Mr Tietmeyer discusses the euro: the new common currency

Address by the President of the Deutsche Bundesbank, Prof Hans Tietmeyer, on the occasion of the 7th Europe Lecture sponsored by the VSB Foundation, Utrechts Nieuwsblad/Amersfoorts Courant and Hogeschool van Utrecht in Utrecht on 29 March 1999.

I

It is a great honour and pleasure for me to address you here in Utrecht this evening. Holding a Europe Lecture in the Netherlands is really something special. In your open-minded, lively and progressive country, European spirit and culture are at home. Since the establishment of the European "Community of six", your country has certainly ranked among the most integration-oriented nations in the EU. So it comes as no surprise to find that some of the most momentous decisions have been taken under Dutch presidencies.

Particularly in the field of monetary integration, European history has undoubtedly been written in the Netherlands.

- The summit meeting at *The Hague* in 1969 marked the starting point of the first (albeit vain) approach to a common European currency during the seventies.

- It was in *Maastricht* in 1991 that the Community mapped out and adopted a new route to a common currency. On the basis of the Maastricht Treaty, entry into monetary union was finally accomplished at the beginning of this year.

- The *Amsterdam* Summit of 1997 was intended to lay the political foundations for a lasting monetary union. As you will know, for a long time it seemed essential to us in Germany, too, that definite political progress should soon supplement that far-reaching monetary step towards integration. Unfortunately, although some headway was made, the agreements reached in Amsterdam proved unable to fulfil expectations in major respects. But that was least of all the fault of the Dutch hosts. All that remains for the time being is for us to pin our hopes on an Amsterdam II.

The Netherlands has, however, not only been the venue of major formal agreements on monetary integration; it has also engaged in practical monetary integration itself – not only multilaterally, but also in bilateral terms. Given the close links between the guilder and the D-Mark, the Dutch have lived from an early date in a de facto monetary union with their neighbours in Germany. That early, bilateral monetary union had two major characteristics that we all desire for today's European monetary union as well: First, it was unequivocally stability-oriented. And second, it proved viable even in difficult times. Such as during the upheavals in the European Monetary System in 1992-3. At that time the Dutch flatly rejected preconditions on the part of others for the purpose of separating – at least for a while – the guilder from the D-Mark. The D-Mark/guilder duo held up, even in hard times. The Dutch always turned out to be reliable partners, even when German policies were themselves temporarily in turmoil in the wake of reunification. And where overcoming structural problems on the labour market is concerned, the Dutch have for some time rightly been mentioned as a model for us in Germany.

In the meantime, both currencies, the guilder and the D-Mark, have integrated their tradition of stability into the euro. And the Dutch and Germans alike hope that the euro will take over and expand that legacy.

II

The common currency, with its present structure and present strategy, did not just fall into Europe's lap. The road to that goal was a long one, and involved many setbacks. And the present blueprint for the design of monetary union and for a monetary policy geared to the medium term is the quintessence of the experience gained over the last thirty years. Needless to say, that also includes good experience, such as the lastingly successful linking of our two currencies on the basis of our common orientation towards stability. But disappointments likewise played a part. Europe had to learn why over-hasty exchange-rate experiments and a monetary policy aiming directly at employment and growth targets ultimately always failed.

The long road began back in the sixties, when changes in the fixed rates of the Bretton Woods system altered the exchange rates within the Community as well. It was then that initial ideas of a common European currency came up in the Commission. To many people, they appeared to be a logical consequence of the common market, and particularly of the Common Agricultural Policy, which was based on fixed units of account. The subject was first taken up seriously by the summit meeting at The Hague in 1969. A working group chaired by the then Prime Minister of Luxembourg, Pierre Werner, was commissioned to map out the route to a monetary union.

It was not long before the two key questions of a monetary union cropped up at that time: First, how can the necessary economic convergence of the participating countries be ensured? That is the question as to the economic foundation. And second, which political framework is needed, and how can it be achieved? That is the question as to the political foundation. At the time, the Werner Group recommended, in answer to those questions and after a heated debate, that economic, political and monetary integration should be implemented in parallel, in various stages. At the end of each stage, the progress made in all three areas should be scrutinised with a view to deciding, in the light of the result of that scrutiny, whether the next stage could be inaugurated. In the final stage, not only the monetary policy responsibilities but also, in particular, key economic and fiscal policy powers should be transferred to the Community.

