1-001

**ECONOMIC AND MONETARY COMMITTEE**

**MONETARY DIALOGUE WITH WIM DUISENBERG, PRESIDENT OF THE ECB**

**(pursuant to Article 113(3) of the EC Treaty)**

**BRUSSELS, 17 FEBRUARY 2003**

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1-002

**IN THE CHAIR: MRS RANDZIO-PLATH**

*(The sitting was opened at 3.10 p.m.)*

**Chairman.** – Ladies and gentlemen, I declare open the sitting of the Committee on Economic and Monetary Affairs. We will start with the monetary dialogue, and will defer the other items until the dialogue is over.

I do not want, though, to miss the opportunity of welcoming a British colleague, the former spokesman for the Group of the Party of European Socialists in the European Parliament, Alan Donnelly. Mr Donnelly, even though you are sitting in the Visitors' Gallery, we bid you a warm welcome to the European Parliament. I would also like to take this opportunity to welcome Mrs Meg Munn, Member of the House of Commons for Sheffield, to our meeting.

Ladies and gentlemen, there is a certain tension inherent in today's monetary dialogue, not only because of the macro-economic question of the responsibility of monetary policy at a time marked by war, peace and the political tensions within the European Union, but also because of the huge challenges that we face on the economic and employment fronts. Apart from that, we also have to deal of course with the amendment of the European Central Bank's Statute. We MEPs are always asking ourselves why the Statute was made so complicated, with – as its President, Mr Duisenberg, whom I warmly welcome, points out – decisions in its Governing Council being reached not by voting, but by consensus. Why was it necessary to devise such a complicated voting model? Or is it an indication that voting is about to be introduced in the Governing Council and that we will be able to reiterate our demand that the way the votes are cast be published?

I would like to conclude my introductory remarks by emphasising how difficult it must be to be President of the European Central Bank when it is far from clear who your successor is to be. Mr Duisenberg, we all remember you telling us that, after 9 July, there was nothing you wanted to do but go fishing. You were, though, far-sighted enough to write at that time to the Council Presidency to tell them that you would of course remain at their disposal in case your services were needed. It is now becoming clear that it will be necessary to extend your term of office, as the verdict in Mr Trichet's trial is not expected to be delivered before 19 June. That being so, Mr Duisenberg, I do not think that this will be your penultimate visit to us, but that we will be able to welcome you to this room on many other occasions, and so I look forward very much to what you have to say, and to our monetary dialogue today.

1-003

**Duisenberg,** *ECB*. – It is my pleasure to appear before your Committee today. As usual, I will begin my introductory remarks by reporting to you on the ECB's assessment of economic and monetary developments, before turning to the ECB recommendation on the adjustment of voting modalities in the Governing Council, which the ECB adopted following the entry into force of the Treaty of Nice – now ratified by all Member State national parliaments – and on which the European Parliament and the European Commission have been invited to give their opinions. I understand that Parliament will be devoting attention to this issue tomorrow, but today might be an occasion to make some remarks should you so wish.

I will begin with economic and monetary developments. As you will recall, in its first meeting of December 2002, the Governing Council of the ECB decided to lower the ECB interest rates by 50 basis points. The basis of this decision was the assessment that the prospect for inflation to fall below 2% in the course of 2003, against the background of subdued economic growth, and for it to remain in line with price stability thereafter, had strengthened. With this move, the key ECB interest rates reached a very low level by historical standards.

Before turning to our assessment of the current economic outlook for the euro area, I would like to report that on 5 December 2002 we also reviewed the reference value for monetary growth, which plays an important role under the first pillar of the ECB's monetary policy strategy. The Governing Council decided to leave the current value unchanged at an annual growth rate of 4.5% for the broad aggregate M3, as the evidence continues to support the assumptions which have formed the basis of the derivation of the reference value since 1999, namely a trend potential output growth of 2-2.5% per annum and a trend decline in M3 income velocity of 0.5-1% per annum in the euro area.

When comparing current developments with the reference value, it is important to bear in mind that the assessment of monetary developments is essential for long-term trends in inflation and that the reference value is therefore to be seen as a medium-term concept. Short-term movements of M3 do not necessarily have implications for future price developments. Moreover, deviations of M3 from the reference value must be analysed in conjunction with other real and financial indicators in order to understand their implications for price stability.

Turning to our current assessment on the outlook for price stability in the euro area, M3 growth remained high in the last quarter of 2002. The continued strength in monetary growth reflects an ongoing pronounced preference for liquidity in an environment of high financial, economic and geopolitical uncertainty. In addition, the low level of interest rates in the euro area makes the holding of liquid assets relatively attractive. Overall, although liquidity remains ample, it is unlikely at this stage that it will give rise to inflationary pressures, given the current economic environment and the expectation that some of the portfolio shifts will be reversed once the financial market uncertainty diminishes. This assessment is supported by the continuing moderate growth of loans to the private sector, particularly to non-financial corporations.

As regards the information under the second pillar, recently published data and survey information indicate that economic growth in the euro area remained subdued around the turn of the year and that the overall sentiment in the economy remained lacklustre. While these indications suggest that growth dynamics will remain weak for the early part of this year, the most likely scenario remains that of a gradual increase of real GDP growth rates, starting in the second half of 2003. The current low levels of interest rates should contribute to this scenario materialising. In addition, while the appreciation of the euro over recent months is likely to contribute to some extent to a dampening of export growth, this should be counterbalanced by the assumed recovery in the world economy. In this respect, it should also be taken into account that the price competitiveness of euro area companies remains favourable in a medium-term perspective.

At the same time, uncertainty regarding the economic outlook remains high, in particular due to the ongoing geopolitical tensions. Further turbulence in the oil markets could have a negative impact on economic activity throughout the world and, therefore, on euro area employment as well. These concerns could weigh adversely on confidence. In addition, the accumulated macroeconomic imbalances outside the euro area have led to uncertainty surrounding the strength of the recovery in other major economies. By way of conclusion, there are still downside risks to the outlook for euro area economic activity.

Turning to prices, HICP inflation has remained slightly above 2% in recent months. On the one hand, there was upward pressure from oil prices and from various increases in indirect taxes and administered prices. On the other hand, the strengthening of the euro, together with base effects, helped to limit year-on-year consumer price increases. Looking ahead, given the outlook for moderate economic growth, the gradual pass-through of the appreciation of the euro should contribute to a dampening of inflationary pressures. Overall, the most likely outcome remains that inflation will fall and eventually stabilise at a level just below 2% in the course of 2003. However, volatility in oil prices makes it very difficult to forecast prospects for inflation movements accurately, especially in the short term.

Moderate wage developments are a major prerequisite in order for price stability to prevail in the medium term. This will also help to improve the prospects for economic growth and further employment creation. When looking back we see that wage growth followed an upward trend until recently, despite the economic slowdown. This indicates that significant structural rigidities have prevented an appropriate adjustment of wages.

Taking all of this into account, at its last meeting on 6 February 2003, the Governing Council concluded that following the decision to lower the ECB key rates by 50 basis points in December, the monetary policy stance remained appropriate to preserve a favourable outlook for price stability in the medium term. Consequently, the ECB kept its key interest rates unchanged. Their already low level should help to counterbalance the negative effects on economic activity that currently stem from the high degree of worldwide uncertainty and should, therefore, contribute to a sustainable economic recovery in the course of 2003.

For the time being, we still assume that the high degree of uncertainty will decline in the course of this year. However, at this juncture it is not possible to assess how the ongoing geopolitical developments will affect the world economy and, in particular, the euro area

economy. The Governing Council will continue to monitor closely all factors that may affect the prospects for inflation in the euro area.

The euro area outlook will also very much depend on progress in other policy areas. As regards fiscal policy, full adherence to the fiscal policy framework laid down in the Treaty and in the Stability and Growth Pact provides a sound basis for limiting the risk of fiscal imbalances occurring and thus contributes significantly to favourable financing conditions for the private sector. At the same time, it preserves an appropriate medium-term orientation for fiscal policy. The Governing Council supports the steps taken by the Commission to maintain the functioning of the framework, including the implementation of excessive deficit procedures and the issuing of early warnings, where required.

