

Transcription of the interview with Hans Tietmeyer (Königstein im Taunus, 10 February 2011) — Full version

Caption: Transcription of the interview with Hans Tietmeyer, President of the Deutsche Bundesbank from 1993 to 1999, carried out by the Centre Virtuel de la Connaissance sur l'Europe (CVCE) on 10 February 2011 in Königstein im Taunus. The interview was conducted by François Klein, a Research Associate at the CVCE, and particularly focuses on the following subjects: the Werner Report, the Delors Committee and the Treaty of Maastricht, preparations for a common currency, the Stability and Growth Pact and the coordination of economic policies, the Member States not participating in Monetary Union, the role of the Bank for International Settlements and the future of the euro.

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Contents

I. The Werner Report.....	1
II. The Delors Committee and the Maastricht Treaty.....	6
III. Preparations for a common currency and the Bundesbank.....	9
IV. The Stability and Growth Pact and the coordination of economic policies.....	11
V. The Member States not participating in Monetary Union.....	11
VI. The role of the Bank for International Settlements (BIS).....	13
VII. The future of the euro.....	13

I. The Werner Report

[François Klein] Good morning, Mr Tietmeyer.

[Hans Tietmeyer] Good morning.

[François Klein] We are meeting here today, 10 February 2011, in Königstein, and I am very grateful to you for agreeing to this interview, enabling us to look more closely at certain fundamental aspects of the history of European Economic and Monetary Union.

I would like to start with a few questions about the Werner Report.

Following the Hague Summit in December 1969, Pierre Werner was asked to chair a committee of experts to look into the possibilities of gradually achieving economic and monetary union. At the time, you were the head of division responsible for fundamental issues relating to the economic order and economic policy in the Federal Ministry of Economics, and, as deputy to Johann Baptist Schöllhorn, Chairman of the Medium-Term Economic Policy Committee, you took part in the discussions of the Werner Group. Raymond Barre said of the objectives of the Hague Summit: ‘That decision of the Heads of State and Government was a decision that was reached based on an agreement between Georges Pompidou, Federal Chancellor Willy Brandt and Jean Monnet.’

Is there anything more you can tell us about the confidential political and monetary-policy negotiations which preceded the establishment of the Werner Group, and about the views of Federal Chancellor Willy Brandt?

[Hans Tietmeyer] Unfortunately, I don’t know a great deal about the details of the talks that took place at the time. But in previous years, and 1968–1969 in particular, we had experienced a range of difficult controversies and conflicts in the monetary field in Europe, as a result, by the way, of the weakness of the dollar on the one hand and the strength of the Deutschmark and the Dutch guilder on the other. And that issue played a significant role in the 1969 German election campaign. So once Brandt had become Chancellor, he naturally set under way talks with the other Prime Ministers or Heads of Government in Europe. But I don’t know anything about the details of the talks; all I know is that, at the time, we devised a plan for a monetary union, for the gradual development of a monetary union, and so gave the signal from the Chancellor’s office that we were, in principle, prepared to move towards an economic and monetary union, that we actually considered it necessary, provided it was built on solid foundations. That was the crucial point.

So I didn't personally take part in the talks, but we were very interested to learn of the outcome of the Hague Summit, which was probably also the result of talks between Pompidou and Brandt. There were two issues: enlarging the Community beyond the Community of Six, which the French had always blocked in the past, and deepening the Community by means of a monetary and economic union; the French had no overall plan in that regard, but constantly made suggestions in that direction. We took those on board and had already developed our own plan.

[François Klein] Do you recall anything about the appointment of Pierre Werner? Who brought his name to the table, and was there agreement on appointing him?

[Hans Tietmeyer] So far as I know, he was suggested by the then Belgian Presidency and, in fact, by Baron Snoy, as a decision had been reached to set up a working group made up of the chairs of the various specialist committees. Luxembourg had no specialist committee chairman, but clearly had to be represented, and so the Belgians probably suggested that Luxembourg should be represented by its Prime Minister. But that meant that he ranked a couple of levels above all the other members. All of the rest came from the administrations, whereas he was active at the highest level, and so it was clear, when the suggestion was made, that, as Luxembourg's Prime Minister, Pierre Werner had to be made committee chairman. Quite apart from the fact that his reputation was already high in the political sphere, he was also one of the few Prime Ministers who had previously worked in the financial administration or finance ministry. The rest did not have that experience. It was both his political standing and, in addition, his personal qualifications that were decisive and prompted the Belgians to make the suggestion, which was then accepted on all sides. By the way, it was not the working group but the Council of Ministers that took the decision.

[François Klein] How did work progress within the Werner Group? What were relations like between Werner as chairman and the members of the group and, indeed, between the individual members?

[Hans Tietmeyer] Well, to begin with, most members had already had contacts through their own committees: one was the chair of the Medium-Term Economic Policy Committee, another chair of the Conjunctural Policy Committee, another chair of the Budgetary Policy Committee and so forth. So there had already been some degree of contact, but I would have to say that it was more the input of specialist knowledge from the different areas that was crucial, and Pierre Werner was the only person who not only, as it were, represented the political leadership, but was also familiar with it; in that respect, it was, in my view, very useful that the element of political leadership too was brought into the work of the experts. In that respect, Pierre Werner was not only an initiator but also a facilitator. He was an initiator in that he himself contributed special expert knowledge, but he also represented the political element, political positions. In addition, he had the kind of personality that enabled him to be a facilitator, or a mediator. If there were conflicts, he could act as mediator, and he was able to do this not only because he had the right touch but because of his own expert knowledge.

[François Klein] A more trivial question perhaps, but what is your recollection of the atmosphere when the committee was sitting in plenary or during the meetings of experts?

[Hans Tietmeyer] All I can say is that views were expressed frankly and clearly at the meetings. It wasn't just the language of diplomacy, but a community spirit soon developed because of the shared responsibility, because all of the members were aware that they had a responsibility and they wanted to help move Europe in the direction of a monetary union — a lasting and sustainable monetary union that was geared to stability. And in that respect there was a good team spirit within the group.

[François Klein] What was your own role?

