

Jean-Claude Trichet: Remarks at the farewell event

Speech by Mr Jean-Claude Trichet, President of the European Central Bank, at the farewell event, European Central Bank, Frankfurt am Main, 19 October 2011.

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Sehr geehrte Frau Bundeskanzlerin,
President of the European Parliament,
President of the European Council,
President of the European Commission,
President of the Eurogroup,
Dear President Giscard d'Estaing,
Dear Chancellor Helmut Schmidt,
Ministers, Excellencies, fellow Governors,
Dear Members of the ECB staff,
Ladies and gentlemen,

It is more than thirteen years since the European Central Bank was founded, and almost thirteen years since the Euro was launched. As my mandate as President of the ECB draws to a close – and throughout my eight years of office – I profoundly feel the high level of trust and confidence the European democracies have decided to bestow on the ECB. Our primary mandate of preserving price stability, as well as our independence in fulfilling this mandate, were given by the people of Europe on a multinational and multipartisan basis.

In being fully faithful to our mandate, we are faithful to the democratic will of the Member States.

With my five colleagues of the Executive Board, my twenty-two colleagues of the Governing Council, as well as with the dedicated staff of the ECB, we have been called upon to realise a long-standing and ambitious idea of the people of Europe.

The single currency is an ancient idea, which has deep roots in history. Without going back to the Roman Empire or the Carolingian Empire, six centuries ago Georges Podiebrad, the king of Bohemia, was calling for a common European currency.

Well before the Werner report, published forty years ago, great thinkers of all European nationalities have called for unity with a single market, a single economy and a single currency. These historical roots put in perspective the accomplishments of the Euro as a new currency, the present challenges of the euro area and the future of the Economic and Monetary Union.

The achievements of the Euro as a currency have to be judged against its primary mandate. Over nearly thirteen years, and in spite of a series of major global economic and financial shocks, average yearly inflation has remained at 2.0% for 332 million fellow citizens. Despite the successive rises of the price of oil and commodities, it is the best result, over such a period of time, of the 50 last years in any large country in Europe. In Germany, with average yearly inflation of 1.6% over 13 years, it is a better result than before the Euro.

Equally important is the low level of the inflation expectations. The ECB Governing Council is providing a very solid anchoring of price stability over the next ten years, fully in line with our definition: less than 2%, but close to 2%.

The Euro is a credible currency that has proved to be a very good store of value, backed by solid fundamentals.

These last eight years can be divided into two periods of equal duration.

The first four years were challenging, but no more or less than usual for a central banker. The ECB had to preserve stability after the bursting of the dotcom bubble and in the face of high and volatile oil and energy prices. We fought hard to preserve the fiscal governance of the Euro area, at a time when the three major countries wanted to weaken the Stability and Growth Pact. And, as always, we had to take our responsibilities for our own decisions; also when increasing interest rates, which at times did not please many governments, market participants, or the international financial institutions. The ECB has been fiercely independent and will remain so.

After four years came the financial and economic crisis.

Not a crisis like many we have known over the last 50 years. Not like the first oil shock of 1973 or the second oil shock of 1980. Not an event like the sovereign debt crisis of the 1980s and beginning of the 1990s. Not like the Asian crisis or the dotcom bubble bursting in the early 2000s.

Since August 2007, we have experienced a crisis of a new kind. A global phenomenon that has no equivalent since World War II, in its nature and dimension. For the first time since 66 years, the epicentre of the global crisis was the financial system of the advanced economies.

The impact of the crisis on the real economy could have been of the magnitude of a great depression, had central banks and other public authorities not reacted with rapidity and resolve.

For its part, since the financial turbulence began, on 9 August 2007, the ECB Governing Council has applied a “separation principle”. It has separated the “standard” measures – namely the interest rates designed to deliver price stability over the medium term – from the “non-standard” measures – designed to help restore a better transmission of our standard measures at times of market disruptions.

The credibility of the Euro and the solid anchoring of inflation expectations over the next 10 years have been well preserved throughout the crisis. This is because we have kept an unwavering sense of our direction – price stability – thanks to our interest rate policy, whilst at the same time being alert in taking appropriate non-standard measures – full allotment of liquidity at fixed rates, purchase of covered bonds, and the Securities Market Programme. And again, all decisions of the Governing Council have been taken in full independence.

Since the crisis began, I have thought of the qualities expected from central banks as being analogous with the two ethical virtues famously suggested by Max Weber nearly a century ago: the ethic of conviction and the ethic of responsibility.

I proposed an analogy, to associate the “standard” measures with the ethic of conviction and the “non-standard” measures with the ethic of responsibility. It is equally important to preserve integrity between intention and action, and between action and consequences. Our “separation principle” proposes a way to preserve both.

