

Benoît Cœuré: Interview with France Inter

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, and France Inter, conducted by Mr Ali Baddou and Ms Alexandra Bensaid and broadcast on 4 January 2019.

* * *

Thank you for taking the time to talk to us here at France Inter before returning to your office at the ECB in Frankfurt. The ECB, the European Central Bank, plays a prominent role in the lives of Europeans, in our day-to-day lives, and yet we don't always know what you are doing in your ultra-modern tower in Frankfurt. If you had to explain the ECB in just a few words, say, to a high school student – we currently have a number of high school interns here at France Inter who are listening this morning – what would you say, Mr Cœuré?

The ECB is actually two towers in Frankfurt, because we do two different things: we look after the euro, we ensure the stability of the euro, the purchasing power of the euro...

Which has just celebrated its 20th anniversary...

Which has just celebrated its 20th anniversary, yes. The ECB was established in July 1998 and the euro on 1 January 1999. So, on the one hand we decide on monetary policy for the 19 countries of the euro area to ensure the stability and purchasing power of the euro, and on the other we supervise European banks. These are two different jobs, in two different locations in Frankfurt.

Did everything change at the ECB after the 2008 crisis?

Yes. It is fair to say everything changed. The crisis accelerated the ECB's shift towards a model more similar to those of other central banks around the world, such as the US Federal Reserve or the Bank of England. It was a dramatic event – traumatising – but it was a kind of coming of age for our institution.

Do you also – and this is also a question for our high school students – monitor the techniques used by counterfeiters, for example those who print fake euros?

Yes, and this is really important because money seems to be a very abstract topic – take the macroeconomy and percentages, for example – but it's also a very real issue: we do a lot of "plumbing" at the ECB! We manage banknotes, coordinating their printing and preparation, as well as their design with security features. As you know, a new series of banknotes is currently being introduced. The €50 banknote was issued recently and will be followed by the €100 and €200 banknotes soon.

And you're withdrawing the €500 banknote from circulation?

Exactly. We're no longer printing the €500 banknote because it has become too popular for money laundering purposes and other unsavoury uses. So we're stopping it. A great deal of our time is also occupied by payments, all the techniques used to transfer money from one account to another. Just a month ago, we launched a real-time payment system which allows all euro area banks, if they want, to make person-to-person transfers within a matter of seconds.

There's a second thing I wanted to ask you. What is QE, or quantitative easing? It's incomprehensible to the general public, but it's a staggering programme: over the past few years, ECB traders – your traders – have purchased €2.5 trillion in public and private

debt. The programme has been halted. What purpose did it serve?

Yes, that's right. Over four years, between 2015 and 2018 – our last net purchases were made a few days ago, just before Christmas – we bought European public and private debt amounting to €2.6 trillion. Why? It's very simple: to reduce the cost of financing in the euro area. The central banks – they teach this in high school – steer the overnight interest rate. But, this is not sufficient as firms borrow over a period of three, five, ten years. So the three-year, five-year and ten-year interest rates also need to be lowered. To do this, we buy government bonds, and this has considerably improved financing conditions, which, in turn, boosts consumption and investment in the euro area.

€2.5 trillion, Mr Cœuré – you say this has given a boost to consumption and investment. But ultimately if we look at growth, all this money quite frankly doesn't seem – at least to people in France – to have gone to them, into their pockets, into a rebounding economy...

Of course it's gone to them! Through all the mechanisms that make the economy work: lowering interest rates for lending to companies, which we did not only in France and Germany, but also in Greece, Italy and everywhere in the euro area, has boosted investment. By boosting investment and consumption we create jobs. Just to give you a figure, since 2013 almost ten million jobs have been created in the euro area. In terms of the level of employment, we have now returned to a level higher than that before the 2008 crisis, and that's partly, largely – in no small part – due to monetary policy.

