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A Dane in the making of European Monetary Union – A conversation with Niels Thygesen

by Ivo Maes and Sabine Péters

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Abstract

Niels Thygesen (born 1934) played for nearly five decades an influential role in the process of economic and monetary integration in Europe. He is especially known as a member of the Delors Committee and as the first Chair of the European Fiscal Board. As part of a research program on collecting memories, this paper publishes the results of several interviews with him. His early life offers insightful observations on Danish attitudes towards Europe and on the development of the economics profession in the postwar years (he was close to Nobel Prize laureates as Franco Modigliani and Milton Friedman). Thygesen's involvement with the process of European monetary integration really started in 1974 with his membership of the Marjolin Committee (which provided an assessment of the failure of the 1970 Werner Report). Since then he has been involved in a multitude of committees and initiatives, like the OPTICA groups, the All Saints Day Manifesto, the Trilateral Commission, the Committee for Monetary Union in Europe (an initiative of Giscard and Schmidt) and the Euro50 Group.

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Introduction

Niels Thygesen (born 1934) played for nearly five decades an influential role in the process of economic and monetary integration in Europe. He is especially known as a member of the Delors Committee and as the first Chair of the European Fiscal Board. This paper publishes the results of several interviews with him, in which he tells about his life, professional parcours and motivations.

This project is part of a research program of the authors, aimed at collecting the memory of influential persons in Europe's postwar history. Important earlier publications concerned two prominent Belgians in the process of European monetary integration Alexandre Lamfalussy[1] and Jacques van Ypersele[2].

Thygesen's early life offers beautiful insights into the Danish attitudes towards Europe in the postwar years and the development of the economics profession (he was close to Nobel Prize laureates as Franco Modigliani and Milton Friedman). His involvement with the process of European monetary integration really started in 1974 with his membership of the Marjolin Committee (which provided an assessment of the failure of the 1970 Werner Report). Since then he has been involved in a multitude of both official and academic committees and initiatives, like the OPTICA groups, the All Saints Day Manifesto, the Trilateral Commission, the Committee for Monetary Union in Europe (an initiative of Giscard and Schmidt) and the Euro50 Group.

Most of the interviews were conducted in Brussels during the years 2017 and 2018 and revised by Niels in 2019. The manuscript was concluded early 2020, before the COVID-19 crisis really hit Europe.

We would like to thank Niels very much for the time and efforts he has consecrated to this project. It was a great pleasure to work with him and we enjoyed strongly his perceptive analyses, full of humor and human insights.

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[1] Lamfalussy, Christophe, Ivo Maes and Sabine Péters. 2013. *Alexandre Lamfalussy. The Wise Man of the Euro. A conversation with Christophe Lamfalussy, Ivo Maes and Sabine Péters*, Preface by Jacques de Larosière, Leuven: LannooCampus.

[2] Maes, Ivo and Péters Sabine. 2016. *La Belgique et l'Europe dans la tourmente monétaire des années 1970 – Entretiens avec Jacques van Ypersele*, Working Paper No. 314, NBB, December 2016, pp. 76.

Part 1 – Early Life

To start, could you tell us something about your family background, both from your father's and your mother's side?

I was born on 13 December 1934 and I grew up in Copenhagen, Denmark, as the only child of a Danish couple. My father was an industrialist who later became CEO of the Danish distilleries and Chair of the Danish Federation of Industries. My mother had some professional background working with a stockbroker, but she stopped after marriage and worked with my father. I had a quiet and a very happy childhood in Copenhagen, living there through the wartime. I remember distinctly the German occupation of Denmark in 1940 and the next five years, also because we lived just across one of the German barracks in Copenhagen. But Denmark was spared during the war, there was little destruction; there was some bombing late in the war, some actions of sabotage in resistance to the Germans, but it was, compared to Belgium, the Netherlands or Norway, a relatively quiet period. There was no real hardship in terms of shortages of food and so on. But I do remember distinctly, that, my primary school was confiscated by the Germans, for the use of refugees. So I went to school in other buildings and in the afternoon; and my family moved out of town for some period. I was certainly too young to appreciate how serious it was, even when two of my class mates from Jewish families fled to safety in Sweden when the Germans tried to round up Danish Jews in 1943.

My main recollection of my childhood or early years is really the post-war period. That was fortunate, because I grew up as new opportunities suddenly opened up and looked very feasible. My parents had not been particularly internationalist; they were mostly oriented towards the Continent, and spoke good French and German. But the opening after the war was, of course, mostly to the Anglo-Saxon world, to the United States. I began travelling, first with my parents; and I had one privilege while still at school that brought me further into international travels: I was active in sports and I managed at an early age to become a good golfer, Danish amateur champion when I was 17 years old. So that offered additional opportunities for international experiences and friendships. Academically, I was in a good Lycee, in Copenhagen, majoring in Classics, so that did not indicate any early interest in Social Sciences and Economics. My family background (my father and my father's brother) was principally in the legal field. But I chose Economics when entering the University of Copenhagen in 1953 because I had become very interested, during my years at the Lycee, in international affairs. And Economics seemed to be a substantive subject. I had my first experience of international affairs in my final year in the Lycee when I won a national essay competition to go to New York and Washington for the *New York Times*. So for three months, I was travelling in the USA, witnessing the inauguration of President Eisenhower, and making early friendships both with Americans and with other nationalities. We had 30 different nationalities in the group. That was a big awakening to the international world and made me keener to use Economics for international purposes.

Could you tell us a bit more about your father's business? Did it make you travel more? How did it influence you?

Distilleries were primarily a national business.

Distilleries?

Yes, hard liquor in fact: Vodka, Gin, Aquavit - the Danish specialty of my father's company. He had joined long before the war, but after 1945, they expanded in Europe and in the United States. So my father began travelling more and I accompanied him and my parents on some of their trips, also to a couple of international business meetings that he attended. I may exemplify the early post-war generation; my grandfather - a farmer - had hardly ever had reasons to leave Denmark; my father became more international after the War; and I accelerated that process. My oldest son emigrated and has now lived in the United States for 34 years, ending up as President of Google in the Americas; I have an American daughter-in-law and four grandchildren, now grown ups, in California. So it's has been a gradual, but rapid evolution in a global direction.

Was your family from Copenhagen? Or did they migrate to Copenhagen?

No, my father was in fact from a rural area of Western Denmark. So it was not a given thing that he would become academically inclined. He had moved to Copenhagen to obtain a Law degree. My mother was half Norwegian, but always lived in Copenhagen; her father was Danish. But we always lived in the centre of Copenhagen and had a very comfortable life. I was certainly very privileged materially and in terms of personal relations. My parents treated me from my early years more as a grown-up than I probably deserved, but that was very nice. I was also privileged to be able to develop competitive skills as a golfer.

