

Klaus Regling in interview with Die Zeit (Germany)

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Interview with Klaus Regling, ESM Managing Director

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Interviewer: Mark Schieritz

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Die Zeit: Mr Regling, now the German government is again spending many billions to save the economy. You are a rescue expert: will that work?

Klaus Regling: It is important to understand what kind of crisis we are dealing with. The increase in energy prices is the biggest supply shock since the Second World

War. EU countries will probably transfer about 500 billion euros more to energy exporting countries this year than two years ago. That is roughly equivalent to Belgium's annual economic output. This money is gone.

Money can be printed.

But not the material resources behind it. Even if there is more money, there will not automatically be more gas. In case of doubt, we only pay more for the same amount of gas. The state cannot completely compensate for the losses, but it can ensure that the burdens are fairly distributed.

How?

By using targeted instruments to help those in need and to preserve the substance of the economy. We are talking about low-income households: the baker around the corner, but also the pharmaceutical giant that might otherwise relocate energy-intensive product lines to North America, for example.

So, you cannot save everyone?

No. Just throwing money at the problem will not work. That applies to all European countries.

If I earn - let us say - 2000 euros a month, I get help, but not any more if I earn 6000 euros? Is that fair?

Where exactly the income limit is, and which companies should be supported is a difficult political decision. Compromises have to be made. But that does not change the economic reality: energy is scarce, and the price increases go hand in hand with a loss of prosperity.

Do you think the government's gas price cap is a good compromise?

An evaluation is only possible once the implementation details have been determined. This time should also be used to coordinate with European partners.

Do you still remember your first rescue?

At least the most dramatic one: it was in the spring of 1983. In France, for the first time since the end of the Second World War, a socialist president was elected, Francois Mitterrand. He did things that one can hardly imagine today. For example,

nationalising banks and corporations. As a result, the French currency came under pressure. Gerhard Stoltenberg was the Federal Minister of Finance; he met his French colleague Jacques Delors in Brussels one weekend.

Rescues often happen on weekends, don't they?

Because that is when the financial markets are closed. Stoltenberg, Delors and the other ministers did not agree. Mitterrand then called him back to Paris. He had two recommendations on his desk: one was to implement reforms and improve competitiveness. The other: Leave the European monetary system, impose tariffs on all trading partners. Mitterrand opted for the first recommendation. Otherwise, the euro would probably not exist today.

What was your role in this?

I was an advisor in the Federal Ministry of Finance. I made sure that Gerhard Stoltenberg still got bread rolls at three in the morning.

You became known to a wider audience when Greece had to be rescued around 2010. How could it have come to this?

After the introduction of the euro, incomes in Greece had increased much more than in the other euro member states and also more than productivity. I worked for the European Commission at the time, we discussed the problem again and again.

But nothing happened?

Greece had to finance itself through foreign capital inflows. In view of deteriorating competitiveness, investors should have demanded higher interest rates for this, then the pressure on Greece to adjust would have been there. But they continued to provide the country with extremely cheap loans. At the end of 2009 elections took place and the new government wanted to spend even more money. Interest rates rose abruptly, and the influx of capital threatened to dry up.

Then you intervened.

First, the conditions had to be created for this. At the global level, there is the International Monetary Fund for such cases. We did not have anything like that in the monetary union. With the establishment of the euro rescue fund ESM, a gap in the institutional architecture of the monetary union was closed.

In what way?

We now have an institution that can grant financial aid to states in the event of a crisis. If necessary, these are linked to a macroeconomic adjustment programme with economic policy conditions to get the country back on track.

The Greek government has argued that the conditions were too strict.

In hindsight, one can certainly argue about certain measures. For example, we should involve private investors to share the costs of the crisis earlier. But it was always clear: the necessary adjustment is not feasible without pain.

Saving always needs to be painful?

Not in the sense that you have to inflict suffering on a country as punishment. There were undesirable developments in the decade before the crisis that had to be corrected. Greece was not as rich as it seemed. It was inevitable that the population would give back some of the excessive income gains. However, it is also clear to me that such a thing is not easy to communicate politically and that such adjustments are very painful for the population.

The rescuers look at the rescue differently than the rescued?

The negotiations can be very intense in such cases. A whole country is at stake. That is a great responsibility. But if the rescue succeeds, then the economy benefits from it, which ultimately means that people benefit.

Would you say that Greece is saved?

Definitely. The primary goal was to keep all countries in the euro area. That has been achieved. In Greece itself, the adjustment process took much longer than in other countries. But today the country is in a much better position than it was then.

Why is it always necessary to rescue?

