Lecture given by Hans Tietmeyer: From the Werner Report to the Euro (Luxembourg, 21 October 2003)

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From the Werner Report to the Euro

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I must say, I regard the invitation to inaugurate this series of lectures as both an honour and an obligation.

In 1970, as a rather young civil servant in the Federal Ministry of Economics, Bonn, I was lucky enough to be involved, as an alternate German delegate, in the working party chaired by Luxembourg Prime Minister Pierre Werner, which had been set up on the initiative of the Summit Meeting at The Hague. That working party had received from the Council of Ministers the mandate "To draw up a report containing an analysis of the different proposals, so that a basic approach to the gradual realization of an economic and monetary union in the Community can be elaborated."

In the internal consultations of that working party I got to know, and to appreciate, Pierre Werner's powers of stimulation and integration. In subsequent decades as well I had frequent opportunities of meeting him, along with a few other people, and discussing economic and political developments in Europe with him. I learned a great deal from collaborating and debating with that great Luxembourg statesman, and am extremely grateful for that to this day. And I would add: in my view Pierre Werner rendered outstanding services to the integration of Europe. Europe ought to look back with gratitude on his commitment and his achievements.

I.

Today, under the title "From the Werner Report to the Euro", I should like to address, in particular, the history of monetary integration in Europe since the last World War. In the process, I should like to make a certain comparison of the two trail-blazing reports: the report of the Werner Group in 1970 and that of the Delors Group in 1989.

Of course, I fully realize that the efforts to achieve more monetary common ground in Europe did not begin with the decision at the 1969 summit meeting in The Hague to have a "phased plan for the establishment of an economic and monetary union" drawn up. As early as the 1950s and 1960s, initiatives had been launched and plans elaborated aiming at the various forms of cooperation and the envisaged structures. During the 1950s, however, such proposals met with little response at the political level. The fixed-exchange-rate system of Bretton Woods, which at that time was operating with virtually no friction, made closer monetary cooperation in Europe seem to be of little urgency. Hence the EEC Treaty of 1957 confined itself to the statement that member states should treat their "policies in the area of exchange rates as a matter of common interest" (Article 107). As an institution, only a "monetary committee" (Article 105) was set up, whose task was to monitor monetary developments and advise governments and the EC Commission.

It was not until the 1960s, following the appreciation of the D-Mark and guilder in 1961 and the sustained rise in those two currencies in succeeding years – not least reflecting the weakness of the pound sterling at that time, and subsequently of the US dollar as well – that the topic of monetary cooperation in Europe moved distinctly more into the limelight. Especially when exchange-rate tensions in the Community endangered the newly-established agricultural market organizations, which were based on fixed parities, the exchange-rate issue became more and more prominent. And when, in 1969, the German Federal Government saw no alternative to abandoning for a while the exchange-rate link of the D-Mark, the exchange-rate question (alongside the issue of enlargement) gravitated to the centerpiece of the December summit meeting in The Hague.

In this context, it was of no little significance that, shortly beforehand, a new French President had been elected in Paris, in the person of Georges Pompidou, and a new Federal Chancellor elected in Bonn, in the person of Willy Brandt. After the departure of de Gaulle, President Pompidou evidently intended to make a fresh start in European policy. For that reason, at The Hague he lifted the French veto on the initiation of enlargement negotiations with the UK, Ireland, Denmark and Norway. And Federal Chancellor Brandt declared himself willing to include monetary policy in the intensification of integration that was being envisaged at the time. Quite apart from his commitment to European policy, Brandt was probably also influenced by his intention of safeguarding the new policy he was planning vis-à-vis the eastern bloc by simultaneously enhancing Germany's integration in western Europe.

Since the Benelux states and Italy were attracted anyway by a greater integration of Europe, The Hague Summit saw – to many people's surprise – a new approach to the issues of the enlargement and deepening of the Community. As the purpose of the deepening, the six Heads of State and Government expressly specified "a Community of stability and growth", and they decided that "in the course of the year, a phased plan for the establishment of an economic and monetary union shall be elaborated". And they added specifically that "the development of cooperation on monetary issues should be based on the harmonization of economic policies".