How much time did you spend on golf? How much did you travel for it?

I played a lot of golf in Denmark during my high school and university years. During summer holidays I travelled for a month, playing golf tournaments in Europe (in Belgium, Germany, France, the Netherlands, these four countries in particular), and Sweden.

Why did you start with golf in first instance? Young people typically are not into golf…

That again was related to the family. My parents took up the game at a mature age and since I was the only child, it was easy to bring me along, so I started when I was only eight years old, which brings us back to the war. One of the most 'dramatic' events for me in 1944 was that the Germans blew up the club house; golf was seen as an example of Anglo-Saxon influence. So I remember, as a very young boy, looking for my clubs in the devastated clubhouse.

Could you tell us something more about your studies? You did classical lyceum… what did you study? What did you retain from your studies? Who were the important personalities?

I was interested in history, classical history, and Latin. Unfortunately, all that stayed with me has been that it became easier for me to learn Roman languages (French and Italian). I was sufficiently interested in Classics that I was in doubt, during my first year at university, whether I should pursue it further. I had a very intensive and rich three years in my Lycee, including a splendid study trip to Italy. I still maintain contact with the now rapidly shrinking number of classmates from an already small class. However, majoring in Classics became a handicap for me in Economics, because I had an insufficient level of Mathematics when I started, so I had to spend a lot of time trying to catch up during in my first university year; I never did catch up.

Is there anything you would like to add on how WWII influenced your life, your thinking and your perception of matters in life?

After the war there was some antipathy towards Germany in my country. Maybe it impeded me in familiarizing myself sufficiently with German culture and language. But any such initial antipathy has faded away completely. There was a tendency to look elsewhere outside our borders for an international context. Given the history of the War that was mainly to the Britain and the United States. That was also how I oriented myself - and where I went in my youth.

You started university studies in Copenhagen. What did you study exactly? Who were important personalities? What were the main influences, the line of economic thought in that period?

I enlisted as a student of Economics, in an almost a pure Economics programme. We have a university system where you specialize from the first year as an undergraduate. We had a little bit of other social sciences, surely not enough, though more than current students; they have become even more specialized. The subject may require that, but it was already then a fairly narrowly focused course programme of five years. An important influence was my teacher in international economics, later Governor of our central bank, Erik Hoffmeyer; he was my main teacher and later supervised my Master's thesis. We had other excellent economists at the time, less technically-minded than today's economists, but they had good international contacts. We had exposure to good international economists (Harry Johnson, Nicholas Kaldor…) Quite a few, particularly from Britain, came regularly to Copenhagen, and so did, of course, leading economists from Sweden and Norway; there were several world class economists in the Nordic region at that time – Frisch and Haavelmo in Norway, Myrdal, Ohlin and Lundberg in Sweden In the first decades after the war, there were a lot of Nordic activities, which have now faded away almost completely. with the globalisation of the profession in terms of both topics and language of communication. Nordics today understand less of each other's languages, which is a loss.

What were your interests outside university? Were you active in students' associations?

Yes. During my second year at university I became Secretary of the student council of the University of Copenhagen, which took quite a bit of time. The year after, I became Chairman of the Danish National Student Association; that enabled me to combine interests in international affairs with more organisational work. I stayed in student affairs for 3-4 years becoming international chairman of our NSA afterwards, travelling all over the world, Africa, South America or India. I became a regular participant in the so-called International Student Conference (ISC), started a few years before by Olof Palme, later Swedish Prime Minister, and some Americans student leaders. Other seniors who became friends were Thorvald Stoltenberg of Norway and Gaston Thorn of Luxembourg, both later prominent in national and in European politics.

The Danish NSA was affiliated with the ISC, set up in 1949-50, triggered by the Communist take-over of Czechoslovakia. This was an signal event because there had been a more unified international student movement in the first years after the War, but it became clear after Prague that there were deep divisions between the countries in Eastern Europe on the one hand and the countries in Western Europe and the United States on the other hand. So, the Americans, supported by a number of European countries, took the initiative to start the ISC which met every 12-18 months until the 1970s. It did a lot of documentary background work on student movements in different countries. I was involved in studies of the Hungarian uprising in 1956, of the revolution in Irak in 1958; of the decolonisation movement that was reaching a peak at that time in the late 1950s as well as of the implications for universities of apartheid in South Africa; some of the student leaders from Asia, Africa and Latin America that I got to know well, became central political figures in their countries. I chaired the ISC research commission - an extremely rapid and interesting awakening to international issues. Not really to European integration, though that also picked up strongly in this period, but to international politics and the balance in the world between the USA and other countries. In that context, I visited sometimes other national students' associations. In the USA, Mrs Eleanor Roosevelt was an unofficial 'patron' of the US NSA, attending its annual conference where I met her a couple of times. The ISC was financed largely from the USA, apparently from humanitarian foundations; it turned out much later that the Central Intelligence Agency (CIA) had a major involvement in funding in the 1950s and 60s. We did not know at the time, so it has not troubled my conscience that I have spent a fair amount from CIA accounts.

How was Eleanor Roosevelt? Was she impressive? What was your opinion about her?
It was something quite exceptional for young students to meet her I suppose…

Yes, she was an excellent speaker on major topics (democracy, evolution in the USA). She was still very much involved with the Democratic Party at the time, primarily with Adlai Stevenson, Democratic candidate for the Presidency in 1956. Mrs Roosevelt was a warm and very engaged person, an authority on both US and global issues. She was very much involved in the decolonisation movement in the world. She really knew the world well.

Were you already interested in the European integration process at that time?

No, that was too early for me, although the Treaty of Rome was signed in that period. But I remember discussions in my parents' home, where I was still living at the time; leading political figures came there, and European issues were frequently discussed. However, the Danes felt a bit outside, having linked ourselves to the British in that early post-war period. We failed to seize the opportunity to join the Coal and Steel Community in the early 1950s, and, more seriously, the European Economic Community when that was negotiated in 1955-57.

Getting back to the economics, you mentioned Kaldor and Johnson, they were both macro-economists, but of different orientations, very Keynesian, very monetarist… Could you further specify the topics and tendencies? And could you tell us a bit more about Hoffmeyer as a professor? Because you will get him later as a central bank governor in the Delors Committee.

