

Jean-Claude Trichet: Europe at the crossroads

Speech by Mr Jean-Claude Trichet, President of the European Central Bank, at a dinner on the occasion of the Frankfurt European Banking Congress, Frankfurt am Main, 20 November 2003.

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Ladies and Gentlemen,

It is a great pleasure to speak to you tonight. This is a special occasion for me. It is the first time that I address - as President of the European Central Bank - the European banking community. As European bankers, you are of great importance for our work at the ECB and - if I may say so - the ECB is of relevance for your work. It is good to be here tonight with you and it is nice to see many familiar faces and good friends. Thank you very much for the invitation.

I am particularly grateful that this dinner takes place so close to my new home, Frankfurt. Please let me, in the presence of the Mayor, Mrs Petra Roth, express my gratitude and admiration to this city. As Member of the ECB's Governing Council and previously of the EMI Council, I have been coming to Frankfurt regularly over the last nine years. By and by this city has become dear to me. It is a pleasure to see to what extent Frankfurt accommodates its banking community. The city provides us with the amenities and attractions of a truly modern and international life.

"Identify Europe" is the title of the congress that provides the occasion for our dinner tonight. It is a title which reminds me of essays that I had to write at school, such as "Characterise the Renaissance" or "Explain the Rise of the Roman Empire". "Identify Europe" comes as an imperative - almost an order. It urges us to define what Europe is about. There are, of course, many ways of approaching this question. We can define Europe geographically, culturally, historically or economically.

Please allow me to reflect upon the issue from an institutional perspective. As President of the European Central Bank, I will interpret the term Europe as the European Union. Thus, I will take the title of the congress as an encouragement to discuss the EU's main characteristics.

I think it is the right time to reflect upon the key features of the EU. Europe stands at the crossroads. It needs to take the right decisions now in order to maintain its major qualities in the coming years. What are the main tasks facing the EU? First, the Union needs to give itself an institutional foundation - a solid Constitution - that makes the EU fit for the future. Second, the Union has to integrate an unprecedented number of new Member States.

In my speech, I will concentrate on these two tasks and discuss to what extent - from the perspective of a central banker - the EU is on the right track. I will, however, start by identifying what I regard as the three key qualities of the European Union.

Three key qualities of the European Union

The European Union is a remarkable endeavour which is absolutely unique in human history. Three reasons are, most of the time, proposed for explaining this collective will of the Europeans to unite. First, the lessons drawn from the wars, particularly the last two world wars, which were, from a European standpoint, abominable civil wars. Second, after World War II the emergence of the Soviet Union empire creating a major economic, social and strategic threat for Europe. And third, the challenge of global economic competition which called upon the setting up of a large single market to benefit from economies of scale of the same order of magnitude as those existing in the US single market.

Ensure peace amongst the Europeans, protect Europe against external threats, permit Europe to cope efficiently with global competition had undoubtedly played a role in the bold European adventure of the last half century. But I am not sure that they are really telling the full story. In a way all these reasons are defensive, aiming at protecting Europe against domestic and external dangers. I trust that at the heart of the European ideal of today there are also ideas that are profoundly enshrined in the European psyché: the idea of universality which is topical in the "Enlightenment", in der "Aufklärung", dans les "Lumières". In this perspective, European Union "in motion" would be also driven by this

profound and rich European dedication to universality which is at the root of our civilisation and the ultimate goal of the Europeans. I am referring to fertile ideas of ancient times. But as Jean Monnet said in his "Mémoires": "*There is no such thing as premature ideas, there are only ripe times that one should wait for.*"

Whatever the complex set of reasons, almost fifty years ago European nation states took a bold step: they decided to work together. They initiated a European project which over time transformed this continent. I have always seen the European Union as an impressive sailing ship with strong masts and many sails. This sailing ship and its crew have three very important qualities: *clear objectives*, *willingness to co-operate*, and *openness to "newcomers"*.

1. From the beginning, Europe has been set on a clear course and sailed with a clear mission. This is to achieve prosperity, peace, and stability for the citizens of Europe.
2. Member States work together as a team. They are willing to pool their specific abilities and national sovereignties. In a co-operative manner - unparalleled to any international organisation - they overcome differences and manage diversity. They share the conviction that they should find European solutions to European problems. The Eurosystem is a perfect example for the co-operative approach that characterises the Union.
3. Europe has always been open for new Member States. Membership is neither limited nor exclusive. Clear rules and procedures pave the way for newcomers to join the Union.

Over time, the ship has grown in size and quality. New members joined and new competencies were acquired. In the nineties, the ship was given an important additional mast. This new mast is Monetary Union. Its strong sails push the ship further. They reinforce the strength of the EU and generate stability.

