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**The European Economic and Monetary Union
in the world economy**

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Endeavours to cooperate internationally in the economic and monetary fields have become a characteristic feature of the world economy today. Apart from the many years of cooperation in the Bretton Woods organisations and other efforts of such importance to global trade, namely the dismantling of trade barriers under the auspices of the General Agreement on Tariffs and Trade (GATT), there are approaches in many regions to achieve a greater degree of regional integration in the economic area.

We in Europe are observing the development of efforts to cooperate on the American continent, of which I would like to cite the establishment of NAFTA as an example, with great interest. In today's and tomorrow's world, not only can we all learn from one another, but ultimately we are also all dependent on one another - be it in success or failure. I am therefore convinced that the countries of Latin America, too, are paying close attention to the

progress made along the road towards the integration of Europe.

However, successful international cooperation always hinges on the economic conditions prevailing in the individual partner countries being as stable as possible. In the long run, growth and increasing prosperity can be achieved only on the basis of economic and political stability. Only if this is given, can cooperation across national borders, too, have favourable effects.

Where economic stability is concerned, your country can look back on considerable successes, above all, in the last few years. This holds true not only of the increase in the gross domestic product, the growth rates of which have returned to an order of 10 % after the temporary phase of weakness in 1990. The upward movement of consumer prices, too, remained relatively moderate and was, as a whole, far lower than in other Latin American countries.

I am, of course, well aware of the fact that such successes are not at all easy to achieve, and that it is even more difficult lastingly to safeguard them. But this makes it even more crucial that the course adopted be pursued with unwavering consistency even in times of temporary difficulties and setbacks.

Our own experiences in Germany and Europe have shown that, in the long run, a policy geared single-mindedly to price and monetary stability is the best guarantee of economic growth and widespread prosperity. At the moment, we in Germany, and also in Europe, are having to cope with a difficult phase of transition. Following the long period of upswing in the eighties, Europe is experiencing complex transitional and adjustment problems which also owe something both to the far-reaching changes in the east and to German reunification. I am convinced that we in Germany and Europe will be able to cope with these new challenges if we have the will to take the proper political decisions. Both in Germany and at

the European level, much is currently in a state of flux, especially in the monetary field. I therefore appreciate the opportunity I have here in Chile to speak about, in particular, the experience we have gained of the European process of unification and the prospects for monetary cooperation in Europe.

I.

In the last few decades Europe has no doubt made considerable progress along the road towards increased integration and monetary policy cooperation. The beginnings of the European unification project can be traced back primarily to the painful experiences of the Second World War. The desire to avoid any repetition whatsoever of such events gave rise to many intense efforts to integrate Europe economically, as well as politically.

The names of Konrad Adenauer, Charles de Gaulle and Robert Schuman stand for the new political

thinking in the early fifties, which was based on the idea of a partnership with equal rights and obligations between neighbouring countries. Above and beyond the opening of national borders and the establishment of European institutions, much effort was also spent on awakening and improving the peoples' reciprocal understanding of the problems, languages and cultural idiosyncrasies in other countries. Intensive endeavours were undertaken to promote personal contacts through exchange and partnership programmes.

In retrospect, the balance of the efforts made over the past 40 years is favourable, despite many setbacks. Unlike the situation in the former Eastern Bloc, where many old conflicts are breaking out anew now that the "integration by force" has collapsed, it proved possible in western Europe largely to overcome earlier national rivalries, such as those between Germany and France, and to replace them with lasting and trusting cooperation. This does

not mean that national ambition no longer plays a role today, and certainly not that national peculiarities and sovereignty have been dispensed with. What was new in all countries, however, was the acceptance of their mutual interdependence. In our modern closely integrated international economic and social system, there is no longer any space for special national solutions, or for going it alone.

The progress made in the way we deal with one another politically is inseparably linked to ever-closer cooperation in the economic sphere. As early as 1951, acting upon an initiative of France, six countries together established the "European Coal and Steel Community" (ECSC). The Treaty was aimed directly at safeguarding market access and improving supplies in two core economic sectors of that time. The signing of the so-called "Treaties of Rome" in 1957 then established the European Economic Community (EEC), which extended the

idea of cooperation to include all sectors of the economy.

