

**Mr. Tietmeyer discusses prospects and challenges for European integration in the run-up to EMU** Speech by the President of the Deutsche Bundesbank, Prof. Hans Tietmeyer, on the occasion of the awarding of the Special Prize 1997 of the German-British Forum in London on 15/12/97 (slightly abridged).

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As Christmas is very close, I would like to quote David Marsh. He once described all the wishes and hopes Germans are pinning on Europe, including the hope that the future European currency will be as stable as the D-Mark. And his comment on the multitude of German hopes regarding Europe was: "That is just as if Santa Claus came every day!" Well, it seems to me - at least as far as the stability of the euro is concerned - that we should not foist the responsibility onto Santa Claus. Though I do think very highly of him. After all, he is somebody who is independent of political influence, and stands for long-termism and consistency.

I have read that in this country there is the custom of the Christmas pudding. Before it is cooked, a coin is hidden in the mixture. Finding it in one's helping of the pudding is regarded as a token of good fortune and of being singled out. Personally, I cherish the hope that some day the lucky one will bite on a euro - but on a hard euro! Anyhow, problems with the teeth are easier to solve than the problems which a soft euro would pose.

## II

Ladies and gentlemen! As you know, I am an economist. Anybody who has studied economics properly has absorbed a good deal of Anglo-Saxon thinking. First, there are the great ideas and perceptions of the Scottish and English economists:

- the role of the market,
- the indispensable function of competition,
- the advantages of free trade between nations,
- and in particular: the key position of the individual, and his responsibility for his own economic success.

A distinct difference is often noted between Anglo-Saxon economics and German economics. Anglo-Saxon economics is said to be more technically orientated, sometimes in a manner reminiscent of engineering science. German economics - at least that since the Second World War - is often associated with that neo-liberal school of thought which we call "Ordnungspolitik". That is a word which is the despair of any translator from German into another language. This is because (perhaps contrary to some preconceived notions about Germans) "Ordnungspolitik" does *not* mean that policy makers will put everything in order. Precisely the opposite is true! At least theoretically.

The state is supposed to create a framework within which market forces are to interact and unfold their dynamism under competitive conditions. In this respect, however, the United Kingdom seems to have made more progress than Germany in the last decade. While our country has expanded the already overburdened welfare state further and has not sufficiently corrected the overregulated parts of the markets, this country seems to have changed many things

radically in the 1980s. Nowadays, the United Kingdom has very flexible structures and markets. And - if I see it aright - there is actually some consensus about the basic stance of such a policy in your country today. In particular, the United Kingdom is attaching increasing importance to monetary stability. The Bank of England has made great headway on the road towards independence. And the Chancellor of the Exchequer, Gordon Brown, has rejected short-termism in terms which even please the President of the Bundesbank.

So, all in all, it is not unfair to ask whether, in terms of the German postwar yardstick of “Ordnungspolitik”, the United Kingdom has not now distinctly outstripped its former mentor in this discipline. [In a way, just the opposite of developments in soccer.]

### III

The relationship between good economics and Anglo-Saxon thinking is also reflected, in a sense, in the history of the German view as to how European integration should be structured. It was certainly no accident that Ludwig Erhard (the neo-liberal economist and architect of the social market economy in the postwar years) sought to include the United Kingdom in the European integration process at an early stage. But Konrad Adenauer, the wily politician, attached overriding priority to the Franco-German relationship. This was motivated by different goals and hence different strategies.

Adenauer's prime target was to overcome the Franco-German conflict by making progress in political integration. In his view, the establishment of European institutions in the framework of a closely-knit Community - even if, or more exactly when, the latter comprised only a few of the free states of Europe - was an appropriate means of durably safeguarding the political integration of the two large continental rivals, which had been enemies for centuries.

