

Transcription of the interview with Jacques de Larosière (Paris, 22 May 2008)

Caption: Transcription of the interview with Jacques de Larosière, Assistant Director then Director of the French Treasury from 1967 to 1974 and 1974 to 1978 respectively, Managing Director of the International Monetary Fund (IMF) from 1978 to 1987, Governor of the Banque de France from 1987 to 1993 and President of the European Bank for Reconstruction and Development (EBRD) from 1993 to 1998, carried out by the Centre Virtuel de la Connaissance sur l'Europe (CVCE) on 22 May 2008 in his office in Paris. The interview was conducted by Frédéric Clavert, a Researcher at the CVCE, and particularly focuses on the following subjects: the International Monetary System and the end of the Bretton Woods system, France's international and European monetary policy under Georges Pompidou, reactions to the Werner Plan and the creation of the European Monetary System, the Group of Ten, the Delors Committee and Economic and Monetary Union, the role of the European Central Bank, France's role in the economic and monetary integration process and the role and workings of the EBRD.

Source: Interview de Jacques de Larosière / JACQUES DE LAROSIÈRE, Frédéric Clavert, prise de vue : Alexandre Germain.- Paris: 2008 [Prod.], 22.05.2008. CVCE, Sanem. - SON (00:57:35, Montage, Son original).

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URL:

http://www.cvce.eu/obj/transcription_of_the_interview_with_jacques_de_larosiere_paris_22_may_2008-en-56282ed3-966d-458b-a0a6-39791de4391a.html



Last updated: 03/02/2017

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1. The International Monetary System and the end of the Bretton Woods system

[Frédéric Clavert] In the late 1960s and early 1970s, the International Monetary System was severely disrupted. How did you view this international monetary turbulence?

[Jacques de Larosière] The system, known as the Bretton Woods system, which had been set up after the war, was based on a general system of fixed exchange rates operated under the direction of the International Monetary Fund. But the system began to break down in the late 1960s, mainly because of the US budget deficit created by the Vietnam War and the inflationary financing of the welfare state in the United States. The dollar was the central component of the system inasmuch as all the currency exchange rates were defined in relation to the US dollar, which itself was convertible into gold at a price of 35 dollars per ounce. But when, towards the end of the 1960s, the market began to distrust the dollar because of inflation and US deficits, the pressure on the system began to intensify. Countries with lower inflation and a strong currency, such as Germany and Switzerland, attracted increasing international capital, whilst the United States, which was still required to maintain the dollar’s convertibility to gold, accumulated growing debts. Faced with the increased difficulty of financing its external deficit, the United States Government resorted, on 15 August 1971, to suspending unilaterally the dollar’s convertibility into gold. That decision, which also meant imposing a 10 % surcharge on imports to the United States — which was in effect a devaluation — was followed by an international agreement in December 1971 called the Smithsonian Agreement, named after the building in Washington in which the agreement was negotiated. The attempt to redesign the exchange rate regime while keeping the rates fixed in relation to the dollar was doomed to failure in the light of the pressure of capital flows and, in March 1973, there was a general move to allow currencies to float. This marked the end of a quarter of a century of monetary stability in a system of fixed exchange rates in which countries could no longer use the competitive devaluations that had been the major destabilising factor in the 1930s. This fixed-rate system was gradually replaced from 1971 to 1973 with a generalised floating of currencies. Some economists believed that this floating system would solve everything. They thought it would allow the central banks to pursue an autonomous monetary policy without the constraint of exchange rates and would also allow market forces to determine the equilibrium exchange rate between currencies at any time, thereby even correcting imbalances in the balance of payments. Based on our experience thus far of 35 years of floating, we can qualify this outlook to a substantial degree. The lack of any proper monitoring of exchange rates, together with the

liberalisation of capital flows and the abolition of foreign exchange controls, certainly contributed to a major increase in cross-border capital flows, which undoubtedly accelerated economic development by streamlining and improving the allocation of savings resources on a global scale. However, it should be noted that this floating system also had profound negative effects. First, it reduced monetary discipline and fostered inflation. The heterogeneity in the floating process, with some countries allowing their currencies to float freely and others controlling their currency flows, also led to exchange rate ‘misalignments’, as they say in English, which affected the establishment of a competitive ‘level playing field’ and led to the level of accumulations of reserves that we see today in some countries which have become, structurally speaking, creditor countries. So this is my take on the transformation of the International Monetary System.

