

Interview with former Bundesbank President Karl Otto Pohl from Der Spiegel (29 October 2001)

Caption: Extract from the interview with the former President of the German Central Bank, Karl Otto Pöhl, which appeared in the German weekly magazine Der Spiegel on 29 October 2001. Pöhl gives his opinion on the policies of the European Central Bank (ECB) with regard to rates and on the possibility of implementing a much broader interpretation of Article 2 of the Bank's Statute.

Source: Der Spiegel. Das Deutsche Nachrichten-Magazin. Hrsg. Augstein, Rudolf ; R Herausgeber Aust, Stefan. 29.10.2001, Nr. 44. Hamburg: Spiegel Verlag Rudolf Augstein GmbH & Co. KG. "Aggressiver rangehen".

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‘Take a more aggressive approach’

Former German Federal Bank boss, Karl Otto Pöhl, on the US economy, Keynesian economics and the proper interest-rate policy

SPIEGEL: Profit warnings, mass redundancies, corporate collapses, and austerity programmes are all around us: Mr Pöhl, how seriously do you regard the economic downturn?

Pöhl: We are not on the edge of a recession, we are actually in the middle of one, and not only in Germany.

SPIEGEL: Hans Werner Sinn, the Head of the Munich Institute for Economic Research, is calling on the government to take ‘vigorous counter-measures’. Do you agree with this?

Pöhl: We should not overestimate the influence of governments or of national banks on developments in the economy in the current situation. Much will depend on how the terrorism scenario looks in the next few months and whether there is a return of confidence about future economic and political developments. [...]

[...]

SPIEGEL: President Bush is receiving support from his central bank. The Fed now has a base rate which is one and a quarter percentage points below that of the European Central Bank.

Pöhl: The European Central Bank should have reduced interest rates much more sharply, months ago. It obviously misjudged the direction of economic trends. And the reaction following the terrorist attack — reducing the base rate by 0.5 % — was far too feeble. The ECB should have taken a more aggressive approach there. That would at least have had the effect of building confidence. The risk of inflation, which is being repeatedly talked up, is actually nowhere to be seen at the moment.

SPIEGEL: In the USA, the interest rate policy of the central bank is deliberately geared to the state of the economy. The ECB, in the other hand, is bound as part of its remit to maintain price stability.

Pöhl: That is not totally correct. The Statute of the European Central Bank, which was drawn up under my chairmanship, does say that the maintenance of price stability has the highest priority. However, if there is no risk to price stability, then the national issuing banks should also support the economic policies of their governments. In Frankfurt, they seem to be in the habit of forgetting about that. To say that employment and growth are nothing to do with us and that they are the business of the government — I think that attitude is too smug.

SPIEGEL: The ECB does not wish to find itself suspected of acting on the basis of political motives.

Pöhl: I can understand that. Unlike the German Federal Bank, the European Central Bank still has to gain the confidence of the financial markets. However, when you see that inflation in the countries of Europe is almost as low as it has ever been during the post-war period, it would have been possible for the German Federal Bank to go for more expansionist action.

SPIEGEL: I must say, though, that the drastic interest rate cuts made by your friend, Alan Greenspan, in the United States have not yet had much effect.

Pöhl: That remains to be seen. The time-lag in monetary policy is relatively long. Obviously, the effects of an expansionist monetary policy, just like those of an expansionist financial policy, are more limited today than they used to be.

SPIEGEL: Do you have an explanation for this?

Pöhl: It is certainly linked in part to the internationalisation of the markets and to the numerous new

products and instruments in the capital and financial markets. Nowadays, there is not necessarily such dependence on financial assistance from the national banks.

SPIEGEL: So is there enough money available?

Pöhl: Either the companies themselves have sufficient liquidity or can obtain funds regardless of the policy of the central bank — or they cannot. In the 1998 crisis, for example, the commercial banks were simply not prepared to grant loans.

SPIEGEL: So a low interest rate only helps, then, if the willingness to invest already exists?

Pöhl: Karl Schiller, who was also a brilliant exponent of rhetoric, always said: you can lead a horse to water but you cannot make it drink.

Interview: Alexander Jung, Heiko Martens