[Hans Tietmeyer] My own position was that I started out as the representative of or assistant to the German member, Mr Schöllhorn. All members of the Werner Group were entitled to bring an assistant along to the meetings. The assistants did not say much at the meetings, but were always asked to draw up joint documents between meetings, to enable common positions to be developed. And so I too was constantly in contact with Morelli, who was then secretary of the committee in Brussels, and also with colleagues from

other countries. In that respect ... well, I think I was very closely involved in things and also helped achieve what I believe were sustainable compromises at certain points.

[François Klein] What were the most difficult moments in the group's work? What were the main areas of controversy and how was it possible to resolve the disagreements?

[Hans Tietmeyer] Well, to begin with there were differences of view between the individual governments or ministers. To put it in a nutshell: on the one side you had those referred to as the economists, and on the other, the monetarists. The Germans, but above all the Dutch, were always strongly of the view that you had to start with economic cohesion, with a high level of economic cohesion before there could be closer monetary integration. The monetarists, meanwhile, and they were primarily represented by the Belgians but also the French — and the Luxembourgers were also initially keen on this position — thought that it was necessary to start by linking exchange rates and building a common reserve or exchange equalisation fund and from there, as it were, to use the monetary ties to force or stimulate economic harmonisation of the fundamental process. That was the stance of those referred to as the monetarists.

Those were the starting positions, and they were already clearly set out in the papers that the individual members brought following the first meeting. It had in fact been agreed at the first meeting that members should set out their views and make them generally known, so that everybody was up to speed. And if you look closely at those papers, at those views, it is very interesting to see that they basically mirror the fundamental positions that I have just described. And once that was all transparent, there was a great deal of discussion on how to develop a common position from that basis.

Let me put it succinctly: the economic approach and the monetarist approach ended up coming together, inasmuch as people took the view that this was a common process and one which must develop in parallel. The word parallel was key and played a major role, and let me say straight away that Pierre Werner was soon using it constantly in the meetings: a parallel process, as it were, of driving economic policy integration and monetary integration forward and linking them, so as to avoid imposing the position of those who argued that greater monetary integration would push forward economic harmonisation, or, vice versa, of those who claimed that economic policy integration alone would be enough to achieve cohesion in the monetary sphere.

And in that sense, the final message, the final lesson of the Werner Report — on which I did a great deal of work for the German side, as the actual wording was generally left to the assistants, and we discussed and worked on the texts over and over in bilateral, trilateral and multilateral meetings — the final lesson was this: this must be a parallel process but its parallel nature, and that was always a point of contention, must be secured, including by way of the appropriate legal bases and relationships.

That was the position set out at the conclusion — not at the beginning but at the conclusion — of the Werner Report; unfortunately, however, it was not subsequently accepted by the official body in Brussels, that is the Council of Ministers, largely because the French had great difficulty in agreeing to further supranational links. Although Bernard Clappier, the member for France, agreed to the principle of a parallel process of development and also to the principle that there would have to be further development of the supranational relationships, at the time, the view in the French Parliament was very much shaped by Gaullist thinking, so that the Pompidou Government was not able to gain approval for the parallel approach. And so, sadly, the key area of the Werner Report was not implemented, but as far as the fundamentals were concerned ... well, there was a wonderful diplomatic formula, but on balance, in terms of the substance, alongside fine words, there was only one point relating to cohesion and that was that the central banks were called upon to start cooperating more closely on exchange rates. The governors of the banks certainly took note of that, but in the end, they were able to implement it only to a limited extent because there were already substantial differences between the policies of the then six European Community countries; then we had the 1973 enlargement, and we were suddenly nine Member States, and later still more, but I just want to say that this group could not agree on anything further.

Far from it. At the time, there was a major development that no one had foreseen. We all knew about the problem of the British pound and the dollar in the 1960s, but in 1973–1974 this was compounded by the famous oil crisis, and in all countries that raised the question of how to react. In fact, they all reacted differently, with the result that there was not a process of convergence but instead a process of divergence. Consequently, there were once again exchange rate problems, cooperation, what was known as the snake in the hotel ... sorry, I mean in the tunnel — the snake in the tunnel, that is to say a narrowing of the European currencies' margins of fluctuation, and in relation to the dollar the margin of fluctuation was wide — the idea didn't work, countries were always leaving and rejoining. The 1970s saw a fresh challenge to which there was as yet no common response.

[François Klein] Going back to the Werner Report: Pierre Werner's personal archives reveal that he was working closely with Baron Hubert Ansiaux, who chaired the Committee of Governors of the Central Banks, particularly on the idea of getting the committee to take a technical approach. Do you recall that, and what do you remember generally about the level of influence exercised by the Committee of Governors of the Central Banks?

[Hans Tietmeyer] It is true that Baron Ansiaux and Pierre Werner worked closely together, there is no question about that; and at the time Baron Ansiaux was chairing the Committee of Governors of the Central Banks, and, on that basis, he was a member of the Werner Group. It is true that Werner very soon urged him to ask the central bank governors to devise a proposal for exchange rate cooperation. And indeed a group was then set up, a subgroup of the central bank governors made up of experts from the central banks and tasked with reviewing the form that exchange rate cooperation should actually take. And in fact we received those reports, at both the draft and final stages, for the purposes of the Werner Report. Indeed, the final version was actually published as an annex to the Werner Report. Those reports, let me say, dealt in detail with the technical issue of exchange rate cooperation. In that context — and I've heard this over and over again in recent times — there were initially very different views, including among the central banks. I was told again and again by Mr Emminger, then Deputy Governor of the German Bundesbank, and also by his colleagues, who were working on the committee, the subcommittee of central bank governors, just how hard it was to achieve common positions. Common ground was finally secured, but with many a compromise, and, to be honest, even in the 1970s that cooperation didn't work as one might have imagined because of the policy differences in the Member States, which I have already mentioned, that resulted from the challenge of the oil crisis. The oil crisis brought entirely new challenges, not only for the countries' fiscal policies but for also their monetary policies. How should they react? And at the time, the German Bundesbank adopted an approach — which I considered to be fundamentally the right approach — of being very strongly oriented to the money supply target. That approach wasn't adopted and accepted by the other central banks, and so there were differences. And the end result was that there were constantly exchange rate tensions and that the exchange rates had to be altered. It was not until 1978–1979 that there was a new initiative between the Federal Chancellor, Helmut Schmidt, and the French President, Giscard d'Estaing — who had already become acquainted as finance ministers, by the way — and both were behind the initiative to enshrine exchange rate cooperation in a treaty, in a system, and to set a number of special positions under way in the process. Initially, that led to tensions between Helmut Schmidt and the German Bundesbank, as Helmut Schmidt initially took a strongly monetarist stance to the effect that the exchange rate commitment should basically steer and drive policy, national policy. There followed a discussion that is not entirely without parallel in German history, namely that Chancellor Schmidt went to the central board of the German Bundesbank and set out his position but failed to get its approval on all points. And then we had Mr Emminger's famous letter to the Federal Government, in which he said that the bank could accept the whole package only if monetary policy was not bound by obligations in all circumstances. If there were conflicts over monetary policy, it had to be possible to halt or limit intervention. That episode resulted in a less rigid solution — by the way, there were talks with France at the time, I remember that well, in 1978, in Aachen, bilateral talks, and I myself took part in them. And so a compromise was reached, a compromise that provided for cooperation in relation to exchange rates, but the essential thing is that it was not the bilateral parities, the bilateral issues, that played a part, but what were known as parity grids — but now we're getting technical — it was the parity grids that played a part, the implication being that the strongest central bank cannot be compelled to intervene excessively in a way that jeopardises its own monetary policy. And once a compromise of that nature had been reached, the European Monetary System was

