Monetary Dialogue of the Committee on Economic and Monetary Affairs of the European Parliament with the President of the European Central Bank, in accordance with Article 113(3) of the Treaty on European Union

12 September 2000

Introductory statement by Dr. Willem Duisenberg, President of the European Central Bank.

Chairman **(Christa Randzio-Plath MEP, PES/D)**

We are certainly very eager to ask questions about monetary policy, but I would like to emphasise once again how important it is for us that the European Central Bank addresses practical issues of the introduction of the Euro, practical issues which will affect ordinary citizens of the European Union and which are important for them, so we very much welcome the fact that the ECB as well as the European Parliament are addressing these issues in a similar spirit. So thank you very much. Right, we will begin with speakers on behalf of the groups. Today the Socialist group is beginning, and Mr Goebbels has the first question.

Thank you. Mr President I have three questions. At present a lot is being said about the strong dollar and the weak euro. My question is, do you agree with me that since the successful introduction of the euro, purchasing power inside the euro zone has been greater than the purchasing power of the dollar? Secondly , I have just paid you an indirect compliment by saying that the ECB has been able to contain inflation better than the Federal Reserve. You explained your recent monetary policy decision as follows, and I quote your press release: "present conditions are strongly influenced by the oil crisis and by exchange rates and monetary policy cannot remedy this situation in the short term". You said this again this afternoon in your introduction. But aren't governments and economic policies in the same situation? They can't remedy the oil price nor do anything about exchange rates. They can't set interest rates, so they have to suffer this external shock, they have to suffer the consequences. You will probably tell me now that imported inflation is inflation as well, and you are right. But is increasing interest rates the best possible weapon in this situation, when you say that the economic operators and consumers should not ask for wage increases to compensate for the loss resulting from the increase in oil prices? Aren't you therefore punishing consumers and markets for something they have no control over? My last question is this. Mr President, why didn't you attend the informal ECOFIN Council meeting in Versailles? Don't you think that your duty should be to organise your diary according to these important European high-level meetings ?

Mr Duisenberg

Your first question is intended to be a compliment. Therefore, I agree with the implied statement in the question and I gladly accept the compliment. I have indeed said, and repeated today, that interest rate increases would form no remedy in the short term to inflationary developments like the hike in oil prices or the depreciation, also hopefully short term, of the exchange rate. But as I said in my introduction, both these developments have an impact on the terms of trade. They do mean a loss in welfare for

the euro area as a whole, and that cannot be escaped. It has to be accepted. But what monetary policy also should do and has done, is try to prevent short term increases in inflation due to these particular causes translating themselves into longer term raised inflation expectations, and it is for that reason, to prevent that, in a forward looking manner, that we have taken the measures as we have taken them. Why was I not in Versailles ? I appreciate that I have the opportunity to explain that. I do agree with you that I should to the maximum extent possible arrange my agenda such that it is in conformity with important meetings like the meetings of the ECOFIN Council. However, I agreed already about one year ago, which is also part of my duties, to attend as the sole speaker a round table attended by about 150 CEOs, bankers, former ministers of finance of Canada and the United States on the past Friday. This round table had been widely publicised, and therefore may I say so immodestly, attracted a large audience . It had been organised about one year ago and the informal ECOFIN was announced only about two months ago. I came to the judgement that it would be impossible for me to break this first commitment, which would jeopardise the whole exercise there of may I call it selling the euro in North America. And I have informed the Presidency of my absence, my upcoming absence immediately in July already, when I knew of the conflicting dates. And I do want to point out that at the ECOFIN the ECB was by no means absent. The ECB was there and therefore, all the fuss that has been created around this I cannot quite understand. I can understand it emotionally, particularly in light of recent developments in the markets, but in itself it is a normal phenomenon. Sometimes the agendas may clash with each other and that is not always avoidable. In the meantime, I do agree with you that the regular ECOFIN meetings, the dates of which are not always known that far in advance, are an important element in determining the priorities for my agenda.

Well then I would like to ask a few questions. If the exchange rate devaluation and the oil prices can't be dealt with immediately by short term interest rates increases, is it true that perhaps you are reacting more to short term concerns rather than allowing yourself to be guided by a kind of long term strategy? When the European Central Bank's monetary policy is analysed, it has been said on many occasions that they need to look at the longer-term situation. Wouldn't it contribute to improving this if the inflation forecast in econometric models were published, because that is a practice which is increasingly seen in international financial circles? And isn't it time to consider perhaps revising the two percent inflation target, or the target of under two percent, to take into account developments in other regions? And isn't it then appropriate to have a debate on this, or do you think this would jeopardise the independence and autonomy of the European Central Bank?

Mr Duisenberg

To start with the last question, Madam Chairman, I feel that of course if the definition were to be changed it will be discussed fully in public, and in no way would that infringe on the independence of the Central Bank, because ultimately it would still be the Governing Council of the Central Bank which takes the decision. This does not mean that you cannot discuss it beforehand. Ultimately the decision is, as I say, with the Governing Council. To my mind, even though we are working already 500 days as you say, operationally it would still be too early to already now start to change certain definitions and crucial hypotheses underlying monetary policy, and I think that it would run counter to the stability oriented approach which we have undertaken. It would be too soon to do so, and that in fact also answers your first question. We do have a monetary policy strategy which is perhaps difficult to understand, and in which we do a lot of explaining,

but it is a strategy of a forward looking medium term oriented policy, and it is not a strategy which would force the ECB to react to very short term movements and to the day-to-day or month-to-month volatility in data. So it is stability oriented and with a view to the medium term future. On the future, I agree with you Madam Chairman, it is about time that we come with our forecasts. I can assure you we are working hard on that and I do hope that we will be in a position for the first time to publish our forecast before the end of this year.

Thank you Madam President. Mr President, I do take note of your statement right now that you are hoping to publish your inflation forecast before the end of the year.

Mr Duisenberg

We will not exclusively publish inflation forecasts. When we publish forecasts it will be forecasts of a range of economic variables, and not exclusively inflation.

Thank you. Now, right before you took the decision to raise interest rates it seems there has been some loss of contact with the market opinion over this. Markets anticipated a higher increase — a 50 base point increase, as attested by the fact that they pushed the rates paid for ECB funds in the meeting previous to your decision to 4.71%. And I was wondering whether you could explain why this difference arose and why the market got it so wrong and indeed whether that difference enhances in your opinion the credibility of the Central Bank, or whether it is not very appropriate for enhancing its credibility.

Mr Duisenberg

Yes. At the time of the announcement of the decision on 31 August, the market was at least virtually convinced that an increase in interest rates was to occur. But as we could measure it, and we have done our inquiries, I can assure you the markets were almost evenly split about the size of the increase. About half of the people and market parties were convinced that the increase would be 25 bas is points, the other half thought it would be 50 bas is points. But I would like to stress that at least the direction was clearly evident, and that had been communicated well, and well in advance, to the markets. But then uncertainty is a fact of life and policy-makers cannot have a perfect control over expectations, unless of course they were to preannounce their decision which is clearly not feasible.

Thank you. Now the EPP has the floor. Mr Von Wogau first of all.

Thank you. Mr President , I have a report here from a German press agency dated today, 12h55, and I would like to read it out. EU Commission President Romano Prodi calls in an interview in Stern on Tuesday for intervention on the part of the European, American and Japanese Central Banks to support the Euro. This would also be in the

interest of the Americans according to Prodi, given the current accounts deficit of the USA. He is saying that it is very difficult to live with such a current account deficit. So this brings me to my question. How would you react to Mr Prodi's call for the three Central Banks, the American, the European and the Japanese, to intervene jointly? That's my first question. And the second question is, do you agree that nobody can honestly live with such a high current account deficit? My question is, do you think that applies to the US as well?

