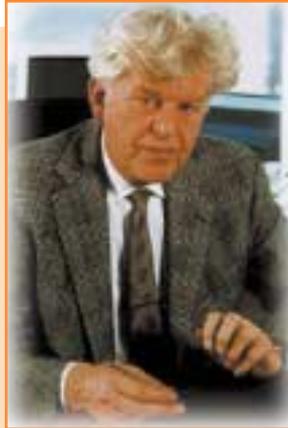


WILLEM FREDERIK DUISENBERG

Elena Kohútiková, Deputy Governor
 National Bank of Slovakia

“It is time to say good-bye. After more than five years at the helm of the ECB on the wide seas, it is time to go back to harbour and drop anchor in calmer waters.

The last five years were undoubtedly the peak of my career. It was an honour and privilege to be the first president of the European Central Bank, to be entrusted with the task of cultivating,



defending and caring for the young European currency. History was written in Europe and I was at the heart of this event. I could not wish for more. In the coming years, history will be the judge of our success or failure. I hope it will be merciful...” (Wim Duisenberg at the dinner of the Council of ECOFIN, held in his honour on October 29th, 2003 in Venice.)

Curriculum Vitae

Surname: Duisenberg
 First names: Willem Frederik
 Date of birth: 9 July 1935
 Place of birth: Heerenveen, the Netherlands
 Marital status: married

Education

1954 Grammar school leaving certificate
 1961 Degree in Economics (cum laude), University of Groningen, the Netherlands Subject: Econometrics, Specialization: International economic relations
 1965 PhD, University of Groningen, the Netherlands, Doctoral thesis: The Economic consequences of disarmament

Professional career:

1961 – 1965 Teaching assistant, University of Groningen
 1965 – 1969 Staff member of the International Monetary Fund, Washington DC
 1969 – 1970 Adviser to the Governing Board of De Nederlandsche Bank
 1970 – 1973 Professor of Macroeconomics, University of Amsterdam
 1973 – 1977 Minister of Finance, the Netherlands
 1977 – 1978 Member of Parliament for the Partij van de Arbeid (Socialist Party)
 1978 – 1981 Member and Vice-Chairman of the Executive Board of Rodobank, the Netherlands
 1981 – 1982 Executive Director of De Nederlandsche Bank
 1982 – 1997 President of De Nederlandsche Bank
 1997 – 1998 President of the European Monetary Institute
 1998 – 2003 President of the European Central Bank

Other posts

- Chairman of the Board and President of the Bank for International Settlements, Basle (January 1988 – December 1990, and January 1994 – June 1997)
- Member of the Board of Patrons of the European Association for Banking History, Frankfurt (since 1990)
- Member of the Governing Council of the Bank for International Settlements, Basle (January 1982 – June 1997)
- Chairman of the Committee of the Governors of the Central Banks of the Member States of the EEC (January – December 1993)
- Member of the Council of the European Monetary Institute (January 1994 – June 1997)
- Governor of the International Monetary Fund, Washington, DC (January 1982 – June 1997)
- Chairman of the Netherlands Cancer Institute (since June 1997)

Decorations

- The Netherlands: Commander of the Order of Orange-Nassau
- The Netherlands: Commander of the Order of the Netherlands Lion
- Luxembourg: Grand Cross of the Order of Merit
- Sweden: Knight Grand Cross of the Royal Order of the Star of the North
- Senegal: Grand Cross of the Order of Merit
- Belgium: Grand Cross of the Order of the Crown
- Portugal: Honorary doctorate from the New University of Lisbon
- France: Commander of the Légion d'Honneur
- Germany: Grand Cross of the Order of Merit
- Italy: Knight of the Order of the Grand Cross of Merit
- Austria: Grand Decoration of Honour in Gold – with Ribbon of Merit for the Austrian Republic



Duisenberg – Keynesian

Wim Duisenberg was born in Friesland, the northern province of the Netherlands. It is interesting that his predecessor in the post of governor of the Nederlandsche Bank Jelle Zijlstra also came from this region, whose inhabitants are considered stubborn in the Netherlands. It is also worth mentioning that the Nederlandsche Bank has only had three governors in the last fifty years. Wim Duisenberg's period as head of the Dutch Central Bank was also not brief – he held the post of governor for a total of fifteen years.

