Mr. Tietmeyer considers the euro as a denationalised currency Speech delivered by the President of the Deutsche Bundesbank, Prof. Hans Tietmeyer, to the Österreichisch-deutsche Kulturgesellschaft in Vienna on 27/11/1997.

I

Currency is more than just a part of the economy. A currency is always a reflection of its country, its politics and its culture. As Joseph A. Schumpeter, probably the most versatile Austrian economist of this century, famously put it: a nation's monetary system reflects everything which that nation desires, suffers, is. "Nothing reveals as clearly what a nation is made of as what it does in monetary policy."

It is tempting to place Schumpeter's words -- just for a moment -- in the context of a supranational currency (like the euro).

Then the proposition would be that a *single* monetary system reflects everything that *these nations* (note the change from singular to plural) "desire, suffer, are".

For one thing, those words express the idea of a community which is bound together by a common destiny. (Even though the verb "suffer" sounds somewhat emphatic.) That is because the single currency binds the people in the participating countries together in terms of money and currency, for better or for worse, for ever. After all, monetary union no longer provides for an orderly secession.

For another, Schumpeter's words are a reminder of the necessary communality. If the monetary system reflects what the peoples of those nations want, what they do, and what they are, then it will be crucial to monetary union that the individual participating countries also want and do the *same things*; in other words, that they attach largely identical aims and expectations to the single currency and also act accordingly -- at least in terms of their basic stance.

Otherwise, the single currency would contain the potential for conflict which could easily lead to real tensions. And, sooner or later, such conflicts would have a detrimental effect not only on the currency, but also on the economy, integration, and Europe's political and social culture.

II

Under the terms of the Maastricht Treaty, European monetary union will ultimately begin on January 1, 1999. The euro will then become the dominant currency in Europe, at least in the money and capital markets.

Since the euro banknotes and coins will not be available until the end of 2001 and the beginning of 2002, the national currencies will continue to play a dominant role in the interim for wage and salary earners, consumers, retailers and probably among medium-sized businesses, too. However, those national currencies will also be inextricably linked to one another by irrevocably fixed conversion rates -- as in a single currency.

The decision on which countries are to be in at the start of monetary union will not be taken until the spring of 1998, and will be based on the convergence situation, which will then be verifiable; in the end, this binding decision will be taken by the heads of state or government of the EU countries by qualified majority vote.

Out of respect for this decision-making process, which has been laid down in the Treaty, I do not wish to indulge in speculation on the future membership. Instead, I would like to go into more detail on the supranational nature of the new currency and the resulting advantages and implications which follow from it.

The euro is intended to be a denationalised currency. In precise terms, that implies two characteristics:

- the euro as a largely borderless currency,
- and the euro as a largely depoliticised currency.

The euro is intended to be a borderless currency in the sense that the national borders within the supranational euro area will have no bearing either on the fixing of monetary policy or on the use of the currency. It will be the common currency of all the participating countries, and for that currency, there will be only one single, supranational monetary policy, even if the national central banks will still be responsible for its implementation.

Moreover, the euro will provide a crucial boost to the opening-up of borders across markets and economies in Europe which was already initiated by the Common Market. In monetary union, the participating countries can no longer adjust the exchange rates against each other.

This means that what were once major barriers for entrepreneurs and consumers have now been eliminated: the exchange-rate risk, conversion and transaction costs. However, one means of protection will also disappear -- and for ever -- namely, exchange rate adjustments as the former last resort in the event of declining competitiveness or radical structural changes.

At the same time, the euro has also been designed as a depoliticised currency. The European Central Bank is, by intention, to operate independently of political influence exerted by governments, parliaments and other European institutions. It has a clear mandate to safeguard the value of money. At all events, that is its primary task.

The monetary system is hence removed from the realm of everyday policy-making. The objective of monetary stability is protected in a particular manner. And policy makers cannot subordinate it to other objectives -- subject to expedience, the political leaning of the government, or election dates.

By choosing that structure, the signatories of the Treaty made a conscious decision to continue a tradition which, especially in the postwar era, has become established in a number of countries in Europe whose currencies have shown a particular degree of stability.

