

## **Willem F Duisenberg: Coordination of structural policies in Europe**

Address by Dr Willem F Duisenberg, President of the European Central Bank, on the occasion of being decorated with the Grand Decoration of Honour in Gold with Sash for Services to the Republic of Austria by Dr Thomas Klestil, President of the Republic of Austria, Vienna, 9 May 2003.

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It is a great honour for me, for a number of reasons, to receive this high decoration of the Republic of Austria.

First, I am deeply honoured that this decoration has been awarded personally by you, Mr. President, in these historic quarters, at the centre of one of the most powerful and influential nations in the history of Europe. Moreover, I highly appreciate being awarded a decoration of the Republic of Austria, a country that has always supported stability-oriented policies, even when Austria was not yet a member of the European Union. Indeed, among the countries of Europe, it was for a very long period only really Austria and my own country, the Netherlands, which were able to pursue a successful exchange rate policy, more or less pegging their national currencies to the Deutsche Mark. Finally, to be decorated on 9 May - the anniversary of the declaration by Robert Schuman which marked the start of the European integration process - is of particular symbolic value for me. As you are aware, 9 May is celebrated in particular by the European institutions. The celebration of this day by all European institutions marks the importance of the process of European integration in the history of our continent, a process that is irreversible and has greatly contributed to peace and economic welfare in Europe. Indeed, with the latest enlargement of the European Union, which will come into effect on 1 May 2004, the post-war rifts in Europe have finally been healed again.

Mr. President, listening to your kind words, I can only repeat what I have already said on many other occasions: I was really only an eyewitness to the process of European monetary integration, a process which more or less started with the Werner Report in 1969 and which culminated on 1 January 2002 with the introduction of the euro banknotes and coins. I call myself only an eyewitness, as I am convinced that the introduction of the euro would not have been successful without the efforts of the national central banks of the euro area, national and European administrations and the private sector, in particular the European financial sector. And let us not forget the European citizens, who appear to have fully accepted the euro as their currency.

In terms of European economic integration, the introduction of the euro is often regarded as an end point. However, in my view, this is not the case. In addition to the political dimension of the introduction of the euro, representing as it does a step towards ever closer union, its introduction is also a catalyst for further economic integration in Europe. This has already become apparent in the area of financial integration; here increased integration has been brought about by market developments as well as policy initiatives, in particular the European Commission's goal to create a truly integrated European financial market by 2005.

I should like to take the opportunity today to address another area where, at least in my view, the introduction of the euro has illustrated the need for more co-ordinated efforts in the European Union. I refer in particular to an increased need to enhance the co-ordination of structural policies in Europe, i.e. policies which aim to improve the functioning of market mechanisms and the operation of the economy as a whole. In my view, there are three reasons why such enhanced co-ordination of structural policies is necessary.

First, the introduction of the euro has made exchange rate fluctuations obsolete as an instrument of adjustment. For instance, before the establishment of Economic and Monetary Union (EMU), divergent national economic developments could be addressed by a depreciation or appreciation of national currencies. In a monetary union, such adjustment has to take place via other mechanisms, such as price and wage adjustments, labour mobility, or, most unwanted, a temporary rise in unemployment. In order to avoid the latter, and to enhance economic adjustment via wages and prices so that it is comparable to the level of adjustment existing between regions of the United States, policies aiming at increasing the flexibility of the markets are necessary.

Second, in our Monetary Union, with increased trade and financial links between the member countries, the significance of spillovers from national economic policies has also increased. In other words, if governments embark on economic policies that are not sound, or hamper the functioning of

their economies, the adverse consequences will not be limited to the country concerned, but will also have an impact on other countries participating in the euro area. Hence, the increased risk of spillovers from insufficiently effective structural policies warrants enhanced co-ordination of such policies at the European level.

Finally, it has become increasingly clear - on the basis of both practical experience and economic theory and empirical evidence - that economic growth can only be lifted to a structurally higher level by improving the functioning of the economy, which in the European context implies embarking on far-reaching structural reforms. Monetary and fiscal policy-makers are often used as scapegoats, especially in times of weak economic development, as we are witnessing at the moment. But the best and only contribution both monetary and fiscal policy-makers can make to increasing potential economic growth is to foster macroeconomic stability, thereby creating an environment that is most conducive to consumption, investment, trade and economic growth. The European Union has embarked on a very ambitious reform agenda, agreed upon at the Lisbon European Council in 2000. However, as has already been noted by the European Commission, the pace of structural reforms in the Member States lost momentum in 2001 and remained sluggish last year. Unless the slow and partial approach of most Member States with regard to structural reform is improved, it will become increasingly difficult to attain the Lisbon objectives. This lack of progress with respect to structural reform and the apparently weak commitment on the part of governments to embark upon such reform call for enhanced co-ordination of structural policies at the European level.

When I refer to increased European co-ordination of structural policies, I certainly do not wish to imply that structural policies must be harmonised. I would even say that this is undesirable. Economic structures in the individual Member States are still rather divergent, and improving the functioning of these structures often demands different solutions and policies, depending on the countries concerned.

For me, increased European co-ordination of structural policies would mean introducing co-ordination mechanisms and tools that increase Member States' incentives to step up structural reforms and increase their commitment, while at the same time leaving them sufficient leeway to embark on those policies that are most appropriate from their own perspective. My view is supported by current developments, in particular the failure of some countries to step up such reforms. However, I must add that I am extremely happy with the efforts made by the governments of some Member States to seriously embark on effective structural policies aimed at economic reform.

Mr. President, I sincerely hope - both in my capacity as President of the ECB and as a European citizen and staunch supporter of European integration - that the introduction of the euro will act as a catalyst for increased co-ordination in the area of structural policies. And, as I already mentioned, I hope the euro will also perform this function in other areas.

After a period of quantum leaps in the process of European integration - a period which started with the Single European Act in 1987 and has ended with the introduction of the euro and the decision to enlarge the European Union to the south and to the east - some would say that the pendulum of European integration appears to be swinging once again in the direction of Eurosclerosis, i.e. to a period of standstill in the process of European integration, as witnessed in particular in the 1970s and early 1980s. This is particularly apparent in the area of European political integration. I am, however, not too sceptical. First, I am convinced that the Convention on the Future of Europe - chaired by Valéry Giscard d'Estaing - and the upcoming Intergovernmental Conference will provide new impetus to the European integration process. Indeed, the birth of a European Constitution, as foreseen by the Convention, would be a major landmark in the history of European integration. Second, as I already mentioned, I am sure that the introduction of the euro will also provide impetus for further European integration, both in political and economic terms. Finally, experience has shown that periods in which the pace of European integration was very high have often been followed by periods of slower progress. Indeed, some commentators have compared the European integration process to the famous procession in Echternach, Luxembourg, in which until recently three steps forward were followed by two steps backward. In other words, current developments in the process of European integration are not atypical in a historical context, and should hence not be looked upon with too much pessimism.

I should now like to conclude. Mr. President, I should again like to express my sincere gratitude for this high decoration. It strengthens my belief that the cause I - and so many others - have been working for for so many years is worthwhile and appreciated. I am also convinced that Austria, although still a

relatively young member of the European Union, will continue to play an outstanding and supportive role in the area of European integration and as ambassador of stability-oriented monetary policies.

Thank you very much.