After studying at Groningen University in the Netherlands, the young Duisenberg worked as a teaching assistant and in 1965 he obtained the title of Doctor of Philosophy. The subject of his thesis was "The Economic Consequences of Disarmament". He did not remain in the academic world for long, but accepted a four year position at the International Monetary Fund in Washington. After returning from America, he soon became an adviser to the Governing Board of the Nederlandsche

Duisenberg – Monetarist – Father of the Hard Gulden

Changes in Duisenberg's views culminated in 1975 in his proposal to limit the growth of annual government spending to 1% of the GDP and so get the country out of the crisis, which had started in 1973. Although he attempted to present this as an instrument of social-democratic economic policy, he began to be ever more frequently described as a conservative in a socialist government. He did not succeed in implementing this revolutionary proposal, and a few years later the Netherlands was drowning in a budgetary crisis and growing inflation, which Duisenberg had hoped to prevent with this measure. This phenomenon went down in history as the „Dutch disease“. The government, of which he was a member, fell in 1977, and Duisenberg briefly served as a member of the Dutch parliament. Then he worked for four years as a member of the Executive Board of Rodobank. Duisenberg's moment came in 1982, when Jelle Zijlstra, a fellow Frieslander and the President of the Nederlandsche Bank, retired, and Duisenberg was appointed to succeed him. The Netherlands was burdened with a fiscal deficit of ten percent of its GDP. The newly elected government had to reduce spending by making unpopular budget cuts to reduce the fiscal deficit, as Duisenberg had already proposed as a minister of finance and especially as a member of parliament. The fiscal consolidation occurred slowly and in the mid 1980s, the country still had a deficit of more than 5% of GDP. An optimistic view of the results began to prevail among the politicians, with only Duisenberg expressing dissatisfaction and appealing to the government of Ruud Lubbers to continue the fiscal consolidation. Lubbers was

Bank, and in 1970 he was awarded the title of Professor of Macroeconomics at the University of Amsterdam. Duisenberg became one of the youngest professors in the Netherlands and was a supporter of Keynesianism. From 1973 to 1977 he could apply his theoretical findings in the function of the left-oriented Minister of Finance in the Dutch government, where he represented the Socialist Party. Keynesianism flourished. „Deficit spending“ was the magic word for all macroeconomic imbalances and instead of following a balanced macroeconomic policy, almost all the states in Western Europe built „welfare states“. During the oil crisis, when the cost of fuel increased several times, Duisenberg proposed refunding the cost of fuel in the amount of 10 gulden for every citizen of the Netherlands. The aim of this now incomprehensible measure was to maintain the purchasing power of the Dutch population and stimulate domestic demand by means of public spending. In the end he did not succeed in implementing this plan and so he began to reconsider his views on the practical implementation of economic policy.

Prime Minister of the Netherlands for a long time and he did not have the best relations with the president of the Central Bank. He ironically stated that „Duisenberg's warnings seem to be as predictable as the fact that the leaves will fall off the trees in autumn“.

The new president of the Dutch Central Bank had his first great test in March 1983. The European exchange rate system had a further crisis, which led to a two percent devaluation of the Dutch gulden against the German mark. This decision of the Dutch government was not taken easily, mainly because of the open disagreement between Duisenberg and the German Minister of Finance Onno Ruding. The results soon appeared. For decades the Netherlands had to deal with higher interest rates than Germany. This case showed how momentary hesitation in taking an important decision can have long term negative consequences for the entire country. Interest rates became a decisive instrument for maintaining the stability of the newly set central parity. On the other hand, the Netherlands could enjoy low inflation, which it „imported“ from its most important trading partner Germany, and finally the fiscal consolidation of the country was accelerated. The country was no longer known for its „Dutch disease“, but for its „Dutch miracle“. We can now state that Duisenberg directed the monetary policy of a country with one of the most stable currencies in the world. After German unification, the gulden began to strengthen so that Dutch interest rates fell below German levels.

Duisenberg believed that similar recovery measures could help the whole of Europe. Although he recognized that the 11 countries, which were to form the European Union and the single currency euro did not really form an optimal currency union, he also warned against over-



emphasizing this criterion. To those who argued that the European labour market was very rigid and did not correspond to the conditions of a single currency, he replied that Europe needed to introduce deep structural reforms and that the euro would only accelerate them. He supported the Stability and Growth Pact as a condition not only for fiscal consolidation and monetary stability, but also for structural reforms.

