

Mr Duisenberg comments on the past and future of European integration: a central banker's perspective

The 1999 Per Jacobsson Lecture by Mr Willem F Duisenberg, President of the European Central Bank, held in Washington DC on 26 September 1999.

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1. Introduction

I feel honoured to have been invited to give this year's prestigious Per Jacobsson lecture before such a distinguished audience. The euro was launched successfully almost nine months ago. This was a historic moment, with 11 countries voluntarily relinquishing sovereignty over monetary policy. Technically the changeover proceeded remarkably smoothly. Former national money markets were rapidly integrated, in no small measure due to the smooth functioning of TARGET, the new European payment system which, generally speaking, worked well from the outset. The euro is traded on all international financial markets. Moreover, the euro has been introduced in a climate of prevailing price stability in the euro area. This is the result of a process of convergence in which there has been a general decrease in European inflation rates over recent years, from – in the case of some countries – significantly higher levels in previous years.

The introduction of the euro is neither an isolated nor a purely economic event. It is another, yet very important, step in the process of European integration. The process began more than half a century ago. The creation of the euro is not the end of that process either. Today, I should like to briefly look back, but mainly look ahead. My perspective is that of a central banker. The nature of this perspective will become clear in the course of my lecture.

Dealing with European integration and with the new European single currency is particularly appropriate in the context of this lecture series. Per Jacobsson has spent his professional career pursuing sound money. This is the very same challenge that faces us: making the euro a sound – that is to say stable – currency.

2. The history of European integration

Let me first deal briefly with the history of European integration. This process has been strongly driven by political motives. The main underlying aim was to avoid a recurrence in the future of the wars which devastated 20th century Europe. To that end, central Europe's largest country, Germany, should be firmly embedded in a European structure. As Thomas Mann has aptly put it: "a European Germany, rather than a German Europe". Without a common European framework, tensions could arise again between Germany and other countries, France in particular. European integration should serve the objective of creating a peaceful, stable and prosperous Europe. The unification of Germany almost a decade ago, and the removal of the iron curtain have placed Germany even further, as it were, in the heart of Europe. These fundamental changes make clear that the motives for European integration are no less valid today than 50 years ago.

The main vehicle for European integration has been economic integration, via the coal and steel industry, from establishing a customs union, the European Monetary System, to the Single Market programme and the introduction of the euro. "Trade, do not fight" or perhaps better "Trade and you will not fight" was the basic philosophy. Given this background, it is striking that economists all too often assess the costs and benefits of European integration in purely economic terms and in a rather static context. This is clearly too narrow an approach.

Nonetheless, the economics of European integration are important. The political objectives can only be met if economic integration is successful and placed on a sound economic footing. This is also where the role of the central banker comes in. He or she should not and does not decide on the steps to be

taken in the integration process. That is in the realm of politics and is also market-driven. The central banker advises and points out the conditions which have to be met for certain steps to be taken safely. The reverse is also true: the central banker and central banks are for their part influenced by the integration process, and the greater the level of integration in the monetary field, the greater the impact upon them. The central bank and the central banker are operating in an environment, which is affected by the ongoing integration process. This has to be taken into account. Moreover, the question arises as to whether a single monetary policy ultimately calls for further integration in other areas.

In retrospect, it can be concluded that, thus far, the European integration process has, on balance, been successful. In our part of Europe we have experienced peace since the process was initiated and we have seen a continuous growth in earnings and wealth. The further process of gradual integration has now culminated in the emergence of a single currency.