And in this regard, Mr Cœuré, we're going to experience, we've just experienced, a big turning point. You've said you're going to stop this quantitative easing policy, this policy of injecting liquidity to boost the economy. Does this mean that interest rates will rise for French people? And when?

No, we're not stopping it, but we've stopped increasing it. You mentioned this figure of €2.5 trillion. It's going to stay at this level, but it will not decrease, so it cannot be said that monetary policy is more restrictive. In addition, the short-term interest rates that the ECB controls directly are going to stay at their current level, i.e. at zero and even below zero, at least through the summer of 2019, and for as long as required for inflation to return towards 2%, which is our aim. So interest rates will remain low for a long time yet.

You're currently making a major turnaround – the same thing is also happening in the United States – while growth is already slowing down.

It isn't a major turnaround, it's an adjustment which is justified by the fact that this programme was launched in 2015 when the euro area was on the edge of a precipice, faced with the risk of deflation. We're no longer in this situation at all. It's true that growth is slowing down, but it is still around 1.5% in the euro area, whereas at the time it had been zero. So this allows for an adjustment, but interest rates will remain very, very low for a long time yet.

The euro has celebrated its 20th anniversary. Did you celebrate at the European Central Bank?

No. One doesn't really celebrate a currency. Besides, we have work to do. We have had a dinner and we will have a conference in Sintra in Portugal in June to discuss what has worked and what hasn't worked with a broad range of participants.

What hasn't worked?

Since it's time to reflect on the past 20 years, I would say the euro as a currency has been a huge success: it's stable, inflation has been considerably lower in the last 20 years than in the

decades before that, and this has supported purchasing power, it has supported the purchasing power of Europeans.

Really?

Yes, really.

That's really the opposite of what every single person thinks, namely that since the euro prices have shot up. Why do you say this, Mr Cœuré?

There are purchasing power issues, problems with wages, problems with wage distribution. That's why people are taking to the streets and that's true for many countries in Europe and beyond...

Everyone thinks that life has become more expensive since the euro!

...but this isn't linked to price inflation. Price inflation since 1999 has been 1.6% on average. If you look at the 20 years before that, before the euro was created, inflation was 4%.

But why do people have this perception of reality? Is everyone crazy?

No, I think it's due to people comparing prices in euro with prices in francs – for those who can still remember prices in francs. As time goes on they will become fewer and fewer. There are a lot of young people who don't remember prices in francs...

Apparently, 54% of French people still mentally convert euros into francs...

They're remembering prices from 1999, prices from 20 years ago. You can't compare today's prices with prices from 20 years ago. In other words, even if we'd kept the franc, there would have been inflation, and that's what people are not seeing.

You say that purchasing power ultimately isn't an inflation problem which would eat away at French people's budgets. You spoke about wages. Do wages need to rise?

Throughout Europe we're seeing dissatisfaction, frustration and feelings of injustice when it comes to matters of income and distribution of income. But ultimately, what distributes wages is growth and productivity, and so the priority for all countries in Europe, including France, is to have an economy that creates productivity gains and allows wealth to be distributed, and this is what enables wages to be distributed. Wage growth without productivity gains isn't good for the economy.

The European Central Bank is an unelected institution that appears to be extremely far removed from citizens. You're criticised for being essentially responsible for a form of "democratic hold-up", an expression used by journalist Jean Quatremer: you're taking away budgetary sovereignty; the euro area is described as being under German sovereignty; you've invested absolutely huge sums in saving banks and the financial system, but it's European people who have paid the price, with taxes, strict policies, the list is endless. What would you say in defence of your institution, Mr Cœuré?

I've read Jean Quatremer's book, "Il faut achever l'euro". Now, when he speaks of the "democratic hold-up" he's not talking about the ECB, but about European institutions and the way the euro functions in general. And it's true, I agree with him: there's a democratic deficit in the way the euro area functions. Look at the discussion with Greece. Extremely painful measures have been discussed for the Greek economy, for the Greek people, and this discussion was between the Greek minister and the other 18 finance ministers – it never went to the European Parliament. So there is a problem. But it's not the ECB.