Duisenberg on the European Scene

In 1997, Wim Duisenberg was elected President of the European Monetary Institute (EMI), which had the task of preparing for the culmination of economic and monetary integration in the introduction of the euro in the member states of the EU. The EMI was a direct predecessor of



the European Central Bank (ECB), so it could be expected that the President of the EMI would directly become the top person in the ECB. The function of President of the ECB is one of the most attractive positions in the structures of the European Union, which are not directly elected by the citizens, but are the subject of political agreement between the highest representatives of the individual countries. Duisenberg with his views and experience had to be a guarantee that the single currency would be stable and that the European Central Bank would be an independent institution resistant to political influence. However, his election did not occur as smoothly as was originally expected. The decision to introdu-

ce the single currency was made at the summit in Brussels in May 1998. It was one of the historic moments in European integration. Eleven European states would introduce a common currency on January 1st, 1999. This ceremonial decision took a few minutes, but it was overshadowed by another point on the programme – agreement on the post of the head of the ECB. The main actors were the President of France Jacques Chirac, German Chancellor, Helmut Kohl and Wim Kok, the Prime Minister of the Netherlands. The French president with relatively weak legal powers on the domestic political scene was the only one who did not support Wim Duisenberg. He proposed another candidate: Jean-Claude Trichet, the Governor of the French Central Bank. France opposed the selection of the Dutch candidate and The Netherlands opposed the selection of the French candidate. Speculation on a third candidate began. After twelve hours of talks, it was agreed that Duisenberg would be formally appointed to the post of President of the ECB for eight years if he agreed to voluntarily retire in the middle of his term. This period was defined by the full introduction of the euro in the euro area, including the introduction of the euro banknotes and euro coins into circulation. The reason for this decision was not his age or health (after all, his American colleague, Alan Greenspan is ten years older). According to the Treaty of Maastricht, the term of office of the President of the ECB is eight years. Germany considered this to be the shortest acceptable limit. This compromise evoked opposition from the media, even in France. The daily Liberation asked „whether it was necessary to humiliate Wim Duisenberg by forcing him to admit in the style of the lamentable Moscow show trials, that he is able to carry out only half of his term“. The length of the term is one of the basic pre-conditions for the independence of the central bank and the eight year period is a result of the Maastricht agreement. A violation of this agreement immediately at the beginning of the existence of the euro was one of the first of difficult compromises and undoubtedly a bad signal for observers. It opened the question of the real independence and credibility of the European Central Bank.

Coordinated Reduction of Interest Rates

From time to time, before he became President of the ECB or during his term in office, doubts appeared about the correctness of the choice of Duisenberg for this post. In the period before the introduction of the single currency euro, the markets expected a reduction of interest rates for several months. The reason was the fear of the decline of economic growth in Europe, to a large extent evoked by the Asian and Russian financial crises. From the middle of 1998, the socio-political climate demanded the reduction of interest rates in



Europe. Precisely this fact may have restrained a decision to change interest rates because of fear of the suspicion of political pressure. Duisenberg struck a convincing "blow" against all the critics and sceptics in November 1998. He deliberately coordinated a decision of ten European Union central banks and the founding members of the euro area. They jointly reduced interest rates to three percent. Duisenberg did not hide his pleasure and satisfaction over this flawlessly coordinated procedure. In an interview for the Financial Times, given on the day of the reduction of interest rates, he described this step as „entirely sensational“ with the aim of securing a smooth transition to the euro. Only Antonio Fazio, Governor of the Italian Central Bank, did not agree with this decision, and until the last minute he attempted to struggle against possible inflationary pressures in Italy with higher interest rates. Duisenberg was not very enthusiastic about Fazio's decision not to participate in the coordinated lowering of interest rates, which were 3.5% in Italy at the time, but this could not and did not damage the process. Duisenberg surprised the financial markets and all the critics, who had accused him of excessive strictness in the application of an anti-inflationary monetary policy, claiming that the ECB is more papal than the Pope in maintaining price stability and an orthodox monetary policy. However, Italy continued its resistance only briefly – up to the end of 1998. From 1st January 1999, all eleven countries in the EMU introduced a single interest rate of 3%, and this rate represented the „benchmark“ of the euro area for the coming period. The new President of the ECB calmly rejected the claim that by reducing interest rates the central banks had acted under pressure from centre-left governments. In his view, this decision was the result of a period of moderate inflation, which created the conditions for monetary policy to play some role in supporting economic renewal in Europe. He claimed that if production, inflation and unemployment would move in the same direction, monetary policy could play a role in the stabilization of production and the growth of employment without disturbing the criteria for price stability. In spite of this, the effect of monetary policy on growth and employment is very limited according to Duisenberg.

