

Transcription of the interview with Jacques de Larosière (Paris, 25 September 2012)


Caption: Transcription of the interview with Jacques de Larosière, 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 25 September 2012 in Paris. Conducted by François Lafond, Managing Director of EuropaNova, the interview particularly focuses on the following aspects of the life of Tommaso Padoa-Schioppa: his personality, his activities at the European Central Bank from 1998 to 2005 and his work as Italian Minister for the Economy and Finance from 2006 to 2008.

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I. Tommaso Padoa-Schioppa's expertise and working method

[**François Lafond**] When did you last see Tommaso Padoa-Schioppa? And what came to mind when you heard of his death: your last meeting or phone call? Do you remember exactly what happened?

[**Jacques de Larosière**] Listen, I may not remember precisely our last phone conversation, because I would have to check my diary, but I was on very close terms with him. He was moving to Paris and we were often in contact. I had been appointed to chair a committee to advise on the architecture, the new architecture of supervision in Europe, and in February 2009 I submitted its report. We talked a great deal both before and after the report. Tommaso thought the report did not go far enough and he was right. What is more, subsequent events proved him right. But at the time it was certainly the most we could do, which he quite understood. So we talked a great deal and I was very sad, indeed deeply upset by Tommaso's disappearance, because I saw him as a guide. In my eyes he was a point of reference, in both intellectual and moral terms, and I had the feeling I was losing that point of reference. I wasn't losing it forever, because he is still present in our memory, but he was no longer there to express things which I sensed subconsciously and in a way that I wanted someone to say to me. He was in a way the only person who could do that. So, without being able to give exact dates in answer to your question, I do remember the great sense of emptiness we all felt at his disappearance, which was so sudden and totally improbable.

[**François Lafond**] So you talked together about the report which you framed.

[**Jacques de Larosière**] Yes.

[**François Lafond**] On the phone or face to face?

[**Jacques de Larosière**] Oh, both.

[**François Lafond**] And how did that go?

[**Jacques de Larosière**] Well, I don't know ... we talked. I have a small office on Avenue de l'Opéra. He [Padoa-Schioppa] was often in Paris. He would come round and we would talk about a wide range of topics, not on the report per se, during the time it was being framed, from October–November 2008 to February 2009. I was a bit in isolation, locked up with my fellow committee members, and I didn't talk to anyone outside that group. But he had greatly influenced our and my thinking, because he had defended very clear views on certain subjects, notably regarding supervision. And I remember that at the meetings we held at Eurofi, which he attended very regularly, I remember a statement he made which attracted considerable notice. I think he was Finance Minister at the time, he had come to

Brussels and was speaking in his capacity as minister. He emphasised the following point, which was essential and still is, indeed I would say even more so now, namely that if we wanted a single market for finance, we must have a common rule book, a single rule book, in other words exactly the same regulatory framework in all the Member States. That was a fairly revolutionary standpoint because for years we had made do with little additions, with slightly specific regulations, for each country. Principles were set forth in the directives, but their translation into national legislation was often extremely varied. And Tommaso was one of those who condemned this fragmentation, the specificity which the states introduced to the application of these regulations, and he kept returning to this concept of a common rule book. And I can tell you that when I came to chair the committee which was convened at the end of 2008 and which produced this report three months later, I felt I had Tommaso's words on the common rule book ringing in my head. It really was a guiding thread for me.

In fact if you read the report you will find a very clear translation of his words, practically in the same terms he used so many times in my presence, in particular at the Eurofi meetings. I cannot stress the importance of the common rule book too much, because now we are talking about European banking union, which is a step forward and would no doubt have interested him a lot. But you mustn't forget that there are also countries that do not belong to the euro zone. And they are important. There is the United Kingdom, but there are others too. And we really must maintain the principle of the single rule book. I must say that — thanks to the European Union, the Commission, Council and Parliament — the principle has been established, but also the reality, the power of the single rule book in the construction work carried out after our report was submitted, because, as you know, once the directives have been framed, the translation of the directives on financial regulation into what are known as technical standards is now carried out under the aegis of what is called the EBA — the European Banking Authority — which is empowered, not to express an opinion, but to produce the final draft. So in a certain respect, one may say that his vision of a single rule book has been endorsed. Anyway, he thought my report did not go far enough, because personally he would like to have gone a step further to achieve an overall, federal system of supervision, which we did not put in the report. But with regard to the single rule book, he played a very important role and it is fair to say that on that point his views prevailed.

