



## **Jean-Claude Trichet**

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Laissez-moi d'abord vous remercier pour votre invitation. C'est toujours un grand plaisir d'être à Hambourg et j'ai eu l'occasion d'y être invité à quelques reprises. Toutes les salles que je connais....[bruit du microphone]....sabotage !!! [rires dans le publique].....à Hambourg sont magnifiques. Le Sénat d'abord, cette salle m'impressionne beaucoup. Vous avez été assez gentil pour dire un mot en français au début, vous parlez un français admirable, cela me rappelle - vous avez parlé de la langue de Molière - laissez moi dire un mot de la langue de Goethe. Dans ses mémoires « Dichtung und Wahrheit » Goethe dit :- il a fait des études à Strasbourg, il parlait français aussi bien que l'allemand - J'aurais pu devenir un écrivain français aussi bien qu'un écrivain allemand, mais les français ont la détestable habitude, quand vous parler leur langue, de vous reprendre en permanence car ils trouvent que cela n'était pas assez bien exprimé. Donc c'était insupportable, j'ai donc décidé d'être un écrivain allemand !

The issue at stake is, of course, an extraordinarily important one and you made a lot of very good observations on the Euro, Europe and European friendship in general. I am moved by the flags that are here. I have always thought that the friendship between France and Germany - between French and Germans - was absolutely fundamental. It is a marvellous friendship over a long period. Without this friendship, nothing would have been done towards creating a unified Europe. I believe it to be precious and I know that this belief is shared in Hamburg, a global city. I am always impressed by the fact that here in Hamburg, citizens are Hamburger, German, European and citizens of the world. It is very impressive. It seems that all the reasons

we had to embark on the European endeavour after World War II are still there. Many others came since then. You know that better than anybody. Of course, ensuring friendship, prosperity, stability and peace in Europe - as you so eloquently said - is fundamental and we take for granted something which cannot be taken for granted. It is something which has to be confirmed, constructed, enriched and deepened all the time. But at the inception of the European Union, we had only one role model in the world, which was the United States of America. The idea that we had to create an economic entity that would be as big as the United States in order to benefit from the economy of scale that one can have at that level, was natural. It was a very important reason to embark on the European endeavour to create unity.

Today, we have the US, we have China, we have India, we have Indonesia. The day after tomorrow, we have Brazil, we have Mexico. The single economies with a single currency are extremely numerous. You know that better than anybody, because you are trading, exchanging goods and services with all these immense new entities. The Euro area is large, but will be overtaken in terms of economic size by China very soon. In a short span of time, we will have India and China together with a combined GDP twice that of the European Union. So to me, it seems absurd, after all that we have done, not to pursue this endeavor which is of a historical nature. From an economic view it seems to be even more justified today than it was 60 years ago when we started this endeavour. The Euro and the Euro Area Now in the limited time I have, let me address, on the one hand, the Euro itself, and the governance of the economic union, on the other. I distinguish between the Euro area and the Euro as a currency. I know that the Euro as a currency is the symbol of the Euro area. It is the symbol of this single economy with 333 million fellow citizens.

But let me speak of the Euro as a currency, our currency, as you said so very eloquently, Mr President – it is *our* currency. First, imagine that in 1998 I was invited to your *Europa-Abend*. That is nine or six months before the setting up of the Euro. Imagine, we will start the Euro on 01 January 1999. In Hamburg, everyone would have trusted me. In New York, practically nobody – even nine months before 01 January 1999 - would have believed that the Euro would really start on that date. I know that because I delivered speeches in New York at the end of the first quarter in 1998. Now the second observation, would you have believed that 15 years later, the

Euro would be the currency of 333 million people and 18 countries. Would you have believed that in 1998? Certainly, nobody in New York would have. But that is what we have done. The third observation. That currency, which was intended by treaty to deliver price stability, would deliver price stability over 15 years in line with its primary mandate, and do it in a way better than by individual countries during the previous forty years. That includes countries which have a good track record in price stability, such as the Germany and the *Bundesbank*. Of course we have delivered. When I left, we were at an average of 2,09 percent over my own period. Now we are a bit below, because inflation has been a bit down. At the end of this year, my expectation is that it would be 2,0 absolute. Last year, it was 2,03 and it will be a little bit lower. Nobody would have believed me, neither in Hamburg nor in New York.

The Euro is also a currency which is credible, not only for the first fifteen years, but also for the next ten. This is based on all the information we can extract from future markets. It is true that investors are assessing price stability over the next ten years and concluding that the currency will be credible over this time. I would have said that this currency will keep its external credibility and its exchange rate value remarkably well. I would have told you, my New York audience, that the value of the Euro almost 15 years after its establishment would be higher than the entry level on 01 January 1999, which as you now know, is true. The entry level was 1,17, today we have around 1,32. Colleagues here know the precise figure better than I. You see the degree of skepticism that you would have had at the time, both in Europe and in the US. There was absolute certainty in New York that it would be plain wrong, that the man who would say all of these things would be totally crazy.