established, and, by the way, there was also provision at the time for the establishment of a reserve fund. That is not an entirely insignificant episode. But sadly we have to say that ... well, and then a currency unit was introduced, known as the ECU — the European Currency Unit. That was a very important point for the French, and one that played a major role in the practical realities of the 1980s. And the crucial thing is that those efforts, involving formalising the monetary system, agreeing on exchange rate cooperation and introducing the ECU, didn't really improve anything initially. In 1979, 1980 and 1981, we still had substantial tensions. The developments began to be rectified or, rather, the process of rectification began in 1983, when Jacques Delors became the French Finance Minister and introduced a stronger push towards stability into French policy. Only then, as it were, did the arduous process of the 1980s begin, the process that was subsequently to lead to monetary union. But that, of course, is a long story, and I'll stop there.

[François Klein] In his memoirs, Pierre Werner describes many conversations with Jean Monnet about deploying the various influences available to them, particularly with the Germans and the Dutch, in order to make a success of the work of the Werner Group, which frequently found itself in an impasse. Jean Monnet, for example, spoke with Willy Brandt on many occasions, particularly on the subject of the monetary compensation fund. Do you remember negotiations and talks of that nature, at the initiative of Jean Monnet?

[Hans Tietmeyer] I don't know about that, and I want to be frank and say that, with the exception of very general information from the Federal Chancellor's Office about the details of the negotiations in the Werner Group, I didn't get any information or instructions. And nor did Mr Schöllhorn. Talks may have been taking place at the higher political level at the time, but Germany's fundamental position was established by the Schiller Plan which, I think, dated from 1969. I recently came across a copy of a letter in which Mr Brandt again warmly thanked Mr Schiller for the plan. That was interesting for me, as I had largely formulated the plan. But it is true that, at the time, there were differences between the Dutch and German positions on the one hand, and the French, as well as, to some extent, the position of Belgium and Luxembourg on the other — Pierre Werner was always rather more neutral — interestingly, however, the Italian position was not entirely clear at the time.

[François Klein] A further decision of the Hague Summit of December 1969 involved exploring ways of improving harmonisation in the foreign policy field. Étienne Davignon was mandated to lead that task. Do you recollect contacts between the two committees or the two committee chairs?

[Hans Tietmeyer] No, I wasn't involved. I observed the work of the Davignon Group with interest and sometimes looked to see if there was any conflict, but I didn't spot any serious conflict between the groups at the time. I did follow it closely, but I don't remember any particular conflict.

[François Klein] One last question on the Werner Report: what did the Werner Group, and Pierre Werner in particular, think about the shelving of the Werner Plan? What was the German position at the time in relation to monetary cooperation or integration?

[Hans Tietmeyer] Well, of course Mr Werner was unhappy that it did not prove possible to achieve the basic lines of the Werner Plan or Report, namely the parallel development of cooperation on both economic and monetary policy. The French, in particular, rejected any move towards supranationalism, towards extending supranational responsibilities. As far as I know, Werner always regretted that. In that regard, he was not happy about the outcome reached in 1971 after lengthy negotiations. By the way, the negotiations were largely conducted via the ambassadors, the permanent representatives in Brussels, and all we members of the Werner Group were always saddened to discover that the common ground we had established in the Werner Group did not obtain the approval of all the Member States.

It had the full support of the Germans at the time. No question of that. But the opposition lay not so much within the French Government as within the French Parliament, and in fact the French Parliament was affected by the Hague Summit in two ways. On the one hand, there was a fear that expanding membership, particularly through the accession of the British, would mean the French would lose their position. In addition, they did not want to give up any more national sovereignty. But both were elements which were, if you like, envisaged differently in the Werner Report. And I confess that, as far as the Germans were

concerned, the idea of moving towards ... of further developing the economic community in the direction of a political union was most likely viewed frankly and fundamentally approved.

And Werner always appreciated this, but that was specifically where the French opposition lay at the time. Later, France had very different developments in mind, but the very words 'political union', never mind 'super-state', were anathema to French ears, and not just to French ears.

I must say at this point — and I'm talking now about the current situation — that the enlargement of the Community has progressed since then, and it was probably necessary, from an historical perspective, to bring in the Eastern European states after the wall came down, but this Community of 27 that we now have cannot, in my view, move towards a political union with greater supranational competence. I don't see that happening in relation to either monetary policy or in other areas. In that regard, the current position of Europe and European integration cannot easily be compared with the circumstances of the Community of Six. In the Community of Six it just might have been possible. That is in the past, and now we must find new ways, and such ways were established later in relation to economic and monetary union through the preparations for the Maastricht Treaty and the Delors Committee.

II. The Delors Committee and the Maastricht Treaty

[François Klein] At the time the Delors Committee was up and running, some 15 years after the Werner Report, you were permanent secretary in the German Finance Ministry. To what extent were you able, as a result, to follow or contribute to the work of the Delors Committee, which was made up of the governors of the central banks, with Otto Pöhl representing the Federal Republic?