Because the world is not perfect. If everyone always did everything right, there would be fewer crises. But experience shows that this is not the case.

Why?

Perhaps it has to do with human nature. When everything is going well, people are more generous with their money. That applies to politicians, entrepreneurs, trade unions and bankers. Politicians are usually only elected for four or five years, so if it is possible, they sometimes exploit debt capacity when in the long run they should not have. We observe this all over the world.

Would it not be better to intervene before it is too late?

That is precisely why in the European context there are regulations for member states' economic policies, compliance with which is monitored by the European Commission, among others. In the past ten years, in response to the euro crisis, a lot has been done to strengthen this. But even if we expand the monitoring further – which I think makes sense – it will never be perfect.

So, we rescue because politicians fail again and again?

Not only politicians. In Greece's case, if investors had demanded higher interest rates earlier, the country would have been forced into a sustainable fiscal path sooner. But this disciplining force did not exist. The cause of many financial crises is a combination of policy failure and market failure.

One could also take the position: Every country must answer for its mistakes.

But then you also have to consider the consequences. If Greece had been forced out of the euro, Europe would be in a worse position politically and economically today.

You mean that a rescue is not an expression of solidarity, but of self-interest on the part of the rescuers?

Both. The financial aid for Greece - more than 200 billion euros – was an expression of solidarity. The Greeks will benefit from it for many decades to come because the interest rates are low, and the maturity of the loans is very long.

Nevertheless, the Greek bailout was controversial in Germany.

It is particularly important for Germany and its export industry that the European single market functions. Incidentally, when the Federal Republic was founded, it was also relieved of a large part of its debt after the Second World War under the London Debt Agreement. So, we are not only saviours, but we were also rescued.

The critics say: If the euro did not exist, there would be no need for constant rescue.

That is a false conclusion. There were serious crises before the introduction of the euro, not only in France. I remember very well how in 1992 the Italian currency suddenly lost 20 percent of its value against the German mark. This meant that VW could no longer sell cars in Italy. And also, the Bavarian dairy farmers, which made the finance minister...

... Theo Waigel of the CSU...

... particularly distressed at the time. He had no chance against the South Tyrolean dairy farmers. In Europe we have a common market with mutual dependencies, so we cannot ignore our neighbours' problems.

You mentioned the enormous sums that often flow in the case of a bailout. Don't governments get careless? They know that they will be rescued if something goes wrong.

The fact that the money is tied to conditions speaks against this. Nobody likes to undergo these programmes. But they are necessary. We cannot simply conjure away a need for adjustment that has been created by years of undesirable developments. We can only stretch it out in time.

Rescuing means buying time?

In many cases it does. Take the example of Greece again. The foreign investors withdrew, and without support the government would have had to abruptly cut public spending to the level of public revenues. That would have plunged the country into chaos. Through the aid programmes, positive economic perspectives could be created again.

But the EU's pandemic aid was given without conditions.

The Corona crisis was not the result of bad economic policy decisions. It affected countries with high debts just as much as countries with low debts. That is why it was right to say: we are not tying aid to strict reform programmes – and we are primarily helping those countries that are particularly suffering from the pandemic. Not all crises are the same. That must be taken into account in a rescue.

Italy is also receiving money from Next Generation EU. Now Italians will probably have a head of government soon who worshipped dictator Benito Mussolini in her youth. Can we still save Italy?

You have to respect democratic processes. We should give the new Italian government some time and then judge it by its decisions. In any case, the election campaign was not anti-European.

Can a rescue overburden the rescuer?

You can also overdo it. I believe – and many economists see it this way – that in the US, the support measures during the pandemic were too generous. Statistics show that many Americans had more income thanks to government aid than before the pandemic. This led to additional demand and an increase in inflation. The measures in the EU were calibrated differently and helped countries grow in the long run.

Does the additional borrowing endanger the financial stability of the German state?

Certainly not, Germany can afford it.

Which rescue was your most complicated?

For me, personally, the work in Greece was the most intensive, because it went on for so long and because the country's exit from the monetary union was a real risk - even if things turned out differently.

Was it all fun, too?

The word fun is somehow not appropriate. But it was interesting.

Author



[Klaus Regling](#)

Managing Director (2012 - 2022)

Contacts



[Cédric Crelo](#)

Head of Communications and Chief Spokesperson

+352 260 962 205

c.crelo@esm.europa.eu



[Anabela Reis](#)

Deputy Head of Communications and Deputy Chief Spokesperson

+352 260 962 551

a.reis@esm.europa.eu



[Juliana Dahl](#)

Principal Speechwriter and Principal Spokesperson

+352 260 962 654

j.dahl@esm.europa.eu