But it soon turned out in the ensuing negotiations that, above all, the political leadership in France at that time was not prepared to make any such a conceptual commitment. Hence virtually all that was achieved was exchange-rate cooperation in the context of what later came to be known as the "Currency Snake". The more far-reaching plans for a monetary union were largely shelved again.

After a number of upheavals, the Bretton Woods system finally collapsed at the beginning of the seventies. That collapse was accompanied by the first sharp oil-price hike. After that, some considerable differences emerged in Europe between the ways individual countries weighted their economic and monetary policy objectives. One group of countries relied on an expansionary monetary policy. They hoped that such a policy would help the economy to adjust quickly to the changed conditions. Another group, by contrast, took advantage of the latitude that had been gained by the ending of the linkage to the dollar to regain monetary stability relatively swiftly. Thus, France, Italy and the United Kingdom left what was known

as the “Snake” in the mid-seventies. Only the “little Snake” (comprising the Benelux currencies, the Danish krone and the D-Mark) was left as a community of stability.

It was not until 1978, on the joint initiative of French President Giscard d’Estaing and German Chancellor Helmut Schmidt, that the subject of wider-ranging monetary cooperation in Europe was taken up again. After long discussions in the countries themselves – some of them controversial – the European Monetary System (EMS) was set up in 1979, once more with the participation of France and Italy. The crucial question in the negotiations had been, in particular, whether this EMS would tend to gear itself to the best stability standard or only to the average level. In the end, the proposal was accepted that a parity grid should be devised for the currencies participating in the EMS, rather than making the ECU (which was a basket of currencies, and therefore represented their weighted average value) the standard of reference. In this way, the strongest currency in the group could set the standard for stability, and act as the anchor. That decision primarily determined the route taken during the eighties.

Hence an interaction of two developments emerged as early as the beginning of the eighties: Firstly, it became ever more evident that the stability-oriented approach yielded better economic and social results over the medium term. Not only did inflation remain lower; the stability-oriented countries as a whole also came off better with respect to employment and growth. And secondly, the EMS exacerbated the political dilemma faced by the weak currencies. Either there were domestic policy adjustments, including a possibly uncomfortable transitional phase (at least as long as the markets were not fully convinced of the sustainability of the new stance), or frequent devaluations were unavoidable, with corresponding tarnishing of the political image.

Against this background, notably France, led by the then Finance Minister, Jacques Delors, performed a dramatic U-turn in anti-inflation policy in 1982-3. The same course was then increasingly adopted in the other EMS countries. That cleared the way in the eighties for the start of a far-reaching convergence process. Monetary stability was then assigned higher priority everywhere. Inflation rates declined. Exchange-rate realignments in the EMS became less frequent. And the D-Mark increasingly took over the function of the anchor currency in Europe – a function which it subsequently came to share more and more with the guilder.

Even so, the European Monetary System was, of course, not a monetary union. Parity changes were still possible. And they were still necessary since monetary, fiscal and economic convergence remained incomplete. In the financial markets, the reputation of the traditionally strong currencies and their central banks remained distinctly higher than that of the others, not least because of the differences in performance during the seventies. That fact was reflected in the interest-rate differentials, particularly in the longer-term markets. Moreover, a number of countries – above all, France – found it politically difficult to accept the actual dominance of the German anchor currency.

Furthermore, through the envisaged single market, European integration gathered new momentum during the second half of the eighties. This increasing economic integration revived the issue of a common currency under the motto “A single market, a single currency”. The summit meeting in Hanover in 1988 commissioned a group of experts chaired by the President of the European Commission, Jacques Delors, to submit new proposals. Then, in the autumn of 1989, the Berlin Wall fell. The prospect of achieving German unification at the same time suggested the question of the even greater political integration of Germany into the

European Community. It was these two factors, the single-market project and German unification, that formed the political background to the Treaty of Maastricht.

At the beginning of the nineties, two opposing forces were acting on the exchange-rate pattern in the EMS: On the one hand, since there had not been any central rate changes since 1987, many people believed that a seamless transition from the existing EMS to monetary union was possible. Even the UK had joined the exchange-rate mechanism in 1991, after long hesitation. All this seemed to immunise the prevailing central rates, even though considerable differences in the anti-inflation policy stance had meanwhile built up between individual countries. On the other hand, in particular the ending of the East-West divide in Germany engendered in economic terms an asymmetrical shock involving a potential revaluation tendency for the D-Mark.