The avowed centrepiece of these Treaties was the "establishment of a common market" and "the gradual convergence of the economic policies pursued by the member states". The underlying, ambitious goal was to put into effect the so-called four basic freedoms in all member states, namely the freedom of trade, the free flow of capital, the freedom of establishment and of services, and the free movement of labour. It proved possible to implement parts of these basic freedoms at a relatively early stage. As early as 1968, for instance, the entry into force of the customs union abolished all internal tariffs, and standardised the duties imposed at the Community's external borders.

Since then, the road towards European integration has time and again been marked by stimuli, progress and new prospects, but also, unfortunately, by

disappointments. Over lengthy periods in the seventies and, above all, in the eighties, for example, European integration policy came virtually to a halt. Economic assessments at the time gave rise to the idea of "Eurosclerosis", which was accompanied by growing uncertainty in respect of future developments in Europe. At the time, Europe's economic momentum threatened to fall behind that in the other two major economic regions, North America and Japan. It was only in the course of the eighties that Europe was able to overcome the state of rigidity, the lack of a perspective, and thus the economic uncertainties as well. Major stimuli to the new departure emanated, above all, from the new contractual commitment to complete the so-called single European market by the end of 1992.

Although the timely implementation of all aspects of this very ambitious goal proved impossible, the principle of a free flow of goods, services, capital and labour in virtually all sectors has meanwhile

assumed concrete shape in practice. Today, free access to the markets has largely been secured, in particular through the reciprocal recognition of national statutory and administrative regulations.

Monetary policy cooperation fills a special chapter in the history of European integration. In 1950, even prior to the implementation of the ECSC, American influence led to the establishment of the European Payments Union (EPU). It settled international payments on the basis of multilateral clearing, and was able, where necessary, to grant its member states foreign exchange credits. It was only towards the end of 1958, when the D-Mark as well as most other west European currencies became largely convertible, that the instrument of the Payments Union could be dispensed with, and it was dissolved a little later.

In the EEC Treaty of 1957 exchange rate policy was initially referred to merely as a "matter of common

concern". However, after the survival of the world-wide system of fixed exchange rates became increasingly doubtful in the second half of the sixties, closer monetary policy cooperation at the European level took on ever-greater urgency. In 1970 a Study Group set up by the European Council and chaired by Pierre Werner, then the Prime Minister of Luxembourg, first developed a common plan for the creation of a European economic and monetary union encompassing the member states of the time. But the implementation of that ambitious plan remained stuck in the starting holes on political and, above all, economic grounds. The project foundered, in particular, on fundamental economic divergences between the member states. These divergences were due, more than anything else, to the collapse of the Bretton Woods system and the first oil price crisis.

It was only with the establishment of the European Monetary System (EMS) that the Community was able to make a new start at monetary policy

integration in 1978. Real progress in convergence, however, was only possible after 1983, when France, in particular, radically changed its monetary and its fiscal policy stance, orientating both primarily to price stability.

In the second half of the eighties the increasing success of the European Monetary System at achieving stability, and the new initiatives for the completion of the single European market then led to the rebirth of the idea of developing the Community further into an economic and monetary union. The initiatives in this direction rested on obviously differing motives, though these generally supplemented, and thus also reinforced, one another.

The initial trigger was, above all, the debate on the so-called "asymmetry" of the European Monetary System. It concerned the EMS' design as a system based on bilaterally agreed central rates and not - as it has sometimes been interpreted wrongly - as a

system based on the ECU (i.e. on a weighted average value). If they wished to avoid changes in central rates, the member states were compelled to align their monetary policy to that of the country with the strongest currency (i.e. the country with the so-called anchor currency). The resulting dominance of German monetary policy was regarded by some countries as being inadequately "symmetrical". They therefore urged, and are still urging, that the system be reshaped to give them a greater say in the actual monetary policy pursued.

Apart from the monetary policy arguments presented, there were also ever-increasing calls in the second half of the eighties for a stronger political integration of the Community towards supranational structures. In addition, the view was increasingly aired that the single European market could actually only be completed within a monetary union with a single European currency. And, when prospects of a political reunification of Germany emerged in 1990,

some member states raised yet another argument, namely that the then larger Germany had to be integrated, both monetarily and politically, into European structures as soon as possible, so as lastingly to prevent it from dominating its neighbours.

