

Jean-Claude Trichet: Interview in *Il Sole 24 Ore*

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, in *Il Sole 24 Ore*, conducted by Mr Beda Romano and published on 9 April 2010.

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Il Sole 24 Ore: *Greece is in dire straits as it struggles with a huge public debt and a fall in competitiveness. Some market players and newspaper commentators see Italy as being the next in line to experience a financial crisis in the euro zone.*

Trichet: Of course, Italy is not at all in the same situation of Greece. Your country has shown resilience in this difficult period. In particular it was able to contain its yearly budget deficit and it has committed to get back to a sustainable situation according to the European rules. The ECB strongly encourages it to implement rigorously this programme. This said, the current crisis has demonstrated that all 16 countries of the euro zone must work hard, in a determined and efficient way, in order to make their economies more flexible and elevate their growth potential thanks to determined structural reforms. Improving labour productivity in particular is good for export growth and job creation. If this had been done more efficiently in the last years better results would have been attained in Italy as well as in the euro area as a whole.

Il Sole 24 Ore: *The EU plan to help Greece relies on bilateral aid from EMU countries and on the involvement of the International Monetary Fund. The ECB was clearly against the IMF participation. What do you make of the EU plan?*

Trichet: I was not against the IMF involvement in itself. I was against the involvement of the IMF alone. I have always been in favour of the maximum level of responsibility exerted by the governments of the euro area as is prescribed by the Stability and Growth Pact. The pact is at the very heart of EMU: it calls for member countries to assess and judge the fiscal policies of their peers; this peer's surveillance can impose sanctions. In the days preceding the EU meetings, I called all governments to live up to their treaty responsibility and to the provisions of the Stability and Growth Pact which is essential for the EMU to function well. From this point of view, the declaration of the euro area Heads of State or Government is appropriate. It is also a good and workable solution.

Il Sole 24 Ore: *Do you expect it will be used?*

Trichet: At this moment in time I don't expect this mechanism to be necessary. Greece should proceed with its recovery program in a very determined way as committed in front of the Eurogroup.

Il Sole 24 Ore: *Is a default of Greece a distinct possibility as some commentators seems to expect?*

Trichet: It is not an issue, taking into account the decisions taken by the Greek government to reduce the public deficit and the statement by the euro area Heads of State or Government.

Il Sole 24 Ore: *Will the current crisis suggests a slowdown of the EMU enlargement process?*

Trichet: Participating in the euro zone requires from all member governments sound fiscal policies, a sound monitoring of production costs and structural reforms. Today's difficulties have shown that a bad management influences negatively all participants, while a good one is positive to all, given how our economies are closely intertwined because of the single currency. As I said before, peer pressure is a crucial aspect of the euro zone functioning and it has a profound economic rational and legitimacy. Therefore it is also true that to enter the euro zone there must be an overwhelming sentiment within society that the country is

preparing to share a common destiny with the other members. This calls, in my opinion, on newcomers to have a clear bipartisan agreement on the desire to join EMU.

II Sole 24 Ore: *In a certain sense participation in the euro area must have both a multinational and a multipartisan framework.*

Trichet: That's correct. We are participating in an endeavour of great historical importance. One cannot jump in and jump out of the euro area as one hops on and off from a bus. Participation in EMU commits the destiny of a country. At the start there were 11 member states; today we are 16. Nine other countries have no "opting out" clause and are supposed to enter the euro area when they meet the criteria. We will see what happens. Needless to say that any country that seeks to join EMU will have to fulfil all the Maastricht criteria not only for one year but also on a sustainable basis.

II Sole 24 Ore: *How do you judge the mood in the countries that are queuing to enter the euro area? Do you see a broad acceptance of the idea that EMU commits the destiny of a country?*

Trichet: In some cases there is a clear and broad political consensus to join EMU. In others there is not. In any case I consider that you have to judge the process through the lenses of history. This said, I do believe that all EU institutions and governments should point out the euro area's meaning in terms of sharing a common destiny. More specifically, we all must understand that we have to fully accept peer surveillance to preserve the good functioning of our monetary union.

