

Jean-Claude Trichet: Interview with *Aachener Zeitung* on the occasion of the awarding of the 2011 International Charlemagne Prize of Aachen

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, on the occasion of the awarding of the 2011 International Charlemagne Prize of Aachen, conducted by Ms Birgit Marschall, Mr Bernd Mathieu and Mr Peter Pappert of the *Aachener Zeitung*, and published on 27 May 2011.

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Question: Mr President, people in Europe are worried about the debt crisis in the euro area. What is your take on the current situation?

Trichet: We are experiencing a dramatic global financial crisis, which is also impacting on the euro area. This is the deepest recession since the Second World War. All the advanced economies – the United States, Japan and Europe – must draw lessons from it. The outlook for the monetary union is favourable: the euro and prices are stable. The average inflation rate in the euro countries over the last 12 years has been just under 2%, and in Germany it has been as low as 1.5%; this is a better result than was achieved during the 50 years of the Deutsche Mark.

Question: So where does the problem lie?

Trichet: The real problem in the euro area is that the economic union – the “E” in EMU – between the euro countries has not been properly implemented. There is a need for much improvement on that score. The most important lesson from the crisis is that the euro countries must coordinate their economic and financial policies better – and do so urgently.

Question: We are a long way from there, look at Greece.

Trichet: In recent years the EU governments have ignored the rules of the Stability and Growth Pact. Unfortunately the large countries – i.e. France, Germany and Italy – tried to weaken the Stability and Growth Pact or even rescind it in 2004 and 2005, when they themselves were not complying with it. I expressed grave concerns at the time, because the letter of the Pact was weakened and the spirit of the Stability Pact was being violated. The weakening of the Pact had devastating consequences. We urgently require effective and reliable governance that conforms to common economic goals.

Question: The Heads of State or Government recently agreed on tougher rules for the Stability Pact. Is this enough?

Trichet: No. We are asking the Heads of Government, the European Commission and the European Parliament to go further and to be far more rigorous. We need automatic sanctions for excessive deficits. The entire process – from the discovery of looming budget difficulties to the actual imposition of penalties – should be automatic. We saw in the past all the dangers of the complacency of governments.

Question: Is it conceivable that a euro country might leave the single currency?

Trichet: No, that is entirely unrealistic. There's not even any provision for it in the EU Treaty. The euro area is a community that shares the same destiny: each member is dependent on the others.

Question: Why is the ECB taking such a tough stance against a rescheduling of Greece's debt?

Trichet: The adjustment and reform programme agreed by the EU and the International Monetary Fund with Greece does not envisage restructuring. Greece must implement the programme fully and rigorously; this is very important to correct the errors of the past and pave the way for sustainable job creation.

Question: Many Greeks are not accepting this reform programme and taking to the streets.

Trichet: It is never easy when a country has to put right many years of economic and financial mismanagement. Greece has lived beyond its means for years while continually raising public-sector pay. It is absolutely essential to reform the country so that it can stand on its own two feet once again. It is in the Greeks' own best interests that growth is generated and jobs are created again in future.

Question: In Germany, there is growing discontent among politicians and taxpayers about the billions upon billions of assistance. Does that worry you?

Trichet: When we decided to have a single market with a single currency, we created a strong interdependence. If a member gets into difficulties – despite the surveillance which was supposed to be exercised by the other governments – it is the responsibility of all other countries to oversee the fiscal and economic adjustment. Where necessary, they can support the adjustment, as the IMF does, with non-concessional loans under strict conditionality.

Question: Many people on the streets think otherwise. They've been saying things like: "If we give Greece even more money, then we don't have it here at home – for tax cuts, for example." What do you say to the German people?

Trichet: I think it is certainly right to say that very strong conditionality is of the essence, and that the loans complementing IMF financing must be non-concessional. On the other hand, it would be very paradoxical for Europeans to appear less united in times of difficulty than other continents. I have no wish to moralise. However, in other parts of the world – Asia, for example – there were no discussions during the Asian crisis. Provided there is strong conditionality, all over the world friends can help each other. But I would also like to say to the Germans: you yourselves have every interest in getting Greece to adjust its economy and for it to be a stable partner in Europe and in the euro area.

Question: Is such scepticism with regard to financial assistance "typically German"?

Trichet: No, you also find it in other countries.