Furthermore, I should also like to stress that it is the implementation of structural reforms at the micro level that ultimately raises the production potential in the euro area. By improving flexibility in the economy and making the euro area more resilient to external shocks, structural reforms will also reduce the high level of unemployment. The slow progress in structural reform is one of the key factors currently hampering a recovery in confidence.

Against this background, the Governing Council welcomes the recent communication by the Commission on the implementation of the Broad Economic Policy Guidelines. Renewed momentum in the process of structural reform will not only be crucial to foster confidence among consumers and investors in long-term growth and employment opportunities in the euro area, but it should also have a positive effect on spending and investment decisions in the short and medium term.

Finally, I should like to mention that after four years of practice with our monetary policy strategy, the Governing Council considers that it is the appropriate point in time to take stock of our experience so far and to reflect on the various elements of the strategy. All this does not necessarily imply that we see a need for any changes. We are very satisfied with our strategy and with the fact that it has given appropriate and effective guidance to monetary policy decisions. Let me also assure that that there will be no change in our firm commitment to our overriding objective of maintaining price stability over the medium term, i.e. avoiding both inflation and deflation. Indeed, this could not be otherwise, since the achievement of the price stability objective is at the core of our mandate in the Treaty.

I now turn to the ECB Recommendation on the adjustment of voting modalities in the Governing Council.

On 3 February 2003, the Governing Council adopted a recommendation on the adjustment of its voting modalities, which will prepare the Governing Council for a future expansion of the euro area. The ECB submitted this recommendation on 3 February 2003, which was in good time as we were asked to submit it 'as soon as possible after the ratification of this Treaty' to quote the Treaty of Nice and its protocol, which entered into force on 1 February 2003. We hope to preclude any uncertainty about the continued effectiveness of the ECB's governance structures in view of a future expansion of the euro area. In this context, I should like to emphasise how much I appreciate your Committee's efforts to respect an ambitious timetable in order to present in good time the Position of the European Parliament as foreseen by the Treaty.

As you are aware, the task of coming up with a new voting system presented the Governing Council with a formidable challenge. I know that the final outcome of our discussion, the rotation of voting rights based on three groups, has met with certain criticisms not only from the media, but also from the members of this Committee. Therefore, allow me to highlight a few crucial features of the new voting system, which might help to clear up any misunderstandings about the functioning of the system and the motivation behind it.

First of all, I should like to stress that the 'enabling clause' contained in the Treaty of Nice had set us clear legal limits, in that any reform should be restricted to a change in the voting modalities only. More fundamental reform options were, therefore, outside the scope of our discussions. For example, suggestions by academics or media commentators to restrict the membership of the Governing Council, to delegate decision-making on monetary policy to the Executive Board or to some form of Monetary Policy Committee would call for more fundamental changes to the Treaty than foreseen by the 'enabling clause'.

The Governing Council sought to devise a system which maintains its capacity for timely, efficient and euro-area focused decision-making in a substantially enlarged euro area. Therefore, we recommend to cap the number of NCB governors with a voting right at 15, which is the number of governors under the 'Maastricht' framework if all current Member States were to have adopted the euro, with the six members of the Executive Board retaining a permanent voting right. At the same time, we introduced as a new element the principle of 'representativeness', linked to the desire that at any moment in time the NCB governors exercising the voting right represent a reasonable share of the euro area as a whole. This desire to ensure 'representativeness', by way of the differentiation among governors on the basis of the country ranking, should not be misunderstood as an attempt to re-introduce national elements into decision-making. On the contrary, the allocation of governors to groups is a purely auxiliary device, which is used exclusively to determine who votes when. For substantial decision-making – and that is what was crucial to us –

the tried-and-tested principles of the Eurosystem constitution have been kept fully intact: the principle of ad personam participation of governors remains valid and the 'one member, one vote' principle applies to all members exercising a voting right. All of this will ensure that, also in a future enlarged Governing Council, it is the force of argument that counts in our deliberations and not which country an NCB governor comes from and whether this is a large or a small country.

Finally, given that the sequencing of future euro area expansions is highly uncertain, the new voting system had to be sufficiently robust and able to accommodate up to 27 euro area Member States. To reach this total of 27, we took the 15 existing potential members of the euro area as a starting point and added the 12 countries explicitly mentioned in the Treaty of Nice. I am aware that only 10 countries may shortly become EU Member States, but we took into account the 12 mentioned in the Treaty so as to avoid having to change the rules every time a new Member State joins the euro area.

In view of all these complications I believe we have succeeded in devising a suitable new voting system which should muster the unanimous support of the Council – as you may recall, we as a Governing Council were, after Nice, also compelled to be unanimous amongst ourselves – and eventually be ratified by the Member States. I know that it is not as simple as we would have liked, and as I would have liked. It is, however, as simple or as complex as any other rotation system and fairly, if not strikingly similar to the system operating at the Federal Reserve, where the presidents of Federal Reserve Banks are also allocated to groups and exercise their voting right in the Federal Open Market Committee with different frequencies.

I hope that our exchange of views later on will help to clarify any other outstanding issues.

*(Applause)*

1-004

**Chairman. –** I would like to thank you for your statement, and to express the hope that we will deal with various specific points – including those you have not mentioned – in our monetary dialogue. In its first round, we will be discussing issues of monetary policy; in the second, issues related to the Statute; and in the third and final round, we will discuss various issues.

1-005

**Karas (PPE-DE).** – *(DE)* Mr Duisenberg, Madam Chairman, ladies and gentlemen, let me start with warm thanks to you for your comprehensive description of the ever more difficult framework conditions under which we have to operate. If I understand you correctly, we have the same homework to do as we did when we last met: salary agreements, structural reforms, meeting the Lisbon targets, developing the internal market. On the other hand, there is mounting uncertainty in the geopolitical sphere, and I feel that this has weighed increasingly upon you in your assessment and the conclusions you have come to. So let me ask you to give us a brief description of geopolitical developments. What do you see as being the potential booby-traps, and – with specific reference to the debate on Iraq – what conclusions do you draw as regards the present situation and the possibility of a war?

Secondly, you have mentioned the fact that, although you are taking stock and considering what strategy to adopt, you know even now that the outcome will be the same. I would very much welcome your putting before us such a review or balance sheet. I would furthermore welcome a statement on the extent to which you have considered a change of strategy and on why you have come to the conclusion that you should stick with the same one. The fact is that the prevalent mood in the media is one of uncertainty, with, at present, far more being read into your period of reflection than was apparent from what you said. What we need, though, is confidence and certainty, so I am grateful to you for speaking in such clear terms.

My final point is that, last week, the ECB concluded a consultation procedure with the banking industry on the Eurosystem's payment process. The Eurosystem now has to act quickly and decisively to give the European banking industry clear and unambiguous standards for money transfer, and so my question to you is whether the Eurosystem will create uniform standards right across Europe, and whether this will ensure that European standards for the transfer of money between euro systems and the banking industry will be accompanied by the measures that are needed to adapt money transfer for customers. Are you prepared to depart from your proposed retention of a three-year transitional period, in order to keep legal uncertainty in check and avert the danger of misdirected investments?

1-006

**Duisenberg,** *ECB*. – First of all, the uncertainties surrounding the geopolitical situation, especially the developments around Iraq, were already very much in our minds when we took our decision in December. At this stage I can only say that the uncertainties we took into account at the time have, in the meantime, materialised. The uncertainties have been confirmed and they persist. Although we considered them when we took monetary policy measures in December, these uncertainties prevail.

If your question is what so-called 'blueprint for action' has been devised in case the uncertainties become reality and war breaks out, the answer will be given ad-hoc because nobody knows – if the uncertainties become reality – the duration of any possible hostilities, and whether it will take three days, three months or even

longer for the situation to work itself out. The duration, intensity and effects – in particular on oil prices – whether temporary and short-lived or whether in the longer term, make it simply impossible for us to know and anticipate now what the precise reaction of the monetary authorities in relation to this situation will be. We cannot answer this question decisively and conclusively at this stage. It is simply impossible.