After this decision of principle at The Hague, the Council of Economic and Financial Ministers, on 6 March 1970, commissioned a committee chaired by the Luxembourg Prime Minister Pierre Werner to draw up the report I have already referred to, but without making any more precise stipulations. After the presentation of an interim report by the Group, as early as 8/9 June 1970 the Council of Ministers approved the initial conclusions it had reached jointly, according to which the ultimate goal of an economic and monetary union "can be reached before the end of this decade if it is consistently endorsed by the governments". However, as early as that interim report, it was made clear that it was a prerequisite that "the necessary powers [would have to] be transferred from the national level to the Community level" and that, to that end, "an amendment of the Treaty of Rome" would be required.

After the Werner Group had presented its final report. it rapidly became evident that precisely this transfer of powers and the emergence of supranational structures were the sticking point for the French. Owing particularly to pressure from the Gaullist parliamentary party, President Pompidou and his government felt obliged to refrain from endorsing a concrete phased plan including a clear definition of the final stage. For the German delegation, on the other hand, any

greater curtailment of national and monetary sovereignty without a binding definition of the requisite supranational structures was unacceptable.

Thus, in March 1971 a joint resolution of the Council of Ministers was adopted, containing general goals and suggestions for improving economic and monetary cooperation. But the concrete definition of stages II and III of the phased process was deferred, initially until the mid-1970s. And when, in the context of the first oil-price explosion, national policies reacted very divergently, that deadline was not met either. The target of economic and monetary union appeared to become ever less binding. In practice, what supervened was a relatively loose exchange-rate arrangement known as "the snake" – over the years, this experienced not only a good many tensions, but also withdrawals and re-entries on several occasions, not least by the French Franc.

Then, in 1978/79, on a joint initiative by the French President Giscard d'Estaing and the German Federal Chancellor Helmut Schmidt to improve exchange-rate-policy cooperation, the European Monetary System (EMS) was born. That step enabled the French Franc to return to the fold. But that fresh start likewise remained comparatively unsuccessful until the early 1980s. On account of divergent

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policies in the then nine member states, of which only the UK failed to participate in the System at the time, seven parity changes were needed up to 1983, in the course of which the D-Mark in particular appreciated considerably against the other currencies, while the Luxembourg Franc – rather like the French Franc – was mostly on the depreciation side, because it was then pegged to the Belgian Franc.

It was only after 1983, when the new French Finance Minister Jacques Delors pushed through a change in the course of French domestic economic and monetary policy, in the direction of sustained orientation towards stability, that a greater degree of economic convergence gradually developed in the Community, as well as greater stability between the European currencies. From then on, there were not only fewer parity changes. In the course of the 1980s, the notion gained more and more support that the efforts towards an economic and monetary union should be resumed.

In 1985, Jacques Delors, in the meantime President of the European Commission in Brussels, strove diligently to get the topic of economic and monetary union, along with what was known as the single market programme, included in the envisaged amendment of the Treaty, the so-called Single

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European Act. However, in order to make allowance for the opposition to greater supranational powers and structures that was still prevalent at the time, especially in France, the Commission's draft only contained general objectives. Making them more concrete was to be reserved for later Council decisions, in accordance with Article 235. But any such further development, enshrined in the Treaty, without ratification by member states in line with their constitutions, was unacceptable to the German delegation in such a crucial area as the currency, quite apart from the British fundamental opposition to any further development towards an economic and monetary union.

I still remember very vividly the nocturnal final round of negotiation here on the Kirchberg in Luxembourg in December 1985. As State Secretary in the Federal Ministry of Finance at the time, I had advised Chancellor Kohl to seek a compromise, whereby the goal of economic and monetary union was specified in the Treaty, but concrete decisions on subsequent transfers of power and structural changes would be deferred to a separate, subsequent amendment of the Treaty, under Article 236. Chancellor Kohl was able to convince both Delors and the other Heads of State and Government of the virtue of this solution. Mrs. Thatcher, however, initially maintained her opposition. In a

~~fairly long~~ bilateral conversation, though, we jointly managed to talk her out of her veto.