There is no room, however, for complacency. Looking back, let me also draw some more specific conclusions:

1. The integration process has been marked by ups and downs, often in step with the course of the business cycle or in connection with major shocks, such as German unification. The road has been long and winding, sometimes bumpy.
2. Long ago European integration reached the point of no return. There is no alternative but to continue down the path of integration. Economic integration has generated its own dynamics. It is no longer completely dependent on political initiatives to propel it forward.
3. Overall, however, the political component of the European integration process is still essential and should not be forgotten.
4. Politicians should clarify the objectives of the European integration process, explaining them to European citizens and pointing out the steps envisaged in the years ahead. The role of central bankers is to be critical, yet at the same time constructive. They should indicate the economic consequences and the risks of certain steps, stipulating under which conditions certain steps can safely be taken. It is better to take a step later, but successfully, than to take it prematurely and then fail and fall back further. Such a role will not always make the central banker popular. He or she will often be perceived as stepping firmly on the brakes. Nonetheless, I am convinced that it is the best service he or she can provide in furthering the progress of the integration process. It may sound paradoxical, but by continuously emphasising the importance of fulfilling the convergence criteria, central bankers have contributed to making possible the introduction of the euro. It has perhaps already been forgotten by some, but this event was not considered very likely by many observers, even close to the date on which it actually happened.

European integration is an ongoing process. It will continue. What does the future hold in store? Let me now turn to this issue.

3. The future of European integration

3.1 Introduction

European integration is a task of great magnitude, and will remain so in the next century. It offers many opportunities. It faces many challenges. I would classify these challenges in three categories and look at them from the perspective of the central banker:

1. How to make the euro and Economic and Monetary Union (EMU) a success.
2. How to cope with the accession of new countries to the EU and the euro area.
3. How to develop the role of Europe, the European Central Bank (ECB) and the Eurosystem (i.e. the ECB and the eleven national central banks of the EU Member States which have adopted the euro) in the world.

I shall now discuss these challenges in turn.

3.2 *How to make the euro and EMU a success*

In the first category, I would make a distinction between what central bankers can do or what is within their control, or what they can influence on the one hand, and what the outside world should do or is likely to do with an impact on the central bank world, on the other.

3.2.1 *The role of central bankers*

The most important task and challenge for the Eurosystem is to build up a track record of actual price stability in the euro area. Action speaks louder than words. Showing in practice that we are capable of providing stable prices is what really counts. We have to ensure that European citizens are confident that the euro is a currency, which can sustain its value over time, and that the ECB is an institution which they can trust. The ECB should be perceived as an institution that says what it does and does what it says.

The ECB and the Eurosystem should develop into truly European institutions. They should always take their decisions and conduct their analyses from a euro area-wide perspective. Although some good progress has been made in this regard, there is still room for further improvement. Additional efforts will also be required in finalising the process of setting up and consolidating the ECB and the Eurosystem. For instance, the ECB began life with a staff of around 400 persons, which in the meantime has grown to more than 700. It is likely to grow further in the years ahead, but it has to be recognised that there are limits to the pace at which the organisation can be expanded. It is fair to say that at the moment the ECB is capable of fulfilling its tasks, but that the pressure of work in many areas is still simply too high. As will become clear later in this lecture, some new tasks will have to be taken up in the years ahead, while others need to be enhanced. While expanding, it has to be ensured that the ECB remains an efficient organisation. What is more, the role of the ECB, as the central bank representing the second largest economic area of the world with a population of 300 million people, has to be shaped and elaborated further. Setting up the ECB is a fascinating process. It is like the European integration process itself, but on a micro scale and under very great pressure of time. In some respects, the process of establishing and consolidating the ECB and the Eurosystem could serve as an example for the European integration process in a wider sense.

The Eurosystem will have to explain time and again what monetary policy can and cannot do. Our mandate of maintaining price stability in the euro area in the medium term has to be emphasised continuously. Our medium-term orientation should be underlined. It is not in the power of a central bank to deliver price stability on a short-term basis. We cannot and should not respond to every twist and turn in economic data. The Eurosystem's stance is not an "activist" one.

The more successful we are at maintaining price stability, the more important it may become to communicate the benefits of price stability. The memories of periods of high inflation with its damaging consequences may fade. It cannot be taken for granted that the reason for the independence of the ECB is widely known. Having such knowledge widely distributed is crucial for the maintenance of price stability in the longer term. No central bank, however independent on paper, can maintain price stability in the longer term in practice if not supported in the execution of its mandate and in its independence by a large part of the population. This is certainly the case for a new and young central bank which has the task of conducting monetary policy for an area consisting of eleven different countries, with populations from different cultural, economic and historical backgrounds.