[Hans Tietmeyer] Well, I wasn't able to take part directly or to exert influence directly. But you first have to understand what went before, before the Delors Committee even came into being. And at this point I want to pick up clearly on what I have just said: in 1983, we had some of the most difficult negotiations on realigning the exchange rate structure, in particular between the French franc and the Deutschmark. Following very tough negotiations, we reached agreement, and what was crucial was that from then on France basically, under the Finance Minister of the time Jacques Delors, applied a more stability-oriented internal, fiscal and monetary policy, and increasingly so. The result was that the other countries increasingly followed suit, and we had fewer realignments during the 1980s. Initially, in the early 1980s, there were still rather a lot, but after we passed the 1985 mark they became fewer and fewer.

That was connected with the fact that the common economic approach had become stronger, which was why we were considering a new approach. To begin with — I'll just say this for the record — Jacques Delors, who became President of the Commission in 1984, tabled a proposal for a new version of the treaty, the Single European Act. And in the Single European Act, the subject of economic and monetary union was referred to for the first time in the treaty, but initially only by way of a heading. It was stated that cooperation in the European monetary system should be continued, and, in the light of developments, there should be progress towards an economic and monetary union. Jacques Delors then went on to propose — and I'll just add this — that revision of the treaty should take place on the basis of Article 235, according to which only the Council of Ministers can take the decision, and there is no further need for ratification by the national parliaments. I found that problematic, and I can still very clearly remember a meeting in Luxembourg, before there was agreement, when I managed to persuade the then Federal Chancellor Helmut Kohl that he needed to press for Article 236 and not Article 235 to be used as the basis. According to Article 236, in fact, the ratification process must take place according to the national rules governing this treaty amendment. He managed to do that, and Jacques Delors accepted it. And I then had the task of convincing Mrs Thatcher that she could agree to it, as she was the only one who opposed it. And so that was the approach we took. But what I want to say is that, in 1985 and then 1986–1987, French policy developed a growing interest — it was down to Mr Balladur at the time — in closer cooperation between France and Germany. In fact, a joint Franco-German economic and financial committee was set up to move things forward. And so, come 1988, we found ourselves increasingly in a position of greater convergence. Then the idea of setting up a new group to prepare a new treaty emerged. There were talks, especially between Kohl,

Mitterrand and Jacques Delors, who was in Brussels at the time, and agreement on setting up a group was reached at the Hanover Summit in 1989 or 1988, I think ...

[François Klein] ... 1988 ...

[Hans Tietmeyer] ... and that group — and this is the point I want to make — was specifically to be chaired (and that was Kohl's suggestion) by Delors. Firstly, because Delors was French but also because he was the President of the Commission. And of course Mitterrand agreed immediately. And secondly, Delors then said: 'I want to have all of the central bank governors in the group.' He was fully aware that if the central bank governors couldn't be brought on side with the common position, it would be problematic. And so the Delors Committee was set up, was decided upon, at the Hanover Summit, chaired by Delors and including all the — then 12 — central bank governors and three additional experts. It worked not in Brussels or Luxembourg, but primarily in Basel. And why? Because the central bank governors regularly met in Basel at the time, at the Bank for International Settlements. And the committee secretariat was also set up there. And the chair always travelled from Brussels to Basel. You're asking me now whether I had any influence over its work? I was involved in talks on a number of occasions at the time, but deliberately didn't want to exert influence in the narrow sense, because — in fact — I knew that particularly since the German Central Bank Governor was represented, the concern for stability was well represented. And so the report was then concluded in 1989.

Yes, 1989, interestingly — as regards the content now. And the Governor of the French Central Bank, Jacques de Larosière, agreed. For the first time, a French representative on the committee agreed that a supranational, independent central bank should be established. That was something we had always wanted, but that was not initially accepted. But Jacques de Larosière took that position for France, as it were ... And when the report was published, there was considerable debate in France. There were also elements in the government who did not want it. But in the end, Jacques de Larosière got his way, and that is where the situation with Clappier in 1970 was different. Although Clappier agreed to a compromise in the Werner Report in 1970, he didn't get the backing of the French politicians. Jacques de Larosière ... well, he agreed to the 1989 Delors Report, but I know that there followed intense debate in Paris, but in the end the French agreed, and that was the crucial point.

But I'd like now to move on to a second point that many people, including on occasion historians, sometimes misinterpret. I am talking about the fact that the negotiations that followed, on the issue of German reunification and the development of the economic and monetary union, were taking place at the same time. Let me first make the point that the report of the Delors Committee had already been submitted in the spring of 1989, when there was absolutely no indication that the Berlin Wall would come down in the autumn of that year. It was not until ... until late 1989 and into 1990 that the issue of German reunification played a role. It is true that the negotiations over the Maastricht Treaty played a role at the time. In that respect, they were contemporaneous, running in parallel, but — and I'm really making the point for the Germans more than anyone else — in Germany, there's a myth or what I believe to be a false perception that is often given an airing, claiming that Germany's agreement to the Maastricht Treaty and the introduction of the euro was the price ... and giving up the Deutschmark ... was the price paid for German reunification. In my experience, that is simply not true. The truth is that they happened to coincide in time, and that it might possibly have taken longer to achieve a common position in Europe.

In that regard, I could accept that the process was speeded up in time but not in terms of the substance. Why do I say that? Because I was fully involved at the time. In fact, when the Delors Report was published, it came back to government; I was in the Finance Ministry at the time, and, from day one, persuaded my then new minister to take that approach. He was actually in a difficult position: in Bavaria, there was considerable opposition to a European economic and monetary union, and Theo Waigel was the chairman of the Bavarian CSU. It was something of a difficult situation for him, but we pursued that course, and then, in 1990, I went to the Bundesbank and observed the negotiations on the Maastricht Treaty from a Bundesbank perspective. What mattered to me was to have a workable structure in the Maastricht Treaty — one that was geared to stability and was workable. And in that regard, we were able to pick up on the outcomes of the

Werner Group, but in part only. And the concept underlying the Maastricht Treaty differs from the concept that we put forward in the Werner Report in a number of important respects.

Firstly, the issue of membership. At that time, in the Werner Report ... well, of course, we started from the assumption that all six members would go with it. In the case of the Maastricht Treaty, it was clear from the outset that not all members wanted it ... wanted to be part of it. And secondly, we could not assume that all the countries would meet the criteria, the economic criteria for it. That was why the Maastricht Treaty provided for a selection of members, a selection based on the convergence criteria that are set down in the treaty itself. That was one thing.

