

Jean-Claude Trichet: Interview with the Süddeutsche Zeitung

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, in the Süddeutsche Zeitung, conducted by Ms Helga Einecke and Mr Hans-Jürgen Jakobs, and published on 23 July 2011.

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SZ: Mr Trichet, at the start of the 1990s former German Chancellor Helmut Kohl, together with the then French President, François Mitterand, initiated the Maastricht Treaty and thus the euro. Now he is concerned about how Europe and its single currency are developing. Are you also concerned?

Trichet: Helmut Kohl played a pivotal role in establishing a single currency in Europe, and Europe owes him an immense debt of gratitude for that. It cannot be disputed that the euro has been a remarkable success over the last 12 years. Our currency has kept its value impressively and ensured price stability in Germany and throughout Europe since its introduction. The level of price stability has been greater than during the 50 years prior to the euro.

SZ: You are forgetting the excessive debt, for example in Greece, Portugal and Ireland. In endless new rescue packages, governments are pumping billions and billions of euro into a clearly ailing system. That is making the public nervous.

Trichet: We have a problem with fiscal policy in some countries where mistakes were made in the past, meaning that these countries are now saddled with deficits that are too high. Governments must take decisive action to correct this. As far as the ECB is concerned, we have always called for a strict and rigorous implementation of the Stability and Growth Pact, and have expressed our “grave concerns” when the letter and the spirit of the Pact were breached in 2004 and 2005. Today we are calling for a quantum leap in economic governance.

SZ: The euro area summit on Thursday created the next large financial package for Greece, this time amounting to €109 billion. How big is the danger that good money is being thrown after bad money?

Trichet: What is fundamental is that Greece implements its economic and structural adjustment programme rigorously and comprehensively. This is the key for everything. Scrupulous control of implementation, as well as very large-scale technical assistance from the Commission, the International Monetary Fund and the EU Member States are of the essence.

SZ: You have warned of the consequences of default and threatened to stop providing Greek banks with money. But it has nevertheless now come to a restructuring of debt. Have you changed your mind?

Trichet: We have very clearly and publicly said that our advice to governments was: first, to avoid compulsory private sector involvement; second, to avoid a credit event; and third, to avoid a selective default. At the moment I am speaking I can say that they have followed our first and second advice. With regard to the third piece of advice, we will see what happens. But I had also said very clearly that, in case of selective default, the ECB and the Eurosystem would ask for recapitalisation of the banks and for credit enhancement of our collateral in order to have sound counterparties and eligible collateral. The protection of the integrity of the central bank is non-negotiable. The Heads have accepted that and decided to recapitalise the Greek banks and earmark a pledge of €35 billion to enhance our collateral in case of any possible selective default.

SZ: The rescue umbrella, the European Financial Stability Facility (EFSF), has been significantly upgraded. What is your opinion on the construction of such a “European Monetary Fund”?

Trichet: There are four additional areas where the Heads have followed our public advice. First, as you mention, an increase in the flexibility of the EFSF, which is something we have always called for. Second, the reaffirmation by member countries of their inflexible determination to honour their signature. Third, the reinforcement of governance in Europe in the voting rules within the preventive arm of the Stability and Growth Pact. And fourth, the considerable reinforcement of technical assistance. Now the key word is “implementation”. Rigorous and permanently controlled implementation.

SZ: How did the debt crisis spread so far?

Trichet: 2007–08 saw the worst financial crisis since the Second World War. All advanced economies have been heavily touched and have proven fragile. Weaknesses have to be corrected in all advanced economies, in Europe as well as in the United States and Japan.

SZ: 20 years ago you were personally involved, on the French side, in constructing the Maastricht Treaty. Did you factor in the risk that some countries could run riot in terms of fiscal policy?

Trichet: It was a privilege for me to be involved in the construction of the Maastricht Treaty, together with Horst Köhler, who was State Secretary at the time. We were all fully aware that it was necessary to prevent governments from running irresponsible fiscal policies. That is why we made it a legally binding part of the Treaty that no country can have a deficit of more than 3%. It was a very strong request by Chancellor Kohl and the finance minister Theo Waigel to create strict criteria to guarantee fiscal soundness. That was the binding legal framework. Unfortunately, the governments did not carry out the strict peer surveillance of behaviour that was called for by the Pact.

SZ: And in the end, the financial markets and rating agencies had to take control as Europe’s governments were not in a position to do so.

