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# International Charlemagne Prize of Aachen for 2002

Acceptance speech by
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President of the European Central Bank,

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## Check against delivery

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Ladies and Gentlemen,

For the first time, the Charlemagne Prize Association has decided to honour not an individual or a group of persons, but an object. You have chosen to pay tribute to "the euro – our money".

For more than a decade now, monetary union has been a focus of public attention and a major issue of public debate. The depth of feeling generated by the euro, whether enthusiasm or hostility, has been far greater than what we are used to in this typically unglamorous field of economic management that is monetary policy.

In fact, a lot of the attention gained by the euro was and is directed not so much at the currency itself, but more at the underlying political vision, of which it has become the symbol. By accepting today the Charlemagne Prize on behalf of the euro, I would like to pass on the credit for it to those who forged that vision of Europe and turned it into reality. Among them were Helmut Kohl and François Mitterrand, who jointly won this prize in 1988.

The vision of a united Europe was born, let us not forget, from a desire for peace and prosperity in a continent which was so often divided by internecine conflict, and which embroiled the rest of the world in two wars within two generations.

It would be inaccurate to say that the vision of a united Europe was born solely out of the horrors of the First and Second World Wars. It existed long beforehand. But significantly, it was from these two conflicts that the founding fathers of the current process of European integration found the strength to succeed where earlier visionaries had failed. In the 1920s, an Austrian diplomat, Count Coudenhove-Kalergi, emerged as the founder of the European movement. He remarked that "even more than a common *history*, it is a common *destiny* that makes the union of the people of Europe a necessity". Incidentally, and unsurprisingly, he went on to become the first person to receive the Charlemagne Prize. And as Aristide Briand, the French statesman, later pointed out, it is the mutual vulnerability of the people of Europe – if only because of the geography of our continent – which creates the conditions for *solidarity*, and the pressing need for mutual *confidence*.

This, in essence, was the message conveyed by Robert Schuman exactly 52 years ago today, in his famous declaration that led to the creation of the European Coal and Steel Community and that historians generally recognise as the starting point of the process of European integration. *L'Europe* – these are the words of Schuman – *ne se fera pas d'un coup, ni dans une construction d'ensemble. Elle se fera par des réalisations concrètes, créant d'abord une solidarité de fait*. Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements, which create a de facto solidarity.

How the euro contributes to this solidarity – perhaps more than any other achievement so far – is what I'd like to reflect on first of all.

**A social contract**

What is money? Economists know that money is defined by the functions it performs, as a means of exchange, a unit of account and a store of value. But, just as importantly, money is also defined by the community for whom it performs these functions. Because it is an economic instrument for each of its users, it is also a political and cultural bond between them. Consider this simple fact: we engage in an exchange of goods and services everyday by using money as the means of exchange; and we offer our labour in exchange for money, which, in itself, has no value. We only do this because we believe that we will, in turn, be able to exchange that money for more goods or services. This fact tells us much about the confidence that we place in money itself. And it tells us much more about the confidence that we place in each other. Hence, money is, in essence, a social contract.

The euro, probably more than any other currency, represents the mutual confidence at the heart of our community. It is the first currency that has not only severed its link to gold, but also its link to the nation-state. It is not backed by the durability of the metal or by the authority of the state. Indeed, what Sir Thomas More said of gold five hundred years ago – that it was made *for* men and that it had its value *by* them – applies very well to the euro.

Every currency is a symbol of the community it serves. It is a symbol of the society as a whole, but also represents the political and cultural bonds between the members of that society. Surely this uniting power must have been felt – I am even tempted to say, physically – by those who have travelled from one euro area country to another this year.

**From single market to single currency**

It is not enough to say that the euro is the symbol of a large European community. As a matter of fact, the introduction of the euro also goes back to the economic interests that it materialises. In line with the functionalist approach to European integration taken by Schuman and Monnet, the broader European vision was to be achieved by embarking upon economic integration first.

In 1957, when the European Economic Community was established, its objective was to establish the free circulation of goods, services, capital and labour. This was achieved, after the ratification of the European Single Act in 1986, with the creation of the Single Market in 1993.

The four markets for goods and services, capital and labour are exactly those that money serves. It is their boundaries that define the area within which money serves the public as a means of exchange, a unit of account and a store of value. Seen from this perspective, the conclusion seems natural: if money is a public good at the level of the Single Market, then it is at that same level that a single currency should be established. In the context of the Single Market, the establishment of a single currency was the way to ensure that citizens would benefit in full from all the functions of money. Far from removing money from people, monetary union has given it back to them.

**A second contract**

That the euro has economic origins does not reduce its significance as a social contract. However, its success as a social contract is only possible because it is rooted in a second accord, a constitutional contract, between the citizens who own it and the institution to which they have assigned the task of protecting it.

The recognition that the management of the currency, being a policy function, requires a constitutional backing is not exactly new. In 1360, the French bishop and philosopher Nicolas Oresme was among the first to successfully argue that money did not belong to the state, but to "*the community and* [to] *each of its members*".

