

**Speech**

SCHWEIZERISCHE NATIONALBANK  
BANQUE NATIONALE SUISSE  
BANCA NAZIONALE SVIZZERA  
BANCA NAZIUNALA SVIZRA  
SWISS NATIONAL BANK



**Embargo**

20 September 2018,  
5.30 pm

---

**Third Karl Brunner Distinguished Lecture**  
Introduction of Otmar Issing, ETH Zurich

**Thomas J. Jordan**

Chairman of the Governing Board  
Swiss National Bank  
Zurich, 20 September 2018  
© Swiss National Bank, Zurich, 2018

Ladies and gentlemen,

I am very pleased to welcome you all to the third Karl Brunner Distinguished Lecture. In this Lecture Series, the Swiss National Bank pays tribute to academics whose research is of particular relevance for central banking.

This year, we are expressing our appreciation of an outstanding monetary policy theorist and practitioner, an independent mind and a leading voice in economic affairs. From this description, you may doubt that I am talking about just one person. But I am. That person is, of course, Otmar Issing.

Professor Issing's life has been extraordinary and widely admired. His scholarly activities and policymaking contributions have been both impressive and mutually reinforcing. His publication list includes numerous articles in scientific journals and periodicals. His collected speeches and articles in the library of the Bundesbank amount to 21 volumes of about 10,000 pages. His textbooks have shaped the understanding of monetary theory and policy of entire generations of students, myself included.

While there are many reasons for the SNB to honour Otmar Issing with this Karl Brunner Lecture, three stand out: his role as chief architect of the European Central Bank's (ECB) monetary policy strategy, his tireless commitment to price stability, and his significant influence on general economic debate. I shall discuss each of these during the rest of my welcome address. However, first allow me to recount a few stages in a career full of accomplishments.

Otmar Issing was born on 27 March 1936 in the university town of Würzburg. At the age of 18, he enrolled for classical philology, the study of classical languages, but soon switched to economics. He earned his PhD in 1961 and received his habilitation in 1965. From 1967 to 1990 he was a professor of economics. In 1990 he joined the Board of the Deutsche Bundesbank. And in 1998 he became a founding member of the Executive Board of the ECB and its first Chief Economist. Since 2006 he has been president of the Center for Financial Studies at the Goethe University in Frankfurt am Main.

### **Architect of ECB strategy**

Ladies and gentlemen, let me now focus on the three attributes central to our decision to honour Otmar Issing with this lecture. I will begin with his role in the conception of the ECB's monetary policy strategy, his most important and enduring contribution to Europe's new monetary order.

While Chief Economist of the Bundesbank, Otmar had written a paper claiming that a future European central bank should have a monetary target, essentially emulating what the Bundesbank had achieved. But when he arrived at the ECB, his thinking changed. He realised the risk of a monetary target in a totally new environment. Thus, a tailor-made strategy to achieve price stability was called for. It had to include both monetary and economic analysis – the ECB's famous two pillar strategy. By explicitly taking into account the development of

money and credit in its monetary policy strategy, the ECB was unique in the world of central banking.

However, the ECB's monetary policy strategy was questioned by some academics. They favoured inflation targeting. Otmar never shied away from his critics and their arguments. Consequently, he launched the ECB and Its Watchers Conference. Academics, journalists and market participants were invited. There were lively debates about the role of money in the ECB's strategy. In his last contribution to the ECB and Its Watchers Conference in 2006, Otmar reviewed the active discussion about the role of money in the ECB's monetary policy strategy over the previous eight years. Otmar reminded the audience how some had argued that the role of money was too large. For others it was too small. Otmar pointed out that his typical response had been that it was 'just right'.

This reminds me of a scene in the film 'Amadeus'. Mozart, Otmar's favourite composer, asks the emperor whether he likes his new piece, the Abduction from the Seraglio. The emperor answers, hesitantly, that he does, but adds that occasionally the piece seems to have too many notes. 'I don't understand', Mozart replies. 'There are just as many notes, Majesty, as are required. Neither more nor less.'

Hence, while more or fewer notes would have impaired Mozart's harmony, more or less emphasis on money in the ECB's strategy would have created monetary instability. The fact is that the development, implementation and communication of the ECB's new monetary policy strategy went smoothly and successfully. This was a remarkable achievement, given the lack of data and the high uncertainty about the structure and functioning of a new and heterogeneous currency area.

### **Commitment to price stability**

Ladies and gentlemen, allow me now to proceed to the second reason for paying tribute to Otmar, namely his commitment to price stability. Reportedly, back in 1998, finance minister Theo Waigel had to persuade Chancellor Helmut Kohl to appoint Otmar to the ECB Board, despite his uncontested merits. At the time, Otmar was considered to be sceptical about the early starting date for monetary union. Ultimately, Waigel convinced the chancellor that the appointment of Otmar Issing would help convince ordinary Germans that the future of the euro was in safe hands.

In fact, at the ECB, Otmar continued his insistence on a policy oriented towards price stability in the medium term. Indeed, Otmar was convinced that a monetary policy that is geared to steadiness and medium-term objectives reinforces the stability of the economic area. When Otmar left the ECB in May 2006 at the end of his eight-year term, the ECB had gained a reputation for price stability and the euro had established itself as the world's second most important currency.

## **Continued influence on general economic debate**

This leads me to the third reason for honouring Otmar today, which is his continued influence on general economic debate. To use a sporting analogy: while, in his younger years, Otmar is said to have been an excellent sprinter, he is actually a marathon runner. He shows no signs of slowing down. And his voice is widely heard. One very important issue for him is central bank independence. He argues that central banks should be aware of what they can do and what is beyond their influence. And they should communicate this limitation to the public. If they promise more than they can deliver, they will undermine their credibility. Otmar is particularly concerned about central banks taking on too many tasks for which they have no mandate. This puts their independence at risk.

I completely agree. Central bank independence will only endure as long as the public is convinced of its benefits, and trust that the central bank is exercising its power responsibly. I am certain that central bank independence is essential, both for maintaining price stability and for ensuring stable and healthy economic growth. However, it is not a given. Rather, the support for central bank independence must continuously be earned anew.

Today, Otmar will speak about central bank communication, another very important aspect of central banking. This has attracted a lot of attention in the literature over the last two decades. Who better to speak to us this evening on this topic than Otmar, with his extraordinary talent for communicating with an interested general public?

Ladies and gentlemen, please join me in welcoming Otmar Issing with a big round of applause.