

There is a need to adapt but I am not sure that dramatic changes are needed. We live in a world where technology is creating a permanent state of change. Institutions therefore cannot and should not be designed for stable state. It would not have been very wise for the international community to take literally the call for a "new architecture". The more modest approach that we have adopted is more appropriate for the permanent evolution we experience.

Q6. If markets and governments were caught unprepared in 1997, as you suggest, on what do they need to focus in the future: overseeing capital flows or putting in place the proper exchange rate mechanisms?

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JCT: As it is often the case, a *multi-dimensional* strategy is needed. There are no miracle formulas. Actually, there are probably something like 30 *fora* where the international economic situation is being discussed. I see a variety of areas where we could improve the situation.

One key challenge is the myopia of governments and markets when short term borrowing is allowed to get out of hand. There is undoubtedly a set of good practices and good behavior that could help a country steer clear of such pitfalls.

Now to be sure that one is behaving properly there is a need to be transparent, vis-à-vis oneself and vis-à-vis the rest of the world. The herd instinct is a major disruptive force always inherent in the market. *Transparency* is essential to prevent herding, or at least in keeping it from reaching crisis proportions. Reliable figures allow market and regulators to distinguish between different situations thereby avoiding that a problem in one country be blindly generalized into an across-the-board "Asian crisis" or "emerging markets crisis".

Now *exchange rates* also play a major role. There are several systems that can be adopted, and what is important is not so much which one is chosen but the need to be coherent. I would stress again that we must beware of magical solutions, which is why a multi forum approach is satisfactory.

I could have been much more comprehensive in listing what should be done. The generalization of core principles in the banking sector. The same for the insurance sector, as it has not yet triggered major problems but this could very well happen someday, with a potential destabilization effect of the same order as in the case of banking.

Preventing destabilization through monetary policy, such is the challenge that faces central bankers today. Booms that come to an abrupt end are a common threat...

Q7. One of the "magical" formula that has been put forward is that of currency boards... Do you agree that they can be a key part of the solution? And what about controls on short term capital flows in the Chilean model?

JCT: Not really. Consider the debate around the Chilean way of regulating capital flows. Protecting the value of assets is very important and, in the long run, it does

pay off. Whatever exchange-rate system you have, it can work if the fundamentals are sound. Otherwise no exchange-rate system can solve the problem.

As regards exchange rate systems, I don't think there is only one way to go. I would not exclude any of the possible exchange-rate systems; I would concentrate on the need to be fully coherent within a given system. The tendency for regional arrangements could encourage in the long run more stable global finance, but that would have to be checked. In Europe, it seems now so obvious!

Q8. Only a couple of years ago, one could have thought that Europe could be a source of inspiration for Mercosur, ASEAN... Now it seems that other solutions are favored, such as dollarization.

JCT: The road toward a single currency is not traveled without a very strong political impetus, a major strategic drive. Had Europe not had this strategic drive, we would never have succeeded in achieving the level of convergence that has made the euro possible. So the European model does not correspond to the present situation of the ASEAN countries.

This being said, regional cooperation has proved to be useful. Maybe Latin America is in a different situation; I imagine it's unlikely today that they can move toward a single currency, but they might in time consider that perspective appropriate.

Q9. In the dialogue in this book with Nobel laureate Robert Mundell, he mentioned that a single currency for the world was not unthinkable and that the euro may be the precursor of a more global transformation, possibly around a common unit of account. What are your own views about the long term transformation of the exchange rate system?

JCT: I must confess I will be less prophetic! The evolution of technology, again, might present such new challenges that this type of radical development might someday be thinkable. But, I consider it highly unlikely. I see a lot of good reasons why we could have for a long period of time the euro and the dollar for the best of the European and the U.S. economies as well as for the best of the rest of the world. It will give sufficient breathing space for these immense economies to behave as properly as possible in the years to come.

Q10. You are very familiar with the situation of Africa, the continent that has had the most difficulties in meeting the challenge of globalization. Actually, the first time we met you, quite a few years ago, you were in charge of the Africa-Club de Paris. Major changes have taken place recently most notably a long overdue devaluation of the Franc CFA. Are African countries at last fixing their problems or do they still encounter obstacles that prevent them from joining the global economy?

JCT: Africa is a very complex heterogeneous continent. What we have observed recently is that the Western African countries have stabilized. The rest of Africa has behaved also quite properly with growth in volume terms being a little above demographic growth during the last decade. GDP per capita has improved a little bit, though it recedes slightly in 1998 due to the consequences of the crisis on the price of raw materials.

Compared to the rest of the world and to other parts of the emerging world, Africa is still lagging behind in many important respects, including of course GDP per capita.

We have to help them, which does not mean necessarily shipping them ODA. We know that evolutions in the Western world have reduced the scope for ODA.

For small economies, clearly, regional cooperation should be the rule of the game. At least the CFA Franc zone has progressed in that respect; other parts of Africa might learn from this.

Q11. Corruption is no longer mentioned only off the record and is now recognized as one of the major problems in developing countries. Do you believe we are achieving some results?

JCT: I think focusing the attention of the international community on that issue was long overdue, not just because of moral standards but also because corruption is a major hindrance to making rational decisions. By its very definition, corruption is about taking sub-optimal decisions that would not be taken otherwise. Hence it is essential to fight against corruption for moral and economic reasons.

The international community has to fight permanently not only against corruption, but also against money laundering and organized crime. The capacity of invention of organized crime is infinite. Whatever the efforts of the international community to

fight it, we are spectators in the permanent competition between the sword and the shield.

