

ECONOMICS

'EUROPE HAS A LOT TO LEARN'

Jean-Claude Trichet on the future of the euro zone

Jean-Claude Trichet, governor of the Banque de France and member of the governing council of the new European Central Bank, is under pressure to support an interest-rate cut for the euro zone as growth flags. He spoke with Paris Bureau Chief Gail Edmondson and Managing Editor Mark Morrison about European monetary and economic issues:

Q: As the outlook for European growth in 1999 is adjusted downward, more people are arguing for a cut in interest rates. Is the ECB's anti-inflationary bias right for the deflationary environment of the late 1990s?

A: Disinflation is probably the correct word. But we cannot speak of deflation in Europe. The M3 monetary aggregate is growing at exactly the pace we have set up as a reference, 4.5%. M1 grew at 9.2% and outstanding credit to the private sector at 8.3% over the past 12 months. None of these figures signals deflation. We are presently delivering to the European economy a favorable monetary environment. Our real short-term rates are 100 basis points lower than those in the U.S. And we are enjoying the lowest long-term rates ever observed since World War II.

Q: Politicians have threatened to use government spending to spur growth unless the ECB cuts interest rates. Are you worried that countries may exceed the 3% budget-deficit limit of the Maastricht Treaty if that happens?

A: I have full confidence that governments will respect the Maastricht Treaty and the stability-and-growth pact.

Q: Are you concerned about the decline of the euro against the dollar?

A: There is a large interest-rate differential between the euro and the dollar;

this is contributing to pushing up the U.S. currency. The very good results of the U.S. economy have also played their role. So far, the exchange rate is in line with the normal functioning of a floating currency market. But we have to remain vigilant. The credibility of the euro in the eyes of global savers and investors is a priceless asset we have to preserve.

Q: How do you view the turbocharged growth of the U.S. economy? Can Europe learn from it?

A: The U.S. economy seems to benefit enormously from two factors. One is structural reforms implemented over the past years. The other is the impact of information technology. Certainly, Europe has a lot to learn, without forgetting our own values.

Q: Do you see any New Economy effect in Europe?



TRICHET: The New Economy is coming to Europe

A: I think it is coming. You see it in the explosion of the mobile-phone business, the Internet, and the percentage of personal computers in households. Europe in general may be four years later than the U.S. That's because the concepts were largely invented in the U.S. But I think we will benefit from the same technology wave.

Q: Are the policies of Prime Minister Lionel Jospin helping France?

A: The consensus sees France growing this year at the same pace as Europe as a whole, probably more than 2%. We have the potential to grow more actively in Europe if we pursue structural reforms, particularly in education and training, in labor-market flexibility, and in incentives to create jobs.