Jean-Claude Trichet: Interview with *The Times*

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, in *The Times*, conducted by Mr Sam Fleming on 13 June 2011 and published on 16 June 2011.

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The Times: There are two camps: one that emphases the benefits of the euro and another group that says look at what happened in Greece, Portugal and Ireland – this shows that the project is fundamentally flawed. Why are you in the first camp?

Jean-Claude Trichet: All advanced economies are still going through the aftermath of the worst crisis in 60 years. It could even have been the worst crisis since World War I, if central bank and governments had not taken tough and bold decisions. Had public authorities not acted, we would not have avoided a major depression. I am absolutely convinced of that.

What we are reflecting upon in Europe is not that different from the important discussions and reflections that are taking place in the US or Japan. Were we on a sustainable long term path on the previous business model? It seems to me that no big advanced economy – including the UK – can avoid to embark on a strategic reflection after this global crisis. It is not at all surprising that we in the euro area, as one of the big advanced economies, are reflecting on our business model, on our governance and measures to reinforce our resilience.

What is very important is that a bird's eye view of the euro area gives elements that are rather encouraging and which are often not perceived: the euro area as a whole is less indebted and far less in deficit on a yearly basis than the US and Japan. Our current account is balanced, and our growth has been rather encouraging since the recovery started in the third quarter of 2009. As regards growth and job creation, compared with the US we have more or less the same growth per capita and we created more jobs since 1999.

But this is no time for complacency in any respect. The big issue to be addressed is to strengthen our surveillance of economic policies by member states. These economic policies are very important in a single currency area – fiscal policy on one hand and macroeconomic policies, including indicators of imbalances and competitiveness, on the other hand. "Economic Union" has to be improved considerably. That being said, as regards "Monetary Union", twelve years after the launch of the single currency, I can say that the euro is there, it is credible and it maintained price stability even better than was expected by almost all observers. Annual average inflation over the past 12 years has been less than 2%, close to 2%. This is better than in the euro area countries over the last 50 years. As a stable currency the euro is undoubtedly a success.

But if you are in Greece, Portugal, Ireland or even to an extent in Spain you will look and say it is a success if you are in Germany or in Northern Europe but if you are dealing with the changed public services, or the unemployment levels, the euro doesn't feel like a success.

You have to judge the euro area as a whole. I fully agree we have to improve the interaction between national economic policies in a number of domains and the surveillance by the centre; that is clear. It's absolutely clear that a country like Greece, for example, had a long period of growth that was largely artificial, boosted by unsustainable fiscal expansion. In such a case, the correction after such a period is necessary to bring the economy back on a sustainable path. It is clear that in any large economy, and also in a single currency area, it is extremely important to prevent divergences of this dimension driven by distortions. We have to be aware such issues are inherent for virtually all vast continental economies.

A lot of central banks are emphasising the fragility of the recovery, yet at the same time the ECB is tightening policy. Why is there this different position between, for example, the Fed and Bank of England on one side and the ECB on the other?

It is not for me to comment on other monetary policies. What I would say is that in our case it is very important that we continue to anchor very solidly inflation expectations. We consider that such anchoring has been a very important element in the way we went through the crisis; we avoided not only the materialisation of inflation risks in normal times but, in these exceptionally difficult times since the intensification of the crisis in 2008, also the materialisation of deflationary risks.

We had some words from Barack Obama last week about the importance that this crisis is well-handled, saying if it is not well handled it could have serious consequences for the US economy. Would you share that view?

I have no particular comment on what the President of the United States said. What I would say is that it was very important to take the appropriate and bold decisions to cope with the private sector crisis, to draw all the lessons from this financial crisis as far as financial regulation is concerned, and to be fully aware of the challenges that the addressing of the financial crisis had for public signatures. We were not at ease with the idea that in the heat of the crisis, all countries were called to spend as much as possible, embark on deficits as much as possible. I believe that the tensions we are observing in Europe today are part of a much more global phenomenon, namely the pressure on the sovereign signatures in the advanced economies. The current tensions on some euro area sovereigns are therefore not only a euro area issue, but also have a European aspect and a global aspect. In comparison with most emerging economies, most advanced economies have to cope with a real challenge as regards their fiscal policies.

The projections now suggest that Greek obligations to the official sector could in a couple outweigh Greek obligations to the private sector. That underlies why those in Germany say we should have private sector involvement. Do you not accept their logic?

The position of the Governing Council, which is public, is that we are not taking any decision in this domain. It is first of all for the executive branches to see what they want to do. We are telling them that to embark in a compulsory way of dealing with this issue is not advisable. We are telling them that doing anything that would create a credit event or selective default or default is not advisable. In any case it is their decision, and then we will take all the appropriate decisions ourselves as far as the Eurosystem is concerned, in line with our statutory obligations. But again, we are saying very clearly that they should avoid compulsion, credit event, or selective default or default. Our position is clear.

Do you think a compromise is possible on this?

No other comment.

There was a story a few weeks ago that some in Greece were considering a withdrawal from the euro. Has anyone in an official position ever raised with you that possibility?