Erhard adopted a different approach. For him, integration was not primarily the establishment of common institutions. In his eyes, integration was the dismantling of artificial barriers between countries, enabling national markets to merge. He called that functional integration, as distinct from institutional integration. That was why he passionately advocated the full convertibility of currencies and the abolition of customs barriers from an early date. That was also why the French notion of “Planification” was highly suspect to him in the sixties. Hence he was likewise very suspicious of any solution involving only parts of Europe, and sought to include the United Kingdom as far as possible. At the time he met with Whitehall's approval for his sceptical attitude to a small Community of six nations, but not always for his enthusiasm for far-reaching UK integration.

It is a happy stroke of fate that Europe today largely reconciles both approaches:

- Adenauer's desire for lasting Franco-German friendship, embedded at the same time in joint institutions;
- and Erhard's desire for the merging of the whole of free Europe, basically along market-oriented lines.

### IV

Thus, seen from a German point of view, European integration till now - despite all the deficiencies in detail - has, all in all, been a success story. This is not because Germany

wants to dominate Europe. Quite the contrary, it wishes to be part of a functioning integration which is also soundly based in economic terms. Admittedly, the European ideal is sometimes used to mask nonsense. The anecdotes about pointless regulations planned by Brussels bureaucrats would fill volumes. But the European Community can - first and foremost - claim one outstanding achievement. It has contributed substantially to the fact that EU countries are today willing to agree to joint political and economic ground rules, to regard them as joint standards and to accept them indefinitely.

To have binding ground rules is the fundamental basis for our Europe, with its variety of nations and cultures and its truly difficult history. Such ground will produce ample crops. After all, the single market has not come from nowhere. Gordon Brown once used the phrase: "Europe has secured peace and rising prosperity". I think he is right.

European integration should continue. But, from the German point of view as well, it should not move in the direction of a European superstate. Europe should not be assigned as many responsibilities as possible. But the responsibilities assigned at the European level should certainly be met:

- clearly and unambiguously,
- transparently,
- and (this may be a specifically German wish) in conjunction with the European institutions.

That, after all, is what they are there for. This must also apply to EMU.

V

In line with the agreed time schedule, the European Central Bank will be established in the middle of 1998. It will assume responsibility for monetary policy after the start of EMU, and ensure monetary stability. The European Central Bank will be independent - I hope not only on paper, but also in practice. That is familiar to German ears. For British ears it is perhaps less a matter of course - at least at the moment. However, I have the impression that the Bundesbank is nowadays increasingly getting support from the British public.

Perhaps this is because it is being recognised more and more clearly that the mandate of the Bundesbank to ensure monetary stability is based on a broad consensus among the German public and not on the bureaucratic arrogance of a handful of central bankers in Frankfurt. (Nor, Mr Marsh, have we ever regarded ourselves as a "Bank that rules Europe", despite the events of 1992.) Even so, a good many Britons may be wondering whether the European Central Bank will not become a huge, incredibly unaccountable, bureaucratic octopus.

On this point, I would like to make three comments:

First: the often expressed, primeval fear that European authorities might usurp additional responsibilities - so to speak, behind the backs of the public and the national parliaments - definitely does not apply to the European Central Bank. Its mandate is unambiguous. And it is clearly defined - namely that of safeguarding monetary stability. Precisely that is what it will seek to do. It will certainly not fish for further responsibilities like

an octopus. In my estimation, central bankers will be kept completely busy performing that task alone!

Second: monetary policy is not secret diplomacy. We live in a media age. Hordes of watchdogs from newspapers and news agencies, in banks and investment houses follow the doings of central banks all around the clock. I am not sure that all politicians on the Continent are monitored as strictly by a parliament as central banks are by the general public.

And third: anyone who draws up a constitution for the monetary system has to answer a fundamental question: what role is currency supposed to perform? Is it to provide, by its sustained stability, as good a long-term precondition for economic success as possible, even if it is known that monetary stability *alone* will naturally not suffice? Or is it to be possible to subordinate the target of monetary stability to other objectives (such as boosting employment), depending on the situation? (Then of course - as past experience has shown - there is a risk of forfeiting both in the end, i.e. of ending up with higher unemployment *and* higher inflation alike.)

The governments which negotiated the Maastricht Treaty opted for the first answer; that is to say (no more and no less), for basically unpolitical money.

