

**Volker Wieland**

**June 15, 2012**

President Draghi, State Minister of Finance Gaspar, Ladies and Gentlemen,

I am very pleased to welcome you to this conference, which brings together “The ECB and its Watchers” since 1999. This year, the Center for Financial Studies is joined by the Institute of Monetary and Financial Stability as co-sponsor of the event. Both institutes are located in the House of Finance of Goethe University Frankfurt.

Today, we meet at a dramatic confluence of events concerning European Monetary Union. Several EMU members’ commitment to the type of policies that are required to maintain stability in a monetary union continues to be challenged by financial market participants. In some cases, electoral support for such policies is highly questionable.

At the same time, European Union leaders are considering to augment monetary union with banking union, debtor’s union and fiscal union. Such changes would bring us much closer to political union. They would involve a substantial shift of power from the national to the supra-national level.

The hope is that supra-national institutions would perform better than national governments in terms of committing to and implementing the type of policies that are required to maintain stability in a monetary union.

Surely, the analysis, criticism and advice of ECB watchers is needed more than ever by policy makers, financial market participants and euro area citizens.

So let me emphasize how much we appreciate that President Draghi has agreed to continue the tradition of the ECB President's Address at this conference established by President Trichet.

President Draghi is well known to you. You know his earlier responsibilities as Governor of the Bank of Italy, Chairman of the Financial Stability Board, Vice-Chairman and Managing Director at Goldman Sachs International, Director General of the Italian Treasury or Executive Director at the World Bank. You might even know that he studied in Rome, obtained a Ph.D. in Economics from the Massachusetts Institute of Technology, and was a professor at the universities of Trento, Padua, Venice and Florence.

I was wondering what I could tell you about President Draghi that you might not already know. So I looked into his writings, in fact, one of his earliest writings, his 1977 Ph.D. Dissertation, written under the supervision of Franco Modigliani.

And I found something. It is in the 3<sup>rd</sup> chapter, entitled "Short-run stabilization policy and long-run economic plans". Then-Ph.D. student Mario Draghi refers to a "trade-off between short-run stabilization policies and long-run plans."

He discovers that "if policies suggested by short-run optimization are implemented, the long run (optimal full employment) path will never be reached".

By contrast, "if policies that are optimal from a long-run point of view are actually enforced on the short-run economy, it will remain stable and the optimal growth path will be achieved".

I believe, EU leaders, especially those keen for economic growth, would be well advised to base their decision making on such thinking.

Without further ado, I am very pleased to invite President Draghi up to the podium to speak to us.