No.

And likewise Ireland and Portugal?

Correct.

What would you say would be the consequences of such a thing?

It is not a working assumption that anybody considers.

You have bailout fatigue in Germany and austerity fatigue in Greece. Do you worry about the strain this situation is putting on the compact between democratic leaders and their populations?

We are living in democracies and we have to fully respect their functioning. It calls more than ever to communicate as clearly as possible to our people all the elements on the situation and the economic and financial diagnosis. It is true for all countries, including those in an adjustment programme and those contributing to the financing of these programmes.

The Aachen speech talked of a common European finance ministry: it seemed this would be an EU27 idea. Do you worry that the likes of Britain would see this as a threat to their sovereignty?

I mentioned explicitly it would be in a long-term perspective, which calls for changes of the Treaty and which is based on the assumption that, at a certain moment in history, Europeans would decide to create a new kind of confederation of sovereign nations. I said very clearly this is not for today. We know today what we have to do. It would be for the day after tomorrow. For that, we will depend entirely on the people of Europe and on its will.

Perhaps this is a day after tomorrow question also; do you see it as Britain's destiny to join the euro one day even if it seems unlikely today?

I always said the UK was much welcome in the euro area and that it depended entirely on the will of the UK government and people. It is as simple as that. That being said, even without the UK we are 331m people, the same order of magnitude as the US. Again, the UK is welcome and it depends entirely on the UK to decide. In any case, I am sure that the UK is a European country at the heart of Europe, by all means.

Does the Latin American debt crisis offer any lessons for this one?

What is striking to see is that virtually all countries and economies that had large problems in the past decades drew the lessons from their problems and became much more resilient than the advanced economies in the occasion of the last crisis of 2007–08.

For advanced economies now, financial sector reform is so important not only to make this sector much more resilient, but we also have to take into account that it is extremely unlikely that our democracies would put for a second time 27% of GDP of taxpayers risk on the table. It is very likely that the decision-making processes in our democracies would not allow us to avoid another great depression if we had exactly the same kind of challenge.

You were the author of the 3pc limit in the Maastricht Criteria and, when you were confirmed by the European Parliament, even then you were emphasising over and over again the importance of getting the fiscal side right. No one listened. Why will they listen this time?

They are paying a high price after a practice of benign neglect. We were preaching in the desert for a long period of time. If I have a message today, it would be to all governments, not only in the euro area, but particularly in the euro area, that they have to take fiscal policy very, very seriously. Not only fiscal policy but also the monitoring of competitive indicators, the monitoring of unit labour costs.

The other big lesson that emerges from reading about your earlier experiences before joining the ECB was your role in the franc fort. How important was the benefit that France evidently received from that policy in influencing the way you have approached your job in the ECB?

I was in France the fervent advocate of what I called with a number of colleagues "competitive disinflation": it was to say that with inflation and successive depreciation of the currency or devaluation countries don't have a winning strategy but a losing strategy. That was the main message of "competitive disinflation".

I have heard it said that what Europe faces as a whole now is a crisis of competitiveness, vis-à-vis China for instance. What Germany succeeded in doing much of the West hasn't, and China provides a huge wake-up call for the West.

You have a formidable challenge which is coming from all emerging markets. The crisis reveals a lot of weaknesses in the advanced economies and we all have to accept that and reflect on that. All advanced economies, the US, the euro area, the UK, or the single market of the EU-27, clearly we have a major new challenge, which is to adjust to an important role of China, India, Latin America and all the emerging countries in our global economy.

The fact we have to review our business model is obvious. A lot of further attention is warranted to the appropriate flexibility of our economies. Structural reforms are absolutely necessary. Education, science and research & development are key success factors. The progressive diminishing of PhDs in science and technology in the many advanced economies is not a good sign.

The growth and catching-up of the emerging world is exactly what we wanted after World War Two. It calls for us to adapt permanently, perhaps more rapidly than we would like.

One of the impacts of the rise of emerging economies is the strain it puts on resources. This is also going to put a lot of strain on central bankers: how should central bankers respond via monetary policy to what could be a secular long-term increase in the price of raw materials?

Globalisation is a Janus with a double face. You have on the one hand this formidable challenge of volatile oil and commodities prices. On the other hand you have the formidable disinflationary trend of manufacturing goods, which are produced at lower prices. We have to deal with these simultaneous trends that are very complex and are accelerating changes of relative prices. It is a formidable challenge for all central banks of the world, not only in the advanced economies of course. That is something that I trust central banks can do in the medium term if they are vigilant, if they are attentive. In the very long run, I tend to be optimistic. I was trained as a scientist at the beginning. I trust that we will find technological ways to get rid of this incredible dependency on fossil energy or on the large number of minerals and commodities. It is an absolute must for our world, our environment and our civilisation. I therefore trust that we will deliver.

What are your plans after you retire after the ECB?

I have no plan. I will see after the end of my mandate. At the present moment I still have close to five months ahead of me and quite a lot of challenges obviously.