I also very much appreciated in my contacts with him ... I very much liked his intellectual side. Tommaso was a very high quality practitioner. He knew how the markets and financial bodies worked, he knew the rules which govern the organisation of this trade, but at the same time he always had this overall vision in mind, so his approach to specific problems, which we discussed from time to time, always fitted into this very broad overall vision. And his vision, with which you are familiar, was the one which he to a large extent embodied, such was the force of his conviction, stirring the enthusiasm of all those who understood what Europe means. His vision corresponded to a real Europe, in other words a Europe which acted in a truly democratic way and which enjoyed the powers he thought should correspond to its vocation and influence. Well, of course, we are still quite some way from achieving that vision, but we are gradually moving forward. I would like to say that when we met, very often we would discuss the theoretical work that he and, at a more modest level, myself were doing. I still remember him saying: 'Jacques, I should like to have everything you have written, for example on the drawbacks of the Anglo-Saxon accounting system or on the concept of fair value.' I had indeed written a number of pieces and he — as you will recall — had taken responsibility for the trustee concept and the [part on] accounting standards. I remember him saying: 'Give me everything you've written on that because I want to refresh my mind on the subject.' For my part I

very often read — indeed I read it again just a couple of days ago — not for the purposes of this interview but to clarify my own thoughts — a book called *Regulating finance* that he wrote in 2002, published by Oxford [University Press]. It was a collection of seven essays he had written on the subject, and reading it a few days ago, as I said, reminded me of the way his mind worked. At one point he said something I found particularly interesting [quoting from memory]: ‘Europe is quite special, quite peculiar’ — the book is in English — ‘with regard to monetary policy.’ In general the people in charge of monetary policy must also be, if not actually legally responsible, at least concerned in the deepest sense of the term about the good health, solidity and stability of the banking system. You see, we must bear in mind that banks are the great creators of money — ‘loans make deposits’ — and that banks are vectors for the transmission of monetary policy. So how can those who frame ... those who are in charge of monetary policy remain indifferent to the fate of the banking system in the country in which they exercise their monetary power? But — Tommaso used to say, developing this argument — in Europe, it is rather peculiar because in the various European states the national, central banks in the euro zone — it was those that he was referring to — have lost the power exerted through monetary policy itself. They no longer set interest rates, nor are they any longer the financiers of last resort in the event of a serious banking crisis. They no longer hold these responsibilities. Yet they are, or are not, legally responsible for supervising banking; if they are not responsible, they cooperate with the bodies which do hold this responsibility, and this work, if I may say so, throws them a bit off balance, because they have a certain duty to supervise the stability — though not always — the stability of the banking system, but they lack the ultimate monetary power. When you look at the federal level, you see that there is a central bank which is federal, but at the same time it is difficult for it to be the financier of last resort. Why? Because it has no supervisory rights over the banking system. It is very difficult to ask a central bank to bail out a banking system if it has had no previous influence, no say in the way this banking system was supervised. To which he added, with a certain prescience, ‘The people who framed the Maastricht Treaty must have noticed this sort of anomaly’ — in his book he refers to it as an anomaly — ‘because they made it possible, very simply and without changing the treaty, to invest, albeit specific, powers, powers for monetary supervision in the European Central Bank, and at that time,’ he said, ‘the day they activate that clause’ — he was writing in 2002 and it is now 2012, 10 years after the event — ‘if ever they activate it,’ he said, ‘then this inconsistency or anomaly which I have just recalled, by definition would no longer exist, because we would have just one federal, central bank which would be responsible for supervising the banking system in every part of the federation’s territory, and at that point it would be able to fulfil its role regarding monetary policy in the full sense of the term.’ This story came to mind because I was re-reading his book, but we talked a great deal and I remember him saying: ‘Jacques, there are things you can disregard in what I have written, they’re not immediately relevant, but there are other books one may read, which are worthwhile.’ It was one of those. I should add that towards the end of his life, he wrote a short essay which I particularly liked. It is an essay on short-term thinking. I wrote a commentary on it for a journal, *Commentaires*, and I felt it summed up a great deal he had said and thought about over the years, highlighting the dangers for decision-makers, wherever they may be, of only seeing things in a very short-term perspective. So we were, if you like, very much on the same wavelength, though we did not always agree, but we did have a sort of intellectual familiarity which helped us.