In 1986 and 1987 it was suggested on several occasions, especially by France and Italy, that the intervention obligations of the EMS should be made "more symmetrical" (as it was called at the time), and that the joint support mechanisms should be applied more generously. The upshot was what was known as the Basel/Nyborg Agreement of September 1987, incorporating a number of technical adjustments. In actual fact, however, these adjustments did not result in any real progress.

By contrast, a more significant development was that we in Bonn began to receive initial hints from Paris that they might now be able to envisage, in the context of a future monetary union, that what had previously been national monetary-policy powers might be transferred to a supranational institution, such as a European Central Bank. Those hints, and the concern that was increasingly being expressed in other member states that the complete liberalization of capital movements associated with the implementation of the single market programme might imperil their currencies, prompted the German delegation at the Summit Meeting in Hanover in June 1988 to submit a proposal on setting up a new Expert Group to elaborate a phased plan for an

economic and monetary union. That Group was to be chaired by Commission President Delors, and its members were to comprise "in personal responsibility" all twelve governors of the national Central Banks or Monetary Institutions of the by then 12 member states.

After the participants at the Hanover Summit in June 1988 had agreed to that resolution, what was known as the Delors Group, which had a secretariat of its own, convened regularly for meetings in Basle. It presented its final report, which in its introduction referred explicitly to the preparatory work done by the Werner Report, to the Summit Meeting in Madrid in June 1989. After further negotiations, some of which were rather difficult--owing not least to the coincidence of the fall of the Berlin Wall, marking the start of the debate on German reunification--the Heads of State and Government decided at their Summit Meeting in Strasbourg, early in December 1989, to start preparations for the requisite amendment of the Treaty.

The preliminary negotiations and actual treaty negotiations were very intensive, extending over almost two years. In that connection, the Luxembourg Presidency played a very productive role in the first half of 1991. But the negotiations did not reach a conclusion until December of that year in

Maastricht, where the duly amended Treaty was formally signed in February 1992.

II.

The road from The Hague to Maastricht was unquestionably longer and harder than is suggested by the geographical distance between the two Dutch cities. Up to now, I have deliberately confined myself to mentioning only a few key landmarks on the way. As someone who personally accompanied this long and difficult development with keen interest, I should like—especially in the context of a memorial lecture for Pierre Werner—briefly to compare the two reports of 1970 and 1989.

In any such comparison, needless to say, the changes in economic and monetary conditions within the Community in the interim must be taken into account. I shall therefore start by referring to them.

The most obvious difference between 1970 and 1989 lay in the altered size of the Community. In the days of the Werner Group, the Community comprised six member states, whereas by the time of the Delors Group it had grown to twelve such members. This progressive enlargement of the Community gave rise, firstly, to a wider range of national experiences and national conceptions in the field of economic and monetary policy. Secondly, political ideas about the goal of integration diverged distinctly more in the Community-of-twelve than they had in the original Community-of-six.

This change was accompanied by a not inconsiderable paradigm shift in economic policy. While government macroeconomic demand management via fiscal and monetary policy measures had been a prominent feature of the late 1960s in most Community countries, as early as the 1970s, and even more so in the 1980s, a marked paradigm shift towards a more supply-side-oriented economic policy took place. The reduction, relative to the 1960s, of the role played by government in the management of the economy left the market with more room for manoeuvre. At the same time, the calls for the harmonization of the short-term economic management policy of the member states of the economic and monetary union diminished. In any assessment of the two reports, these modified conditions must be borne in mind.

