Jean-Claude Trichet: Interview with *Bild am Sonntag*

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, in *Bild am Sonntag*, conducted by Messrs Walter Mayer and Michael Backhaus on 27 October 2011, and published on 30 October 2011.

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Mr President, your term of office comes to an end on Monday. The euro is in stormy waters and the captain is leaving the ship. How hard is that for you?

It has been an immense honour and responsibility to be President of the ECB for the last eight years, and to have been able to maintain price stability since the inception of the euro. The last four years have been a very challenging period for all the staff of this institution. This global crisis has presented all of us – both governments and central banks – with considerable and thoroughly unexpected challenges. In any case, this eight-year mandate, which is not renewable, is an essential feature of the independence of the ECB.

In recent weeks and months you've spoken forcefully about this being the most severe crisis since the Second World War. Can you now give the all-clear, following the decisions taken by the Heads of State or Government this week?

The global crisis began in the United States, before spreading throughout the industrialised world. The crisis is not over. It has laid bare the weaknesses of advanced economies. We are now seeing the weaknesses of the US and Japanese economies – but also, of course, Europe's weaknesses. Europe's governments have made serious mistakes, such as failing to comply with the Stability and Growth Pact. And they did so despite the fact that the ECB was emphatic in warning them of the importance of complying with the requirements of the Pact. In addition, some countries failed to pay sufficient attention to their own competitiveness. The critical issue now is for the rules of the Pact to be comprehensively tightened up and implemented. The European Council was in full agreement on this point.

What would be the worst case scenario were all of the Member States' precautionary measures to fail?

The decisions taken at the summit meeting need to be implemented with great precision and speed. The euro area's Heads of State or Government have a plan, and national governments and the European Commission now have some hard work ahead of them. Swift and full implementation of those decisions is now absolutely critical. We will monitor this process very carefully. Now is the time for action.

What kind of future would Europe have without the euro?

We have to be very careful to distinguish between the euro as a currency and the problem of financial stability in the euro area. The first 13 years of the euro have seen the currency retain its value, both domestically and externally. Annual inflation currently averages 2.0% – and just 1.56% in Germany. That is lower than in the previous 50 years. Inflation will, in all probability, remain very low for the next ten years – at around 1.8% according to current expectations. So, we have price stability in the euro area. We are rightly proud of that fact, as we have achieved what was expected of us: we have secured price stability and ensured that the euro is a credible and trusted currency. The financial stability of the euro area is a different story. This has been undermined by mismanagement on the part of certain governments. However, following the decisions taken this week, I am confident that governments can succeed in restoring financial stability. A critical issue in this respect will be the will of the people. I was very impressed by the decisiveness displayed by the German parliament this week.

The euro's rescue fund is being significantly strengthened, with its total firepower set to reach €1,000 billion. Does this mean that the ECB will, in future, be able to do without its controversial purchases of stressed countries' government bonds?

We have adopted special measures during the crisis because they were necessary in order to correctly transmit our interest rate decisions to the economy. In August 2007 we supplied banks with liquidity at fixed rates of interest in order to stabilise the markets. Second, we took the decision to buy covered bonds. And third, we intervened in some government bond markets to help improve the transmission of our monetary policy. Such actions are only justified in the exceptional circumstances of a major global crisis. Once national governments' new tools to restore financial stability are up and running, we will have no reason to continue with these special measures.

Does the ECB really have complete freedom as regards government bonds, or is it under political pressure?

The ECB takes its decisions in full independence. We have consistently demonstrated this, taking controversial decisions on interest rates and other matters. Under the Treaties, members of the ECB's Governing Council are not permitted to take instructions from anybody – neither from governments nor from interest groups. Indeed, they are not even allowed to ask for instructions. It was for monetary policy reasons that the Governing Council, in full independence, adopted all the non-standard measures.

The crisis is being caused by excessive debt in euro area countries. Do we need a political union, or is a return to the Stability and Growth Pact of Maastricht sufficient in order to prevent such events from recurring in the future?

What is important at the moment is to monitor compliance with the now considerably stricter stability requirements. We had initially called for these to go further – calling, for example, for more automatic sanctions against "deficit sinners". Significant progress has been made, and that now needs to be rigorously implemented. That includes strengthening the presidency of the Eurogroup and the body of staff which is to monitor economic developments. In the medium and long term we need to strengthen Europe's political structures, which will not be possible without amendments to the Treaty. I would say – as a citizen of Europe, not as President of the ECB – that we could proceed in the direction of significantly stronger European governance with well-defined responsibilities. With that new governance, it would be possible, in countries that consistently fail to comply with stability requirements and thereby threaten the financial stability of the euro area, to directly implement appropriate measures. In the long term, therefore, we will need to go further in the direction of political union. But the decision on that will lie with the people of Europe.