1-007

**Goebbels (PSE).** – *(FR)* Mr President, you spoke of an assumed recovery in the world economy, then you spoke to us about the various risks in the euro area and worldwide. You then spoke of geopolitical uncertainty, before concluding that you consider the ECB monetary policy to be appropriate.

To make things clear, do you believe the monetary policy will still be appropriate in the event of war?

1-008

**Duisenberg,** *ECB*. – On that I can be very brief. We will see and decide on that when it happens: only then will we be able to evaluate the consequences of that crisis situation. We will then have to assess how long the repercussions are likely to last and what, in the first place, will be the impact on the medium-term outlook for price stability. We can only decide this when the time comes.

1-009

**Goebbels (PSE).** – *(FR)* Mr President, I understand that you cannot anticipate the decisions of the United States and other governments, but everyone knows that, in the event of war, there will be short-term, medium-term and then long-term effects, as you said yourself.

In the short term, there will certainly be instability in the oil market and other markets. In the short and medium terms, this war will have to be funded. In the longer term, lastly, subsequent reconstruction will need to be funded. All that means public expenditure for the governments involved, and also for any European governments that might be involved. Would the Stability and Growth Pact not be one of the first victims of a war, should it take place?

1-010

**Duisenberg,** *ECB*. – I would hope not. First of all, there may be an impact on oil prices, but if that is the case, as you indicated, it should be determined whether that impact will have long-term consequences for oil prices, which will work their way through into the general price level, or whether it will be quickly reversed and have only short-term consequences, in which case there would be no monetary policy impact to be expected at all.

Will it have consequences for government expenditure? This is very likely, but I would warn against one thing: at this stage, do not prematurely disregard the rules of the Stability and Growth Pact when anticipating the consequences of a potential war. In that event, there will also have to be a reordering of priorities of national governments with regard to the composition of their public expenditure. I would not like to speak before that fact by anticipating what the governments will have to do. At this stage, it is far too early to use the threat and uncertainty of a war – the length, severity and repercussions which nobody knows – to put the rationale of the rules of the game, as implied in the Stability and Growth Pact, under discussion.

1-011

**Goebbels (PSE).** – *(FR)* Mr President, I understand your caution and, like you, I hope that there will not be a war. Nevertheless, do you feel that the European Central Bank is prepared for all eventualities?

1-012

**Duisenberg,** *ECB*. – The short answer to your question is yes.

1-013

**Gasòliba i Böhm (ELDR).** – *(ES)* Madam President, Mr President of the European Central Bank, I am responsible for producing a report on the international dimension of the euro on the basis of a report by the European Commission on an assessment of the first three years of the euro in an international context.

Having heard your speech and in view of the current situation, I would like to make a few comments and hear your opinion. Having read the said report by the European Commission and also the report by the European Central Bank on the international dimension of the euro, the European Commission appears to lean towards a more active position in relation to the direction of economic and monetary policy and the presence of the euro at international level. The European Central Bank's position in its reports advocates an absolutely neutral position; in other words, it believes that we must not in any event take specific or very active measures, but that the euro must earn its place on the international stage, but without – shall we say – an active policy on the part of the European institutions, including the European Central Bank.

However, tomorrow and the day after, we are going to debate two reports, one by Mr Trentin and the other by Mr García Margallo on the broad guidelines for economic policy, and one of the issues they deal with is whether we need to introduce any change into the orientation of European economic policy, in order to further strengthen internal demand due, precisely, to the current international situation and the consideration that there is an excessive dependency on exports.

This leads to a question, which today is a burning question in our discussion, which is the value of the euro against the dollar. Therefore, everything comes within what we might call the normal relations of an economy in order to be competitive in an international context.

So I would like to know your opinion − in the current situation, given the change in relationship between our levels of competence and those of the United States and the dependency of the European economy on exports – on whether the time has not come to promote a more active policy in the monetary field which would give the euro a higher profile and more representation in the financial markets and in the international financial institutions.

1-014

**Duisenberg,** *ECB*. – The main policy of the ECB, as far as the so-called international use of the euro is concerned, is and remains neither to encourage nor discourage an increased use of the euro over time. This will occur anyway.

As far as the exchange rate is concerned, the question is whether we should be more active in our policy to act on exchange rate movements. I would like to emphasise that the recent appreciation of the euro vis-à-vis the other major currencies, in particular the United States dollar, has brought the euro to a level which is still below the average level of 1997-1998. This was a period when the euro was very stable. The artificial euro was very stable vis-à-vis the dollar until September 1998 before the introduction of the euro on 1 January 1999. We then had three months of gradual appreciation of the euro, which even lasted for a couple of weeks following its introduction. It then started to fall back to levels, which were far below the average of 1997-1998.

In accordance with the fundamentals, in our judgment, the current position of the euro more adequately reflects the fundamental relationship between the two major currency areas. But I still emphasise it is lower than that prevailing in 1997-1998. For that reason, the competitive position of the euro area has not, and is not, being threatened by the recent appreciation of the euro.

There is another phenomenon which we must consider. At the moment, the euro area has returned to a position of surplus in the current account – not very much, about EUR 30-40 billion per year – but it is nonetheless a surplus. The United States has a deficit of between 400-500 billion dollars, which, in the long term, is unsustainable. Every American agrees with that assessment.

At some point, this will have to be adjusted. We can only hope that the adjustment will be gradual and prudent and that sudden adjustments will be avoided. It is implied in your question that, in concluding our monetary policy, we should react to the signals that are given by the exchange rate. However, by doing so, we would gear our monetary policy in a direction which runs counter to the gradual adjustment which will hopefully take place. For that reason, we must be very careful and prudent on this.

1-015

**Herzog (GUE/NGL).** – *(FR)* Mr President, allow me to reformulate Mr Goebbels' last question. Your answer was that the Central Bank would be ready for any eventuality. My question is: what preparations are you making?

I can see three sides to this preparation. First of all, are you aware that the United States no longer has much of a margin and will not be able to support the world economy? On the contrary, they represent more of a risk, war or no war. The European Union will therefore have to do something. Secondly, are you assessing the cost of the conflict? Substantial cost-assessment work on this matter is already underway in the US Congress, in the Committee on Budgets, with various scenarios, which is what Mr Goebbels was getting at earlier. My question is specific: are you also carrying out internal cost assessments? Thirdly, do not you believe that, from the point of view of democracy and the enlightenment of our citizens, it would be important to begin the public debate on the possible economic implications of a war and its aftermath?

*(The President adds: 'and its preparations too')*

1-016

**Duisenberg,** *ECB*. – As far as the last question on the economic consequences of war is concerned, I am well prepared, since 30 years ago I wrote my doctoral thesis on the economic consequences of disarmament. Here we can reverse the conclusions which I reached some 30 years ago.

In the interests of democracy, I would not like to publicly speculate on the potential consequences of different scenarios which might develop over time. Have you looked at the cost of war, like the US seems to have done? I would like to point out once again that the ECB is the monetary authority and not the fiscal authority. Neither we, nor the fiscal authorities, know at this stage what the costs of the various scenarios are likely to be.

I should like to say one thing in relation to the US: we are witnessing a dramatic deterioration in its fiscal deficit over time. Having said that, however, I would like to point out that in the US Congress budget proposals, the potential costs of war- if it were to break out – and the preparations for it, which are already developing, are explicitly excluded. They are, at the moment, still outside the budget altogether.

1-017

**Lipietz (Verts/ALE).** – *(FR)* Mr President, allow me to

imagine that we succeed in preventing the war. We still need to manage the bursting of the speculative e-Economy bubble of the end of the 1990s. We can certainly criticise your counterpart, Mr Greenspan, for having perhaps allowed this bubble to develop for 18 months or two years too long, but at least he is taking fairly drastic measures even before the rise of the threat of war so that monetary policy does not slow down economic activity in the United States, despite the bursting of the bubble.