2. France’s international and European monetary policy under Georges Pompidou

[Frédéric Clavert] When Georges Pompidou was President of the French Republic and Valéry Giscard d’Estaing his Finance Minister, what was France’s European monetary policy, and what part did you play in this?

[Jacques de Larosière] First, I should like to say a few words on international monetary policy before I turn to discussing Europe and France in the broader sense. France was traditionally committed to the concept of exchange rate stability and did not subscribe to the merits of general floating. This, for instance, explains the role we adopted at the Azores Conference in December 1971, just before the Smithsonian Agreement between Nixon and Connally on the US side and Pompidou and Giscard d’Estaing on the French side. I recall — because I was on that trip and was part of the delegation headed up by the Minister for the Economy and Finance — that Valéry Giscard d’Estaing, without questioning the inevitability of a devaluation of the dollar (it had effectively already been on the cards since 15 August), insisted that its scope should be limited. He also sought to restore exchange rate stability and establish a new schedule of rates under the authority of the Monetary Fund, which was negotiated and actually achieved in Washington in late 1971. This was the famous ‘Smithsonian Arrangement’, which, bearing in mind what had happened on 15 August, realigned the different parities in relation to one another and in relation to the dollar, which continued to be the central component of the system. This commitment to the concept of exchange rate stability also explains France’s role in the negotiations on what was called the ‘new monetary order’, negotiations that are overlooked somewhat these days and were held within a Committee of Twenty between 1972 and 1974. The negotiations, which I attended, were very interesting from an intellectual viewpoint, but the European countries were at odds and the United States wanted complete freedom, and in the end it was impossible to reach a consensus, in particular on the key issue of symmetry in the alignment process between creditors and debtors. The 1973–1974 oil crisis and the ensuing recycling of oil capital altered the situation profoundly and put the dollar back at the centre of the system. We needed dollars. So at European level, to reply to your question more specifically, France during this period was in favour of a regional, stable exchange rate regime, in Europe, within a world of exchange rate flexibility. And so, in April 1972, the famous European currency ‘snake’ was created, an agreement under which the exchange rate fluctuation margins between European currencies could not exceed 2.25 % from one currency to another, while under the Smithsonian system, which had just been adopted internationally, currencies

could fluctuate by 4.5 %. Therefore, the intention was to narrow the fluctuation margin of the European currencies. This snake started out in a currency ‘tunnel’ which allowed a 4.5 % fluctuation margin against the dollar, whose parity in relation to gold had been fixed in late 1971 with a devaluation of the dollar, since the official price of gold increased from 35 dollars per ounce, under the previous system, to 38 dollars per ounce after the Smithsonian arrangement. This tunnel was very short-lived, disappearing within a year of its creation in March 1973 when, facing new international capital pressures, the US Government took the decision to let the dollar float unrestrictedly (because, under the Smithsonian Agreement, dollar parity had to be maintained), after which the snake itself had to float against the dollar. The currency storms raging at that time were very violent and led, in 1972, to the exit of the pound sterling from the snake, with the Italian lira and the French franc following suit in 1973 and 1974 respectively.

3. Reactions to the Werner Plan and the creation of the European Monetary System

[Frédéric Clavert] How did the French react when the Werner Plan came out? And what was the response to Karl Schiller’s subsequent proposals for the managed floating of European currencies?

[Jacques de Larosière] The Werner Plan was drawn up in October 1970, which is interesting because this highlights the desire at the time to stabilise, if not to unify, European exchange rate policy even before the breakdown of the Bretton Woods system. This plan in fact opened the door for discussion on an economic and monetary union in Europe. So, to outline the situation prevailing at the time of these talks, the Germans — prior to achieving monetary union — wanted to start by harmonising economic and budgetary policies. That had always been their theory: first harmonise our economic policies and then see if the conditions exist for creating a monetary union. In contrast, France wanted to achieve monetary union, thinking that it would involve some form of process of convergence of economic policies. Faced with these diametrically opposed views, the Werner Committee had to come up with a compromise and organise a kind of ‘parallelism’ between the two processes, so there was the process moving towards monetary union and, simultaneously, the process of convergence and coordination of economic policies. In view of French President Georges Pompidou’s opposition to the idea in the Werner Report of setting up a kind of supranational economic policy committee, the report was watered down in March 1971 and ultimately led to no more than a narrowing of the exchange rate fluctuation margins between European currencies, a narrowing which, as I have just explained, took effect from 1972 in the shape of the European currency snake. And in 1972, as part of this undertaking, the ‘EMCF’ — the European Monetary Cooperation Fund — was created; it had the financial capacity to help countries keep within the narrowed fluctuation band. Following Valéry Giscard d’Estaing’s election as French President, there was an attempt in 1975, when Mr Fourcade became Finance Minister, to revive the process of monetary union. The aim of the Fourcade memorandum of 1975 was to create greater symmetry in the obligations between countries. Our idea was that the countries with a strong currency, which were venturing, if you will, into the area of exchange rate development, had just as many responsibilities as the weaker-currency countries in terms of taking steps to bring them closer to the central rates. This idea, you won’t be surprised to hear, was rejected by our German colleagues. I remember that the Marjolin Report, the drafting of which had been entrusted to a

