

De Larosière rejoins the European elite

EC President José Manuel Barroso has asked the international problem solver to help rebuild the financial system, writes Tom Fairless

“Is it the vocation of the French to run international institutions?” asked a recent editorial in a Parisian newspaper, before reeling off a host of global luminaries of Gallic origin.

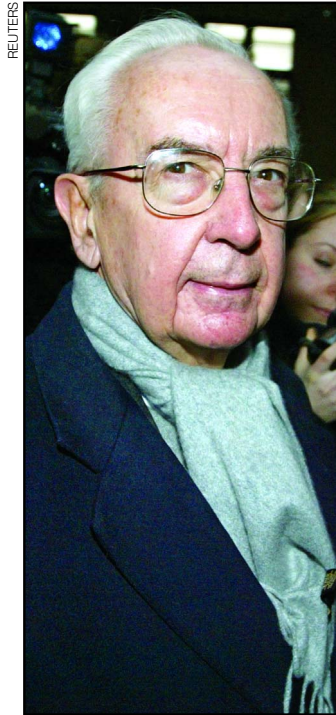
The question is a fair one. Many people in France may think it is their destiny to rule the world and, while they account for less than 1% of the global population, they account for some 12% of the estimated 130,000 staff working for organisations such as the European Central Bank (run by Jean-Claude Trichet), the International Monetary Fund (run by Dominique Strauss-Kahn), and the World Trade Organisation (where Pascal Lamy last year won a second term).

The latest addition to this international elite is perhaps less well known but has an important mission. As the European financial system buckled in October, José Manuel Barroso, the former Portuguese Premier who now runs the European Commission, asked Jacques de Larosière to chair a panel that is drawing up proposals on how to rebuild Europe’s regulatory framework.

Barroso could hardly have settled on a more experienced figure. In a career spanning five decades, de Larosière has established a reputation on both sides of the Atlantic as a discreet but innovative problem-solver with nerves of steel.

Thierry Baudon, the managing partner of private equity firm Mid Europa Partners, where de Larosière is chairman of the advisory board, said: “Jacques is half-way between a statesman and a macroeconomic decision-maker. Unlike many in the financial services industry, he takes the long-term view.”

De Larosière’s resume reads like a timeline of late 20th century economic history. At the French Finance Ministry in 1971, he took part in the negotiations surrounding the US decision to decouple the dollar from gold. A decade later, as head of the International Monetary Fund, he helped arrange a deal that dragged Latin America’s economies back from the brink of bankruptcy. And in the early 1990s, he fought off opposition from within the French Government to guide



Veteran: de Larosière quickly established a reputation as an innovative financier

his nation into the European Monetary Union.

Within policy circles, he is known as an extremely well-organised and distinguished central banker who would not take eccentric positions, according to Karel Lannoo, chief executive of the Centre for European Policy Studies, a Brussels-based think-tank.

Lannoo said: “De Larosière has

previously advocated greater integration in European regulation. He has a long-term perspective.”

Colleagues at France Télécom, where de Larosière has served as a director since 1998, describe him as reserved yet wise. Other observers portray him as a highly-cultured but super-elitist and aristocratic patrician, who is unable to delegate, and entertains central bankers and government officials at his wife’s stately chateau in the countryside north of Paris. De Larosière, the European Commission and BNP Paribas, where he advises chairman Michel Pébereau, all declined to comment for this article.

Rapid rise

Jacques de Larosière de Champfeu was born in Paris in November 1929, two weeks after the Wall Street Crash, to a French marine officer and his wife. His childhood, by his own account, was modest – the family frowned on luxury, preferring to travel by metro than taxi.

The young de Larosière followed a well-trodden path into central Government. He studied law at the Sorbonne and at the renowned Institut d’Etudes Politiques, or Sciences Po, before entering the elite technocratic academy École Nationale d’Administration, alma mater to numerous French presidents, ministers and intellectuals.

Graduating from ENA in 1958, in the same class as future socialist prime minister Michel Rocard, de Larosière entered the Finance Ministry, where he rose rapidly through the ranks, making head of department in 1971.

Three years later, Valéry Giscard d'Estaing, then Minister of Economy and Finance, invited de Larosière to run his private office. This arrangement lasted just six months before Giscard d'Estaing's election as President and de Larosière's elevation to head of the Treasury. At around this time, de Larosière also started accumulating directorships at top French companies including Air France, engineering conglomerate Alstom, carmaker Renault and national rail group SNCF.

The President's backing was invaluable to de Larosière in 1978, helping him to secure the top role at the IMF. In Washington, he quickly established a reputation as an innovative problem-solver. In 1982, as soaring US interest rates caused Mexico and other Latin American nations to default on debt repayments, the Frenchman stunned large creditors by demanding that unless they put up \$6.5bn in new money for Argentina and Mexico, the IMF would not ratify rescue programmes for those countries. This practical approach, opposed by most economists at the time, was a success, and de Larosière was subsequently honoured by the Governments of Argentina, Mexico and Japan.

