

## **Jean-Claude Trichet: Interview in *Die Zeit***

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, in *Die Zeit*, Germany, conducted by Mr Mark Schieritz on 9 February 2011 and published on 16 February 2011.

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***DIE ZEIT: Mr Trichet, you've been tirelessly battling this euro crisis for quite some time now, and yet it's still not over.***

Jean-Claude Trichet: There is no euro crisis. The currency has retained its value very well and is credible and remarkably stable – not just in one country, but in the euro area as a whole. Our problem is that the fiscal policies of some member countries have not been sound and that some countries are also lacking in competitiveness.

***Zeit: What needs to happen?***

Trichet: Here in Europe, we have an economic and monetary union. We at the European Central Bank take care of the monetary union; it is up to politicians to very significantly improve the functioning of the economic union. The member countries have to do their homework. We've always demanded this, and there is no longer any excuse for sitting back and doing nothing.

***Zeit: That's precisely why Angela Merkel has proposed her "pact for greater competitiveness".***

Trichet: We do not yet know what exactly this pact comprises. If its aim is to improve the functioning of the economic union through greater coordination and integration, we will support it. Ironically, however, we are already talking about this new pact, while the countries of the euro area are, at the same time, still discussing the reform of their Stability and Growth Pact and the other elements of economic governance.

***Zeit: ... which, among other things, set upper limits for national budget deficits ...***

Trichet: And these reforms are, in our view, not ambitious enough. The proposals made by the European Commission went in the right direction, but were already not ambitious enough in our view. And the Member States – including Germany, France and other countries – have watered them down further. Our message is clear: we have to go as far as possible in reinforcing European economic governance, at all levels. We won't give up on that.

***Zeit: Calls for more Europe aren't going down that well with the public. Is Europe really ready for greater integration?***

Trichet: We have to tirelessly explain to people in the 17 countries of the euro area what the rationale for the historic process of establishing a highly integrated European Union is. All in all, that process has proceeded remarkably successfully for more than half a century now.

***Zeit: So, what is its rationale?***

Trichet: European integration is essential for ensuring the peace, stability and prosperity of the nations of Europe. All of the reasons we had to engage in this historic endeavour after the Second World War are still valid. The balance of power is shifting at the global level. New powers are on the rise in Asia, Latin America and Africa. We are experiencing a very rapidly changing new world with a lot of opportunities, challenges, risks and uncertainties. European unity is more important than ever.

***Zeit: What role does Germany play in that?***

Trichet: Germany played a decisive role in the establishment of the Treaty of Rome in 1958, the Single European Act in 1986 and, in particular, Monetary Union. Germany has also

succeeded remarkably well in regaining its competitiveness over the last ten years. Your country is now reaping the rewards of its patient efforts, and the euro area is benefiting from this. A strong German economy is good for Europe.

***Zeit: In Germany, of all places, Eurosceptic voices are now being heard. Are the Germans even ready for Europe?***

Trichet: I travel a lot in Germany, and my impression is that while the initial reaction may be sceptical, deeper down everybody is aware of the importance of our historic project, aware of the importance of close cooperation and friendship between the nations of Europe. I believe people know that there is no other way of achieving peace, prosperity and stability.

***Zeit: Even Germans are feeling anxious – they have the impression that Monetary Union is no longer what they were promised. Rules were broken. People are apprehensive that the euro will become a soft currency.***

Trichet: There are many ways of seeing things in a democracy. Concerns like these were voiced even when I was involved in negotiating the Treaty of Maastricht with Theo Waigel, the Minister of Finance, Horst Köhler, Staatssekretär, and the other members of the German delegation. But the facts are much more important. For instance, it was unfortunately Germany and France which weakened the Stability and Growth Pact in 2004 and 2005. It's also a fact that price stability is greater today than during the period of the Deutsche Mark. The average annual inflation rate in the euro area over the past 12 years has been 1.97%, and in Germany only 1.5%. The average annual inflation rate in Germany in the 1990s prior to the introduction of the euro was 2.2%. In the 1980s it was 2.8%, and in the 1970s it was even higher.

***Zeit: It has been like that in the past, but will it be like that in the future?***

Trichet: It has been like that in the past, despite the fact that we have had to cope with difficult challenges over the last 12 years, because the Governing Council of the ECB has taken the appropriate decisions. And we are determined to always take the necessary decisions. But on top of that, we need a quantum leap in terms of economic governance: better coordination between countries, clear rules for economic policy and sanctions for misbehaviour which are as automatic as possible. Some major changes must be made here. That's the lesson of this crisis. Before it erupted, governments thought they could practise benign neglect. Now it is obvious that that is no longer the case. And we are telling them that.

***Zeit: What happens to democracy if more and more decisions are taken in Brussels? The EU does not have the legitimacy that a nation state has.***

Trichet: It is true that a functioning economic and monetary union presupposes that part of the sovereignty of the participating countries is exerted at the level of the union. It is obvious as regards monetary policy, which is a single policy decided by the Governing Council of the European Central Bank. But it is also true as regards fiscal policy. The Stability and Growth Pact, with its sanctions, constrains budgetary decisions and therefore limits national sovereignty in terms of fiscal policy. As long as the transfer of sovereignty to European institutions has been decided by our own democracies, it is fully legitimate.