Added to this, all the results were achieved in spite of the worst financial crisis since World War II, which could have been the worst crisis since World War I, namely, during the five years following the sub-prime crisis or Lehmann Brothers. There would not have been a single person, neither in Hamburg nor in New York, who would not have said, that this man is totally out of his mind. At the time of the Lehmann Brothers explosion, that currency was the currency of 15 countries. After Lehmann Brothers, three more countries would enter the Euro Zone, Slovakia, Estonia and from January, Latvia - three countries since the most acute period of financial crisis at a global level and three years after the start of the crisis here, as

you said in your address. The *New York Times* and the *Herald Tribune* said that perhaps the crisis had crossed the Atlantic in terms of the epicentre. The epicentre was in the sub-prime system and Lehmann Brothers in terms of the US and since the beginning of 2010 the epicentre of the crisis is in Europe. Despite all that, the Euro area did not explode, the Euro area has been enlarged by three countries, if I count Latvia. There is another point for which I would have been labelled totally absurd. The Swiss Central Bank and the Swiss franc decided for a pegging of the Swiss franc to the Euro. Taking into account the fact that the Euro did not exist in 1998 and that the Swiss franc has a 200 year legacy of credibility and solidity, it would have appeared as an additional fantasy. I conclude these observations on the Euro as a currency, but you see to which extent we are totally misled as regards the currency. The currency is the currency of Germany and deserves to be the currency of Germany. It is one of the best currencies you can find in the present world. We do not appreciate what that means, because we have the problem of governance of the Euro area as an economic union.

I will now concentrate on that issue. What I said to this point illustrates that we have to look to facts, to the truth, to observe what the markets themselves are saying. This is more important than rhetoric, which is confusing. The Governance of the Euro Area Why is it, that a crisis which started in the US with the drama of the sub-prime lending scheme and then the drama of Lehmann Brothers - with all the difficulty that it created at global level - why is it, that a crisis that turned out to be a sovereign risk crisis, a public signature crisis, moved its epicentre to Europe? Why is it, that in the eyes of the rest of the world, the most vulnerable public signature in the world at the end of 2009/2010, turned out to be, in that order, Greece, Ireland, Portugal. I believe there are six reasons. I will only list reasons without elaborating too much. First, we did not respect our own rules. We had a Stability and Growth Pact. That Stability and Growth Pact was always very firmly defended by my colleagues, the *Bundesbank*, all of the central banks of Europe, and myself as Chairman of the Governing Council of the ECB. Even when I was Governor of the *Banque de France*, I said that we are creating a single currency, we do not have a federal government, we do not have a federal budget, we need a framework to ensure that the fiscal policies are in line with the ambition we have with the single market, with a single currency. My first

disagreements upon being appointed President of the ECB were with the large economies of Europe. I have to name them – France, Italy, Germany.

The three big countries in Europe wanted to get rid of the biting elements in the Stability and Growth Pact. With the benefit of hindsight, that seems absurd, but it was the reality. It is history. My first speech in front of the European Parliament was to defend the Stability and Growth Pact, which was attacked. It was very complicated. It even went as far as the European Court of Justice because the Commission, rightly so, asked for judgment against the Council. The judgment was a Solomon's judgment. It didn't solve any problems. But we had destroyed in a way, the spirit of the framework of the fiscal policies.

Second, the Treaty did not monitor divergence of competitive indicators. Since 2005, I had circulated to the ministers the evolution of unit labour costs, of wages and salaries in the private and public sectors. I commented that there are divergences which are not sustainable. We cannot have such divergence in a single currency area.

Third, we had no banking union. At the time of the crisis, the correlation between the weakness of the states and the weakness of the banks was 100 percent. It created an additional stretching in the Euro area. This was observed in the US and the UK. In the Euro area, it created additional problems for those entities which were weak from the point of view of banking and the public signature of the treasuries.

Fourth, we did not have a crisis management tool. We created from scratch the Stabilisation Fund. That needed a new treaty. The last two reasons I mentioned are understandable. The first two are not and they are unforgivable.

The last two reasons are very important. They are weaknesses of the 27 as well as the 17. That is, the failure to complete the single market. I note the extent to which Germany needs a single market. The Euro area needs a well-functioning single market so that everything operates smoothly, so that the competitive channel corrects imbalances when they appear. The fact that we did not complete creations

of a single market is a major problem for the European Union as a whole. It is a particular problem for the single currency area which needs a single market.

The last point is the non-completion of a Structural Reforms Agenda, the Lisbon Programme, the 2020 programme. It is a problem of the European Union as a whole and especially at the level of the single currency area. It needs a very flexible market for goods, services and labour.

These six reasons are why we became the epicentre of the global financial crisis. It is still a global crisis. It is not only a European crisis. Do not forget that at the very beginning of the Lehmann Brothers crisis, a lot of Europeans said that this is not our problem, it is the problem of the US. We learned the hard way that it is also a European problem. We had to cope with it and we did so, very well. We had a problem on the side of signature. But for the financial system, we did not have the equivalent of the Lehmann Brothers. We could cope with this drama in a way which was reasonably effective. We have to see if the US, Japan the UK have no problem on the fiscal side.