Mr Duisenberg

As in all my interventions, I cannot but say anything else than what I always say. I will fully inform markets and you about interventions after they have taken place but not before that and I cannot discuss the circumstances under which, and the pros and cons of actually using, the instrument of intervention at any given moment of time. I am sorry for that, but I cannot say more, except that of course I can repeat: the instrument as such is available. But when and how to use it, one can never discuss beforehand. Let me turn to the US balance of payments deficit. It now runs to the tune of about 400 billion dollars a year. That is for this year and for the years to come it is to be foreseen. One of the statements I made in my introduction is that the balance of payments positions of the various areas clearly indicate that the current exchange rate s seem to be out of line with fundamentals. But of course we have to realise that we live in a world which is rather different from some years ago. Capital movements are totally free. So in the past such a current account deficit would create difficulties in financing. That is not the case any longer. The Americans have no difficulty in financing their deficit by having it financed basically by us, by Europe, and there is no way that we can or even we want, to prevent that. At the same time, it is the conviction of the American authorities and also mine, that over the long run such a deficit, if it continues to be of that magnitude, is unsustainable and will call for corrective action in the markets at some point. When I do not know.

Thank you. Mr Evans.

Well thank you Madam President. President Duisenberg appeared before this committee some little time ago and told us on that occasion that there was room for appreciation in the value of the euro, and it would soon begin to reflect its fundamental strength. In fact the euro has fallen as we know by 27% since its launch, and we have had a succession of attention given to remarks from all sorts of dignitaries about the strength of the euro, most of which cause it to fall still further. Yesterday the Governor of the Bank of England closed ranks and backed the euro, saying that the exchange rate was out of line. The reaction to that was for the euro to fall still further, and today we have similar remarks from Commissioner Solbes this morning, and from the President this afternoon. So I am alarmed as to what may happen on markets. I have to say firstly, is it helpful to have the expectation that these remarks will be seized upon in a way which talks up the euro, when all the evidence points to the contrary. I suggest not entirely in jest that the example of the British sterling crisis in 1992 is one that might be followed, when a government supporter declared that the UK Chancellor should go into hibernation and say nothing about sterling, because every time he appeared in public the value of sterling fell. That leads me to my second point, which is: this morning, the value of sterling fell to a 14 year low, so from my perception we are not dealing with an issue that relates to the euro, we are dealing with an issue which relates to the way in which

markets look at Europe as a whole. Not too much has been said about the fact that sterling is falling in that way, but I found on my website this morning that that has in fact been the situation. So can I draw attention briefly to the points that were made by the President, which I think are the important points that must be seized upon. Those about reform of pension systems in Europe; reform of labour and product market regulations; labour market flexibility, labour and corporate income taxes. Is n ot that really the area that needs fundamental reform if the concerns that we all express in relation to the way in which the dollar may be viewed against the Euro, ultimately is going to be resolved?

Mr Duisenberg

I tend to agree with the Right Honourable speaker, and with the Wall Street Journal of last week, that in matters of exchange rates silence is golden. That is the first thing I agree on. On the basic thing that was mentioned, where should the focus of our attention be on, I believe that in my introductory remarks I have to my mind adequately put the focus on those structural measures and structural developments which ought to be addressed rather than the short term outcome every day of the exchange markets.

Thank you Madam Chairman. Mr Duisenberg, when you appeared in Strasbourg, you said that the euro was doing quite well given the attacks it had faced on various fronts. Do you continue to think, as I continue to think that the value of the euro reflects the lack of willingness of Member States to undertake the necessary economic reforms? In fact, some of them are allergic to undertaking some of these reforms. I think for example, the French government is a case in point. The disastrous decision with regard to fuel prices recently. Other governments are allergic then to reform and to taking advantage of economic growth by making reforms to increase productivity. Of course you cannot force these governments to undertake reforms, but in Strasbourg I myself said that we shouldn't be afraid of raising interest rates, the ECB shouldn't be too scared to raise interest rates. You made some optimistic remarks in your speech with regard to prospects for economic growth and with regard to levels of job creation. Now, bearing in mind that the euro does not reflect two or three economies, it reflects the conditions in twelve States, do not you think then that there is room to increase interest rates more and more firmly? And do not you think that economic growth could continue to be high even with interest rate levels which are close to those that prevail in the United States? Thank you.

Mr Duisenberg

When we increased interests rates, we did so with a view to making sure that the climate of price stability which we have was to be maintained over the medium term, and that is in our view conducive to promoting or to effectuating this period of robust economic growth which we are going through, to let that stay with us. I do believe that our measures illustrate that we have created the climate which is most favourable for a prolonged period of strong economic growth, which we already have entered. In that light there was and is no hesitation on the side of the monetary authorities to take the measures when they are needed and when they are appropriate. On the need for structural reforms, I fully agree with you. I pointed to them in my introductory statement to this Parliament today, but I also pointed out that it should not be the perception that nothing in this area is being done. Structural reforms are being

undertaken by various governments, by social partners in various countries, not in all, and it is in particular those countries which I ask to listen particularly well to what you and I are saying.

President Duisenberg, I would like to ask you about two issues, one quite technical and one a little more controversial. On the technical point, I would like to ask you whether you are aware of a proposal by the French Presidency to move to qualified majority voting for all matters related to Economic and Monetary Union, including for example, the level of exchange rate at which a country could enter Economic and Monetary Union. Are you aware of that proposal, and more importantly, do you think it is a good idea? On the second issue, I would like to ask you again about an issue I raised with you last time you attended this House, and that is the state of the Irish economy. Your response to my anxieties about the inflation level there, and asset price inflation in Ireland, was that essentially the mechanism for correction was now Ireland, in effect, pricing itself out of the market in the absence of exchange rates to make the correction. What perhaps I would like you to expand on is how long you think that will take to happen. A number of commentators have said it looks as if the Irish, assuming they stay in EMU, would have to accept an inflation rate of say 10% to 15% for anything up to the next three years before some kind of correction does take place.

Mr Duisenberg

On your first question, I am not aware of the precise proposal which is apparently there . I am aware of the idea of a move to qualified majority voting on many more issues; instead of unanimity, there would be, as I understand it, a move to qualified majority voting on many issues. In principle, although it is not my piece of cake, I am very much in favour of that, to move to more efficient decision-making than at present is the case. That is all I am going to say about it, because as I say, it is not really my field of competence to have a judgement on that. I do want to point out that inside the Eurosystem, on virtually all issues we have, where the Governing Council is the highest decision-making body, we have voting by simple majority. Only on a few issues, mainly having to do with the composition of the capital and the contributions to the capital of the European Central Bank, we have qualified majority voting. But the unanimity rule applies to my recollection, nowhere in the Statute of the European Central Bank. In that respect, we are not really affected by it. As far as the state of the Irish economy is concerned, although I would not like to be very specific about individual countries in the euro area, I do want to point out that inflation at present in Ireland is around 6%, which is well above the euro area figure which I mentioned, 2.4%. It has in particular been boosted by the excise tax on tobacco in Ireland, which in itself is a one-off measure, the effect of which will wear off over time. It is our impression that the divergence in inflation rates which we have observed in the euro area over the past months - contrary to the convergence movements which we saw prior to the start of stage three - will, in the near future, be on its way back and that it goes again in the direction of convergence of inflation rates. I would also like to point to a study we recently published in our monthly bulletin which concludes that inflation differentials inside a monetary area are

by no means abnormal, neither are they exceptional. A an illustration, in that publication, we compared euro area inflation differential developments with those in the United States, measuring the inflation in, I believe, 25 cities in the United States. Also to my surprise, we found out that the differentials in the United States were sometimes considerably larger than those observed inside Europe.

