

# Otmar Issing

## The First Chief Economist of the ECB

Otmar Issing has been a member of the Executive Board of the European Central Bank since June 1998. For the last 8 years he was responsible for the economics and research departments of the ECB, for the preparation of the ECB's forecast and the ECB's Monthly Bulletin, and for presenting the forecast and policy alternatives to the decision-making council. Thus, he has rightly been called the ECB's 'Chief Economist'. He was uniquely qualified for this role having already held this position successfully at the Deutsche Bundesbank for 8 years prior to his appointment to the ECB. The very high degree of respect he has earned in this position is evident in the comments we have received from policymakers, academics, bankers and professional ECB watchers.



Otmar Issing

### Otmar Issing and the "ECB and Its Watchers" Conferences

Together with former CFS Director Axel Weber, Otmar Issing started a unique forum for open debate between the ECB, professional ECB watchers, academics and media representatives – the CFS conference series 'The ECB and Its Watchers'. The first conference in the series took place in 1999 and since then Ot-

mar Issing has addressed these criticisms head on in his exchanges at the conference series. Speaking on transparency and central bank communication, for example, he admitted in his speech on 26 June, 2000 at the second conference: "There is

ECB watchers on issues of current policy performance as well as new policy challenges and will debate best practice in terms of monetary policy strategy.

From the start, CFS aimed at establishing a platform for a mutually beneficial dialogue between the ECB, various ECB monitoring groups, academic experts on monetary policy and market participants. Such a forum was needed not only for the ECB, determined to improve its record with respect to transparen-



Volker Wieland

cy and to establish long-term credibility, but also for market participants and media trying to understand the longer-term objectives and strategy of this new central bank. Over the years the ECB has been subjected to criticism from academics and professional ECB watchers recommending alternative strategies for policy, demanding greater policy transparency and questioning specific policy moves.



#### Jean-Claude Trichet (President of the European Central Bank):

*"Otmar Issing has been an outstanding member of the Executive Board of the ECB after having been a remarkable member of the Executive Board of the Bundesbank and an exceptional professor of economics. It has been for me an immense privilege to be the friend and companion of Otmar for many years before and after the setting up of the Euro. He has played a crucial role in the success of the transition to the Euro and in the credibility of the monetary policy of the ECB. The fact is that the new currency has benefited, from day one of the Euro, from the same very high level of credibility and confidence as the level characterizing the best national currencies, in particular the Deutsche Mark. This is due for a decisive part to the professionalism, dedication and personal commitment of Otmar Issing. The ECB and the Eurosystem owe him an immense debt of gratitude."*

mar Issing has stood ready to debate ECB policies in this forum every year. This year's conference on 5 May, 2006 in Frankfurt, organized by Volker Wieland, will be the last one with Otmar Issing as ECB chief economist. At this occasion he will respond to

There is



clearly a communication problem between the ECB and the general public". In his opening speech at the third conference in 2001, Issing emphasized the predictability and credibility of the ECB policy, stressing that the ECB had not only been credible but for most part predictable as well.

In the subsequent conferences, Issing also used this forum as an opportunity to explain the many challenges facing the ECB.

concerned. However, at this stage wanting to try to prevent deflation in the euro zone would be like wanting to commit suicide today for fear of dying tomorrow".

On several occasions, Otmar Issing has encouraged further exchange between the ECB and its critics, suggesting that this will yield important synergies and help improve monetary policy. At the CFS, we are convinced that the opportunity for dialogue and



**Rolf-E. Breuer (former Chairman of the Supervisory Board, Deutsche Bank AG):**

*"Professor Issing's role in developing and communicating the ECB's monetary policy strategy cannot be overestimated. Often, he was the one to pick up the gauntlet thrown down by Anglo-Saxon critics of the ECB. He made his points with academic rigor and always backed them with theoretical and empirical research. Still, given his academic background he was always prepared to scrutinize his own position in a self-critical manner. This trait of character might also be behind Mr. Issing's self-irony and great sense of humor, which was visible especially in his legendary disputes with academics and market practitioners at the "ECB and Its Watchers" conferences."*

In 2002, when the conference was held in Milan, he discussed challenges, such as Y2K, the cash change-over to the euro in 2002 and the aftermath of 11 September, 2001, emphasizing their successful handling by the ECB. In his opening remarks in 2003, he tackled the fear of deflation and presented the ECB's review of the two-pillar strategy. Subsequently, he was quoted in the *Börsenzeitung* under the heading "imaginary fears" as saying: "We are not complacent as far as the risk of deflation is

debate offered by the "ECB and Its Watchers" conference series will prove even more important in coming years when the ECB will have to manage without Otmar Issing's experience with German and European monetary policy.

The 8th ECB and Its Watchers Conference on 5 May 2006 at the Commerzbank Auditorium in Frankfurt will bring together many distinguished speakers, participants and media representatives.