member of the Commission to distinguish between the various points of view, focused on the need to establish European political institutions for harmonising the economic policies; according to Mr Marjolin, the rapporteur, without those institutions, it was too soon for — and would be best to refrain from — attempting monetary union. So you asked me if I was party to these negotiations. Well, yes, I was: I was at the Treasury Directorate, as Director of the Treasury, from 1974 and so I was at the Finance Ministry which was responsible for these issues. And I recall — and this came back to me on reading a book or a paper by an academic by the name of Mr Frank, who had done some research in the Finance Ministry archives — how in July 1975, I distanced myself from the position adopted by the Finance Ministry, which had done a great deal of work in connection with the Werner Plan, and this position expressed in the note that was drawn up by the Treasury in July 1975 consisted in enhancing EMCF resources, giving them greater means to intervene, establishing a kind of monetary government, and fixing the exchange rates irrevocably, although not in 1975 but five years later in 1980, before going on to create a common currency. You might be interested in what I wrote to the minister at the time in the margin of the Treasury note that I agreed to forward on behalf of the Treasury but wanted to use to highlight a particular disparity of views. I quote: ‘All the considerations set out in the note are based on two approaches: first, that France intends to forge ahead with European integration, that this is in its interests, which is by no means shown, and that it will find partners sharing the same willingness; secondly, that the French Government continues to prefer a pragmatic and progressive approach towards such integration. However, it is fair to argue that the views set out in this note that I have conveyed and which are the direct outcome of the — now outdated — outline of the Werner Plan, are broadly unrealistic, inasmuch as there is an assumed genuine political will to integrate but no plan currently for this. Also, I feel that it is both arbitrary and inappropriate to keep the date of 1980 and the irrevocability of exchange rates in the Community, which are set out in this note. Consequently, I am sending this document to the Minister’s Office, pointing out that I, for my part, cannot wholly approve its spirit and content.’ This text shows that, mid-1975, in the light of the differences in economic policy, in essence between France and Germany, as well as the differences in their respective inflationary trends, I thought that creating monetary union with such a degree of voluntarism, not paying sufficient attention to the convergence of economic policies, was something quite dangerous. The entire period leading to the currency snake, to the EMCF, ... the discussions on how to plan for Europe’s monetary future were conducted, whether formally or informally, for the most part by the Community’s finance ministers, and the positions were drawn up by what was known at the time as the ‘Monetary Committee’, composed of representatives of the national treasuries and central banks.

[Frédéric Clavert] Discussions on a new European monetary system came to an end in 1978/79. Then you were appointed Managing Director of the International Monetary Fund. How did the IMF view the creation of the EMS?

[Jacques de Larosière] Well, first of all, the European Monetary System, the EMS, established a fixed exchange rate with margins of 2.25 % around the central rates, which wasn’t entirely new, as we have seen, for the currencies of the countries of the European Community. This system provided credit facilities, which was a new feature, authorised negotiated changes to the central rates when a currency was under excessive pressure, but required the Member States, therefore, to keep within these narrow margins of fluctuation. The system was essentially the application to Europe of this concept of a stable but adjustable exchange rate that President Giscard d’Estaing had championed for some 10 years. The establishment of the EMS was, of course, a decisive factor in achieving greater monetary stability in Europe because it not only

