1989-90, clearly constituted a major upheaval that would lead purely and simply to a loss of sovereignty for member states. The founding fathers of the euro responded by saying that states could choose whether or not to have greater *effective* sovereignty, and I shall quote Jacques Delors here: "it is in sharing our national sovereignties that we can provide a more effective defence of our common interests".[iv]

Let us be clear: previously, for many, monetary policy was, in practice, largely anchored to Deutsche Mark policy within the framework of the European monetary system, which was a necessary step, but insufficient. There was a risk of the Westphalian order becoming a German monetary order. The introduction of the euro ensured that monetary policy decisions were taken collegially by the Governing Council. In addition, the ECB became one of the most influential central banks in the world – and the euro the second most important international reserve and exchange currency[v] – giving it a greater capacity to cushion shocks, and more agility and autonomy in its decision-making, including with regard to the US Federal Reserve. In the words of Mario Draghi, Europe gained the ability "to control its destiny".[vi]

Is this stage stable and sufficient on its own? US economists sincerely doubted it 30 years ago: a currency without a unified state could never work. And yet the euro has continued to get stronger, throughout the challenging crises of the 21st century, thanks to strong institutions and the unshakeable, shared determination of the European people. For federalists too, monetary union cannot exist without political union: it is not my place here to respond to that. I simply point out, at all the international meetings that I take part in, that Europe has invented a form of monetary sovereignty that is recognised – and in some cases envied – throughout the world.

b) Central bank independence, but subject to two political conditions

The second metamorphosis lies in an institutional development: throughout the 20th century, central banks were gradually granted renewed independence from political authorities. This pragmatic movement became widespread in developed countries from the 1980s onwards, in response to the great inflationary wave of the 1960s and 1970s, and to two temptations: the temptation to finance public debt by printing money; and the temptation to raise interest rates too late because it is always unpopular. This year also marks the 30th anniversary of the 1993 law establishing the Banque de France's independence,[vii] and the ECB also enjoys a high degree of independence under the European treaties.[viii] But "independence" does not mean "isolation", and can only exist subject to two very clear political conditions:

(i) An ex ante condition: independence is not self-conferred but rather attributed by the democratic authority for a specific mandate, that of maintaining price stability, set by the European treaties[ix] and ratified in France by the 1992 referendum. The ECB has defined this mandate precisely, and refined its definition in 2021 in its strategic review: maintaining inflation at 2% over the medium term. With the resurgence of inflation in 2022, the ECB raised its key rates accordingly: the remedy is not always pleasant, but it is efficient; inflation is coming down again and was at 2.9% in October, and we are confident that we can bring it back towards the 2% target by 2025.

(ii) An ex post condition: the essential counterpart to independence is that we be held accountable by elected representatives and the general public for the fulfilment of this mandate. The ECB is regularly questioned by members of the European parliament, as is the Banque de France by the National Assembly and the Senate. We are constantly expanding our communication with the general public, for example with our annual monetary policy forums, which we hold in all of France's regions. Monetary policy can seem austere, it does not need to be opaque. If we had not achieved results on our mandate, if we did not know how to report on it to our citizens, then our independence would lose its very meaning. Fortunately this is far from being the case: the Eurosystem's results over the long term have allowed the euro to benefit from a very high level of trust (78%[x]) – which has increased steadily over the past 20 years – among the 350 million Europeans who share it as their currency.

II. Public and private money

I would now like to come back and look at sovereignty from another angle, that of the relationship between public and private money. This distinction is rarely perceived by the general public, yet it is as old as money itself: in the words of Fernand Braudel, "every exchange of goods has an instant monetary echo. A commodity that is more in demand or more abundant plays the role of a currency."[xi] Similarly, bills traded between merchants at fairs during the Middle Ages were used as private payment instruments[xii] and they were at the origin of early bank lending, particularly by bankers from Lombardy. However, since then, the gradual introduction of "public" central bank money as a common and secure settlement asset has become the rule. It is now considered a public good and more or less taken for granted, at least in advanced economies.