Secondly — and the report of the Delors Committee presented this differently from the Werner Group — as far as I am concerned, economic policy control and finance policy control were not adequately provided for in parallel with the communitisation of monetary policy. The report of the Delors Committee certainly pointed up the fact that this was a problem, but the solution which was then sought in the Maastricht Treaty was a different one. Because at the time, France was prepared to make monetary policy a supranational responsibility but not national fiscal policy. Well, even in relation to the selection of countries, we had said that national fiscal policy, the debt situation and the deficit must be such and such, and that the countries must have met the criteria over a lengthy period of development within the exchange rate mechanism and so on. But, and for me this is the very important point, the Maastricht Treaty provided for control of fiscal policy even after entry, but in my view that control was not properly set in place, particularly because it took the form of common control. The decision had to be taken by all sides. And I said from the start that this was a weak spot in the structure. And I clearly remember that the German side ... at the time, I was at the Bundesbank ... in the interim it was Theo Waigel and also Horst Köhler who were conducting the negotiations ... and so an additional stability and growth pact was agreed, but basically without any fundamental change to the legal structure. And — this is something I remember very clearly — when the treaty was concluded in 1997, I said that it was not effective enough, I would have liked to see ... I thought we needed a new treaty basis, as the Maastricht Treaty did not go far enough on this point. And, at the time, I suggested introducing a new and tougher fiscal control procedure on the basis of a new treaty which I described as a ‘Schengen-type treaty’. By ‘Schengen-type’, I meant that only those countries which took part would accede to the treaty. It wasn’t to be part of the overall treaty, but those countries would conclude the treaty. Unfortunately, the finance ministers of the time did not agree to this. I very much regret that, and we have since come to realise that this has been one of the shortcomings, vulnerabilities and problems of the euro, namely the lack of fiscal policy convergence. And that is a central issue which must also now be addressed.

[François Klein] Did that Franco-German tandem exist? Jacques de Larosière mentions that he agreed to the independence of the future central bank in order to get Karl-Otto Pöhl to agree to the single currency.

[Hans Tietmeyer] Well, I wasn’t on the Delors Committee myself, and so I’m not certain about that, but I am absolutely certain that the role of Jacques de Larosière was crucial, so that, in the end, the German side and Mr Pöhl agreed to the Delors Report. And indeed the central issue to set up an independent, supranational central bank with a clear mandate for stability. In that respect, Jacques de Larosière played an important part in the Delors Committee, in that he pushed this through in the Committee and, later, at home in Paris, when the report was submitted, he — let me just say that now — he prevented a French veto. I know that the matter was seriously debated in France at the time. But the fact is that, in my view, Jacques de Larosière played a central role in the matter. And I mean specifically in relation to the independent, supranational central bank with a clear mandate for stability. That is absolutely clear to me, and so he made an historical contribution.

[François Klein] Although Luxembourg is in a way regarded as the seat of the Communities’ financial institutions, Frankfurt was chosen as the headquarters of the European Monetary Institute and, later, the European Central Bank. Did you take part in the negotiations on those issues? How did they go and what was it that finally led to the decision?

[Hans Tietmeyer] I wasn't involved in them. To be clear about it: in the final analysis, the decision was taken by the Presidents and Prime Ministers. In the end, the position was that Helmut Kohl was the one who said that we could only expect the German people to give up the Deutschmark if, in return, the European Central Bank came to the traditional financial centre that is Frankfurt. The traditional centre for certain elements of central bank policy. To that extent, I believe that this was primarily down to Helmut Kohl. As far as I am aware, the ministers also discussed the matter and, of course, so did the central bank governors, no question of that. However, the actual decision was clearly taken by Heads of State or Government, and it was in that forum that Helmut Kohl made this a central theme.

By the way, I can recount a little anecdote: at the time, before the decision was taken, there was, of course, a great deal of lobbying, not of an official nature, but all the countries put forward cities ... Paris, London, Amsterdam, The Hague, Milan, Rome, Lyon, Luxembourg naturally, and so on. But I want to say quite clearly that when the discussions were focusing on the issue of London, Paris, Frankfurt or Amsterdam — the choice had been whittled down to those four — I had to give an 'after-dinner speech' in London, and I was asked what my position was. And what I said was that I did not want to meddle in the political decision, but that what I would say was that I regarded three criteria as being highly important for the decision. Firstly, there had to be a tradition of stability for the currency. That ruled some out. Secondly there had to be a tradition of independence from politics. That really ruled out those places where government, parliament and central bank were in the same location. And then it came to me that this could imply that The Hague and Amsterdam, that Amsterdam could have a part to play because Amsterdam isn't The Hague. And then I said: in addition, central bankers appreciate good wine, and so it should be in a region in which good vineyards are close by. I acknowledge that Luxembourg too meets that criterion, no question about that, but I don't think that Luxembourg was a very serious contender in the final round.

III. Preparations for a common currency and the Bundesbank

[François Klein] In 1991, you became Deputy Governor of the Bundesbank, and from 1993 to 1999 you were its Governor, that is to say during a critical period in the negotiations on the preparations for the single currency. You dealt with the trickiest issues during that period. During your time as head of the Bundesbank you argued in particular for the establishment of mechanisms to guarantee budgetary discipline. And so the Maastricht Treaty had barely entered into force when, as you said, negotiations on the Stability and Growth Pact, which was finally adopted in 1997, began. Why was such a pact necessary? What were the most important points in the negotiations? And what were the issues on which the French and Germans disagreed?

[Hans Tietmeyer] I have already dealt with some of those issues, but I want to make the point again clearly. All of history shows that monetary unions or currency areas have generally got into difficulty because of significant differences within the fiscal sector of national finances. And so it was clear to me from the outset that the subject of economic convergence had also to be accompanied and backed up by the fiscal element above all. And not just at the start, that is when a country actually meets the criteria to become a member, but subsequently as well. And I want to say at this juncture that, for me, that was not made clear and explicit enough in the Maastricht Treaty, and while the Stability and Growth Pact, which was then negotiated, introduced a number of procedural improvements, it didn't change things fundamentally. And let me say this again clearly: I would have liked us to draw up a new, additional treaty for the countries in the monetary union on the Schengen model. And when I talk about the Schengen model, I mean the procedure, not the substance. Unfortunately, that didn't happen, and I said at the time that it would be one of the central challenges. And let me now add that in my view, in the period that followed, the Commission in Brussels failed to take a sufficiently tough and decisive line. That is bound up with the fact that the Commission is also subject to strong political influence from the Member States. I would have liked to see the Commission take a more clear-cut line. But I should also have liked to see the European Central Bank get involved sooner. It showed some signs of doing so, but not very clearly.