reinforced the snake but was also a system of tightened exchange rates comprising a whole series of financial tools and measures concerning economic policy obligations. And I have no doubt that establishing this system encouraged the governments to drive down inflation and slash their budget deficits. I was in Washington from June 1978 in my capacity as Managing Director of the IMF and so I didn't have the honour of taking part in the negotiations for this agreement. However, I do remember the feedback circulating in the International Monetary Fund. In order to apply the concept of 'exchange-rate surveillance', the IMF had planned to conduct bilateral assessments, state by state, of economic and monetary policies, not just for the European states, but on a global basis for all states. And so the countries of Europe had decided to pursue, in essence, a joint exchange rate policy with a relatively harmonised economic policy at its foundation. And confronted with the scepticism expressed by some of my colleagues at the IMF, I recall having publicly welcomed this new form of international monetary cooperation as progress and having taken steps to ensure that the individual assessments carried out by the IMF on each country were, as far as the EMS countries were concerned, grouped together on a geographical level so that they could be conducted simultaneously, in order to present a more coherent picture of the European entity. And of course it is this agreement, in spite of — or perhaps because of — the trials and tribulations endured in the exchange rate crises of the subsequent years, which eventually gave birth to European Monetary Union. You might say that, without the EMS and the collaboration of Giscard d'Estaing and Helmut Schmidt, the euro would not have been created.

4. The Group of Ten

[Frédéric Clavert] In January 1987, you became Governor of the Banque de France. In that capacity, you attended the monthly meetings of the Committee of Governors of the Central Banks of the Member States of the European Community at the Bank for International Settlements. What was the role of the Committee of Governors, based in Basel?

[Jacques de Larosière] Well, the governors of the 'Group of Ten', as it was known at the time, which were the 10 leading industrialised countries — although this did include countries like Belgium and the Netherlands ... so it wasn't just the very large countries that were involved — met once a month, in Basel, to discuss the monetary situation in their respective countries as well as the global monetary situation. And I was Chairman of the Committee of Governors of the Group of Ten from 1990 to 1993. It was a meeting place for all those responsible for monetary policy, bringing together the United States, Europe and Japan, and so it was a forum for very informal discussions, facilitating greater mutual understanding and even making it possible to influence the views of the other participants. These meetings were followed by a monthly meeting of the governors of the central banks of the Community countries, at which the functioning of the European exchange rate system was, of course, addressed, along with all issues surrounding monetary policy coordination.

5. The Delors Committee and Economic and Monetary Union

[Frédéric Clavert] In Hanover in 1988, Jacques Delors succeeded in introducing the rule that the Special Committee on Monetary Union must, for the most part, consist of the governors of the central banks and some experts, not of the Member States' finance ministers. Was the fact that this committee was composed of governors a decisive factor in preparing for monetary union?

[Jacques de Larosière] Yes, absolutely. This committee, as you have just pointed out, was composed of governors; there were some experts, but it was essentially composed of governors of the Community countries, who were selected — this was, in some ways, one of the rather strange aspects of the selection — who were selected *intuitu personae*, and by that I mean that it was the people themselves (who just so happened to be governors) who were appointed. So the composition of this committee, for the most part made up of governors, in my view played a crucial role in the success of the enterprise and in the political impact of the emerging report. If the finance ministers had been represented in this committee, I think it would have failed. Of course, you have to understand that Germany's attachment to the Deutschmark, which was a strong currency to which the other currencies in the system were anchored, was a vital component of the political landscape in which the idea of a possible common European currency was embedded. Only governor involvement, and in particular the involvement of the President of the Bundesbank, I might add, was capable of legitimising the undertakings of such a committee. The meetings of the Delors Committee, which were held between July 1988 and April 1989 mainly in Basel (I do recall one meeting in Luxembourg), were fruitful, frank and animated. They reached their objective. The report was signed by all the members of the Committee. And the single, fundamental reason for the objective being met was, to my mind, that the monetary committee was not asked to consider the 'advantages and drawbacks of monetary union' but 'how, at a technical level, monetary union might work if it happened to get the go-ahead'. The first question, regarding the 'advantages and drawbacks of monetary union', was never going to be successful. The second question drew on the judgment and technical competence of the members of the committee. And so all the participants played their part and, as you know, the report was published in the spring of 1989.

[Frédéric Clavert] More specifically, how were the meetings of the Delors Committee conducted, and, more to the point, how did Mr Delors chair them?

