

## Jean-Claude Trichet: Interview with FOCUS

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, and the German magazine FOCUS, conducted by Messrs Uli Dönch, Thomas Zorn and Bernd Johann on 19 January 2010 and published on 25 January 2010.

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**FOCUS: Mr President, the rate of inflation in the euro area is close to zero. You have done a good job – are you now out of work?**

Trichet: As you know, the latest available figure is 0.9%. What counts is price stability in the medium term. And from that point of view, my colleagues and I are proud to be able to tell the citizens of Europe that they have a credible and stable currency. We promised them that the euro would be as stable and credible as individual national currencies had been earlier. And we have kept our word.

**FOCUS: How great is the risk that you will rest on your laurels?**

Trichet: You need have no fears in that respect. We will continue to remain alert. At a central bank, there is never a time for complacency.

**FOCUS: At the beginning of your period in office in 2003, your policy of maintaining price stability caused you to be criticised as a “prolonged arm” of the Bundesbank. Did this hidden praise help you, or did it do more harm than good?**

Trichet: In my own country, I was seen as the “strongest advocate of the strong franc (‘franc fort’) policy”. But the monetary policy of the Banque de France was backed by the people. Historically, what matters is that all future euro area countries, including France and Germany, cooperated very closely from the very outset to ensure convergence. Today, people throughout Europe are convinced of the importance of price stability. And they are also aware of the fact that being addicted to inflation is like being addicted to a drug that over time has extremely negative effects: stagnation and the destruction of jobs.

**FOCUS: Nevertheless, many experts are expecting prices to rise significantly again in the near future ...**

Trichet: We have made it very clear that we always take the decisions necessary to guarantee price stability over the medium term: an inflation rate below, but close to, 2%. Observers and market participants are fully aware of this. It is precisely because of the challenges posed by price stability that we stand ready for action at all times. I call that “credible alertness”.

**FOCUS: At the moment, the markets are addicted to cheap money – to low interest rates. Politicians, bankers and stock market traders have already become too used to this situation, and as a result the risk of inflation is on the rise. How do you intend to change this?**

Trichet: You can be sure that the European Central Bank will continue, as before, to maintain price stability. Keeping inflation expectations solidly anchored – in line with our definition of price stability – protects us against the materialisation of both inflationary and deflationary risks. We succeeded in avoiding deflation at the peak of the crisis. You can be sure that the needle in our compass will always point towards price stability.

**FOCUS: How quickly have you taken action during the crisis?**

Trichet: As I have said, alertness is of the essence. On 9 August 2007, for instance, ...

**FOCUS: ... just before the US real estate bubble burst ...**

Trichet: ... we were the first to diagnose that a major crisis was unfolding and supply additional liquidity to the money market. We did so because we had realised that something exceedingly dangerous was developing.

**FOCUS: Could the ECB really raise interest rates on its own – i.e. without the US Federal Reserve doing so as well? If the ECB were to take such action, the euro’s exchange rate vis-à-vis the dollar would be sure to shoot upwards, causing European exports to collapse. And that is something nobody in Europe would want ...**

Trichet: I am convinced that the US authorities – both the central bank and the Treasury – consider that a strong dollar vis-à-vis the other major floating currencies is in the interests of the United States. Ben Bernanke and Tim Geithner have made this very clear.

**FOCUS: Do you believe what those responsible in the United States are saying? The US economy is currently benefiting immensely from the cheap dollar.**

Trichet: I believe in the sincerity of the people I have just mentioned. They know that a loss of monetary credibility would be damaging.

**FOCUS: Nevertheless, if the excessively lax monetary policy in the United States were actually the reason why you needed to raise interest rates in Europe, you would be unable to do so without the US central bank following suit.**

Trichet: Let me repeat myself. Every central bank has its own responsibilities – in its own economy, with its own particular features, its own different structures and its own different shocks to cope with – and will take the necessary action. I have no doubt that the Federal Reserve, too, is committed to maintaining price stability.