And why do I say that? Because one of the fundamental problems of the euro system is that although we have a common monetary policy and, consequently, a common interest rate on the short-term market, as

long as the countries' risk situations differ, it is hard to see why the markets, as it were, have set these interest rates uniformly at the short end, but basically over the long term also, for 15 to 20 years, and failed to build in spreads in a timely manner. That is a misinterpretation of the system on the part of the banks, but, unfortunately, I have also to say that the political bodies — and I am thinking here about the Commission in particular — didn't do enough to highlight the problem. And the markets didn't point it up either.

I believe it to be extraordinarily important that the current crisis situation we are undergoing brings clarity on this point. Either we get more communitisation that imposes obligations, or, if we cannot achieve the necessary level, that is something that needs to be established as soon as possible so that the markets — and I make the point deliberately — use differing interest rates to start getting some control. Of course, for a state that is substantially in deficit, higher interest rates are a big problem.

In that respect, there has been a shortcoming not only in terms of the system but also in terms of presentation, and I think it is extremely important that we make progress here. I have recently proposed that at least an independent council of experts should be set up and tasked with assessing the situation on a regular basis and making that assessment public. For me, the Commission hasn't been effective enough on this issue. And it probably can't be because it is subject to too much political pressure from the different countries. But why wasn't the Greek or the Irish situation brought to light early enough? There is no question that rescue measures are needed now. But we also have to set the course for the future. And that is one of the important points, but this is a failing that I pointed to in the 1990s and then again and again after the turn of the century, and I said that it is a central challenge.

I don't go so far as to say that we will get a political union. I don't think we will. But the convergence of interest rates that we have, unfortunately, had at the long end also for the states has proved to be problematic because it has made it too easy for many countries to extend deficits on a vast scale without being punished by the markets.

[François Klein] Were you involved in the negotiations on the appointment of the President of the European Monetary Institute and later the European Central Bank?

[Hans Tietmeyer] Yes, I was, in the sense that we put forward preliminary considerations. And, of course, the question was who should head the European Monetary Institute. And we came to the conclusion — and we had a number of talks — that Mr Lamfalussy was the right man at the start. But then it was also clear that he couldn't subsequently become President because he would no longer meet the age criteria. And then — and I myself held many talks over this — we brought Wim Duisenberg into the discussions as successor. We then jointly, that is, we the central bank governors jointly made the suggestion; a consensus soon developed, and it was always clear to me that a German couldn't take the post from the start, it needed to be someone from one of the smaller countries with a certain tradition of stability. Wim Duisenberg played that role, and then, when the decision to set up the European Central Bank was taken in the spring of 1998, we central bank governors — and I myself made a contribution here — we agreed that Wim Duisenberg should in fact be the first President, whereas the French set great store by having a Frenchman there from the start. And there was still a great deal of disagreement at the meeting in Brussels.

In the end what can be described as a compromise solution was reached, but at any rate a solution in that Wim Duisenberg made a statement to the effect that he would not be able to carry out the full eight-year term, as he was already getting on a bit, he couldn't do the whole thing, but, contrary to what the French claimed again and again, no deadline was set. No deadline was set; it was a decision for Wim Duisenberg alone. Let me explain why this was so important. Had it not been done that way, there would have been a breach of the treaty. And it is highly probable that the German Federal Constitutional Court would have given a negative ruling if the case had come before it. And that would have left us with a blockage.

And so a sensible solution was reached. Without being specific, Wim Duisenberg said that he would probably step down earlier of his own volition. He was entitled to do so. And there was a certain consensus among the Heads of State that his successor would be French, and with the President, that is the current President, we have found very much the right solution. And I think his achievements have been outstanding.

IV. The Stability and Growth Pact and the coordination of economic policies

[François Klein] So you're in favour of ECB President Jean-Claude Trichet's proposal that there should be a 'European Budgetary Union'?

[Hans Tietmeyer] It's not a matter of a budgetary union. I think the question is whether there should be common budgets. No, adequate control. And for this kind of control I doubt whether any form of control set in place with the majority of the Member States can be effective enough. Why? Because, again and again, compromises are made. And that's why I would very much like to see an independent intermediary body set up which also publishes its findings and gives the markets signals soon enough. To that extent, it's a question of what you understand by budgetary union.

[François Klein] The monetary union is certainly a success, but there are frequently references to the lack of proper coordination of economic policy or economic government, particularly as regards interaction with the ECB. Is that the result of a weakness in the treaties or of a lack of political will ...?

[Hans Tietmeyer] The subject of economic government always played a major role. In fact, back in the Werner Report we suggested having a central body, but that wasn't taken up in the Delors Report, and the issue was pushed to one side; at the time the Germans too opposed economic government on the ground that it could too easily jeopardise the independence of the central banks. I must confess that I was not wholly persuaded by that argument. What matters is what economic government can do, what it should do and how it does it. Let me say straight off: if the objective of economic government is to establish an egalitarian economic and financial policy, geared, as it were, not to the best performer, but to the average, then I think we are in trouble. That would mean that, in Europe, we would certainly lose global competitiveness. And so the question is very much: first, what should the economic government do? How should it take decisions? And what are its criteria? And on that, let me say very clearly that if the criterion is to expand competition, if the criterion is to improve the dynamic, then I would say that is the right thing. But the risk of levelling off at the average is problematic, as that would mean Europe would certainly lose its best performer and overall we would lose out substantially in competitiveness in relation to the rest of the world. We shouldn't forget that Europe is not alone in the world. Europe is part of the whole global economy, and within the global economy there is a high level of competition, and here the internal dynamic must be retained, so to speak, in the monetary union. That is a very important point. I have always said that I consider an economic union that ends up levelling out policy and standards is problematic; it has to be an economic policy that promotes competition, that sets competition under way at the internal level, that provides incentives for the right dynamic, that is the crucial point. In the end, anything else would have a more negative outcome for Europe. Europe would fall behind in international competition.