I am nevertheless surprised that, in your speech, you pointed several times to the extramonetary factors that have affected inflation – you mentioned oil and the lack of flexibility of the actual economy – but at no time did you refer to the possibility of a feedback effect from your monetary policy on the actual economy, as if monetary policy had no such effect. However, whatever our criticisms of Mr Greenspan, the policy of low interest rates in the 1990s certainly enabled the United States to achieve an investment rate three times greater than that in the euro area over ten years. Do you believe that this US investment rate, which was three times higher than ours, is unrelated to the fact that productivity increased more rapidly in the United States, much more rapidly, that the rate of potential growth consequently increased much more rapidly and therefore that inflation was more easily curbed there?

1-018

**Duisenberg,** *ECB*. – Whatever you may say against Mr Greenspan, you will never hear me say anything against him.

Investment rates in the United States have been significantly higher than in Europe, even during the 1990s, when interest rates in the United States were considerably higher than in Europe. During most of the 1990s, productivity increases were greater in the United States than in most European countries, apart from Ireland and the Netherlands. That has nothing to do with monetary policy; it has everything to do with the structural rigidities that persist in various European countries. As long as we do not have the same flexibility in the labour, goods or services markets as the United States has, we will not be able to reach the same degree of productivity increases as the United States.

What are the effects, if any, of monetary policy? The long-term effects – and that is what we look at – of monetary policy have to do with inflation only and not with the long-term rate of growth of the real economy. That is not something that, in our conviction, monetary policy can basically affect.

1-019

**Lipietz (Verts/ALE).** – *(FR)* Mr President, you have just said something incredible. You believe that it is the high cost of labour that leads companies to turn down work rather than invest. That is completely unorthodox.

1-020

**Duisenberg,** *ECB*. – I said no such thing. I only said that the rigidities in the labour markets, goods markets and services markets prevent us from attaining a degree of productivity increase which is characteristic for the United States. The flexibility in all these markets in the US is much higher than it is in Europe. That is all I said and that is what I believe to be true.

1-021

**Della Vedova (NI).** – *(IT)* Madam President, Mr Duisenberg, I would like to start by picking up on what Mr Herzog said about the United States being a danger to the world economy. I, on the other hand, am afraid that the United States is still the world economy's only chance, so much so that the European countries are waiting for recovery of the US economy before they can hope for recovery of the European economy, and are not doing enough to give the European economy some dynamism of its own irrespective of what is happening in the US economy, which is a more flexible economy in terms of both wages and the labour market.

Mr President, last week, before Congress, your colleague, Mr Greenspan, expressed concern regarding the Bush Administration's fiscal stimulus package and, in particular, concern – or rather criticism – at the risk of a return to structural deficit in the United States too. You have already touched on this point in your response to Mr Goebbels. In Europe, we are already playing safe and proposing that the Stability Pact should be suspended in the event of war or crisis. I would like you to give us your opinion on this – the future as well as the current situation – too.

One brief question on the subject of the flexibility that is necessary for the European economic system. I believe that the liberalisation of world trade and the reduction or removal of import barriers, including those affecting agricultural products, all contribute to this flexibility. That being the case, can we tell the governments who want to cut taxes, for example, that a more effective way of controlling inflation would be to reform the common agricultural policy and the trade policies? And, in doing so, maybe ultimately provide more room for manoeuvre in terms of interest rates, always assuming that interest rates in Europe really are a barrier to investment?

1-022

**Duisenberg,** *ECB*. – I have already given my opinion on what I thought about changes in the Stability and Growth Pact. In the light of the current highly uncertain situation I would plead for the rules to remain the same. Let the rules do their work appropriately, just as they do at the moment. With regard to how I react to proposals to suspend the Stability and Growth Pact, I would strongly argue that if I knew of any such proposals I would come

out emphatically against them.

On your questions regarding increased flexibility, suffice it to say that I fully agree with you: it should be applied in the areas of further liberalisation of world trade. This, however, is moving outside my remit. I think a reform of the common agricultural policy is called for as it would enhance flexibility in the euro area economy. That is the borderline of my remit as President of the ECB.

*(Applause)*

1-023

**Blokland (EDD).** – *(NL)* I particularly wanted to ask Mr Duisenberg a question about the prognoses for economic growth. The situation at the moment is of course dreadfully uncertain. There are a number of developments, both in Europe and the rest of the world, and the question arises as to whether the six-monthly prognoses are in fact frequent enough. Particularly because the prospects have rapidly deteriorated, I wonder if it might not be important for the European Central Bank to come up with new figures for economic growth rather sooner than in about June 2003. I appreciate that, with the present uncertainty, this would be extremely difficult, but the figures we now have to work with are probably out of date.

1-024

**Duisenberg,** *ECB*. – We come out with prognoses twice a year. We continually reassess our past prognoses and use them for internal purposes. We will not confuse the world by presenting a new prognosis every two or three months. Since our last economic growth prognosis in December, I consider it likely that next time we will have to revise that prognosis, bringing it slightly downwards. As I said in my introduction, we also still believe, after an intermediary assessment of the outlook, that it is likely that the resumption of economic growth will develop in the second half of this year and that we will – and I no longer put a date on it – reach within a reasonable time the potential rate of growth of output of the euro area, estimated as between 2 and 2.5% per year.

1-025

**Villiers (PPE-DE).** – We have seen unemployment rise significantly both in France and in Germany since the physical launch of the euro. There are over 4 million unemployed in Germany. There is an economic slow-down in Germany which is serious enough to cause the chairman of a retail federation there to say recently of their members that 'these shops are in a coma and it really cannot get any worse'. The Portuguese Finance Minister said of his economy 'Our economy is like a drowning man'.

We really are seeing some serious economic problems in the eurozone. Why has the euro not yet generated the prosperity that its founders hoped that it would? More importantly, why has it not generated the structural reform which you say is so important and which many of the founders of the euro project indicated that it would generate? Those who created the euro hoped that the euro itself would be a force for the structural reform which, from what you said this morning, does not yet seem to have happened.

1-026

**Duisenberg,** *ECB*. – I believe the euro is doing its work in that respect, but it takes time. Structural reforms were necessary anyway, euro or no euro. If anything, the euro helps to bring those structural reforms forward by making the performance of the various countries you indicated more transparent and more comparable to each other. It enables governments to exert peer pressure on each other, and enables the Commission to exert a lot of pressure on governments to come up with measures such as those envisaged in, for example, the Lisbon Summit, which formulated the ambitious goal of making the European economy the most dynamic in the world within ten years. This goal can only be achieved if reforms are tackled in a decisive manner. So far very little seems to have happened in this regard.

Perhaps I am exaggerating a little, but I am used to the euro being the scapegoat for everything that goes wrong. In this case, as in others, I would strongly object to that. As I said, you cannot blame the euro for the absence of structural changes.

1-027

**Villiers (PPE-DE).** – I should like to ask what, in your view, is the most significant piece of structural reform which has been adopted in the eurozone since the launch of the euro?

1-028

**Duisenberg,** *ECB*. – It differs very much from country to country. In some countries we have seen significant changes in the labour market, for example. In others we have seen significant changes in the social security system, but it differs from country to country and thus I cannot answer from a eurozone-wide angle a question on the single most important structural change to have taken place.

1-029

**Katiforis (PSE).** – As we now have a Convention which can propose to change the Statute of the Central Bank, would it be a good idea to propose changing the Statute, to make the Bank's mission similar to that of the Federal Reserve Bank? That is to say to give equal weight to monetary policy, stability, growth and employment. I ask this question not because I want to know the answer myself – I know the answer because I asked you the question in a different forum – but because this committee would like to hear your answer. Furthermore,

how would that change affect your monetary policy?

1-030

**Duisenberg,** *ECB*. – I hope I will give the same answer I gave you before when I was invited to a hearing of the relevant committee of the Convention of which you are a member.

The answer is no. The primary goal of the mandate the ECB received is price stability over the medium term. Without prejudice to achieving price stability, the ECB also contributes to attaining the goals of the European Union as laid down in Article 2 of the Treaty: full employment, maximum economic growth and even equitable income distribution. How the ECB could contribute to that escapes me, but there it is. You always have to bear in mind what monetary policy can and cannot achieve. The only thing that monetary policy can achieve credibly is price stability over the medium term. Monetary policy as such can choke economic growth if inflationary trends are high. Monetary policy could choke economic growth in an overheated economy. It cannot, on the contrary, induce economic growth when that growth is perceived to be too low. If I may give one anecdote. Last week I represented Europe at a meeting with all the governors of the Asian central banks. A member of the Federal Reserve System was there representing the United States. We were asked to explain the differences between us in terms of monetary policy and our aims. My colleague from the Federal Reserve replied that the only difference is rhetoric and nothing else.