Assigning this mandate of an independent central bank is quite consistent, especially in a supranational context in which there is no room any longer for divergent national preferences. By their "Yes" votes, national parliaments have unambiguously approved the Treaty. After all, the independence of the European Central Bank is not shamefacedly concealed in the "small print". It is at the very heart of the Treaty.

## VI

Lord Dahrendorf has criticised EMU, saying that it is actually irrelevant to the great topics of the epoch and only diverts attention from the really important issues. Profoundly though I agree with him about the existence and urgency of many great topics, as a central banker I find it rather hard to view EMU as an irrelevance. What is true is certainly that Europe is reaching the crossroads. And EMU is clearly not a sufficient answer to everything.

Europe is faced with major challenges, namely with the three Es: enlargement, employment and EMU. Enlargement mainly raises the question of how Europe can remain operational and viable with 20 members and more. Of course, I know that some experienced practitioners remain cool and argue as follows on Europe: Well, the reform of the institutions virtually failed even before any round of enlargement. And it went on for all that. That may be true in a certain sense. But it will result precisely in that often-deplored muddling-through, in which the question of what Europe is doing, and how, is settled more by historical accidents than by rational economic decisions. And the EU must not suffer the same fate as the dinosaurs.

The greatest challenge facing Europe is doubtless the issue of employment - at least on the Continent. Especially since employment is not only a matter of the right deployment of the macroeconomic instruments - as in textbook economics. In Germany, and also in some neighbouring countries, the issue reflects some very much more profound social problems. In our country, employment touches on basic issues such as the acceptance of more responsibility by the individual, the willingness to be more flexible, the reduction of individual demands on the state and society.

That brings me, finally, to the third E: EMU. Eddie George once described the challenges posed by EMU by referring to the fairy tale of Beauty and the Beast:

- The Beauty lies in intra-European exchange rate certainty.
- The Beast is the single monetary policy - the single, "one-size-fits-all", interest rate.
- The crucial question is: can we reasonably hope that Beauty's Beast will turn into Prince Charming?

Or - at least into a Prince whose stability-oriented discipline will be accepted in all participating countries?

The next year will see some crucial decisions for Europe. The time schedule provides for the concrete decision about the member states of the first round in spring 1998. I hope that all countries which today are pressing for participation right from the start are aware of the economic and political implications of a supranational monetary union. Monetary union is not only a route without a return. It also involves huge challenges to the flexibility of the economy (especially in the area of labour costs) and also to the lasting stability-orientation of national policies. The exchange rate will then no longer be available as an instrument of adjustment between the participating economies.

Monetary union will change Europe politically as well. That cannot be otherwise, since the surrender of monetary responsibility signifies a fundamental break for the participating countries. The crucial factor is

- that monetary union, through its success, lays the foundation for a rational further development in Europe;
- and that it does *not* change Europe - through its failure - in the direction of a transfer union or of stronger centralisation, which hopefully nobody really wants.

For that reason, we must do all we can to ensure that the economic foundation is and remains sustainable,

- from compliance with the convergence criteria, especially in the sense of sustainability,
- to an adequate level of internal flexibility and innovativeness.

I hope that the decision which will be taken under the British presidency at the beginning of May will satisfy these requirements.

Then, but only then, can the D-Mark - which by then will have celebrated its 50th anniversary - safely give way to a lastingly stable euro. And then I will not mind if - as the Financial Times wrote just a few days ago - D-Mark banknotes end up after 2002 as mulch for the famous hock wine, which is and will continue to be produced not far from Frankfurt.

## VII

The euro is both a chance and a challenge. The challenges cannot be met by short-term compliance with the selection criteria. What is necessary is the ability and the political will lastingly to accept the implications of a stability-oriented monetary union. To ensure that, Europe also and above all needs British thinking.

Europe needs a competitive orientation and responsibility on the part of individuals and nations alike.

These values are much too precious to be national orientations alone. They deserve to become European goals and values. They are what we are waiting for!