

Jean-Claude Trichet: Interview with Paris Match

Interview of Mr Jean-Claude Trichet, President of the European Central Bank, conducted by Ms Elisabeth Chavelet (Paris Match) on 7 December 2005 and published in the edition of Paris Match dated 15-21 December 2005.

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Paris Match. After two uneventful years at the head of the ECB, in December you became embroiled in your first political storm. Political leaders, economists, bosses and trade union representatives lined up to condemn the 0.25% increase in your headline rate on 1 December. They accuse you of threatening Europe's fragile recovery. Has this manning of the barricades made you think again?

Jean-Claude Trichet. I would not say that the last two years have been uneventful. It has been necessary to safeguard price stability in a period made very difficult by the increase in oil prices. Moreover, it is only to be expected in large and exemplary democracies that different opinions should be voiced. It is up to us to speak out tirelessly and marshal the most convincing arguments. That said, I believe that the public debate did not reflect the true feelings of the 311 million European and 60 million French citizens. All the indications are that that our fellow European citizens require us to be vigilant with regard to price stability and that they are not overly content with the situation as it stands. I would have preferred at least part of the public debate in Europe and France to have focused on what our fellow citizens want. We believe that, by remaining faithful to our mandate – which is to safeguard price stability and preserve the euro's purchasing power – we are doing what 311 million Europeans require of us while, at the same time, by doing so we are supporting growth and job creation.

P.M. Many Europeans label the euro a factor of inflation after seeing the price of a loaf of bread rise from five French francs to €1, an espresso from five French francs to €1.20, or a scratchcard from ten French francs to €2. What do you think of this?

J.-C. T. You are exaggerating the increase in the cost of a loaf or an espresso on 1 January 2002! In some economies, the idea that the euro is inflationary remains rooted in the collective consciousness because, at the time of the changeover to the single currency, a very few prices increased disproportionately. But all our analyses show that this effect was minimal and has now disappeared. That said, we must remain vigilant.

P.M. Nevertheless, well-respected figures were highly critical of you on the eve of your decision to increase rates. Jean-Claude Juncker, the president of the Euro Group, and Thierry Breton, the French finance minister, said "inflation is under control" and "there is no risk of a resurgence in the euro area". Are you speaking a different language?

J.-C. T. The ECB, together with the whole of the Eurosystem, including the national central banks and, in France, the Banque de France, is responsible for price stability. There is an essential difference between the ECB's Governing Council, which must demonstrate to our fellow citizens that price stability is safeguarded effectively, and the leaders you mention, who have different, albeit very important responsibilities. Furthermore, we must not wait until inflation has become established before we tackle it. Prevention is always better than cure. Finally, if you compare what was said before and after our decision, you will see that the tone alters substantially.

P.M. So your critics were won over by your arguments?

J.-C. T. That you might ask them.

P.M. While not disputing the threat of inflation, no less an institution than the OECD sent you an SOS pleading "OK, increase rates, but give the economies a breathing space. The recovery recorded in the euro area in the third quarter of the year is fragile. So why not wait until Autumn 2006?" Why is the ECB in such a hurry?

J.-C. T. After two and a half years of interest rates below the lowest rates ever achieved by the most credible currencies of Europe in the past fifty years, to accuse us of haste is at the very least paradoxical. The Governing Council decided unanimously to increase rates because this move was warranted by an increase in the inflation risks.

P.M. What criteria served to justify this rate rise? There has of course been a rise in prices due to the leap in oil prices. Did you also take account of the boom in property prices and the surge in consumer credit?

J.-C. T. We increased rates as a preventative measure, thereby strengthening saver confidence, because we identified these inflation risks. This allows us to continue to profit today from the lowest medium and long-term market interest rates for fifty years. It's a remarkable contribution to growth and job creation, thanks to our credibility in delivering price stability.

P.M. By anticipating a resurgence of inflation in the medium term, don't you, as Jean-Claude Juncker fears, run the risk of triggering a round of wage rises that would work counter to your desire to fight inflation?

J.-C. T. No, not at all. By being credible in our task of safeguarding price stability, we protect the purchasing power of Europe's citizens and therefore move in the direction that everyone desires.

P.M. So, you would say that everything is "under control"?

J.-C. T. We will do at all times what is necessary.

P.M. If you are so certain that the ECB is safeguarding purchasing power, growth and employment, why are these three areas doing so poorly throughout most of the euro area?

