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EUROSYSTEM

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**“E PLURIBUS UNUM –
THE LEGACY OF TOMMASO PADOA-SCHIOPPA”**

Speech

by

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**at a colloquium in honour of Tommaso Padoa-
Schioppa,
Bocconi University, Milan, 1 February 2011**

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Mr President of the Republic,
Dear Mario Monti, Dear Carlo Ciampi, Cher Jacques Delors,
Dear Romano Prodi, Dear Paul Volcker, Dear Mario Draghi,

Ladies and Gentlemen,

“Aún aprendo” - “I am still learning”. This is the name of a painting by the late Spanish painter Francisco Goya.

A beautiful, colourful souvenir with this very motto - “I am still learning” - is what Tommaso left to his colleagues when he completed his seven-year mandate as a member of the Executive Board of the European Central Bank, in 2005. It was well chosen. For it encapsulates his own tireless search for knowledge and new ideas and in particular how Tommaso saw, and shaped, the world around him: central banking, the single currency and European unification.

Tommaso once told to me what his high school teachers advised him in his early youth: that he needed to decide what interests him most: whether to understand or whether to change the world. The choice of Tommaso was economics. And, because the subject of economics is human action, he thought that the call for action would prevail, in his motivations, over the enquiring spirit. I remain profoundly impressed by the remarkable capacity of Tommaso to combine practical activity with reflection and analysis, without which action would be ineffective.

This has been his way to be in the world and to search for truth.

In 1998, Tommaso joined the European Central Bank (ECB) to serve a currency and an institution that few had believed would be created in time according to the Treaty. The institution was assigned the extraordinary

mission to deliver to 11 and, soon after, 12 nations and 300 million Europeans a currency which would have the highest level of confidence and credibility from the start.

Over the course of his central banking career, Tommaso gradually developed a general paradigm of what he believed central banking involves. This paradigm is drawn from the evolution of modern central banks over the last 200 years. As the role of money – as a means of payment, a unit of account and a store of value – evolved over time, also what he called the *triadic* function of central banking evolved. In his view, ensuring price stability refers to money as a unit of account and a store of value; operating and supervising the payment system refers to money as a means of payment; and pursuing the stability of banks refers to money as a means of payment and a store of value. I would add that price stability is the primary goal, the primary mandate and that ensuring price stability is also a precondition for the other functions to be correctly exerted.

Tommaso's paradigm still provides a single and consistent order, in which the responsibilities of a central bank have their place. To each of these activities – from monetary policy to banknote printing, to market operations, financial stability, payment systems, relations with other public institutions, dialogue with the financial community and international cooperation – Tommaso has been assigned at different stages of his professional life.

In all these activities the central bank pursues and represents the public interest of a sound and credible currency, one that preserves its value over time.

And it is with great pride that I say today, in particular thanks to Tommaso's contribution, together with all members of the Executive Board, of the Governing Council and the staff of the ECB, that our primary mandate has been fulfilled: with an average inflation rate in the euro area over the past 12 years of 1.97%, the ECB governing council has delivered

what 330 million Europeans expect - “*la difesa del risparmio*”, “*die Währung zu sichern*”, “*assurer la stabilité des prix*”.

This remarkable track record has been delivered by a team of, today, 18 central banks (the ECB, as captain of the team, and the national central banks of the 17 euro area countries), which we call the Eurosystem. From the very beginning, Tommaso saw the challenge of making the full body of the Eurosystem an effective, continent-wide central bank, to make all its components act together, as I call it, as a true team, with a strong and dedicated team spirit.

It has not always been easy to draw the appropriate line between preserving the diversity of national traditions, cultures and institutional arrangements, which illustrate the richness of Europe, and being *European* in the definition of the policy missions and pursuing the public interest.

Tommaso was a central banker by profession, but he was also an advocate of a united Europe by deep personal conviction. European unification as a project which is economic in content and historically strategic.

On the one hand, the creation of a single market was a process. A process that could ultimately lead to the contradiction which Tommaso referred to as the “inconsistent quartet” - that free trade, free mobility of capital, a system of fixed exchange rates and autonomous national monetary policies were incompatible. One of the four would come under pressure and would have to be surrendered in order to avoid inconsistency.