On the other side of the ocean, Alan Greenspan acted substantially more self-confidently at this time. In autumn 1998, he reduced American interest rates three times in the course of three months, making it clear that economic growth holds an important place in the monetary – economic goals of the Federal Reserve System. His long-term position in the post of the Governor of the FED resonated with trust and this allowed him to act without regard for factors not connected with the aims he was pursuing.

At first, Duisenberg lacked sufficient self-confidence and experience and he undoubtedly needed some time to come to terms with the circumstances surrounding his election as the President of the ECB, which was close and at the last minute. The ECB could not act recklessly, it could not succumb to political pressures and its decisions had to be transparent.

Duisenberg also solved problems in his own institution, building up the organization and technical provisions for the everyday running of the bank. We know from the Slovak experience the complex, demanding and wide-ranging nature of building a central bank. However, it was necessary to devote substantially greater effort to seeking compromises, not connected with the various national interests represented in various levels of the structures of the ECB. The representatives of the national banks, who make up 11 of the 17 members of the Governing Council, promised that when deciding about interest rates they would renounce national interests and give priority to the interests of the euro area as a whole. Duisenberg had to tie together the interests of all the countries of the euro area, which were experiencing different phases of the economic cycle.

Evaluation

It is not easy to evaluate the results of Duisenberg's work as the head of the European Central Bank. He solved questions of an organizational, technical and personnel character of hitherto unprecedented dimensions in a demanding political, economic and historical context. The only thing clear about the ECB from the beginning was its primary aim - price stability. However, its interpretation, practical implementation and use of adequate instruments were veiled in mystery. The fact is that the euro has been firmly introduced as a world currency and now confidently competes with the US dollar. Inflation in the euro area hovers around two percent, which is in harmony with the defined aim of the ECB. However, critics of the single currency policy claim that an inflation target of 0 – 2 percent was originally set, and it became „around two percent“ only when this was not fulfilled. Naturally not everybody likes the anti-inflation policy of the ECB and critics claim that the ECB should react more vigorously to the declining economic growth in the euro area by cutting interest rates. The present monetary policy does not suit Germany, which has reached the limits of positive economic growth in recent years, and so Duisenberg was often criticized. But countries such as Ireland and Spain, which are showing the most dynamic growth of their national economies, can still profit from the present level of interest rates and so accelerate the process of catching up.



The decisions of the Governing Council of the ECB were often subjected to targeted criticism and pressure from the foreign currency markets. According to them, decisions about changes in interest rates cannot always be foreseen, and as a result, the monetary policy of the ECB is not very transparent. The markets can foresee the decisions of the American FED substantially more often. One of the reasons may be the short existence of the ECB, which does not provide enough previous experience for the markets to correctly guess the behaviour and decision-making of its Governing Council, which is also undergoing continual restructuring, so that the overall interaction of individual members and the choice of the final decision is undoubtedly different at every session. To a certain degree, the independence of this institution is also rooted in the fact that in spite of all expectations, it can always consider the current economic situation in the entire Euroregion and take adequate decisions which may or may not suit the individual actors in the economic policy of the national governments.

How does the first President of the ECB himself evaluate his performance? According to Duisenberg, his greatest achievement as President of the ECB was the smooth and problem-free introduction of the euro and its acceptance by the people of Europe. In one interview he admitted that the „preparations were extensive and even the ECB itself did not expect such a smooth process“. The ECB anticipated almost thirty crisis scenarios in order to be prepared to solve potential problems during the introduction of the common currency, but none of them occurred.

The second greatest success of Wim Duisenberg is undoubtedly the already mentioned harmonization of all the national interests within the ECB Governing Council. The present situation in the search for consensus on various questions in the European Commission highlights the appreciation of this fact. Duisenberg himself is also critical and self-critical of some steps on the road to the introduction of the euro. He was disappointed that he did not succeed in communicating to the population that the euro was already introduced in the euro area in 1999. Most politicians only connected the introduction of the euro with the introduction of cash in 2001. On the question of when the euro will become a reserve currency, Duisenberg replied that it could be five or ten years. "I don't know", he said. The dollar existed for 60 years before it replaced the British pound as the world reserve currency. He thinks that the euro will secure its position in the world much sooner.