I was interested at that time particularly in macroeconomic theory, not so much in policy. Hoffmeyer was largely a Keynesian, as were most of my professors at the time. That was very much a dominant orientation in teaching and research. But the people they invited were of several persuasions, not one school and I became interested already in my final year at university in some of the less Keynesian theories, like the work of Milton Friedman. I applied for a Harkness Fellowship of the Commonwealth Fund (in London) when I was about to graduate from the University of Copenhagen to go to the United States. There I did study Keynesian-style Economics, with Professors James Duesenberry at Harvard and Franco Modigliani at MIT. But before that, I had also half a year in Paris, in part to learn some more French, in part to follow some special courses in the French Ministry of Finance, where I learnt advanced Microeconomics, mainly from Edmond Malinvaud and at the Ecole des Mines.

You went to the Ecole des Mines?

Yes, in 1960 I followed the lectures of Maurice Allais, later a Nobel Laureate, who was teaching there at the time - and very interested in money. You wouldn't have suspected that this took place in the Ecole des Mines, but as I look back it was a refined early version of rational expectations macro-economics… very stimulating. And so was Malinvaud.

Was Paris a cultural shock for you? What were the main differences between Paris and Copenhagen?

Paris left a very strong impression because this was in 1960 during the Algerian war. There were several shooting incidents near where I lived, in the Latin Quarter: dramatic events that President de Gaulle had to combat. I have a very vivid recollection of that as a very different atmosphere from the more sedate and quiet life in Copenhagen.

Was there a big difference in academic economics, between Paris and Copenhagen, and later Harvard?

I would say that, already at that time, Economics was a fairly international subject, taught in similar ways in Denmark, in France and in the United States. France has always had a rather technical approach to Economics, in parts of its system, not everywhere - rigorous and stronger than I had seen it in Denmark. Our own teaching was more similar to that at Harvard, though it may have been more advanced in the latter. And the student body was certainly more active and excellent. I had the unique opportunity of going to seminar classes with two who subsequently got the Nobel Prize. They were pretty sharp already then.

How did you get to Paris and Harvard?.

My year at Harvard was made possible through a Harkness Fellowship awarded by an Anglo-American foundation, the Commonwealth Fund. I was fortunate to know senior academics in the UK who were on the Selection Committee. Paris was a private initiative, so I was able to be selective, studying both the language and the special economic courses mentioned.

Then you went to Harvard. Did you have a choice? What were the reasons for specifically going to Harvard? And who were the professors who left a big impression on you?

Harvard was definitely my first choice. I was lucky to get in. I did not know the professors at Harvard at all, but I had certainly read several of them. James Duesenberry was a prominent monetary economist, later a member of the President's Council of Economic Advisers. But I followed also, and that left the strongest impression, the monetary economics seminar that Professor Franco Modigliani, also later a Nobel Laureate, gave at MIT. I even collaborated with him on a couple of occasions to prepare articles. So I became relatively close to him. The inspiration he gave was related to the unmatched enthusiasm he put into the study of Economics. I remember very vividly his evening seminars with Albert Ando, also a prominent empirical economist, lasting from about 7.30 to 10.30 pm.- a very intense experience.

What were you studying exactly? Were you into monetary economics?

This was the time when large-scale econometric models began to be developed, not least at MIT. Modigliani and Ando were very active in that. Subsequently, they transferred that work to the Federal Reserve System and to some other central banks. It was an effort to show that some of the attacks on Keynesian economics were unjustified and that monetarism was oversimplified. If you specified more carefully the linkages in the economy, the "transmission mechanism", then you could do much better than the primitive monetarist models. So, that was the main focus of my work then, and it became the inspiration subsequently, when I came back to Denmark and started a research project on monetary policy in Denmark. But I was also inspired by the monetarists, because some of their work seemed to fit into the framework of the Danish economy and the evolution of the banking system. So I had inspiration from them as well. I remember that Franco Modigliani was both a bit afraid of and disrespectful towards Milton Friedman. He always used to say ‘we have to get this absolutely watertight, otherwise Milton will tear it apart’. He didn’t like him personally. I met Friedman many years later; I thought he had some points that were very valuable and that have come back to Economics more recently. In particular, the idea that the time lags in economic reactions are long and variable and hence very hard to pin down in a model. It is not unjustified sometimes to go straight to an aggregate view of how the economy functions, rather than trying to build a very disaggregated model, as Ando and Modigliani were doing.

Did you also make a model for the Danish economy as you were working with Modigliani?

No, I did not. The model I developed in my doctoral thesis – we had a system of state doctoral thesis, where you do not write right a thesis right away (as a modern PhD), but after quite a long time, and then a lengthy monograph – was strictly on the financial sector. I studied monetary relations in Denmark over the 1950s and 60s as a model for a largely closed economy; links to other countries were not strong at that time because there were restrictions on capital flows. But I did try to construct a model of the Danish financial sector at the time and I had some benefits from some of the techniques I had learned elsewhere at Harvard and MIT. One of my other teachers there had been Wassily Leontief, the father of input/output analysis; he never appreciated why monetary economics could not become a more exact discipline with more stable parameters as in his input-output tables of inter-industrial linkages.

How was student life at Harvard? Did you really have to work much harder than in Copenhagen or Paris?

Not really, because I had specialized more in Economics than most of my classmates; the US system is one where you have a wider liberal education in the undergraduate level. I was enrolled in what became the Kennedy School of Government a few years later. Many of the students were much more senior than I – this on leave from government jobs or from the US Army. They were not that strong in Economics. So I did not have too great difficulties in following. I was able to choose mostly economic subjects, but I did attend Professor Henry Kissinger's seminar on international security, that year held jointly with Raymond Aron from France, a high-level debate on the threat of nuclear war.

Was Kissinger impressive as a professor?

Very impressive I thought. He argued extremely well and persuasively in his slow, very emphatic way. He had clearly studied military technology and military strategy in depth. So he was able to engage in lively debates with the military people at his seminar, and that was fascinating. I have enormous respect for Kissinger. I have had the privilege of meeting him much later in meetings of the Trilateral Commission. He remains very active at the age of 97.

What about the future Nobel Prize winners?

Well there were two that I remember in particular: Peter Diamond, expert on labour markets and economic growth, and Christopher Sims, econometrician and macroeconomist. So, they were there, they were very young, almost under age relative to the other students, but they were fully on board.

How long did you stay in Harvard? Were you in a specific program?

I did not do a doctorate at Harvard or MIT as I was there only for one year. I could have had another year but I was anxious to get home, I had married a couple of years earlier; my wife was a student at MIT, she had been awarded a grant to MIT, in Operations Research and Applied Mathematics and so on. But we both wanted – in retrospect prematurely - to come back and start a family and our respective careers. So I stayed only one year, but I kept in touch with both Harvard and with Modigliani subsequently.