The euro is not and cannot be a cure for all European problems. The introduction of the euro will not in itself solve the unemployment problem. Monetary policy is neither the cause nor the solution of the unemployment problem. Structural reforms are needed to attack it. Fortunately, this insight is gaining broader support. The challenge now is to translate it into sustained action. Carrying out structural reforms is politically difficult, since they may be painful in the short term and only bear fruit over a longer time scale. However, it is encouraging to note that those countries which have implemented structural reforms have indeed been more effective in coping with the unemployment problem.

I shall continue to focus on the unemployment problem. Unemployment is a waste of resources, leaves human potential unused, is a source of frustration and ultimately undermines the stability of our societies. In a narrower vein, the existence of a high level of unemployment may also hamper the conduct of monetary policy. It can all too easily lead to calls for an expansionary monetary policy as a solution to a problem which monetary policy cannot solve. The central bank could become the scapegoat for failure to take action in areas where action on the part of others is what is in fact required. Making markets more adaptable is also necessary for making EMU work. Only flexible markets will be able to cope with the asymmetric shocks which can sometimes affect any monetary union. The policies needed to make EMU work are, at the same time, essential to reducing unemployment. A single currency does not call for uniform wage developments or uniform economic or social policies in general. On the contrary – where national or regional economic developments are different, this should be reflected in different policy responses and wage developments. Moreover, different reactions to similar problems make it possible to learn from each other.

The existence of a single currency and 11 fiscal authorities is a unique phenomenon. This can only work if the Member States strictly apply the Stability and Growth Pact, which calls for the reduction of government deficits to close to balance or to create a surplus in the medium term. In this way, room is created for letting the automatic stabilisers work in response to both asymmetric and symmetric shocks. Such a fiscal policy is required not only for EMU. It has its own merits. The ageing of the population calls for such a policy line independently of EMU. The need for fiscal consolidation is not just the result of creating the euro, but would be a key element in any sound fiscal policy in the euro area. It remains to be seen whether the Stability and Growth Pact goes far enough in compensating for the absence of one fiscal authority in the European Union. We should be ready to learn from experience and adapt our institutional framework if and when the need arises. This applies, of course, in a more general sense. EMU has been well prepared, but actually playing the game is always different from preparing the game plan, important as this may be. A good game plan is necessary, but not sufficient to win the game. While it is as yet unknown whether the Stability and Growth Pact will be the last word on fiscal policies in the euro area, it is certain that a failure to adhere strictly to the Pact would be a recipe for all manner of problems.

The Eurosystem has adopted a monetary policy strategy which is tailored to the unique conditions of introducing a new currency. Our two-pillar strategy, with its emphasis on monetary developments and a broadly based outlook for price stability, takes into account that economic behaviour may change as a result of the introduction of the euro itself. In other words, it takes into account that the start of EMU constitutes a structural break. This already indicates that after some time our experience with conducting monetary policy within this framework will have to be carefully evaluated. Over time our strategy may evolve, perhaps in the direction of greater emphasis on one of the pillars. However, this has to be a cautious process, since one of the main functions of a monetary policy strategy is to provide a tool for clearly communicating monetary policy preparation and decisions. Thus, you cannot change your monetary policy strategy as you would change suits. Continuity must be a feature of any monetary policy strategy.

Although the primary task of the ECB and the Eurosystem is to conduct monetary policy, there are also other tasks. It is only natural that up to now we have very much focused on our primary task, and there is thus ample scope for further reflection upon and implementation of these other tasks. In this context I am referring to the task and role of the ECB in maintaining financial stability. All modern central banks are active in this area. They are involved in legislative processes relating to the financial sector and play a role in designing the market structure, in surveying the financial markets and in monitoring key players in the financial sector. The ECB is already involved in the first two areas. It has an advisory role in respect of legislation concerning the financial sector. With regard to the market structure, an active role is being played in the context of payment and securities settlement systems. The other two roles could be developed further in the years to come.

The European financial markets, especially those for longer-term instruments, are not yet fully integrated. There is not, as yet, a completely single market for financial services. Pan-European banks are not yet a dominant feature of the European financial landscape. However, the situation is clearly dynamic. The introduction of the euro did not trigger this process, but is certainly giving it a boost.