Max Weber said himself: “Das bedeutet nicht, dass eine Gesinnungsethik gleichzusetzen ist mit Verantwortungslosigkeit oder dass eine Verantwortungsethik gleichzusetzen ist mit prinzipienlosem Opportunismus [...]. Die Gesinnungs- und die Verantwortungsethik sind keine Gegensätze, sondern ergänzen einander.” “This is not to say that an ethic of ultimate ends is identical with irresponsibility or that an ethic of responsibility is identical with unprincipled opportunism (...). The ethic of conviction and the ethic of responsibility are not opposites. They are complementary to one another.”

The crisis has revealed fault lines in all major advanced economies of the world. The sustainability of their medium to long term strategies has been put into question. Europe – and the Euro area in particular – has shown positive fundamentals, on a consolidated basis, in particular, as regards its overall fiscal situation and domestic and external equilibrium. But on a country-to-country basis the major weakness of the Economic and Monetary Union lies in its insufficient governance of the economic union, while the monetary union has delivered according to expectations.

The need to strengthen economic governance is the first lesson from the crisis. On behalf of the Governing Council, I have continuously called for a “quantum leap” in governance. The “six packs” just approved represent a significant step. Implementation will show if they constitute a quantum leap. I appreciate, President Buzek, the resolve of the European Parliament in the discussions which took place with the Council.

What is now necessary is to clarify crisis management in three dimensions: reinforcing the EFSF’s capacity to ensure financial stability, based on convincing national fiscal and structural policies; strengthening the balance sheets of the European banks; and working out an appropriate solution for Greece’s medium term adjustment.

This clarification is urgent. I think the famous saying of Jean Monnet – « Les hommes n’acceptent le changement que dans la nécessité et ils ne voient la nécessité que dans la crise » “people may accept change when they are faced with necessity, and only recognise necessity when a crisis is upon them” – captures the situation well: a global crisis is, indeed, upon us. A farewell is a time for reflection on the past and the present, but it is also an opportunity to reflect about the future.

We just had the privilege to listen to the two founding fathers of the European Monetary System, the precursor of the single currency of the Europeans. I thank them very much for having been extremely generous in giving us the benefit of their experience and their great wisdom.

I will take the risk of expressing personal views and not necessarily views of the Governing Council of the ECB. In the long-term historical perspective, Europe is called upon to complete the design of what it calls “Economic and Monetary Union”. As I already said, would it be too bold, in this future Economic and Monetary Union, with a single market, a single currency and a single central bank to envisage also an executive branch? Not necessarily a ministry of finance that administers a large federal budget. But one that would exert direct responsibilities in at least three domains: first, the rigorous surveillance of both fiscal policies and competitiveness policies with the capacity, in exceptional cases, to take decisions immediately applicable in a particular economy that puts the euro area financial stability in danger; second, all the typical responsibilities of the executive branches as regards the union’s integrated financial sector, so as to accompany the full integration of financial services; and third, the representation of the union in international financial institutions.

Jean Monnet again once wrote: « Personne ne peut encore dire aujourd’hui la forme qu’aura l’Europe que nous vivrons demain, car le changement qui naîtra du changement est imprévisible ». “Nobody can say today what will be the institutional framework of Europe tomorrow because the future changes, which will be fostered by today’s changes, are unpredictable.”

I trust that today’s changes, triggered by the global crisis, are precisely one of those changes that Jean Monnet expected able to foster a new institutional framework.

In any case, these are decisions which can be taken only by our democracies, by the people of Europe to which we are accountable.

Whatever the future holds, you can be sure that the ECB Governing Council will continue to be faithful to its primary mandate and that the ECB, together with the Eurosystem, will continue to be an anchor of stability and of confidence.

I present my best and warmest wishes to Mario Draghi, my successor, who has given the Governing Council the benefit of his wisdom and experience during these last years. He has taken with all of us our collegial decisions. His eminent qualities will make his future captainship of the European monetary team, together with the Executive Board and the Governing Council, a great success.

Let me draw to a close on a personal note and express my thanks to all the people I have worked with over the years on the project of Europe's Economic and Monetary Union. In particular today, I would like to pay tribute to my colleagues here at the ECB, the current and former Executive Board, Governing Council and General Council members. I would like to pay tribute to all ECB staff. All members of staff have been decisive in the achievement of our primary goal. They deserve full appreciation and gratitude for all their dedication, commitment, professionalism and very hard work.

The present calls for immediate action. The future calls for a vision of where we are going, a sense of direction.

Immediate action. Goethe famously said: "Wissen ist nicht genug; wir müssen es anwenden. Wollen ist nicht genug; wir müssen es tun!"

"Knowing is not enough; we must apply. Willing is not enough; we must do." I think this applies admirably to the sense of action which should inspire Europe in the coming days.

And sense of direction. Jean Monnet had for us, for our future, this exclamation: « Continuez, continuez, il n'y a pas pour les peuples d'Europe d'autre avenir que dans l'union ». "Continue, continue. There is no future for the people of Europe other than in union." And Alcide De Gasperi: "è la volontà politica di realizzare l'Unione che deve essere il fattore determinante, la forza di propulsione". "The most important factor, which must prevail on others, is the political will to build the Union."

I thank you for your attention.