J.-C. T. The ECB does well to satisfy one of the necessary conditions for growth and employment. But this does not suffice in itself. Monetary policy cannot do all on its own! There are many other factors that contribute to growth, in particular, economic reforms, budgetary policies and also, very importantly, the confidence of households and entrepreneurs. For our part, we do everything possible to give people this confidence by safeguarding their purchasing power, giving them a sound currency and, in the case of companies, by bringing them historically low medium and long-term market interest rates.

P.M. What you are saying is that the ECB is doing its job, but others are not.

J.-C. T. We are not singling out anyone. The European and global situation is very complex, and there are huge challenges to be overcome.

P.M. But growth hasn't materialised. Why is that?

J.-C. T. There is consensus in Europe, and certainly the ECB, the European Commission and all of the governments agree that the implementation of the structural reforms which form part of the well-known Lisbon Programme would lead to higher levels of growth and create more jobs.

P.M. Is it the case that there are good and bad students within Europe?

J.-C. T. Within the euro area, we have some shining examples of success achieved through various means. Take Ireland, for example. This country has a higher standard of living than the European average, overtaking the standard of living in France and England. It constitutes an outstanding example of growth and full employment, thanks to the courageous reforms which were implemented with broad-based popular support. Another success is Denmark, which is de facto in the euro area, with its combination of high but very well managed social protection and a very flexible labour market. It has achieved both growth and full employment under remarkable conditions.

P.M. If the Maastricht Treaty could be rewritten, would you be among those who would prefer the ECB, like its American counterpart, the Federal Reserve System, to act as a doctor at the bedside of growth and employment, in addition to carrying out its task of policing inflation?

J.-C. T. First, the Maastricht Treaty is not to be rewritten. Second, in this respect, it rigorously incorporates the features of French and German law and the laws of the various nations which decided to merge their currencies to create the euro. It was not, therefore, something new. By the way, almost all countries worldwide have adopted a principle of monetary policy whereby the central bank is assigned the task of guaranteeing price stability.

P.M. The Federal Reserve System being, therefore, an exception?

J.-C. T. The Federal Reserve System is not in itself a real exception. Whenever my colleague, Alan Greenspan, speaks, he always says, as we do, that price stability is a necessary condition for sustainable growth and job creation. You will see that he makes this point in most of his speeches.

P.M. Following the interest rate hike of 1 December 2005, you said, “we are not engaging, ex ante, in a series of interest rate increases.” Does this mean that you are promising that there will be no further increase in interest rates in the coming months?

J.-C. T. As regards future monetary policy, I reiterate what I said on behalf of the Governing Council following our most recent decision: “We did not decide “ex ante” to engage in a series of interest rate increases. We will in the future take the decisions that will be necessary to deliver price stability, to be credible in delivering price stability over time and to preserve the solid anchoring of inflationary expectations at levels consistent with price stability”. I would not say anything else. This is the Governing Council’s position.

P.M. Since France voted “no” to the referendum on the Constitutional Treaty, Europe seems to be totally paralysed. Does that worry you?

J.-C. T. Europe has experienced and is experiencing a complex historical episode in a rapidly changing world. I remain very optimistic. I believe that the progress of Europe, which is a colossal historical undertaking, has temporarily hit a difficult patch that probably in itself results from its truly phenomenal success. Who could have predicted the fall of the Soviet Union, and that the whole of Communist Central and Eastern Europe would join Western Europe very quickly? I think that in Europe we are in a maturing phase. As far as we are concerned, Europe has not come to a standstill. Rather, it is very dynamic. We work with the twelve countries of the euro area, and the other eight countries whose currencies are directly pegged to the euro by means of the European exchange rate mechanism. In order to prepare well for the success of the European Union and enlargement, 27 nations are working together in the European System of Central Banks, including Romania and Bulgaria as observers. We are proud that we have given Europe a credible currency and a historically unparalleled financial environment with medium and long-term interest rates at levels that hundreds of millions of Europeans could only have dreamed of prior to the euro.

P.M. You still have six years left of your mandate as President with a very hectic life. Don't you sometimes wish that you could go fishing in your beloved city of Saint-Malo?

J.-C. T. Along with my colleagues on the Executive Board, the Governing Council, the entire ECB staff and the Eurosystem, I am very privileged to take part in such an immense historical endeavour that is of great benefit to Europe. It is inspiring. This justifies all of the hard work that we do. That said, I love going to Saint-Malo. For me, the Rance estuary is one of the most beautiful places on earth.