

Jean-Claude Trichet: Laudatio for Hans Tietmeyer

Speech by Mr Jean-Claude Trichet, President of the European Central Bank (ECB), at Münster City Hall, Westphalia, 26 March 2010.

* * *

Lord Mayor,
Mr Hillebrandt,
Dear Hans,
Ladies and gentlemen,

It is a great pleasure to be here giving this speech in honour of my dear friend Hans Tietmeyer. The Westfalen-Initiative has made an excellent decision in inducting Hans Tietmeyer and Freiherr vom Stein (1757–1831) into the Westfälische Ehrengalerie [Westphalian Gallery of Honour].

Induction into the Westfälische Ehrengalerie is a means of honouring prominent Westphalians for their services to the region. Of course, the achievements of Hans Tietmeyer, like those of Freiherr vom Stein, can be seen far beyond Westphalia.

The historical significance of this city hall also extends way beyond Westphalia. It has played host to pivotal events in the history of Europe, having witnessed the negotiation and conclusion of the Peace of Westphalia more than 360 years ago. The Treaty of Münster and the Treaty of Osnabrück formed the basis for the establishment of peace in Europe following the Thirty Years War.

Hans Tietmeyer has also participated in pivotal events in Europe's history. Indeed, he played a decisive role in laying the legal foundations for Europe's Economic and Monetary Union. The introduction of the single currency represents the greatest achievement to date in the history of European integration – a process which has ensured six decades of peace and prosperity in Europe.

Today, Europe faces further pivotal decisions. The global financial crisis has resulted in major challenges for Europe's economic and fiscal policies. I will talk more about these issues at the end of my speech.

I had the pleasure of spending many years working with Hans – particularly between 1987 and 1999. Initially, Hans was Secretary of State in the Ministry of Finance and I was Director of the Treasury. Later, our periods as the governors of our respective central banks coincided. When the ECB was established, we both became members of the Governing Council of the ECB. It was Hans who proposed not using members' countries of origin to determine the seating plan for the Governing Council's meetings and instead using alphabetical order to decide who sits next to whom. After all, the members of the Governing Council are there to represent the euro area as a whole.

But maybe Hans just wanted to sit next to me. Because there is not much that fits between Tietmeyer and Trichet, also in the alphabet. I always greatly appreciated working with him, and I learnt a lot from him about Germany.

Hans Tietmeyer's period as President of the Deutsche Bundesbank coincided with turbulence in the international financial markets. By comparison with the recent global financial crisis, the Mexican crisis and the Asian crisis were less dramatic from a European perspective. Nevertheless, Hans Tietmeyer recognised at an early stage the threat that unstable financial markets could pose to a globalised world economy, and it was on his initiative that the Financial Stability Forum was established in 1999. Ten years later, one of the responses to the global financial crisis was the enhancement of the Financial Stability Forum, which became the Financial Stability Board. The number of participants was

increased and its remit was extended. The Financial Stability Board has thereby become a key institution in the reform of the international financial system.

Above all, though, Hans Tietmeyer's time at the Bundesbank was marked by preparations for Monetary Union. His tireless support for rules ensuring the stability of the single currency has proved to be entirely justified. The euro area's 330 million or so citizens are now benefiting from the fact that the currency in their wallets is as solid as the Deutsche Mark used to be ("so hart wie die D-Mark").

The euro – a stable currency

The euro is just as strong as the most stable of its predecessors. The ECB has ensured price stability in the euro area. At the end of this year, the average inflation rate since 1999 will, in all probability, be around 1.95% – i.e. just under 2%.

Thus, the euro need not shy away from comparisons with the Deutsche Mark. The average inflation rate in Germany in the 1990s prior to the introduction of the euro was 2.2%. In the 1980s it was 2.9%. Many people still don't want to believe it, but the euro has not increased inflation.

However, price stability is by no means the only advantage that Germany enjoys as a result of Monetary Union. Without the euro, the financial crisis would certainly have triggered additional turbulence on the currency markets, also causing further damage to the German economy.

People like Hans and me who were directly involved in the EMS crisis know what they are talking about. In his book "The euro challenge", his memories of the events of 1992 and 1993 are headed – appropriately, I think – "monetary earthquake" and "strong aftershock". The successful resolution of that crisis is another one of Hans Tietmeyer's lasting achievements. Europe's monetary integration could have ended in failure as a result of that episode.

Price stability is, without a doubt, the best contribution that central banks can make to people's well-being. Nevertheless, many people virtually don't take much notice of their central banks' operations in normal times. Furthermore, the mechanism for the transmission of monetary policy decisions is very complicated. This makes it all the more important for people to be able to rely on the delivery of price stability.

In the case of the ECB and the Eurosystem, they can rely on it. Price stability is our primary objective. The Governing Council has defined price stability as increases in the Harmonised Index of Consumer Prices for the euro area of below 2% over the medium term. The Governing Council has, in addition, specified that it strives for increases of "below, but close to, 2%".

With the aid of this quantitative definition, we have succeeded in firmly anchoring inflation expectations at a low level. This has been of great assistance to us during periods of both increasing and decreasing inflationary pressures.

The central banks have worked hard for those low inflation expectations, which have been achieved primarily as a result of decades of credibly following stability-oriented policies. Those inflation expectations are of fundamental importance for the success of monetary policy. It would therefore be a very serious mistake to aim for a higher level of inflation in the future. Consequently, as I have stressed on a number of occasions, I strongly oppose this idea. Pandora's box *must* remain shut. The weakening of our price stability objective is out of the question.

Price stability benefits us all. It safeguards purchasing power and the value of savings, and it prevents the arbitrary redistribution of wealth. Only in the presence of price stability does the price mechanism function in an efficient and transparent manner. It is the main instrument for the steering of our market economy.