If the contents of both reports are compared, a large measure of agreement in the definition of the key criteria for a monetary union is evident. In both, it is stressed (in almost identical terms—with the Delors Report referring explicitly to the Werner Report) that, in a monetary union, the following conditions must be met

- the safeguarding of the complete and irreversible convertibility of the currencies,
- the complete liberalization of capital movements and the full integration of the banking and other financial markets,
- the abolition of the fluctuation margins of exchange rates and the irrevocable fixing of parities.

In both reports, the transition to a single currency, with uniform banknotes and coins, is not considered to be imperative in purely technical terms. Even so, both reports argue unanimously (primarily for psychological and political reasons) in favour of the introduction of a single currency.

Unlike the Werner Report, which did not address the topic of parallel currencies, the Delors Report also deals at length with the advantages and drawbacks of a Community currency based on the basket currency ECU (European Currency Unit), introduced back in the 1970s and circulating in parallel to the national currencies. However, the idea of a parallel currency (as an alternative to a Community currency supplanting the national currencies), which was particularly advocated by the UK government, --with the national currencies, which remained autonomous, being retained -- was rejected by the majority of the Delors Group. It was feared that such a solution might result in an extra and uncontrollable source of money creation, and further imperil the process of the coordination of national monetary policies, which was hard enough anyway. Instead, the majority of the Delors Group advocated—as the Werner Group had done almost twenty years before—the establishment of a monetary union, with the transfer of monetary-policy-making powers to the Community level and the introduction of a single, common currency in place of the national currencies.

Both reports also argued alike in favour of a supranational central bank, to which responsibility for the single monetary policy should be assigned. And both reports likewise emphasized in this connection the vital importance of an autonomous status, independent of politics, for the new institution.

With respect to the organizational structure envisaged for the central bank, however, there were differences. While the Werner Report spoke of a Community central banking system modelled on the US "Federal Reserve System", the Delors Report was seemingly more attracted by the model of the Deutsche Bundesbank. The Delors Report spoke of a federally-organized European System of Central Banks, in which, however, the national central banks (rather like the erstwhile "Land Central Banks" in Germany) were largely to see to the practical implementation of policy decisions.

Different emphases were also set in the two reports in their statements on the representation of the monetary union vis-à-vis non-Community countries and international organizations. The Werner Report argues unambiguously in favour of the full transfer of external representation to the Community level. In the Delors Report, however, no concrete views on this topic are to be found. This restraint was no doubt mainly due to the particular political sensitivity of the subject of external representation for many member states, and for a number of national central banks.

As the basis for the monetary union, both reports envisage a durable common market with the basically free movement of persons, goods and capital. But they differ not a little in their statements on the common requirements and on the assignment of responsibility for economic policy within the Community. These differences probably owe something both to the notions of macroeconomic management prevalent at the time of writing of the respective reports and

to the divergencies with regard to the goal of political integration, which had widened, if anything, in the interim.

The Werner Report of 1970 – in line with the economic policy thinking accepted at that time – called not only for the regular fixing at Community level of medium-term quantitive targets for growth, employment, prices and balance-of-payments equilibrium, and the annual fixing at Community level of guidelines for short-term economic policy. In addition, it provided that the benchmark figures of the public sector budgets – especially changes in their volume, the size of balances and the manner of their financing – should be fixed at Community level. To perform these duties, the Werner Report advocated that, besides the Community central banking system, an "economic policy decision-making institution" be set up, which should be "answerable to the European Parliament". But the question of whether these duties should be assumed by the Commission or by a new body was deliberately left open in the Werner Report.

Compared with these demands by the Werner Report, the statements of the Delors Report on the economic policy duties of an economic union were distinctly more differentiated, and geared less towards an enlargement of Community powers. The Delors Group did not think it necessary to transfer responsibility for the joint fixing of benchmarks for national budget policies to the Community level. For the Community level, it confined itself to fixing general targets, along with binding rules and surveillance procedures, which, by and large, comprise only ceilings for the budget deficits of individual member states and for borrowing in non-member states, and which at the same time prohibit access to direct central bank loans. These general targets, rules and procedures for national, economic and fiscal policy are, it is true, to be spelled out explicitly in the new treaty, but a special Community institution for the purpose was not regarded as necessary.