**Axel A. Weber (President of the Deutsche Bundesbank):**

*Otmar Issing was the mind behind the ECB's Monetary Policy in the first years of EMU, and he was also the steady hand on the ECB's ruder in initially uncharted waters. His pragmatic approach to monetary policy was based on a number of strong convictions, such as the desirability of stable money, the need to take a medium-term policy perspective, and the usefulness of exposing theories to the rigors of real world data in order to draw inferences about their reliability for policy decisions. These convictions formed the basis underlying the prominent role of money in the ECB's strategy, for which Otmar was initially confronted with criticism. His reaction was to initiate an ambitious and intensive research program on this topic and to enter into a debate with the critics with a view to convincing them. By the way, this is also the reason why the CFS series of ECB Watchers Conferences, which I organized in close collaboration with Otmar, initially came into being. At each of these annual events, I was impressed by Otmar's mild manner and calm style as well as his strong determination. Otmar made it a habit to deal personally with each challenge. This approach probably goes a long way to explaining why he has enjoyed such an outstanding career as one of the few German economists who has been exceptionally successful not only as an academic but also as a policy advisor and policymaker.*



**Donald L. Kohn (Governor, Board of Governors of the Federal Reserve System):**

*“Otmar has been an outstanding central banker, colleague, and friend. He has combined a clear vision of the role and objectives for central banks with broad knowledge of economics, a sharp intelligence, and a willingness to engage in principled and respectful debate. He has set an example that the rest of us can only hope to emulate.”*



**Manfred J.M. Neumann (University of Bonn):**

*“Otmar Issing, an eminent scholar and central banker, has been an invaluable asset to the enterprise of European monetary unification. He created the new policy concept and has put his stamp on the first eight years of policy making. He has earned the euro trust among the population by insisting on the prerogative of price stability and by living up to the promise. Apart from this, Otmar is a man whose intellectual curiosity goes beyond economics. He has his convictions but he listens.*



**Marietta Kurm-Engels (Handelsblatt GmbH, Redaktion Frankfurt):**

*“For Otmar Issing the ECB’s communication with the markets, the media and the wider public was a matter close to his heart. This did not only become obvious in some of his contributions by which he decisively shaped the communication policy of the ECB. Issing lived up to his convictions. For him his repeated statement that the ECB needs the media at least as much as the media need the ECB was not just empty words. Journalists who worked with him on a continual basis profited from his agreeable, patient and always respectful behavior, even if the topics they raised may not have pleased him at times. In all his years at the ECB Issing never tried to cover up anything, even if clarification demanded a personal effort from him. The ECB does not only lose a highly competent board member, the ECB loses a courageous man.”*



## PROGRAM 2006

### Conference

### “The ECB and Its Watchers VIII”

to be held at: **Auditorium of Commerzbank AG  
Frankfurt am Main,  
Friday, May 5, 2006**

Organization:  
Volker Wieland (University of Frankfurt and CFS)

8:15 -8:45	Registration and Coffee
8:45	Welcome Volker Wieland
8:45 -10:15	<b>Panel I (Part 1): ECB Watch - Current Policy Performance and New Challenges</b> Chair: Volker Wieland <ul style="list-style-type: none"> <li>• Elga Bartsch (Executive Director, Morgan Stanley)</li> <li>• Giancarlo Corsetti (European University Institute and CEPR)</li> <li>• Peter Hooper (Chief US Economist, Deutsche Bank)</li> <li>• Angel Ulbide (Director of Global Economics, Tudor Investment)</li> <li>• Manfred Neumann (University of Bonn)</li> </ul>
10:15-10:45	Coffee Break
10:45-11:45	<b>Panel I (Part 2): ECB Watch - Review of the ECB's Strategy and Alternative Approaches</b> Chair: Volker Wieland <ul style="list-style-type: none"> <li>• Huw Pill (Head of Monetary Policy Stance Division, European Central Bank)</li> <li>• Jan Qvigstad (Executive Director and Chief Economist, Bank of Norway)</li> <li>• Richard Clarida (Global Strategy Adviser Pimco and Columbia University)</li> <li>• Athanasios Orphanides (Adviser Division of Monetary Affairs, Federal Reserve Board)</li> </ul>
11:45	Reply to Panel I and Discussion Otmar Issing (Member of the Executive Board, European Central Bank)
12:30-13:30	Lunch Break
13:30	<b>The ECB and Its Watchers: 1999-2006</b> Axel A. Weber (President, Deutsche Bundesbank)
13:45-15:30	<b>Panel II: The Revised Stability and Growth Pact - Is it working?</b> Chair: Wolfgang Schill (Director General DG Economics, European Central Bank) <ul style="list-style-type: none"> <li>• José Manuel González Páramo (Member of the Executive Board, European Central Bank)</li> <li>• Michael Hüther (Director, Institut der Deutschen Wirtschaft)</li> <li>• Lars Calmfors (Stockholm University)</li> <li>• Servaas Deroose (Director Economy of the euro area and the Union, European Commission)</li> </ul>
15:30-16:00	Coffee Break
16:00-17:45	<b>Panel III: On the Road to the Euro? Progress and Prospects of New EU Members</b> Chair: Lucrezia Reichlin (Director General Research, European Central Bank) <ul style="list-style-type: none"> <li>• Lucas Papademos (Vice-President, European Central Bank)</li> <li>• György Szapáry (Deputy Governor, Magyar Nemzeti Bank/The Central Bank of Hungary)</li> <li>• Willem Buiter (London School of Economics)</li> <li>• Daniel Gros (Director, CEPS)</li> </ul>
17:45	Concluding Remarks Otmar Issing