Independence guarantees a stability-oriented monetary policy

An important requirement for the delivery of price stability is the independence of the central bank. We know this as a result of the painful learning processes that central banks have undergone in the past. Germany was one of the first countries to have an independent central bank. I myself was Governor of the Banque de France when it became fully independent. Central bank independence was “Europeanised” and became the model for the ECB. On 1 January 1994, more than 16 years ago, I saw for myself the enormous difference that it makes to preside over a fully independent institution.

It has now long been demonstrated – both theoretically and empirically – that central banks are better able to ensure low and stable levels of inflation when they are independent. Of course, independence does not mean arbitrariness. Instead, that independence is tied to a concrete objective. And independence requires accountability. In the case of the ECB, its mandate specifies that the delivery of price stability is its primary objective.

The quantitative definition of price stability does not just contribute to the anchoring of inflation expectations. It also provides people with an objective yardstick with which to judge our work.

The mandate and the independence of the Eurosystem are enshrined in Europe's treaties. These are quasi-constitutional in nature. Monetary policy has been removed from the remit of national politics. At the same time, the ECB – like other central banks – cannot complain that it has lacked advice from politicians. This is something of a tradition when it comes to independent central banks. Don't forget Adenauer's famous “guillotine speech” in 1956.

Half a century later, Heads of State or Government attempted – again, unsuccessfully – to influence the monetary policy of the ECB. When growth weakened in 2003 and 2004 the then leaders of the three large euro area countries demanded an instant reduction in interest rates. The Governing Council refused to reduce rates, and I was proud to refer to the Adenauer precedent. Later, at the end of 2005, many governments warned against increasing interest rates. We did indeed increase rates, the ECB stuck to its mandate, and today nobody disputes the fact that our decisions were correct. At the time, however, we were under considerable pressure. We withstood that pressure.

In most cases, criticism of independent central banks is sparked by restrictive decisions. Expansionary policies are rarely criticised. This shows that many pressure groups, as well as politicians, who often are under short-term pressure, don't think in terms of the time horizons considered by central bankers.

The ECB is independent. It does not allow any government, institution or lobby to influence its monetary policy decisions. The citizens of Germany and the rest of Europe can rely on us to continue to deliver price stability in the years to come. Our defence of our mandate will be just as resolute as it has been in the first 11 years of Monetary Union.

A monetary policy that pursues short-term objectives is doomed to failure. However, this focus on the longer term means that those independent central banks also stand in contrast to the short-termism of the financial markets. The global financial crisis is also fundamentally a result of short-term thinking.

Challenges arising from the financial crisis

The handling of the financial crisis and its economic consequences has been a great challenge for us all. Governments and central banks have had to intervene on a massive scale in order to stabilise the financial system and the real economy.

The monetary policy measures adopted by the Eurosystem have allowed inflation expectations to be kept stable even during the crisis. From the very beginning, our

interventions were designed in a way that allowed us to unwind them easily as soon as conditions improved. At no time did we lose sight of our price stability objective.

Countries' budget deficits have risen substantially on account of the crisis. Rising debt levels do not just bring with them the potential for greater conflict between fiscal and monetary policy. Above all, they also place a burden on the sustainability of public finances in the countries in question. It is therefore in the interests of each and every country to return to sound public finances as quickly as possible.

In the current circumstances, where Europe faces pivotal decisions, it is more important than ever to recognise that a prosperous union requires determined action by all. The most important issue is that Europe's policy-makers live up to their responsibilities. As I mentioned yesterday, the Governing Council of the European Central Bank has always stressed the need to preserve and reinforce peer surveillance inside the euro area, to strictly apply the Treaty provisions and the Stability and Growth Pact, and to have the best functioning possible of the Commission and of the Eurogroup. Particularly as regards the government members of the Eurogroup, the ECB's Governing Council has always considered that it was important that they would, as a college, live up to their very important responsibilities as regards fiscal policies, the monitoring of relative competitiveness and structural reforms. I am therefore pleased that the Heads of state and government of the euro area could work out a solution, implementing their earlier declaration to "take determined and coordinated action, if needed...", which maintains the lead responsibility of European policy makers.

Monetary Union in Europe is far more than a monetary arrangement. As Hans Tietmeyer said many years ago, the Monetary Union is a community that shares a common destiny. And we should not forget that we are also a community of values.

Price stability is the best contribution that central banks can make to the stability of the financial system. Price stability is even a necessary condition for financial stability. However, price stability is not a sufficient condition. Many people share responsibility for financial stability, and all must live up to that responsibility.

The crisis has revealed weaknesses in the institutional framework. Thus far, it has not been sufficiently possible to encourage the Member States to implement policies that are in line with our benchmark. Fiscal policies, wage policies and structural policies must conform to our stability target of inflation of just under 2%. I am convinced that we will find ways of achieving this.

Conclusion

Before I finish, I should like to recount a short anecdote.

Once, while Raymond Barre was Prime Minister [1976–1981], he asked me, given that I worked at the Treasury, whether I often travelled to Brussels. In that case, he said, I must meet Hans Tietmeyer. He said: "He is very influential, and he is a tough negotiator. If you have issues to discuss with him, good luck!" That was a considerable compliment. Germany and Europe have much to thank Hans Tietmeyer for. He was resolute in ensuring that the euro would be a stable currency. Today, after having had to cope with the worst financial crisis since World War II, we can say with confidence that the euro has been a stable currency since its inception and that the euro area is a stable community. As I said earlier, Hans Tietmeyer is the author of a book entitled "The euro challenge". I am certain that the euro will be equal to that challenge.

Thank you.