Mr Marinos (EPP-ED/Gr)

Thank you. Mr Duisenberg, we met in this committee about three months ago, and I said that the increase in the oil price would not be temporary, because apart from the OPEC countries, the United States has an interest in a high oil price, because the big oil companies, for the most part, are controlled by American interests. I also said that the devaluation of the euro would serve American interests, as it would make the dollar the master of the international exchange markets. You disagreed with me at the time. You said that the dollar was temporarily strong and that the euro would recover. So far events have proved you wrong; in fact things have got worse. This has provoked a popular reaction, a reaction by consumers. Today for example, Brussels is under siege. So how can you convince Europeans that they have to accept a drop in purchasing power without complaining? How can you convince them of that? How long are they going to have to suffer? European competitiveness is affected and, in the United States, taxes on fuel are much much lower than here in the European Union.

Mr Duisenberg

I hope I and others can convince the public at large that we do have not much of a choice, that we have to accept this loss in purchasing power, as you rightly call it, as long as oil price s remain at the levels at which they currently are. I still believe, contrary to your opinion, that this might be temporary. But then I have said that before. I can only say that the temporary period is not over yet. I do not deny that the public can and may complain about this, by no means. It may even be helpful, in that it adds to the political pressure, which has to be exerted on oil producers either to lower prices or to do the same thing by increasing their output. I think that political pressure was equally well exerted by European as by the United States governments. I must say that has at least had some effect on the OPEC decision to increase output over the coming period by 800.000 barrels a day. I doubt whether without that pressure the decision would have been as far-reaching as it turned out to be.

Mr Huhne (ELDR/UK)

Thank you President. Mr Duisenberg, could I first ask you again, continuing the theme of the oil market, what your current working assumption is, obviously with all the uncertainties attached, your current working assumption as to the oil price over the next year in terms of dollars per barrel. You also mentioned that the inflation in the euro area would gradually come back within range. Could I ask you please to specify what you think the peak will be in your best estimate at present, and when you think the inflation rate will be back within range?

Mr Duisenberg

Our current assumption, but with a great deal of uncertainty, we take as a guidance the future prices as quoted in the market for oil, which are in the order of 25 to 28 dollars a barrel. That is an assumption we use, with all the uncertainties around it, in assessing the future developments as we think we see them. We also realise that we had expected, or made this assumption already for more than a year, and we have been disappointed throughout this year by actual market developments. So that shows how with a great deal of relativity one should approach these assumptions.

The current inflation, the latest measured was 2.4%. I have said in my introduction that we expect figures exceeding the 2% ceiling for some months to come. I can add that some months may be four, may be seven months. We do not know for sure. We do believe that with this figure that has been reached in July we have seen the peak already.

Mr Huhne (ELDR/UK)

Can I just follow up on the inflation outlook ? Obviously one of the key variables there is going to be the level of the exchange rate. Do you think, could you perhaps enlighten us a bit about the discussion in the Council as to whether a rise in interest rates will tend in the current market environment to strengthen the euro or to weaken it against the dollar?

Mr Duisenberg

Over time but that is not the short-term reaction. Over time, diminishing the interest rate differential with the United States can only be positive for the exchange rate. But when it is going to happen, I refrain from making any forecasts in this respect.

Thank you. Mr Duisenberg, if the Danish vote "no" in the referendum in a couple weeks time, what effect do you think that will have on public confidence in the euro? What do you think will happen if the Danes vote no ?

Mr Duisenberg

I do not know. But I think it will have no impact on the confidence of the European people in their currency.

Thank you Madam Chairman. Mr President, first of all I would like to thank you for appearing here today as you do every three months. You have just said that a reduction in the exchange rate differential with the United States can only have a positive effect one day. But every time you appear here you have increased interest rates, and every time it has triggered a drop in the value of the euro, a drop in parity, because markets think it will slow down growth and at present markets are shifting to where growth is the highest, and growth is much higher in the United States than 3.5%. I do not reproach you for this. I am not a fan of a strong euro, but having said that, would it be worthwhile dropping the interest rates, giving a signal that we wish to slow down growth? You said last time that 3.5% growth is much more than the average over the past 20 years, which was 2.5%, what would you tell us at the end of this year if we were to tolerate such a growth rate, could you give us an idea of your present appreciation of the potential growth rate? Another point which struck me in what you said was oil prices. You say rightly that oil prices can trigger an inflationary spiral, and you made two recommendations in order to avoid that. You said that this should not lead to wage demands and secondly, you said that one should reduce social expenditure, such as pensions. If there is no compensation for the increase in oil prices, no wage increases, no pension increases, then it is wage earners and pensioners who are going to have to pay for this. Why do you not take into account profit, after all, 30% of income is profit, and what do you think of the French Government's decision to reduce taxes, duties on oil in order to bring petrol prices down? That is translated almost mechanically at the moment into an increase in the profits of oil companies or distribution companies or hauliers. Thank you.

Mr Duisenberg

Thank you. Your first implied question was that me appearing here every three months, which demonstrates what you can do if you plan your agenda well in advance, as I happen to do with your Committee, had something to do, or there was a causal relationship with, subsequently raising interest rates and seeing the exchange rate fall. I venture that must have been sheer coincidence and that will not always happen in the future. On potential growth, it is very difficult to judge. We do expect growth in the euro

area to be over 3% for at least the years 2000, 2001 and 2002, well over 3%. Those figures are clearly larger than what we observe as being the trend rate of growth over the past 25 years, which was in the order of 2% to 2.5%. Now does this mean that the potential rate of growth of output already has increased? We do not know yet, it is too early to come to a judgement. We will have to come to some sort of judgement already in December when we have our annual exercise of setting again the reference value for monetary growth, which is in part itself based on an estimate of what the potential growth rate of the euro area is. But all indications, as far as we can read them until now, give us insufficient evidence that we can already speak of a higher potential growth rate than has been observed over the past 25 years. We need more time to come to such a judgement. Your third question, I have forgotten.

Mr Lipietz (Greens-EFA/F)

Why should only pensioners and wage earners pay for the increase in oil prices? Why should not the holders of capital pay, and what is your reaction to the French Government's decision to artificially reduce the price of petroleum by reducing excise duties?

Mr Duisenberg

I believe that the burden of the worsening of the terms of trade, to say it in rather abstract and technical terms, is being borne by all sectors of the economy — wage earners and companies. It is undeniable that the oil companies as such at the moment receive some benefit from the higher oil prices, and in a way in as far as excise taxes on gasoline are on an "ad valorum basis" linked to the oil price, governments also receive some benefit. At the same time, I think one should not forget that if a government decides to forego this benefit by lowering taxes in another field, the burden has to be borne somewhere and the government will then be compelled either to increase other taxes or to reduce expenditure if it wants to stay within the limits self-imposed by its fiscal policy.

