Mr. Wellink looks at European economic and monetary cooperation from an historical perspective Address by A.H.E.M. Wellink, an Executive Director of the Netherlands Bank ,on the occasion of AEGEE's EMU campaign 1997, delivered in Rotterdam on 16/4/97.

If everything goes according to schedule, the Economic and Monetary Union - EMU, in short - will start on 1st January 1999. As of that date, the central banks of countries which are part of EMU at that time will join the European Central Bank (ECB), to be located, as you know, in Frankfurt. From then on, this institution will conduct a monetary policy aimed primarily at stabilising the internal value of the future single European currency, the *euro*.

When the euro is officially initiated on 1st January 1999 - and I have no doubt that it will - a process will have been completed which can be considered unique from various points of view. Firstly, because the euro will become the pre-eminent symbol of economic and monetary union which is taking shape between sovereign states abolishing their national currency in exchange for a single currency. Secondly, because when it is introduced, the euro will not immediately be both a unit of account and means of payment: on 1st January 1999 the euro will become the unit of account, whereas it will not begin to circulate as a concrete, physical means of payment until three years later, on 1st January 2002. Finally, and befitting the age we live in, because the euro will be the first single currency which is available in electronic form right from the start.

Hence, the euro marks the completion of a process which is unique from a historical perspective. It is this process which I want to discuss with you this afternoon. Not so much because I was asked to give an outline of economic and monetary cooperation as from the Treaty of Rome to the present day, but particularly to outline the near future. Outlines which are essential to make the euro a lasting success.

Travelling from Rome to Amsterdam, where the Maastricht Treaty will shortly be reviewed, we will have to make several stopovers.

1. From Rome to The Hague

There is nothing new about the pursuit of a single European currency. Ideas about a single currency are mainly rooted in idealistic-political motives. When a single European currency was propagated in the past, this was usually done in the form of a plea in favour of a politically united Europe. This idea was also expressed shortly after the end of World War II. It was Winston Churchill, who in 1946 in Zürich, argued in favour of "a kind of United States of Europe". In April of that same year, the need for a single European currency was voiced by the new post-war President of the Nederlandsche Bank, Marius Wilhelm Holtrop, who wanted a strong and sound guilder which in due course would merge into one European currency.

The past fifty years have shown, that the advent of a single European currency will certainly not include the "United States of Europe" that Churchill was talking about. Soon after 1946, Europe became politically divided into Eastern and Western hemispheres due to the Cold War. With the foundation of the European Economic Community (EEC) in 1957, Western Europe took the lead by starting economic cooperation. The objective of the Treaty of Rome, on which the EEC was based, was to create a common market between France, West Germany, Italy and the Benelux countries. This objective resulted in a customs union which became effective on 1 July 1968. However, the Treaty remained vague about other aspects of economic cooperation. Economic policy, for example, was considered a matter of common interest. As regards monetary cooperation, coordination was recommended, the exchange rate policy being regarded as a matter of common interest as well. The plan for economic integration designed in Rome was not an objective in itself. It was based on political grounds. After all, the Treaty aimed at achieving an “ever closer union among the European peoples” through economic integration.

During the 1969 summit in The Hague, representatives of the six Member States agreed with the idea of the newly elected German Chancellor Willy Brandt that this had to be realised via Economic and Monetary Union (EMU). The then Prime Minister of Luxembourg, Paul Werner, came up with a detailed plan that was named after him. According to this plan, EMU would be materialised in stages. In the final stage, monetary and budgetary competences of the national states were to be transferred to Community bodies established for that purpose. And so, Werner’s ideas were considerably more far-reaching than the agreements reached in Rome thirteen years earlier. Nonetheless, the philosophy of economic integration advocated in Rome remained the moving spirit behind political cooperation: “it is true that we need not achieve a European confederation or federation tomorrow. But to arrive at this ultimate goal, we must first take the step of creating an economic and monetary currency union”, Werner said at a press conference at the time.