Trichet: Public authorities have to be permanently alert, ensure fiscal soundness and preserve competitiveness. They cannot rely only on the financial markets’ judgment. In the years before the 2008 crisis, the markets were totally ignoring the bad policies in some countries. That being said, we should not forget that the euro area as a whole will post, by the end of this year, a fiscal deficit of around 4.5% of GDP, compared with around 10% in the United States and Japan. The fiscal problems are concentrated in a few countries and not, fortunately, in the euro area as a whole.

SZ: ..countries on the periphery you mean?

Trichet: The countries that are part of an IMF and EU programme, also taking into account that Greece is a unique case.

SZ: In any case, many Germans are worried that their tax money will soon be used to support indebted countries and that, what’s more, the euro could fall apart.

Trichet: The euro is a solid, strong and credible currency. We do not have a currency crisis because the euro is stable and keeps its value extremely well. Since the single currency was introduced, inflation in Germany has stood at only 1.5% per year! And in the euro area as a whole it has been 1.97%, which is less than, but close to 2%! The ECB is the guardian of the euro and represents an anchor of confidence and stability in Europe. What we need is a strong and strict implementation of the fiscal adjustment programmes.

SZ: So it is all exaggerated?

Trichet: The people of Europe and particularly the German citizens can have full confidence in the ECB’s will and capacity to deliver price stability. Our track record proves this.

SZ: First, only small EU states were rescued. Most recently, however, Italy – a core country that is also highly indebted – was on the verge of being pulled into the maelstrom. There was hardly anyone who wanted their government bonds.

Trichet: I have confidence that all countries in the euro area will not only rigorously keep their present commitments, but will be “ahead of the curve “ and take appropriate measures, as is the case for Italy.

SZ: Europe’s citizens have heard this kind of appeal too many times before.

Trichet: As I said, all advanced economies must put their house in order. The United States and Japan, for instance, have to adjust their fiscal policy. In the case of Europe, a major problem is the need to make decisive improvements in its governance. The Stability and Growth Pact must be strengthened. And we will have a new pillar of surveillance of competitiveness indicators and imbalances inside the euro area, namely the new legislation.

SZ: How will the new controls work?

Trichet: We are advising the governments and the European institutions to develop the surveillance functions so that they operate as automatically, quickly and professionally as possible, both in their preventive arm and in their corrective arm. And the sanctions are essential to prevent disorderly developments.

SZ: Is a new institution needed for this?

Trichet: At this stage we need to finalise the negotiations of the “trialogue” – between the Council, Parliament and Commission – on the new legislation for European governance. What has just been announced by the heads of the euro area should contribute to improving the preventive arm of the Stability and Growth Pact in line with our recommendations.

SZ: You yourself were much more daring when you were awarded the Charlemagne Prize in Aachen. There you spoke about a common finance minister for Europe.

Trichet: I think that in order to put Thursday’s decisions into perspective, it is important and legitimate to have a vision of what could be done – as I said in Aachen – tomorrow and even the day after tomorrow. That would require a change to the Treaty and is therefore fully in the hands of our democracies and of Europe’s citizens. Tomorrow it should be possible to impose measures on a country that does not implement the agreed adjustments. And as for the day after tomorrow, speaking as a European citizen, I think that the Europeans will invent a new type of confederation which, however, will not be like the federation in the United States; Europeans have their traditions and their history. At the level of this possible confederation, we would have, naturally, a European finance ministry with its own responsibilities.

SZ: That is still a political utopia.

Trichet: We are talking about a historic process that began 60 years ago. The vision of European unity goes back many centuries. You feel that very profoundly in Aachen when you are in front of the throne of Charlemagne. I firmly believe that, from the economic and monetary angle, there are even more reasons to unify Europe today than 60 years ago, with India, China and the formidable progress of the emerging economies.

SZ: French politicians have also spoken in favour of a European ministry – as a counterbalance to the ECB.

Trichet: I think they understood that it was a totally wrong approach. The ECB is fiercely independent and this is not challenged anywhere in Europe. It is at the heart of the Maastricht Treaty. And I do not forget that the Germans have always said in the past that there needs to be progress in terms of political union, together with Economic and Monetary Union.

SZ: Are there enough Europeans who support your vision?

Trichet: I speak as a European citizen, reasoning in the medium and long term. It seems clear to me that the European construction has not been completed.

SZ: If all of that is true, then there should also be shared eurobonds, guaranteed by all the Member States.

Trichet: We have looked into the issue and we are not in favour of it.

SZ: But that could be part of your vision?

Trichet: No, not necessarily. The ministry that I have in mind for the future shouldn't have a large budget.

SZ: How, in your view, should the current debt problems in Europe be resolved? You are something of an expert on debt – after all, you previously played a leading role in the Paris Club in negotiating the debt restructuring of Brazil, Poland, Egypt and the Soviet Union. This always involved partial losses for creditors, or a “haircut”.