Mergers and restructuring are taking place, albeit on an as yet predominantly national level. However, this may, and probably will, change. The European Commission is taking many initiatives to further enhance the single market for financial services. These initiatives are highly welcome. Financial sector issues will tend, more and more, to become European issues. It is hard to predict the pace of this process, but its direction is clear. This conclusion underlines the importance of the ECB's further strengthening its ability to deal with matters relating to financial stability. Banking supervision is a national responsibility, although intensive international cooperation does exist, *inter alia* – though not exclusively – at a European level. Given the current European financial landscape, the decentralised structure of banking supervision in Europe can be defended. However, in the years to come the question of whether the adequacy of this framework is undermined by developments in the financial sector will have to be closely monitored and analysed. It is reassuring that the Treaty on European Union contains a provision which enables the Council of Ministers to further enhance the role of the ECB in the field of banking supervision.

In the relatively near future the introduction of the euro banknotes and coins will be on the agenda. This is another important step in the process of introducing the euro, albeit not so much for economic reasons. The decisive step was of course taken this year through the irrevocable fixing of exchange rates, but it is the step to be taken in early 2002 which will make the euro visible and the significance thereof should not be underestimated. The introduction of the banknotes and coins will offer a further opportunity for informing European citizens about the euro and EMU in general.

Open communication with many parties – from the economics professor to the members of the European Parliament and ordinary European citizens – is high on the agenda of the ECB and the Eurosystem. Our wish is to be open, transparent and, as far as possible, predictable. This is basically the case for three reasons. First, a central bank which is understood will be more effective. Second, in a democratic society the other side of the coin of central bank independence is that the central bank should be accountable for its actions in fulfilling its mandate. Third, a clear framework for external communication will structure and discipline internal debates. Our aim is to be predictable but let me make one thing quite clear: ultimately, it is achieving our objective of price stability which is of overriding importance. In other words – although we will try to avoid such a situation – we shall not refrain from surprising the markets by taking an unexpected measure if we firmly believe that this is necessary. It has to be kept in mind that monetary policy is different from mechanics: it always involves judgement. If that were not the case, a good personal computer would be a better central banker than an ordinary human being.

An important starting-point for our communication policy is that the Governing Council of the ECB is a collegiate body where decisions are taken from a euro area-wide perspective. What we wish to communicate are the decisions of that body, not those of individuals. This does not rule out also presenting the arguments for and against a certain decision. That is what we do in substance. Every month the Vice-President and I hold a press conference immediately after the meeting of the Governing Council. In an introductory statement I explain our decisions and on what basis we have taken them. This is followed by a question and answer session with a large number of journalists. Both the introductory statement and the questions and answers are published on our Website, almost without delay. I believe this arrangement is both a unique and – from our perspective – demanding one. In addition, we publish a Monthly Bulletin in all 11 official languages of the European Union. We publish an Annual Report and there are many speeches, interviews and publications. At quarterly intervals I appear at a hearing before the European Parliament. Nobody should doubt our intention to be open and transparent. Unfortunately, the debate on this issue has often focused on our practice of not publishing the minutes of Governing Council meetings. In substance my introductory statements are not so different from what other central banks would call minutes. And they are published immediately. As to the substance of what we publish, two issues remain. First, we do not reveal voting records for several reasons. As I said, the Governing Council is a collegiate body. What is relevant are the final decisions of that body and the underlying arguments, not the individual positions. Publishing individual positions can easily distract from what is really important. What is of paramount importance in the European context is that members of the Governing Council do not represent a particular country or their national central bank and that decisions should always be based on euro

area-wide considerations. This is a new principle and everything should be done to ensure that it is adhered to. Publishing voting records could easily lead to placing monetary policy debates in a national context and even to putting pressure on individual Council members.