II Sole 24 Ore: *What about Germany: Convincing the Federal Republic to help Greece was a long and difficult process. Do you think that Germany believes in the common destiny created by the euro?*

Trichet: I trust that all EMU countries are aware of this fact. And I trust the Germans as well as the Italians, the French, the Spanish, the Dutch and all other fellow citizens were all aware of this aspect when they joined EMU. By the way Germany demonstrated how attached it is to the single currency when it argued in favour of the Stability and Growth Pact, which is precisely based on peer responsibility and peer pressure and is a vivid illustration of how our destinies are interconnected. Therefore, yes, I believe that Germany is fully aware of the fact that we are sharing a common destiny. Remember in the run up to the Maastricht treaty: both Helmut Schmidt and Helmut Kohl were at the forefront of European integration with their peers, following in the footsteps, in particular, of Robert Schuman and Alcide De Gasperi.

II Sole 24 Ore: *Regarding Germany, the French finance minister did criticize its economic model based on exports rather than internal demand, pointing out that its partners cannot count sufficiently on German imports. Are you in agreement with Christine Lagarde?*

Trichet: No, and for a number of reasons. Firstly, had Germany not increase its competitiveness in the first 11 years of EMU by keeping its costs and inflation under control, the euro area as a whole would have had the threat of higher inflation and therefore a tougher monetary policy. Secondly, Germany, with a large current account surplus, is financing the current account deficit of other countries members of the euro area. Thirdly, the Federal Republic is a major world competitor in sectors such as machine tools and industrial equipment. Its global competitiveness is a major asset for the euro area given how closely intertwined EMU countries are. Therefore, I would point out to all those who argue in a similar fashion that what looks as a disadvantage for the euro area as a whole from a specific angle is in reality an advantage when seen from the right perspective.

II Sole 24 Ore: *But in a more general way Ms Lagarde did point out that the euro area is experiencing large economic imbalances. Is there a Europe-wide agenda to solve this problem?*

Trichet: The aim must be to elevate significantly growth potential in all countries through the structural reforms that are overdue in Europe. This will remain strategically important in the

next decade. The 2020 Agenda will have to be implemented in a more effective way than the 2010 Lisbon Agenda, as President Van Rompuy has recommended. More generally let me say that given the nature of monetary union, some countries, because of a rapidly aging population for example, will have to run current account surpluses, while other countries with very significantly fewer pension liabilities will not be called to run such surpluses. Similarly, some countries, to regain competitiveness, will have to keep inflation below the EU average. So a certain degree of dispersion of economic parameters might be possible within an integrated economy which has the dimension of the United States, provided this dispersion has economic justification.

***II Sole 24 Ore:** Even accepting a period of deflation, with all the possible social consequences this might have?*

Trichet: Yes. We are an immense economy. It is normal that some regions, after growing above the EMU average for some time, and after having accumulated high national inflation, experience a correction and therefore a period of negative inflation, as it is currently happening in Ireland.

***II Sole 24 Ore:** The recent EU declaration regarding the Greece plan says that member states should push ahead toward a stronger economic governance. What are you expecting: a more coordinated approach or a transfer of competencies from the national to the supranational level?*

Trichet: As citizens we all have personal opinions on this matter. As a citizen, I would call myself when time comes and when people are ready to move towards an accomplished political federation. As of today our aim is to make the current institutional framework work as best as possible. We call for the full respect of the present Treaty. EMU is politically a bold endeavour: don't forget that with regard to fiscal policies the Treaty allows the college of governments to impose decisions on other governments and parliaments. Implementing fully the Treaty and the Stability and Growth Pact calls for a much stronger governance in the future than what has been experienced in the past years.

***II Sole 24 Ore:** We are at the very heart of democracy: no taxation without representation.*

Trichet: I repeat: peer surveillance on government and parliament as regards fiscal policy is a bold political endeavour. I do believe that by going back with great determination to the letter and the spirit of the Stability and Growth Pact we will make a jump in terms of governance of the 16 members of the euro area, and that jump is overdue. Moreover, the 2020 Agenda is also extremely important to reinforce economic governance in the EU as a whole, at the level of the 27.

***II Sole 24 Ore:** A last word: are you optimistic that EMU will survive the current crisis?*

Trichet: Absolutely. Sometimes, we don't realize how much Europe has achieved in the last half a century. The founding fathers could not even imagine the creation of a Parliament elected by universal polling, of a European Court of Justice determining jurisprudence for Europe as a whole, of a fully integrated single market and of a single currency, today for 330 million fellow citizens and 16 countries. Europe has also proved in the past two years that it was able to cope with the worst global crisis since World War I. This has been in particular true for the central banks, the ECB as well as the National Central Banks, in Italy Banca d'Italia. We are experiencing a challenging historical period at a global level and I am fully confident in the capacities of Europe and of EMU to surmount the difficulties of the time.