

Klaus Regling, Theo Waigel and Jürgen Stark in conversation about the euro (Die Zeit)

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Interviews

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DIE ZEIT: Mr Waigel, Mr Regling, Mr Stark, this Thursday the euro's future will be negotiated in Brussels. You were present when it was introduced. Many people think this was the price that Germany had to pay for unity.

Theo Waigel: That is wrong, even though the claim is often made, especially in France. I have the impression this serves to put the slightly unfortunate role of the French head of state Francois Mitterrand into a better light. Mitterrand went with the British head of government Margaret Thatcher to see the Russian President Mikhail Gorbachev in Moscow. Gorbachev later told me that the two wanted to stop the reunification. But he did not get into this and also George Bush had supported us unconditionally. In order not to appear to come out empty-handed, the claim was later made that the Germans were pressured into the euro.

ZEIT: For a long time, the Bundesbank resisted the common currency. It argued that European countries were not ready for it. How did you deal with that?

Klaus Regling: I still remember how Jürgen Stark and I went to the Bundesbank from Bonn to Frankfurt because of that in order to talk to Hans Tietmeyer, the President, and Otmar Issing, the Chief Economist. We asked them: What do you

mean when you always say that a currency union does not work without a political union. A common army to defend Euroland? A common foreign policy? These things may be desirable but do we really need them for a currency union?

ZEIT: And what was the answer?

Regling: They wanted rules for the budgetary policy of the member states.

Jürgen Stark: We then thought how could you get the euro countries to keep their budgets permanently in order. The Maastricht Treaty – the founding document of the currency union – only specifies that the budget deficit of countries that introduce the euro cannot be above three percent of the annual gross domestic product. I then started to consult with my staff how to make these requirements concrete and strict. That was the hour of birth of the Stability Pact. It was also the last opportunity to achieve something in this respect.

ZEIT: The Pact says that the public deficit cannot go above the three percent threshold even after accession to the currency union.

Waigel: There was a dispute around that. I wanted to introduce the concept in the context of a budget speech in Bundestag. We had not informed the Chancellor in advance but somehow he learned about it nevertheless. At 7.30, one and half hours before the speech, Helmut Kohl called me and asked: What is it that you say there? I explained it to him and he said: This will cause trouble. Then we went through the speech sentence by sentence and I said all that is necessary and right. Kohl accepted it but he said: You have to talk to the French about it.

ZEIT: And did you do that?

Waigel: I tried. At a meeting of the European finance ministers in Dublin I talked for hours with my French colleague Jean Arthuis. He didn't contradict me a lot. When I asked him at 1 am if he agreed he said: No. I said: Why did we sit together here all that time? He responded quite openly: Tonight my President – that was Jacques Chirac at the time – will give a press conference on the topic. I don't know what position he will take.

ZEIT: What did Chirac say?

Waigel: He explained that he would not agree to this elaboration of German technocrats. I was pretty upset and I went to see the Chancellor: My message: Either this is dealt with or I will give a speech tomorrow as the chairman of the CSU and attack the French President. The heads of state met the day after the finance ministers and Kohl had grabbed Chirac, put him into a corner, and talked to him quite intensely. Wim Kok, who was the Dutch Prime Minister at the time, stood three or four meters away and shouted again and again: Helmut, do not give in, Helmut, do not give in! At the end, Chirac agreed.

ZEIT: The invention of the euro seems to have been a permanent dispute between Germany and France.

Regling: This is a confrontation of different world views, philosophies, traditions. That continues up to today. That is not necessarily a dispute. That was a tough confrontation but in a reasonable atmosphere. At the end we always reached an understanding.

ZEIT: If not, would we not have the euro or would Germany have given in?

Waigel: Up until the end it was a process with an open result. Also for Kohl, as I know from him. There were consideration that we would not have agreed if other important countries would have made qualifications.

ZEIT: You would have just said: Sorry, we call the entire thing off?

Waigel: There was a back door. If we had not agreed to the exchange rate of the national currency towards the Euro the currency could not have been introduced. But we would probably have let other countries do that in order to avoid a direct confrontation with France. The Netherlands would have been ready to do that.

Stark: In such a situation occasionally one has to think outside the box.

ZEIT: For Helmut Kohl, the euro was a peace project. But in recent years it has not unified Europe but divided it. In Greece, drawings of Angela Merkel with a Hitler moustache were published, in Germany there were reports about the supposedly lazy Greeks.