As early as mid-1988, the Heads of State and Government of the European Community commissioned a Study Group chaired by Jacques Delors, the President of the EC Commission, once again to take up the preparations for the establishment of an economic and monetary union and to develop a concrete blueprint on the basis of the integration successes achieved so far. After the Study Group had submitted its report, the Heads of State and Government decided, in principle, in 1989, despite the clear misgivings of Margaret Thatcher, the Prime Minister of the United Kingdom at the time, to enter into the first stage of a three-stage process as early as 1990, and to begin contractual

negotiations specifically on the second and third stages as soon as possible. These negotiations then led to the Treaty on European Union signed in Maastricht at the beginning of 1992.

II.

The progress of European integration in the fields of economic and monetary policy, as I have just outlined, has always also been accompanied and influenced by the enlargement of the area of the European Community. As a large sales market and a major supplier in the heart of Europe, the original Community of Six (Belgium, France, Italy, Luxembourg, the Netherlands and Germany) proved to be increasingly attractive to its neighbours. Although a number of countries, such as Sweden, Finland, Austria and Switzerland, felt superordinate political grounds and due consideration of their status as neutrals in East-West relations prevented their membership up to the end of the eighties, a

decisive extension took place in 1973 with the accession of the United Kingdom, Denmark and Ireland. At the beginning of the eighties, the accession of the southern European countries Greece, Spain and Portugal then gave the Community the structure it has today.

In addition, many countries in Africa and the Commonwealth have long been linked to the EC via partnership and association agreements so as to participate in at least some of the advantages of the common market. A last step, for the time being, towards the intensification of cooperation in Europe has been marked by the Treaty on the European Economic Area (EEA), with which the relations between the EC and the members of the European Free Trade Association (EFTA) have been placed on a new footing.

The revolutionary upheavals at the end of the eighties and the beginning of the nineties have

meanwhile, however, led to fundamental changes in the political and economic environment in Europe. In 1989-90 the political systems in eastern Europe and in the Soviet Union, which had long been believed unshakeable, collapsed like a house of cards. For almost half a century, Europe had been divided by deeply entrenched and insurmountable borders between countries and blocs. Today, these borders have suddenly become permeable, and earlier political blocs have changed or been dissolved. The east-west tension that existed for decades, that had determined international structures since the war, has been replaced by new endeavours to cooperate. In this context, German reunification imposed unprecedented burdens on Europe's largest economy, and thus also on its partner countries. For many years to come, the reorganisation or, it might even be said, the reconstruction of the formerly socialist command economies in eastern Germany and eastern Europe will require huge financial transfers and capital expenditure that will largely

have to be financed with the savings of the western countries. It is not at all easy either for those directly involved or for their only indirectly affected partners to accept these burdens.

But the collapse of former dictatorships and systems has simultaneously led to the rebirth of national differences and movements long believed forgotten. In the former Soviet Union and currently, above all, in former Yugoslavia, this has given rise to severe and, in some cases, continuing bloody disputes. Another example is the peaceful separation of the two parts of former Czechoslovakia. It is impossible for anyone today to predict either the long-term results of the political and economic changes or the structures they will lead to. One thing is certain, however, namely that they will have a far-reaching impact on the environment in which the further process of political and economic integration in western Europe will take place.

In my view, there are two different but nevertheless interlinked conclusions to be drawn from these changes in respect of further integration in Europe:

On the one hand, the EC will soon have to face up to the necessity of broadening of its membership over and above the current Community of Twelve. As far back as at the time of its establishment in the fifties, it was assumed that it must be possible, in principle, for other countries, too, to become members at a later date. The Community cannot ignore this basic principle at a time when many of its European neighbours are redefining their positions in the global economic environment. This is reflected particularly clearly in the applications for membership already submitted by major industrial countries such as Austria, Sweden and Finland, which had long pursued an independent path on grounds of their neutrality in the East-West conflict. In addition, a number of countries in eastern Europe are pinning their hopes on the EC's providing a new basis for the

restructuring of their economies. Here, too, the Community will be incapable of refusing in the longer run, even though, to start with, such links are unlikely to go beyond an association.