Thank you Mr President. Mr Duisenberg, each time you have been in this Committee over the past 6 months, you have assured us that the euro is strong and that the market is mistaken. I think that is a pretty strong statement, to keep saying that the market is mistaken every time and the euro falls and falls. There is another theory or hypothesis, that there are structural problems relating to the EU construction as a whole, that the ECB cannot be independent of Germany, France, Britain and maybe other Member States, and that political interests necessarily interfere with economic judgement. What is your comment to that theory?

Mr Duisenberg

Well the political interests do not and cannot interfere with the judgements made by the European Central Bank. We are completely independent in that respect from all these political judgements you refer to. To the extent that the thinking and actions of the European Central Bank have an impact on the exchange rate, it is completely independent from whatever political judgement might be given or ventured from whatever part of the euro area or outside it. Then, are the markets mistaken ? Some say that markets are always right. I say that the current exchange rate as it has developed over the last few months, is clearly out of line with the fundamentals, with the fundamental relationships between at least the two great economic areas, that is the euro area and the United States, as witnessed by a range of economic indicators. That is the same as saying : markets, you do not have it right, because ultimately exchange rates should and will reflect the fundamental relationships between economic areas, but of course the outcome can from day to day and from week to week differ from this underlying fundamental relationship. It may take some time and it apparently does take some time before this, may we call it, overshooting has been corrected to an adequate extent.

Mr Schmid (EUL-NGL/S)

Just a comment. It seems to be Mr Duisenberg versus the market. I am not sure that Mr Duisenberg really could have responded otherwise, because being a President of the Bank is kind of a political position. You have to talk up the euro and I suppose that is why you have to say this and why you have to say that the market is necessarily in this case mistaken.

Thank you Madam Chairman. Mr President, if I understand correctly, following on from what Mr Schmid has said, the people are wrong, the markets are wrong, the politicians are wrong and you are right. Unfortunately, you are wrong. It is not entirely your fault but I'll explain. The failure of the euro is getting worse every day. We have a so-called European currency ; it is failing every day. Now you have spoken with frankness. You said you could do nothing about the American deficit. We all know that we pay for oil in dollars, not in euros, things are quoted in dollars on the world markets and the stock exchanges are also in dollars. This virtual currency has not found reality, outside of the very talented comments which you make. The only thing you have any control over is interest rates. The only thing you have control over are interest rates. You have already increased interest rates. Growth is slowing down in France and we have managed to reduce unemployment to some extent. But markets and people are asking one question now. What is wrong, is it the pilot or is it the aeroplane? Is the aeroplane badly designed or is the pilot not properly skilled? I would call for the resignation of the pilot. Would you offer your resignation in order to support this cause so that we can see who is wrong, the politicians, the markets, the people or yourself?

Mr Duisenberg

Madam Chairman, the statement that the euro fails every day, I do not accept. The euro to my mind is the success that we had hoped it would be. Since its inception we have been able to achieve our main objective, that is to create a climate of price stability which is conducive to economic growth. We have created a climate which makes it now possible for the euro area as a whole to confidently expect a period of economic growth of more than 3% for at least 3 years. We have achieved that for a market of 300 million people, the exchange rate is no longer a factor for the majority of their trade relations with third parties. The exchange rate has been removed from the considerations for about two-thirds of all previously international trade of the euro area countries. That is an achievement, Madam Chairman, which was the main aim of creating monetary union in the first place, and that has been achieved. And therefore that gives me a reason to say that the statement that the euro fails every day is totally beside reality and beside the mark .

Chairman (Christa Randzio-Plath, PES/D)

I think the committee agrees with that assessment of the situation

Thank you Madam Chairman. I would like to get back to monetary strategy and economic development which is what we are talking about. We have heard from Mr Duisenberg that he thinks that in order to have sustainable development and sustainable balance in the Member States' budgets, it is necessary to have wage restraint and a low level of public debt. It seems though that the Member States' governments have not yet carried out their reforms and that is perhaps an explanation why the exchange rate of the euro is not doing so well. We see that the economy is improving now and debt is beginning to be paid off, but in some countries public debt is increasing and the effect of the future ageing of the population will mean increased pension costs for governments, and we have not found a solution to that either. Some people say that in some Member States employers and wages will have to pay for 40% of this. Now, three questions. How should the Member States approach this, by which deadline should public debt decrease, in absolute terms I mean? Should we get public debt down to zero in the next 25 years as some experts in the Netherlands have said? The Netherlands is not doing too badly there, or in your view Mr Duisenberg, should there be a less radical approach, and would that be enough? In the July monthly report from the ECB we have an analysis of this situation. Thank you.

Mr Duisenberg

The fiscal developments in the euro area as a whole still point in the direction of gradually lowering the deficit and not, as is suggested in the question, that they are increasing again. It is a slow process, that is true. The ECB is of the opinion that many governments should and could use the very favourable economic circumstances which they are going through to a greater extent in trying to achieve the goals set in the stability and growth pact. But the movement is in the right direction. I also think it is gratifying to see that currently in those countries where these huge auctions on UMTS technology are being held, that it is intended to use the proceeds of those auctions for either a further reduction of the public debt or for an improvement in the funding of pension systems. Those are things that are going in the right direction. It is not to be forgotten that already, I believe , in five or six out of the eleven participating Member States, the goals set in the stability and growth pact, that is to achieve over the medium-term a balanced budget or even a small surplus, that in five or six countries this goal has already been met. Helped by the favourable economic conditions that is true, but nevertheless the fact is there. That does not make me complacent about this. On the contrary, as I indicated earlier, we keep urging governments to use the favourable economic circumstances to a greater extent to achieve the goals set. In how many years the public debt should be entirely eliminated, I cannot answer that . I cannot even answer the question whether it should be or should not. I have great understanding for those governments who make that an explicit aim, to eliminate the public debt altogether, in view of the fact that the room thus created in the budget will be badly needed to meet what is entailed by the ageing of the population over the medium-term. Because within 10 years, you will see those costs increasing in budgets, both in the form of pensions and in the form, most of all, of health care costs. To create the room in the budget already now is to be applauded, and I regard that as a wise policy, without being able to indicate in how many years one should or could achieve that total elimination of public debt altogether.

Thank you Madam Chairman. Mr President, Chancellor Schröder welcomed the weakness of the euro. He said that it helps economic growth in Europe. I think it would be suicidal to think about the weakness of the euro as a good thing for economic growth, especially at a time when European citizens are fed up with the fall in the euro and the reduction in their purchasing power. My first question is this. How do you respond to those analysts who said that some people are throwing in the sponge when it comes to the stability of the euro and only a 25 basic point interest rate increase. My second question is about debt. I appreciate very much what you said about fiscal policy, but there is one country, an important country, Italy, which still has a public debt which was almost twice the Maastricht criteria. Today the government is deciding to give a fiscal bonus, a tax surplus, back rather than reducing public debt. They are going to spend this on family allowances, or on investment. I do not think that respects budgetary rigour. Surely budgetary rigour would be a better contribution to the stability of the euro rather than spending and redistributing this tax surplus?