[Jacques de Larosière] Jacques Delors chaired them very well in that he very much let the participants do the talking. He didn't try to impose a kind of predetermined plan to be followed by force, not at all. He allowed the participants in the committee to analyse the issues and embark upon the major themes, such as 'If there were to be a monetary policy, how should it be organised?', and I believe that his personal method for conducting the discussions enabled people involved to express themselves, showed that there was no kind of predetermined plan with too much sway over the meetings, and I think that was the right way to go.

[Frédéric Clavert] Some scholarly articles in particular put you in occasional conflict with Karl Otto Pöhl, Governor of the Bundesbank, during the Delors Committee discussions. Does this image of a Pöhl/Larosière clash seem fair to you, and is it the product of a traditional difference of opinion between France and Germany, say, between a 'currency first' position and an 'economic policy first' position?

[Jacques de Larosière] Well, I am pleased that you have asked me this question. Truthfully, there was no such clash. Relations between Karl Otto Pöhl and me were very cordial, and we were particularly productive in our work together. So the alleged differences of opinion between

us did not exist, but allow me to explain the situation at the time: indeed there was, as you have just said, a difference in approach between the French authorities, which were more focused on institutional integration and less supportive, in principle, of the idea of having independent central banks, and the German authorities, which considered it extremely important that the central banks should be independent, also underlining the importance of implementing effective convergence of the Member States' economic and budgetary policies. However — and this is why this difference in approach did not actually put a spanner in the works in the Delors Committee — I myself was convinced that there would never be an agreement if the independence of the central banks and the priority of maintaining price stability, which are the two key factors, were not at the heart of the arrangement. How is monetary union conceivable where it has an intergovernmental governing body headed up by representatives, central banks and treasuries, and where decisions, whilst often urgent, on interest rates, would be the result of negotiations between the representatives of the different Member States? The truth is, it is inconceivable. Monetary policy — a genuine European monetary policy — had to be determined by an independent central bank. And the national central banks, which made up the European System of Central Banks, also had to have their own independence so as not to impede or undermine the independence of the central bank's own decision-making. So I considered this independent status of the European Central Bank, of the national central banks, and also the price stability objective to be advantageous for Europe, for France, and furthermore I believed that it was essential for reaching an agreement. I had talked openly about these issues and about my own position, which I have just presented to you (don't forget that I was appointed, in principle, as 'Monsieur de Larosière' and not as 'Governor of the Banque de France', which at the time, as you know, came under the authority of the finance minister). I therefore spoke openly about my position to the French President, Mr Mitterrand, in a one-to-one meeting I had with him which, at my request, took place on 1 December 1988, just as work was beginning in the Delors Committee, in the first quarter or so. The President lent me an ear because I was setting out all the arguments that I have just mentioned to you. Without formally approving my position, he neither refuted what I was suggesting nor discouraged me. And so this meeting gave me broad discretion in my actions, both towards the Treasury and towards my own colleagues in the Delors Committee, and confirms how I was not at odds with my German colleague on these principles, which were just as vital for him as for me.

[Frédéric Clavert] The Delors Committee Report was delivered in April 1989. Did you think EMU possible at that time?

[Jacques de Larosière] Yes, I thought it was, because the commitment shared by the main political leaders, Mitterrand and Kohl, was such that I believed the undertaking to be possible politically. Moreover, the subject was largely 'bipartisan', and by that I mean it did not separate the right from the left: there were right-wingers and left-wingers who were in favour of the idea, some weren't in favour, but there was no right-left split, either in France or in Germany. And therefore I believed in the feasibility of this undertaking.

[Frédéric Clavert] A few years later, the Maastricht Treaty made it possible to launch Economic and Monetary Union, then the European Monetary System was affected by a major crisis in 1992–1993. Did this crisis make you have reservations about whether Economic and Monetary Union would be achieved?

