

Jean-Claude Trichet: Building Europe, building institutions

Speech by Mr Jean-Claude Trichet, President of the European Central Bank, on receiving the Karlspreis 2011, Aachen, 2 June 2011.

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Lord Mayor,
Presidents of the European Council, the European Commission, the European Parliament and the Eurogroup,
Former recipients of the Karlspreis,
President of the Deutsche Bundesrat,
Excellencies,
Ministers,
Members of the European Parliament and national parliaments,
Members of the ECB's Governing Council,
Members of the Karlspreis Foundation,
Ladies and gentlemen,

It is an immense honour to receive the Karlspreis today.

I find it difficult to put into words how deeply humbled I am to join the most impressive company of the prize recipients. To borrow the words of Sir Isaac Newton, I feel as if I *am standing on the shoulders of giants*.

I express my most profound gratitude to the Karlspreis foundation for bestowing this honour. I know that this prize goes to my colleagues of the Executive Board who are present today and to all staff of the European monetary team: the European System of Central Banks. I am moved by the kind words of President Barroso and the faith the Karlspreis foundation have placed in us as true Europeans.

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Each generation needs to affirm its commitment to Europe.

For the generation that lived through the Second World War, Europe was essential to prevent a return to the depression and the horrors of that war.

For the generation after, Europe was the cornerstone of building prosperity through economic freedom and open markets.

For the current generation, these achievements are taken for granted. Citizens have new concerns.

They want to be told why European unity is more important than ever in the present globalised world to ensure peace and security; why the European Union is vital to ensure and promote the interests of the European nations; why the European economies and societies are much more interdependent today than immediately after World War II; and how these interests and this interdependence should be best governed.

In all domains this calls for continuing to strengthen Europe's institutional framework. In the economic and financial fields it demands to reinforce in a decisive way the institutions of the economic and monetary union.

By institutions, I do not mean technocrats making complex decisions remote from citizens.

I mean the rules and organisations that preserve our core values and guide our actions towards the common good.

Institutions that build trust between peoples and nations in Europe.

Institutions that foster cooperation for mutual benefit.

Institutions that manage our interdependence by preparing collective decisions.

As Jean Monnet put it, *“Nothing is possible without men and women, but nothing is lasting without institutions.”*

We are privileged in Europe to have institutions that contribute to binding together our continent, that embody the values of the European project and carry it further.

The European Commission, led by Mr. Barroso, is at the heart of this process. The European Council, led by Mr. Van Rompuy, gives it direction and momentum from the highest level. In the domain of Economic and Monetary Union, the Eurogroup, led by Mr. Juncker, drives forward its agenda and confronts its challenges.

In keeping with the vision of the Karlspreis, I will focus my remarks today on how developing further our common institutions is the key to the next stage of European economic and financial integration.

My main message is that the achievements of economic and monetary union (EMU) to date have been made possible by the ECB and the Eurosystem, the strong institutions of monetary union – the M in EMU. In the same vein, confronting the challenges of the future requires strengthening the institutions of economic union – the E in EMU.

Economic and Monetary Union

EMU is the area where Europe has progressed furthest.

It is a union where sovereign nations share a single market, a single economy and a single currency. Where they bind their actions through common laws and institutions. Where they remain unified and diverse at the same time.

This unique arrangement fulfils the visions of centuries of great European thinkers.

... of Erasmus in the 16th century, who spelled out the moral limitations of a strict concept of nationhood

... of William Penn in the 17th century, who recognised that European nations could mutually benefit by creating common institutions

... of Immanuel Kant in the 18th century, who understood that the authority of such institutions had to rest on common laws

... of Victor Hugo in the 19th century, who realised that democratic participation was necessary to provide these laws with legitimacy

... and of Robert Schuman in the 20th century, who saw that the foundation of all of the above would be economic integration.

It is important to keep in mind this historical perspective, seeing beyond the current challenges in the euro area. EMU is itself an unprecedented achievement in the history of sovereign nations – a goal to which generations of Europeans have aspired.