Mr Duisenberg

I think the statement that one should be satisfied with the current position of the euro has been adequately answered by the joint statement issued by the Ministers of Finance and the European Central Bank last weekend . That is, for the European Central Bank, I cannot but repeat it again, we have only one primary aim and that is to maintain internal

price stability. We do not have an exchange rate target and therefore the exchange rate developments only become a concern for the European Central Bank in as far as they have a noticeable impact on the rate of inflation, which is our main concern. The second concern is that all this talk about the position of the exchange rate tends to undermine, or may threaten to undermine, the confidence and the credibility of the new currency, the confidence it should enjoy with its own electorate, that is the 300 million people in Europe. But that is a psychological cause for concern, and the economic argument is, as I just said, the impact that exchange rate developments may have on domestic inflation. That is then maybe a reason to take monetary policy actions as we have, based in part on that consideration, done on 31 August. I am not aware yet of today's plans for the Italian budget, and if I were, even today I would not comment on it. I recall the discussion we had in th is Parliament when last year, the Italians asked for some relief in achieving their goal of reducing the budget deficit to 2.1% of GDP. They asked for relief and they got it. I do want to point out that with the benefit of hindsight, they need not even have asked for it, because they achieved what they originally stated they were going to. And, if anything, that seems to me to be a good sign for the future as well.

Mr Pérez Royo (PES/E)

Thank you, Madam Chairman. I want to talk about the real economy. Two questions come in here. In the Round Table meeting in Calgary, you presented a speech on the international role of the euro and in your speech, it was a ten page long speech, you only devoted 9 lines to the exchange rate of the euro, reaffirming the doctrine you explained and which I agree with. But the tone and the content of these statements, and the statements you have made this afternoon, seem to me to contrast sharply with the more dramatic views expressed by the Finance Ministers this last week-end, both in the ECOFIN meeting and in their press conferences. So I have a question, does this mean that when it comes to the real economy and those who are responsible for the real economy, the Finance Ministers, are there more causes for concern than you might have, focusing on purely monetary issues? Secondly, you said there was a good prospect of growth for next year as well, 2001, you said robust growth would continue. I believe you said that inflation prospects for the year 2001 would remain below the reference value of 2%. Is there also a prospect then of a strong recovery of the euro exchange rate? Is that consistent with your forecast of growth and low inflation? Is a strong recovery of the euro consistent with that?

Mr Duisenberg

In a ten page long speech I devoted only nine lines to the exchange rate, and that was deliberate because with regard to the exchange rate, one cannot escape mentioning it sometimes. But in general, I agree with the statement made here earlier on the exchange rate; I think for responsible authorities, silence is golden, and I say as little as possible. I must confess I wish that others would have the same attitude on that. Is a strong robust rate of growth with inflation under control, non-inflationary growth, compatible with the strengthening of the exchange rate? The simple answer is, yes. When you make a forecast or an assessment of future developments on certain variables you can only make an assumption, and the assumption which is normally made for interest rates and for exchange rates is that in the future, the levels observed over the recent past will also prevail in the future. Then you can make variations around that, and

assume that things will change, for example the exchange rate or interest rates, and you can try to calculate or make an assessment of what impact that will have on your central forecast. We are doing that of course, and the result of that is that the growth forecasts, which are being made by various international institutions which we have carefully investigated and assessed, are compatible with the strengthening of the exchange rate, just as they are compatible with an unchanged level for the exchange rate.

Mr. President, before Mr. Evans had said that the euro is continuing to decline because Europe has not carried out structural reforms. You seem to partly share that view. I would like to know what structural reforms have taken place in Japan recently, which have led to an appreciation of the yen against the euro and the dollar.

Mr Duisenberg

I know a book, which is called the Japanese enigma, and it is always an enigma for me, so I cannot answer that question. I know Japan is struggling for years already to get out of an atmosphere of total lack of confidence on the part of consumers and investors in their future, and of a great restructuring of the financial and pension sector and of the real estate sector. Those efforts are underway and have led in the meantime to the Japanese government deficit reaching the order of 6% of GDP. They have led to a public debt emerging far in excess of 100% of GDP and there is as yet no end in sight.

Could I just put a further question, Mr. President? Would it not be a good thing for the ECB to sometimes remind us of the past, and to remind us that the euro might help us to overcome external shocks? If you compare the impact of the oil price crisis in the 1970's with the oil price crisis now, and if you remember that the Dutch and the Germans had to spend a lot more a few years ago to buy the dollar, and yet at that time nobody spoke about there being a weak g uilder or deutschmark.

Mr Duisenberg

Yes, Madam Chairman, I could not agree more, and the question is whether the ECB should continuously point that out as we do, or whether it would not be enough that you have done that already!

Well, I can see it is a shared task and a shared challenge. Mr. Von Wogau has the floor.

Thank you. Mr. President, I would like to come back to the question that I asked earlier about exchange rates from a procedural point of view now. If I see this correctly the Maastricht Treaty lays down that the question of exchange rates, that is, an exchange rate policy, is a policy that has to be determined by finance ministers at the end of the day. It is not so much the task of the ECB. Exchange rate policy is determined and defined by finance ministers although, of course, intervention would be carried out by

the Central Banks. I have a hypothetical question. If there were to be a decision to intervene, what would the procedure be, who would have the final say, who in other words decides the policy and how is policy decided in this field?

Mr Duisenberg

The exchange rate policy is determined by the finance ministers, that is correct. They can also decide not to define an exchange rate policy, as is the current situation. In that case the management of the exchange rate is up to the Central Bank. In this case, then the Treaty adds that the finance ministers could issue so-called general orientations for the exchange rate and thus for exchange rate policy. They could do so in consultation with the ECB . . At the Luxembourg Summit, the finance ministers have decided that they would use that possibility only in very exceptional circumstances, and so far they have seen no reason to do so and we have not consulted each other about that. The ECB also sees no reason to issue such general orientations. Now, what is the procedure on interventions ? T he procedure is that, were there to be interventions, that would be the initiative of the Central Bank to consult the other big players in the market, in this case that would of course be the American authorities and the Japanese authorities, and the Central Bank would of course keep the ministers of finance informed of any such intentions and/or actions.

Can I just follow that up by asking about the procedure again ? Is it therefore the case that the ECB, in the circumstances where the finance ministers have not actually set guidelines for the exchange rate, the ECB can effectively decide on intervention itself, obviously with the courtesy of consulting the finance ministers?

Mr Duisenberg

That is correct.

The question that I would like to ask you concerns the fashionable topic of the output gap. I wondered whether you could give us your current estimate of the output gap in the euro area, and whether you will be publishing estimates of the output gap when you publish your forecasts, as you said, hopefully before the end of the year.

Mr Duisenberg

I cannot give you an estimate of the euro area wide output gap. I do see that there are parts of the euro area where one can clearly speak of the non-existence any longer of an output gap and of an overheated situation almost. There are other parts, and they are the larger parts, where there certainly still is some slack in the economy which could be used but I cannot give you an estimate of a euro area wide output gap. Regarding the second part of the question, we have still to decide what to publish precisely. We are discussing that at the moment, both internally and in the context of the governing

council actively, and it is likely that we will publish a small range of estimates for some variables. I think that the concept "output gap" will not be one of them.

Thank you. I am rather worried because until now you were more committed to making the model you base your policy on public. In the plenary session of Parliament you said that, but if such an important factor as the output gap is not to be published, that concerns me. Substantially, do you think that the new economy will allow us to move from 2.5% to 3.5% potential growth, and do you think that this increase in potential growth would be compatible with Europe's commitments on climate change ? We have the Kyoto Conference commitments and this is happening in The Hague now. How can we achieve this without reforming our transport systems and investing massively in energy policy? How can the ECB or the EIB help to make this massive investment necessary, which would then increase potential growth?