1-031

**Katiforis (PSE).** – Yes, I am sure he said that if you say so. However, how do you explain the fact that the Federal Reserve has shown much greater readiness to cut interest rates than the European Central Bank?

1-032

**Duisenberg,** *ECB*. – I am here only to explain what the ECB is doing and not to justify or explain what the Federal Reserve is doing, and I will refrain from trying to do so.

1-033

**Riis-Jørgensen (ELDR).** – *(DA)* Madam President, Mr Duisenberg, in your speech and in your answer to Mrs Villiers, we have now heard about the structural reforms you are looking for. I would ask you to clarify what you understand to mean by structural reforms and specifically to say where you stand on the following three issues. Firstly, are tax reductions to be implemented, and can these go unfunded; secondly, what can be done to get people with limited training into active employment; and thirdly, is there to be a general liberalisation of the labour markets in the EU countries?

So much for the structural reforms. In connection, now, with the need for growth in employment, what view would you take of a proposed political declaration of intent – and, I emphasise, a *political* declaration of intent – on an end to tax rises at EU level, that is to say a declaration of intent by the Member States to the effect that the tax burden must not increase further, since such an increase would affect employment?.

1-034

**Duisenberg,** *ECB*. – Again I cannot answer these general questions without looking at individual countries. The measures needed are different in every Member State. For a general liberalisation of labour markets, you should also look at how the labour market functions in individual Member States.

As regards your last question about a statement on not increasing the tax burden: in general any tax cuts which may be necessary in any single country – I am always reminding myself that this is a national competence – must be accompanied by at least equal reductions in structural expenditure. Only then are they affordable. Furthermore, if the aim is also, in view of the problem of the ageing of the population, to reduce outstanding public debt and thereby to create room in budgets to meet health care and pension costs in any of the participating member countries, one could call for expenditure restraint in excess of the anticipated tax cuts. That answers all the questions.

1-035

**García-Margallo y Marfil (PPE-DE).** – *(ES)* Madam President, Mr Duisenberg, at this time in the evening I believe our questions can be relatively specific.

We all agree that the current situation is new when compared to the situation when the euro was introduced and that we are in a situation of slow-down within a context of price stability. It therefore seems that we should complement the structural reforms (and I would like to see a complete list of these rigidities, because to speak of rigidities has become fashionable, but we have not specified what these rigidities hindering our growth are), that we should therefore complement these reforms of supply policy with demand policies.

And that is the situation we are in so far: that, as you said to Mr Gasòliba i Böhm, we do not have to do anything in relation to exchange policy. In other words, we must leave the exchange rate as it is, regardless of what happens with the current account deficit of the United States, the public deficit of the United States, etc.

In response to Mr Lipietz, it seems that we do not have to do anything in relation to monetary policy either; that we have interest rates which are at an historic low and which may therefore have an influence on the economic situation and speed up growth.

And there have been some general questions in relation to budgetary policy − Mr Goebbels has raised some – and I would like to ask some very specific questions. Firstly, we are in a situation in which it is very possible that, in strict application of the pact − and here I disagree with Mr Della Vedova – the 3% may be exceeded, since there is no circumstance more exceptional than war; but we may find ourselves facing a problem of budgetary deficit, of non-compliance with the pact. But furthermore the desire is to reform the pact in three respects: firstly, structural and not nominal deficit; secondly, taking more account of debt rather than deficit when assessing the situation of countries and, thirdly, the quality of expenditure, that is, investment expenditure, proposing the 'golden rule'. What is your opinion of these proposals made by the Commission and what effect would the Central Bank's strategy have if this 'intelligent and flexible interpretation' of the pact is accepted?

1-036

**Duisenberg,** *ECB*. – First of all, those are not the proposals from the Commission. The Commission is trying to adjust slightly the Stability and Growth Pact, but certainly not yet in the direction of the golden rule. That is fortunate, not because I am against the golden rule, but because I am strongly convinced of the opinion; and that is all I am going to say about it, that we have only just started to play according to the rules of the game of the Stability and Growth Pact. My political inclination is, although the ECB as such has nothing to do with it, that the rules should not be changed when the play has only just started; instead we should try to abide by them. You could begin evaluating the rules after you have gained some experience, for example as much experience as we have gained with monetary policy over five years. It is too early to do that. When a player is offside, the referee stops the play, but the rules are not changed at that point. I would advise the ministers of finance to follow the same principle.

1-037

**Randzio-Plath (PSE).** – *(DE)* Mr Duisenberg, I would very much like to know whether, when the European Central Bank was evaluating its monetary policy strategies, the question was asked as to whether it was right to choose such a rigid definition of price stability, and whether there is enough freedom in drawing up these evaluations for such a question not to be taboo. The fact is that – as has already been said – no other central bank imposes such a rigid definition. This makes me very keen to put to you the related question as to whether you think it right that the European Central Bank's functions should include the laying down of the definition of price stability, or whether it might be better to leave such a definition to others, as is certainly the case in other countries

1-038

**Duisenberg,** *ECB*. – That question is not taboo. When we evaluate our monetary policy strategy, I cannot exclude the possibility that our strategy, including the definition of price stability as being a rate of increase in prices of below 2%, will still be regarded as adequate and justified. I do not see it as very rigid. After all, as my colleague, Mr Issing, has sometimes said in public, this basically implies that, in practice, we are more inclined to act when inflation falls below 1% and we are also inclined to act when inflation threatens to exceed 2% in the medium term. Short-term movements in the actual inflation rates have no impact on our policy considerations and decisions.

I am, of course, very happy with the fact that the Treaty gave us the mandate to try to maintain price stability, but that the definition of what price stability is was left to the ECB itself. I hope that future versions of the Treaty will maintain that.

1-039

**Randzio-Plath (PSE).** – *(DE)* Mr Duisenberg, I would therefore like to ask, as a supplementary question, whether the composition of the ECB's Governing Board, and especially of its Executive Board, plays a crucial part in determining what this definition will be. On a related matter, I would very much like to know what interpretation is to be put on your statement, in a letter to the Spanish President of the Council, that you, should it prove necessary and in the event of a request by the Heads of State and of Government, would remain available for a longer period even after 9 July.

1-040

**Duisenberg,** *ECB*. – I wrote last year to the then President-in-office of the Council, Prime Minister Aznar, requesting that I be relieved of office on 9 July 2003 or at a later date if the heads of state and government thought that would be in the interests of a smooth transition of the presidency. That still stands and I have nothing to add to it.

1-041

**Randzio-Plath (PSE).** – *(DE)* Does that mean, Mr Duisenberg, that you are unwilling to exclude the possibility of another full eight-year term?

1-042

**Duisenberg,** *ECB*. – I exclude nothing but there are some things which I regard as unlikely.

1-043

**Tannock (PPE-DE).** – Madam President, euro notes and coins have now been in circulation for over a year. Personally, I find the one cent piece a nuisance and I have never seen a 500 euro note, which, I maintain, is probably only being used by the criminal classes or tax evaders. Are there plans to withdraw these two extremes

for the reasons outlined above?

Secondly, Japan has been characterised by pernicious chronic deflation since 1995 and there is currently a controversy on the appointment by its prime minister of the new central bank governor, between structural reformists and the reflationist school with inflation targeting. Is Japan unique in the world? Or is there a real danger of something similar happening in euroland if the ECB allows deflation to take hold with real rates of interest remaining positive for the foreseeable future?

1-044

**Duisenberg,** *ECB*. – Taking your last question first, I will not comment on Japan. If deflation threatened to take hold in the euro area, the ECB would certainly do everything in its power to prevent that situation from developing as we detest inflation as much as we detest deflation.

On the composition of the coins and the bouquet of banknotes, I share your personal feelings about the one cent coin. The ECB, however, has nothing to do with issuing coins, nor with the various denominations in which they are issued.