V. The Member States not participating in Monetary Union

[François Klein] How were the convergence criteria in the Maastricht Treaty negotiated? How were they applied and how should they be applied in the future?

[Hans Tietmeyer] Well, we must draw a distinction here. Firstly, how they were defined. Of course, this was an intergovernmental matter ... but the central banks were also indirectly involved in the various bodies, and, of course, I held talks internally, not only with Bonn, but also with the French, and at the time ... well, again and again, in the end, it was all about compromises. There were positions on which we should have been tougher, but then there were compromises. In my view, the convergence criteria are fundamentally sound. I am not entirely satisfied with the way the Commission has interpreted and implemented them in relation to the selection of applicant countries. That applies particularly to the case of Greece, in which I no longer had any involvement, as I had already left the Bundesbank because of my age. To my mind, the decision on Greece is incomprehensible, and even now I cannot understand how the Commission and the Commission's services failed to spot the ploy in time. But that is how it is, and so let

me say clearly that I hope that the Commission has learnt lessons for the future. In the case of the more recent Member States, it has, I think, looked more closely, and I hope that this will be the case in the future; however, it is not just a matter of selecting countries but of permanently managing them. And I want to say clearly here that I am very critical of the fact that during 2004–2005 the French and Germans agreed on a revision designed to relax the Stability and Growth Pact procedure. I don't think that was the right move, but that is not enough. We must improve the performance of supervision. There are now a variety of suggestions on the table, and I can only say that, as far as I am concerned, they are moving in the right direction, but what matters is that they should actually be applied more or less automatically. I know that isn't popular, but I think it is important. Why? Because I have sat too long, for decades, in the Council of Ministers not to understand that, in the end, if you do not take that approach, there is always a solution of the kind that says 'you scratch my back and I'll scratch yours', and the negotiations go on without clear control being established. We need tougher, more independent and, if you like, more automatic control.

[François Klein] What is your view of States that — like the United Kingdom or Sweden — have a more than cautious attitude to joining the euro zone?

[Hans Tietmeyer] Well, the British had reservations from the start. In the ratification process, it then became clear that the Danes had serious reservations. The Swedes never made their reservations very clear in the political negotiations. But let me put it this way: in theory, of course, by simply failing to meet certain criteria — membership of the exchange rate mechanism, for example — any country can simply fail to meet the criteria and thus need not become a member. To that extent, the Swedes do not have a particular position, but, by simply failing to meet certain criteria, they can remain outside. So I think that every country should be free to choose. I do not think that we need to have exactly the same countries in the EU and in the Economic and Monetary Union. That is not the case. And we will probably be living with that for a long time. The countries themselves have to decide ... to decide whether they want to create the conditions for membership or not.

[François Klein] The Eurogroup that was set up in 1997 during the Luxembourg Presidency and officially recognised in the Treaty of Lisbon is playing an increasingly important role, particularly during these times of crisis. What do you think about the role of this informal group and of the way it has developed, since it involves only representatives of the euro zone Member States?

[Hans Tietmeyer] I think that is understandable, as in fact there has to be political discussion about the monetary union among the States that form part of it. And I also think it right that it should have a president and Jean-Claude Juncker is doing a good job, a very good job. There's no question of that, but it does not mean that I agree with him on everything. As regards the Eurobond proposals, for instance, I am not with him. But I'll leave that aside. No, I think that in itself it's a better way, but many points remain unresolved in the end. For instance, how can a stronger, and I am choosing my words deliberately here, a more consistent economic policy be achieved among the Member States of the monetary union? By consistent, I don't mean consistent in terms of being egalitarian or geared to the average; consistent in terms of competition certainly, but fair competition. And there are probably still questions here that have yet to be seriously discussed. The second question is whether the monetary sector should be represented on a common basis with regard to third parties. It is represented on a common basis by the European Central Bank; that is one aspect. But the political aspect has yet to be genuinely represented on a common basis, within the International Monetary Fund, for example, and so on. Those issues remain outstanding. I am personally of the view that if we resolve the euro crisis, the current crisis situation, properly and sensibly, so that we have a stable foundation, the question will one day arise of how the euro zone should be represented externally. I would not think it wise to engage in the debate now: first, Europe must find a way out of the crisis. But inevitably the question will then arise once more because it remains unanswered.

[François Klein] What do you think about the proposal recently tabled by Germany and France that there should be 'economic government at the level of the 27' which would prevent the existence of 'first and second-class Member States' in Europe?

[Hans Tietmeyer] Well, if it comes to that, fine. The point is what the proposal achieves. I personally think it entirely useful that economic policy should be discussed, and that can be done even now in Ecofin. It is certainly useful that these things should be discussed. But I very much doubt whether binding decisions will be taken there. There won't be very many binding decisions, as I cannot imagine that, for example, something very important such as issues of tax competition would be resolved, not necessarily on an egalitarian basis, but probably in a more competition-oriented way, a way that brings fairer competition. The fact is that many tax rules are problematic. I am also very much of the view that it is wise to get the supervisory authorities, the financial supervisory authorities in Europe, to cooperate more closely and pursue a process of common development. As a result of bringing together the supervisory authorities, processes have now been set under way. In addition, a systemic council or systemic body has been set up, I'm not really sure, a council, I think, that deals with systemic issues. I think this is all very useful but I very much doubt whether, for example, an economic government of the 27 would try to align the social protection systems. The fact is that this would not lead to stronger competition or, a priori, to fairer competition. On some points, yes. But in other respects the result could soon be new imbalances. And so my answer is, to be clear about it, that I am not really taken with that solution. It may be a useful starting point, of course. But I consider it far more important to carry out fiscal controls more efficiently within the monetary area, and to have independent bodies publicly identify differences. I think that this is far more important, as market control would then also be more rigorous, and that is something that, unfortunately, we have not seen in the monetary union in relation to the public sector. On balance, all of the states, regardless of how they have behaved, have for a long time benefited from similar or the same interest rates, and, basically, that is not right. It is right for the money market, but not for the capital market, for the normal financing of state budgets.

VI. The role of the Bank for International Settlements (BIS)

[François Klein] Between 1993 and 1998, you were Vice-Chairman of the Board of Directors of the BIS. The BIS was, in particular, the seat of the Committee of Governors of the Central Banks, it ensured the operation of the snake and thereafter of the EMS, and it was the place where the Delors Committee met. What is your perception of the role of the BIS in Economic and Monetary Union?