When did you marry?

I had married shortly before I graduated from the University of Copenhagen. I was only just 24, so that was pretty early. But we had known each other already for four years, so it seemed to be the right time.

What was the background of your then wife? Could you tell us something more about the family?

My first wife and mother of my two older sons (born 1962 and 65) was also Danish and studied Applied Mathematics. But she went into general and applied Economics subsequently, first in academia, subsequently in government. And she defended her state doctorate in Economics - in fact, on the very same the day as I defended my thesis, which remains highly unusual; but that was much later (1971).

Could you say something more about that state doctorate? What did you do for it?

I had a somewhat mixed career after I came back from Harvard. I worked part-time at the university and part-time in the Ministry of Economic Affairs, also on international economic issues for the first three years. But then Erik Hoffmeyer persuaded me to come back full time to the university and do a thesis. But since I was both teaching and doing other things at that time, it took me quite a while, so I finished my thesis only in 1969. I went off to Malaysia before I had defended it. The state doctorate did not require following intensive research courses as for a PhD today, the sole requirement was writing a book-style monograph in some area and to have it assessed and defended. There were quite elaborate defence procedures. I think it has existed in other countries. In France, for example, it's more like the 'aggrégation'. We introduced a PhD programme only in the 1970's. Now, very few economists, I think two or three in the last decades, have written state doctoral theses. But it's not as it was at that time, a requirement, really for getting a chair. So it was not in that sense a second stage, it was a final stage, but a lengthy and somewhat isolated one.

What was the topic of your doctoral dissertation?

The title of it was 'Sources and Impact of Monetary Change in Denmark in the 1950s and the 1960s'. It was a mainly empirical study, looking at the demand for money, the credit multiplier, the use of cash, innovations in the financial sector, and so on. It was not really macroeconomic in the sense of Modigliani or Friedman. It was more of a narrow model of the financial sector itself, so more about the sources of money creation than about the impact.

Was Hoffmeyer the supervisor of it? Were there other important members in the committee?

Hoffmeyer had unfortunately left the University to become Governor of the central bank, at a young age, end of 1964. He became Governor when he was not yet 40, and he served for 30 years. But the central bank is a ten-minute walk from the University in Copenhagen, so I saw him regularly. He was on the committee that approved my thesis and I had many discussions with him throughout. My main supervisor became Professor Norregaard Rasmussen, a very good econometrician and macro-economist and Head of our institute. So I interacted a lot with both of them, in addition to presenting chapters and so at Nordic and international meetings; but I still look back on these years as an insufficiently collective effort.

At that time, did you intend to undertake an academic career? Why did you change?

I was not sure frankly, as you can see probably from my curriculum, because I had shifted already between the Ministry of Economic Affairs prior to 1964 and then back to academia. And in 1969 – on the day I had handed in my thesis in the morning - I left to work for 18 months in Malaysia as part of a team from Harvard University. Harvard had a well-structured Development Advisory Service. I wanted to try something else before I would become fully absorbed by academic life. The Malaysian assignment was very interesting; I applied Monetary Economics by advising on the financing of government debt and on international reserve management. I also taught Economics at the University of Malaya in Kuala Lumpur. One of my best students was the later Governor of the central bank of Malaysia, who has recently stepped down (Ms Zeta Aziz); she was also chairing the network of South East Asian central banks. Anyway, my year and a half in Malaysia was in a sense a continuation of a mixed advisory and research role.

Towards the end of my stay in Malaysia, I saw a fascinating job announcement from the OECD, with which I had become familiar during the 1960s when representing the Ministry of Economic Affairs and the central bank in OECD working groups. There was a new position as head of monetary studies, for which I seemed to be able to fit quite well. It involved directing a comparative study of the monetary transmission mechanism in the six largest OECD countries. I applied for it and I got it. I had much appreciated the OECD from the time when I was working for the Danish government or the central bank: there were excellent discussions, a high technical level and also good academics in the OECD staff. So that was also a happy experience professionally, but more difficult in terms of family life. I had my wife and two sons in Copenhagen at the time, so I chose to come back at the end of 1972.

Could you say something more about Malaysia? Why did you go to Malaysia as, until then, you were in Copenhagen, USA, … developed countries?

Part of the work in Malaysia was to train local people in the Ministry of Finance and in the central bank, so I had a seminar-academic role. I had studied some Development Economics, but above all, I wanted to try something that was different from looking only at Danish monetary statistics. I decided this was as good an opportunity as I would ever have for that and I must say that it was fulfilled by a good professional experience in Malaysia. We were a small group of five people sent by Harvard, supervised by an excellent team from the Harvard Economics Department - Professors Hollis Chenery, later at the World Bank, and Ed Mason; Sam Huntington, the prominent political scientist also came on a field trip, as he was particularly interested in the racial problems that were acute in Malaysia at the time. There were racial riots in 1969, when the Malays tried to cut back the dominant Chinese influence on the economy. One of the main tasks for the team was to look at how you could intervene in the economy to end the effective exclusion of Malays from certain parts of the economic system, without harming growth too much. The Harvard team disagreed internally about that, I remember. It is a difficult subject at all times.

What did you do exactly in the Danish Ministry of Economic Affairs earlier in the 1960s?

I was writing mainly on the outlook for the international economy. The Ministry had a couple of annual publications for which I wrote chapters; and I was assigned early on by my Head of Department to attend meetings in international institutions, notably in two working groups in the OECD in Paris, starting in 1962 - a most interesting experience. At that time, US policy-makers looked to Europe: 'you are having a successful experience; you have rapid growth, what have you done? How do you manage to keep inflation moderate?' The Kennedy administration sent some of their best economists from the Council of Economic Advisers, the Treasury and the Fed to meetings at the OECD and that was extremely interesting. But there were also very good other national officials. I was in one working group with Michel Rocard, later Prime Minister of France, writing about inflation, mostly a critical review of the contribution of agricultural policies to inflation. I think we put up a pretty good draft which was adopted by the group. I was proud when I came home, but in the Ministry they said 'it's a fine draft but don't tell it to anyone that you contributed – it is controversial for our farming community'. I imagine there were similar reservation in French political circles…I also served in another committee on the perennial topic of how to develop capital markets in Europe with excellent economists from the Fed and the IMF as well as from France, including Jean-Yves Habérer, later CEO of Crédit Lyonnais, and Director of the French Treasury in the early 1980s when Jacques Delors was the Minister. So I got to meet him again much later.

Why did you go to the Organisation for Economic Cooperation and Development (OECD) in Paris as Head of Monetary Division and Studies, 1971-73? What was your experience there?

