

Ernst Welteke: An institutional framework for monetary stability

Opening speech by Mr Ernst Welteke, President of the Deutsche Bundesbank, at the first conference of the Monetary Stability Foundation, Frankfurt, 5 December 2002.

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Ladies and gentlemen

I am very pleased to welcome you to the first conference held by the Monetary Stability Foundation.

It is a great pleasure to be able to welcome President William Poole of the Federal Reserve Bank St. Louis, Professor Otmar Issing and Mr Nout Wellink of the Governing Council of the ECB, and Counsellor Gerd Häusler of the IMF. It is an honour that Mr Stanley Fischer, Vice-Chairman of Citigroup, has found the time to be with us.

Last but not least, I am especially delighted that so many prominent members of the academic world are taking part in this conference. I wish to extend a warm welcome to Professor Alan Meltzer on their behalf.

The Monetary Stability Foundation was established on 1 January this year. But the idea behind the foundation is naturally much older than that.

One thought that was uppermost in our minds was the desire to transfer the positive qualities which we have associated with 50 years of stable money in Germany into the new era of European monetary union. That was important to me from the very outset.

And that is why I was very happy to take on, together with Finance Minister Hans Eichel, the sponsorship of this major inaugural conference of the foundation. Hans Eichel will be addressing you tonight.

Good times and bad times have taught the German people the importance of stable money and a stable financial system.

One may well ask whether, in the light of this, it is really necessary to underline that point yet again. However, history has also taught us that such stability can never be taken for granted.

Prior to the start of monetary union there were indeed fears that the end of the D-Mark might do harm to the stability culture. We took that worry seriously - as is shown by the Maastricht Treaty and as the ESCB's monetary policy makes clear.

Naturally the intellectual basis of such a policy has to be continually examined anew. Time and again new challenges arise and new developments have to be taken into consideration. I wish to cite just a few examples.

Since the 1960s attention worldwide had been directed primarily towards the fight against inflation. However, the past few years have shown just how seriously the dangers of deflation have to be taken as well.

The transformation process in the former Socialist countries has made us aware of just how important institutional frameworks are. We have now become more aware again of the importance of thinking about statutory frameworks, not least in the financial world.

The academic debate about the correct strategy for monetary policy goes on and on. With the creation of the ECB the debate has actually become livelier again.

I could cite many more examples to show that, even today, there is no automatic means of ensuring stable money and stable markets. It is an ongoing task. In the words of Goethe: "What you have inherited from your fathers / Earn over again for yourselves, in order to possess it."

In this sense it is the task of the Monetary Stability Foundation to encourage research in this area. And, what is more, on a broad basis.

The funds which are already available for this purpose come from the issue of a DM 1 gold coin by the Bundesbank.

Indeed, last summer we experienced an unusually heavy demand for this gold coin. Part of the net proceeds, DM 100 million (or € 51 million), forms the foundation's capital base. This link to the D-Mark once again underlines quite clearly how much the foundation is bound to monetary stability.

By far the greatest part of the foundation's funds will be used to finance a research unit, which is to be linked to a university. This research is to be of an interdisciplinary nature. Monetary stability is to be studied from the point of view of economics, finance and law. It is our desire that this centre will pursue new avenues of academic study and policy consultation.

Interested institutions are currently being asked to apply. Eighteen universities have expressed interest in the first round. However, it will take some time yet before the process can be finalised.

A small part of the foundation's income will be used in future to finance scholarships and conferences.

And that brings me back to the point of our being here today: the inaugural conference of the new foundation. It is also my cue to hand you over to Professor Hermann Remsperger, Chairman of the Supervisory Board of the Monetary Stability Foundation.

He will make a start to the conference, which I now declare open. I hope that all of you enjoy two interesting and informative days in Frankfurt.

Thank you very much.