But the existence of private money cannot be consigned to history. Only a small proportion of money is currently held in its public or "fiduciary" form, i.e. in coins and notes issued by *central* banks. With dematerialisation of payment instruments – i.e. credit transfers, bank cards, mobile cash, etc. – the bulk of the money we hold is *commercial* bank "cashless" money. *De facto* equivalence between the two types of money is not recognised by law; it is based on the *de facto* guarantee of convertibility at par provided by the public authorities: different commercial bank money therefore benefits from public money's collective "anchor of trust".

Today, these issues are being raised anew by developments in technology. There are new supports such as tokenisation, i.e. the representation of money in digital form, as well as financial assets and contracts incorporated into standalone blockchains. And there are clearly new players out there to take these developments forward – global digital Bigtechs based in America or China, none of whom are European or public, at a time when the European payments market is already dominated by international operators. The combination of these supports and players could result in private quasi-"currencies" with a global reach but no anchor in the public sphere: Meta's Libra/Diem project in 2019 was one such example. The ditching of Libra should not allow us to fool ourselves: I believe that this is where the real threat to monetary sovereignty currently lies – in the privatisation and "de-Europeanisation" of payments. Fortunately, such a threat can and must prompt a dual reaction from public authorities:

(i) Regulating these private assets to limit their intrinsic risks (money laundering, customer protection…) and misuse, while promoting innovation: Europe has pioneered dedicated regulations in this area (Markets in Crypto-Assets Regulation (MiCA)). Unfortunately, the United States has yet to act.

(ii) Furthermore, public central bank money, which has been in paper form for several centuries, has no reason to shy away from the disruptive technology of digitisation, followed by tokenisation. This is why, to widen the choice beyond banknotes, we are currently exploring, together with the ECB, the two facets of digital money: its use in retail payments and as a "wholesale" settlement asset. The potential issue of a digital euro must take place in partnership with private banks in order to continue the complementarity between the two types of money. However, the very legitimacy of central banks, acting on behalf of the public authorities, remains bound up with the ability to print money, regardless of the form it takes. And I am prepared to wager here today that a digital euro will emerge some time during this decade, to guarantee European monetary sovereignty into the long term.

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I would like to conclude with the words of our common founder, Napoleon Bonaparte, who declared that "money has no motherland".[xiii] True, but a motherland needs a currency, and a currency needs a sovereign. Europe's monetary success undoubtedly changes the conditions under which this happens, but not the principle. Defending our monetary sovereignty today means further strengthening the euro in a world subject to a new order underpinned by digitalisation, geopolitical tensions and major economic uncertainty. You can be sure that we, as central bankers, are fully geared up for this battle. Thank you for your attention.

[i] J. Bodin, *Six Books of the Commonwealth*, 1576.
[ii] *Les banques centrales et l'Etat-nation*, under the supervision of O. Feiertag and M. Margairaz, 2016.
[iii] S. Muruau and J. van't Klooster, *Rethinking monetary sovereignty: the global credit money system and the State*, 2022.
[iv] J. Delors, E. Letta, P. Lamy, Y. Bertoncini, *Yes, we are European*, Tribune, Institut Jacques Delors, 7 October 2016.
[v] ECB, *The international role of the euro*, June 2023.
[vi] Mario Draghi, *Sovereignty in a globalised world*, speech, 22 February 2019.
[vii] Law of 4 August 1993 on the status of the Banque de France and on the activities and supervision of credit institutions.
[viii] Article 130 of the Treaty on the Functioning of the European Union.
[ix] Article 127 of The Treaty on the Functioning of the European Union.
[x] Standard Eurobarometer 99 – Spring 2023.
[xi] F. Braudel, *Civilisation matérielle, économie et capitalisme*, 1967.
[xii] R. de Roover. *L'Évolution de la Lettre de Change: XIVe-XVIIIe Siècles*, 1953.
[xiii] Words attributed to Napoleon Bonaparte by Steve Berry, *The Paris Vendetta*, 2009.