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## PRESS RELEASE

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### **The evolution of Alexandre Lamfalussy's thought on the international and European monetary system (1961-1993)**

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Alexandre Lamfalussy has been highly influential in the process of European monetary integration. He is especially well known as the first president of the European Monetary Institute, the predecessor of the European Central Bank, and as the Chairman of the Committee of Wise Men, which developed a new approach for the regulation of European financial markets.

This Working Paper provides an analysis of Lamfalussy's thought on the international and European monetary system for the period from 1961 to 1993. His early academic work was very much in the Keynesian tradition. Later on, Lamfalussy (not unlike Tobin) would retain a certain scepticism about the functioning of the financial markets, becoming the main architect of the BIS macro-prudential approach. His vision of the financial markets also permeated his view of the foreign exchange markets, with a basic distrust of floating exchange rate systems.

Partly under the influence of Triffin, Lamfalussy soon became interested in international and European monetary issues. For Lamfalussy, the US balance of payments deficit was a dangerous imbalance in the world economy. However, there was a shift in his concerns. In the early 1960s, he feared that the US would follow deflationary policies to bring it back under control. From the end of the 1960s onwards, he was concerned that the US was not taking corrective measures. He feared that the deficit was leading to economic distortions and protectionist calls in the US. Moreover, it was pumping too much liquidity in the world economy, contributing to low interest rates and excessive credit growth and risk-taking, a fundamental factor behind financial crises, like the 1982 Latin American debt crisis and the present financial crisis.

The strong appreciation of the US dollar in the early 1980s, due to differences in the policy mix between Europe and the US, would mark Lamfalussy profoundly. For Lamfalussy, it was a clear indication that flexible exchange rates could not be relied on to avoid serious exchange rate misalignments.

Lamfalussy has always been an advocate of a strengthening of European (monetary) integration. Lamfalussy favoured a symmetric economic and monetary union, not only a European system of central banks, but also a European economic government. Lamfalussy was also a member of the Delors Committee. He made a well-noted contribution on the coordination of budgetary policies, concluding that "fiscal policy coordination appears to be a vital component of a European EMU". This was in the logic of his view as a central banker and as an advocate of a symmetric economic and monetary union. Moreover, the international monetary scene of the early 1980s had clearly demonstrated the threats of imbalances in the policy mix.

Lamfalussy's advocacy of European monetary integration had its origin in two main sources: a profound European conviction, marked by the devastations of the second world war and the iron curtain, and a fundamental distrust of systems of floating exchange rates. As observed by Wim Duisenberg, "You have never believed that a true single market is in the long run compatible with a quasi-floating exchange rate system".