On balance, however, in the euphoria deriving from the new prospects, the financial markets were initially prepared to accept the parities prevailing in the EMS, despite the lack of economic convergence. Alas, the policy makers in those days failed to adjust the exchange rates in good time in that "window of opportunity". Thinking in terms of political prestige was unduly prevalent. But when, in Denmark, the first referendum on the Maastricht Treaty resulted in a "No", the financial markets began critically to reconsider the parities in the EMS. That gave rise to the massive, but avoidable, monetary upheavals of the autumn of 1992. After prolonged controversy, the fluctuation margins in the EMS were finally widened, on German insistence, at the beginning of August 1993, although the narrow margins ruling between the D-Mark and the guilder were retained under a special arrangement. That was the right decision. Not only in order to re-establish calm in the EMS, but even more to save the "monetary union" project from harm. Like that, the EMS remained intact as a framework for monetary integration.

III

If one surveys the almost thirty years of monetary history before and around the Maastricht Treaty, then in my view four main lessons stand out very clearly:

First, in the medium and long run, stable money has distinct economic and social advantages. Inflation is not worth while. It does not solve, but rather causes, economic problems. Monetary stability, by contrast, is a major, albeit on its own no doubt insufficient, basis for growth and employment.

Second, an independent central bank can safeguard stable money more easily. After all, it is easier to pursue a steady, medium-term-oriented approach, apart from day-to-day political concerns. And a medium-term-oriented approach, in turn, helps one to respond that little bit earlier to threats to the value of money, and not to attach undue importance to short-term factors. Moreover, given an independent central bank, political developments do not exercise a direct impact on confidence in the currency. Consider, for instance, the resignation of the EC Commission two weeks ago, which did not really affect the financial markets. That would very likely have been quite different if the currency had been closer to day-to-day politics.

Third, a durably sound fiscal policy contributes materially to safeguarding stable prices and the longer-term room for manœuvre. In certain situations, it may make sense to tolerate deficits for a while. For instance, as part of built-in flexibility, or in the context of a sustained tax reform that stimulates both effort and investment. But, judging by past experience,

demand management via the expenditure side ultimately increases only the influence of the state and the debt burden.

And fourth, only in the event of sufficient convergence of the economic performance and the economic policy priorities can exchange rates remain stable in the long run. Quantitative targets for exchange rates, without adequate convergence in the field of anti-inflation policy, are counterproductive. That applies above all to exchange rates between major currency areas. Exchange-rate targets are apt to lead to conflicts between external stability and internal objectives. And the financial markets perceive the vulnerability of such arrangements. That encourages, rather than curbs, speculation. If the targets then fall, there may easily be more pronounced overshooting.

Happily, these four lessons are included in the Maastricht Treaty. They form the foundation for today's common currency, the euro. First, the Treaty gave European monetary policy the primary target of ensuring price stability. Second, the European System of Central Banks – comprising the ECB and the participating national central banks – has been assigned a large measure of independence for that task. Third, the Treaty, or more specifically the jointly agreed Stability and Growth Pact, commits national fiscal policy as well. The underlying orientation is: under normal cyclical conditions, the public sector budget should be close to balance or in surplus. The fiscal policy makers in all participating countries should take this precept very much to heart. And fourth, the Treaty stipulates that even general exchange-rate orientations, which may be formulated by the Council of Ministers in special situations, must not jeopardise the primary objective of the ECB (namely, ensuring price stability).

The stipulations of the Maastricht Treaty did not just drop from heaven or come from narrow-minded technocrats. Hence they should not be interpreted merely legalistically as the outcome of negotiations – an outcome that could not be helped. In important respects, after all, they constitute the lessons of European monetary history over the past few decades.

IV

The euro has been reality for a quarter of a year now. The general public has been following its progress with interest and not uncritically, albeit sometimes with a little too much agitation. Not every movement in the external value amounts to an underlying trend, particularly when the dollar value is reflecting unexpectedly strong economic performance and special international political developments. Composure is appropriate, but disregard is not. We in the ECB Governing Council do not pursue an exchange-rate target, but we are, of course, interested in a lastingly strong and stable euro. The euro must try to gain the strength of its predecessors and, above all, must win confidence and a reputation of its own. A confidence-inspiring orientation of monetary policy is important to that end, but insufficient in itself. Other policy areas, too, must make their due contribution. And there seem to be some serious deficiencies, especially as far as structural policies are concerned.

That is likewise the common position of all ECB Governing Council members. An underlying joint sentiment has developed gratifyingly fast among the Governing Council members. We feel ourselves to be part of a common body, bearing joint responsibility for the entire euro area. Thinking in, and the decisions of, the Governing Council have so far reflected genuine supranationality, rather than a mere aggregation of national interests.