Ok, but the ECB formulates monetary policy that does not depend on governments or citizens, but considerably influences the economic policies and day-to-day lives of European citizens...

That's true, but what allows the ECB to be independent is its very narrow, very clear, very simple and very precise mandate, which is to bring the inflation rate back towards 2%. This is how we are judged. And we are accountable to the European Parliament. We go everywhere – I visit high schools, go to conferences, I discuss with people. We are on Twitter, we're in dialogue with European citizens...

And with France Inter!

And with France Inter, which is important as it allows me to explain all of these things. Yes, we are bureaucrats in Frankfurt, but this independence is possible...

And technocrats!

...and technocrats... This independence is possible because we have a very narrow mandate which can be monitored. The rest of the system is political, and requires democratic accountability.

You're a left-winger, Mr Cœuré, but despite that you won't get rid of the idea that some people have of you that you're investing huge sums in saving banks, money which could have been used for social policies, for example, or for investments directly benefiting citizens' day-to-day lives.

No, that's not true. First, my political opinions have nothing to do with my job as a central banker, which is not a political role. And second, the €2.6 trillion we've invested...

That's political!

Why did we do it? We did it because we were on the brink of deflation. We brought inflation back towards 2%, we created ten million jobs, and if it's good for employment, it's also good for European citizens.

In the United States, the Federal Reserve has two mandates: inflation and full employment.

Yes.

And if you were to add full employment?

In one respect, it's not up to me to discuss this. I cannot decide on my own mandate – that's up to the Parliament. It's a political discussion. But honestly, over the last five, ten years, this wouldn't have changed anything. Everything we do – creating liquidity, buying securities, cutting interest rates to zero – is to support both output and inflation. So we would have done the same thing. Today, this debate is largely theoretical.

Mr Cœuré, reflecting on the “yellow vests” movement in France – I'd also like your opinion on that – citizens, in Italy too, have been calling for budgetary constraints to be loosened. Budgetary constraints are governed by the Maastricht Treaty – 3% budget deficit and maximum 60% public debt. Do these rules need to be reviewed?

I don't think my answer is going to make me very popular on your show.

Go on!

I think these are good rules. France has almost never complied with them. I find it a little strange to complain about rules you've never adhered to! France has not balanced its budget since the 1970s, as you know...

Yes, but when budgets are tightened, one says: “those are the Maastricht rules”. They haven’t been complied with but clearly, at the moment, cuts are being made at every level...

I completely understand that people feel hard done by when it comes to redistribution, and that's also an economic efficiency issue. There is a redistribution problem. But I don't agree that the solution is more deficit and more debt. Redistribution is a political discussion.

So you don't agree, but we are all thinking about the arm wrestling over the Italian budget, between a government that has just been elected and taken power, and the European Commission. The Commission actually embodied the denial of universal suffrage. Do you appreciate the difference there?

Yes, I do. But the mechanism has worked; in fact, it's worked well. The European Commission expressed its point of view, based on European rules. Then there was a discussion, a negotiation between Pierre Moscovici and the Italian finance minister, and an agreement was reached on a revised budget that was debated and voted on by the Italian Parliament. It cannot be said that the Commission was holding a knife to their throat or pointing a gun at their head.

Really?

If anyone was holding a gun to their head, it was the financial markets, not the Commission. Italian interest rates were rising, which meant the debt burden was increasing, which was bad for the Italian people. That wasn't Europe's doing; it was simply a reflection that, ultimately, you have to be able to finance yourself.

Nevertheless, it was in the name of these Maastricht rules that in 2011–2012 austerity was imposed on Europe and the growth that had begun to take hold dropped off again...