Stark: There were ugly and unjustified scenes, emotions boiled up, old resentments were stirred, obviously also by populists. That certainly has to do with the events 20 years ago when we decided: Who is part of it, who is not? The countries with very high debt levels like Italy committed themselves to reduce their debt. Carlo Ciampi, the Finance Minister at the time, thanked his European colleagues that they had put their trust into him. But in his memoirs, Ciampi speaks of treason because his successors did not keep the promises. Up until today, the countries concerned do not advance sufficiently with reforms.

Regling: One should not generalise. There are reforms everywhere in Europe, in Spain, in Portugal, in Ireland, in France, and also in Greece. Today I came back from Greece, they have been reforming for the last eight years. There was a step back when Yanis Varoufakis was finance minister, but they are making good progress now. We will be able to complete the last ongoing adjustment program as scheduled in August. Hence, all countries have now left the rescue fund!

Stark: Nevertheless: the policy of the European Central Bank masks the structural weaknesses in many Member States.

ZEIT: Was it a mistake to have Italy join?

Regling: I have read the book by Ciampi, I was also present at these meetings. And of course what has happened in the subsequent years has been disappointing, but back then Italy fulfilled the conditions.

ZEIT: Mr Stark, if you had been Chancellor at the time, what would you have decided?

Stark: We have to live with that decision. For me, something else is important: The case of Italy reveals a fundamental problem of the monetary union: if the government changes, then policy might well change and can turn on its head everything that has gone reasonably well beforehand. It is therefore not possible to make a conclusive judgment as to whether states are converging economically on a sustainable basis.

ZEIT: Was the Bundesbank perhaps not incorrect when it argued that it is

problematic if politically sovereign countries share a common currency?

Waigel: The euro is a treaty alliance, and that's why trust is so important. And if trust is damaged, it damages such a monetary union. Therefore, it was so fatal that the Stability Pact was softened by Germany and France, under Gerhard Schröder and Hans Eichel. In addition, we have focused too much on fiscal policy. Spain or Ireland did not fall into the crisis because their sovereign debt was too high; their debt was actually low. They had a huge bubble in the real estate market that burst. But despite all the criticism, I have to say: Where would we be in Germany without the common currency today? Then we would have seen an appreciation of the D-mark of 25 to 30 percent. German industry would have a hard time competing because its products would have become more expensive for foreign countries.

ZEIT: The governments of the euro country governments now want to make monetary union crisis-proof. Will the euro zone become the transfer union that many criticise in Germany?

Regling: No. An example, I am responsible for the ESM, which is now to be built up.

ZEIT: This is the Luxembourg-based European crisis fund, which grants loans to countries in difficulty.

Regling: We are providing financial help, but in the form of loans to be repaid, which are also bound to strict reform requirements. These are not transfers, and that will remain the case. The fund closes a gap that we may have missed in the past: in a severe crisis, countries may lose investor confidence, with the result that no one buys their government bonds anymore. When we started the monetary union, we had not thought it would be possible that something like that could happen in Europe. Today a country can ask us for a loan in such a situation, if otherwise the stability of the monetary union as a whole would be endangered.

Stark: But that is a completely different monetary union than the one was designed in the Maastricht Treaty. Its character was changed by the crisis measures. The important principles such as no bailout clause and self-responsibility of the member states or the prohibition of state financing by the European Central Bank have been completely undermined. I am not on the side of those who are constantly going to the Constitutional Court. But that does not change the facts.

ZEIT: You resigned from your position as chief economist in protest at the ECB's crisis policy.

Stark: I came to believe that we had taken a problematic direction. In this assessment I see myself confirmed by the course of events.

ZEIT: Mr. Regling, are you saying that the ESM has sort of fixed a design flaw in monetary union?

Regling: Exactly.

Stark: And I am saying that we are breaking the rules of the Maastricht Treaty.

Waigel: I am a lawyer, I orientate myself on the exact wording of the Treaty. Nobody can forbid states to mutually contract and help each other in crises, this is not prohibited under the Treaty of Maastricht or otherwise.

Regling: The Federal Constitutional Court has explicitly confirmed that the establishment of the ESM is compatible with the German constitution. I looked at the judgement very closely at that time. If the court had judged otherwise, my work would have been illegal. There is also no government financing by the ECB.

Stark: At the beginning of monetary union, we looked closely at how much earlier crises had increased the deficit. And we had come to the conclusion that a deficit cap of three percent left enough room to manoeuvre if fiscal policy was solid in the good times and therefore to build a buffer for bad times. We were not idiots, Klaus. Nothing has been overlooked.