The OECD had started in 1970, just before I arrived there, a project on the transmission of monetary policy in the six largest OECD economies, and short volumes were to be presented on each of them. The OECD had nominated a small expert group to follow it, with two members from each of the six countries. I made some lasting friendships there. There, I first met Tommaso Padao-Schioppa, as a young economist from the Banca d'Italia, and Antonio Fazio, later Governor. Most of the other people in the group were more senior central bankers; and we had a couple of external consultants that we relied on (William Branson, from Princeton; John Williamson for some of the external aspects of monetary policy…) – on the whole a very lively environment. And my two superiors, Stephen Marris and Christopher Dow, later an Executive Director at the Bank of England were truly excellent; we had good discussions and I had the opportunity to travel to some of the six countries, in particular Japan and Italy, in preparing the reports. My closest collaborator was a Japanese central bank economist, Kumiharu Shigehara, who later became Deputy Secretary General of the OECD and a high official of the Bank of Japan. We travelled to Tokyo in September 1971 and learned about the Japanese reactions to the "Nixon shock" in 1971, with the breakdown of the Bretton Woods System. So it was very lively and very interesting. But also, there was a time limit to it, and I came back to more routine committee work. That, combined with the fact that the family preferred to be in Copenhagen - my wife also had a career of her own, and my two boys were happy with their school there - made me return to base after a year and a half, so it was a short experience. I would have had difficulties getting my leave from University extended, anyway; I had become a full Professor in 1971, so I felt also some institutional obligation to come back.

You were at the OECD between 1971 and 1973, which is the time when Bretton Woods imploded. How did you live through that at the OECD? What was the atmosphere back then?

There were two successive phases in that. One was collaborative effort with the IMF staff, which would do the more technical work on the size of currency adjustments for the so-called Smithsonian Agreement of December 1971. When the Bretton Woods system broke down, there was an effort to save it by major realignment between the main currencies. I participated in a working group on that effort, making estimates of the required currency adjustments that were largely adopted by governments. That was one aspect of it. But, while I was still at the OECD, this apparently well-designed agreement was undermined by diverging domestic policies, in particular since President Nixon was running his 1972 campaign for re-election by conducting ever more expansionary policies. I saw the limits of Keynesianism as did most of the OECD economists at the time.

This was certainly a lively period, and I remember well the run up to it. My very first meeting in the OECD which I attended as a junior economist was a meeting of the so-called Working Group Number 3 (WP3), a powerful though informal forum for high-level officials. There was a big debate, in July 1971, the month before Nixon announced that he was going to leave gold, between Paul Volcker, then Undersecretary of the US Treasury, and Conrad (Coen) Oort, Treasurer-General in the Netherlands at the time. They challenged each other and Otmar Emminger of the Bundesbank, Chairman of WP3, with his own idiosyncratic views. Drafting notes for such an eminent group was a big challenge. I worked with Stephen Marris on notes that had to be given to Christopher Dow, the Chief delegate of the OECD staff in WP3; we delivered to him Saturday morning at his home. Dow would come back on Monday morning and we would sit like schoolboys waiting to see how he had corrected and compressed them into subtle and still clear questions. He had massacred our text, as Marris used to say – and yet improved it greatly. It was a stimulating atmosphere, more hands-on than I had experienced in Malaysia, in academia, or in the Danish government. I certainly learned a lot.

The OECD has the reputation of being very Keynesian, do you agree with that? You were becoming more and more a monetarist… how did that work?

I worked mostly with central bankers, and they were not so Keynesian. But Dow and Marris certainly were, preaching the effectiveness of fiscal, rather than monetary, policies. They were quite optimistic about the stabilising potential of fiscal policy, more than was strictly warranted; however, they did have open minds. The OECD had developed the analytical tools very well and had become leading advocates of fiscal activism. It still seems true today that the OECD may have a somewhat, more 'Keynesian' bent than the IMF and other international institutions, not least the BIS. My main impression is that the OECD continues to make good use of rather limited resources and to engage senior national officials in a way that provides useful policy input that other richer organizations could do more to promote.

When did you become a monetarist? What were the important moments?

I think an important moment was the super-boom that ended the long upswing up to 1972/73 and the obvious incapacity of the models to handle the situation. And also the simple persuasiveness of the central contributions of Friedman. I thought he had a sound perspective on the limits of stabilization policies; some of his Chicago followers, notably Robert Lucas, went further and concluded that macro-economic policies would not have any effect even in the short term - unless they came as surprises, as notably Lucas and Sargent argued in 1972-75. I thought that Friedman had found the right balance between simplicity in modelling and saying something relevant. I may be a bit naïve on that, but I had to read a lot of Friedman when the Swedish Nobel Committee asked me to review his work; they did ask me three years before he got the 1976 Nobel Prize. They have the habit of asking colleagues to submit evaluations of possible candidates; so I delivered my review in September 1973. During that period I was in touch with some of his younger Chicago colleagues; I believe that I got a perspective on the limits of the monetarist approach when supplemented by the rational expectations hypothesis and on why the more classical monetarism of Friedman was a useful contribution. I wrote a very positive evaluation of his work. Friedman was not quite satisfied with it when I met him in 1977; he had found two small mistakes in my interpretation of his work, no doubt correct, but it did not really seem to me to matter.

How important was the breakdown of Bretton Woods for you?

It was certainly a wake-up call because it implied not least that something had to be put in its place. Coming from a small country, the need for some order in the international system is easy to perceive; you can not create success with policies solely on your own without an external anchor which Bretton Woods had provided. If such an anchor could not longer be supplied globally, a European currency arrangement became desirable, even urgent, to Denmark as to other smaller European countries. One had not reflected enough how important it was. Shortly after Denmark had concluded negotiations for membership in the European Economic Community, we were admitted to the currency snake though we were only a candidate in 1972. By that time I had already some advisory role for Hoffmeyer in the central bank. For about a decade, I was advisor to the central bank in Denmark and spent about a day a week in the bank, often discussing with Hoffmeyer, and occasionally representing the bank in EEC or international meetings. In these roles I had to reflect on how we could best act in Europe to replace the external stability of Bretton Woods. I had largely missed the debate around the Werner Report of 1970, as I was in Malaysia at the time. But when I came back I did begin to study it carefully while still at the OECD. When Denmark, the UK and Ireland became members in January 1973, I began to cover EEC meetings and to visit other central banks. The European Commission invited me to join a study group on EMU, chaired by Robert Marjolin, which worked from the beginning of 1974 to mid-75. So I shifted the focus of my attention and writings to the challenges of European monetary integration. The topic certainly had a major impact on my focus, more than for most Danish economists; the topic still seemed remote at the time.