In the Europe of the Six, France and Germany played a leading role right from the start. Nonetheless, during the preparation of the Werner Report, both countries differed in view about the aim of integration. So there is nothing new under the sun. For the German Minister Karl Schiller, EMU was inextricably connected to the idea of a political union. France, personified by Raymond Barre, considered this idea of political union far too drastic. Fixing the exchange rates was as far as he wished to go for the time being, hoping that this would make economic integration inevitable. Due to political pressure exerted by France, the final date of EMU was left open in the end. On 1 January 1971, the first phase commenced. It was to last three years, and in this period the Member States would aim at narrowing the fluctuation margin of the exchange rate between their currencies.

The first phase however started under unfavourable circumstances. In August 1971, turmoil on the international foreign exchange markets forced the US Administration to suspend the convertibility of the dollar. This jeopardised the international exchange rate system of Bretton Woods. At the end of 1971, it was agreed to devalue the dollar and to broaden the exchange rate margins of the currencies participating in the international exchange rate system from 0.75 to 2.25% on either side of the dollar parity. Needless to say that under these circumstances, it became extremely doubtful, whether the first phase of EMU could be heralded. For that reason, the EC Member States agreed in March 1972 to limit the exchange rate fluctuations between their currencies vis-à-vis each other to 2.25%. This is how the “snake in the tunnel” originated, soon to become the “snake in the lake“ when the dollar started to float as from August 1973. This was the final blow to the Bretton Woods System.

2. From The Hague to Maastricht

In the 1970s, cooperation in Western Europe was characterised by the priority given to enlarge the Community over deepening. At the beginning of 1973, the United Kingdom, Ireland and Denmark joined the Economic Community. Reviewing policy coordination between the original Six at that time, the European Commission came to the conclusion that it had been insufficient in this first stage. Therefore, “the“ second phase was changed into “a” second stage in early 1974. In the following years, the lack of policy coordination frequently led to new exchange rate crises, although these were fuelled by external circumstances as well, including two oil crises. The most striking reaction came from France, which left the snake in early 1974, returned to it in July 1975, and left again in March 1976. The seriousness of the situation was aptly described by the Frenchman Robert Mariolin, who characterised the integration process as follows: “... if there has been any movement, it has been backward: national economic and monetary policies have never in 25 years been more discordant, more divergent than they are today”.

The discussion about how Europe should proceed was set off in early 1978 by Roy Jenkins, chairman of the European Commission at the time. After it appeared that a committee established by Jenkins made little progress, the German Chancellor Helmut Schmidt and the French President Giscard d’Estaing joined forces. These two politicians demonstrated how quickly plans can be turned into action when backed up by political will and determination. In March 1979, only a few months after they had met, the European Monetary System (EMS) entered into force, which aimed at creating a “zone of monetary stability”.

The EMS marked the introduction of the European Currency Unit (ECU) as single unit of account and as starting point for the new exchange rate system. Yet it was no more than a technical arrangement. After all, monetary stability has a chance to succeed only if the economies of the participating countries achieve sustainable convergence and the governments of these countries pursue stability-orientated macroeconomic policies. However, that point had not been reached yet. By conducting a policy which gave high priority to fighting unemployment, France opposed the primacy Germany had attached to price stability since 1945. A large number of exchange rate adjustments were required to make France realise in 1983 that a radical turnabout was necessary. France’s adoption of a policy of the “hard” franc was a move in the direction of the German objective of price stability. The calming effect of this turnabout within the EMS, was enhanced when an agreement was reached in the Danish city of Nyborg on monetary policy adjustments which were needed in the event of exchange rate tensions. In the meantime, the expansion of the Community had widened further. Greece joined in 1981, followed by Spain and Portugal in 1986.