***Zeit: And we'll end up with a European super-state?***

Trichet: The people of Europe will decide where they want to go in terms of the political and institutional framework. They will decide whether or not to create a fully fledged federation, a United States of Europe. But we are a long way from that at the moment.

***Zeit: For you personally, that's not fast enough, is it?***

Trichet: Speaking as a European citizen and not as President of the European Central Bank, I am convinced that we should go further than planned. But in any case, we should never forget that it is our people who will decide. The concept of modern state sovereignty was devised in Europe. It goes back to the Peace of Westphalia, which reorganised the continent

politically after the Thirty Years War. With the European Union, we are drawing up a new concept: together, a number of sovereign states have decided to exert part of their sovereignty at the level of the European Union. This is the current European response to a question which is not just European, but global, with the rapid integration of global finance and the global economy.

***Zeit: The scepticism felt by many people also has to do with their fear of inflation, which recently has risen sharply. Are we now paying the price for the crisis policy?***

Trichet: The one has nothing to do with the other. We are observing a global increase in the prices of oil and commodities. That's a result not of the crisis, but of the current rapid economic recovery in emerging markets.

***Zeit: So you will have to raise the interest rate?***

Trichet: As I said at the last two press conferences in January and early February, all observers know that we will always take the decisions necessary to deliver price stability in the medium term. What is essential is to avoid what we call "second-round effects": namely a situation where a transitory oil shock becomes entrenched in other prices, particularly through a wage-price spiral.

***Zeit: In the 1970s such a spiral of increasing wages and higher prices led to inflation getting out of control. How will you stop history from repeating itself?***

Trichet: A central bank must do this – and can, if it is credible and takes the appropriate decisions. The last 12 years have seen prices surge in commodity markets time and again. We have ensured price stability by taking the necessary decisions.

***Zeit: Even if you continue to do so, this will not solve the problem of increasing commodity prices.***

Trichet: First, we, as central bankers, are responsible for avoiding second-round effects. But the international community is not powerless when faced with such global phenomena. People in large emerging economies are changing their consumption patterns, which is fuelling food prices. It is quite possible that this will continue for a while longer. However, at the same time, there are huge expanses of land in Africa which could be used for agricultural purposes. We need to provide the right incentives for African farmers in this respect. This is an important global issue which should be taken up by bodies such as the G20. This particular problem is not impossible to solve in the medium and long run.

***Zeit: Returning to the issue of inflation. The problem is in fact that, during the crisis, the central banks – including the European Central Bank – flooded the economy with money. No one knows if you or your successor will be able to reabsorb this money in a timely fashion.***

Trichet: First of all, the ECB has not flooded the economy with money. While adopting a range of non-standard measures, we have never lost sight of the fact that our mandate is to deliver price stability. For example, when we purchase government bonds in order to help restore a better monetary policy transmission mechanism, we immediately withdraw this liquidity from the economy.

***Zeit: Those in the political arena have an interest in interest rates remaining low for as long as possible, though – if only on account of the massive government debt. This could become a problem for you.***

Trichet: We refused to reduce rates in 2004 against the advice of the German Chancellor, the President of the French Republic and many other politicians. We increased rates in December 2005 with ten governments expressing their opposition at the time. We also raised them in 2008, even though we were criticised for doing so. We are independent and we know what our Treaty mandate is.

***Zeit: Nevertheless, it is a difficult situation for you. Germany is booming and actually needs higher interest rates, while southern Europe is in crisis and would not be able to cope with this.***

Trichet: It is an unavoidable characteristic of very large economies that the speed of growth varies across the individual states or countries. This phenomenon also exists in the United States. We, at the European Central Bank, must concern ourselves with inflation in the euro area as a whole. This means that the individual countries must accept the monetary policy as a given and adjust their national policies accordingly.

***Zeit: Which means?***

Trichet: When a country experiences a boom, it needs to make its own national policies – namely fiscal policies, wage policies, structural policies and prudential supervisors' autonomous decisions – more restrictive in order to avoid the economy overheating or speculation getting out of control. That goes for every country in the world, but all the more so for members of a monetary union.

***Zeit: So, German politicians should put the brakes on?***

Trichet: If that were to become necessary, they would definitely have the instruments to do what was needed. But let us remain cautious: although Germany has made up a lot of ground, output has not yet returned to pre-crisis levels. The recovery has been remarkable, more rapid than in other countries. But it has still to be fully confirmed. It is too early to declare the crisis over.

***Zeit: Germany is becoming stronger, while other countries are becoming weaker. This threatens the balance in the euro area, don't you think?***

Trichet: No, I don't. Just as the balance wasn't in danger when Germany itself was growing slowly in the first ten years of the euro. In large currency areas, we see economies oscillating around the average over the years. Sometimes they're up, and sometimes they're down. In any case, the current growth in Germany is good for Germany, good for the euro area and good for Europe as a whole.

***Zeit: Would it help the stability of the euro area if your successor were a German?***

Trichet: The appointment of the President of the ECB is in the hands of the Heads of State or Government.

***Zeit: What is your opinion of Axel Weber's withdrawal in this context?***

Trichet: This is Axel's personal decision, which I respect. Over the years I have had good collaboration with him on a wide range of issues.