II. Tommaso Padoa-Schioppa's vision for Europe

[**François Lafond**] If I may, could I backtrack to a word you used? You said: 'He had a vision of Europe.' How do you think he sustained that vision all the way through his career? I imagine you first met him on the Delors Committee, because he was already ...

[**Jacques de Larosière**] Yes, on the Delors Committee, but he was not ...

[**François Lafond**] He was not a member, but he was a rapporteur.

[**Jacques de Larosière**] It was Ciampi, but he was one of the rapporteurs.

[**François Lafond**] Did you get to know him at that point? What did you talk about? Do you remember the start of his career and how he was subsequently able to sustain his vision, in other words why do some people have 'vision' and others not?

[**Jacques de Larosière**] I think it relates directly to a person's character, to Tommaso's personality. He had that, it was ...

[**François Lafond**] Was it ambition?

[**Jacques de Larosière**] No, I don't think so, not at all. I think he was motivated by the welfare of Europe. It was something that was predominant, that informed his outlook. We belonged to a generation which had this outlook on things. For my part, ever since I was young, I thought that nation states were in some sense a thing of the past and that we needed, if we wanted to count, particularly with regard to the United States — because that is how I saw things during the period to which I refer, the years of my youth, the 1950s and 1960s — to stand up to the US we needed to build a Europe that wielded real power. Much as many others of my generation, I was absolutely impregnated with this idea. I think he shared the same deep-rooted inspiration. So obviously, the drafting of the Delors Report was an important moment for us, because it was the occasion for debate on how a federal central bank could operate in relation to all the European countries, how it should be organised and so on. We had some very important discussions on this topic with the various members of the Delors Committee. Tommaso naturally took part, but I don't recall any particular exchanges with the rapporteur. What I do remember very clearly are the discussions we had on the Delors Committee, discussions focusing on very basic issues.

Now, there was something else I wanted to say, regarding one of the sources of dissatisfaction, if I may put it that way, that Tommaso felt over the years. This concerned the fact that the Member States — nation states — the Member States of this Union were basically fairly weak in political terms. That may seem to be a paradox, because the fact that these states wanted to display their nationalism or their disagreement with European efforts might be seen as a display of force. In practice, as Tommaso explained very clearly, it was a display of weakness. Had they been stronger, progress towards European integration would no doubt have been quicker. The fear of giving up powers and setting up bodies in which they don't play a dominant role has often acted as a brake on Europe, rather than being a show of strength, so to speak. It is very true, this view of things. So that is a vision. So he had ... when you asked: 'Do you remember how it happened?' ... he held various positions in Europe, he was at the European Monetary Institute, at the European Central Bank, in short he was in the thick of everything that happened and ... And he was at the Commission, where he played a very important part.

III. Tommaso Padoa-Schioppa and his work at the Italian Ministry of the Economy and Finance

[**François Lafond**] The paradox is that you say that he thought the states were weak, yet he had no qualms about accepting the call he received from Romano Prodi to become Minister for Finance in the Italian Government. So was it an attempt to remedy this weakness, to show that things could be done differently, and did you ever discuss with him his experience of politics, which was unusual for a banker or a senior official?

