This book contains the papers and proceedings of an international conference organised in 
Amsterdam by de Nederlandsche Bank and the Center for Economic Research in October 
1993.

The conference brought together policymakers, mainly from central banks, academic 
economists and economists from central banks and international organizations. At the con-
ference, the following broad range of topics was covered by sessions: the final objective 
of monetary policy, the position of the central bank, the design of monetary policy, the 
application of monetary policy, monetary policy and exchange rates, and monetary policy 
in Eastern Europe and Latin America. Papers and comments presented at the conference 
are included in the book. A summary of the most important contributions concludes the 
book.

With the shaping of the European Monetary Union (EMU) on the agenda of European 
policymakers in the coming years, with the vast changes in the financial system in West-
ern and Eastern Europe and with the economic transformations in Eastern Europe, the pub-
lication of a book on monetary stability which brings together the insights from theoretical 
and empirical research and confronts them with the experience of policymakers is most 
welcome. Although it does not provide final answers to the many topics addressed, this 
timely book is likely to set the stage for further discussions and investigations of the is-
issues which it raises.

In his opening speech, the President of de Nederlandsche Bank, W.F. Duisenberg, em-
phasizes the importance of a stable economic climate for sustainable economic growth. 
The keynote speech by D. Mullins Jr., Vice Chairman of the Board of Governors of the 
Federal Reserve System in Washington, D.C., expresses the view that price stability is not 
an end in itself, but a means through which monetary policy can contribute to the ultimate 
objective of maximizing economic well-being. He reflects on various important monetary 
policy issues, acknowledges the success of monetary policy in many countries in reducing 
inflation and points to the importance of the need to continue to make a convincing case 
that price stability enhances economic welfare. Under the heading 'The final objective of 
monetary policy,' Ch. Freedman reports on the Canadian experience with reducing the in-
flation rate from a 5 to 6% level in 1991 to about 2% by setting inflation-reduction tar-
ggets. Then S. Fischer analyzes the benefits and costs of disinflation. The costs of disinfla-
tion are the transitional output losses that result during a disinflationary programme; the 
gains are the lower inflation and better economic performance. In a chapter entitled 'Com-
mitment through delegation, political influence and central bank independence,' A. Cuki-
erman takes the view that the delegation of authority over monetary policy to independent 
central banks is used as a commitment device by politicians. He tries to identify the fac-
tors which determine the size of delegation of authority. The tendency to delegate author-
ity appears to be high if interest charges on government debt have to be reduced, if capital 
markets are deep or if the government debt is large. It appears to be low if there is a 
strong preference for price stability in the executive branch of the government. The topic 
of designing monetary policy is addressed by B.M. Friedman and O. Issing. Friedman 
analyzes the role of intermediate targets and information variables as operating guides for
monetary policy in the U.S. He expresses his preference for a judgemental approach based on a broad range of financial and nonfinancial measures with predictive content about the development of the economy, implying that divergences from targets merit attention and require action depending on circumstances instead of using an automatic pilot based on an intermediate target. Issing discusses the design of a monetary policy strategy for the third stage of the EMU. He prefers an approach of pursuing the ultimate objective of price stability indirectly by using a broad monetary aggregate as an intermediate target. In his dinner speech, Duisenberg examines the recent developments of the Exchange Rate Mechanism (ERM) and the importance of short-term interest rates and stable exchange rates in an economically integrated Europe. Then he comments on the future of the ERM.

In the second part of the book (the second day of the conference), A. Crockett's analysis of the debate on rules versus discretion in monetary policy leads him to conclude that neither pure discretion nor fixed rules have provided satisfactory and that a synthesis can be found in combining the disciplinary benefits of rules with the ability offered by discretion to take into account a suitably wide range of economic indicators. The role of monetary policy in IMF Programmes is discussed by M. Guittian. As a result of his analysis, monetary authorities have to formulate targets for domestic credit expansion in order to achieve the goals of price stability and balance of payments equilibrium.

M. de Cecco and F. Giavazzi analyze Italy's experience within and without the EMS. Almost 15 years of membership of the ERM did not lead to stable exchange rates for the lira, despite the fact that since 1981 the government had inaugurated the strong currency option. The French experience with monetary policy and exchange rates is examined by A. Icard, who emphasizes that exchange rate stability plays a prominent role in French monetary policy.

R. Layard indicates ways in which Russia can control inflation and reviews the problems connected with a policy of reducing inflation gradually: how to control credit by the central bank to government, the private sector, and the rouble area, how to control commercial bank lending and the solvency of banks, and how to avoid a rapid increase of the velocity of circulation of money? R. Dornbusch reviews the process of stabilization and monetary reform in Latin America for countries which experienced extreme inflation (more than 20% per month) fuelled by huge money creation and moderate inflation (15–30% per annum) resulting from indexation of wages. Finally, S. Eljifinger gives a summary of the main contributions of each paper and of the main criticism raised by the discussants and ends with some personal conclusions.

The book covers a wide range of issues. Taking the premise of monetary stability for granted, the contributions are mainly concerned with the costs and benefits of disinflation, with institutional arrangements such as central bank independence and devices such as formal targets for inflation reduction, among many other things. It would have been useful to more explicitly address the question of the desirability of monetary stability. This question naturally arises as many countries still face high inflation and solve economic and society problems via inflation. Debating the question to whom inflation is harmful and for whom it is beneficial might also enhance the public's support for a policy of monetary stability and for granting independence to the central bank. This issue is also the essence of the debate about the EMU. If all members of the European Union would truly and fully commit themselves to monetary stability and renounce from using monetary policy to ac-
commodate domestic and foreign shocks to the real sector of their economy, the creation of the EMU would be a natural step on the way to an integrated Europe.

Quantifying stability targets is also a topic for further research as D.W. Mullins, Jr. mentions (p. 5): 'Unfortunately, there is a less well established case against moderate, single digit levels of inflation on the order of a 4% annual inflation rate' or as Fischer (p. 40) points out: 'The evidence points to an inflation range of 1–3% as being optimal, with more work being needed to answer the question of whether lower inflation within this range is associated with higher productivity growth.' Another topic of importance which is not explicitly addressed either is concerned with the degree of effectiveness of the instruments to achieve monetary stability. For instance, under which conditions do formal targets for inflation reduction lead to the desired result? Would commitment to a fixed parity vis à vis a strong anchor as in the ERM (external target) induce more domestic stability than formal targets for inflation or monetary growth (internal target)? This issue could be evaluated using the theoretical insights, empirical evidence and results from practical experience by now available on a large scale. Many ingredients for settling the issue can be found in the present book, in particular in the chapters on the design of monetary policy. A systematic analysis of the extent to which and the conditions under which the instruments are effective would be most welcome.

My remarks reflect more of a difference in taste and priority order than a fundamental criticism of a book which brings together a wealth of results on important policy issues that are useful to policymakers and researchers in the field.

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