

Jean-Claude Trichet: Interview with Nikkei Business Magazine

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, conducted on 23 April 2007 by Mr Yoshiya Sato and Mr Shun Tamura, published in Nikkei Business Magazine, 14 May 2007.

* * *

Fifty years have now passed since the signing of the Treaty of Rome, which established the European Union. How would you evaluate what has been achieved since then?

The achievements are remarkable, truly historical. The EU motto, which I like very much, is “United in Diversity”, and that is precisely what we have been able to accomplish.

As you know, the earliest forerunner of the current EU was the European Coal and Steel Community (ECSC), limited cooperation set up between six countries, namely France, Germany, Italy and the three Benelux countries, in 1952. However, the actual concept of a single market for the EU was affirmed when the Treaty of Rome was signed in 1957. If we look back at the first half of the last century, we see the tragedy of war all too clearly. If I were to summarise the heart of the European concept, it would be that of nations wanting to establish definitive peace between them and to work together in the pursuit of prosperity for all.

The six have now become 27, and their cooperation is no longer limited to coal and steel, but encompasses all areas of the economy. We have a European Parliament, a European Court of Justice and we have even introduced a single currency, the euro. With the enlargement of the EU, we now have a market of around half a billion people and the introduction of the euro means that there is now truly a Single Market with a single currency for 318 million European citizens.

The motto “United in Diversity” seems to hold the key to understanding the EU; would it be correct to say that this tolerance of diversity is the driving force behind the European-style of reform which may not be rapid but is steady?

The great cultural diversity of Europe is plain to see and that cultural diversity is one of the EU’s greatest assets. It is essential for the European identity. I believe that this cultural diversity is a vital factor for making the EU an attractive concept.

When it comes to the economy, the integration on the European continent delivers the economies of scale and all advantages you expect from a vast continental economy; this holds particularly true of the 13 countries that have adopted the single currency.

Although some critics say that the EU and the ECB are not able to control these imbalances between the regions; it would seem that the EU economy as a whole has been strengthened as a result of the free movement of labour between regions. Is that correct?

Speaking only of the euro area, let me give you some figures for the number of jobs created in the eight years since the introduction of the euro; about 12 million jobs were created in this period, which is slightly more than the number created in the same period in the United States. If we look at the figure for jobs created in the eight years prior to the introduction of the euro, it is less than three million.

I am not saying that this was solely due to the introduction of the euro; it is also evidence that the economic reforms within the EU are progressing steadily. That is precisely why we are in full support of the programme of structural reforms, based on the Lisbon Programme which was adopted in March 2003, that are aimed at achieving economic growth and job creation.

The European economy is currently performing well. Is this down to the economic cycle or is it something more sustainable resulting from the structural reforms?

That is an extremely important question. I would say that in the current situation Europe is benefiting greatly from the cyclical effect of the brisk expansion of the global economy, but the effects of the start of the structural reforms, which are clear from the job creation figures I touched on earlier, cannot be ignored.

The creation of jobs is a great achievement and it is a result of the boost to internal trade given by Monetary Union. We still have work to do on improving labour productivity. The ECB considers the

current growth potential of the EU to be around 2.25%, but this could be increased through improved labour productivity, which is precisely why the agenda of structural reforms embedded in the Lisbon Programme must be implemented.

What do you think are the reasons that labour productivity has failed to improve? Are there any particular obstacles to overcome? Could it be that the diversity is actually working against reform?

No, no, that is definitely not the case. It is simply that we have to continue to reform all our markets – the goods, services, labour and financial markets – to make them more flexible.

One problem that I can cite are the large discrepancies between the different sectors in the economy. The reforms are ongoing, but – while productivity in the manufacturing industry has risen rapidly thanks to the introduction of information technology, etc. – labour productivity progress is much slower in the service sector. If we are to improve productivity in the services sector, we have not only to increase the flexibility of the labour market, but also to bring about resolutely the rapid integration of the services sector. As regards the liberalisation of labour markets, it is essential to adapt to an environment that is changing rapidly as a result of developments in science and technology, and we strongly support those reforms.

As regards the integration of financial markets, in addition to acting as a driving force for economic growth, it is also supporting the cohesion of the euro area: it is an effective means of absorbing possible asymmetric shocks within the euro area.

What has been the effect on European companies of the introduction of the euro?

First, the introduction of the euro has given European companies access to a financial market of the same order of magnitude as in the United States. In addition, the ECB's stability-oriented monetary policy has given companies access to stable financing. It has helped them considerably to benefit not only from the single European market, but from the internationalisation of business.

Going back to financial integration, let me mention that several initiatives are underway. One such initiative is the TARGET2 project. Since the introduction of the euro, the national large-value payment systems have been interconnected through the TARGET system. The next generation of this system is called "TARGET2" and will form a single platform for large payments in central bank money, starting in November this year.

In addition, we have proposed the establishment of a single platform for the settlement of securities transactions with central bank money in a system we call TARGET2-Securities.

It is important that the ECB fulfils its role as a catalyst for economic activity through enhanced integration of this kind.

It has been some time now since the United Kingdom left the exchange rate mechanism (ERM) and there are still some northern European countries that have not yet adopted the euro; do you think that the euro area will expand further? Will it only be the smaller countries that adopt the euro from now on?

Slovenia adopted the euro in January of this year and there are now 13 countries in the euro area, representing 318 million inhabitants. Let me also stress that a further seven countries have linked their currency to the euro, and that 25 of the 27 countries in the EU do not have an opt-out clause, and are thus committed to enter the euro area if and when they meet the criteria for joining. The euro area is not a closed shop. There are certain standards, laid down in the Maastricht criteria, that have to be met in order to join the euro area. The introduction of the euro in Slovenia was a great success and I am sure that the euro area will continue to expand.

The value of the euro has increased and the central banks of China, Russia and countries in the Middle East are increasing their component ratio of euro, and there are now more bonds and currency issued in euro than in US dollars; do you think that the euro could replace the US dollar as a key currency?

As far as the exchange rate is concerned, I will say what I signed at the meeting of the G7 on 14 April, namely that "excess volatility and disorderly movements in exchange rates are undesirable for economic growth." I will also repeat that I have noted that the Japanese authorities have said they believe the Japanese economy to be on a sustainable path of recovery and that the exchange rates should reflect these economic fundamentals.

As regards the use of the euro at a global level, the ECB is neutral. We do not campaign for the international use of the euro. That has been our position since the euro was introduced, and that remains our position.

Do you think that the rise of the newly emerging countries such as China, India and Russia, and the rapid increase in oil money, will make it difficult to maintain the stability of the existing global financial systems? What are your views on establishing a new international framework such as the “Plaza Agreement”?

First, China already takes part in the G7/G8 meetings when appropriate. And, second, together with all our partners of the G7, I believe that “in emerging economies with large and growing current account surpluses, especially China, it is desirable that their effective exchange rates move so that necessary adjustments will occur.”