Regling: The financial crisis was worse than the crises of the past, it was the worst in 80 years. It is no coincidence that the International Monetary Fund was founded in response to the severe economic crisis of the 1930s. That was something that had not been experienced back then. So it took new institutions to step in if a country could no longer raise money on the financial markets. Because otherwise the crisis gets. Basically, we have done something similar in Europe over the past few years.

ZEIT: What do you think of a euro area budget, which Angela Merkel and Emmanuel

Macron have agreed on?

Waigel: I think it was above all important to formulate a common Franco-German position. As far as the budget is concerned, this depends on the construction and the size. We need more investment in Europe, including in Germany.

Zeit: The CSU is worrying there will be more transfers in Europe, and has even called for a meeting of the committee overseeing the coalition. What is your view on that?

Waigel: So far, the CSU has supported all policy decisions on Europe. They will also live up to their responsibility for Europe in the future.

Zeit: Some people in the CDU are now saying that the CSU is becoming more and more of a eurosceptic party.

Waigel: The CSU is not a eurosceptic party. Josef Müller founded it. The Nazis had put him in a concentration camp, and a few weeks after he got out, he said that we needed a common currency, because countries with a common currency never fight wars. Franz Josef Strauss was always an enthusiastic European. He would have supported the introduction of the euro if he had been finance minister for longer. But you are right that there have also been many concerns. In the night before Germany's Federal Council was to approve the introduction of the euro, I heard that the Bavarian government under Edmund Stoiber would vote no.

Zeit: And then?

Waigel: And then, I immediately called the Prime Minister (Stoiber) and said that if he did that, I would step down immediately – both as finance ministers and as party leader. Then he would have needed to explain that. And so the Bavarian government rewrote these decisions, which it had already prepared. Sometimes you have to risk something as a politician. And that is still true.

Regling: What we need in the monetary union is more risk sharing. Let me give you an example. In the US, if the car industry in the midwest is suffering, it hits the employees there, but also shareholders in Florida or California. So costs are shared to a greater degree. In Europe, capital markets are very fragmented. If a company in

Belgium is doing poorly, it's mostly Belgians that feel the impact. You can change that by integrating financial markets. Additionally, there can be public instruments. One possibility would be for the ESM to provide short-term loans to stabilise an economy, as mentioned in the German-French declaration.

Stark: I agree on the point of private sector risk sharing. But the monetary union is not a federal state, like the USA. We do not have a central authority that can enforce legal requirements. We can't just send an intervention force to Rome when Italy breaches the deficit maximum. And nobody is really willing to give up national sovereignty. That is why I have a problem with setting up new pots of money all the time.

Zeit: So what do you suggest?

Stark: What we need most of all are rules for sovereign defaults, an orderly process that doesn't lead to chaos. Investors in sovereign bonds need to know what the risks are and what happens when a country can no longer service its debts. If that were the case, investors would only lend money to highly indebted countries, if these countries pay high interest rates. And then the market would force budgetary discipline. That was really how the system was intended at the time.

Regling: At the ESM, we're already checking whether the debt of a country is sustainable if it applies for a loan from us. And if we see that the country is actually insolvent, then of course you have to do something. It would be good to agree on a framework to analyse possible debt restructurings. But you need to treat each country individually. An automatic debt restructuring is risky. It could trigger a crisis that could otherwise be avoided.

Zeit: If you could introduce the euro again with the knowledge that you now have, would you do so?

Stark: Yes, but only with the countries whose thinking is aligned.

Zeit: So a northern euro, as suggested by the AfD?

Stark: That is not how I put it. I'm talking about countries that are aligned in their macroeconomic thinking. We would certainly also have reached a deal with France.

Regling: It is an absurd idea to think that we would be better off now if we still had the lira, the French franc, the escudo, the schilling and the finmark. China and India simply wouldn't look at Europe anymore – let alone Donald Trump. I don't want to say there are no problems. But I just don't know how we would keep Europe together if the European Union had 28 different currencies.

Zeit: What about you, Mr Waigel? Would you introduce the euro again?

Waigel: Robert Spaemann, one of our best known and most profound philosophers, once said: being politically responsible means choosing the best solution under circumstances you cannot choose. And that's exactly what we did.

Klaus Regling is Managing Director of the ESM; he was Director General at the German ministry of finance where he prepared Economic and Monetary Union in Europe

Theo Waigel was German minister of finance from 1989 to 1998

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