Incidentally, it is of course very good for the ECB Governing Council that two Dutchmen are sitting in the debating and decision-making chamber, as heavyweights in the field of anti-inflation policy; one of them as the President of the ECB and the other as the Governor of the Dutch central bank. What makes them heavyweights is not their stature or just the fact that they are Dutchmen. The crucial factor is their intellectual capacity and, above all, their unambiguous orientation towards stability. But perhaps these factors are in some way interrelated.

The European System of Central Banks, which is composed of the European Central Bank and the national central banks, has likewise performed its duties pretty smoothly up to now. After all, the Maastricht Treaty explicitly relies largely on the national central banks for the conduct of monetary policy. Cross-border cooperation has on the whole functioned very efficiently so far. There have of course been a number of minor mishaps. Given the gigantic size of the task, how could it have been otherwise? But, all things considered, it can be said: the Eurosystem works.

The most important thing is, of course, that the euro is currently displaying a high degree of price stability. That applies all round to a number of other currencies in Europe and throughout the world. The high domestic stability of the US dollar is attracting particular attention. And that against the backdrop of a tightening labour market and of strong domestic growth that has now persisted for some years. At any rate, there have been no signs to date of the upturn in the inflation rate that used to occur as the business cycle progressed. Many commentators have interpreted that as a new era. Some of them have even gone so far as to consign the phenomenon of inflation to the archives of economic history for good.

The notion of a secular trend towards stability presupposes a structural break triggered by two developments: the onmarch of globalisation, and the surge in productivity due to huge advances in communications and data processing. The consequent increase in competition is said to have led not only to substantial new cost pressures and possibly to a global glut of goods and services. In addition, substantial changes in the behaviour of policy makers and economic agents are said to have occurred. And that, it is claimed, will continue.

True though some of these observations undoubtedly are, the proposition of a structural break, resulting in the final discontinuance of inflation, appears to me to be over-optimistic. It must surely be countered by a number of opposing factors:

First, the decline in commodity prices is presumably, at least to some extent, only temporary. Some people, indeed, are speaking of an ongoing inverse oil-price shock – an oil-price *im*plosion, so to speak. Judging by past experience, however, such shocks seldom last long. The recent rise may suggest that.

Second, it remains to be seen whether the faster pace of productivity growth really turns out to be a lasting phenomenon. And it is not all that easy to tell whether it is primarily driven by technological progress. It might also be, at least in part, a reflection; in America, of the long period of relatively high capacity utilisation; in Germany, of the steep rise in labour costs during the first half of the nineties, and of the shedding of labour thereafter.

Third, even if the surge in productivity were sustained, it could lastingly foster price stability only if it were not fully exploited for distribution purposes or re-distribution purposes, let alone over-exploited. That may not be a serious problem in America, because of the great

flexibility and mobility prevailing on the labour markets there. But in Germany, for instance, wage-rate policy – backed to some extent by government policy – is today largely geared to the growth of productivity, even though unemployment is high and labour-market flexibility and mobility are very far from adequate. But in the event of expansionary wage-rate policy and of structural rigidities on the labour market, the academic argument that higher productivity automatically implies greater price stability does not hold good any longer.

And fourth, even if a tendency towards greater stability were durably to take hold in the non-monetary field (something we do not know), that would not release monetary policy, for its part, from its obligation to keep the monetary side in order. For overly expansionary monetary growth always poses a threat – both to price stability and to the stability of the financial markets.

We must not disregard the fact that it was precisely more monetary discipline in a number of European countries – often buttressed by greater autonomy for the central bank – which played a major role on the way to price stability during the eighties and nineties. That reassured the monetary side. And it helped to engender changes of behaviour in other areas, too. That effect must not be reversed. It is never appropriate to proclaim the death of inflation. The seemingly dead may actually live longer.

By saying this, I have no wish to kindle fears of inflation. But I do want to draw attention to the fact that, in the third millennium, it will remain true that:

In the long run, there can be stable money only if monetary policy keeps monetary growth under control, the markets are sufficiently flexible, and policy makers ensure appropriate underlying conditions and keep government finances in check. That is why the brave new world in Europe – especially since it is not as brave as all that in a number of European countries – will need a durably stability-oriented monetary policy, even if monetary policy alone cannot safeguard the stability content of the euro.