In the coming months, this ship will be restructured considerably and will expand its crew significantly. It is doing this at sea. The day-to-day work of the EU continues; there is no break or pause that allows for practices or trial runs. The key challenge is to accomplish these tasks while keeping the three qualities. These qualities are worth maintaining. They have made the EU to what it is today.

Let me now concentrate on the first task, the Constitution.

The Constitution

The EU has diverted from its traditional path of recurring Treaty reforms. It has decided to give itself a Constitution. Those of you who come from Central and Eastern European countries will be familiar with a process of adopting a constitution. In your countries the new constitutions have laid the foundation for an open society and democratic institutions. In the case of the EU, the new Constitution does not signify the start of a new political era. Why then has the EU embarked on a constitutional process?

Speaking as an outside observer to the process, it seems to me that the Constitution is to serve two purposes. The first purpose is *renovation*. The EU has to be made fit for the future. It needs well-functioning decision-making procedures and effective institutions. This is not only in view of enlargement but also in order to adapt to new international demands and changing economic circumstances. The second purpose is *clarification*. While concentrating on improving the strength and the size of the EU, accessibility and clarity might have been neglected over the years. The Constitution shall put this back in order. It seeks to make the EU and its decision-making process more transparent and comprehensible for the citizens. So, Europe is given itself a new Constitution to consolidate existing achievements; to codify key objectives and common values; and to provide a stable and effective foundation for the future.

The EU has embarked on a special method for drafting the new Constitution. As you know, over the last one and a half years representatives from national and European institutions discussed in the Convention what Europe's new Constitution should look like. The ECB has followed these debates with great interest. It welcomes the draft Constitution as presented by the Convention in June.

However, as central bankers, we had to learn a new lesson. For the first time since the setting up of the ERM in 1979, a major reform of the EU takes place without monetary integration being in the limelight. The reason is simple: as far as monetary integration is concerned the EU has reached a "sustainable endpoint". The Maastricht Treaty gave the EU a modern "monetary constitution" which does not need be changed. It is sound both in terms of the objectives set and the allocation of

responsibilities between different actors and levels of government. The Convention rightly recognised this. Its draft Constitution takes over the provisions relating to EMU without changes in substance. The single monetary policy is, by its very nature, indivisible. Thus, it is an exclusive competence of the Union. The task of conducting monetary policy, as well as all other central banking tasks, has been assigned to an independent European Central Bank, which fulfils the task together with the National Central Banks of the euro area and with the clear primary objective of maintaining price stability. The draft Constitution explicitly mentions the European System of Central Banks, the ESCB, in the first part of the Constitution. Thus, it acknowledges the federal nature of the monetary authority of the European Union and its sui generis character. Finally, the more specific provisions concerning monetary policy in the current Treaty as well as the Statute of the ECB and the ESCB will in their substance remain unchanged and form part of the constitutional texts of the Union.

I very much welcome that the fundamental features of the current set-up of EMU have been preserved. After all, the stability of the institutional architecture is a crucial element of the credibility of the single monetary policy and the public's confidence in our currency.

Of course, further refinements to the draft Constitution are possible, and the ECB has made several suggestions. For example, we strongly believe that price stability should be added to the list of the Union's objectives set out in the first part of the Constitution. Because Price stability is of great importance not only for the ECB but for the Union as a whole. It ensures confidence in the long-term value of the euro and translates into low and stable medium and long-term market interest rates. It also avoids an arbitrary redistribution of wealth, thus it helps to protect the weakest members of society. Price stability certainly deserves to be an objective of the European Union. Furthermore, we would like to see a clarification of the allocation of responsibilities concerning the international representation of the euro. It would also be useful to recognise the widely used term "Eurosystème".

Naturally, in all our comments the ECB does respect the prerogative of national governments and ultimately the citizens to adopt the institutional framework of the EU. At the same time, the ECB has a clear interest for the constitutional process to be a success. In this, I completely concur with what my predecessor, Wim Duisenberg, repeatedly stressed: for a well-functioning monetary union a strong and effective EU is necessary. EMU contributes significantly to the strength of the EU but without a political Union and effective institutions the ship will lose balance.

Therefore, I would like to comment briefly on provisions in the draft Constitution that concern the overall political institutions and procedures of the EU. I think, it is to be welcomed that the draft Constitution increases the visibility and continuity of the key representatives of the EU. A new elected President of the European Council and a strong EU Foreign Minister will help to put faces to decisions. I also support the extension of qualified majority voting. The EU may not necessarily acquire new competencies. However, the EU should have the means to implement effectively those competencies that have been given to it. Qualified majority voting ensures that decisions are actually taken.

It is now for the Intergovernmental Conference to use the Convention's draft for finalising the Constitution. In this regard, I look forward to listen to the discussions at the first panel of tomorrow's congress.