Question: What are the main reasons for the rising inflation in the euro area?

Trichet: The prices of oil and raw materials have risen worldwide. This is also pushing up the consumer price index in the euro area. Our responsibility is to prevent price-setters and social partners from increasing other prices and wages in the medium term. We are there to prevent these second-round effects. Over the medium term prices increases will go back to our definition of price stability: below 2%, close to 2%.

Question: When Chancellor Kohl paved for the way for the euro – not single-handedly, but with real determination – he saw it above all as a political, not an economic, decision. Was this a key conceptual defect of the common currency?

Trichet: That is a very direct question. The fundamental idea of having European unity has always been to guarantee peace, prosperity and stability on our continent. From the outset this has included the idea of a common market. Europeans' efforts to join closely together and create a single currency have deep roots in European politics. Chancellor Kohl, Chancellor Helmut Schmidt before him, and, with them, many other political leaders across Europe, pressed ahead with the project, knowing that it would combine peace and prosperity. Monetary Union is a resounding success. The scepticism about its capacity to maintain price stability has not been borne out at all. The problem is that not everyone has learnt their lessons from the global financial crisis. We have to re-affirm the visions of Helmut Schmidt and Valéry Giscard d'Estaing and of Helmut Kohl and François Mitterrand.

Question: *The promise of taking the decisive step towards political union with the euro has not been kept. Will the promise ever be fulfilled?*

Trichet: To fulfil this promise, cooperation between the 27 EU countries, and even more so between the 17 euro countries, must be improved significantly. That much is obvious. Better coordination of fiscal and competition policy over time automatically creates greater political cooperation. At present each of us has his or her own opinion on the long-term outlook for political union in Europe. As a European citizen, I am convinced that we should head further down the path of significantly closer political union. However, this is not one of the European Central Bank's responsibilities. Jean Monnet once commented that he was unsure what the European political institutional framework would look like in the future, but was sure that today's improvements would lay the foundations for the European institutional framework of tomorrow.

Question: *Do we need a two-speed Europe in order to ensure that the tempo is not dictated by those moving forward more slowly?*

Trichet: The European Treaties make no such provision. We have to insist on Member States moving forward together. However, it is also quite clear that if you share a single currency, you must make much more of a joint effort and cooperate much more effectively on economic policy.

Question: *What are Europe's basic values?*

Trichet: Europeans are deeply attached to democracy. They are deeply committed to human rights and the market economy. This is fundamental. Europeans also have their own particular way of giving the market economy a social face. This was apparent not least during the crisis. It seems to me that the social market economy, which the Germans are so proud of, was also embraced by the other countries a long time ago. As I see it, the most important thing is: we have a shared cultural identity which is developing from shared roots.

Question: *How is this idea of Europe being conveyed to younger people?*

Trichet: Peace, prosperity and stability can never – never – be taken for granted. Every country, community and individual must stand up for it time and again. As Europeans, we have more political and geostrategic reasons to forge close ties today than we did right after the Second World War. Back then, the United States of America was the sole major single market. Today we have India, China, Brazil and other emerging countries with a bright future in front of them. That's good, and that's exactly what we were aiming for 60 years ago when we created the World Bank. For us Europeans it also means uniting even more so as to take into account the existence of these new economic giants. What I would say to young people is: take a look at the many good reasons that we have for uniting Europe; together we can respond far more effectively to tomorrow's challenges.

Question: *Your term of office as ECB President ends in October. What has been your most significant or most cherished experience in the course of these eight years?*

Trichet: As president of such an organisation, you are constantly facing new challenges. From the start there was a tremendous team spirit throughout the ECB, even in the most difficult situations. It is gratifying to note that we do not function simply as an institution, but as true Europeans who are deeply attached to the historic construction that is the European Union.

Question: *What significance does the Charlemagne Prize have?*

Trichet: Everyone at the ECB is moved and impressed that we – especially in today's challenging circumstances – are being awarded this prize. I know all about the prize and have attended in the past. It is a very moving and impressive celebration. We were just talking about Europe's roots. In Aachen, we are at the very roots of Europe.

Question: How well do you know Aachen?

Trichet: I have been to Aachen several times. I am familiar with the big historic buildings, and of course with Charlemagne. At the age of ten I won a prize in a school competition: a medal, struck with a portrait of Charlemagne. A German emperor, a French emperor – it makes no difference.