EMU is a historical process designed to bring real economic benefits for Europe’s citizens. We should not overlook what has been achieved in this area.

EMU has brought growth. Over the first decade of the euro, GDP growth per person has been of the same order of magnitude as in the United States.

EMU has fostered trade. Not only inside the Euro area (+50% increase in trade volumes over the first years of the euro), but even more so with the European Union as a whole and the rest of the world (+80% over the same period). EMU is not a closed shop. On the contrary, it is the most open of the large economies in the world.

EMU has brought employment. Employment has increased by 14 million since the creation of the euro, compared with a rise of about 8 million in the United States.

EMU has brought price stability. The average yearly inflation rate in the euro area during its first 12 years was 1.97%. That is fully in line with our definition of price stability at the European Central Bank (ECB): an inflation rate below but close to 2% over the medium term.

And EMU has brought monetary stability. The euro is a solid and credible currency, trusted by our fellow citizens, investors and savers.

There is no “crisis of the euro”.

The ECB and the euro

In 2002, the Karlspreis Foundation awarded the prize to the euro. The Foundation stressed how the euro was the logical step to maximise the benefits of the single market for sustainable growth and job creation.

On the evidence accumulated in the first twelve and a half years, the ECB has delivered on this promise.

The Treaty has mandated the ECB to keep safe the money of Europe’s citizens. And it has given the ECB the capability and the full independence to perform this task effectively.

These two aspects are akin to Max Weber’s ethics of conviction and responsibility. Our mandate gives us our conviction. Determined action reflects our responsibility.

In the difficult circumstances afflicting all the advanced economies since the start of the crisis in 2007, the ECB Governing Council demonstrated both conviction and responsibility.

We have shown conviction in steadfast commitment to price stability. Before and during the crisis, all our decisions on interest rates – we call them “standard decisions” – have been designed in order to give our fellow citizens price stability over the medium term.

And, as I just said, over the first twelve years we have delivered average yearly inflation at the level of less than 2%: it is a better result than the previous national currencies over the last 50 years, including the Deutsche Mark. Here in Aachen, I can say, the promise “stark wie die Mark” has been fully respected.

Since the crisis we also had to cope with financial turbulences, abnormal functioning of markets and disruption of certain segments of markets.

We showed our responsibility in taking monetary policy measures – we call them “non standard” decisions, strictly separated from the “standard” decisions, and aimed at restoring a better transmission of our monetary policy in these abnormal market conditions.

All these “non standard” measures – whether exceptional refinancing with full allotment and longer duration, or the interventions in private or public securities markets – have been designed to be commensurate to the tensions observed on these markets and allow a better transmission of our interest rates decisions.

In demonstrating both conviction and responsibility, the ECB has been, during the last four years, a reliable and solid anchor of stability to the service of our fellow citizens in the worst economic and financial circumstances since World War II.

Had we not been able to present a solid anchor of stability and confidence, the recovery the euro area has experienced since May 2010 would probably have been very different. The increase in GDP of over 2.5% in the past 12 months would not have happened. The increase in employment by 350,000 jobs since then might not have been there.

In deciding on all our measures, standard and non-standard, we have the needle in the compass on our primary objective: price stability for the 331 million fellow citizens of the euro area.

I wish to underline that achievements of the last 12 years have only been possible thanks to the remarkable dedication and expertise of the ECB Executive Board and Governing Council, to whom Europe today, through the Karspreis, is expressing its gratitude.

The same gratitude goes to the 1,400 staff members at the ECB in Frankfurt. They come from all 27 countries of the EU. They are a shining example of professionalism and team spirit, of what it means to work together for Europe.

Current challenges for governance

Just as the success of the euro as a currency is due to well-designed institutions, addressing EMU's difficulties requires a major strengthening of the rules and organisations that govern fiscal and economic policies.

Looking at the euro area today, we see clearly that countries that abide by the rules of the single currency can thrive and prosper. Sound policies and a healthy economy are strongly correlated.