Regarding the 500 euro banknotes, where we do have some competence, I would remind you that six out of the 12 countries used to have banknotes with a value of over 200 euro and indeed some had banknotes of a value of more than 500 euro. Those countries are entirely used to large banknotes, although it is probably true that the 500 euro note is being used as a means of hoarding and also in certain illegal situations. This is unavoidable. When we had to make the choice in the Netherlands of either replacing the 1000 Guilder note – worth about 500 euro – or withdrawing and not replacing it, I must confess I personally asked the judicial and police authorities whether there would be any point in withdrawing that note altogether. Their response was that I should do what I wanted as it would have no impact whatsoever on criminal activities. If criminal networks or drug traders do not have the money they will find other means of transferring value from one place to another, or of keeping money in one place.

1-045

**Berès (PSE).** – *(FR)* Mr President, that is exactly what I wanted to ask you about. A debate is underway over whether or not it would be useful to create a one euro note. I personally am unsure about the 500 euro note. I have just heard your response to Mr Tannock, and the response given to you by the police at the time does not convince me. I believe that if we genuinely want to use every possible means to combat illegal money, we should in particular, without any doubt, withdraw these 500 euro notes, which have no legitimate purpose. If there is a need for these notes, it is indeed to supply the parallel money systems which we have to combat.

I would also like to ask you, with regard to the Convention, for your opinion on the form taken by your democratic accountability to Parliament. We frequently make comparisons with the discharge of the Federal Reserve's accountability to the US Congress, and the main difference we can see is that although there is a dialogue between Mr Greenspan and Congress, Congress is able to change Mr Greenspan's statutes, which lends the dialogue a certain weight that is not present in our system. What basic proposals would you make to improve the discharge of your democratic accountability within the context of the European institutions, or do you consider that everything is fine and that, in particular, the Convention does not need to do anything?

1-046

**Duisenberg,** *ECB*. – I have nothing to add on the 500 euro note. It does no harm and I hope it does some good. We have received a letter from the Italian minister of finance asking us to consider the introduction of the one euro note. It is a fact that in Italy, Greece and Austria people were used to a note in circulation with a value roughly equivalent to one euro. We as a central bank are neutral on this. The supply of money in the form of banknotes is basically demand-driven. We are studying this issue at the moment and within a couple of months we should have an answer.

In the context of that study, we also made some Europe-wide enquiries. We asked the public at large in the EU whether it would welcome the introduction of a one euro banknote. The retail vending machine industry is against this. Answers from the public at large were also quite surprising. In Italy and Greece between 50 and 70% of the population would welcome one and two euro banknotes. In Austria the figure was somewhat lower. In France, Germany and the Netherlands the 'no' vote was close to 90%.

Provisionally speaking, the public at large in Europe sees no need for such a note. We are studying this and will respond to Mr Tremonti's request in a few months' time. It is now the turn of the banknote experts to prepare an answer for us.

On the Convention, it is true that legally or constitutionally speaking, the American Congress could change the statute of the Federal Reserve. Politically speaking, I believe this is not likely to happen. It is true that the European Parliament can do no such thing. Of course, the combined national parliaments could do this by changing the Treaty.

Certain similarities, however, do exist. The frequency with which Mr Greenspan appears before both the Senate and the House of Representatives is equal to the frequency with which I appear in this House. Another similarity is that as my colleague, Mr Greenspan, gives his statements, Congress can react but Mr Greenspan

does not have to comply with its reaction. The same is true here. Politically speaking, I do not think there is that much difference in the degree of the ECB's accountability vis-à-vis the Parliaments of the countries or the areas involved.

1-047

**Randzio-Plath (PSE). –** Although one ought really to add that we would very much like to have a confirmation process like that which takes place in the American Senate, as well as the transparency with which the Federal Open Market Committee's decisions are reached.

1-048

**Langen (PPE-DE).** – *(DE)* Mr Duisenberg, tomorrow we will be discussing Mr Friedrich's working paper. I would like to put forward a number of its arguments. Many of the Members here are convinced that the draft submitted by the ECB's Governing Board has substantial defects, which I want to summarise briefly. Firstly, the Board is relatively large, being, with twenty-one members, much larger than comparable bodies. Secondly, the weighting introduced by the rotation model does not take account of the Member States' economic significance. If the five largest members can vote in 80% of cases, and the third group of small members only in 38% of them, very strange things can happen. Moreover, you have said that this is in many respects similar to the way the Americans do things. The rules in the USA are, unless I am wrong, precisely the opposite. There, the twelve governors elect five representatives, whereas, contrariwise, the Executive Board has seven members, so that it can never be outvoted. In the example you have adduced, there is neither a 'one country, one vote' rule, nor can the Executive Board exert any decisive influence; in fact, you defined the conditions yourself. The proposal must be a unanimous one.

Our thinking is along quite different lines, and we are asking you simply to take up a position on it. There are, in principle, two possibilities. The first would be that the governors of the Central Bank would elect a specified number from among themselves and that decisions on monetary policy would be transferred to an extra committee. The way this would work might involve the six members of the Executive Board sitting opposite nine persons chosen from among the governors of the central banks, which would be represented under a uniform system of constant rotation similar to the presidency of the Council of the European Union, in which there is no distinction drawn between large and small and in which, instead, agreement is reached on the order of rotating succession. In that way, there would always be six members of the Executive Board and nine representatives of the presidents of the central banks. This committee of all the central bank presidents and the members of the Executive Board would be responsible for day-to-day decision-making, with long-term decisions being a matter for the whole Board, all the members of which – the central banks being shareholders in the ECB – would be able to have their opinions heard. Being manageable, competent to act, and stringent, the Board of the future would, moreover, be able to work much better than if your rotation system, with its planned, twenty-one members, were to be followed.

The alternative to this could not be done at once and would require amendment of the Treaty; it would involve consideration being given to increasing the number of Executive Board members to nine, thus altering the balance, and this is what Mr Friedrich has proposed in his working paper. It seems to us necessary for a distinction to be drawn between general decisions and the decisions on monetary policy that are taken from day to day, for every Member State to have a vote, and for the rotation system to be a fair one. The way the rotation system is at present set up will lead to dissatisfaction, and I ask you to make your position known and to state whether you think there is still a chance of a recommendation by Parliament on this subject being incorporated into your discussions.

1-049

**Duisenberg,** *ECB*. – Ultimately, of course, it is not our decision but rather the decision of the heads of state and government to be reached by unanimity. I would like to repeat that we as the Governing Council were severely limited in our mandate. It was only on changing Article 10.2 of the Statute which relates to voting procedures under normal circumstances that we were asked to make a proposal. We were asked to make this proposal unanimously and not by weighted or normal majority. I can assure you that it was not easy to reach unanimity.

The number 21 is already implicit in the Treaty with the membership of 15 countries of the European Union. If all the Member States of the European Union had been members of the euro area as well, there would be 15 plus the six members of the Executive Board, which makes 21. It would, in my view at least, be strange if, by extending the European Union and its membership by at least ten countries, the number of members voting were in consequence to be restricted to fewer than the number of members already existing today. To make the European Union or the euro area bigger and then to make the decision-making body smaller would be a rather strange thing to do.

As to the term 'country representatives', I wish to repeat that we took great care to preserve the principles of membership of the decision-making body in a personal capacity and not as a representative of a country or of a national central bank – thus, membership in the decision-making capacity *ad personam,* as I have termed it – and to ensure that a rotation system only applies to the frequency of voting by all members of the Governing Council. By the way, it is not just 23% of the frequency for the third group, it is 38%. That is already slightly

more than the 23% you mentioned.

We as the Governing Council are relatively indifferent to the way in which one chooses to change the voting mechanism. What is important to us is that any member of the European Union or of the euro area, however large the number, should be entitled, and have a right, to participate in all the discussions on all areas which we deal with. Only when it comes to voting may the frequency differ from one group to the other. No country has a 100% voting right and no country is excluded for a long time from participation in the vote. But when someone votes, he or she does so in a personal capacity without having a mandate from the country of origin.