The single currency was the way to square the circle in eliminating the independent national monetary policies.

One single money for one single market.

Tommaso saw the creation of the single currency as an ultimate integrative step, in the clearly defined policy field of monetary policy and was very aware of the responsibility given to the ECB to make this a

success and a stepping stone for completing and achieving economic integration. The euro contained a strong commitment to move towards more economic integration.

One of the lessons of the present crisis is precisely the necessity to not only very strictly apply the governance of the fiscal policy that was enshrined in the Maastricht treaty and in the Stability and Growth Pact, but to reinforce very significantly this governance and to enlarge it to the surveillance of competitive indicators and macropolicies.

This is why I called, on behalf of the governing council of the ECB, for a quantum leap towards strengthening the institutional foundations of EMU and deepening economic union. The framework for economic governance needs to take into account that the euro area must operate, *de facto*, as a quasi-fiscal federation, in which the college of participating governments has the responsibility of exerting a very strong surveillance on national economic and fiscal policies.

Tommaso has always been very profoundly convinced that it was necessary to reinforce considerably the E letter in EMU in order for Economic Union (EU) to be fully commensurate to Monetary Union (MU). And the time to move is now.

We need, in particular, a stronger role of EU institutions, quasi-automaticity of the surveillance process, quasi-automaticity of sanctions, a much more effective enforcement. We need sound economic and fiscal policies to be performed individually by each nation and to be effectively and rigorously controlled by the peers, in each member's very own interest and in the interest of all.

When the sad news of Tommaso's passing away reached us, we were preparing the inaugural meeting of the European Systemic Risk Board (ESRB), which I have the honour to chair. Poor Tommaso passed away before we had the ESRB inaugural meeting on 20 January 2011. In commemorating Tommaso and his legacy, the ESRB deserves a particular

mention because the reform of Europe's supervisory architecture was, like the single currency, one of his more profoundly held professional concerns.

Indeed, Europe has been confronted with the problem of asymmetry between economic development and institutional response also in the area of financial markets. While financial integration in the Single Market was progressing, regulation and supervision remained fragmented. Tommaso devoted a large part of his professional life to overcoming this fragmentation and making regulatory and supervisory structures commensurate with the realities of integrated European financial markets. He argued tirelessly in favour of a single rule book for financial institutions and was among the first to call for the establishment of supervisory authorities at EU level.

With the setting up of the European System of Financial Supervision, and three European Supervisory Authorities and the European Systemic Risk Board, we are a step closer to overcoming this asymmetry.

Our dear Tommaso, the militant of the European Union, the president of "Notre Europe", founded by Jacques Delors, used to quote Jean Monnet frequently. One of the quotations he loved - and that I love - is the following:

"Quand on est déterminé sur l'objectif que l'on veut atteindre, il faut agir sans faire d'hypothèses sur les risques de ne pas aboutir. Aussi longtemps que vous ne l'avez pas essayé, vous ne pouvez pas dire qu'une chose est impossible".

Which I would translate - firstly, in Italian and then in English:

"Quando si è decisi sull'obiettivo che si vuole raggiungere, bisogna agire senza fare ipotesi sui rischi di insuccesso. Finché non avete tentato, non potete dire che qualcosa sia impossibile."

“When one is determined as regards the desired goal, one must act without making multiple hypotheses on the risks of failure. As long as you did not try it, you cannot state that the endeavour is impossible”.

It is that very spirit of the founding fathers that Tommaso was always referring to. That very spirit of the founding fathers that is inspiring us today when we are drawing the lessons from the crisis.

Tommaso was not only a man of culture, a brilliant economist, a remarkable central banker, an important member of the Italian government, a true and visionary European. He was also an extraordinary and exemplary friend. The depth of his culture and his personal qualities helped him to establish exceptional and friendly relationship with his colleagues.

Je peux le dire en français, car il parlait français mieux que les français, comme Jacques Delors le sait mieux que personne, et comme Barbara le constatait toujours à Paris.

Merci Tommaso, notre ami si cher, notre ami si regretté, pour cette amitié profonde et pour tout ce que tu as fait au service de notre Union Européenne.

I thank you for your attention.