The second issue is that, for the time being, we do not publish our economic forecasts, including our inflation forecast. Again we have several reasons for not yet doing so. It is crucial that our monetary policy strategy be well understood. Publishing inflation forecasts could easily be interpreted as the ECB following a strategy of direct inflation targeting. This is not the case. Inflation forecasts have no exclusive role in our monetary policy discussions and decisions. They are among many other indicators which we analyse in the context of the second pillar of our strategy. Publishing inflation forecasts could make them become self-fulfilling prophecies. This may hamper monetary policy where forecast inflation is incompatible with maintaining price stability. Finally, due to the structural break which the introduction of the euro constitutes, some time will be required to obtain estimates which are sufficiently reliable for publication. At the same time, I would acknowledge that, if presented clearly within the context of our strategy, forecasts may also enhance our transparency. Thus we should indeed consider publishing forecasts at some point in the future.

In our external communications we aim to speak with one voice. The collegiate character of the Governing Council underpins this principle and facilitates the process of ensuring that monetary policy decisions are transparent. This is not always easy and here we are clearly in a learning phase. This is the case on a more general level too. Communication is more an art than a science. We will certainly try to learn from experience. Verbal discipline and transparency are not contradictions: they should be two sides of the same coin. We aim to be predictable. This will be easier if we can predict how the media will interpret and publish our communications. This is not yet always the case.

Communication should not be a one-way street. The ECB must also take note of and be sensitive to its environment in order to be effective in its own policies. Let me therefore now turn to the issue of our wider environment.

3.2.2 *The environment*

Monetary policy cannot be conducted in isolation. The ECB cannot operate on an island. It needs a strong European foundation. This is an issue which touches upon much more than just the framework for monetary policy or even for EMU. In the longer term having a single currency means that ultimately we are sitting in the same boat. It is inevitable that sometimes the single monetary policy will not be perfectly tailored to a certain region or even to a certain country. This is the case in all monetary unions. Optimal currency areas do exist in textbooks, but not in practice. Thus, for a monetary union to be viable, the absence of perfectly tailored policies will have to be accepted. This may sometimes require a feeling of belonging together – social cohesion if you like. I believe this may be even more fundamental than the discussion on the establishment of political union, which is often a poorly defined concept. Increasing political integration and creating or changing joint political institutions may help to foster social cohesion but, like the ECB, these institutions cannot operate in a vacuum. They also require a certain amount of social cohesion. Moving solely on the political front may not be enough and it may not be the first or even most important thing to be accomplished.

Fostering this process of enhancing social cohesion is not a simple task. It is not something which can or should be imposed from above, but it can, to a certain extent, be guided. It is a process which must be both evolutionary and spontaneous. Its pace cannot be forced. This would be counterproductive. In the end it is a matter of clarifying and further developing elements of a common European culture. This implies articulating and emphasising the many things which Europeans already have in common, but also building up more common experiences. Such experiences can serve to cement intra-European relations. Having a single currency will automatically contribute to this process, not only because of the common banknotes and coins, but also because it will mean dealing with identical issues in all European countries. There are many other areas in addition to politics and economics where this can be done, such as the sciences, the arts, the press, television and so on. We should try to develop debate on European issues at a European level. I attach great importance to explaining our monetary policies at the hearings in the European Parliament. Monetary policy is conducted from a European perspective and should therefore primarily be explained at a European level. More attention should be paid to

European issues. The objectives of European integration should be explained more often and more clearly.

The fear that Europe is something abstract, remote and threatening to local culture should be taken seriously. However, I do not believe that there necessarily has to be a contradiction between preserving local culture and at the same time further developing a common European culture. On the contrary, they can complement and enrich one another. It is necessary and inevitable that an increasing number of issues be decided at a European level. Quite apart from issues relating to the euro, other issues such as those relating to the environment, crime, defence and migration can no longer be considered to be purely national issues. In deciding on what should and should not be discussed on a European level, the principle of subsidiarity should continue to play a guiding role. What can be decided at a lower level should be decided at a lower level.

I do not close my eyes to the existence of substantial obstacles to further integration in this broad sense. Perhaps the fact that the European Union has 11 official languages is the most important one. In a sense it also poses a dilemma in our communications policy. On the one hand, it is very important to reach all European citizens in their own language; on the other, should we not encourage a situation in which as many Europeans as possible also speak one common language? Could our education systems not make this happen? This cannot, of course, be accomplished overnight, but should we not at least try to make the issue less sensitive than it still is?