Even countries which, for a long time, had tied their currency regimes much more closely to everyday policy-making have evidently come to recognise the advantages of unpolitical monetary systems in the run-up to Maastricht. This does not, of course, rule out the possibility of the earlier tradition occasionally rearing its head in some isolated issues. Denationalisation and depoliticisation, though, are certainly linked in a particular fashion. At all events, removing monetary boundaries in any form calls for a modicum of matching depoliticisation.

This is true not just for the ultimate form in which boundaries are removed, monetary union -- but it is particularly applicable to it.

But even the first steps in removing boundaries -- such as the transition to convertibility -- reduce the leeway for a monetary regime which is simultaneously intended to serve other political ends.

With convertibility, a currency exposes itself to a comparison of its stability with that of other currencies. That means that external pressure towards stability begins to be exerted. This was clearly recognisable when a number of European currencies made the transition to convertibility in the 1950s and 1960s.

National political influence on the monetary system is restricted even more by participation in an exchange rate system with fixed parities, regardless of whether a multilateral system or a unilateral pegging to another currency is involved.

It is true that every country continues to have a national monetary policy to a certain extent. However, if the national monetary policies -- for instance, owing to different political leanings and preferences -- diverge too greatly, then the respective parities will no longer be realistic.

In most cases, this results in unrest in the markets which sooner or later forces parities to change. But if parity changes are frequent, participation in an exchange rate system makes little sense; if anything, it becomes counterproductive.

If there are no more currency boundaries in monetary union, there can only be a single strategy and a common orientation for the monetary system.

III

This uniform strategy and this common orientation can only be a currency which is largely depoliticised, especially in a supranational monetary union in which the basic structures of the nation state remain.

If monetary union is not embedded from the outset in a largely homogeneous and political union which is constituted along the lines of national government, but is founded instead on the basis of different nation states, that supranational monetary policy can only be largely unpolitical, meaning disengaged from the political influence of nation states which goes beyond the legal mandate to safeguard the stability of the currency. This is particularly valid as long as there is no all-encompassing decision-making process at the European level -- and that will probably not exist in Europe for a long time to come.

In addition, experience has shown that a depoliticised, consistent, long-term strategy is also superior in two crucial respects to a discretionary approach which submits to political expedience:

- by creating more confidence on the part of the markets, and

- above all, by being better able to provide stable money and to safeguard it on a long-term basis.

Therefore, a depoliticised currency is most likely to provide the opportunity of reaching a sustainable consensus among the countries participating in monetary union. After all, special national political interests do not apply here. The only thing that counts is the common objective of an enduringly stable currency.

It is precisely a consensus of that kind which underlies the Maastricht Treaty. In future, Europe must safeguard and preserve it.

Therefore, it is also important to see to it that, in the course of the establishment of monetary union and its institutions, there is no attempt at a sort of re-nationalisation.

That goes for the appointment of the executive staff of the future European Central Bank as well as for how their tasks are construed.

As envisaged in the Treaty, neither the members of the ECB Executive Board nor the presidents of the national central banks represented in the Governing Council are there to represent national interests. Rather, they are the caretakers and guardians of the new single currency -- no more, but also no less. And if a sort of accountability is considered necessary, it should be to the European institutions (the European Parliament, for instance) -- as provided for the Treaty.

Therefore, the question of the national origin and/or the distribution of the seats in the ECB Executive Board by nationality should not be the key criterion for appointment -- at least this is the idea behind monetary union, and this is the letter, and certainly the spirit, of the Treaty.

Internally, too, the participating countries should not lean towards a re-nationalisation. Of course, there will be a flow of information between a country’s political bodies and the respective central bank management in future, too. However, reporting requirements on the part of the national central bank management would be a cause for concern, if this were tied to the idea that the governor of a given central bank were a sort of representative of that country’s national interests regarding monetary policy in the Governing Council.

That is not the case. Every member of the Governing Council (regardless of whether he/she belongs to the Executive Board or is the governor of a national central bank) has a *personal responsibility*, namely for the long-term stability of the euro *throughout* the monetary union. The governor of a national central bank must not even be bound by his own bank in the sense of an “imperative mandate”.