**John Lipsky (Vice Chairman, JPMorgan Investment Bank, New York)**

*"Since the object of this exercise is to enumerate – or better put, to praise -- the contributions of Otmar Issing (justifiably, of course, and not just as flattery), this piece (and the others in this volume) risk becoming impressively but impractically long. In the interest of brevity, therefore, I shall speed by his pivotal role in developing and promoting modern European monetary and financial analysis. Likewise, I will only mention his contributions as a member of Germany's Council of Economic Experts, his providing the intellectual bedrock for the Bundesbank's monetary policy and his pioneering role at the European Central Bank, where he was the key figure in establishing the ECB's monetary policy process and in forming a world-class research staff to underpin it.*

*Instead, I want to highlight an aspect of Otmar Issing's career that has not received the recognition that it deserves -- his passion for open discussion and debate. It is his genuine curiosity, his intellectual honesty, his sense of history and his natural respect for others that animated the ECB's research efforts under his guidance. Even more exceptionally, his efforts to engage both the ECB's supporters and detractors around the world helped to give the institution a stature that it would not have achieved otherwise, at least not nearly as quickly as was the case.*

*In fact, "The ECB and Its Watchers" seminar series is a direct result of Otmar Issing's suggestion and active support. So far as I know, no other central bank participates regularly in the kind of serious and substantive public scrutiny that is the hallmark of this seminar. That it is carried out in such a straightforward and unassuming fashion – despite its uniqueness and high quality -- is another testimony to Otmar Issing's special qualities. Among all the superlatives, therefore, "innovator", "inspiration" and "role model" deserve to be included prominently, without neglecting his unfailing patience, good humor and wise perspective."*

## Interview with Otmar Issing



**Question:** *What has been, for you personally, the greatest challenge as Executive Board member of the European Central Bank?*

**Answer:** The greatest challenge for me personally was the same as for the ECB as an institution: how to gain, establish and maintain credibility for our monetary policy and confidence in the new currency, the euro.

**Question:** *What do you consider to be your biggest achievement in your work at the ECB?*

**Answer:** We have chosen a strategy which was the optimal approach to deal with the extraordinary uncertainties at the start of EMU

and which promises also to remain a framework appropriate to conduct monetary policy maintaining price stability.

**Question:** *In your speech at the second ECB and Its Watchers Conference in June 2000, you stated that "There is clearly a communication problem between the ECB and the general public". How has ECB's communication improved since then? And what were the most important lessons you have drawn from the years of ECB's communication with the public?*

**Answer:** We had to understand that it takes just time until not only the general public, but also all other observers get familiar with an entirely new institution. Although we have made substantial progress in the meantime, a lot has still to be done. I trust that our new informa-

tion-kit for pupils will substantially contribute to a better knowledge about the ECB and the euro.

**Question:** *In 2006, CFS is organizing for the 8th time the ECB and Its Watchers Conference. What role does this conference play from your perspective?*

**Answer:** It will be the last ECB Watchers Conference in which I participate. I might use the occasion for some fundamental considerations in my concluding remarks.

**Question:** *If you were asked to prepare a "to-do-list" for the Executive Board of the ECB. What would be on the top of your list?*

**Answer:** The ECB's monetary policy is on the right track. My colleagues know themselves what remains to be done.



**Joachim Fels (Chief Global Fixed Income Economist, Morgan Stanley, London)**

*"The Third Pillar"*

*"I first met Otmar Issing at the German Economics Associations' historic annual meeting, which started on 3 October 1990 – the very day of German unification – in his home town Wuerzburg. I was a young economist arguing somewhat naively what I then thought to be a brilliant case for Hayekian free currency competition as the best means to achieve first German and then European monetary union. But the experienced professor and economic policy advisor, who had just joined the board of the Deutsche Bundesbank a few days earlier, elegantly refuted my argument in his characteristically polite and persuasive manner and instead argued the case for a monopoly supplier of money, constrained by the sole objective of price stability. Ever since, Otmar Issing has been a key contributor to the success of, first, the Bundesbank and then the European Central Bank as monopolists of sound money. As a financial market economist and central bank watcher, I particularly value his intellectual integrity and the clarity of his communication over all these years. In my view, Otmar Issing has been the third and perhaps most important pillar of what is largely his brainchild – the ECB's unique and successful monetary policy strategy."*