History is in some respects another barrier. There is no alternative but to recognise this and work to overcome it. I believe this lies at the heart of the European integration process. European integration has been, is and will continue to be, a step-by-step process. It will certainly suffer setbacks at times, but on balance it is contributing to peace, stability and prosperity.

What often strikes me is the negative, gloomy attitude of many Europeans towards European integration. This project deserves a different attitude. We should see Europe as an opportunity, a positive challenge, rather than as a threat or a cost. European integration is a unique and fascinating process and I wish that this were more strongly reflected in the attitude of many towards it. We also need the energy which is born of such an attitude to deal with the challenge posed by the accession of new countries to the European Union and the euro area. Let me now turn to that issue and deal with it from the perspective of the ECB.

3.3 *Coping with the accession of new countries to the EU and the euro area*

Four countries of the European Union have not yet adopted the euro. They may well join in the medium term. A greater challenge is the potential accession of still more countries to the European Union and ultimately the euro area. Negotiations are currently being conducted with six countries. Negotiations with another six candidates may start soon. The so-called Copenhagen criteria must be fulfilled for EU membership. They read as follows:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities (political criteria);
- the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the European Union (economic criteria); and
- the ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union (acquis communautaire criteria).

Accession is a political decision, but it is clear that the entry of new members into the EU will have consequences for the ECB and the Eurosystem. The three steps of accession to the EU, becoming a member of the exchange rate system ERM II and adopting the euro should be seen as a continuum. This autumn, EMU issues will be on the agenda for negotiations. It is only natural that the Eurosystem will become more involved in this process in the future both in its advisory role and because of the implications for its own tasks and objectives. The Eurosystem should be involved in the accession process and in other forms of cooperation with the applicant countries on all issues falling within its exclusive or shared areas of competence: monetary policy, exchange rate policy, payment systems,

financial stability and the impact of enlargement on the Eurosystem itself. Currently we are in the process of defining our position. Let me briefly outline some preliminary observations.

The Eurosystem needs to have an open and positive attitude towards the prospect of the accession of new EU Member States, as well as their subsequent participation in ERM II and adoption of the euro. The Eurosystem should be prepared to advise these countries in pursuing appropriate structural reforms and stability-oriented policies in line with accession and convergence criteria. The Eurosystem should stand ready to provide technical assistance to accession countries. The accession process implies a significant body of preparatory work on the part of the central banks of the applicant countries. This work may be facilitated by external technical assistance.

Equal treatment should be a key feature of the accession process. Objective and uniform criteria should apply both to accession, and to participation in ERM II and adoption of the euro. These criteria, related to each step of the process, should be implemented in a strict and effective manner, in order to provide the countries concerned with the external constraints necessary to bring their economies in line with the respective standards and the final goal of EMU, while also avoiding any discrimination.

Against the background of different starting-points and degrees of economic transition, and the difficulty of ascertaining the lead time for further headway towards real and nominal convergence, a plurality of approaches should be feasible without compromising equality of treatment. This may apply, in particular, to the timing of EU accession, ERM II membership, monetary policies (including exchange rate strategies) before EU accession and the development of sound financial market infrastructures.

In accordance with the Treaty establishing the European Community, the Eurosystem will always focus on the maintenance of price stability in the euro area. Hence, our involvement in the accession process, including technical assistance, and any arrangement or other forms of cooperation with accession countries must be without prejudice to the Eurosystem's independence and its primary objective. The process for ultimately adopting the euro is clearly stipulated in the Treaty. The convergence criteria play an important role in this respect.