That is also the logic behind the “one person -- one vote” rule in the Council. If the governors were the defenders of national interests in monetary policy decision-making, it would have been a much more obvious thing to weight the individual votes in terms of the respective share of capital -- as is done in the IMF, for instance. A structure of that kind was consciously rejected, in view of the desired denationalisation of money.

After all, the euro must not become merely the sum of national orientations and interests. It must become an independent currency which safeguards monetary stability throughout the euro area.

The euro cannot peg itself externally and thus attract credibility and stability from without, as smaller currencies could before. Rather, it must first set a stability benchmark itself.

And to that end, a consensus on stable money or a stable exchange rate, important as it may be, is not enough.

There will always be situations in which monetary policy makers have to take decisions which -- at least momentarily -- will have an adverse impact on one group or another in society and which do not conform with the intentions of one government or another.

It is precisely in such difficult moments that the European Central Bank must also be able to take decisions and have the capacity to act in its area of competence. It cannot and must not wait for a general social and political consensus.

Decisions regarding stability policy do require courage every now and then, even though they are, of course, guided by sound judgement.

In such critical moments, I hope that *Sarasto's* wish in Mozart's "The Magic Flute" will be granted to the future President and the Vice-President (and, of course, the other Governing Council members, too):

"Oh, Isis and Osiris, send
the spirit of wisdom to the young couple!
You who guide the wanderers' steps,
strengthen them with patience when in danger".

(Whether or not that immediately leads you to believe that the European Central Bank resides *"in these holy halls"* is something I shall leave up to you.)

The independence of the future European Central Bank by no means implies, of course, that it will be detached from the Community or from the general public. (Much as the Bundesbank today is involved at the centre of German public life and public debate.)

It is precisely that independent position which requires the central bank to engage with the general public, to explain its monetary policy, and to make its motives and strategy as transparent as possible. It is not least for that reason that the Bundesbank is advocating a pre-announced monetary target for European monetary policy, by which it must then allow itself to be judged.

Conversely, I can assure you that the general public, too, is keeping a close watch on monetary policy and subjecting it to a critical assessment. It notes every word which is written and spoken (and, in some cases, precisely those words which remain unspoken).

I therefore believe that an independent central bank tends to be subjected to closer scrutiny by the public than some areas of policy. And this is as it should be. After all, a depoliticised currency is a currency which has remained as close to people as a borderless currency.

But the crucial point is: a borderless currency must go hand in hand with a depoliticised currency. As a denationalised currency, the euro needs both elements.

IV

In the eyes of some analysts, the euro brings the monetary policy experiments of this century full circle.

The century began and will end with a denationalised money. At its beginning, there was the gold standard. At its end, there will be the euro.

The currencies on the gold standard were borderless owing to the fixed parities and to gold as a common point of reference.

They were depoliticised in the sense that the anonymous mechanism of pegging to the gold standard forced corrections to the gold standard. Independent central banks followed a clear monetary mandate, namely that of maintaining gold parity.

Historians may argue over whether the days of the gold standard were indeed a golden era. At all events, the experience of the past cannot simply be transferred to the present-day situation.

At that time, wages and prices were more flexible than they are today.

Above all, the position of the state within and vis-à-vis the economy was different. The government ratio tended to be below rather than above ten per cent back then; today, in most European countries, it is over fifty per cent.

That has implications for adjustment potential and flexibility. Naturally, it is primarily the private sector which must shoulder the burden of adjustment in the event of exogenous shocks and changes in competitiveness.

At the time of the gold standard, the private sector still made up the lion’s share of the economy. Nowadays, by contrast, the burden of adjustment is concentrated on just under half of the economy. The fact that society in general has little desire to allow market mechanisms to act on their own is reflected precisely in today’s government ratio.

After the collapse of the gold standard, three trends initially prevailed in the following decades -- and it was no accident that those trends coincided:

- Firstly, the currency became increasingly (re-)politicised. It became associated more closely with other non-monetary objectives.

- Secondly, the heyday of the independent central bank came to an end in just about every country; in many countries, that was the case until only just recently.

- Thirdly, the politicisation of money went hand-in-hand with an increased isolation of the currency and the economy from external influences. International links declined significantly.