Is it true that we are the only ones to have big problems? No. All of the advanced economies have big problems in this respect. The paradox of Europe is that on the whole, Europe is in a better state of outstanding debt than Japan and early public finance deficit in the US. That does not mean that we are not affected – we are the the epicentre. But it is a global problem for the advanced economies to solve. Just look at the central banks and the unconventional measures they had to adopt – in Japan, in the US, in the UK, and also in Europe. Look at the size of their balance sheets. There is the proof that there is a problem in the central economies that no one can deny. So we all have to put our house in order. But being the epicentre of the crisis, we have a special responsibility.

Responses I identified six weaknesses. What should we do? First, the Stability and Growth Pact has been considerably reinforced. We have reversed the onus of proof. Governments now bear the onus of proof if they want to contradict what the Commission claims. It was previously the contrary. The Fiscal Compact reinforces the national basis in leading to correct national behaviour on the fiscal side. This is a

dramatic improvement when compared with 2003 and 2004 when big countries wanted to demolish the Stability and Growth Pact.

Second, Competitive Indicators Monitoring – we now have a new bidder, which is called MIP – Macroeconomic Imbalance Procedure. Retain this acronym. It is as important as SGP. In my opinion, the reason why we had so many problems in Europe was not only because fiscal policies were not appropriate and not monitored, but also because we had lost competitiveness in a number of countries. Monitoring surveillance of these macroeconomic imbalances is fundamental. So we have corrected the second weakness mentioned.

Third, Banking Union – you know that this is work in progress. This can also be considered an important element. It is a good thing that we will have a single supervisor at the level of Europe as a whole. We have a treaty that created the European Stabilisation Mechanism, the SM, which did not exist before.

The four first weaknesses mentioned are being treated, or are being treated. We should not become complacent in any respect. Everything has to be rigorously implemented. We will not be forgiven if we recommence the previous benign neglect.

Finally, the two last weaknesses, namely, the single market and the structural reforms are to be pursued by everyone. I have to say, this is an area in which I am disappointed because I do not see the energy necessary in these two domains. The hard lessons learned from the crisis should give us the will and impetus to go in the right direction. But as you see, we have nevertheless learned a lot from what has happened.

My view of the future

Now let me explain my optimism at a time of such difficulty. The likelihood of material change to the Euro area has been considerably alleviated. I see four reasons for that. First, the countries that were stressed are adjusting. I will give you an example. The consolidated current account deficit of the five countries that have been under stress was about minus eight percent of GDP in 2008/2009 – an enormous amount of current account deficit. That is an enormous amount of visible vulnerability. At the

time of speaking, it is probably less than one percent – a division by a factor of eight. This is a painful, difficult adjustment, coupled with a lot of cost. It is nevertheless necessary. We cannot run eternal deficits. The rest of the world will not go on financing your deficit.

Second, we have considerably improved governance of the Euro area. There is no room for complacency. Two new treaties have been signed reinforcing the SGP and creating the MIP.

Third, all the democracies in the Euro area were asked if they wanted to leave, or if they wanted to expel a member state. All responded, 'no'. All countries that were not experiencing stress were asked to help with loans and decided to do so. The stabilisation of the Euro zone depended greatly on the decision of the *Bundestag* with a majority of both the right and the left. From the perspective of New York and the rest of the world, this was something that was not expected. But when they saw what had been decided, it created an additional element of comprehension. This contrasted with what had been presented by a large number of analysts, including some prominent economists.

The last reason is the fact that the Central Bank said that we have to restore a better transmission of monetary policy. This presupposed the necessary conditions. This decision of the Central Bank was not necessarily the decisive role, as assumed by some markets. But it did play an important role. The three other elements are important too.

You may say that all of this is good, but then go on to ask if it will be enough in the long term. We are talking about something which started 16 years ago, thanks to the profound friendship between Germany and France, which has the ambition of continuing for thousands of years. We had to put our activities into a historical framework. My belief is that we have to go further in the direction of democratic legitimacy. All that I have said with regard to SGP, MIP and the Banking Union is an important step forward in the direction of political union.



After all, if you speak about a budget, it is the mother of democracy. The Parliament passes the budget to give legitimacy to taxation. 'No taxation without representation', as was said in the United States of America. The problem of democracy and legitimacy is at stake and my own sentiment is that it is now time to reflect on that. Germany, after all, wanted to go further at the time the Maastricht Treaty was negotiated. The people of Europe will have to decide that and it will certainly have to go through a new treaty if you want to give more power to the European Parliament. I believe that we have to give all that we have done a solid democratic foundation. In extreme situations, you could give the final word to the European Parliament to decide matters that are extremely difficult. This would occur when faced with countries that are unwilling or unable to decide for themselves and which may destabilise the Euro area as a whole. This was the situation we had to cope with since the start of this sovereign risk crisis.

I would like to conclude on that theme, which may surprise you, coming as it does from a central banker. But after all, in a monetary way, we did our work as correctly as possible at a very difficult time. What we have to do now is to go further in the direction of democratic accountability. This would be in the shape of a political union. Thank you.