Yes, that may have been excessive. It's all about finding the right balance. I don't disagree with you on this. But I don't think it's good for a country like France to permanently run a deficit of over 3%, simply because you have to be prepared for the next economic downturn. Today we are seeing growth – not enough – but there is some growth. If we don't reduce the deficit now, we won't be ready when there are real economic difficulties, and it will be even more painful the next time.

Before taking questions from listeners, Mr Cœuré, a question to you as a banker: the stock markets, in particular the US stock market, have been falling for two weeks. Should we be worrying about a major financial crisis in the coming months?

There are many uncertainties around the global economy that are not primarily financial in nature, but first and foremost linked to trade and to the tensions surrounding trade, especially between the United States and China. The financial markets, understandably, are very concerned about this, because it's the whole engine of global trade that's challenged.

Understandably, you said? Aren't the financial markets also involved in purely speculative activity that is detached from the real economy?

They can see that these discussions over trade are acting as a brake on the global economy. There are speculative mechanisms and amplifier effects coming on top. But the root of the concerns is linked to the fact that the international relations that have supported global growth for the past 20 years are crumbling, are being eroded, and that's a concern for everybody.

Questions from the audience:

The European Central Bank has poured trillions of euro into the European economy, which still hasn't reached an inflation rate of 2%. These trillions must have been hidden away somewhere, otherwise inflation would have been much higher. So who hid away these trillions of euro? Probably the financial markets?

No. First of all, we're not giving money to banks. This is money that is lent and that returns to our balance sheet. The liquidity that is created is deposited by banks overnight at the ECB. So the answer to the question "who is hiding this money away?" is that it returns to the ECB. We have it. Moreover, these deposits bear a negative interest rate, so we actually earn money on them which we redistribute to the European taxpayers, because our profits are distributable and returned to taxpayers. And by the way, this has allowed banks' liquidity constraints to be loosened, which has enabled them to lend more to businesses and households.

The ECB was able to free up billions of euro to help banks in 2008 and 2010. Why couldn't it free up the same amount for the ecological transition and thereby help individual citizens, for example to ensure that buildings are insulated?

We are doing that, to a certain extent...

And there are many questions in the same vein.

Of course, and it's a very important topic for us. A network of central banks is working on climate-related issues, also from the financial regulation perspective. For example, how can banks and financial institutions be mandated to take into account the risks linked to climate change? This is also an important question.

We've seen that six large French banks have been investing massively in polluting energy sources. You at the ECB have supported polluting energy sources by purchasing the bonds of Total and Shell, for example...

With regard to the banks, this is becoming a priority area for banking supervision – monitoring the risks the banks are taking by financing polluting activities. As regards the ECB itself, we have public and corporate debt purchase programmes. Among other things, these programmes have enabled us to purchase "green bonds" issued by the French government, by the European Investment Bank, etc. We are purchasing some of these bonds, in fact we are purchasing a substantial amount of them: around a quarter of the green bonds issued in Europe have been purchased by the ECB. They are on our balance sheet and we are thus directly providing climate finance.

So you're purchasing both? Total bonds and green bonds at the same time?

Yes. We're purchasing Total bonds because, when we purchase corporate bonds, we do so precisely according to what is available in the market. We don't want to distort the market structure. The ECB could be asked to add a climate objective to its price stability objective, but that would be getting into a political discussion. Why climate over equality, over employment? This is a political question. We can't decide it for ourselves.

First I would just like to comment on what Mr Cœuré said about salary increases being linked to growth and productivity gains. For years, productivity gains were huge and it was shareholders who benefited more than workers and employees. But my question is the following: why does the ECB not finance governments directly, as was done in the 1970s before Mr Giscard d'Estaing intervened and forced the French government to finance itself on the financial markets? It's much less restrictive in the United States, for

example, where they can finance themselves through the US central bank. This gives much more room for manoeuvre as the government is being financed by its central bank rather than the markets, as Mr Cœuré just mentioned.

We understood your question but first we need you to explain something: when a government, for example the French government, needs money, where does it borrow that money from?