Therefore, a central motive of the Bretton Woods System, adopted in 1944, was to promote world economic integration by means of orderly monetary conditions. And in this sense, the system performed good service.

Regarding the criteria of borderless and depoliticised money, the Bretton Woods System was, as it were, a wanderer between the worlds.

Money was not truly without borders. Until well into the 1960s, capital controls were an instrument frequently employed by a large number of countries. Indeed, in many cases such controls were being used precisely in Europe, too, until the end of the 1980s.

And currency was not entirely depoliticised in the Bretton Woods System, either. It was not only determined by the dominant position of the United States and whatever political views prevailed there at any given time. Many capital controls also mostly concealed differing political strategies and preferences.

In the long term, the monetary system created after World War II was not depoliticised enough in order to keep pace with the increasing denationalisation of currency brought about by increasingly efficient and powerful international financial markets.

At any rate, it was often the case that the rules of the fixed-rate system were not observed.

- Countries running deficits were often too hesitant in correcting their balances of payments.

- Exchange rates were adjusted too late in most cases.

- And, above all, by the mid-1960s onwards, the US dollar, the key currency, was increasingly failing to fulfil its role as an objective point of reference for stable money -- a role which only an unpolitical currency could have performed.

It was thus no great surprise that the Bretton Woods System finally collapsed in 1973. Fixed exchange rates accompanied by differing preferences were something the increasingly developing and emancipated financial markets no longer allowed.

V

The 1970s then witnessed the great contest of monetary strategies -- particularly within Europe, too -- especially once the first oil crisis began to pose major challenges.

On the one hand, there was the concept of political money. The objective of monetary stability took a back seat. Monetary policy was to promote other objectives: employment, absorption of the oil shock, in some cases even foreign policy and foreign trade objectives.

On the other hand, there was the concept of unpolitical money. Regaining internal monetary stability and safeguarding it -- in other words, the “natural” objective of monetary policy -- prevailed. Particularly independent central banks -- such as the Bundesbank and the Swiss National Bank -- put this stance into practice.

In Germany, that was an important test for the concept of unpolitical money, introduced in 1948 with the currency reform and secured institutionally by the independence of the central bank.

The outcome has left no room for doubt in economic terms. Countries with unpolitical money have not only had lower inflation rates, but also less unemployment. And, on the whole, they were also able to handle the oil shock and the unpredictability of the US dollar and other currencies much better. Besides, they were able to acquire an increasingly high stock of confidence on the part of the financial markets, resulting in relatively low capital market rates.

This positive experience is something you in Austria have also gained. The reasoning behind your hard-currency policy -- if I understand it correctly, as an outsider -- is likewise based on the realisation that inflation does not solve any problems.

Austria has been consistent in applying this hard-currency policy -- even during a period which was somewhat difficult (the second half of the 1960s). On the whole, this has led to the financial markets and the public having a justifiably high degree of confidence in the schilling.

The question of whether monetary policy can be employed to promote and secure jobs also crops up every now and then in Germany as well as in your country.

On the one hand, this seems understandable. A high degree of monetary stability has been achieved at the moment worldwide. By contrast, high unemployment is a pressing problem, especially on the European continent.

However, for those who have been following monetary policy practice over the past decades, the debate sometimes seems quite eerie. For monetary history has indeed pronounced a clear-cut judgement: maintaining monetary stability over the medium and long term is undoubtedly the best contribution monetary policy can make to employment, even if monetary policy by itself can neither secure nor create employment.

For some time now, Europeans have been increasingly interested in findings in the United States, where, for some time now, a rather dynamic upswing, a relatively tight labor market, and yet a comparatively low rate of inflation have coincided.

What can and should we in Europe learn from that?

If Europe succeeds in making its labour markets significantly more flexible, and if competitive pressure in the goods markets rises significantly; and if this causes the wind of the global markets and of worldwide competition to be conveyed more strongly internally via flexible, highly competitive structures, and the European economy is given a breath of fresh air, then the conditions for sustained price stability in Europe will improve. Then, perhaps even the European Central Bank can get by with relatively low interest rates in future in order to keep inflation in check.

The key to that, though, is certainly not a lax or pseudo-employment-oriented monetary policy (which would, in actual fact, backfire), but more market economy and competition.