[**Jacques de Larosière**] Yes, but you see that was Tommaso's secret. It is precisely because he accepted this ministerial position, as part of the executive in Italy — at a difficult time — and he did a remarkable job for the good of his country, of course, but also in a European perspective. I don't believe he did anything — indeed it would be an interesting point to go into — while he was Finance Minister which was contrary to the idea he had, that we had of Europe. It all went in the same direction and I remember very clearly his statement at Eurofi, when he was Finance Minister: it was absolutely on the spot. So it was a good thing he gained this political experience, even if it only lasted a fairly short time, and one cannot do everything. But I think there is a bit of a parallel with [Mario] Monti. There comes a time when one ultimately turns to people who have demonstrated their ability to develop a European vision, because that is not very common in itself and because when one has the good fortune to have someone of that calibre and that vision, well, due to the particular forces at work in Italy and the fact that the government had in a sense lost its way, and that the Italian President had the foresight — there was the Monti phenomenon — but it is quite interesting to note that Italy in particular has this ability, if you like, to turn to people who have had this European vision in their own political career. Of course, one cannot generalise on the basis of two examples, but it is nevertheless quite encouraging.

IV. The personality of Tommaso Padoa-Schioppa

[**François Lafond**] Was curiosity not another feature of Padoa-Schioppa's personality? In fact he was surely extremely curious ...

[**Jacques de Larosière**] Yes, absolutely.

[**François Lafond**] ... as he had an extremely wide range of action and was not afraid to question his own actions nor to do something new. How does one achieve such a wide range of action?

[**Jacques de Larosière**] I think that ... the reason is ... there are several reasons. He certainly displayed great intellectual curiosity. He was very open-minded, he was loyal and stuck to his principles, but he would listen to what others had to say, he had the open-mindedness without which there can be no intellectual curiosity. Because if you are closed-minded and you have a system in which you believe, by definition you have no intellectual curiosity. Other people may be curious about you, but you yourself do not have any curiosity. But he wasn't like that. He was open, he loved debate and was very intelligent, that is to say he understood complex situations and was able to apply reason to them — as seen in his writing — yet at the same time he was passionate, because if he had been exclusively intellectual, setting forth principles in an objective manner, he would not have been Tommaso Padoa-Schioppa, he would have been someone else. So he had a very rich personality, with

this mixture — as you rightly say — of intellectual curiosity, intellectual ability, because you need to be able understand complex things at the same time as taking part in discussion, as getting excited and wanting to convince one's partners in debate. So all that made up a fairly unique character, definitely fairly unique, and you are right to want to perpetuate and build on his legacy, because we may learn a great deal from someone like him, who has something to offer, something to leave behind, something to build, much more than just a nice family portrait. So I welcome the work you are doing and the research you are carrying out on this most remarkable figure. In a lifetime one meets only a few people who have both this intellectual breadth and moral rigour, in the ethical sense of the term. He would not make concessions on essential points. He was open to discussion, but ... I remember on one occasion I said to him: 'Listen, yes, my report is far from perfect, but it is a step in the right direction.' And he replied: 'Jacques, you will never convince me this report is perfect, because I think it should go much further.' To which he added: 'I do not dispute that you have done as much as you can, indeed I congratulate you on that. But don't make me say that it stops there.' I very much liked his way of not betraying his convictions.

[**François Lafond**] To conclude our interview, I should like to turn to two books he wrote, which were published in Italian: *Europa, forza gentile* — a gentle force — in 2001; then *Europa, una pazienza attiva* — an active patience — in 2006. Do you think the words he used to qualify Europe could also be used to qualify Padoa-Schioppa himself?

[**Jacques de Larosière**] Yes, certainly, because his patience was mixed with an impatient edge, I must admit, but at the same time he was not the sort of person to be endlessly complaining about ends and setbacks, he was realistic and believed that [one achieved one's ends] more by conviction, exposition and writing. Tommaso wrote a great deal, unlike many practitioners. He thought, you see, that by force of conviction, by reasoning, by the fact that — well, basically he was right — things would gradually move forward. So he had an active sort of patience, mixed with a basic impatience which kept him moving. So, just as you say, the two terms are quite appropriate to qualify his personality. But, you know, his was a very diverse personality. One may define it ... it's very difficult to pin down someone like Tommaso, because he had many sides and in the last analysis he was a true 21st-century humanist. So there you are, he will continue to be seen in that light and stand as an example.

[**François Lafond**] Thank you very much, Mr de Larosière.

[**Jacques de Larosière**] It was a pleasure, I very much enjoyed talking about his personality.