**FOCUS: Is there some kind of tacit agreement to raise interest rates only jointly? In an interview on CNN, you recently answered the question as to whether the ECB would raise interest rates unilaterally even before the Federal Reserve did so by saying, “I trust that it will also be done on the other side of the Atlantic” (and on the other side of the Channel, i.e. by the Bank of England).**

Trichet: We all have our own responsibilities, which do not call for the same decisions at the same point in time. I have always said that central banks are united in purpose: the delivery of price stability in their own economies.

**FOCUS: A basic principle applies to central banks: they take away the punch bowl just as the party gets going. In other words, they increase interest rates. The Federal Reserve did the opposite. It left the punch bowl on the table and said “let’s party” ...**

Trichet: As regards the punch bowl, you are quoting William McChesney Martin, a previous Chairman of the Federal Reserve! Again, let me say that we are united in purpose. As regards the ECB, the very solid anchoring of inflation expectations is a major asset in all circumstances.

**FOCUS: However, you do sometimes make comments about the US Federal Reserve. When its Chairman, Ben Bernanke, was chosen as Time magazine’s Person of the Year, you commended him, saying that he had done extraordinary things under extraordinary circumstances. Were they also the right things?**

Trichet: When the financial crisis intensified in 2008, the ECB and the Federal Reserve cooperated closely, together with other central banks, including through swap agreements. We ourselves supplied US dollars on this side of the Atlantic as part of this very close cooperation.

**FOCUS: How important is it, in such dramatic situations, that the ECB is able to act independently of politics?**

Trichet: This is crucial. The European Central Bank is totally independent. This is guaranteed for us by an international treaty. It is essential for the confidence of our fellow citizens, economic agents and market participants. And “confidence” is the key word at the moment.

**FOCUS: Do you consider this independence to be a great advantage? The Chairman of the Federal Reserve was appointed by the President – and the Senate is currently deciding whether Ben Bernanke can have a second term in office.**

Trichet: It is of key importance that the ECB’s independence is guaranteed by an international treaty and not just by national law. National laws can be adopted, but they can also be overturned again.

**FOCUS: Nevertheless, time and again the heads of state of some countries try to pressure the ECB into decisions – usually the lowering of interest rates.**

Trichet: I remember well that in 2004, shortly after I took office, the then German, French and Italian heads of state or government made public remarks to the effect that the ECB should reduce interest rates. We didn’t do it.

**FOCUS: Now, in a reversal of roles, the ECB must put pressure on many European governments. National deficits have increased so drastically as a result of the financial crisis that all EU Member States are violating the debt ceiling put in place by the Maastricht Treaty.**

Trichet: The Stability and Growth Pact is a fundamental economic pillar of Economic and Monetary Union. We will always call upon national governments to comply with it.

**FOCUS: Greece is currently brazenly violating the 3% debt limit, with its budget deficit standing at 13%. Is Greece showing you a lack of respect?**

Trichet: Greece has not respected the Stability and Growth Pact. Not only Greece, but also other countries – that goes without saying – must do everything they can to put their national finances in order, bringing them fully into line with the provisions of the Stability and Growth Pact.

**FOCUS: Greece, with its high levels of debt, would need to make drastic savings. How is that possible? It would result in mass demonstrations or even political unrest.**

Trichet: Let me say this again. All countries have to put their house in order. Greece is no exception to this rule. Ireland has also taken these courageous and difficult steps. I am convinced that, given the nature of the situation, the Greek government will do likewise in order to meet the 3% goal it has just committed itself to for 2012.

**FOCUS: Can you envisage Greece having to leave the euro area if the country does not manage to resolve its problems?**

Trichet: I have already said that I don’t comment on absurd hypotheses.

**FOCUS: You once said that the countries participating in Economic and Monetary Union share a common destiny. In this case, the strong countries would have to help the weak ones. Should France and Germany help Greece?**

Trichet: I repeat solemnly: we – the 330 million citizens of the euro area – share a common destiny. In a monetary union, the ties between the individual member countries are indeed extremely close. The external surpluses of some member countries (in the balance of payments) finance the external deficits of some others, and the constellation can change over time. We all share a credible currency, which is an immense advantage. At the same time, all countries owe it to their partners in the euro area to behave responsibly and correct their imbalances.