Mr Duisenberg

We have carefully analysed current and recent economic developments in order to investigate whether we could speak indeed about an N ew E conomy. Has the New E conomy arrived in Europe, N ew E conomy being defined as an economic development characterised by a persistent ly higher rate of growth of productivity than has been observed in the past? Our conclusion is that we do not find convincing evidence of the N ew E conomy, which in turn is being helped by the application of new technologies, in particular in the information and communications technologies sphere and by a greater flexibility of markets. In particular in labour markets, we have not been able to conclude that the New E conomy is already here. Not even in those parts of the euro area which have observed over a number of years a considerably higher rate of growth of output than was traditionally the case.

That is the end of the second round. We will start with the Socialists on economic developments and in particular the question of the influence of the new economy on economic growth and the effect on monetary policy, and other colleagues will also be asking questions. I give the floor to Mr Trentin.

Thank you, Madam Chairman. I do not know whether President Duisenberg agrees with the widespread view that the members of the EMU would benefit from a devaluation of the euro, because this would mean growth and more exports. I think, and this is based on a lot of experience from my country, that so called inflation and competitive devaluation, apart from in the long term leading to a high risk of inflation, leads to a form of drugged economic growth. It promotes traditional and uncompetitive growth and it slows down innovation and real enterprise. People do not invest in new technologies, in research and continuous training under those circumstances. If I am right, do not you think that the euro group's delay in adopting a transparent and clear policy has not been partly to blame for the problems of the euro? Also we need a common energy policy which we have not got and there is the crucial question we have already mentioned of co-ordinated government control of American debt vis-à-vis foreign investors.

Mr Duisenberg

If I am right in thinking and stating, together with ministers, that the exchange rate is clearly out of line with the fundamentals, then the implication is that at some point it will correct itself. I am certainly, like you, not at all in favour of so-called competitive devaluations, because it would mean one jumping over another and nobody would be any better off in the end. But also I do want to repeat that a strong euro is in the interest of the euro area and it will come. But the danger is, and I agree with you, that a temporary deviation, as we see now, a serious under- valuation of the euro in the markets may lead to decisions for example, by the export sector, to invest on the basis of information which is only temporary and which is fundamentally wrong. It may lead to the postponement of other measures which will have to be taken in the structural sphere because of this temporary boost to the economy, which is being derived from a weaker than justified exchange rate, and that is in itself a n undesirable effect .

President Duisenberg, the arrival of new technologies, in particular in information and communication, should mean a leap in productivity, which if there are moderate wage developments should increase the leeway for non-inflationary growth potential. If the leeway for non-inflationary growth is there, we can let things have freer reign. But you say you cannot see this point yet, as you cannot see the new economy, and my question is: why are we not at that point yet? Are there other reasons why we haven't seen this injection of new technology yet to the extent that it is possible and visible in the U.S? Couldn't it be that the political recommendations that you expressed will have to be extended? You spoke about consolidation of budgets and the labour markets, that's what we always talk about. Why don't you speak about a stronger pro-active technology policy or a stronger pro-active education policy which is required for the Member States to make us more innovation friendly as Europeans? Is this also part of the communication with Member States? Please do not tell me that you are not responsible for education policy, I know that, but you are not directly responsible for pensions or education. Please tell me if you think what I am saying is possible. If it is, all the better.

Mr Duisenberg

Well, what you are saying is not only possible, but I think desirable. But it would be wrong to ascribe the phenomenal developments in the United States exclusively to the development of new information and communication technology. It is a range of factors, not the least being that in the United States they can operate much more than in Europe in a very flexible labour market. It is labour market flexibility which to a very large extent makes possible the phenomenal adjustment process that the United States has gone through, and is going through, also in terms of the application throughout the economy of new information technology. But then I don't say that it cannot come . I only said that as far as the New E conomy is concerned we cannot see it coming yet, even in regions which are performing outstandingly. Even in the field of application of information technology like in Finland or Ireland or even The Netherlands, we cannot analytically observe yet that we have a higher growth rate of productivity than was observed over the past 25 years. But I happen to believe that it is coming, but I cannot prove it.

Mr. President, following on from your last remark on the flexibility of the labour market in Europe, can you tell us what were the measures that the United States used to

increase the flexibility of its labour market, which may be more flexible than the European one? How is it that in the Reagan era, the United States was suffering from unemployment, and now the United States is not suffering from unemployment? What is the great change in the flexibility in the American labour market that has changed the fortunes of the American economy? If we talk about flexibility, should we not discuss the flexibility of the financial markets and comment on our scandalous inability to form a unified stock exchange?

Mr Duisenberg

I cannot point to a particular measure in the United States which increased labour market flexibility . What I did say is that they can operate their economy in a situation, a climate where the labour market is much more flexible than in any part of the European Union. That is the situation there, whereas in Europe, labour markets are stifled by rules and regulations and contracts which have grown over the years and had the effect that the mobility of labour and the flexibility in the labour market is weaker than it is in the United States. We have to do something about that if we want to perform in a similar way. As far as the financial markets and the stock exchanges are concerned, I think that the coming of the euro is acting as a catalyst to achieving more efficient markets and market instruments also in that area. That is a process we are going through, and I would not call it scandalous if that process went with some ups and downs. But for example in the area of clearing and settlement, we still have in Europe many different systems. The process is clearly on the way to consolidation, and the industry itself tells me that 5 years from now it would be reasonable to expect that there would not be more than 5 or 6 operative in the euro area. But it takes time to achieve that, just as it takes time for stock exchanges to co-operate, to merge and sometimes to disappear.

Mr Langen **(EPP-ED/D)**

President, I would like to continue with what my previous colleague asked. You said here that amongst other things, the taxation of labour is too high and reforms are required. First of all, if billions of euros disappear into the dollar area, there must be a possibility to retain this capital in the euro area. How could you describe the conditions for cross border pension funds in Europe to operate? Second part of the question, how do you see the ramifications of the decision of taxation of interest in the European Union? You say that the burden must be taken off labour. We have burdens on oil. What is your view of taxation of interest income, how do you see the proposed taxation of internet services proposed by the European Commission, and as I understand it the French Presidency declined to do this yesterday?

Mr Duisenberg

The billions of euros that are going from Europe to the United States, we cannot stop and we do not want to stop them in completely free markets. All we have to do is to make Europe more attractive as a place to invest than currently is the case. If we manage to do that, for example by making labour markets more flexible, by making hiring and firing easier - these are measures that may be painful, but in the end they are to the benefit to the people and also to the workers, as has been proven in the United States - if we manage to make those structural reforms amongst a range of others, then Europe will become a more attractive place to invest in than it currently is. But we have

to get the conditions right. On cross border pension funds we now have no borders for the euro, so there are no exchange rate restrictions on where to invest for pension funds, at least inside the euro area. Everything is done in euros so there the liberalisation is already there, but I don't know precisely what the upshot of your question is. Taxation of interest and taxation of Internet services, I know that it is a hotly debated subject amongst the competent authorities, the ministers of finance, and I prefer the Central Bank - which has no competence - to stay out of this debate, even in this room.

Mr Tannock **(EPP-ED/UK)**

Thank you. First of all, a brief comment on your reference to the persistently high US balance of payments deficit which you hinted at as being fundamentally incompatible with a strong dollar. Surely and in reality, and perhaps unwisely in my view, the US government actively encourages a strong dollar to ensure indefinite financing by foreign investors of this deficit? If the perception were ever to change that the dollar would soon weaken, then this would cause a massive flight out of the dollar to avoid foreign exchange losses and generate a balance of payments crisis in the US, which is currently the driving force behind global economic growth. If the US goes into recession, this would drag us all down with it, with no hope of a soft landing anywhere, no matter how skilled the pilot or well designed the aeroplane. The rest of my question regarding America is: given the exceptional 10 year period of growth in the US with the renowned skills of Alan Greenspan as Chairman of the Fed, what useful lessons and conclusions can the ECB draw from the US model, both in terms of the much championed information technology and telecom generated new economic paradigm, but more particularly the special relationship between the Federal Reserve Bank and the other organs of US government? In particular, the policy of openness and transparency which contrasts rather markedly with the European Central Bank's.