And the road to more competitive structures is only through a stable, i.e. tight, money.

It is true that the great master of Viennese popular theatre, Johann Nestroy, once philosophised:

“The Phoenecians invented money -- but why so little of it?”

However, the central bank must limit the supply of money and set the interest rates accordingly. That is its task.

It is also true that Arthur Schopenhauer once said:

“There are people who would pay any price for money.”

Yet philosophers are not always right, especially when it comes to analysing the economy. The same applies to Schopenhauer’s dictum; otherwise, it would be virtually impossible, above all, to manage the money stock by using interest rates.

VI

The disintegration of monetary policy strategies in the 1970s did not only have the economic implication that countries had diverging degrees of economic success.

There was an important European policy implication, too. The plan to implement a phased monetary union that we developed in the Werner Group in 1970 soon foundered; not only on differing monetary strategies, but also on the lack of willingness of at least one country, at that time, to surrender national sovereignty.

In its day, in fact, the Werner Plan had two advantages over today’s Maastricht Treaty:

- Firstly, the six-nation EC of the time was relatively homogeneous in economic terms.
- Secondly, with regard to its strategy for integration, the Werner Plan was more consistent than the Maastricht Treaty. It envisaged a marked intensification of both political and monetary integration.

But, in the final analysis, at that time there was neither the willingness to realise this deeper political integration nor a convergence in monetary policy.

The monetary union, which had already been planned for the 1980s, did not come into being.

The lack of convergence in the 1970s was not even enough to keep a larger monetary arrangement together. In the end, all that was left was the ”mini-snake“.

The exchange rate mechanism (ERM) of the European Monetary System, newly formed in 1979, was also not very stable to begin with. It was not until 1983 that an important change took place in the history of monetary integration in Europe.

With Finance Minister Delors at the helm, France changed course towards a clearly non-inflationary policy. Others followed.

This step, initiated by France, paved the way

- for a gradual convergence of inflation rates at a low level in the 1980s,
- for increasingly stable exchange rates within the ERM,
- and, finally, for making a further-reaching monetary union conceivable again.

At all events, in 1988 the Delors Group was commissioned to develop a framework taking account of the new conditions.

VII

The Maastricht Treaty, negotiated in the early 1990s, gave a sound legal structure to the idea of monetary union -- even if some critics, not without reason, occasionally described it as a torso, in light of the fact that the structures of a political union were lacking.

In order to really comprehend the Maastricht Treaty and its significance, I feel two things have to be realised:

The first realisation is that the essential elements of the Maastricht Treaty did not fall into Europe's lap. They are the result of experience, and not just of the positive kind.

The same applies to a sufficiently well-founded economic convergence which the Maastricht Treaty rightly calls for. Over long stretches of Europe's postwar history, this convergence has tended to be absent.

This has changed at least in some respects. It was a decidedly arduous process which led to today's high level of monetary convergence.

However, despite a large number of major advances, the level of convergence is regrettably much lower in the area of public finance, at least if the looming future burdens posed by demographic trends and the mounting debts which have already been run up are taken into account.

It was also difficult at that time to anchor the concept of a depoliticised currency in the Treaty. Differing national traditions regarding the perceived role of the state and society understandably played a part in that.

This idea naturally fits in particularly well with the German tradition of decentralised structures. It has been and still is more difficult for other countries on account of their traditions and structures -- despite the obvious economic superiority of this concept.

And the second realisation is that Maastricht is not merely the logical continuation of a historic trend. Monetary union is a quantum leap in qualitative terms.

We are daring to start anew what did not succeed in the 1970s. And this time it must succeed, and this success must be enduring.

Participation is final. Under the terms of the Treaty, there is no longer an escape hatch -- no matter what economic or political developments a given country may undergo. That is what makes it different from an exchange rate system or unilateral exchange rate pegging.

This monetary finality, if you will, means putting a crucial political and economic framework in place for future generations, too.

Maastricht enshrines the concept of a depoliticised currency, and hence stable money, as the primary objective for the central bank, for all time. Under the terms of the Treaty, once a country has entered into monetary union, it no longer has the option of trying a different path.

