

Jean-Claude Trichet: Interview with Die Zeit

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, and Die Zeit conducted by Mr Marc Brost and Mr Robert von Heusinger, 23 July 2007.

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DIE ZEIT: Monsieur le President, fifty years ago the German Bundestag created the Bundesbank, one of Germany's best-known brands in the world. What is its legacy?

Trichet: Monetary stability. Independence. Credibility. These principles are very favourable for sustained growth and job creation. Today it's globally recognized that this is the right way for monetary policy to deliver price stability and, by way of consequence, sustainable growth.

DIE ZEIT: What do you admire most in the history of the Bundesbank?

Trichet: One of the most impressive episodes has been the open conflict with Chancellor Konrad Adenauer who wanted the Bundesbank to decrease interest rates. But the Bank refused. It proved to be really independent.

DIE ZEIT: That was 1956. Long ago.

Trichet: Yes, but at the beginning of 2004 shortly after I became President of the ECB, three heads of member states asked publicly to lower rates: The Bundeskanzler of Germany, Gerhard Schröder, the President of the French Republic, Jacques Chirac and the Prime Minister of Italy, Silvio Berlusconi. The ECB demonstrated its independence. We did not comply.

DIE ZEIT: Which personal episode with the Bundesbank do you cherish?

Trichet: For me the whole history of the euro has an important personal touch with German friends in the administration and in the Bundesbank. In the time of the preparation of the Treaty I worked with many German friends, for example the Bundesbank Presidents Karl-Otto Pöhl, Helmut Schlesinger and Hans Tietmeyer. One of the most inspiring phases was the wording of the Treaty with Hans Tietmeyer, Horst Köhler and Jürgen Stark in particular. It was due to them that the Maastricht Treaty was well constructed and worked. Here you saw the will to unite Europe and the influence of this particular friendship between us.

DIE ZEIT: You mentioned independence as the legacy of the Bundesbank. Do you have an absolute independence in mind? An independence that forbids even critique from the political side?

Trichet: It is simpler than that: I refer to Article 108 of the Maastricht Treaty. It says the executive branches in particular should not try to influence our decisions. It is a very clear wording. So it's not the ECB who defines its independence, it is the Treaty, which was approved by the people of the member states, by the people of all our democracies. Everybody is welcome to criticise our policy - the media, the analysts, the academics. And we are, as an independent institution, as a last resort, accountable to the people of Europe. By the way it is not known that I go more often to the European Parliament than our friends from the American Federal Reserve go to the US Congress.

DIE ZEIT: Last week the French secretary of state for European Affairs said in an interview that the Eurogroup - the 13 Finance ministers of the euro area - should be allowed to influence the ECB decisions. You reacted sharply.

Trichet: I made the point that what was said was contrary to what the Treaty very explicitly says.

DIE ZEIT: The French intend to strengthen the political influence of the Eurogroup as a counter-weight to the ECB. That makes sense. Each other currency area in the world has one central bank and one Treasury.

Trichet: It's a cliché that France is always heading towards a loose monetary policy. Since the creation of the Franc after the revolution, the monetary policy had the very strong tradition of a currency keeping well its value over time. Only during two periods of a little more than ten years over two centuries - after the Second World War up to De Gaulle became President and in the Seventies - the French monetary policy has been loose, but it is not the French culture. From 1994 up to the implementation of euro in 1999, we achieved a lower inflation rate than the Bundesbank. And we were supported by the French people.

DIE ZEIT: But today the French government wants a co-ordination between the Eurogroup and the ECB.

Trichet: The Treaty organises the relationship between the central bank and the executive branches extremely well. Every fortnight, we invite Jean-Claude Juncker, the President of the Eurogroup, and the commissioner Joaquín Almunia to our council. Could there be a better way to understand what's going on in the central bank than to be the witness of the discussion of the Governing Council? I am also invited by the Eurogroup each month. We are able to meet three times a month which is a frequency which has no equivalent to my knowledge.

DIE ZEIT: Juncker argues a dialogue of three persons would be deeper than a discussion in the whole ECB-Council?

Trichet: Again the Treaty organises a very frequent relationship.

DIE ZEIT: As State Secretary of the French Tresor you pursued the idea of a stronger common economic policy in Europe. Now you are even stricter than the former Bundesbank in explaining why the ECB must be independent.

Trichet: I apply the Treaty! Read article 108.

DIE ZEIT: We have read Article 111 that shares the responsibility for the exchange rate between the ECB and the Finance Minister of the European Union

Trichet: The Treaty organises the present responsibilities exactly as they were organised in Germany since the creation of the Bundesbank or in France since the setting up of an independent Banque de France.