V

Unfortunately, the first quarter-year of the euro has been marked by a number of political uncertainties. At the European level, the resignation of the EC Commission highlighted some unsolved problems. And the economic policy stance of specific countries and its presentation have apparently given rise to some bewilderment, even if the debate meanwhile seems to have become less strident again. But that bewilderment is evidently also exerting after-effects. For, in all the assertions on the Treaty, some presentations have been understood to imply that, in the final analysis, some major precepts of the Treaty no longer possess the binding force they used to have.

The question of the appropriate assignment is manifestly of paramount importance for future anti-inflation policy and, most probably, for monetary union as well. Hence I will briefly revert to this topic once again. First, the overriding question is: Should monetary policy have an unequivocal priority mandate, such as that of the Maastricht Treaty, with its primary orientation towards the target of monetary stability? Or should it rather be an integral part of a set of political decisions on the correct dosage of all instruments?

On this score, it must be clearly recognised: an unequivocal mandate to the monetary policy makers is an essential precondition for the independence of the central bank. And the

independence of the central bank requires, for its justification, a far-reaching basic consensus. Just as the independence of the ECB and the ESCB is ensured by, for instance, the approval of all EU countries for the Maastricht Treaty. But a basic consensus implies extracting one target from day-to-day political debate and making it inaccessible to political intervention. This is why we have constitutions. If monetary policy makers had no priority target, but only objectives of equal urgency, then they would have to choose between a variety of economic policy goals on each occasion, and thus make value judgements. To do that, however, in a democracy one needs a mandate from the electorate.

Hence monetary policy can be independent only in the presence of a clear primary mandate. Needless to say, that does not imply that monetary policy makers do not have to pay heed to other targets, besides that of monetary stability, e.g. to growth, employment and external equilibrium objectives. But the hierarchy of targets must be clear. And it must likewise be clear that durable monetary stability is a key contribution to the achievement of the other targets.

This brings us to a second consideration: is the independence of the central bank less important nowadays than it was, say, in 1991? If anything, the opposite appears to be the case. For one thing, we have to assume – more so today than in the early nineties – that the euro area will be determined by nation states for a long time to come. Without a central European decision-making process that is free from thinking in terms of nation states, a political central bank would be apt to generate severe conflicts between the participating countries.

For another, the financial markets have become even more emancipated since 1991. Credibility has become even more important. And building up confidence in the currency on the part of citizens and financial markets is without any doubt one of the great strengths of an independent central bank – but only, of course, if it pursues the right policies. Just look at the historically low interest rates of the euro – of a new currency without a stability record of its own, looked after by the European Central Bank, an institution without a success story of its own. There can be no doubt that the independence of the ECB is already paying off. But it must remain effective in full. Integration into ex-ante coordination systems with other policy areas is inappropriate.

There remains a third aspect: which primary objective should the independent monetary policy makers pursue? The Treaty settled that. And this must remain the answer. Not merely for legalistic but primarily for objective reasons: In the longer run, inflation is always a monetary phenomenon. Although a sound monetary policy, in isolation, cannot always altogether prevent the emergence of inflationary trends, it can make it very difficult for inflationary trends to persist.

On the other hand, monetary policy can do virtually nothing to counter structural unemployment, such as mainly prevails today in many countries. For example, it can neither enhance labour-market flexibility nor widen an unduly narrow wage-rate spread. Nor can it create a fiscal and wage environment which is conducive to more private investment. At best, it could, in theory, temporarily lower real labour costs by means of a surprise inflation. Then a different assignment would simply imply dropping the goal of stability.

There remains the influence of monetary policy on business activity and on the relatively low proportion of cyclical unemployment in Europe today. I have no intention of denying that. But, particularly under the conditions prevailing today, confidence and the continuity and

calculability of policies are more important than feverish activity. Hence a forward-looking, steady monetary policy such as the ECB is aiming at is the right approach in terms of economic activity as well. Pursued over an entire business cycle, such a policy results in relatively low interest rates.

Needless to say, continuity does not signify immobility. But the decisions must be taken on the basis of thorough and longer-term analysis and detailed monitoring of all the requisite data and facts. Of course, monetary policy must also take due account of what is happening in other policy areas. But it has a clear responsibility, and clear priority, of its own. And it therefore cannot be a party to negotiations with policy makers in alliances or pacts of any kind.

VI

Without any doubt, the structural deficits on the labour markets of many countries in the euro area constitute a serious problem. They must be addressed. Otherwise, significant successes will not be registered in the field of employment. The basic thrust of the adjustments is substantially known. They must be in the direction of greater flexibility, greater personal responsibility and greater differentiation, with policy makers naturally needing to ensure that the process is socially cushioned and balanced.