But we also see the opposite. Countries that have not lived up to the letter or the spirit of the rules have experienced difficulties. Via contagion, these difficulties have affected other countries in EMU.

Strengthening the rules to prevent unsound policies is therefore an urgent priority. It is the means to allow all countries to reap the full benefits of the single currency. And it prohibits individual countries from pursuing policies that harm themselves and the euro area as a whole.

For this reason, I have called, in the name of the Governing Council, on the Commission, the Council and the European Parliament to be very ambitious in reinforcing economic governance in the euro area. We have called for a "quantum leap" in governance now, to draw all the immediate lessons from the first years of Economic union and from the weaknesses revealed by the global crisis.

I count particularly on the European Parliament to reinforce the draft secondary legislation that is presently examined in the "trialogue" between the Parliament, the Commission and the Council.

Which possible changes of governance could be envisaged in the medium term?

In the aftermath of the global financial crisis, we face the challenge of supporting countries that experience financial difficulties.

Arrangements are currently in place, involving financial assistance under strict conditions, fully in line with the IMF policy. I am aware that some observers have concerns about where this leads. The line between regional solidarity and individual responsibility could become blurred if the conditionality is not rigorously complied with.

In my view, it could be appropriate to foresee for the medium term two stages for countries in difficulty. This would naturally demand a change of the Treaty.

As a first stage, it is justified to provide financial assistance in the context of a strong adjustment programme. It is appropriate to give countries an opportunity to put the situation right themselves and to restore stability.

At the same time, such assistance is in the interests of the euro area as a whole, as it prevents crises spreading in a way that could cause harm to other countries.

It is of paramount importance that adjustment occurs; that countries – governments and opposition – unite behind the effort; and that contributing countries survey with great care the implementation of the programme.

But if a country is still not delivering, I think all would agree that the second stage has to be different.

Would it go too far if we envisaged, at this second stage, giving euro area authorities a much deeper and authoritative say in the formation of the country's economic policies if these go harmfully astray? A direct influence, well over and above the reinforced surveillance that is presently envisaged?

The rationale for this approach would be to find a balance between the independence of countries and the interdependence of their actions, especially in exceptional circumstances.

We can see before our eyes that membership of the EU, and even more so of EMU, introduces a new understanding in the way sovereignty is exerted. Interdependence means that countries *de facto* do not have complete internal authority. They can experience crises caused entirely by the unsound economic policies of others.

With a new concept of a second stage, we would change drastically the present governance based upon the dialectics of surveillance, recommendations and sanctions.

In the present concept, all the decisions remain in the hands of the country concerned, even if the recommendations are not applied, and even if this attitude triggers major difficulties for other member countries.

In the new concept, it would be not only possible, but in some cases compulsory, in a second stage for the European authorities – namely the Council on the basis of a proposal by the Commission, in liaison with the ECB – to take themselves decisions applicable in the economy concerned.

One way this could be imagined is for European authorities to have the right to veto some national economic policy decisions. The remit could include in particular major fiscal spending items and elements essential for the country's competitiveness.

Which possible changes of governance in the historical long term?

Looking much further ahead, we should wonder what will be the future political institutional framework of Europe.

Immanuel Kant argued that, where countries are interdependent, institutions will continue to develop between them until a stable equilibrium is reached. In his words, "a state of affairs... that can maintain itself automatically."

And Jean Monnet in his memoirs 35 years ago wrote: "Nobody can say today what will be the institutional framework of Europe tomorrow because the future changes, which will be fostered by today's changes, are unpredictable."

In a long term historical perspective, Europe – which has invented the concept and the word of democracy – is called to complete the design of what it already calls a "Union".

The future political institutional framework of the Europeans will not be the simple imitation of existing models. On a personal basis, as a European citizen, I think that, like at the very moment of the birth of the concept of democracy, the Europeans will not be imitators but rather setting examples, with a Union that will be a confederation of sovereign states of an entirely new type. This naturally will call for a very important change of the Treaty and will have consequences in all the Union's responsibilities.