Did it also have an influence on your shift from a Keynesian to a monetarist position?

Yes, the link, the spillover in monetary policy across borders is much more important than those of other policies, though the latter now also seem more important than we thought at the time. So monetary and international macroeconomics are closely linked; international monetarism was strongly represented by Harry Johnson, still a very prolific researcher at the time, and Robert Mundell. I became very interested, and also joined an informal group of academics, set up by Karl Brunner and Allan Meltzer, two refined monetarists. Though based in the United States, they were close observers of European policies and had excellent followers here.

That was also the time of the annual summer seminars at Konstanz University, convened by Brunner and Meltzer. I attended a couple of times and got to know the two seniors, but also their circle: the UK monetarists, Michael Parkin and David Laidler, Pieter Korteweg from the Netherlands, Paul De Grauwe of Belgium, Manfred Neumann of Germany. Helmut Schlesinger, later President of the Bundesbank, always gave a keynote at the seminar, occasionally interrupted by rude remarks from Brunner, who found the Bundesbank version of monetarism overly primitive. Rudi Dornbusch was initially there, but he was later relegated as he had become too Keynesian.

Michele Fratianni? And Theo Peeters?

I do not think Theo Peeters was there, but I got to know Theo well, as he was a member of the Marjolin group. Paul De Grauwe joined when he returned from his Ph.D in 1975. And Michele Fratianni was certainly part of the seminar.

So you were really getting into the monetarist groups at that time…

Yes. I was ridiculed at home because at that time many economists were no longer Keynesian strictly speaking, but they had become more interventionist, more Marxist even - and certainly very antagonistic to monetarism. But most were nevertheless curious about monetarism; ‘to defeat the enemy, one must know him’ was the student slogan at the time. I was invited to lecture, even in the hot bed of Marxist thinking in Denmark, about Friedman and monetarism. That was a mixed experience, though those on the far left are usually kinder to people whom they know are adversaries than to those they think should be their friends, but who remain insufficiently radical. They had long given up on me, I think.

You started as a Keynesian, which is more for government intervention, and then you moved to monetarism. Was it a technical monetary move or was it also a move in Weltanschauung, that you believed more in the functioning of markets and less in government intervention?

It was a bit of both, but mainly, I would say, it was a monetary perspective for me, less than a Weltanschauung … I think you can combine the two in different ways. It was primarily the more technical work and analysis. Friedman did overstate the role of markets, though I have enjoyed his writings on those broader aspects as well. Nor did I become a Hayekian; that went too far in an anarchic direction, notably on the subject of private issues of money. But Hayek had deep insights into the role of markets and on methodology, as I came to appreciate; I was much inspired by listening to him on a couple if occasions in the early 1980s, and I had friends from his circle, notably Professor Roland Vaubel.

Going back to early 1960's, with the first application of Denmark as a member of the Common Market, were you already interested in European affairs? What's your opinion on that? Why did Denmark renounce after the French veto against the British membership?

I have a vivid recollection of that, I was serving as a Personal Assistant to the Minister of Economic Affairs in Denmark in the early 1960s when Denmark first applied for membership of the EEC. When President de Gaulle, in January 1963, vetoed a continuation of the negotiations, we had heard rumours from our Ambassador in Paris, but few believed he would do it; our officials tended to think it could well be true. We were in contact with the UK government; they also claimed it was impossible; the Head of the Foreign Office even told his counterpart in Copenhagen 'after all we won the war, they could not do anything like that'. 1963 was only 18 years after the war, so one might understand the attitude. But we soon learned that the French President regarded his veto as applying only to the UK, not to Denmark: 'You can continue negotiations, we're quite ready for that', he had reportedly said. But there was, unfortunately in my view, a majority in my country who thought that it was too risky to take up this offer.

Denmark was part of the European Free Trade Area (EFTA), launched by the UK as a counterweight to the EEC, and we had, maybe misguidedly, supported the British in this initiative. The British were very important to us at the time, they were still our major market, not only for agricultural goods, they were also very important in other areas. 18 years after the war, there was still a sense of closer political affiliation with the British than with other conceivable partners in Europe, so 'we had better wait'. But there were voices in the Danish industry, I remember also many discussions with my own father, that he said 'why should we wait for them? That’s is an out-dated point of view, manufacturing industry has now become more important, that’s the future...’ But we waited and reapplied – again with the UK, but also with Norway and Ireland - in 1969 and finally got in by 1973. We never had anything like the aversion of the British towards European integration in Denmark, with an almost ideological opposition to political cooperation. But we did have some of the same debate and once we finally applied to join, we focused on the economic advantages of doing it, rather than on the political aspects. Maybe they were not clear enough at the time. There was a sort of what in Denmark is called ‘the defensive trade unionist view’ of going into Europe; the expected economic advantages pushed us there, not the prospects of political integration.

What was the general opinion about the European Union in Denmark before it joined? Did it change after the accession?

The main reason why we applied was that the European Community was a clear economic success. Results were being achieved faster than had originally planned over the first decade after the signing of the Rome Treaty. That was the main motive I would say, but there were certainly others who were impressed with the speed of post-war reconciliation in Europe. But Denmark had, by 1973, accumulated a double handicap: we had not experienced the terrible direct effects of the war like the Benelux countries, to prompt the feeling that a repetition must be prevented at all costs. Secondly, we had not shared the promising period of very rapid economic growth in 1958-72. When we finally joined, it was a difficult time, in 1973-1974, with an energy crisis and high inflation. Most of the economic benefits and the growth scenarios that had been presented did not materialize. On the contrary, there was a need to dampen the impact of negative supply shocks and the shifts in income distribution that were taking place; and to overcome the recession - not a "normal" cyclical recession, but certainly a very difficult period from 1973 onwards. So joining became marked in the minds of the Danes – and no doubt of the British - by something that was not really successful. This is no doubt part of the explanation why we have been more reluctant, at least for a long time, than the other smaller countries that had lived through the early promising phase of the EEC, to join fully the integration process.

How did you experience the negotiations for Denmark’s accession and early participation?

I did not experience the negotiations directly; they were conducted by our Ministry of Foreign Affairs, when I was in the Ministry of Economic Affairs. By the time Denmark entered, I had joined the central bank and I was active in, not only following what went on in other central banks, notably the Bundesbank, from early 1973, but also taking part in a couple of the working groups among central banks on how to coordinate monetary policy. Notably, I travelled to Basel to meetings on monetary policy coordination in the so-called Bastiaanse Group, named after its Chair, a Dutch central bank official. That experience paved the road for my interest in what happened in monetary policy integration in Europe. I was able during these early years to gain more knowledge about how the system, notably the currency arrangements, really worked than was available to outside academics. That was a major inspiration and appreciated, I believe, by students when I was teaching international economics and finance and supervising theses.