DIE ZEIT: Wim Duisenberg once said, the Bundesbank is like Cream - the more you whip it the harder it gets. The same is true for the ECB.

Trichet: It is a poetic metaphor. But in my view, we should not be influenced in any direction. Whatever happens, we have to achieve our primary mandate: price stability.

DIE ZEIT: "Not all Germans believe in God, but all in the Bundesbank", Jacques Delors once said. The Mark was extremely popular. The euro isn't yet. What went wrong?

Trichet: The euro is as stable, as credible, as a good store of value as the Mark was. And look at the figures: More than 12 million jobs have been created in the euro area since 1999 - many more than in the eight years before. And around 2 million more than the US have created in the same period. Certainly, that has also a lot to do with the structural reforms that we have to continue implementing actively. But stable prices are a necessary condition for sustainable growth and job creation.

DIE ZEIT: Beyond all political differences there was always an economic consensus in Europe: freedom for goods, services, labour and capital. Now the French President Nicolas Sarkozy attacks the European principle of free competition, and also European institutions, especially the ECB. What holds Europe together?

Trichet: We live in a world of very rapid changes, thanks to science and technology, thanks to globalization. There are major changes in the division of labour. And there is a temptation in particular nations to turn the EU and the ECB into scapegoats. This is not fair. The European construction has helped us to create a level of prosperity, which has played an important role in reuniting Europe. Our values are clear. We trust in democracy in freedom, in human rights. We trust in the fact that market economies are the best way to produce goods, services and prosperity. And our future will depend on the people of Europe. It is the free will of our democracies which will shape Europe in the long run. And at the ECB we are very proud to be already an executive institution; we are the “avant-garde” of Europe.

DIE ZEIT: Do you understand the French desire for a stronger role of national concerns in Europe?

Trichet: I am not speaking of any particular nation. All European nations are members of the European team. And the success of Europe is the success of the team.

DIE ZEIT: Perhaps the President of the ECB has to play a more political role in the next years than you want to...

Trichet: Communication with the large public opinion, with all our fellow citizens is certainly one of the most important issues for all who care about the Unity of Europe.

DIE ZEIT: Chancellor Angela Merkel wants European rules to protect Europe from sovereign wealth funds. Do we need protection?

Trichet: These funds, like all new phenomenons, have to be studied and carefully observed. On the other hand the principle of free circulation of capital at the level of the global economy has been beneficial for all economies concerned.

DIE ZEIT: The euro is at an all time high vis-à-vis the Dollar and the Yen. Is the strategy of benign neglect the right one in times Asia is holding down its currencies?

Trichet: On Asian emerging economies' currencies we have a very clear message which the Central Banks of the G7 together with the executive branches have confirmed this spring. We all say the Asian emerging economies as well as the global economy would be better off if these currencies would be more flexible.

DIE ZEIT: Markets are worried about the crisis of the sub-prime credit market in America. Are you worried as well?

Trichet: In a number of segments in the global finance system we have observed in the past a certain under-appreciation of risks. That was visible in the low level of volatility, the low level of spreads, the low level of risk premiums. During the last weeks we saw a correction. At the moment I would say it has been a healthy correction. But I remain cautious: it is no time for complacency.

DIE ZEIT: At the moment there's a lively debate in- and outside the ECB whether the second pillar, the monetary analysis, matters anymore. The first revision of the ECB strategy came 2003, five years after its implementation in 1998. Will the next revision come 2008, five years after the last one?

Trichet: No. The two pillar strategy has been very effective. We are very attached to this methodology which permits the Governing Council to cross check the economic analysis and the monetary analysis with a view that the latter gives valuable information on risks from medium to long term. And we are permanently improving both analysis.

DIE ZEIT: Markets are worried about the Sub-prime crisis in America. Are you worried as well?

Trichet: The global economy remains very prosperous. On the particular sub-prime mortgages issue as well as on other US issues I entirely share the view of the Federal Reserve which has been fully vindicated.

DIE ZEIT: The definition of price stability is below, but close to 2 percent. In the last eight years the ECB failed seven times to deliver an inflation rate below 2 percent. The average stands at 2,05. With a symmetric target around 2 percent the ECB would be King.

Trichet: Our definition is below but close to 2 percent in the medium term. It is exactly the same as in Germany and in other countries before the euro. I am not satisfied with the overall average but one has seen that we had to cope with increases in the price of oil and commodities, in particular that have been very significant. What is extremely important is that the inflation expectations are solidly anchored at a level in line with our definition.