[Jacques de Larosière] It came very close to that. You know, this crisis was extraordinarily severe, people today have no idea just how severe. A number of European currencies teetered on the brink of collapse because of it. You may recall sterling's exit in dramatic circumstances

from the EMS in 1992, and some other currencies shared the same fate. As for the franc, it held on for the duration of this stormy period, in my opinion for two critical reasons, one of which is well known and the other which is less often recalled. The latter reason, to my mind, which essentially explains how the franc remained in its quasi-fixed relationship with the Deutschmark, is that France's anti-inflationary policy had paid off. We were caught in the virtuous circle of increased economic competitiveness because we were maintaining a fixed exchange rate in relation to countries whose inflation rate rose more quickly than ours. So in reality we enjoyed a competitive advantage, all the more so as Germany was struggling at the time to integrate the eastern *Länder* into Germany and was allocating considerable budgetary funds to them, to the detriment of its public finances. Because of that, our currency was never regarded as an overvalued currency that would have to be devalued to lend it greater competitiveness. And the markets knew this, but clearly speculation became fierce because, over a single weekend, there was always money to be made by causing currency depreciation, even if it was unjustified from the perspective of the competitiveness comparison criteria. And the second answer, I mean, the second reason is that we benefited from the unfettered support of the Bundesbank during these attacks. So when, on the final attack of speculation in July 1993, it was rightly decided in Brussels to expand the European snake to 15 % (I had argued during these talks for it to be expanded to the greatest degree possible), speculation eased off, and the rates between the franc and the Deutschmark settled down naturally just as they were. However, European Monetary Union did go through some major turbulence during this period.

[Frédéric Clavert] Under the Maastricht Treaty, the Statute of the Banque de France was amended on 4 August 1993. What was your role in drafting that law, and in what way did it alter the Banque de France?

[Jacques de Larosière] The Statute had to be overhauled to bring it into line with the Maastricht Treaty. Indeed, under the legal arrangements prevailing at the Banque de France, monetary policy was to be determined by the finance minister and implemented by the Banque de France. This therefore had to be completely overhauled so as to ensure the Banque de France's independence and confer on it the authority to set monetary policy. These were incredibly drastic reforms. I was Governor of the Banque de France when Mr Alphandéry became Minister for the Economy and Finance in spring 1993, and I was closely associated with the discussions taking place at the time. I remember clearly (there were many discussions between the Treasury Department, the Minister's Office and myself) how I pressed for the concept of independence to be established clearly, without any ambiguity. And when I left the Banque de France in September 1993 (late August), I was satisfied. You could, in fact, ask Mr Alphandéry, if you haven't already done so, to recall his memories from that time, because he experienced not only the final part of the financial crisis leading to the broadening of the margins but also these — might I add — rather tough negotiations which led to a new law for the Banque de France in 1993.

6. The role of the European Central Bank

[Frédéric Clavert] The Delors Report and subsequently the Maastricht Treaty provided for the independence of the European Central Bank and the priority of maintaining price stability. These two elements were often challenged, and they still are today. How do you see these challenges to the status and role of the European Central Bank?

[Jacques de Larosière] Well, these two factors that you have just mentioned, namely the independence of the central banks and the priority given to price stability, in my view underlie the very credibility of any central bank, and the ECB, which had no credibility at the start because it was born out of nothing, very quickly gained the trust of the markets by scrupulously observing those two principles. This, to my mind, is a very remarkable achievement. You have to imagine, if you will, the state of the European currencies and exchange rates over the years and today if the ECB had not existed. A short while back, I was in the States, and a major New York financial player told me: ‘You know, Mr de Larosière, there’s only one central bank left that has maintained its credibility throughout the world, and that’s the ECB.’ This sentence says a great deal, and I think that the fact that inflation ‘expectations’ are relatively low in Europe is because the European Central Bank did not rush headlong into relaxing its monetary policy when others did just that. Consequently, I think that the scrupulous application by the ECB of the two principles I have just mentioned was a vital element in this institution’s efforts to build trust. Building trust takes time, and destroying it takes very little time at all, and I believe that the ECB quite quickly laid the foundations for building and maintaining trust. So personally, I do not really share the view that the ECB is often challenged, as you suggested in opening your question.

7. France’s role in the economic and monetary integration process

[Frédéric Clavert] How do you assess France’s role during the process of economic and monetary integration?