How did you and Denmark experience May 1968?

It was, in retrospect, quite a strong societal change in my country as well, though not really violent at any time. It was initially more confined to the universities than in France and in some other countries. In the universities it was a revolution, because that was one area where experiments were taken the furthest (changes of governance, 'so-called' democratisation of the university and politicisation of some fields of study, not least the Social Sciences). But generally, in society, I think it certainly also had an impact in the sense that our social customs were seriously challenged and modified. Some of the sedate and more conservative nature of Danish society was broken up, as happened elsewhere. Nevertheless, 1968 did not leave quite as a strong mark as in a number of Continental countries. We never developed violent movement or outright terrorist movements, as happened in Germany and in Italy in the 1970s and 80s - armed groups combating the state or capitalism. We had very few individuals who went far out.

Did it affect Denmark's attitude towards Europe?

No, I think this was regarded as a global phenomenon. We saw violence in the United States in 1968 and generally during the Vietnam War, which was to some extent a common inspiration and in Asia and Japan, otherwise apparently cohesive societies. Political confrontation was not at the time associated with Europe or with European integration, not even in France.

Part 2 – Early involvement in European monetary matters

We discussed Denmark and its attitude after WWII towards European integration. Now, more specifically, what was the general attitude towards European monetary integration in Denmark? Who was in favour of it? Who was sceptical?

Denmark is a typical small country in the sense of having strong preferences for a stable external environment. We had been used, throughout about a century, to being pegged to one of the major currencies of the world, first to Sterling for a long time, then, after 1945, to the US dollar. Gradually, when it became clear in the 1960's that the dollar was becoming a less reliable anchor, there was sympathy for European efforts to create more cohesion in Europe. So, there was no criticism in the country when Denmark joined the so-called European currency snake in 1972, even before we had become full members of the European Community. And we have stayed with pegging - and there was never any deviation. So, that, I think was the general attitude, both of policymakers and of industry and agriculture, that a stable exchange rate system was very important. We were not all that good at it, I have to add, because during the oil shocks of the 1970's, we had to devalue a few times before we stabilized. Stabilization with firm pegging to the ECU first and then to the German mark happened only gradually from 1982-83, and fully from 1987. So the Danish krone has had a firm anchor for now at least 33 years.

Initially, Denmark had close trade links with the UK. Both Denmark and the UK joined the snake, but the UK left very quickly. So you get a difference in the anchor, from a relationship with the UK to a German anchor. How was this perceived initially?

Denmark had misgivings about the link to Sterling already before the 1960's. We were both linked to the dollar at that time. But, on the two occasions when the British devalued in a major way, in 1949 and 1967, we followed only part of the way. So, there was a perception that the UK was a diminishing force and Sterling was being phased out as a reserve currency. Pegging to it was not really a long-term option any more. Political links were also fading. After all, the snake was not just a German system. It was a multinational system, initially including even the the UK and the other Scandinavian countries, though Norway and Sweden were not members of the EEC. It did not seem so radical to shift to the Deutschmark.

When did you become personally involved in matters of European monetary integration?

Shortly after Denmark had joined as Common Market member on January 1 1973, I was an advisor to the Governor of the central bank, and I was asked to serve on the Marjolin Group at the end of 1973. That was my baptism into European affairs, meeting colleagues from the other eight – at that time – Member States, including of course British colleagues. That was a very strong and interesting group; from that time I really had to develop a stronger interest, which complemented the work, I did in the central bank, comprising the workings of the snake arrangement and our collaboration with the Bundesbank.

You worked as a policy advisor to the Governor of the central bank (1973-1983) and as chairman of the Danish Economic Council (1983-1985). Could you say something more about why you were asked for this? What were you doing?

Denmark is a fairly small country. So, at some point, professors of economics would be asked to serve on the Economic Council, I imagine, and I was asked to in due course; I had declined the offer in 1976 and could not refuse a second time. I did know the Governor of the Bank as my former university professor. He brought me into the Bank to advise him on policy matters; in addition my assignment was partly to keep up contact with other European central banks, partly to organise monthly research seminars in the Bank. These different roles fitted in as complementary to my university tasks as well. When I joined the Economic Council of Denmark in late 1983, European issues were becoming more important, also because we had begun to liberalize capital movements. That created stronger interdependence with other EU economies and some interesting policy issues, in which I may have had at the time a stronger background than most Danish economists.

How much of your time did you spend at university and at the Bank?

Formally I was at the Bank only a day or a day and a half per week. In fact, it was a little bit more than that because I had better working conditions (and a better canteen) in the central bank than at the university, as you might imagine.

Let's get back to the Marjolin Report. Any specific reasons why you were chosen? Could you also say something more about the work in the Marjolin Group?

I was probably asked by the Ministry of Economic Affairs because I had worked there a decade earlier. They knew me, and that I had a certain international experience, and the issues on the agenda were in my area of international macroeconomics, so that was not unnatural.

The Group met for a full day, sometimes a day and a half, every month between, early 1974 and April 1975, when we published our report. There were some excellent economists in the Group: Herbert Giersch from Germany, head of the Kiel-Institute at that time, who was on the very liberal side in Europe; Robert Marjolin himself with his enormous experience in the reconstruction of post-war Europe; Bernard Clappier, later Governor of the Banque de France, and a prominent Member of the Werner Group; two very senior UK economists, Sir Donald MacDougall (later Director General of the Confederation of British Industry and an eminent trade economist) and Sir Andrew Shonfield, partly a journalist, but also an excellent economist; Francesco Forte of Italy, one of Europe's leading public finance specialists; and Theo Peeters of Belgium. There were very lively debates. Not all members were keen on the mandate we had, which was to see if one could still implement the EMU envisaged in the Werner Report of 1970. The conditions were not exactly propitious in 1974, in the midst of the energy crisis: inflation was very high and national economic policies were diverging. We did not have great difficulties agreeing that EMU was no longer on any shorter-term agenda. There were some constructive proposals: Europe needed a system of mutual assistance, some balance-of-payments support mechanism, maybe best triggered through a European unemployment insurance scheme. We put that centrally into our report, leaving aside the future of EMU. Marjolin had become very cynical about EMU, though it had been his project as Commission Vice President in the early1960's. He was scathing about the way in which his successors in European policymaking had handled European affairs and said: 'they do not understand what would be required now to get there, so we should say EMU can no longer be on the agenda'. And he repeated that ten years later in his Memoires of 1986: 'my report did one good thing, namely to end the debate about EMU'. But here he misjudged; because he published his Memoires two years before EMU did come back strongly on the EU agenda – and this time with more success.