In the decision-making process regarding the EMS, EMU was not explicitly formulated as the system’s objective. The Delors Report, which was published in April 1989, contained concrete proposals to that end. According to Delors, fixed and unchangeable exchange rates should be the core of EMU. This implied a single monetary policy, to be conducted by a European central bank which had to ensure that domestic price stability would be maintained. The road to EMU was to be completed in three stages which were, however, not subject to expiry dates. As did Werner, Delors thought that EMU could be realised within a period of ten years. An important difference was that Delors did not propose a transfer of national fiscal competences to the Community. Delors’ plan had a sequel in June 1989, when it was agreed that an Intergovernmental Conference would be held to decide about the necessary amendments to the Treaty of Rome. Six months later, the French-German proposal to hold a conference about political cooperation was accepted in Dublin. At both conferences, preparations were made that led to the Treaty on European Union (EU) at the end of 1991, better known as the Maastricht Treaty.

From the tensions that characterised the EMS in the early 1990s, it seemed to be clear that the first stage of EMU did not go entirely as planned. The uncertainties in countries such as Denmark and the United Kingdom which hesitated to sign the Maastricht Treaty, the interest-increasing effect of the unification of Germany, and the fact that the exchange rates of some currencies had become overvalued since Nyborg, culminated in August 1993 in the decision to broaden the fluctuation margins of the EMS currencies from ± 2.25% to ± 15%, except for the Deutsche Mark and the guilder which maintained the original margin of ± 2.25%.

Despite this setback, the European leaders were determined not to allow further delays on the road to EMU mapped out by Delors. This determination was also prompted by external circumstances which, contrary to the 1970s, now had a positive impact on developments. The collapse of the Berlin Wall in October 1989 ended the political division in Europe. This opened the door to the reunification of East and West Germany, of which the Deutsche Mark had meanwhile become the anchor of stability within the EMS. These changes, which coincided with worldwide deregulation of capital transactions, increased the necessity of forming a front in Western Europe. At rapid pace, the Member States of the Community worked to realise the single market, which was as good as completed on 1st January 1993. A logical complement to this single market was the single currency.

However, the acceleration of the integration process was not based on economic motives alone. In political terms, the Maastricht Treaty has sometimes been interpreted as a kind of trade-off: West and East Germany were allowed to unite provided this locomotive would continue to pull European economic and monetary unification at a rapid pace in order to hedge the feared German supremacy in the new Europe. Be this as it may, the Treaty officially entered into effect in November 1993, harbouring the prospect of a single European currency. On 1st January 1994, Europe stepped into the second stage of EMU and the European Monetary Institute (EMI), the forerunner to the ECB, was established in Frankfurt. The EMI's primary task is to strengthen the coordination of monetary policy between the EU Member States - in early 1995, Finland, Austria and Sweden joined the EU - and to prepare the third stage of EMU.

As mentioned, EMU cannot be seen separate from the wish to establish, in the longer term, a politically unified Europe as well. In order to prevent economic reality from being subordinated to this more than honourable wish, stringent entry requirements were set. These so called convergence criteria pertain to permissible values for inflation rates, interest rates, public deficits and public debts. The Maastricht Treaty does not hold the ultimate wisdom. Economic theory has not yet advanced to a level where it can objectively and accurately determine the optimal size of public deficits and debts. It probably never will. The Maastricht budgetary criteria, which are criticised from various sides - some arguing that the entry requirements are too stringent, others believing them to be too lenient - are based on practical experience and, put in a longer historical perspective, are too lenient rather than overly stringent. This is another reason why these criteria must be stringently applied.