[Jacques de Larosière] Well now, the developments we have mentioned in this interview show that France, along with Germany in particular, was a driving force in this process. The role of Giscard d’Estaing in promoting the concept of a stable and adjustable exchange rate, the part he played along with Schmidt in establishing a European Monetary System, the part we played in the Delors Committee, the fact that the country ratified the Maastricht Treaty by a referendum, indeed all of this highlights the very important role that France played in this integration process. I think that France and Germany were the two crucial factors driving its success. That’s not to say that other smaller countries, which also shared the European monetary ideal, did not play their part. They were very important, but in terms of any knock-on effect, it is clear to me that France and Germany were the countries with pulling force. So in France’s case, let’s remember how France, during the crucial period in the early 1990s, the period of major exchange rate turmoil, could maintain, as I have just said, its stable pegging to the Deutschmark. And bearing in mind the relatively high rates practised by the Bundesbank at the time, which were rather like a counterpart to Germany’s budgetary situation — which was affected by deficits caused and aggravated by the financing of reunification — France, to maintain its bond with the Deutschmark, had to implement a monetary policy that was more restrictive than its economy and its public finances would no doubt have required. And we therefore played a very constructive part, if I may say so, in maintaining [this bond] during these years, 1992 to 1993, these crucial years when, as you mentioned in your question, doubt could have been cast on the permanence of monetary union, indeed France played a central role, and a costly role at that, in achieving the objective. But it was worth it, as history subsequently demonstrated.

8. The role and workings of the European Bank for Reconstruction and Development (EBRD)

[Frédéric Clavert] After your departure from the Banque de France, you became President of the European Bank for Reconstruction and Development in August 1993. What were the EBRD's objectives, and what was the nature of your work there?

[Jacques de Larosière] The EBRD's objective was and still is to assist in the transition of the countries of Eastern Europe from a planned Communist economy to a market economy. From September 1993 to February 1998, I was president of this institution. In my first months there, following a deep crisis owing to the previous administration, I had the delicate task of reorganising the EBRD, organising the institution around its essential objective, simplifying its structures, and I also had the task of boosting the morale and confidence of the Bank's staff and its customers. This turnaround was achieved very quickly, in just a few months, and since then the EBRD has been operating efficiently, as we see, moreover, on a regular basis.

[Frédéric Clavert] More specifically, how does the EBRD operate?

[Jacques de Larosière] It is a multilateral financial institution, so it comprises a body of shareholders made up of a number of countries, but it is very different in nature from the World Bank or the major regional development banks. You see, the EBRD lends not only to governments or public-sector undertakings but also, and I'd say especially, to undertakings from the private sector, which the World Bank does not do as a rule. The World Bank has an affiliate called the International Finance Corporation which can make such loans to the private sector, but this task of financing the private sector is one of the EBRD's main activities. Apart from loans, the EBRD also takes equity holdings in many undertakings, and these equity holdings have acted as a powerful driver in the privatisation of the economies in question. So the EBRD shareholders are interesting because they are not limited to the countries of Europe; they include the United States, Japan, Australia, Mexico, Turkey, a whole raft of countries, Canada, and, of course, the European countries as well. And this set-up presents a somewhat universal slant, if you will, on the EBRD's activities. It isn't just the European countries that welcome the new arrivals. And the Bank's shareholders are, as a rule, represented by their finance minister on a permanent Board of Governors in London, to which the Board of Directors submits both its strategies and projects.

[Frédéric Clavert] The Agreement establishing the EBRD mentions only the concept of the transition of peoples' democracies to the market economy. However, it did facilitate the accession in 2004 of those former peoples' democracies to the European Union. In your view, how far did the EBRD facilitate this accession?

[Jacques de Larosière] Well, by promoting the expansion of the private sector, by giving a significant boost, as I have said, to privatisation in the countries of Central and Eastern Europe, I don't think it can be disputed that the EBRD facilitated the accession process you are referring to. And then, looking at it in the longer term, it is apparent now that this accession subsequently caused the Bank's shareholders to 'graduate' — to adopt an ugly American term — by which I mean that they consider a number of countries to be no longer eligible for support from the EBRD because they have reached a sufficient level of economic development. Therefore, accession and the progress surrounding it prompted the EBRD shareholders to consider that those new countries of the European Union which were the most developed should be made to graduate, leaving the EBRD to focus more on Southern Europe, the Balkans, Romania,

Bulgaria, Ukraine and the Commonwealth of Independent States, which means countries such as Russia and, in particular, the countries of Central Asia, and even Turkey. So there is a kind of development, which is interesting. In the beginning, a great deal of emphasis was placed on the countries of Central Europe and then, gradually, once they had become more developed and had become members of the European Union, it was thought that the EBRD's role could be carried out through normal financing, by the EIB, by the European institutions per se, and so EBRD action was centred around the Eastern section of the map of the countries of operation. I find this development to be rather interesting and successful.