When a government needs money it borrows it on the “financial markets”, which in reality means it borrows from institutional investors, many of which are, in fact, French. More specifically, we’re talking about the savings of French citizens, funds and insurers. Life insurance is invested in government bonds.

The French government can't borrow directly from the European Central Bank?

No, it can't borrow directly from the European Central Bank. Since 2015, as we discussed, we have been making purchases on the secondary market, after public debt securities have been issued by the governments. But we are only doing this to a limited extent, and we have imposed an upper limit on these purchases.

€2.5 trillion – that's quite the upper limit!

Unfortunately there's a lot more debt in Europe. We have imposed an upper limit on our purchases: we would not purchase more than one-third of a single government's debt.

Could the ECB lend directly to governments?

No, this is forbidden by the EU Treaties. Even before 1974, we didn't do it! The famous Giscard decrees ratified an already-existing situation. It's been a long time since France borrowed money or financed itself by printing money, before 1974, even. And the idea that the United States could finance itself directly by printing money is also a myth. It isn't true. The US government borrows on the financial markets. The Fed, the US central bank, does not lend to the US government. It doesn't lend a single cent to the US government.

France's public debt has reached 100% [of its GDP], but on the markets we're still borrowing at very low rates. We've reached a symbolic milestone. Mr Cœuré, is it really that serious?

Yes, it's serious, because the direction of travel is serious. France is a country that is really struggling to get its deficit below 3%. Its debt is at 100%. If the deficit stays above 3%, the debt will then mechanically be above 100%, and at some point one will find it increasingly difficult to borrow on the markets. Today, it is not too serious because, thanks to the ECB's monetary policy, rates are very low. But one has to prepare oneself for situations when the rates will be higher, especially if there is no more growth. The debt burden will begin to crowd out all the government's other budgetary expenditure. It's not normal for the debt burden to crowd out spending on healthcare, justice or education.

It's not normal...

It's what the future has in store for us, if we don't reduce the deficit.

Who decides this?

We're talking about budgetary policy, so it's the French government, not the ECB.

In his New Year's address, the French President declared that “ultraliberal capitalism is

nearing its end". This is something of a prophecy, and a little difficult to understand. What does it mean to you?

I don't want to try to interpret the words of the French President. How I would put it is that there is a certain vision of unbridled globalisation with no restrictions, particularly on financial transactions and the international capital markets, and with no real control of finance. This vision has been shown to have failed. This has been clear since 2007/08, and we are still dealing with the consequences.

But we're still there!

We're still there.

There's shadow banking, there are the effects of speculation that are more significant now than ever.

Yes.

Is the crisis machine still there?

The crisis machine is still there. There will be other financial crises. We haven't done everything that could be done in terms of financial regulation, especially in the area of shadow banking, but also in terms of banking regulation. We might even be turning the dial back. As the financial crisis recedes further into the past, bad habits are creeping back in. The lobbies are reasserting themselves. There is a whole movement to deregulate finance once again. We really have to resist it.

Could 2019 be a new crisis year? Is it a big concern that China's economy is slowing?

We hope not and we don't foresee it, because global growth remains strong. Even in the euro area as a whole, and in France specifically, growth is still comfortable. We are no longer in recession, there is no need to overreact. But it's true that there is a slowdown caused by worries surrounding trade and, as you say, there is still the risk of a financial crisis. We have to be very vigilant.

Mr Cœuré, could you possibly say something to make us fall in love with Europe again?

We're living through a period when globalisation is being reshaped. Europe is our most powerful weapon because we will do better together. We will be better placed to negotiate with the United States, China and Russia if we do so together rather than in isolation. We must take full advantage of all the tools we have available at the European level. We aren't doing enough; we have to do better.

Thank you, Benoît Cœuré, for talking to us here at France Inter, for answering our questions candidly and for taking on the role of educator and explaining your work. We wish you a safe trip back to Frankfurt and a happy New Year.

Thank you, and a very happy New Year.