On the other hand, it will also be of paramount importance to increase the depth of integration among existing members. Such an intensification of cooperation cannot be either an alternative to or a prerequisite for an enlargement. For, as past experience has shown, the process of European integration runs the risk of a return to stagnation and lethargy, or even a serious setback, unless it offers clear prospects for the future.

Now that the goal of the single European market has largely been attained, and now that the associated stimuli to investment are in some cases already expiring, it is essential that the further development of integration be given a new perspective. This holds all the more true as the enlargement of the area of

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the Community could otherwise easily undermine the level of integration already achieved and render its bodies and institutions incapable of taking decisions and action.

And finally, it is also necessary to counter the fears rekindled in some countries in the wake of German reunification about a possible dominance of the German economy, fears which have meanwhile become smaller, however. The German political bodies have made it unequivocally clear that they are in favour, in principle, of a deepening of the Community both towards an economic and monetary union and towards a political union, and that there is no turning-back on this road for Germany.

III.

The Treaty on European Union signed in Maastricht in 1992 provides for the creation of an irreversible economic and monetary union prior to the end of this

century, as well as for a number of steps towards the establishment of a political union. In this context, however, the contractual arrangements for the economic and monetary union are far more specific than those for other policy fields and, in particular, for the extension of political decision-making structures.

Before it can enter into force, however, the Treaty of Maastricht must be ratified by all member states. While ten countries have now largely finalised the ratification processes involved, appropriate decisions are still outstanding in two member states, namely in Denmark and in the United Kingdom. While the prospects for the second Danish referendum in mid-May are generally viewed favourably today, which way the British Parliament will lean is difficult to forecast. But, all in all, there are many indications that the ratification processes will have been brought to a positive conclusion by the middle of this year, and that the Treaty will thus be able to enter into

force. Should the Treaty not be ratified by all twelve member states, however, the will to conclude, in such circumstances, a corresponding treaty with a smaller group of countries is today already clearly discernible in most member states.

With respect to monetary union, the Treaty concluded after protracted negotiations in Maastricht provides for the following:

- The Community is to enter what is known as the second stage in 1994. In that stage, internal and external monetary policy will remain the responsibility of the individual member states' respective national authorities. At the beginning of this stage, however, a European Monetary Institute (EMI) is to be established in order, above all, to improve the coordination of the national central banks' monetary policies and to prepare the technical groundwork for the entry into the third stage, with a common system of central banks and

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a single European currency. But major decisions will be subject to the approval of all central bank governors.

- Before the end of 1996, there is to be a first review, on the basis of predetermined criteria - the so-called criteria for entry or convergence criteria - of the question as to whether a majority of the member states is able and willing to enter into the final monetary union. Should this not be the case, there will be a repetition of the review in 1998. Under the terms of the Treaty, the monetary union is due to commence, in any event, on January 1, 1999, comprising those countries that satisfy the criteria set, irrespective of how many (or few) there are.

- With the entry into the monetary union (in 1997 or 1998), the participating countries will have to transfer their responsibility for monetary policy to a newly created "European System of Central Banks"

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(ESCB). The exchange rates between the national currencies involved will then be fixed irrevocably, and a single European currency - whatever it may finally be called - will become the common denominator of all participating currencies.

In some important respects, the European System of Central Banks, as set out in the Maastricht Treaty, is modelled on the Bundesbank. What is vital from the German point of view in this context is the commitment of the ESCB primarily to the maintenance of price stability and its statutorily guaranteed independence of political institutions and influence.

Important as these statutory provisions are, however, what is even more vital is the willingness and ability to apply them later on in all member states, quite apart from the support required from other policy areas.

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Notwithstanding the distinct advantages offered by a successful monetary union with a single currency, such a union may also involve certain risks.

In particular, such risks may arise from the fact that, as past experience has shown, at least in the long run, both the anti-inflation policy environment and the support of public opinion play a major role in the shaping and success of a monetary policy geared to keeping price levels stable. For there is a close relationship between a central bank's ability to take action or its credibility, and the support its policy enjoys in the population. Even though, given its independence and its unequivocal powers, the ESCB has been endowed with the prerequisites needed for the pursuit of a successful monetary policy, it will first still have to earn true independence and a reputation.