One can only give credit to the architects of the Maastricht Treaty. They recognised the need for the functions of money to be provided at EU level. The architects of the Treaty also understood that a single currency can only fulfil its monetary functions and its role as an integrating force so long as it retains its value. Therefore, they drew up a solid monetary constitution to protect those functions and its stability.

The chapter of the Treaty referring to money, in essence, is a contract binding the people of Europe to their monetary authority. Like any contract, it contains five elements.

Firstly, the definition of the *interest at stake*, which is to provide the economy and society with a medium that performs in a reliable and sustainable fashion the three functions of money. In one word, the purpose of the contract is to preserve the integrity of the currency.

Secondly, the contract establishes the *institution* entrusted with that mission, which is, of course, the European Central Bank and the central banks of the countries of the euro area, jointly referred to as the Eurosystem.

Thirdly, the contract specifies that the primary *objective* of the central bank is the maintenance of price stability – which is also the benchmark of its success. The central bank is accountable for this objective above all others. The consensus on this fundamental –point is derived from academic research and empirical experience over many decades. It is generally accepted that unless the central bank succeeds in maintaining price stability, there is little else it can contribute to economic growth and prosperity. In this respect, the euro has contributed both to the solidarity, and to the stability, of the community it serves.

The Maastricht Treaty likewise defines the *tools* with which the central bank carries out its mission – notably, its independence – as well as the *constraints* within which it operates.

But no contract would be complete without a specification of the *responsibilities* of its signatories, and procedures for monitoring the fulfilment of the contract. The Treaty also meets these concerns. My colleagues on the Executive Board of the ECB and myself regularly report to the European Parliament – and through it to the general public – on our policy. Via this channel and via the regular reports we issue on our activities, people can judge for themselves if we are fulfilling the contractual obligations and preserving the integrity of their money.

The legitimacy and credibility of the constitutional contract that underpins the euro also rely on the contract's durability. No contract could inspire confidence if its terms were to change constantly.

Since I mentioned Nicolas Oresme as an early theorist of the constitutional nature of money, I will also quote his words on this matter, to which, 640 years later, I can entirely subscribe: "*Moneta debet esse quasi quaedam lex et quaedam ordinatio firma*". Money must be as solid as a law. This applies to the constitutional value of money as well as to its economic value. It was wise, therefore, that the drafters of the Treaty chose to make the monetary constitution of Europe not only solid, but the most solid in the world, in the sense that it is possibly the most difficult to alter.

**Towards a third contract**

We know that such a bold step as the single currency was conceived as part of a wider process of uniting Europe not only economically but also politically. Today, a new path is being explored: the Convention on the Future of Europe has been established. Its task is to make proposals on furthering the construction of a united Europe as well as on streamlining and democratising the structure of the Union.

If it succeeds in this task, the Convention will help to complement the existing economic constitution with effective and transparent political structures and processes. In the same way that the economic constitution, because it is based on sound principles, is capable of meeting the challenges of the future, so will Europe as a whole be better equipped to meet its citizens' expectations. So will Europe as a whole be better able to meet the challenges it faces, be they from within or from without, and to assume the international responsibilities commensurate with its size and its importance. We may ask what we can expect from the Convention in our main field of interest and responsibility, safeguarding the value of our currency. When quoting Nicolas Oresme, I already implicitly gave my view. I consider the existing economic constitution, as set down in the present Treaties, to be, on the whole, satisfactory, based on sound principles and capable of meeting the challenges of the future. In particular, this applies to the fundamental features of monetary union and the ESCB, the elements of the monetary contract I just referred to.

## Conclusion

Since the monetary chapter of the constitution, at least, has been completed, let me also bring my remarks to a conclusion:

For more than ten years, the euro – as a goal – has crystallised hopes and fears, and has attracted praise and criticism, not only in relation to the prospect of a single currency but also in relation to the entire process of European integration. The introduction of the euro was a momentous event for Europe, made possible because of the two contracts I have been talking about.

The first, money itself, is the contract that creates ties between the people of the euro area – and also forges links with all other users of the euro, wherever they may be. Even though the euro has formally existed for more than three years, the reality of this contract has only been fully understood with the arrival of euro banknotes and coins. The banknotes, in their own way, are a physical manifestation of the social contract that is money. Thus, the euro is the symbol of the European Union, understood as a community of people.

The second contract is the constitutional contract that binds the central bank – the European Central Bank – to the people of Europe. The banknotes are a physical manifestation of that contract too, and my signature on them bears witness to that fact.

My final words, dear President Ciampi, are addressed to you and are of a more personal nature.

Some 50 years ago, one of your predecessors as Governor of the Banca d'Italia and as President of the Italian Republic was Luigi Einaudi. He had already foreseen, back in the 1920s, the threats posed to peace, and even to civilisation, by a divided and mutually hostile group of countries. He advocated a united Europe. And during the Second World War, while in exile in Switzerland, he wrote with great prescience that a single market and a single currency were the way to rebuild Europe.

You, President Ciampi, have built on his legacy. In word and deed you have clearly demonstrated your belief in monetary union, your European credentials and your commitment to a united continent.

Let us hope that Europe continues along this path of unity, and will follow it to the end.

I thank you for your attention – and, of course, on behalf of our single currency, the euro – I thank the Charlemagne Prize Association for this prize.