Trichet: Our position for Europe was always clear. We were not responsible for the negotiations concerning Greek debt. That was the task of the governments. We will monitor events closely.

SZ: Two years ago, you said that the entire regulation of the financial system needed major improvements. Has this already happened, or does more need to be done?

Trichet: We are half-way there. There has been a global increase in the capital requirements for banks, including those that are systemically relevant. What is still open is how we deal with other financial entities that are non-banks, what we sometimes call the shadow banking system. More transparency and appropriate oversight are needed here. Conflicts of interest must be eliminated. There are also still too many pro-cyclical elements in the financial system that should be eliminated. All of this is hard work, and we still have to make a lot of progress

SZ: The banks are moaning about too much regulation.

Trichet: I do not accept the idea that we have over-regulation. We have in any case an absolute obligation to make the financial system much more resilient. The idea of going back to business as usual is deeply inappropriate.

SZ: Is the euro still an important factor in the integration of Europe? Or is it now causing divisions?

Trichet: I believe that the euro is crucial to the achievement of a single market. Do you think we would consider the United States' single market complete if the money used in North Carolina were different from that used in Wyoming, California or Florida?

SZ: After eight years as “Monsieur Euro”, as the top central banker, do you leave any kind of legacy?

Trichet: My colleagues and I are very proud of the fact that, in the first 12 years of the euro's existence, we have been able to keep prices stable for 331 million people. That is our mission and our mandate.

SZ: How does it fit into your mission that the ECB suddenly began, in May 2010, to buy government bonds from indebted countries such as Greece, Ireland and Portugal? The ECB had previously rejected such a policy. Was it a mistake?

Trichet: Certainly not. It was one of our “non-standard” measures that we introduced together with the policy of refinancing banks at fixed interest rates with full allotment of bids, and the Covered Bond Purchase Programme. All these measures, without exception, were designed to help restore a better monetary policy transmission at a time when markets were disrupted. At the same time, we completely separated these measures from the interest rate decisions

– our “standard measures” are entirely designed to deliver price stability. This separation principle is for me absolutely fundamental.

SZ: The euro area countries have set up a rescue fund, the European Financial Stability Facility, soon to be called the European Stability Mechanism. What do you think of the idea of this fund taking over the government bonds held by the ECB, which are worth €75 billion? Your balance sheet would then be clean again.

Trichet: It goes without saying that the governments will have to redeem their bonds that are on the balance sheet of the Eurosystem without any change. Of course, being part of the official sector, we will not be participating in the voluntary private sector involvement mentioned on Thursday as regards Greece.

SZ: Some even say that the ECB is a “bad bank”, speaking as if it were Goldman Sachs, BNP Paribas, Unicredit or Deutsche Bank, conducting securities transactions on its own account.

Trichet: That is clearly absurd. We are the central bank for 17 countries in a single market with a single currency. And our integrity is fundamental and fully protected.

SZ: Critics even say that the ECB and President Trichet are against debt restructuring because you have taken too many risks onto your books and would then need to write down losses.

Trichet: That is ridiculous. The integrity of the ECB and the Eurosystem is fundamental and fully guaranteed.

SZ: Mr Trichet, you have lived in Germany for eight years and so know both the Germans and the French very well, nations that were enemies until the end of the Second World War. How well do you think these two core euro area countries get on now?

Trichet: Yes, there were wars, but the two neighbours were frequently also friends and lived closely together. Charlemagne ruled the Germans and the French in one country. Three citizens of the small Breton town St Malo, to which I am closely attached, were, for example, members of the Berlin Academy under Frederick the Great! And the two nations know that their friendship is fundamental when it is put to the service of Europe as a whole.

SZ: Is this shared history enough, or will there soon need to be noticeably more shared undertakings?

Trichet: The successes of European unification over the last 60 years have been considerable. What we have today is, after all, what the euro’s founding fathers dreamed of. We have to make further progress along this historic path.

SZ: Can your two sons and granddaughters understand this?

Trichet: My sons are convinced Europeans. But I notice that today’s generation takes the success of the European Union and the euro as a given. We have to explain that if we have had peace, stability and prosperity over the last 66 years, it is not by chance, but because of Europe.

SZ: Germany and France could begin by having a joint finance minister in order to liven things up.

Trichet: (laughs) Do you think they are already ready for that?

SZ: What will you be doing in November?

Trichet: I will think about that on 1 November. Until then, I am sufficiently occupied and not thinking about the future.

SZ: Sleeping, reading, writing a book?

Trichet: I will certainly have more time when I finish on 1 November.