Q12. Offshore centers play an essential role in making corruption possible. Sometimes it is advocated that we could create some sort of electronic shield around the world where transparency and integrity of markets are the rules to be sure that off-shore centers do not get the best of two worlds. What is being done at the international level?

JCT: We are working on this issue. Indeed this is the subject of one of the most important working group of the International Financial Stability Forum.

The answer to those asking why more is not done to limit the capacity of the off-shore centers is often that the enforcement capacity of democracies to get these off-shore centers on board is limited. I have to tell you that I am not convinced that we could not enforce the same rules there as the rules we have in our own marketplaces. They could not do anything if they were disconnected from the rest of the world.

Some progress should take place in the near future as a global consensus is maturing.

Q13: Coming back to Europe, euroskepticism is still far from dead...

JCT: So many people in the US and in the UK have said that the euro could not proceed that they have to say today that it will be a total failure! So a strong "euroskeptic" constituency still exists for a variety of reasons and one has to acknowledge that it could solve a lot of problems for the British if the euro were to fail!

Nevertheless, a large number of American entities operate in a very pragmatic way. To them the euro is a fact. Europe has achieved a single market, not only through the euro, but also through the new technologies put in place. It is not only very positive for Europe, but it is a fantastic opportunity for U.S. firms, as they are used and trained to operate in a very large market.

So I can see that the euro has made major inroads in American public opinion.

Q14. You mentioned technology as a major facilitator of European integration

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and of the successful transition to the euro. An essential tool in that respect is the TARGET payment system put in place under ECB supervision to make payments in Europe possible. It is a decentralized system and one can hear a number of voices saying that the euro-zone could have adopted a better architecture...

JCT: I could not disagree more. TARGET is a concept that works very well especially in the context of implementing euro-zone monetary decisions. Decentralization is essential. It was a major aspect of the Maastricht Treaty. Had the governors under the chairmanship of Jacques Delors not created the concept of decentralized implementation of a centralized monetary policy, the single currency could have been rejected.

The single currency is based on centralization of decisions and decentralization of their implementation, as well as of relations with commercial banks and so forth. Each National Central Bank has account of commercial banks and that is part of the overall system.

The challenge was to get a unique concept of liquidity, and we have it. Technology of course is improving all the time, but the overall concept of decentralization should remain, and Target is part of it.

Q15. What about a "TARGET for securities" as some like to refer to clearing and settlement systems for the euro securities markets? Do you believe Central Banks should be much more active in their oversight of securities markets?

JCT: We shall see. As you know well we are presently in a complex situation with two competing euro-wide institutions, Cedel and Euroclear, and a number of national entities. We will see what is the result of the biological evolution that is underway. (MERCİ D'ACTUALISER LA REPONSE SI L'ACTUALITE LE RENDAIT NECESSAIRE)

Q16. How would you define the role of the National Central Banks in the euro system?

JCT: The Maastricht Treaty has transferred full responsibility to the ECB for monetary policy and interest rates, payment and settlement systems and the management of reserve assets. As regards monetary policy, we are 12 players, the

ECB and the 11 National Central Banks, and it is this team of twelve which is playing together and winning together. The team as a whole works well. NCBs have to communicate to ECB all relevant figures and information we get, not only about our particular country but about the Eurozone as a whole.

National Central Banks are responsible for national idiosyncrasies. In France for instance, the Banque de France has a responsibility for manufacturing notes, for matters of households indebtedness and many other subjects that can only be explained for historical reasons.

Take banking supervision. In some countries like Spain or Italy, the Governor is in charge, in other countries like Finland and Belgium, there is an independent Commission.

In France, the commissions are independent and the Central Bank has only one voice, one out of 11 for the Comité des Etablissements de Crédit NOW EXACT CECEI, one out of six on the Commission Bancaire. The fact that the governor acts as a link without having the sole responsibility is particular to France.

The Maastricht approach was to apply the same concepts within the European Union and more globally at the BIS level without changing the national frameworks. Personally, I feel it would be a mistake to change the present situation....

Q17. This book is titled "Capital markets without borders". Is this title appropriate for you?

JCT: It is certainly very true in the world of capital markets. Global consensus has allowed us to open up and create international finance without borders... It is however very important to remember that economies are still very different. Some are still specialized in manufacturing goods, others are "post modern" with very strong services. The impact of capital markets is very different in these different types of economies.

Total liberty of capital markets can be at odds with what would be needed in one country or another, notably in terms of interest rates.

The best metaphor for capital markets of today might be of a single network, a unique system of plugs, but with very different entities that are plugging in. These

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differences are not simply the result of different levels of development but also because the U.S. economy is not the same as the EU economy.

Q18. What is the modern meaning of sovereignty? Is sovereignty radically different from what it was few years ago?

JCT: We certainly are moving toward a world of shared responsibility, shared interdependence and from time to time a recognition that to be exercised correctly sovereignty must be exercised collectively.

43 years ago we decided that trade negotiations would be better placed under European responsibility, achieving the internal market by the same token. Whether or not we'll manage in the same fashion in diplomacy and security remains to be seen. In all cases, it will be our people who will decide; hence they need to be convinced. In that sense it is the sovereignty of the people that is exerted. In France, the September 1992 referendum was critical and it was essential to have this type of vote before transferring part of our sovereignty to a superior level.

Q19. What is your personal vision of the main challenge that we will have to address in the next few years?

JCT: The main problem, the main challenge, is to make understood as well as possible what the rules of the game in a market economy are. Even in the most important industrialized economies, public opinion is not very conscious of these rules. However in our countries, a lot depends on the capacity to seduce consumers, to seduce investors and entrepreneurs... We have to work to ensure those rules better understood.