JEAN-CLAUDE TRICHET

Vice Chairman of the *Académie des sciences morales et politiques*, former Chairman of the European Central Bank, Honorary Governor of the Bank of France

I reserve the right to comment a bit and then we will engage in a fierce discussion. Jean-Claude, my notes for the last year are of course dated from the beginning of October. At the beginning of October, you were absolutely right, Jay Powell was saying inflation in the US was transitory and he had reasonable expectations that in the course of next year, namely 2022, they would be around 2%. He said that in October and you were right when you said that all central banks were more or less saying the same. By the way, I have to say the modelling, and John was very clear on that, the dynamic stochastic general equilibrium models are plain wrong when you are in a rapid period of transition. We experience that with the real economy after the Lehman bankruptcy and we are experiencing that now because Jay Powell could not say that without having some papers from the thousands of PhDs on the staff of the Federal Reserve. That is an immense problem, which to a large extent explains the lags. There are other technical reasons why the lag was considerable because in November he said it was not transitory but the first increase in rates was only in March. Therefore, there was a big delay between the renewed lucidity and what they did. In my opinion, it is also due to the fact that they would have some sort of link between the non-conventional quantitative part of monetary policy and the conventional interest rates. They said they would increase interest rates only after they had stopped the net purchases of tradeable securities. That was said on both sides of the Atlantic and it was one of the reasons why there was an additional delay of five or six months, depending on the central bank. In my opinion, it was a big mistake in retrospect to link the two. Finally as regards the situation perceived in the time of the last meeting of the WPC I did not think there was no problem to come.

Jean-Claude Meyer, Vice Chairman International of Rothschild & Cie

I was not accusing you personally.

Jean-Claude Trichet

I have always been against the theory according to which interest rates were eternally very low and that you had to borrow massively in order to be in the best possible situation. Unfortunately, it was a bit close to being the conventional wisdom at a certain moment and it was obviously wrong.

Another remark, I am not sure we have the same figures as regards core inflation. When I look at core inflation, I look at it as it is published by Eurostat for Europe and by the statistical office in the US. We have the same level of core inflation, which is around 6.3% to 6.5%, and I have the figures for the euro are of 6.6% in November. 6.6% is not 4% and it means that even if you put aside oil and gas, and agri products, you still have an impressive level of inflation and the job of the central banks is to get it down to 2% in three years' time, as I think they can. The fact that we have the same level of underlying inflation, core inflation on both sides of the Atlantic and not the same level of headline, underlines what many of us have said, namely that there are differences between the US and Europe because in Europe it is very much more of a supply problem and in the US more of a demand problem. I will give you the headline, 10% in Europe and the last figures I have in mind, 7.7% for the US, that is a full 2.3% difference, which means that the real economy in Europe is under attack from the situation, inflation and the war in Ukraine much more than in the US. That explains why the monetary policy in Europe is much more benign than US monetary policy, but it seems to me that both are exactly appropriate if we want to get the core inflation down because, again, even in Europe it is not only oil, gas and agri products. I am not sure I fully agree with the idea that there is no price spiral because there must be some to get 6.6%. It may not be massive yet with wages and salaries but in the US, you have 6% wages and salaries, so practically the level of core inflation I mentioned. I think we have to be very careful, including in Europe because we have more or less the same problem. I do agree that it is good that there is a significant difference in interest rates between the US and Europe and of course, it also has the inconvenience underlined by our Korean friend, namely that the euro is weak, and we import inflation and that is a problem. However, I will not call to accelerate the increase of rates in Europe, but I am reasonably satisfied when both interest rates, in the US and in Europe, are going up calmly, quietly but firmly, because it is very important that all economic agents are convinced that 2% is credible in the medium-term, which is not entirely clear today, frankly speaking.

Two other remarks, one on the fact that we are likely to have inflationary pressures in the period to come and it is probably of a secular nature, not cyclical. We have the green transition, which was mentioned, and that I think is very important. Deglobalization was mentioned with nuances, but I think it is part of the fact that in comparison with the previous period we have to expect more upward pressures for prices. We also have the blue-collar issue, or the uneasiness of the middleclass or lower middle-class, as regards wages and salaries stagnation. It seems to me that it is already there to the extent that the US is a sort of leader. I interpret the sequence Trump-Biden as accompanying the emergence of the protest of the blue-collar workers transmitted to the political arena. Clearly, to imagine that the Republican candidate for the Presidential election might not be the guy defending big business but the guy defending the blue collars, is something that is really incredible. Of course, Biden is on the same line, for very good reasons. I mention that and I take it that, as you said, it is also the case in all European countries, and we have to expect it and it will also be an additional inflationary pressure.

The last point I want to mention is that we are in a situation where you mentioned Minsky and "animal spirits", and it is absolutely clear that we have an abnormal situation that you consider to be part of capitalism. Keynes said that eloquently, as well as Minsky, so I think it is undeniable but from time to time you have situations that look a bit outside historical records. We are very clearly in a situation where the accumulation of debt and incredibly accommodating policies over 10 years and this very rapid change of monetary policy, for good reasons, all create a universe that frankly speaking seems a bit more dangerous than most of us said. I do not want to be a bird of ill omen, but it seems that maybe we have serious problems ahead of us.