After a second term at the IMF, de Larosière returned to Paris, switching roles with Michel Camdessus, then governor of the Banque de France. Here, he set about modernising the venerable central bank, introducing annual business plans, reorganising the bank's activities and fostering a service mentality among staff.

De Larosière's turn at the central bank also proved pivotal in steering his country into the European Monetary Union. As chronicled by David Marsh in his new book, *The Euro – The Politics of the New Global Currency*, de Larosière helped overcome Germany's long-standing resistance to EMU by guaranteeing the independence of the European Central Bank. His pro-independence stance led to a showdown in the Louvre Palace with Jean-Claude Trichet, then at the French Treasury, at which de Larosière ultimately prevailed.

As he neared the central bank's mandatory retirement age in 1993, de Larosière was called upon to sweep another political minefield. The London-based European Bank for Reconstruction and Development was in trouble. Its flamboyant boss, fellow Frenchman Jacques Attali, had fallen foul of shareholders for his extravagant use of private jets and lavish refurbishment of the company's offices. The US Government, the bank's largest single shareholder, threatened to withdraw its support.

De Larosière's approach was to broaden the bank's activities while

Jacques de Larosière	
Curriculum Vitae	
Born: 1929, Paris	
Education	
Degree in law and letters, Sorbonne; Postgraduate degree, École Nationale d'Administration	
Career highlights	
1958: Joins French Finance Ministry	
1965: Moves to the Treasury	
1971: Department head, Ministry of Economy and Finance	
1974: Director of the Treasury	
1976: President, Group of Ten	
1978: Managing director, International Monetary Fund	
1987: Governor, Banque de France	
1993: President, European Bank for Reconstruction and Development	
1998: Retires from EBRD. Adviser to the president of BNP Paribas	
1999: Chairman of the advisers, Mid Europa Partners	
2008: Chairman of the European Commission's high-level group on financial supervision	
Interests	
Baroque music; 19th century romantic literature; 18th century history	

slashing costs. He developed a business plan based around four central axes, sublet part of the bank's headquarters, closed the executive dining room and forced staff to fly economy class.

Baudon, who served as vice-

president at the EBRD under de Larosière, said: "Morale was low, but he managed to establish confidence. His managerial style is simple, straightforward and humble. His colleagues only have praise for him."

The extent of the transformation was demonstrated when the US Congress agreed to double its capital commitment to the EBRD. De Larosière was urged to stay on at the bank, but instead returned home in 1998 after his wife was injured by a lorry.

Then, aged 68, de Larosière effectively retired, devoting more time to family and friends, and to his love of baroque music, the novels of Balzac and Stendhal, history and theology. Nevertheless, he did not abandon finance entirely, taking up his directorships at BNP Paribas, France Télécom, Mid Europa as well as US insurance company AIG.

At the latter, where annual reports show he served on the international advisory board between 2005 and 2007, he was unable to prevent the catastrophic credit derivative bets that ultimately forced a \$150bn Government bailout. AIG declined to comment on de Larosière's time with the group.

Now nearing 80, de Larosière shows few signs of slowing down.

Baudon said: "He has so much interest in international financial issues that he is constantly in demand. Governments call on him often, and he does not stop because of his age."

Group of great and the good to report on regulatory fragmentation

Tom Fairless

Last November, European Commission President José Manuel Barroso sought to address the fragmented and disjointed structure of financial regulation in Europe, by asking a group of prominent economists to come up with a roadmap towards regulatory integration.

Barroso said at the time: "There is an obvious mismatch between European and global financial markets, and supervision which remains largely national. There is wide agreement that we need to bridge that gap but different ideas on how to go about it. The group's role is to bring forward concrete proposals which will contribute to

greater financial stability and help maximise protection for depositors, policyholders and investors."

The group, whose members include Leszek Balcerowicz, the economist famous for administering the "shock therapy" economic transformation of Poland in the 1990s, and former German and European Central Bank board member Otmar Issing, has been tasked with addressing three broad issues: how best to organise regulation to ensure the soundness of financial institutions, orderly functioning of markets and protection of investors; how to strengthen European co-operation on financial stability and crisis management; and how European

supervisors should co-operate with other large regulators at the global level.

The panel is due to publish its initial recommendations on Wednesday. Observers expect it to advocate one of four possible courses.

First, the powers of the European Central Bank could be enhanced to give it a central role in supervising financial markets and cross-border groups.

Second, the existing committees that bring together national regulators, such as the Committee of European Banking Supervisors, could be strengthened.

Third, the so-called colleges that supervise large cross-border institutions could be improved. Fourth, an entirely new regulatory body could be established.