Mr Duisenberg

I can be rather brief on this question about what can we learn in the area of transparency . I do not think we can learn very much from the United States, because to my mind the ECB is more open and more transparent than any other central bank in the world, the Fed. included.

President Duisenberg, I would like to ask you why a Danish voter, contemplating whether to tick the "yes" or "no" box on 28 September, perhaps concerned about the new economy, should vote yes, because it seems to me that you have admitted today and it is clear that the new economy is not happening in the European Union. It is clear that the United States is setting the pace in terms of the new economy and economic reform, and attempts in the European Union at structural reform seem to have been derisory so far. You come back to our Committee regularly and every time you bring the same message that we need structural reform and I myself cannot really point to any strides that have been made in that direction. The trend is in the opposite direction, whether it is directives on pregnant workers or directives on how your employees climb a ladder, the trend in the European Union is to make it more difficult to employ people, to impose more costs on employers. Until there is a radical change in that I cannot see that the euro zone is going to become a better place to do business in. That surely is the fundamental reason why the exchange rate is going down, because the euro zone is not

perceived as a good place in which to do business. And so, if I was a Danish voter on September 28, I suspect that I would be ticking the "no" box and not the "yes" box.

Mr Duisenberg

I also said in my introduction and later in the debate that one by no means should think or perceive that in the area of structural reforms nothing is done altogether. A lot is being done not enough and in particular maybe in the larger countries not enough, but a lot is being done and we have to appreciate that as well. So I am not as pessimistic as apparently you are that things might even go in the wrong direction. I have a different perception of that. As far as the Danish Referendum is concerned, I think that it is wise for me to stay out of that debate.

That is also the reason why the European Parliament is not involving itself in the Danish debate. Now Mr. Huhne for the Liberals.

Mr. President, you said earlier on that you believed that the new economy was coming to Europe but that you could not prove it. I noticed that the Bundesbank's monthly report actually comes to the conclusion, based on some quite clear evidence, that investing in information technology is actually running at a higher level in Germany than people had previously thought, so maybe that is a piece of evidence. But I wanted to ask you whether you thought that since Alan Greenspan had clearly begun to factor this process of productivity improvement, of information technology improvement, into his thinking and decision-making before clear evidence became available, whether you thought that that was appropriate for the ECB, or whether you actually have to wait until the evidence is really cut and dried after the event before you begin to factor it into your decisions.

Mr Duisenberg

In our decision-making process I think we have to wait until the evidence is clear, but the first moment that such a decision has to be taken is already coming next December. It may sound very technical, but if we have to determine the reference value for monetary growth, then the potential rate of growth of output is one of the factors which in turn determines the reference value we have to adopt. So it will come pretty soon that we will have to make up ou r minds, and we are by no means ignoring it. But I would also like to point out that when Mr. Greenspan in his latest speeches finally, let us call it, recognised the existence of a totally new situation, he also asked himself why it was happening in the United States and not in Europe. His explanation is that it is the major difference in flexibility in the labour market which is the main explanatory factor for the difference. I agree with you, I have seen the study by the Bundesbank and other studies that the application of new information and communication technologies is proceeding at a very rapid pace also in Europe, and in some European countries even faster than in the United States.

Surely, that is inconsistent with Mr. Greenspan's view. Why would business people invest in information technology if they were not able to get a good return form it? If the inflexibility that you are talking about actually prevented them from getting a good return, surely the very fact that the investment is actually happening in Europe is evidence that on the ground, people make the judgement that they can get the returns and that Alan Greenspan's view that inflexibility is an obstacle is wrong.

Mr Duisenberg

Well, I would have to think about that one, but I may have to go to another conference in Jackson Hole this time!

Mr

Thank you. I myself am rather sceptical that flexibility in the labour market explains investment in new technology. Finland is not the most flexible country in the world in terms of the labour market, and yet in Europe it is at the head of the technological revolution. On the other hand, what is true is that investment in the United States has been much stronger than in Europe throughout the 1990's. If you take the economy as a whole and not sociological studies, it seems that investment is easier for companies if interest rates are low. I repeat a question I have already asked, therefore, what measures do you intend to take in terms of monetary policy in order to promote investment in Europe, be it in new technology or energy technology?

Mr Duisenberg

In terms of monetary policy the only measures that we will take, are taking and are going to take are those which help us to achieve price stability in Europe, and not those directed primarily at promoting investment or hindering investment. There, monetary policy has no role to play.

Mr Theonas **(UEL-NGL/Gr)**

Thank you. Firstly a comment which does not concern you, Mr. Duisenberg, but it does concern us as Members of the European Parliament. If in this 21 st Century we wish to copy the United States, where I think the social situation is not very good, that would be a tragedy, and in the next elections we hope that more than 30% of the electorate will turn out. That is what we are striving for. Today, Mr. President, the price of oil and the value of the euro effects economic development in Europe and if I followed your presentation and your answers to questions properly, I reached the conclusion that you are trying to get a message across today. You are saying that in the context of monetary policy and exchange rate policy, the ECB can do no more in combating the negative effects that we see in the European economy. So you are trying to get a message across to Ministers. You are calling on Ministers to carry out structural reforms. Three simple questions. On wages, are we entering a new period of wage restraint and austerity? Secondly, will this structural change be a response to oil prices and the uncontrollable situation arising from the value of the currency, and what do you think about countries

that have already carried out structural reform? How are they going to deal with the increase in oil prices and the devaluation of the euro?

Mr Duisenberg

I believe, Madam Chairman, that I have answered most of those questions already at an earlier stage. I only do hope that for the immediate future, we can continue to live in a climate where wage moderation is being exercised, just as it has been, luckily so and to the benefit of the people, over the past 2 to 3 years. I do hope that the shortages which are already appearing in the labour market will not translate themselves into wage demands which would exceed the rate of growth of productivity in the various areas. May I add that I mean the rate of growth of productivity corrected for the change in the terms of trade ? In other words, wage increases are not the appropriate response to the increase in oil prices .

We have just heard about the Danish Referendum and Mr. Duisenberg rightly said that he does not wish to comment on that. On the other hand I have understood from people who want to keep the krone in Denmark that the European Union and the European Parliament has done everything to support them because of the external value of the euro. They say that because of the external value of the euro we have got an excellent chance of winning the referendum in favour of the krone. Our perception of what we do, therefore, is often very different to reality.

Thank you. Mr. President, I think you have already been very clear about flexibility in the labour market. But some time ago, Mr. Greenspan said, and it may have been a joke, that he wanted to avoid raising interest rates if the American government had given 1,000 green cards for people who specialise in the new economy even though they have almost full employment. We don't in Europe, but as far as the new technology sector is concerned, there are job opportunities. Don't you think that as far as flexibility on the labour market we should open our doors to immigration, especially highly skilled workers? Don't you think that that would help to develop the new economy in Europe much better than anything we can do with interest rates?