In shaping the framework for the economic union, and the distribution of responsibilities between the national and supranational levels, the Maastricht Treaty of 1992 unquestionably complied more closely with the suggestions of the Delors Report than with those of the Werner Report. Given the changes since the 1960s in thinking about the role of fiscal policy in short-term economic management, there are certainly good reasons for this. But whether the distribution of responsibilities between the national and supranational levels in the field of economic and fiscal policy and the concretization of surveillance procedures in the form of the Stability and Growth Pact will suffice in the long run to ensure a monetary union devoid of conflicts still remains to be seen. At all events, the subject of "economic govern-

ance" is constantly cropping up, particularly in the debate in France.

From the outset, the two reports corresponded in the respect that they both considered the road to an economic and monetary union to be feasible only via a process comprising at least three stages. Moreover, they both stressed the necessity of safeguarding, in this phased procedure, the parallelism of progress in the monetary economic process and in the requisite institutional and procedural arrangements.

There was a large degree of correspondence in the two reports as regards the assignment of duties to the various stages, even though there had previously been heated debates in both groups between what were known as the "economists" and the "monetarists". The decisive factor was above all the common conviction

- that the first two stages should primarily be devoted to the preparation of the economic and monetary union, and
- that a transfer of responsibility for monetary policy to the supranational level should not be contemplated until the third stage.

The two reports were likewise unanimous in concluding that the amendment and further development of the current treaty were imperative, not later than on entry into the second stage of economic and monetary union. But this new treaty did not materialize during the 1970s, because of French opposition. By contrast, at the beginning of the 1990s the member states were prepared to embark on concrete negotiations, which were then reflected in the Maastricht Treaty of 1992. Especially the UK delegation initially had serious misgivings as to whether it could agree to such a new treaty. Consent was not given until after Mrs. Thatcher's resignation, by the new Prime Minister, John Major, although the UK – like Denmark, too, later on -- was given the right to decide for itself on participation in the economic and monetary union.

This topic of the participation or non-participation of individual member states had played no part in the Werner Report. In the Community-of-Six at that time, it was virtually taken for granted that all member states would participate in the evolution to an economic and monetary union. In the Delors Group towards the end of the 1980s, however, this was a subject of some importance. The Group was able to reach agreement only on a very general wording, which masked the disagreement on this point in diplomatic language. This almost cryptic compromise text read as follows:

> "There is one Community, but not all the members have participated fully in all its aspects from the outset. A consensus on the final objectives of the Community, as well as participation in the same set of institutions, should be maintained, while allowing for a degree of flexibility concerning the date and conditions on which some member countries would join certain arrangements. Pending the full participation of all member countries – which is of prime importance – influence on the management of each set of arrangements would have to be related to the degree of participation by Member States. However, this management would have to keep in mind the need to facilitate the integration of the other members. (Para. 44)"

It was only on the basis of this convoluted formulation that the then Governor of the Bank of England was able to agree "in personal responsibility" to the Delors Group's Report, but even then he met with substantial criticism from the UK government.

There is also a distinct difference between the two reports as regards their statements on the further development of an economic and monetary union towards a political union. The Werner Group specifically underlined the fact that the "transfer of powers" required in connection with the transition to economic and monetary union is a process of fundamental political significance, which "presupposes progressive political cooperation". It then continued: "The economic and monetary union thus appears as an enzyme for the development of political union, without which it cannot survive in the long run."

In contrast to that, the statements of the Delors Report on the dimensions of the political integration associated with the economic and monetary union were very much more restrained. True, the economic and monetary union will be "the final outcome of the process of progressive economic integration in Europe" (Para. 14). But the report stressed at the same time the remaining plurality within the Union. Para. 17 reads expressly:

> "Even after attaining economic and monetary union, the Community would continue to consist of individual nations with differing economic, social, cultural and political characteristics. The existence and preservation of this plurality would require a degree of autonomy in economic decision-making to remain with individual member countries, and a balance to be struck between national and Community competences. For this reason it would not be possible simply to follow the example of existing federal States; it would be necessary to develop an innovative and unique approach."