[Hans Tietmeyer] I don't believe that the BIS has a particular role in Economic and Monetary Union, as it is primarily the meeting place for central bank governors from all over the world. And informal exchanges are very important. But let me turn now to the euro. It also offers the central bank governors, starting with Jean-Claude Trichet and including the central bank governors of the other countries, the opportunity for informal talks with one another. Bilateral, trilateral and quadrilateral talks are always taking place in Basel. But these regular meetings in Basel in other committees, and not in a specific euro committee, also provide an opportunity for bilateral talks. And I really believe that is important. Alongside the phone, you also have the opportunity of having bilateral, trilateral and quadrilateral talks of an informal nature — not in order to take decisions, to make that point, but to communicate with each other.

VII. The future of the euro

[François Klein] The Delors Report and the Maastricht Treaty provide for independence for the European Central Bank and attach priority to safeguarding price stability in the euro area, as well as, without prejudicing that objective, guaranteeing sustainable and balanced growth. Those two elements are now being called into question on occasion. Has the German stance changed since that time? And what is your own view on this issue, particularly in relation to the monetary policy of the ECB?

[Hans Tietmeyer] Well, I don't think the German stance has changed — let me make that point. It was and is the German view that stability is always the foundation for sound growth. Without stability, there can be no lasting and healthy competition and growth. That is the starting point. And it is also the position that was incorporated into the Treaty and for which I have worked for so long: namely that the responsibility, the prime responsibility of the independent central bank must be stability. There is constant debate as to whether

we ought not to adopt the American solution. For them, the issue is stability and employment. I think that is problematic because, on balance, the fact is that there is no real competition in between those positions, but when you have stability, that is an important foundation; if there is no stability, then a crucial foundation is missing, including for the development of employment and growth. In that respect, I have to state clearly that I still believe it to be right that the priority of monetary policy should be linked to the need for stability. And by the way, were that not so, the question of whether there can in fact still be an independent central bank would arise. Because naturally, in those circumstances, the parliaments and the politicians would, by and large, be saying that they needed to have their say. In that respect, it is also a self-imposed limitation, if you like, of the central banks. In their policies, they have, above all, to provide for lasting stability. And I think that is the right thing now and in the future, just as it was in the past. And it's my impression that in the interim the — originally non-existent — consensus has now strengthened. It is very firm within the European Central Bank, but not just within the European Central Bank, also among the governments. In Europe today monetary stability is an important issue. That was not always the case: in the 1960s, 1970s and 1980s, it definitely wasn't the case. So I have to say that the establishment of the European Central Bank was right in terms of its fundamental orientation, and it has gained a reputation; that is of central importance for the euro, and not only for the euro, but also as a foundation for growth and the labour market process.

[François Klein] In the wake of the financial crisis and the national debt crisis, do you fear for the survival of the euro? Would there be any possibility of turning back?

[Hans Tietmeyer] Well, to make the point to start with, I have always said in the past that the path to the euro is a one-way street. And I still believe that to be the case. That was one of the controversies that we faced when, back in the 1960s, 1970s and 1980s, there was a constant debate as to whether we should not just make a start and then make adjustments based on experience. From the outset, I said 'no' and that we had to have a stable basis, as this was a one-way street, and there was basically no turning back. The fact is that if we were driven back, that would be a catastrophic development. It would be a catastrophic turn of events for Europe and for the European economy. And so I say clearly that you cannot turn the clock back as far as the euro is concerned, but it must be on a more stable, sustainable footing ... we must address those shortcomings which we have identified, some of which had come to light earlier but have now become obvious. Our original ideal of a European political union won't happen. And so we have a selection of countries, with not all countries taking part. Thus, on the one side, we have the supranational character of the Central Bank, but we need more fiscal control and, so to speak, competition-oriented policy in relation to the states participating in the monetary union. That is one of the crucial issues. I very much doubt that it would meet with success if, as it were, we were simply to reduce everything to the level of the monetary union and create an economic government that assumed responsibility for all. That won't do it.

[François Klein] Do you now believe that the euro has contributed to the wellbeing of Germany and Europe?

[Hans Tietmeyer] Overall, yes, I think it has. But let me be clear that Germany was initially faced with particular difficulties. That was also linked to German reunification, which was taking place in parallel in the 1990s. But secondly, although Germany gained the benefits of the euro in the sense of the levelling out of competition, it lost its privileges linked to the Deutschmark, particularly as regards investors. That was the situation facing Germany after the monetary union was introduced. As a result, Germany also clearly experienced weaknesses in growth. And why? Because investors could equally well invest in other European countries, and not just in Germany. But then Germany, and I have to say this, German politicians, after much debate, had the courage to carry through significant adjustments. The Government under Chancellor Schröder played a major part in that, and the German trade unions also made a significant contribution, by being prepared to take account of the new situation in their wage policy and looking to the future. And I think that the fact that Germany today has emerged relatively well from the crisis is a result of the internal process of reform, which was also triggered by the euro, but also of the fact that we live in a large confederation. But this large confederation, the euro confederation, must be viable on a sustainable basis and be geared to stability. That is important. It does not mean that Germany is a one-off — that would be incorrect. Luxembourg is certainly another example. I could go through the countries one by one. But we must avoid drawing the wrong conclusions and believing that by abolishing or scaling down the euro we

would resolve the problem. Far from it. What is crucial is that the euro needs the right basis, and to achieve that, the countries must make themselves more competitive on the basis of their policies. To make it clearer still: I don't believe that a more egalitarian policy would be the right one, but I think that competition between policies — who can do it best, and then we must learn from the others — that would actually move us all forward; that is an important process. In that respect, Europe is in a critical transitional stage. Making the wrong decision on our course now could be very dangerous for us in the long term, in terms of international competition but also internally. On the other hand, failing to make further efforts to drive forward the fundamentals of the convergence process would also be very dangerous. That's why I believe that we are at a critical stage, which will turn on the answers given by both the European Central Bank and, above all, the national governments and parliaments. They have to make their economies more competitive; that is vital.

[François Klein] Mr Tietmeyer, thank you for your time.

[Hans Tietmeyer] You're very welcome.