**FOCUS: This problem will become even bigger if other countries – such as Bulgaria or Romania – introduce the euro.**

Trichet: Other European Union countries are indeed committed to joining the euro area. But only when the time is right. As you know, there are strict criteria governing the introduction of the euro, and these must be met in full. And they have to be met not just at a particular moment in time, but on a sustainable basis. The ECB is and will remain extremely vigilant in this respect.

**FOCUS: But what if new member countries doctor their figures – as Greece did – and trick their way into the euro area?**

Trichet: Let me be very clear on this. Never again will we accept budget figures that do not reflect the facts. Appropriate auditing must always be possible. As early as next month the European Commission will make proposals that will dramatically improve the relevant framework. This is absolutely critical.

**FOCUS: Your job and the crisis are both very demanding. Do you have the opportunity at all to see colleagues outside of work?**

Trichet: Yes, certainly. And that's important, too, as the high level of mutual trust that exists within the ECB, between the members of the Executive Board and the Governing Council, is in my view absolutely fundamental.

**FOCUS: Is Frankfurt a good location for meetings outside of your official schedule?**

Trichet: I think so. You have in this city and this region a combination of excellent cultural opportunities – both in music and in the visual arts – and a cosmopolitan milieu which is very cultivated.

**FOCUS: You come from Paris. Is Frankfurt not too provincial?**

Trichet: You will not be surprised if I tell you that Paris is unique!

**FOCUS: And Frankfurt?**

Trichet: When I arrived, I found I had underestimated three things. First, the range of cultural opportunities in the area. There are five opera houses within just 45 minutes of my flat: in Wiesbaden, Mainz, Darmstadt and Frankfurt. There are very few places in the world that can compete in this respect – perhaps New York, London and Paris. Second, the quality of what's on offer is very high indeed. I was very impressed, for example, by the sculptures in the Messerschmidt exhibition at the Liebieghaus or the Picasso theatre sets exhibited at the Schirn. I hope that I will find time over the next few weeks to see the much-praised Botticelli exhibition at the Städel. Third, as I have said, people here are impressively cultivated, as I saw for myself when the ECB launched its own Cultural Days.

**FOCUS: What are the highlights of your work as a central bank president so far?**

Trichet: When Economic and Monetary Union began, many were sceptical about whether it would be successful or even possible. As a representative of the French government, I negotiated the Maastricht Treaty with Horst Köhler, the current German President, who, like me, was then Undersecretary of the Treasury. Those were very important and inspiring negotiations, and we became friends. I am proud that the euro is as trustworthy as the Deutsche Mark used to be. The promise we made to our fellow citizens that the new currency would be as solid and credible as the best national currencies has been kept.

**FOCUS: What irritates you about Germany?**

Trichet: I deeply believe that the different European cultures complement each other. I was surprised at the beginning to see that any time a decision is taken in Germany, all the arguments against the decision are meticulously listed, even if that decision has already been agreed in principle. At first I was surprised, because in many other cultures, all the arguments that support your conclusion are given strongly preferential treatment.

**FOCUS: Is that wrong?**

Trichet: With time, I have seen that this German method is a good way of ruling out the possibility of serious mistakes.

**FOCUS: Has the fact that you have learnt German helped you?**

Trichet: It certainly has. At the ECB, we mostly talk in English. But in the corridors you're just as likely to hear German, French, Italian or Spanish, and many other languages besides. Having some knowledge of the German language has enabled me to better understand the culture of the country. Oversimplifying, I would say that the French and English languages seem to be very much designed to "communicate". My understanding of the German language is that it is very much designed to "think", with its verbs at the end of the sentence. I am not surprised that it is such a good language for philosophy.

**FOCUS: Are you trying to say that Germans are not as good at small talk?**

Trichet: Not at all! I just want to say that the German language itself is particularly well suited to reflection. In speeches, for example, speakers let the audience think along with them. Only at the end of a sentence is the audience able to understand exactly what is actually meant. This is why it is pretty unacceptable for people in the audience to whisper during a speech.