Bear in mind the limits of the mandate conferred on us by the Treaty of Nice. That is to say that the Governing Council only concerns itself with the voting frequency of the membership. If one wished to go beyond that, say by giving the voting rights exclusively to the Executive Board or to a special committee of nine people, or an Executive Board extended to encompass nine people, then that would go beyond the limits of the enabling clause as such. That would require a change in the Treaty, meaning, if Parliament did that, you would basically be saying 'we do not want this rotating system at this stage but please, heads of state and government, come back to this in the context of the intergovernmental conference and consider a change in the Treaty'. That would be the honest answer and it would for the time being leave things as they are.

1-050

**Randzio-Plath (PSE).** – *(DE)* Would you not prefer that, Mr Duisenberg? I know I would. I would put forward an alternative proposal, that not only should the number of Executive Board members be increased, but that, as the ECB's Governing Council is so large, that is where the debates on the resolutions should be held, with the decisions on the actual interest rates being taken, however, by the Executive Board, thus making the decisions truly European. That is the first issue I want to raise. The second is connected with the first and leads up to it. A study of the way the governors in the Federal Reserve System work has shown very clearly that they often reach their interest rate decisions for reasons that have everything to do with regional interests. That gives me even more justification for saying that it would actually be opportune to make decisions European in the sense that I have just set out. Mr Duisenberg, do we have to conclude from what you too have said, that in future votes will be taken in the central bank board, that is to say, in the Governing Board of the ECB? You have always told us that the voting can never be made public, because the Board does not take votes.

1-051

**Duisenberg,** *ECB*. – I think our proposal is in essence not very relevant here. I am here to illustrate or explain the model that the Governing Council, after two years of debate, reached unanimity on, and on which, I can assure you, everybody including myself had to give their own opinion. It would not be relevant if I were to do that once again here today. Now this is, of course, a highly politically sensitive issue and I wish, quite honestly, that the question had never been asked of us. Basically, it is the responsibility of the political authorities.

We as Governing Council were asked to submit a proposal which, to my mind, should have been resolved by the political authorities who were the fathers of the Treaty. But that was not the reality, so we came forward with a proposal to satisfy all 18 members of the Governing Council. We finally succeeded in coming up with something which, although it would not win the first prize in a beauty contest, is a satisfactory way out of a dilemma which we should not have had to face in the first place.

I am not familiar with the study on the Federal Reserve governors, but I would not comment on it anyway.

I would ask you please to repeat your last question, Madam Chairman.

1-052

**Randzio-Plath (PSE).** – I asked whether you will now change voting behaviours, because you always said that as you did not often vote in the Governing Council, you could not publish details of voting.

1-053

**Duisenberg,** *ECB*. – Long after my time that certainly will take place, Madam Chairman, however much you may regret it. At every Governing Council meeting we take between 10 and 20 decisions, amongst which there is seldom a monetary policy decision. There are so many areas in which we have to take decisions, including legal matters and consultations with various Parliaments on changes in laws relating to the financial system – not only the Central Bank law, but also many other laws with supervisory or financial structure revisions being undertaken here or there. All these come under the voting mechanism of the Governing Council.

This is just a guess, but I think that in an enlarged euro community, moving from 18 to 31 Governing Council members, voting might become more frequent than it is nowadays. To some extent, but not totally, the consensus decision-making that has prevailed to date might give way to increased voting.

I now come to the payments system which we have already discussed. I have some understanding of the fact that the large countries which are responsible for by far the largest proportion of all payments going through the payments systems have some fear that they might be easily outvoted in an enlarged Governing Council by a

conglomerate of small or even extremely small countries. In this case the smallest possibly majority would represent not more than 5% of the entire population, or GDP, or a complex indicator of the euro area as a whole. I also have some understanding for the fact that where I talked about payments systems, for example, of all the payments, of all the trillions of euro that go through the payments system every day, 40% goes through the German system and 20% goes through the Italian system. Here we are already at 60%, which is close to two-thirds of all payments, in value terms, that go through these payments systems. France adds another 10%, which brings us to 70%. I understand that these countries could justifiably fear being outvoted in terms of the nature and structure of the payments system they want to adopt by a majority representing only a small fraction of all the payments that go through the system.

1-054

**Schmidt, Olle (ELDR).** – *(SV)* Madam President, Mr Duisenberg, I think we all appreciate the difficulties in obtaining a decision-making system that works, because there are, to some extent, conflicting interests. It might nonetheless be wondered whether you might not have arrived at a better proposal, even though you now say that that was not possible. It could no doubt conceivably be pointed out that it is not a beauty competition we are to be involved in. Rather, it is monetary policy that is to be developed. If, Mr Duisenberg, you believed that you could not fulfil the criteria either for a beauty competition or monetary policy, you could perhaps have said that it was impossible to devise a voting system that fulfilled all the criteria that you yourself initially cited. People could also point out that there was no way in which such a system could have been created, that the basic conditions you set out for us were unfeasible and that the bases need to be changed.

I want to quote one of the academics we met last week, who said that 'The proposal of the ECB seems to combine the worst aspects of all approaches one might consider'. He also sets out nine different arguments as to why it is so bad. Because these issues are so central, I believe that these arguments should be countered in intellectual discussion.

My question, which has to do with the president's views on transparency, is that, if we are now to introduce this new system, must you not, Mr Duisenberg, consider offsetting the complicated nature of this system, which you yourself describe as being 'very complicated' and 'not easy to explain', by making the system extremely transparent? In a democracy, matters can be made transparent, ensuring that more people are able to scrutinise complicated systems. Otherwise, there is a double negative effect: a system which, as well as being complicated and understood either by extremely few people or by no one at all, also goes unscrutinised by anyone.

Mr Duisenberg, allow me to conclude by saying that, when I sat in parliament in Stockholm, I learned from your colleague at that time that the decisions of a central bank must always be predictable. When you make your decisions, both the market and all of us must know *exactly* which decisions you will be making on a specific day. The question I would put to you is, do you think that the system you are proposing fulfils these requirements?

1-055

**Duisenberg,** *ECB*. – I think so, because once the system is adopted, we will be able to say for the following five years exactly who will have voting rights and when they will have them. We can publish and predict it, we can make it as transparent as you like. Why do I say five years? It is because every five years Eurostat will revise the ECB capital key and the GDP figures, which might change marginally . According to the Treaty, these contributions and the composite indicator will be changed every five years. Once that has been done, we can again be transparent and announce who will have voting rights at any specific point in time during the following five years.

1-056

**Schmidt, Olle (ELDR).** – You cannot predict how he or she is going to vote. You can predict when but not how.

1-057

**Duisenberg,** *ECB*. – I do not think so. To publish information on how people vote, which is what you are basically asking for, might even add to the confusion in the markets. It is the old argument – as soon as you publish the vote of individual members in a complex organisation like the ECB, with members from 27 countries, you run a real danger they will no longer act in a personal capacity but will pay heed to, or bow to pressure from, the country they come from. That is the fundamental reason why I continue to be against it.

1-058

**Herzog (GUE/NGL).** – *(FR)* Mr Duisenberg, you are basically pushing us into taking a political position. You have shown that we are right to make the efforts we are going to make to express ourselves, because you only seem to defend the Central Bank's proposal extremely guardedly. It is partly on the principles of this political position that I am asking your opinion. Do you think that we should take advantage of the Convention and the reform of the Treaties? Should this issue be incorporated into the reform? Are you in favour of reinforcing the role of the Executive Board to ensure that decisions are fully European? Lastly, do you, in principle, support the principle of rotation or, ultimately, would you not mind if we abolished it?

1-059

**Duisenberg,** *ECB*. – I speak from a personal perspective about the situation which will prevail long after I have gone. I would, of course, prefer it if the only people compelled to make decisions, and who, in practice, are accustomed to taking a purely euro area wide perspective, were the members of the executive board. I would have nothing against the executive board making the monetary policy decisions.

That is not what we were asked to deliver: we were asked to deliver a proposal on a voting procedure which would carry the unanimous support of all members of the governing council. This one does. I am not saying I am proud of it. I am proud that we have reached unanimity on at least one proposal. As I said, I still have to meet anyone, including myself, who is unconditionally happy with this proposal.