Wim Duisenberg as a Personality

Wim Duisenberg, an econometrist by training, was not always the hard man he is today. Like others of his gene-

ration, he started as a supporter of Keynesian economics involving strong government. As a young academic he devoted his doctoral thesis to the theme of the economic effects of disarmament. A social democrat, like many of his contemporaries, he became disenchanted with Keynesianism when unemployment and inflation gradually began to rise throughout Europe. Step by step, he became ever more inclined to monetarism, which became popular at the beginning of the 1980s, that is at the time he became head of the Dutch Central Bank. He continued the idea of a principled monetary policy in his post as President of the European Central Bank.

What was Duisenberg like as a person, manager and diplomat? This tall Dutchman with a characteristically grey fringe was sometimes regarded as the prototype of the typical conservative banker. He was tough, but where the maintenance of price stability was concerned, his closest colleagues regarded him as excessively stubborn. He was cautious, he did not panic. For a central banker panic is, perhaps, one of the worst characteristics. It can significantly hinder the choice of the right decision. He was a good communicator in the sense of "why speak in vain, when it is not necessary". He emphasized the necessity of communicating with the outside professional and lay environment, but did not like to go too far. He did not support the publication of the minutes of the ECB Governing Council or the recording of the voting of its individual members, and he was often criticized for this. He regarded this as the seed of the risk of unjustified expectations, estimates and resulting speculations, which finally have a destabilizing effect on financial markets and the stability of the currency. He sometimes spoke at length, but did not say much. Wim Duisenberg was the first president of the European Central Bank and he set the benchmark for quality and the standard for this post.

He will be 69 in July. He is vital and has a young wife. Although he is considered a very conservative central banker, his leisure activities include golf and he enjoys holidays at his villa in the south of France. Friends and colleagues agree that his sense of humour and cigarettes are inseparable parts of his life.

There were too many political disputes around Wim Duisenberg's appointment to the post of President of the ECB. Satisfaction can prevail on his departure as a result of his hard work and successes. Duisenberg has shown that all the doubts and political struggles were unjustified. We can strongly state that he performed his mission responsibly. He sometimes came under fire from critical politicians, who from time to time attempt to weaken the independence of similar institutions. For example, after the terrorist attacks in the USA, when the ministers of finance of the EU member states asked for appropriate measures in monetary policy, Duisenberg remained



faithful to his aims. His typical reply to the question of how he can resist the constant pressure from politicians to reduce interest rates was: "I hear them out, but I do not obey them". On July 9th, 2003, his 68th birthday, he officially announced that he was stepping down from the function of President of the ECB. The ministers of finance did not accept it and asked him to stay in office. His character is also shown by the fact that when it was not clear whether J. C. Trichet, the new President of the ECB would be able to take over the post at the determined time, Duisenberg did not hesitate to promise that he would wait until the matter was put in order.

In conclusion, it is possible to state that the euro successfully exists, lack of confidence is fading, inflation is at a sustainable level and the Governing Council of the ECB is functioning without difficulties. Upon his departure from office, an ever stronger consensus prevails that this straightforward Dutchman will go down in history as the right man in the right place at the right time. Duisenberg clearly deserves Europe's thanks for such a successful start for the European Central Bank.

Duisenberg's Legacy

He was well aware that the economy of the euro area needed to grow in accordance with the Lisbon strategy.

"Stability and growth go hand in hand. But for growth there is also a strategy, a good one, agreed in Lisbon. I welcome the efforts that have already been made and that are being made to implement this strategy. There has been some progress. I do not need to tell you that there is still a lot to be done. You have said so yourselves many times. These good words must be transformed into actions, and soon, because time is running out. It is no good having the right diagnosis if you don't apply the medicine and cure the disease".

"The ministers of finance of the countries of the European Union should strictly observe the rules of the Pact for Stability and Growth. Otherwise they risk a dangerous loss of confidence in the EMU. This is a contract not just among governments but a contract with every single citizen of the euro area. It is on the basis of this contract that they have accepted the loss of their sovereignty." The outgoing, first President of the European Central Bank Wim Duisenberg presented all these ideas at the dinner of the Council of ECOFIN held in his honour on October 29th, 2003 in Venice.

After five years at the head of the European Central Bank, he handed the president's sceptre to his successor – Jean-Claude Trichet...

Instead of a Conclusion

"It is time to say good-bye... In the last few weeks, many people have asked me how I feel before going into retirement. I told them that I have mixed feelings. One half of me, Wim Duisenberg, the private person, wishes that he was already retired. But Wim Duisenberg, the central banker, will find departure difficult". (W. Duisenberg, Venice, October 29th 2003)

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