And each of the participating countries is in intra-European competition for ever without being able to adjust its exchange rate or to adapt central bank rates to its own economic situation.

Of course, these monetary restrictions -- technically speaking -- already result from a tight exchange rate pegging.

Only, with a fixed exchange rate corridor, a country still has it in its power to decide on those self-commitments -- but that will no longer be so once monetary union commences.

Under the conditions of the 21st century, it will certainly not get any easier to maintain economic convergence and to safeguard a country’s own competitiveness.

- One reason is that competition will continue to increase, in Europe and most certainly all over the world. The technological driving forces of globalisation will continue to exert an effect.

- The other reason is that just about all the European countries -- more or less -- are still facing great structural challenges which are still a long way from being overcome, such as persistent unemployment.

The countries have to work hard to find solutions. The national governments and parliaments should not forget the words of your fellow Austrian, Karl-Heinrich Waggerl:

“Ask for God’s blessing for your work -- but do not ask Him to do the work Himself as well.”

The subject of convergence in monetary union therefore does not just present itself -- as economic textbooks call it -- in external shocks which affect individual countries to varying degrees.

The key issue here is for countries to tackle the structural challenges they are facing, which are identifiable now, in a similar manner and at a similar pace.

Otherwise, “internal shocks” would ensue. The individual economies would grow apart. But not due to an external event hitting a given region like a comet. Rather, because monetary union would smoulder inside, giving rise to tectonic tension.

At any rate, it will probably not suffice to set aside the topic of convergence by using the learned argument that a country which is in competition and does not have access to central bank money and credit has no choice but to maintain its competitiveness and keep its public finances in shape.

It is basically correct that a country's policy makers can also rise to the occasion, as it were, along with the challenges of competition.

But of course, a country -- just like an enterprise -- can also founder as a result of failing to meet those challenges, if its starting position is too unfavourable. The difference is that an enterprise then just disappears from the market, whereas a country naturally continues to exist.

If a country were to encounter difficulties with the conditions of monetary union, then an economic problem would arise. And -- let us not deceive ourselves -- that would soon create a political problem.

Europe must avoid that problem as far as possible. Therefore, monetary union requires a minimum level of convergence on the part of all its participants, both before accession and, of course, most certainly thereafter.

VII

The euro will have to be a denationalised currency; there cannot and must not be any doubt about that.

It will thus be in keeping with an increasingly borderless economy. And therein lie the key economic arguments in favour of the euro. The path to monetary union offers Europe major new opportunities.

In a Europe which is heading towards a single market, and in a world which is converging in economic terms, a large single monetary area offers major advantages -- always provided the euro remains enduringly stable.

Monetary union and the single currency, the euro, will not just mean the elimination of many risks and costs. If it becomes and remains sufficiently stable, the euro also has great prospects of building on the D-mark's position as a world currency. And, it can improve the efficiency of the European single market and, moreover, give further impetus to political integration.

Those great opportunities and advantages of that historic step into monetary union are not qualified by pointing to the reality of today's situation in Europe and the resulting challenges.

As a denationalised currency, the euro will be embedded in a political Europe which is still largely characterised by national structures.

As a borderless currency, the euro will encounter bordered national economic, social and tax policies still searching for answers to the borderless economy.

And, as a depoliticised money, the euro will encounter a political reality in which some people and groups still expect enormous, and fundamentally unrealistic, favours from the welfare state.

Both are a sign of tensions. Europe’s future hinges crucially on how the countries resolve those tensions.

Facing up to competition *among* the countries and regions and promoting competition, more market, and more flexibility *within* the countries is the relatively long-term solution which fits a denationalised currency. And, for the participating countries, that means facing the associated new economic and political challenges and accepting political limitations.

Monetary stability is not a substitute for the right solutions. But it is the basis for them, and promotes orientation towards the future.

Keeping the euro enduringly stable is one of the major future tasks for Europe.

So that monetary union does not end like *Don Giovanni* -- namely, in a descent to hell -- but more along the lines of *The Marriage of Figaro*.

Which, to be sure, also leads to a series of entanglements. However, in the end, the right partners come together. That must apply to monetary union, too, even though it is not couples that are involved here, but a union with as many countries as possible.