This wording left open the question of a further development of the economic and monetary union into a more far-reaching political union, apparently deliberately so. Not just 'how', but to a large extent 'whether' as well. The explicit rejection of a federal state modelled on existing ones no doubt reflected the altered majority position, following the enlargement of the Community in the interim, in the matter of the goal of greater political integration. Countries such as the UK, Denmark and Ireland – like, above all, France at an earlier date – have consistently rejected the further development of the Community into a new constitutional entity with a federal structure. And, unlike the situation in the 1950s and 1960s, in the Federal Republic of Germany, too, the target of a European Federal State, which used to be generally advocated, lost much of its attraction during the 1970s and 1980s.

Correspondingly, the Maastricht Treaty of 1992 largely disregarded the topic of closer political integration in Europe. It chiefly confined itself to subjects directly associated with the economic and monetary union. In the meantime, admittedly, a number of minor advances have been made in the matter of further political integration, in the Treaties of Amsterdam (in 1997) and Nice (in 2001).

In the meantime, however, the new draft constitution prepared by the convention under the chairmanship of Giscard d'Estaing has been presented. It undoubtedly includes a number of advances. As a whole, however, the subject of evolution towards a better-developed political union still remains largely unresolved and unsettled.

III.

At the beginning of 1999, in conformity with the deadlines of the Maastricht Treaty, stage three of economic and monetary union was launched, embracing initially eleven, and since 2001 twelve, member states. The severe monetary crises of the years 1992 and 1993 did not hold up the process. On the contrary, they further accelerated convergence in Europe during the 1990s, and it was likewise fostered not least by the adoption of wider fluctuation margins within the EMS.Those margins, widened to +/- 15%, shifted responsibility for meeting the criteria for entry back to the individual member states.

Even so, Denmark and Sweden decided, as well as the UK, not to join the economic and monetary union for the time being. And after the recent referendum in Sweden, any different decision is hardly to be expected in the foreseeable future. After 2006, on the other hand, it is likely that at least

some of the ten new EU members will press for membership of EMU as well.

No matter how membership may develop in future, this much is certain: the economic and monetary union, with the euro as its common currency and national monetary policy responsibilities transferred to the European Central Bank, is a reality in Europe today, and will remain so in future. This new common currency has in the meantime gained recognition and prestige both in Europe and worldwide. And the European central bank system, with the ECB at its head, is operating largely without friction today,at least in the monetary sphere.

With the transition to the euro, the participating countries have undoubtedly taken a historic step. They have transferred a key part of their former sovereignty, virtually irrevocably, to the Community level, and thus accomplished – at least in the monetary field – what was first officially envisaged at the Community level in 1970, in the Werner Report.

The results up to now, with regard to the stability of this new currency and the functionality of the European central banking system, are undoubtedly successes that Europe can be proud of. Developments in price stability to date in the euro area can stand comparison with those in what used to be the stablest member currencies. And the European Central Bank – despite some criticism in the English-speaking area – has meanwhile gained a reputation which is comparable to that of other major central banks in the world. That owes something, however, not only to the institutional structures specified in the Maastricht Treaty but also to the persons involved, although I am certain that the forthcoming change in the presidency of the European Central Bank will not make any difference here.

This all in all unquestionably positive assessment must not blind us to the fact that the monetary test of the solution found in Maastricht has not yet ended. Quite the contrary. Only the future will show how stable and, at the same time, how future-oriented the present solution is.