Mr Duisenberg

Well, it is happening here and there and I think it is up to the governments to make decisions on that and not the ECB, but it is happening. It is happening in Germany, in Ireland, in The Netherlands . That is an achievement. When I think of Ireland, I cannot help thinking how historically unique it is that a country which for 150 years has been a net emigration country, has now turned into a net immigration country. That is a historic fact of enormous proportions to my mind and it is the European Union which has made that possible.

Mrs Torres Marques **(PES/P)**

Mr. Duisenberg, after 20 months of the euro, the costs of cross border transactions, bank transfers or credit card payments are still a major percentage of the amount transferred. There is always a certain percentage that is charged and seeing that there is no risk in the euro zone, isn't the ECB of the opinion that this practice should be banned by means of a regulation or a directive? That is my first question. My second question is whether you think there should be some frontloading for public authorities, central, local and regional government in the year 2001 so that these authorities can be functioning properly at the beginning of 2002.

Mr Duisenberg

On the transactions that are still being charged, although they are coming down, we follow it closely, we are in close contact with the sector but we are not finally competent to dictate the sector how they will bring down the costs of the transfers, cross-border as well as domestically, and what they can charge their customers. As I have already indicated in my introduction, we have issued a range of recommendations to the sector concerning cross-border retail payments in September 1999 and we will, within a couple of weeks, publish a report on an assessment of the situation as it develops and on the progress that is being made and on the lack of progress being made in other areas. Concerning frontloading to particular parties, well, there can be frontloading to banks and to other organisations prior to 1 st January 2002 but not to the general public. But to other organisations, and I wouldn't exclude public authorities from that, if they can guarantee that these frontloaded notes will not be brought into general circulation before 1 st January 2002 , then it can take place according to our decision already as from 1 st September 2001.

Mr. President, why does the ECB want to be involved in the negotiations on enlargement, because surely the Treaties are clear in saying that ECOFIN and the ECB only come into play when a request is made for participation in the euro zone? The second question concerns staff of the ECB ; do officials working for the ECB have the same working conditions as other European officials?

Mr Duisenberg

The ECB is not directly involved in the negotiations with the accession countries, but we are always in close contact with the European Commission and also with the accession countries themselves to help and inform them and give them assistance in preparing for the eventual accession, especially in our field of competence which is central and private banking and the financial sector as a whole. The consequences of the accession for quite a number of countries for the functioning of the ECB itself are not very clear . The question is being raised as to whether the decision-making bodies can properly function if the number of participants is greatly increased. Our answer to that is that of the three decision-making bodies, neither the Executive Board, nor the General Council in which all EU central bank governors participate, seemed to be a problem given the nature of the decision s which the General Council has to take. There could be a problem with the Governing Council, currently consisting of 17 Members, if that number were to be greatly increased, but that is still a long way off. Then we might have to address that problem, to reach a more efficient decision-making process . But in our view, the time is not yet right after a year and a half in existence to start thinking about or discussing changes in the composition or nature of the decision-making bodies of the ECB, and we have ample

time to do that at a later stage. What we are talking about here is not accession to the European Union but basically accession to monetary union, which will come years after actual accession to the European Union. With regard to our personnel, I believe that working conditions are comparable to those prevailing in other European institutions.

Mrs Peijs **(EPP-ED/NL)**

Mr. President, you spoke about a new threshold for balance of payment reports to the ECB. I am pleased about that but disappointed about the level of the threshold. I am the rapporteur on this and I had thought of the amount in the directive, 50,000 euros. What do you think about this? I am sure the Parliament will be calling for a threshold of 50,000 euros in line with the directive. I know how you got 12,500 euros, that is the guarantee level in the directive, but we want it increased to 50,000 euros because there will be a lot of reporting between the 12,500 and the 50,000 levels. Secondly, I would like to ask your opinion about the Western Union moneygram transfer system. Money can be transferred immediately, but it is a system which is fine for people who do not have bank accounts but the problem is that according to the second banking directive, these companies are seen as banks and this prevents them from growing and developing. I think some competition for banks is not a bad thing, so what is your opinion about this sort of money transfer system?

Mr Duisenberg

I am afraid I will have to answer these questions at a later stage as I am not enough of an expert on either subject, so I will answer them in writing.

Mr Gasoliba I Böhm **(ELDR/E)**

President, I want to express a concern I have about this last item on the agenda, the practical aspects of introducing the euro. Well, we are just a year and a few months away from the introduction of the euro now and my experience has been that there has still been no significant campaign undertaken to raise awareness about the introduction of coins and notes. It is quite right as you said that what you do is nothing compared with what Member States have to do to raise awareness, but I think that it is important for you to bear in mind the need for this campaign to really take off on a decentralised basis. At the moment all the decisions are being taken at the level of national central banks, but this is not being spread to local authorities, and the level of dialogue between the sectors concerned, for example, representatives of SME's. People's awareness is very limited.

Mr Duisenberg

The preparation of the campaign is on schedule and is well underway as has been explained by Mr. Domingo Solans in May of this year to this Committee. The campaign is intensifying over time and it will reach its most intense phase only in the last quarter of 2001. We believe that if we were to have a n intensive campaign at an earlier stage, it would be money thrown away because the effects of such a campaign would wear off

long before the actual banknotes had been introduced. We do see the need and we share the concern of the European Parliament, as I said, for close co-ordination of all the campaigns that will be executed both by the ECB, or by the Eurosystem I should say, and national authorities and the European Commission. The preparations as I said are well underway but the effects will only be seen very clearly in the period briefly preceding the actual introduction of the notes on 1 st January 2002. But in the last quarter of 2001 you will be bombarded with information on the notes to come, and our efforts will be directed at various categories of people such as the public at large and special categories such as blind and partially sighted people, people with learning disabilities and elderly people to make them familiar with their new notes. I also would have liked to have the notes earlier, but it simply cannot be done, so we will have to wait another year and a half because we cannot print them earlier. We have already 11 secured printing works across the European Union which are currently operating 24 hours a day, 7 days a week printing the new banknotes, and it will still be a great effort to have everything ready on time by 1 st September 2001.

Mr Gasoliba I Böhm **(ELDR/E)**

I am not only talking about the physical availability of notes in order to be familiar with them but also in some Member States the information campaign is limited to the central bank level, to big firms etc. and it is not penetrating to other areas. Some regional and local authorities are not involved enough, this worries me. I think it will be important to involve any sector at social, economic and administrative level and in the discussions that you have I am asking to try to ensure the involvement of the different sectors.

Mr Duisenberg

I take serious note of what you are saying and I would appreciate it if there are certain concerns for certain regions of the euro area, if you would relate that to us.

If I have understood the plan, in the second half year, cheques in euros will become widespread and consumers are going to ask: will they have the same value regardless of where they are issued? You acted on small cross-border transfers and this will play a decisive role in the credibility of the euro, of the single currency, throughout Europe. If a 100 euro cheque is worth a different amount depending on where you cash it because some banks might charge 40 euros for cashing the cheque, then people will not believe in the euro.

Mr Duisenberg

Well, to be able to write a cheque in euro is entirely up to the private sector and it is not up to the ECB. We will issue our promissory notes as from 1 st January 2002, but you can transfer money, whether or not it is in the form of cheques, and make payment s in euro already now in many areas but not everywhere. But it is up to the people themselves, to the banking sector and the public to accept that.

Mr. President, I would like to thank you very much for this comprehensive monetary dialogue with a few new messages. Finally, Mr. President, on behalf of the Committee, I would like to congratulate you on your 65 th birthday, as this is our first opportunity to do so.