Institutional adjustments of the Eurosystem required by enlargement should preserve the efficient functioning of the Eurosystem and its ability to maintain price stability in an enlarged euro area. In the case of previous enlargements, the entry of new Member States often brought about so-called "arithmetical adjustments" to the composition of the EU institutions, which entered into force with the ratification of the Accession Agreements. However, an enlargement by as many as 12 new countries may require more substantial adjustments. This is one of the reasons why a new Intergovernmental Conference will be convened on enlargement-related issues by the end of this year. In this regard, as provided for in the Treaty on European Union, the Eurosystem would stand ready to take part in any initiative taken by the competent EU institutions on issues falling within its competence. Such institutional adjustments should be without prejudice to the fundamental features of the Statute of the ESCB, namely the Eurosystem's mandate and its independence.

Let me now turn to the role of Europe, the ECB and the Eurosystem in the world economy.

3.4 The role for Europe, the ECB and the Eurosystem in the world economy

The euro is the currency of an economic area with a population of nearly 300 million people and one-sixth of the world's gross domestic product. Both numbers will increase as new countries enter Monetary Union. After the US dollar, but ahead of the Japanese yen, the euro is the second most widely used currency on a world-wide scale. Given these facts, it is stating the obvious to say that the euro and the Eurosystem are bound to play an important role in the world economy.

With regard to the international role of the euro, the Eurosystem has adopted a neutral stance. We shall neither hinder nor actively promote this role, but leave its development to market forces. To put it another way, there is and shall be no policy of challenging the position of the dollar, nor that of any other currency. Of course, to the extent that the Eurosystem is successful in maintaining price stability it will almost at the same time automatically foster the euro's international role. The euro already has an important international role. This role is likely to grow over time. The pace of this process cannot

be precisely predicted. If history is any guide, it may well be a rather gradual process, although I would not rule out that this time it may well evolve faster than history would suggest.

The monetary policy strategy of the Eurosystem clearly rules out any implicit or explicit targets or target zones against third currencies, such as the US dollar and the Japanese yen, without the consent of the Eurosystem itself. The pursuit of an exchange rate target could easily compromise the achievement of price stability and thereby also have a negative impact on real economic developments. The fact that we do not have an exchange rate target does not imply that we are indifferent to exchange rate developments or that we will neglect them. On the contrary, the effective exchange rate of the euro is monitored as a potentially important indicator for monetary policy.

The ECB and the Eurosystem stand ready to contribute to the international exchange of information and views on economic policy issues. In fact we already play our role in many international fora and meetings, such as the G7, the G10, the OECD, the BIS and the IMF. The ECB has obtained observer status at the IMF and is to become a shareholder of the BIS. The best contribution the Eurosystem can make to international stability is to maintain price stability in the euro area. Attempts at international policy coordination beyond the scope that I have just indicated could easily become counterproductive, compromising both the Eurosystem's mandate and international financial stability itself. The Eurosystem's role on the international scene will tend to expand and develop over time, in step with its growing experience and the gradual evolution of the ECB's organisation. In the context of international cooperation, the Eurosystem and the ECB will also play an increasing role in providing technical assistance in their fields of competence.

Since the number of parties in the international arena should fall as a result of the establishment of EMU and the Eurosystem, cooperation at an international level should potentially become easier than in the past. However, arriving at this situation may take some time. From a more general point of view, Europe should aim at becoming a stronger partner in international cooperation and, as far as possible, at speaking with one voice. Such an ideal cannot be realised overnight, but every effort possible should be made to move in this direction.

A stronger, more integrated and coherent Europe is in the interests of the world at large. To be able to play this role on the international scene, Europe should keep an eye on the rest of the world and, in spite of the many challenges it will face internally in the years and even decades ahead, should avoid adopting an exclusively introspective stance.

I come to a conclusion.

4. Conclusion

I have discussed three areas in which Europe will have to be active in the immediate and longer-term future. They concern the euro area, the wider Europe and Europe in the world. Each of these areas already offers enough challenges in itself. The fact that progress has to be made in all three areas simultaneously makes Europe's agenda for the next century even more exciting.

Europe has the potential to meet these challenges, if it is clear about its objectives and, as in the past, is flexible in its way of achieving them. If Europe is successful, the lives of its citizens will be improved, and it will be a stable and stabilising factor in the world. Success will not come automatically. It will require substantial efforts and the will of many people and institutions in many areas. However, these efforts, if successful, will be amply rewarded.