Unfortunately, there is no mistaking the fact that the tensions between the common monetary policy and the sovereign economic policies of individual member states have mounted distinctly of late. After all, in recent years it has emerged more and more clearly that certain countries have profited to different degrees from the new monetary union. While a number of countries have gained much more favourable financing options for their economies, compared with earlier, other countries have lost the privileges they

once enjoyed. New competitive conditions have now arisen throughout the euro area. In the process, competitive weaknesses which used to be offset have come to light, especially in countries like Germany and France. That applies for instance to the high labour costs, the taxes and other official levies and to the inflexibility of the labour markets.

Furthermore, the limits set to fiscal control by the Treaty and by the Stability and Growth Pact have become manifest. To be sure, the solution chosen for the Maastricht Treaty, on the basis of the Delors Report, does not make coordination between the single monetary policy and budget policies, which have remained national responsibilities, any easier. In my view, however, the terms of the Treaty and of the Stability and Growth Pact have left national policy-makers enough flexibility. Today's tensions and the shortcomings of a number of countries, including Germany, are primarily due to the overly long failure to effect corrections in recent years. After all, it is not only short-term economic deficits that have gone up, but especially structural ones. And, without a lasting correction of such structural deficits, tensions in the monetary union cannot be avoided in future either. Quite the contrary. The more stability-oriented countries may be hampered in their growth potential by undesirable developments in the major countries with structural problems. And at the same time the countries with unresolved structural problems may be handicapped by a monetary policy that is then too restrictive for them.

This potential for tensions within the monetary union must not be underrated, especially since it might increase if an enlargement of the monetary union to encompass central and eastern European states comes about. All the member states of the monetary union must realize that, on their entry into the monetary union, they have also assumed the responsibility for ensuring the adequate flexibility and competitiveness of their economies. That also goes, of course, for the major member states. Abstaining from the transfer of central economic policy responsibilities to the Community level, as originally advocated by the Werner Group, may lead in the long run in the monetary union to a course of events devoid of friction only if all countries are really willing to ensure the requisite discipline in fiscal policy, appropriate flexibility on the labour market and the adequate growth of their economies.

The transfer of key economic policy responsibilities to the Community level, as advocated in the Werner Report, was rejected for good reasons in the Maastricht solution. That, however, must not blind us to the fact that the nation states within the monetary union consequently bear special

responsibility for pursuing an appropriate competition-oriented policy. This is because the former instrument of exchange-rate adjustment is no longer available to them within the monetary union. That union, rather, helps to ensure that, alongside the common features of monetary conditions, there now exists a higher degree of transparency with respect to other competitive factors.

Moreover, the question of the further development of the monetary union towards a greater degree of political common ground still remains on the agenda. The Central Bank Council of the Deutsche Bundesbank, in its statement of principle on the establishment of an economic and monetary union in Europe in 1990, emphasized that, in the light of all past experience, a monetary union "requires, for its lasting existence, a more far-reaching link in the form of a comprehensive political union". And the German Parliament stated in its resolution on the Maastricht Treaty dated 2 September 1992: "The economic and monetary union is an important step towards deepening integration within the European Union, which should be converted into a political union as soon as possible."

These calls for further development towards a political union are not synonymous with demands for a centralized European state. But they do imply that union cannot stop at just monetary union. Even if economic and social policy remain largely the responsibility of member states, in the long run there must be a sufficient degree of common underlying orientation. And that in turn must be reflected in other policy areas, such as foreign policy. A strong currency needs, besides a sufficiently competitive and flexible economy, a number of political common features vis-à-vis other countries. The standing and the international role of the US dollar, with which the euro must compete, also owe something to the political strength and common features that are behind the dollar.

Up to now, the euro has played the role that many people expected of it, as a catalyst of more political common ground in EMU, only to a very limited extent. I am convinced that Pierre Werner would assess the situation in a similar way. But he always remained convinced that in the long run monetary union would enforce a development towards greater political integration.

It is my hope and wish that this expectation on the part of Pierre Werner, which is at the same time a final bequest for us all, should actually come true. For the monetary union and the euro must become durable and lasting successes for Europe and for its internal cohesion. We should not forget this legacy of Pierre Werner's.