

Transcription of the interview with Michel Camdessus (Paris, 6 February 2013)


Caption: Transcription of the interview with Michel Camdessus, Director of the French Treasury from 1982 to 1984, Governor of the Banque de France from 1984 to 1987 and Managing Director of the International Monetary Fund (IMF) from 1987 to 2000, carried out by the Centre Virtuel de la Connaissance sur l'Europe (CVCE) on 6 February 2013 in Paris. The interview was conducted by Renaud Dehousse, Professor and holder of the Jean Monnet Chair in European Union Law and Political Science at Sciences Po Paris and Director of the European Studies Centre, and particularly focuses on the following aspects of Tommaso Padoa-Schioppa's life: his work at the European Commission's Directorate-General for Economic and Financial Affairs (1979–1983) and the Palais Royal initiative (2010).

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I. Tommaso Padoa-Schioppa's activities at the European Commission's Directorate-General for Economic and Financial Affairs

[Renaud Dehousse] Well, Mr Camdessus, thank you for agreeing to talk to us about your memories of Tommaso Padoa-Schioppa. Let me start by asking you about the circumstances in which you first met him.

[Michel Camdessus] Well, I still have a clear memory of them because it was at a crucial time in the economic and monetary history of France. It was in 1982. Tommaso had been Director-General for Economic and Financial Affairs at the Commission in Brussels and I was appointed Director of the Treasury in Paris under the authority of Jacques Delors. That was when we first met. So we worked together to draft and then monitor the implementation of that French economic recovery plan, involving competitive disinflation but devised at the time when there was that key change in exchange rates. So that was when Tommaso and I worked together and became friends. It was a friendship, of course, which lasted 30 years, to his dying breath, might I say, because the last great thing he associated his name with, and which he actually initiated, was the Palais Royal initiative which was written in this very place, and I'm sad to say he died a week after our last meeting. He was full of enthusiasm about what we had just been doing together. But you wanted me to talk to you about the beginning of the relationship between us. He was in Brussels, he was the high priest of economic policy coordination, the high priest of keeping the economic policy of every country in the Union — still called a Community in those days, if I remember rightly — under supervision, and I myself had just been elected Chairman of the Common Market's Monetary Committee, so we were... we were working hand in hand. Things got tougher, no less friendly but they did get more intense when, with the difficulties France was in, I was wearing two hats, as the Chairman of the Monetary Committee and having to come in sackcloth and ashes and ask for the Union's indulgence and its support during the time of the recovery plan which we, that is Jacques Delors, the Governor of the Banque de France and I myself were putting together. It could have gone very badly and it could have been very difficult. As it turned out, it was the exact opposite, and thanks to Tommaso's exceptional intelligence and extraordinary human qualities it all went well. There were enormous difficulties — here, with the *visiteurs du soir*, as you may perhaps recall, who were not at all in tune with the view that Jacques Delors and I were trying to put forward, and in Brussels, where our, shall we say, friends from northern Europe thought that the French should adjust rather more and finance themselves rather less. It's a story where the arguments on both sides are still evolving to this day. So there you are. That was how it started.

I said in passing that Tommaso's human qualities played a vital part in that business and in helping to make the operation a success. From the first moment I met Tommaso I was struck by the fact that he unwittingly practised an old aphorism by Malraux. Goodness knows they were two people who were actually nothing like each other... the romantic, lyrical revolutionary and that extremely calm and

thoughtful man, Tommaso Padoa-Schioppa! But they had one principle in common, which was that they preferred the satisfaction, the keen joy of understanding to the satisfaction of passing judgment. You see, Tommaso was possessed of intelligence in the highest degree in the sense that it combined sharpness in analysing situations with a sort of affability of intelligence. It was what we needed. We needed both impartiality in judgment and absolute clear-headedness about the situation this country was in, and, in a world which, it has to be said, didn't like the new French government, a touch of affability, of warmth, and Tommaso was admirably skilled at supplying us with that. So there you are, that was how our friendship started... and it goes without saying that after that, when we were putting the plan in place, the three of us together, Tommaso, Jacques and I, defined the conditions that we wanted the Union... the Common Market to impose on us, backing for temporary funding to be granted us by Brussels, we did that by mutual agreement and without the slightest difficulty, so well did he, and we, grasp France's situation and the importance to Europe of seeing France make a success of that competitive disinflation.