1-060

**Lipietz (Verts/ALE).** – *(FR)* Mr President, I understand that you are not very happy and that you regret that the politicians are not dealing directly with the problem, and I share your feelings. I would also like the Convention, in particular, to deal with both the reorganisation of the authorities of the Central Bank and its duties. However, there is a problem of concern to all of us, which is the issue of accountability. Who is the bank accountable to? You said a moment ago that you are not concerned with the problem of taking account of regional opinions and interests, as is the case with the United States' federal bank or, in the past, the Bundesbank. I am not sure that this is a good idea. It is a real problem for Europe to draw up an economic policy which takes account of regional differences.

The second problem is that, when you have to carry out the exercise – which you regret having to do – of setting the rules on representation for the orders or frequency of rotation, you use GDP as a criterion. Why have you not used population? There is no reason why the richest should have more votes on monetary policy, since it is the poorest who need an active monetary policy. We are not dealing with the IMF, but rather we are part of an integrated political grouping. Why therefore have you chosen GDP rather than population?

1-061

**Duisenberg,** *ECB*. – It may be a matter of translation. I did not say that I was not interested in the regional distribution of the voting frequency in the United States. I said I was not familiar with the study quoted by Mrs Randzio-Plath. Familiarity is different from interest.

GDP or population: we have considered population, but we cannot ignore the fact that the distribution of population across the future euro area differs greatly from the distribution of GDP, which is basically the entity that is addressed by monetary policy, at least its nominal component. Population could also have been taken, but I would not couch it in terms of the poorest or richest. Of the ten countries that are now vying for membership of the European Union, this would only make a difference for Poland, not for any other future member.

Regarding the question of whether it would be better to deal with this issue in the inter-governmental conference, thereby leading to a treaty, I have no strong feelings about that. However, unanimity would also be required in the inter-governmental conference, and I have serious doubts as to whether it would be easier to reach unanimity there, rather than in the context of the Governing Council, and now, we hope, amongst the heads of state and government.

1-062

**Della Vedova (NI).** – *(IT)* Mr President, it would appear that you too are of the opinion that it was a mistake for the Treaty of Nice, when all is said and done, to give the Governing Council the task of coming up with a unanimous proposal for debate. I believe that this proposal suffers from the need to achieve unanimity and therefore for the Governing Council not to take any risks. Moreover, the fact that – if Mr Goebbels will forgive me – as I understand it, Luxembourg will have greater voting weight than Poland, and you say, Mr President, that Poland is the only country affected, shows that it is a cautious proposal. I would like to ask you: you have already said so, but are you really sure that this mechanism will not inevitably result in the Governing Council sitting as national representatives and not as individuals with independent opinions? Is this mechanism not in danger of introducing national elements into the representation?

1-063

**Duisenberg,** *ECB*. – I honestly do not believe this will be the case, as this mechanism only determines who votes and when. It has nothing to do with the issue of 're-nationalisation', as it is sometimes called. Only the voting frequency is adjusted and no one is precluded from participating in the discussion. Everybody can deliver and defend their position. It may require, if you are such a large body, that in the future the rules of procedure be changed, as discussions in such a large body could become rather protracted. However, the Governing Council can take this decision itself, and it will be published in the Official Journal. Rules of procedure, for example, limiting speaking time – as you are accustomed to in this Parliament – could also be applied to the Governing Council. We can make such adjustments ourselves.

1-064

**Lulling (PPE-DE).** – *(FR)* Madam President, I would like to present another side to the story. First of all, I believe that the European Central Bank has done well to submit a unanimous proposal to us. They have gone to a

lot of trouble to present this proposal, which seemed to me at first sight to be complicated but which is fundamentally simple; it is wise and it is balanced. I know that some people are nostalgic for the *Führungsprinzip* which we had before the euro. I also know that we have heard from experts, last week in Strasbourg, who, as everyone knows, have a somewhat strained relationship with the European Central Bank.

I personally believe that the choice of the two indicators you have proposed, that is partly gross domestic product and partly the combined overall assessment of the financial and monetary institutions, is a wise one. I very much regret having read in the German press that the European Parliament would react with scepticism to the proposal of the European Central Bank. Our rapporteur – to put it mildly – has jumped the gun, because we have not yet discussed this in this House. He has not yet consulted us. He is from my group and I would therefore like to expressly distance myself from what he or his assistant have said to the German press.

To sum up, Mr Duisenberg, I believe that you have done the right thing and I know it would be wise for the European Parliament to do the same, to support you, because we need a decision and the procedure is cumbersome.

1-065

**Chairman. –** Mrs Lulling, we are, however, required by the Treaty to deliver our opinion, and we also have to vote on it.

1-066

**Goebbels (PSE).** – *(FR)* Madam President, Mr Duisenberg has just reminded us that all governors vote on their own personal behalf and therefore not as representatives of a specific country. Well, having followed the whole of this discussion and having heard the explanations of Mr Duisenberg, I am left wondering whether certain governors are not suffering from a Gulliver complex. You have explained that 70% of payments in the eurozone are concentrated in just four or five countries and that these four or five countries would be in danger of being treated as a minority by a gang of irresponsible governors from small or medium-sized countries. Is that not just a figment of your imagination? The entire history of the European Union demonstrates that it is in fact the large countries who have created crises, that it is the large countries who have always surrounded themselves with small countries in order to achieve a decision. Is it not an insult to the small and medium-sized countries to believe that they would be capable of tying down the big Gullivers who govern us?

*(Applause)*

1-067

**Duisenberg,** *ECB*. – I do not expect that you want me to answer that last remark. But I take this opportunity to thank Mrs Lulling for her support.

1-068

**Blokland (EDD).** – *(NL)* During the previous monetary dialogue, I expressed my concern about Mr Duisenberg's independence as President of the European Central Bank, and Mr Duisenberg's response then dispelled my anxiety. Recently, however, the President of the European Central Bank has made new statements that appear to be at odds with his response on 8 October 2002.

I should like to put the following question: what latitude does the President of the ECB have for making political statements that have no direct connection with ECB policy? I ask this question partly with a view to your possibly following it up.

1-069

**Duisenberg,** *ECB*. – I would have to know to what statement Mr Blokland is referring. I cannot answer in general what latitude I may have for making certain statements. I assume, for example, that he is referring to my statement on the uncertainties surrounding the possibility of a war in Iraq. On that I have said publicly even less than I have said here today.

Has that something to do with monetary policy? The answer is yes. My statement on a question concerning war in Iraq was to the effect that the threat of war adds to the uncertainties already prevailing in the economy. Uncertainty prevailing anywhere, but especially this added uncertainty, is never good, not to say detrimental to economic development and recovery in the euro area. For that reason, I still hope that the threat of war through whatever means will be removed sooner rather than later. I think that answers your question.

1-070

**Blokland (EDD).** – *(NL)* From what I have read in the press, the impression was at any event created that you were in fact referring to a specific statement by Mr Greenspan which, as I myself saw it, had been somewhat taken out of context. Naturally, I agree with you that we must do everything to prevent a war. Naturally, that is the intention of all of us. It is of course also clear that war is never good for the economy. The issue in this case, however, was not only the clear and obvious necessity for removing Saddam Hussein but also the issue of whether he needs to be dealt with in such a way that he no longer presents any danger to the international community.

1-071

**Duisenberg,** *ECB*. – My statement was not a reaction to something that Mr Greenspan has said, but rather my answer to a question asked during an interview I had

with the programme called 'Buitenhof' in the Netherlands which was broadcast on, I believe, 29 December 2002. I was asked what would a war in Iraq mean for the economic environment in which the ECB has to operate. I gave the answer I have just quoted, not in reaction to any statement by Mr Greenspan.

I might add, by the way, that last week, Mr Greenspan himself, in his testimony to the American Congress, said much more than I ever did on the uncertainties and the detrimental effects of a possible war in the Middle East.

1-072

**Chairman.** – Thank you, Mr Duisenberg. That brings today's monetary dialogue to a close, and we look forward to the next one.

*(Applause)*

*(The sitting was closed at 5.35 p.m.)*