What was your most important decision, your greatest success?

As a central banker, you are constantly taking important decisions – for example on interest rates. All of these decisions are taken with the aim of ensuring price stability, which is a prerequisite for sustainable growth and job creation. As a result, it is difficult to say that a particular decision was the most important. But the greatest challenge for the ECB's Executive Board was to recognise in 2007, in real time, that something very significant – something very dangerous – was happening. We were the first central bank in the world to recognise the reality of the situation and quickly implement comprehensive measures in response.

Horst Köhler, with whom you negotiated the Maastricht Treaty, describes the markets as "monsters". Is he right?

I would not necessarily go as far as Horst, for whom I have great respect, but I can see what he could have meant by that. Supervisory authorities need stronger means of monitoring the rapid development of new technology and need to ensure that all innovation in the financial markets continues to serve the real economy and is not to its detriment. Realisation as to what was happening in the markets came somewhat late. We are currently seeking to correct that. Authorities the world over agree that we need to discipline the markets and the financial system as a whole and make them much more resilient in all circumstances.

Jesus drove the money-changers – i.e. the bankers – out of the temple. How do you, as a man of money, feel about this parable?

Central bankers are guardians of monetary stability, which is a public good. So, when the markets run riot, whether on the upside or on the downside, we ensure that there is a return to discipline. Wisdom needs to discipline "animal spirits" – excessive greed or fear. On the other hand, I would certainly warn against making it difficult for banks to carry out their functions. In Europe, banks finance 75% of all economic activity. The real economy needs banks to finance investment, and we should not mistreat or ignore them. We would be shooting ourselves in the foot if we did that.

You experienced the occasionally violent protests of the 1968 movement at close quarters – from ministries in Paris with people demonstrating in front of them. How seriously do you take the "Occupy" movement, which has spread from Wall Street to cities around the world?

I think we should always be very attentive to the signals coming from society. They are manifold and complex. People are asking themselves how it was that first the financial markets and then the real economy turned out to be so vulnerable. We now need to make our market economies much more robust, as only they are capable of creating wealth and employment. And banks need to strengthen their resilience and avoid behaviour – including excessive bonuses – that is not compatible with the values of our societies. These are the messages that I would take from public opinion. We are all working hard to strengthen the financial system, both at the European and at the global level.

To what extent has the greed of the financial markets damaged the notion of the market economy and freedom in Europe and beyond?

We should be very conscious of the fact that certain behaviour in the markets has caused considerable irritation. That includes the size of certain bonus payments. This has shocked the public on both sides of the Atlantic. We therefore need a change in values and a change in behaviour in this respect. We are all living in democracies, and for that reason it is very important that society accepts the values and behaviour observed in the economy.

You've spent the last 40 years working in the public sector in the area of monetary policy – first in Paris for France, and now in Frankfurt for the euro area. Can you tell us something: what is money, the nature of money?

Money has an essential function. It acts as a store of value, it is a means of exchange and it allows people to calculate the price of everything. Money is an inseparable element of civilisation, as it allows the division of labour. It is only thanks to money that we have cities at all. I would compare money to a poem, since a poem always retains its structure, just as a gold coin always retains the image stamped on it. Once formed – whether written or minted – these two things should not and cannot be altered. Goethe gave considerable thought to this issue, as you can see from reading Faust.

To what extent are you personally fascinated by money?

I, personally, am not fascinated by wealth.

In Germany we say that money rules the world. Would you, as a man of money, confirm that?

No, I would not say that at all. Ideas rule the world – hopefully. Money is a means, not an end; an instrument, not the ultimate goal; *un moyen, pas une fin*.

Your wife recently said on German television that the question of whether she was pleased that her husband's work was coming to an end was a "delicate and difficult question". She also said that she hopes you find something to occupy yourself with as soon as possible. What does Madame Trichet mean by that?

Did she really say that? She knows me well. I will certainly remain active. But I will wait until I have left the ECB before deciding what exactly I will do.

Does she perhaps mean that Jean-Claude Trichet cannot be happy without work?

You can trust my wife on that!

Mr Trichet, why is your signature on the euro banknotes?

The euro banknotes are issued by the ECB. I therefore sign the euro banknotes as President of the ECB, on behalf of the Governing Council. Currently there are around 14 billion euro banknotes in circulation.