[Renaud Dehousse] Of course. But before we get to that, I wanted to ask you if you think that at that particularly sensitive stage in France's relations with Europe, the watershed of 1983, having before you a representative of the European Commission who was from a southern European country made matters easier or in any way influenced his possible view of the situation.

[Michel Camdessus] No, I wouldn't say a man from southern Europe. Of course, he was from southern Europe — so am I — but what was vitally important was that in him we had a man who was profoundly liberal in outlook, who didn't think the market was always right and didn't think that Europe's problems were just problems of adjustment and of providing financing for countries in difficulty. He had admirably grasped what Professor Triffin from Belgium had explained 20 years earlier, that Europe, despite all its efforts at internal coordination, was already suffering from the fact that the Triffin dilemma, I mean that policy... policy on monetary matters can't be run solely on the basis of the monetary position of the United States. Tommaso was very clear in his mind about that point. He was leading people towards taking an all-round view of the problems rather than to something much more limited to the narrow field of Europe's concerns.

[Renaud Dehousse] Indeed. So after that you were headed for Washington. You were to take charge of the International Monetary Fund.

[Michel Camdessus] ...where he had gone before me, because a very good... a large part of his own monetary and financial culture stemmed from the fact... from the time he had spent in Washington or working with Washington.

[Renaud Dehousse] Indeed. And during the years you spent with the IMF, did your paths cross on other occasions?

[Michel Camdessus] Yes, from time to time, but in a much less direct way. I didn't have to negotiate with Tommaso, strictly speaking, but... except that we used to exchange information when he was working over at the BIS, in particular. What was a great help to me, personally, on the other hand, was the contacts we had, the exchanges we conducted with each other by way of analyses, which for me were a very rewarding dialogue, because he used to supply me with everything that was best in Europe in terms of a grasp of the economic situations, and when you are in Washington you are bound to be rather in exile, in a sense. So I enormously appreciated those opportunities for having a dialogue with him. I should add that it led me to hope that we could, as soon as possible, set up a tight mechanism for cooperation between Europe's monetary policy-makers and the International Monetary Fund, and I worked, probably inspired by him, to arrange for there to be a representative of the European Union on the Board of the... at the International Monetary Fund, independently of the national delegations.

[Renaud Dehousse] Which still happens...

[Michel Camdessus] That still happens.

[Renaud Dehousse] Yes, but it's still a slightly sensitive matter from many points of view.

[Michel Camdessus] Of course. Of course, Europe has two heads, or three... but when there is a common objective and a common vision, that doesn't cause any problems. And Tommaso and myself, we had this in common, that the world would be an unstable place and economic policies would never lead to an optimum situation for the whole world so long as we didn't successfully establish a way of anchoring national monetary policies to a worldwide system. The point, to put it briefly, was to exorcise the Triffin dilemma. That was Tommaso's obsession up to his dying breath and it is still mine.

II. The Palais Royal initiative

[Renaud Dehousse] Which brings us on very naturally to talking about the Palais Royal initiative which was crafted by the two of you. Can I start by asking you how this initiative first came into being?

[Michel Camdessus] Well, the story is... all that... it's rather long, but since it will amuse you I can't resist telling you about some of the main points. It happened that the French Government had asked me to set up a working party to make preparations for France's adoption of the golden rule that public finances should be in balance. My answer to the Prime Minister or the President of the Republic — I can't remember which — was that I would agree to do it with the main representatives of Parliament, the general rapporteurs and chairmen of the finance committees in the Senate and the National Assembly, with a few economists and senior civil servants, but I wanted there to be a representative of Europe who, as far as possible, should be the most eminent of them all. And I could only think of one person who had held monetary posts and the post of Minister for Finance, and been a great success at it, in fact, and that was Tommaso Padoa-Schioppa. So Tommaso was appointed a member of the group, and he regularly took part in our discussions — very difficult discussions they were, too, because four or five years ago the idea of there being a golden rule in France that public finances should be balanced wasn't at all in fashion. Tommaso regularly took part in our discussions, with, yet again, his intelligent grasp of situations, his know-how, his immense international monetary and economic culture, and he was an enormous help to us, but it was very difficult.