3. From Maastricht to Amsterdam

The last stage that I want to complete in this introduction, is the journey from Maastricht to Amsterdam. On 16 and 17 June, Amsterdam will host the biannual European summit, where the Maastricht Treaty could well be transformed into the Amsterdam Treaty. It is worth mentioning to foreign guests present here this afternoon that, from a geographical perspective, Maastricht is the last and only real mountain to be conquered on the road to Amsterdam. In other words, the journey from Maastricht to Amsterdam is free of obstacles. I hope that the same applies to the last stage of EMU. The likelihood of obstacles has been reduced considerably because, as I have explained, stringent entry requirements were set in Maastricht. Gradually, a group of countries is emerging in Europe which may be able to meet these criteria. In the spring of 1998, they will be formally appointed as EMU participants. In order to give sufficient weight to this core group, the participation of France and Germany - forming as they do the axis of Western European cooperation - is a prerequisite. But with a view to the credibility of EMU, France and Germany, in particular, have to strictly observe the conditions of accession.

The creation of a core group gives rise to continuous speculations about the question which countries will join it. In this stage of EMU, such speculations are not productive. Instead of excluding countries in advance, each country should be stimulated to do its utmost to complete the budgetary consolidation process. Of course, this does not call for tricks or non-recurring measures, but requires, - as stated in the Maastricht Treaty - a sustainable and therefore permanent consolidation, not only in the interest of EMU but also in the interest of the country involved.

Apart from the question which EU countries will be in the core group, participation in EMU implies at any rate that the country involved transfers its monetary policy powers to an independent ECB. In that field, we will continue to see rearguard action, because the tradition of central bank independence is not equally rooted across the whole of Europe. On the other hand, one should not worry about these recurring discussions too much, as the Treaty is rock-solid with regard to the prohibition to exert political influence on the ECB Governing Council. Obviously, the independence of the European Central Bank should not be confused with a lack of democratic legitimacy. After all, the democratic legitimacy of the ECB has been safeguarded in many ways. For example, the designated ECB-President can be questioned by the European Parliament and the chairman of the Council of Ministers plus a member of the European Commission may participate in meetings of the ECB Executive Board without, it is true, voting rights. But apart from this, it should be kept in mind that the Masstricht Treaty has been ratified by the national parliaments. In other words, the ECB's task to achieve price stability is based on a democratic decision of the national parliaments.

The fact that the other forms of policy will remain the responsibility of national authorities may make EMU unique, but fragile too, e.g. if no measures are taken to guarantee that national competences are not abused. Fortunately, European leaders have agreed to the stability pact proposed by Germany. This pact will enable EMU to impose sanctions on EMU Member States whose public finance is not in order. The Netherlands has always been a strong proponent of this proposal, because it is an important instrument to guarantee budgetary discipline. After all, the budgetary policies of the participants will have to be aligned in such a way that they may be used to strengthen the European currency. But even then major efforts will have to be made to clear the road to EMU of any remaining obstacles. The Intergovernmental Conference which started a year ago and will be completed in Amsterdam, will have to provide an answer to the question how the EU can remain institutionally manageable when a number. of Eastern European countries accede in the near future. Answers are also required to the questions regarding more effective decision-making and the role which the European Parliament could play in that respect. Of course, these issues do not have to stand in the way of establishing EMU in 1999. Nevertheless, they show that the long-term success of EMU as part of the EU is not guaranteed until, more so than in the past, the widening of the Union runs parallel to a deepening in the direction of an "ever closer union among the European peoples", as envisaged by the signatories to the Treaty of Rome.

Ladies and Gentlemen

With Amsterdam as the last station on this trip, I have arrived at the conclusion of my address. In short, it may be argued that the process of European economic and monetary cooperation from 1957 to the present has been one of trial and error or - analogous to our train journey - of stopping and moving on. Nonetheless, the fact remains that the journey, also thanks to visionary, creative and energetic drivers, has always been resumed with greater speed, and that the problems encountered were resolved in an inventive, not always perfect, but workable way. This, I think, is the power underlying the post-war European drive towards integration and it is this power which makes me confident that the euro will arrive in due time. If the Treaty of Amsterdam is realised, the switches are definitively turned and the signal will be at clear for the final stage of EMU, which will lead to Frankfurt and can be completed on a beaten track in the high-speed train.