Enlargement

The upcoming enlargement of the European Union is without any doubt a major achievement and a challenge. The ten new members will almost double the number of current Member States and the EU population will increase to more than 450 million people. Looking beyond these numbers, the largest ever expansion of the Union will be a historic landmark. It will underline the end of decades of division and reunite the European continent. Enlargement will also bring benefits in a more narrow economic sense. Both new and current Member States alike will be able to enjoy the benefits deriving from the expanded internal market.

Both the current and new Member States have been preparing intensively for enlargement. Let me first focus on the situation in the acceding countries and then on the European Union. I will finally concentrate on a specific aspect of enlargement, which is of particular relevance for central bankers - namely the extension of the euro area.

Acceding countries have made remarkable progress in recent years. They significantly furthered macroeconomic stabilisation and structural reforms. Moreover, those acceding countries that were

formerly centrally planned economies have been able to establish functioning market economies, thus pursuing the process of transition.

There remain, however, formidable challenges. The task at hand is to advance real convergence while safeguarding and, where necessary, enhancing macroeconomic and financial stability. In particular, locking in inflation at low levels, preserving the soundness of the financial sector and renewing efforts towards fiscal consolidation are all of the utmost importance.

The gap in per capita income between the current and the new Member States remains large. The process of catching-up in real incomes has been slower than many expected at the start of transition, although the progress achieved differs somewhat across countries. For acceding countries as a whole, per capita income today is less than half of the average of the euro area. Given the very low starting point for most countries, increasing prosperity and living standards will remain their main policy objective for quite some time.

Of course, accession to the EU is expected to have a positive effect on the countries' prospects of convergence. The full integration into the internal market will increase growth prospects and thus foster the catching-up process. New Member States will have to complete the adoption and, even more importantly, implement the *acquis communautaire* (excluding, for the time being, those areas where transition arrangements apply).

Turning now to the current Member States. The EU has also been preparing intensively to make enlargement work. Member States took steps in the Treaty of Nice to streamline their decision-making. As I already mentioned, the ongoing process of giving the EU a constitution is also linked, at least in part, to enlargement. Within the realm of central banking, the Eurosystem has been engaged since 1999 in a constructive dialogue with the central banks of accession countries. The institutional structures of the ESCB are also being adapted and Governors of the central banks of acceding countries already take part as observers in the General Council. Finally, and most visibly perhaps, the ECB has submitted a recommendation on the voting modalities of its Governing Council, which has been accepted by the EU Council and is now under ratification. This will allow the ECB to maintain the efficiency and timeliness of decision-making in an enlarged euro area.

In fact, enlargement of the EU will lead to the extension of the euro area some time in the future. New Member States enter with a commitment to strive towards the adoption of the euro. Let me stress that the basic interest of the euro area in this process is to ensure that the monetary integration of the new Member States proceeds in a smooth manner and in line with Treaty provisions. This has two important implications.

First, given the heterogeneity among acceding countries in their economic structure and their exchange rate regimes, no single path towards the euro can be recommended to all acceding countries. At the current juncture, the ECB does not discourage any particular strategy, provided it is based on sound economic reasoning, conforms to the existing institutional framework and contributes to the high level of nominal and real - namely sustainable - convergence, which is of the essence when joining the euro.

Secondly, the principle of equal treatment will continue to apply throughout the entire process of monetary integration. Adopting the euro is an extremely serious affair and it is of the utmost importance that countries fulfil the convergence criteria in a sustainable manner before adoption of the euro, as stated by the Maastricht Treaty. There will be no additional criteria but there will be no relaxation of the criteria, either. No more, no less.

Returning to the theme of identifying Europe, enlargement exemplifies the inclusive nature of the EU. The newcomers join the Union on the basis of a rules-based process and as equal members of the team. Moreover, enlargement will advance the EU's objectives. It contributes to prosperity, stability and peace. Finally, the many preparations for enlargement, both by the EU and by the acceding countries, provide a vivid illustration of the willingness among Member States to implement European solutions to European issues.

Conclusion

Ladies and Gentlemen,

The European Union can be proud of its qualities, its *clear objectives*, its *willingness to co-operate* and its *openness to “newcomers”*. I am optimistic that despite the profound tasks that lay ahead the EU will maintain these qualities. Europe will sail on with a strengthened crew and a modernised ship.

Yet, we all have to play a constructive role in this. There are investments to be made for rebuilding the new Member States and there are financial services to be integrated into one European market. I sincerely believe that Monetary Union contributes to accomplishing these tasks. The euro has become a strong symbol of Europe. It makes the world “identify Europe” and helps Europeans to identify *with* Europe. I am grateful that as new President of the European Central Bank I have the opportunity to ensure that the euro will continue to stand for a successful Europe.

Thank you for your attention.