And one fine day... a beautiful afternoon in May, we came out, the two of us, exhausted from one of these meetings, and I said to him: 'Tommaso, why don't we go and have dinner?' So we went and had dinner together in a little restaurant somewhere round here, we picked my wife up on the way to make things a bit more relaxed and so as to talk about something other than the golden rule, then we started talking. He told me that he had given a big lecture some time back at Louvain on the spectre of the bancor and... saying, in other words, that we ought to reopen the great debates there had been at Bretton Woods... Keynes, etc. I was enormously pleased to hear him say it and I said to him: 'Listen, it's funny you saying that, because three or four days ago Paul Volcker was on a visit to Paris — the ex-chairman of the Federal Reserve in New York — and he said to me: "Come and have a coffee." We chatted and what we said to each other was more or less the same as what you say in your lecture, that we urgently need to understand that the financial crisis we are going through at the moment — this was happening in the spring of 2010 — will never be resolved unless we put our finger on this other problem of there being nothing which anchors us to the international monetary system.' He said to me: 'You're right, but listen. Volcker agrees, you agree, I'm talking about it', he said to me, 'with Lamfalussy. So that makes three or four of us! How about us trying to do something?' At which point I said: 'Yes, right, let's do it.' They brought us the menus and we both went for the set menu, we handed them back and we said: 'Right! There mustn't be 20 of us, there must be 18 of us. There are already two or three of us, you find eight, I'll find eight, that will make 16, that will do.' Even before

they'd brought us the hard-boiled eggs with mayonnaise, we had a list of 18 members of what could be a major study of the international monetary system. We shared out the telephone calls between us. He took eight, I took eight. Forty-eight hours later, all those people, who were actually the greatest veterans of the battles waged over the preceding 30 years over reforms to the international monetary system, had all said yes. So we decided to meet on our own, the 18 of us, with experts we would choose, for three weekends, behind closed doors, without anyone from the press, without asking anyone for permission, with the sole aim of putting a plan for a reform of the international monetary system in front of the President of the G20. It wasn't, perhaps, our ambition to say what the international monetary system ought to be, but we did aspire to take the first few steps which would one day make it possible to bring about such a reform. The phrase 'one day' was very clear in Tommaso's mind, I mean he held the same belief as I shared and that Alexandre Lamfalussy, who had joined us, also held, that Triffin was all very well, the dollar was still the reserve currency everybody still wanted to amass, but in 2020, when China would have become what we know, when India would be what we know, it would be mad to think that an international monetary system could be based on just one national currency. So, whether we liked it or not, it was high time to set about thinking of a way of making progress in a civilised way — as the Soviets once used to say — towards 2020, in such a way that by 2020, perhaps, we could set up the system we wanted. This worked out as we thought it would. We... so we met for the first time in Washington or in the suburbs of Washington, then for a second time in New York, the third time right here in the building where we are — the 18 members of the group, but one of the 18 was the deputy-governor of the People's Bank of China, there was the governor from Saudi Arabia, there was of course Paul Volcker, there were either former finance ministers or former governors of central banks — really the 18 people there, apart from me as I wasn't in that league — the most competent and credible people there were as regards international finance. We... we squabbled a great deal, there were... we were back with the raised voices you heard in our old battles from the 1970s or when we were putting together the Louvre agreements here, in 1986–87; it was hard, but we did nevertheless hammer out some common proposals and on the last evening, a few days or a week before Tommaso's death, we were all fairly happy, I have to say, at what we'd done, firstly, of course, because of the cordial atmosphere in which the discussions had taken place and the pleasure we had felt at working together again, but also with the certainty that we had put our finger on a number of things that it was important to remind the G20 about.

[Renaud Dehousse] I have a comment and a question. The comment is that in the episode you have just told us about we once again see something which was, I think, a constant in the life of Tommaso Padoa-Schioppa, and that was his skills as a political entrepreneur who acted — well, I say political because he was very concerned to have an effective impact on the real world, but without taking part in the politicians' political game, that's what I mean — but he worked more by putting forward ideas which should, ideally, inspire action by governments, which is really something he did the whole of his life, both at the national level and at the European level or the international level. And the question I wanted to ask you is this: it is now two and half years after the initiative you took — what has been the result so far, and what would you say still remains to be done?