But even if it is independent and committed to keeping the value of money stable, a European

Central Bank alone will not be able to guarantee price stability in all circumstances. Undesirable developments in other policy areas, above all, in the field of fiscal and wage policy, may undermine a common monetary policy. Even in the European monetary union, national budgets and social security systems will remain dominant for quite some time to come, while the Community budget is likely to be of only limited macroeconomic significance. This imbalance in the degree of monetary and fiscal policy centralisation is rather controversial because it makes the coordination of the two policy areas more difficult, and may obscure the responsibilities of fiscal policy makers.

The Maastricht Treaty attempts to counter this risk of conflict with an absolute ban on the creation of money to finance budget deficits, a ban which is to take effect as early as the beginning of the second stage. In a number of EC member states, this should lead to considerable changes as from 1994 in how

they finance their budgets. In addition, compliance with this ban is to be ensured by the regular monitoring of the member states' fiscal policies at a Community level, together with the possibility of imposing sanctions.

However, the crucial question in this context will be that as to which EC member states may actually participate in the monetary union. In principle, of course, every EC member state will be entitled to join. But participation will be possible only if the member state concerned qualifies by meeting the criteria set in the Treaty, criteria geared to the stability policy performance of the country involved. What is required is that the rate of inflation and the level of interest rates in a country must only deviate to a limited extent from those of the most stable countries, that the current budget deficit must not exceed 3 % of GDP and that overall public sector debt must not, in principle, be higher than 60 % of GDP. In addition, the country concerned must have

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been participating for at least two years without any major tensions or depreciation in the narrow margin of the exchange rate mechanism of the EMS. These are the criteria which the Community bodies will use prior to the entry into the monetary union (no earlier than 1996, and no later than 1999) to review which countries are qualified for entry.

The significance of each of these criteria may, of course, be subject to dispute. All in all, however, they are intended to ensure that, at least at the outset, the participating countries form as homogeneous a community of stability as possible, in which the cohesive power is strong enough to counter any possible future "centrifugal forces". If these initial prerequisites are missing, monetary policy makers in the monetary union could easily be overtaxed in the event of tensions, simply because there is not enough common ground in other areas.

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IV.

Since autumn last year, this strategy for the envisaged monetary union and the road towards it, which was defined in the Treaty of Maastricht at the beginning of 1992, has become a subject of renewed debate as a result of the exceptional tensions and turbulences in the European Monetary System. There is no mistaking the fact that what has been experienced in the last few months has strengthened doubts as to whether the European Community will really be able to enter into an irreversible monetary union as early as the nineties.

How did these turbulences on the European exchange markets come about? And what implications may they have for the further process of unification?

Where assessments of the EMS turbulences of the past few months are concerned, it is vital, in my

opinion, to distinguish between the factors that triggered them and the deeper, underlying causes. The environment that triggered them no doubt includes the fact that the initial euphoria about the signing of the Treaty on European Union was soon followed by a distinct change in sentiment. Major elements of the Treaty became a subject of controversial discussions in almost all countries, and more or less emphatic doubts were aired as to the implementability, and even the desirability, of the goal envisaged.

This critical reaction was mirrored clearly, above all, in the close-run results of the first Danish referendum on the Treaty in June 1992. And, despite the ultimately favourable outcome of the French referendum initiated by President Mitterrand, the public debate prior to its implementation likewise brought clearly to light that in France, too, misgivings about, and opposition to, the Treaty are

widespread, quite apart from the obstinate controversies in the United Kingdom.

In Germany, too, critical discussions are still continuing even today. It was, in particular, the prospect of losing the D-Mark and seeing it merged with a single European currency in a supranational monetary system that apparently frightened many people. Both Houses of the German Parliament have nevertheless meanwhile approved the Treaty, although it is currently still being reviewed by the Federal Constitutional Court.

What initially triggered the problems on the exchange markets, however, was the Danish "no", supplemented by growing doubts as to the successful outcome of the referendum in France. These uncertainties prompted the exchange markets to look more closely again at the stability policy conditions actually prevailing in the EC member states. It was suddenly noted again that, despite the

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unmistakable progress made in combating inflation in some countries, the last few years had seen a significant divergence of the trends in prices and costs in others (e.g. in Italy, the United Kingdom and in Spain). It is in these accumulated divergences that the actual causes of the exchange rate tensions are probably to be found.