To tackle a challenge posed to more than one at the same time, there are, in theory, always two possible approaches: coordinated agreements or competition. It may, of course, make sense for European countries to try to find common solutions to the labour-market and employment problems (always provided that they point in the right direction). Such joint agreements might perhaps enhance the acceptability of “unpopular” measures in individual countries. But one cannot be certain of that. It might alternatively throw an undue strain on European integration. In particular, it might pose difficulties in the real world: the points of departure in the various countries often differ distinctly. Moreover, such an approach might blur the responsibilities. And it might encourage unwelcome centralisation in the direction of Brussels.

In the final analysis, after all, each country always has to conduct its own employment policy. It has to tackle its own problems. But nowadays, of course, political solutions are always embedded in global competition. Well, it is a feature of competition that some respond faster and others more slowly. That is so in this case, too. Enhancing the effectiveness of the labour markets is no zero-sum game in which one country loses the jobs that another gains. Rather, it is the only way to achieve durable overall employment gains in Europe. Here, each country must go its own way. The Netherlands is definitely one of those countries which have addressed their problems more promptly than, say, Germany. But a country that stands still, loses ground. This is what happens in competition. However, that is not the curse, but rather the blessing, of competition.

VII

There can be no doubt that the euro opens up many options for Europe’s future, ranging from less dependence on exchange rates to larger and more effective financial markets and lower costs. But it is no less true that, following the advent of the euro, the demands being made on the participating countries, on their economies and policies, have risen. Now that the euro has arrived, policy makers actually have no choice but to accept these demands. The monetary

union must not engender internal conflicts within the Community. That is why it is so important for all countries to continue to meet the obligations of the Maastricht Treaty in full, and, in particular, for national fiscal policies to be disciplined. The ECB, in its latest Monthly Bulletin, has therefore rightly called for full compliance with the Stability and Growth Pact.

In one respect, the Maastricht Treaty has taken a different path from that envisaged in the Werner Report of 1970. Although monetary policy is to be conducted supranationally, fiscal policy, despite all the monitoring, remains in national hands. This implies a vulnerable flank, which can only be protected by the actual common orientation of all member states, especially the large ones. After the convergence criteria had already been interpreted generously for some countries at the time of entry into monetary union, it is now essential not to slow down, let alone stop, the fiscal convergence process.

For one cannot rule out the possibility that monetary union, too, will run into stormy seas some day. In the long run, those hard times will probably demand more community spirit from all the participating countries. And they will demand a greater capacity to act and to take decisions from the EU. This makes it all the more important to rectify the present political deficiencies and to set the stage soon for more political "community spirit". Not in the sense of a political super-state, but rather in the clear distribution of responsibilities, and in the capacity to take political action at the European level.

Though aware of these political deficiencies in procedures and rules, I fully appreciate the current capabilities of the existing European institutions and their great support of the integration process. In particular, I welcome the fact that the recent summit of the European Council in Berlin has reached – besides the financial agenda – agreement on two important issues: The Council has taken a quick and clear decision on the nomination of the President of the next European Commission for a full mandate. And the Council reaffirmed its commitment to include the democratic states in central and eastern Europe in the integration process. In the Presidency's Conclusions it is said: "Enlargement remains a historic priority for the European Union." Nevertheless, this priority calls for further reforms in the Community. Otherwise, observers may get the impression that, in some discussions, very little seems to have changed over the past thirty years.

As long ago as the summit meeting at The Hague in 1969, tension between enlarging and deepening the Community was perceptible. At that time, just like today, the heads of government linked an enlargement of the Community to reforms in the area of agricultural funding. And, as long ago as that, they didn't dare to take the step towards a clear definition of functions, and towards a clear and new decision-making structure, able to respond quickly and subject to unambiguous parliamentary control. It seems almost like a miracle that, all the same, the Community has since grown to fifteen member states, and actually introduced a (hitherto successful) euro in eleven countries at the beginning of this year. Given these achievements, the Community must not now rest on its laurels.

The common currency has imparted new momentum to European integration. Due advantage must be taken of that stimulus. I very much hope that the euro does not mark the end, but rather the beginning, of ongoing European integration which naturally does not shrink from further enlargement. A clear basic orientation and an improved ability to act and take decisions are essential prerequisites of any such development. Europe must not suffer the fate of the dinosaurs.