[Michel Camdessus] I'll be very glad to answer that question, but I'd also like to underline what you've also just said about the political intelligence, the political rather than the politician's know-how which Tommaso had. That's exactly what it was. It's what I called the keenly intelligent grasp of situations a moment ago, isn't it? And that was extremely precious all through his career, all through those 30 years. The contribution he made to improving economic and monetary conditions in his country and in Europe was very much linked to that aspect of his character. So what is left of what we did? Well, I had been mandated by my 17 comrades to take it all to the president of the G20, who was the President of the French Republic, which I did. I was warmly received. The President said to me: 'I didn't ask you for anything.' My reply to him, to the President, was: 'Mr President, we didn't need you to ask us for it, but here's what we've done!' He was enormously interested in it. He put it in the hands of Mrs Lagarde, who, as the French Finance Minister at the time, chaired the G20 Group [of] Finance Ministers, in preparation for the Cannes

Summit, which was due to be held some time afterwards. Mrs Lagarde held a meeting of the G20 Finance Ministers in Nankin, if I remember rightly, which I was asked to come to and present the study, then the study was, as usual, passed over to the experts, the aides, etc., who set to work processing it. We had an unexpected setback, which is that at the very time that the work on our proposals was coming to fruition, or starting to come to fruition, the sovereign debt crisis broke out in Europe, which of course meant that every subject apart from that went straight to the back of the oven, or onto the back burner as the Americans would say.

[Renaud Dehousse] We haven't used the expression 'until the Greek calends' [Translator's note: in French idiom '*repousser aux calendes grecques*' means to put off indefinitely. There is a play on words in the reference to Greece.], which would be particularly...

[Michel Camdessus] It would be an appropriate way of putting it, though. So things are still almost just as they were. Nevertheless, and I can say this having written a great many reports in my time, I know from experience that reports very often end up on bookshelves. There must be quite a few reports by very eminent people behind me. Reports get put on bookshelves, but not ideas. Once ideas have been launched, they go the rounds, and they turn up in unexpected forms. They re-emerge when you least expect them, and that may be what is happening at the moment, when you read the communiqués from the Cannes Summit, the Los Cabos Summit in Mexico, when you read the closing report from the International Monetary Fund's economic and financial affairs committee, you see the points we stressed reappearing. The report isn't cited, but you recognise phrases, don't you, once you have written them, and I think that as we emerge from the crisis, it is going to become apparent how urgent the diagnosis we made is, especially as the move towards a multi-currency world becomes more and more marked with every day that passes, and we see the emerging countries, with every day that passes, showing that they cannot acquiesce in a world which is totally shaped, as far as monetary matters are concerned, by the monetary policy of the United States. China, as far as that goes, obviously has a vital part to play. It was fairly striking that a few months before we set about our discussions, the governor of the People's Bank of China, in his personal capacity, gave an extraordinarily detailed lecture in which he showed that the world needs a credible instrument for the diversification of foreign exchange reserves and that to do that, the special drawing right — which everyone had more or less forgotten about — managed by the International Monetary Fund would, provided it was properly reformed and, in my opinion, provided the renminbi — the Chinese currency — was brought into it, could play an important part in that respect. That proposal actually takes us back to an attempt made at the IMF in 1979–80, but which unfortunately failed, to establish a substitute account. But yes, the Palais Royal report, on the Palais Royal initiative, was the collateral victim of the sovereign debt crisis in Europe, but there is life in it yet.

[Renaud Dehousse] Yes. What do you think are the channels, who are the political players that, some time in the future perhaps, might be the architects of the change you wanted to see happening?

[Michel Camdessus] Well, you see, if a fundamental reform of the international monetary system is to take place, there will have to be a change — and in saying that, I have to tell you that it may not happen in the near future — a fairly deep-seated change in the way academics analyse the question and the beliefs they hold on the matter. The academic world, in this field, is still very much dominated by ideological perceptions, be they neo-liberal or Keynesian, which come to a peak in the realm of ideas, but which I don't think are yet sufficiently prompted by a shared desire to hammer out a shared perception by the academic world as regards the matter. I think there is still progress to be made in research, and it should take as its starting point the idea that the time is at last approaching when the academic world will have to speak out boldly and not theoretically on this question. As regards the first condition, we are not there yet. As regards the second condition, it is about economic policy, it is actually political, I would say. What we need — and I hope we won't have to go through a new crisis to get it — is for the world's political leaders to realise that we are in a completely unsatisfactory situation, a situation which, even after we get through the present crisis — if the trend in that direction continues — will leave us with the threat of a crisis if we are incapable, all of us together, of accepting shared discipline and the instruments for shared discipline. What must happen is that all the

world's monetary policies — and I say all of them, not all except one, but all of them — must be brought under a discipline imposed from outside, held in place by an external monetary anchor. That is the objective, that is the challenge. As you can see, it is a major challenge, but we have 2020 looming up at us and, whether we like it or not, it will force us to re-open these questions. I hope it will happen as soon as possible.

[Renaud Dehousse] Well, let us hope it does. Thank you, Mr Camdessus.

[Michel Camdessus] Thank you very much.