Transcript of Klaus Regling's interview with Bloomberg Surveillance

View PDF
12/10/2017
Interviews

Transcript of interview with Klaus Regling, ESM Managing Director
Bloomberg Surveillance, 12 October 2017
Interviewer: Tom Keene

What is the European Stability Mechanism, and what is the European Financial Stability Facility?

These two institutions serve the same purpose; the EFSF was set up earlier, in the middle of the crisis in 2010, as a temporary institution. Then, two years later, we created the ESM as a permanent international institution. The two have the same purpose – to help countries that lose market access to get money from public funds. This is something the IMF has been doing around the world for more than 50 years. We now have our own institution in Europe that follows the same approach. Namely, we provide money to a government that has problems getting the money in the market, but only against conditionality.

Conditionality means the country has to agree on a reform programme with us, the European Commission, the ECB. They only get money when they really implement those reforms, and we check that on a regular basis, so that’s like the IMF.

This is a distinctive year in that it seems to be all clear; an optimistic IMF on the global economic tone; interview after interview tells us of a better Europe. Can you say: ‘all clear for Europe’ right now?

Yes, and I’m not surprised, because I’ve been a bit more optimistic than some commentators, and even the IMF for the last two years. And I was optimistic because part of my job is to talk with investors around the world, because we issue bonds to finance our lending operations to programme countries. So I've been hearing that for some time, that Europe now is a safe haven, a really safe place to invest. There were some concerns about a year ago about political developments, Brexit – which I think is costly for the UK, but the implications for the rest of Europe are limited, that's clearer now. There were elections where some people were worried that populists might take over – in France and the Netherlands that did not happen. So on the political side it's much better, and the economic numbers look very good right now.

Is the mix between politics, corporations, and the people the same now as in 2006 in Europe, or is it as we saw in the German elections, is there a generational shift to a different cocktail of society within Europe?

There is a shift I think, not only in Europe. I think we see this backlash against globalisation around the world, certainly in the advanced economies – the US, UK, continental Europe, also in countries outside the EU like Switzerland. We have seen big populist movements for some time, so I think it's a more global issue, it's not European, and we should pay attention to that.
The population is more aware today that there are losers from globalisation, from cross-border cooperation. It's good for countries as a whole, but economists have known that forever, that there are winners and losers. We have to do maybe a bit more for those who lose, or potentially lose, and here Europe has a big advantage – we have our very well developed welfare and social system, which was often criticised in the past. We had to streamline it, make it more effective, but I think it is the right answer for these new problems that are becoming more prominent. Also income distribution in Europe is the best in the world, much better than in the US or China.

President Trump would say it's the worst in the world. He would want to see an entrepreneurial, Lockean philosophy of America – every man for himself, while Germany has pushed against that for 30, 40 years.

If one looks at the numbers of the Gini coefficient - economists have different ways of looking at income distribution – it looks a lot better according to all statistics, a lot better in Europe than in the US. And in the US it has been deteriorating further in the last 10 years. This is something I'm not in charge of. It's a difficult issue, I hope the [US] government can see that, but in Europe, it's another strength we have at the moment.

I want to go to your economics career at the University of Hamburg, the work you've done at the IMF and now for the people of Germany and Europe. On the presumed glide pass of quantitative tightening – at some point, the US and Europe with Mr Draghi, have to turn the punchbowl off – the interest rate punchbowl and the balance sheet punchbowl. Do you have the confidence that institutions could do this smoothly?

Yes, of course, we all know that monetary policy is implementing non-conventional policies in response to the crisis; it was absolutely necessary in response to the crisis. Because it's non-conventional, it has to be reversed at one point. Europe in its cyclical development is a bit behind the US, so I think we learn how the Federal Reserve is doing it, very cautiously. Communication is important, and I think the ECB will look at that very carefully.

Can there be such an optimism that the European unemployment rate – maybe it doesn't get to the American rate – can it come down under double digits, towards what we see in the UK and US?

It is already today below double digits, it's around 9.1%, so it's already been falling now for three years. I don't think it will come down to the US level, you're right, there are some methodological issues here. But when we talk about the labour market, in a broader sense, there is one interesting observation that speaks in favour of Europe. Although the unemployment rate is significantly higher, the employment rate, which means the number of working age who have a job, has increased steadily in Europe over the last 20 years. It's higher now than in the year 2000, which means a higher percentage of the people have a job. But in the US, despite the low unemployment rate, the employment rate is lower now than 20 years ago.

In the context of what the IMF recent said about a responsible tax policy, tax reform and growing deficits: within your studies, have you ever seen a certitude that lower taxes ultimately lead to higher economic growth? Olivier Blanchard [former IMF chief economist], he was heated that it's not within the literature. Do you see that in the

Germanic literature that you studied, that you could spur growth with tax reform?

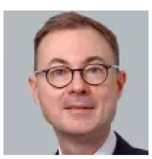
I think that’s a difficult question because it’s not only the level of individual taxes, but also the composition of the entire tax structure. Economists know that a certain revenue structure can be more, or less growth friendly, then also lower taxes can be more growth friendly than higher taxes. It very much depends on the composition, on which tax you look at.

Author

Klaus Regling

Managing Director (2012 - 2022)

Contacts

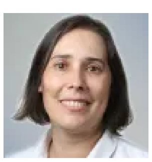


Cédric Crelo

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