

Jean-Claude Trichet: Interview with Le Monde

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, conducted by Messrs Erik Izraelewicz and Clément Lacombe and Ms Cécile Prudhomme on 27 October 2011, and published in Le Monde dated 30–31 October 2011.

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New agreements were reached on the night of Wednesday 26 October to Thursday 27 October by the heads of state and government of the euro area, three months after the summit of 21 July. Is this, at long last, the end point of the crisis?

This agreement must be applied rigorously and quickly in all its dimensions, including the improvement of governance. Decision-makers must strive to be ahead of events, even if the speed of decisions in our democracies is not necessarily that of the markets.

A key challenge for the euro area is to communicate with investors and savers in the rest of the world, who have difficulty in deciphering European decision-making. Provided that their decisions are implemented quickly, the euro area countries have the means to improve the perception that the rest of the world has of Europe.

Nevertheless, there are still uncertainties... Which element needs the greatest vigilance?

Progress has to be made on all points in a resolute way.

In respect of governance, in the past, at the ECB, we have found ourselves preaching in the wilderness, when negligence by governments, markets and by many economists was the rule. We knew a time when markets did not distinguish between the signature of Greece and that of Germany, when a majority of observers felt that the Stability and Growth Pact was a too tight corset which prevented Europe from breathing, and when the whole world believed that IMF loans had become useless. That was still the case in early 2007!

Your successor, Mario Draghi, has indicated the ECB is going to continue its purchases of government bonds. Does this mean he has given in to political pressure?

Mario has repeated what the Council had communicated previously.

Hasn't the independence of the ECB been affected nonetheless?

The question doesn't arise. The treaty requires us neither to receive nor to seek instructions from anyone. We did not ask for permission to take exceptional measures on 9 August 2007 to confront the first waves of financial turbulence! We were criticised by Germany and France when we refused to lower rates in 2004, and by ten out of 12 countries when we increased them in December 2005. All our non-standard decisions have been taken in complete independence. That independence is essential.

You are the captain of a ship passing through a terrible storm. Isn't it dangerous for the euro to have to change its captain right now, because of mandate issues?

In the storm the direction is clear: the mandate given by Europe's democracies. One has to be permanently alert. The weather has been particularly rough for four years. The crew of the ECB is on deck. The crew does not change. The future president has been on the ship for years. He has shared in all the decisions in a collegial way. He has considerable experience.

Emerging countries like China could come to the aid of Europe via the EFSF...

In the summit statement there is an increase in the intervention capability of the EFSF, thanks to a leveraging effect. In practice, this means that, in addition to European capital,

private capital – and possibly public capital – from around the world could invest jointly with the Stability Fund. They will do it because it will be in their interest of course.

Do you understand the criticism coming from Germany, namely that the ECB had gone too far in its support for states?

In our democracies, criticism is natural and necessary. Some people in Germany and other countries regard our policy as too bold. While other people think of us as being too cautious...

We keep the currency for 17 countries, for 332 million fellow citizens, for citizens of all persuasions. We have a course to follow, price stability, and our non-standard decisions since 9 August 2007 – the first global decision in the crisis – have been taken to help us restore a proper implementation of our policy in a crisis without precedent for 65 years.

Price stability has been ensured since the creation of the euro, but Europe's economy has weakened, unemployment has grown...

Since 1999, prices have increased by 2,0% per year. We have done what was demanded of us by Europe's democracies. I will add that our fellow citizens, the 332 million people in the euro area, are extremely attached to price stability, particularly the most vulnerable among them. Opinion polls show this.

With regard to employment, we have created around 14 million jobs in the euro area since the launch of the single currency, compared with around 7 million in the United States. These job creation efforts must be resolutely pursued. The European countries which have paid most attention to their competitiveness and those most committed to structural reforms are in a better situation than the others.

Some of your decisions continue to cause discussion, such as the increase in your rates in 2008, a few weeks before the collapse of Lehman Brothers...

At the time, there was a real threat of inflation expectations becoming destabilised by the increase in oil prices. Of course nobody could foresee that Lehman Brothers would file for bankruptcy in mid-September. The fact that we showed ourselves to be very firm about price stability, fully in line with our definition – less than 2% **but close to 2%** over the medium term – helped us in the crisis. Because we avoided not only a materialisation of the inflation risk but also of the deflation risk which, after Lehman bankruptcy, was becoming the main danger. A comparison of inflation expectations shows that we have had one of the best “anti-deflation” protections of comparable advanced countries.

The movement of the “indignant ones” is on the rise around the world. Do you understand these feelings of helplessness in the face of globalisation?

We are seeing at the moment multiple and complex messages that highlight that the fragility of the global economic and financial system is not acceptable. These messages are important. Indeed, all the efforts of the international community, particularly those of the G20, aim to improve the soundness of the global economy.

These messages are fed by many factors beyond the financial fragility observed since 2007. There is an outcry against the level of some bonuses in the financial sector, which are not accepted by our democracies. The financial sector must change its values. It is also an area of work opened by the G20. There is also another message which is more complex, namely that the changes are too fast. First of all, science and technology are advancing at an unprecedented rate: it's a great success but it requires constant adaptation. Second, the emerging markets, all of the former “Third World” countries, are growing at a pace which has no historical precedent: it's a great success but leading to swift significant economic transformations. Third, longer life expectancy is also a remarkable success but is raising major funding problems.

Three distinct successes but very difficult to control. To put them fully at the service of our citizens, our societies and economies must make an ongoing effort to adapt much faster than in the past.

You would welcome the creation of a European Ministry of Finance. Do you think that attitudes are ready for that?

Not as President of the ECB, but as a citizen, I can imagine a development for “tomorrow” and “the day after tomorrow”. Tomorrow, it would be necessary that we could impose on a country the essential decisions after several refusals to apply the recommendations formulated by European governance. Thus, one could prevent a particular economy from adversely affecting the financial stability of the rest of the area. This requires a change in the Treaty, now being specifically envisaged by governments in the euro area, which I welcome.

As for “the day after tomorrow”, one can consider a deeper institutional change, with a genuine European executive. In any case, Europe’s historical development depends entirely on the lessons our democracies will draw from the crisis, on the conclusions the people of Europe will draw from the events experienced since 2007.

What are you going to do now ?

First of all, I’m going to read a lot and think a lot. Then, knowing me as I do, I know that I’m going to stay active.