VIEWPOINT

Jean-Claude Trichet

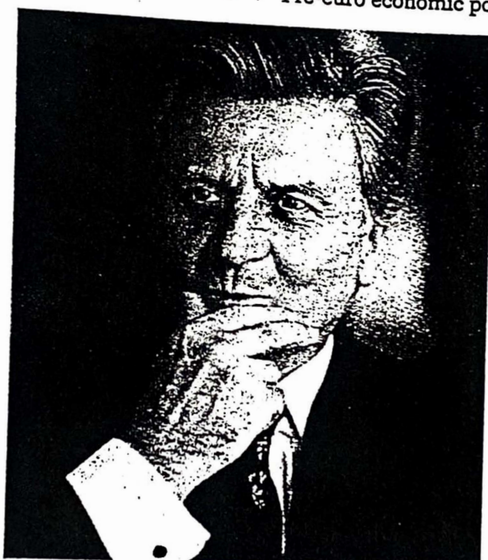
It's Only the Beginning

The euro will not by itself transform the European economy

THE SINGLE CURRENCY IS THE KEYSTONE OF THE EUROpean single market which will ensure prosperity in Europe. Imagine what the U.S. market would be today had currencies remained different in Massachusetts, Florida and California. But to ensure that the euro is a success and contributes to monetary stability, growth and job creation, we Europeans must respect four conditions.

The first is the credibility of monetary policy guaranteed by the independence of the European Central Bank, which is enshrined in the Maastricht Treaty and rooted in the independence of each national central bank. If the euro is to be a credible currency it must win the confidence, not only of the 290 million Europeans in the euro area, but also of the non-Europeans with whom we do business. This can only be ensured by resisting any kind of pressure, including political, on how the new currency is managed. Satisfying this first condition will be facilitated by the harmonious functioning of the European monetary team, which is composed of the E.C.B. and the national banks from the 11 founder countries.

The second condition is compliance with the provisions of the Maastricht Treaty and the guidelines on fiscal policy laid down in the Stability and Growth Pact. Close fiscal coordination and vigilant peer surveillance within the informal council of the 11 participating member states—the Euro-11 club—and by the ministers of finance of the 15 member states are essential to ensure a balanced policy mix throughout the eurozone. Adherence to a medium-term objective of achieving "public finances that are close to balance or in surplus"—meaning nobody gets to run selfish budget deficits—is indispensable for the Union as a whole to weather periods of economic difficulty and for individual countries to withstand possible economic downturns which affect only them.



LOOKING TO THE FUTURE: Jean-Claude Trichet

The new fiscal powers given to the European Council by the Maastricht Treaty may lay the foundations for a possible future political union, but there are also more immediate, practical issues at stake. It was the commitment by all European governments to the Stability and Growth Pact that made possible the recent decision by the E.C.B. and the national central banks to decrease interest rates to 3%—a cut that will surely support growth and secure jobs.

The third condition is that European countries must resolutely undertake structural reforms. Continental Europe is experiencing high levels of unemployment, despite the fact that the jobless rate has been declining slightly in most of its economies. According to the IMF and the O.E.C.D., around 80% of this unemployment is structural, that is, generated by our own burdensome rules and regulations. We at the Monetary Policy Council of the central bank of France concur.

Fortunately, the euro will help rather than hinder structural reforms. Most importantly, a single currency will ease the flow of goods, services and capital within the eurozone. And the euro will also encourage "cross fertilization" of best practices through stronger coordination of member states' policies in areas such as labor markets, education and training initiatives, job creation and effective welfare safety nets.

The fourth condition is that economic leaders in Europe be clear-sighted on the crucial question of competitiveness. Pre-euro economic policy meant monitoring trade balances, the balance of payments and the foreign exchange and interest rate markets. Governments thus received constant feedback on key indicators affecting national economic performance and could react accordingly. Most of these national indicators will disappear with the advent of the euro, while of course remaining on the euro-wide level. This is why coordinating fiscal and economic policy is so important.

Nevertheless, the rules of a market economy will still apply to each economy. Jobs are created—and lost—by consumers when they choose the goods and services they believe are the best value for money. The leaders of each national economy must therefore monitor competitiveness even more closely than before through indicators such as production costs and the tax and regulatory framework. Contrary to the pre-euro period, loss of competitiveness will not show up so quickly on radar screens like external accounts and foreign exchange markets, so policy makers must be even more vigilant on other indicators.

The completion of a single market of 290 million people, endowed with monetary soundness, fiscal rectitude and the appropriate structural reforms, will pave the way for a prosperous Europe. But it will only succeed if the euro is embodied in the behavior of business leaders, entrepreneurs, consumers and, above all, our fellow citizens themselves. This is not just a European experiment. In the current period of international crisis, the success of the euro is a necessity not only for Europe, but also for the rest of the world, which must be able to count on European growth and prosperity if the global economy is to prosper. ■

Jean-Claude Trichet is currently the governor of the Bank of France and in that capacity also is a member of the Governing Council of the European Central Bank