In addition, it was becoming increasingly clear that, as a consequence of German unification, monetary policy makers in Germany were being confronted with immense challenges that did not allow them to relax their grip on the monetary policy reins. For most countries, this meant that they had to adjust their own monetary policies to this stance, unless they wanted to put their respective currencies' exchange rates vis-à-vis the D-Mark at risk. In view of the progressive weakness of business activity in Europe, ever-increasing doubts were voiced as to whether all EMS member states would be able any

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longer to pursue the interest rate policies required to defend their respective exchange rates.

At the beginning of September, just before the referendum in France, it became clear that the current exchange rate pattern could not be maintained any longer. In a number of cases, even foreign exchange interventions in record amounts proved incapable of defending the current exchange rates. The depreciation of the peseta, the escudo and the Irish punt since September, as well as the provisional floating of the lira and the pound sterling, have meanwhile placed what is left of the Exchange Rate Mechanism on a new, more realistic footing. The accumulated tensions have thus largely been eliminated and, indeed, the exchange rate movements of the floating currencies have even gone beyond that point in some cases in the last few weeks.

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These far-reaching changes in the pattern of exchange rates in Europe have sometimes led to problematical public statements and over-hasty conclusions.

It is said, for instance, that such disruptive movements would not have occurred if the monetary union had already been in force. Formally, of course, this is quite true, because a monetary union cannot, by definition, have any adjustable exchange rates. The divergences of costs and prices would then, however, have shown up in another manner, for example, in growing economic tensions between countries with budgetary equalisation claims, or in disputes about what interest rate policy would be the right one for the union as a whole.

Other observers, in turn, regard the recent turbulences in the European Monetary System as adequate grounds for assuming that an economic and monetary union in Europe is ultimately

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impossible to achieve, and must therefore be opposed, in principle. Such a conclusion is certainly equally unjustified, because what is initially involved is precisely the need to lay realistic economic and institutional foundations for an economic and monetary union.

At an international level, it is often also asserted that the difficulties were actually due solely, or at least to a major extent, to the consequences of German reunification. Such one-sided argumentation, however, disregards the complexity of the problems. It is, of course, indisputable that some of the unification-related difficulties in Germany are currently also having an impact on other countries. Unfortunately, this holds particularly true of the excessive burden imposed on German monetary policy. In my view, however, the criticism voiced in this respect in some countries is too one-sided, and inconsistent with the complexity of the factors involved.

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In this context, I would like to cite a moderate view. Dr W.F. Duisenberg, the President of De Nederlandsche Bank, the Dutch central bank, recently expressed his assessment as follows: "It is my impression that the role Germany plays in Europe is not cause for as much concern as some believe it to be - at least not as long as the Bundesbank continues to give highest priority to price stability in its monetary policy."

The events of autumn 1992 are in marked contrast to the expectations still prevailing at the beginning of the year. The illusion often entertained over the past few years that the EMS countries were already a de facto monetary union has dissolved into thin air. And it has become clear now that the stability policy divergences among EC member states are still considerable. All in all, however, I regard the return to reality in Europe rather more as progress than as a setback. For the ambitious goal of a monetary union with a stable currency can only be achieved on a

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realistic and lastingly sustainable basis. The turbulences on the monetary front have increased awareness of the fact that much remains to be done in terms of the policies pursued by the individual member states before we have a fresh start in Europe.

V.

What Europe must do now is look forwards into the future and acknowledge its responsibility also in a broader, global economic context. In this respect, the European Community is facing major challenges in respect of the continuation of the process of integration and the resolution of the current recession. At the same time, however, the opening-up of eastern Europe and the agreement reached over the Maastricht Treaty have given it a historical opportunity to strengthen its internal stability and to extend it to include further partner countries. It will not be easy to continue single-mindedly along the

path towards integration without stumbling into one of the many traps lurking by the wayside or without finding ourselves in a dead-end. I would like briefly to outline some major aspects of a solution promising success.

Firstly, the elimination of internal borders within the Community must not lead to the erection of new borders on its external frontiers. The level of prosperity now achieved in Europe, and throughout the world, is based on the international division of labour and on a comprehensive exchange of goods. We should always bear these underlying principles in mind, and endeavour to extend the free flow of trade. The completion of the single European market has created a uniform economic area with a population of 320 million. This sales market, currently the largest in the world, must remain open to products from other partner countries. Any violation of this principle would be a return to protectionist practices, and would reduce prosperity

in the longer run. A major step that must now be taken is therefore the finalisation, as soon as possible, of the currently ongoing round of GATT negotiations. It cannot be right to allow perceptible progress in world-wide trade in industrial products to founder on specific issues relating to an agricultural market system which is outdated, in need of reforms and, on top of it all, prescribed by the government.