In this Union of tomorrow, or of the day after tomorrow, would it be too bold, in the economic field, with a single market, a single currency and a single central bank, to envisage a ministry of finance of the Union?

Not necessarily a ministry of finance that administers a large federal budget. But a ministry of finance that would exert direct responsibilities in at least three domains: first, the surveillance of both fiscal policies and competitiveness policies, as well as the direct responsibilities mentioned earlier as regards countries in a “second stage” inside the euro area; second, all the typical responsibilities of the executive branches as regards the union’s integrated financial sector, so as to accompany the full integration of financial services; and third, the representation of the union confederation in international financial institutions.

Which institution of this confederation of sovereign states of a new type will exert these responsibilities, will be decided by the people of Europe, as Jean Monnet suggested. I am sure that the President of the European Council, the President of the Commission, the President of the Eurogroup and the German Minister of Finance – who are all present here – have their own sentiment on this question.

Conclusion

Let me come to a conclusion, and don’t be surprised that a central banker shares with you some thoughts on the subject of culture. It is often suggested that Jean Monnet said “if I had to do it again, I would start first through culture.” The cultural unity of Europe is at the root of the European endeavour, including economic and monetary union.

Let me give you two complementary readings of Europe’s cultural unity.

The first is the vision of Husserl in his famous Vienna lecture of May 1935. He sees the origin of the spiritual form of Europe in its philosophical roots. I am quoting: “One can see that it is the starting point of a new kind of community, one which extends beyond nations. It is now no longer a number of different nations living alongside each other and only influencing each other through commercial competition or power struggles, but it is: a new spirit – stemming from philosophy and the sciences based on it – a spirit of free criticism, providing norms for infinite tasks, and it dominates mankind creating new, infinite ideals”.

The second is the vision of Paul Valéry. He stresses the spiritual character of Europe in his essay “l’Européen”. In 1924 he wrote: “Wherever the names Caesar, Gaius, Trajan and Virgil, wherever the names Moises and St. Paul, wherever the names Aristotle, Plato and Euclid have a significance and carry weight, that is where Europe is”. Here in Aachen, I would say wherever the name of Charlemagne carries weight, that is where Europe is.

Particularly in these times of global challenges, of stress, of crisis, such a return to the “spiritual form of Europe” is enlightening.

Husserl concluded his lecture in a visionary way: “Europe’s existential crisis can end in only one of two ways: in its demise (...) lapsing into a hatred of the spirit and into barbarism; or in its rebirth from the spirit of philosophy, through a heroism of reason (...)”.

I think that [eventually] a confederation of sovereign states of a new type, with new institutions to manage the interdependence of today and tomorrow, would be fully in line with such a heroism of reason.

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The city of Aachen has a special significance for Europe as a whole and also for the peoples of France and Germany.

Nearly 60 years later, I too have the honour of receiving the Karlspreis as President of the ECB, being also a “Frenchman on German soil”.

As a French citizen on German soil, I do not forget the start of the European endeavour, with the speech of Robert Schuman. This endeavour was founded, in particular, on the ties between our two countries, put to the service of all other nations and of Europe as a whole, the deepening integration of our economies and currencies, and ultimately the common bond of the euro. It has been a great privilege that the path of my career has allowed me to participate in this historical endeavour.

In the almost eight years I have lived in Germany, I have developed a strong admiration for the country, its culture and its history.

Germany combines local, regional and national identities with a strong European identity, each mutually reinforcing.

This is unity in diversity – a strong whole with equally strong parts.

Europe is progressing along this path. But to go further, the European nations must continue to lead the way. It is vital that all nations engage fully in the European historical endeavour and look with confidence to the future.

There are many grounds to be confident in our long-term future.

Europe is in the vanguard of nations working peacefully together.

We have replaced confrontation and conflict with cooperation and consensus.

We have combined political freedom with economic freedom and social peace.

We have proved that our single currency is stable and credible, preserving price stability over time.

Let us carry this noble endeavour further by giving Europe now and for the longer term the institutions it deserves.

Thank you for your attention.