Secondly, the Community should bear in mind that a far-reaching consensus on the outstanding significance of a monetary policy geared to stability has emerged in many member states since the early eighties. It was this that has enabled excessive monetary expansion to be avoided in most European countries, especially in the years behind us. If the United Kingdom is disregarded, developments such as "asset price inflation" and "bubble economy" are largely unknown in the other EC member states. The current weakness of business activity in Europe is therefore predominantly cyclical in character, and is

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burdened rather less by the after-effects of inflation. What is essential is to retain this European stability-oriented approach. It must be clear that durable growth and investment opportunities cannot be created through fiscal expenditure programmes.

Let me add a brief remark on German monetary policy at this point. Its consistent anti-inflationary policy is precisely what has enabled the Bundesbank to strengthen investors' confidence in the D-Mark, and thus again to reduce long-term interest rates, which had risen after German unification. In Germany today, the level of interest rates on long-term assets is below 6.5 %, and investors can borrow long-term funds at rates just a little higher than 7 %. In my opinion, this promotes economic growth more than any erroneous orientation of monetary policy towards short-term business policy goals. In view of the fact that exchange rates are fixed in Europe, it is certainly true that this anti-inflationary policy stance demands special sacrifices on the part of some EC member

states. But it would be fatal and short-sighted, to my mind, to place the successes of many years of anti-inflationary policy at risk by deviating from the course pursued at present. This does not mean that German money market rates, which have already fallen from more than 9 ½ % to about 8 ¼ % at the moment, will have to remain as high as this in future as well. In the forthcoming weeks and months the Bundesbank will regularly review whether further interest rate reductions are possible and justified.

Thirdly, the European Community should adhere to the strategy which was formulated in lengthy negotiations and set out in the Maastricht Treaty on European Union. Where the institutional shape of the European Central Bank is concerned, the Treaty has, all in all, set the right priorities, and guarantees both the independence of the central bank and its commitment primarily to the goal of price stability.

As every EC member state that meets the entry requirements is eligible, in principle, to participate in the union, the Treaty provides for the orderly coexistence of a deepening of integration in, and an extension of, the Community. It thus safeguards two elements which are both equally indispensable for Europe's future. The deepening of cooperation with a view to attaining the goal of a monetary union provides the Community with a new long-term perspective, apt also to create new and durable stimuli to investment. As we have seen, the extension of the Community is not only basically desirable but also essential in the light of the political changes in Europe.

From the German point of view, however, it is also essential that the new round of negotiations planned for 1996 on the specifics and on the improvement of the arrangements for a political union really be used in full. Past experience has shown that, in the long run, a functioning monetary union is hardly

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conceivable without a far-reaching political union. The burdens that could arise in such an "irrevocable community of solidarity" call for common political decision-making bodies with full freedom of action, extending over and beyond the field of monetary policy. If they actually find the will to enter into a monetary union, Europeans should therefore also have the courage to move towards a political union. Although this is an ambitious vision, it is simultaneously a perspective for the future that is needed if a monetary union is to be successful.

Nobody can predict today when precisely a monetary union will be created in Europe, or which countries will participate in it. There is, however, strong evidence suggesting that at least some European countries will have established a union with a single currency by the end of the century. Even today, the prospects of a tripolar international monetary system comprising the dollar, the yen and the single European currency - no matter what name it is

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ultimately given - are often mentioned. It could well be that such a perspective is realistic for the year 2000. Until then, however, much still remains to be done in Europe. And, until then, we at the Bundesbank will do everything in our power to maintain the D-Mark's current position. It was right and proper that the German Parliament made clear in its decisions that a merging of the D-Mark with a single European currency can only be justified if the prerequisites are satisfied to ensure that the Community currency will be at least as stable as the D-Mark is at present. This will be the joint maxim of both the Federal Government and the Deutsche Bundesbank when the specifics of the Treaty of Maastricht are put into effect.