Could you say something more about Marjolin, his personality, his style in chairing the group?

Marjolin had enormous experience. He had been, at a younger age, in the frontline of most international (and French) postwar economic policymaking. He had retained a sense that everything ought to be possible – if the political will was there. He had been through the constructive period just after the war, in reforms in Europe and in administrating the Marshall Plan as the first Secretary General of the OEEC, nominated at age 36 in 1948. He was involved in the early steps of the French Planning Commission. So he had really seen how progress was made early and rapidly after the war. That was why he was bitterly disappointed that things had become so difficult 25 years later. Developments inside Europe were so divergent and that made him cynical about what now seemed possible. All was not lost, but he had a dismissive attitude to some of the proposals that came up and hence a difficult relationship with President Ortoli and Vice President Haferkamp of the Commission who had set up his group. They penalized us by putting the report on the shelf and not giving it any publicity. You have to struggle hard to find it in the archives today.

There were also two Belgian members in the Committee, Louis Camu and Theo Peeters if I'm right…

That is right. Louis Camu was a very senior banker in Belgium and a pioneer in thinking about early market-oriented steps towards a European currency. He was a wise man in our debates, even if he did not propose very specific elements. Theo Peeters was, of course, as a very good macroeconomist highly articulate in the debate. We were also, I should mention, two Danes, because that was how the Marjolin Group was set up. There was a Professor of Law of the University of Copenhagen (Isi Foighel), a good personal friend, who was very knowledgeable on international treaties and European legislation.

As far as I know, it was in the Marjolin Report that one had, for the first time, the idea of a European dimension to unemployment insurance. Could you tell something more about this?

That is true. In the absence of any possibility of creating a monetary union for quite some time, the interest was on temporary support mechanisms for countries in difficulties, partly external difficulties (large external deficits), partly high unemployment which had shot up in the mid-1970s, following the energy crisis. The reasoning drew on the literature of the so-called optimum currency areas from the 1960s, where well-functioning labour markets were seen as a crucial element in European integration. Flexible wages as well as some cross-border labour mobility were seen as important. Divergent levels of national unemployment were recognized in the economic literature, even before that, as impediments to European integration not only economically, but ultimately also politically. The Marjolin Report picked up the idea, but we did not take it very far because it seemed to be well beyond the realm of the possible at the time. It has now come back on the EU agenda for both the previous and the current Commission.

Do you remember who was putting this forward in the Marjolin Committee, this idea of a European unemployment insurance?

We had one eminent public finance specialist, Professor Francesco Forte of the University of Turin, who was certainly keen on that idea. I think there was also some sympathy for it from several other members. A senior economist of the German Trade Union Movement (Heinz Markmann) was the other German in the Group, and he certainly expressed support for the idea.The two UK economists, Sir Donald MacDougall and Sir Andrew Shonfield, were also advocates.

After the Marjolin report, you participated in the two OPTICA reports. Can you say something about the main issues and main members of these committees?

I mentioned already that the Commission was disappointed with the Marjolin Report. They wanted some follow-up, although they had to recognize that the theme of EMU remained off the agenda. They wanted specific proposals on how to dampen the violent exchange-rate instability that had developed in Europe since 1973, reaching a peak in 1976, with the UK and Italy exploding more or less in the pace of national inflation rates and of currency adjustments. So the idea of the two OPTICA-groups - they succeeded each other in 1975-76 and into 1977 - was to see whether one could at least contain somewhat the movements of exchange rates. Currency changes did not help to make adjustments inside Europe; they had instead become a major source of magnifying centrifugal disturbances in Europe. If one could devise rules for at least smoothing these currency movements, that would be a great help. That was the basic idea behind the OPTICA reports. The composition of these groups was more strictly academic; I was joined there by Giorgio Basevi of Italy, Pascal Salin of France, and Emil Claassen of Germany. The four of us collaborated well on the first report; through we did not agree all that much between us. The Commission took a firmer hold in managing the second OPTICA Group by putting Horst Schulmann, who was then advising the Commission in charge of us; in 1978 he moved to Bonn to become the main advisor of Chancellor Helmut Schmidt. Schulmann was for one year and a half senior advisor to Commissioner Haferkamp returning directly to the Chancellor's Office in Bonn for the last four years of Schmidt's reign. Michele Fratianni, who was also in the Commission at the time, assisted Schulmann. And that certainly gave more direction to it than we had in the first OPTICA group.

But the Commission also set up another group, chaired by Sir Donald MacDougall, including a few other members of the Marjolin Group (Theo Peeters and Francesco Forte). They produced an excellent report, which has also been largely neglected in the past 40 years; it reviewed fiscal policy design in Europe by applying the principles of fiscal federalism. It provided a number of carefully argued ideas for the EU budget, presented with support from 500 pages of research papers as a background. We would do well to look afresh at these ideas today, though the figures that they came up with for the size of a 'pre-federal' European budget were unfortunately enough to scare off the national policy-makers from further debate. Roy Jenkins – the sole UK President of the European Commission in history - had sympathy for some of the ideas of the MacDougall Group, but other policymakers at European level have shunned the themes until very recently.

So, to summarize, two elements came out, nevertheless, from the Marjolin Report: modest proposals to constrain divergence on the monetary and exchange rate side on the one hand, and more radical ideas for fiscal integration and the provision of European public goods through the common budget on the other hand. But the time was not ripe for either set of proposals when they came out in 1977.

The Commission was doing the secretariat role of the Marjolin report and of the OPTICA-reports. What was the role of that secretariat? Did it have a strong influence on the output of the groups?

We had technically highly competent people from the Commission. In the Marjolin group, Jean-Claude Morel provided the main input. In the MacDougall report, it was Michael Emerson, soon to become economic advisor to Roy Jenkins and later a Director at DG ECFIN. In OPTICA the main help came from Frederic Boyer de la Giroday and Paul Van den Bempt, but mainly Boyer de la Giroday, who was the Director in charge of monetary and exchange-rate issues. I already mentioned the major role of Horst Schulmann and Michele Fratianni in the second

OPTICA group. So the Commission staff certainly produced useful background work and notes. Expert groups are interesting; they hopefully bring up some interesting ideas, but when it comes to writing up a report, they need a good secretariat to produce most of the actual work. I am re-learning this lesson again now at the European Fiscal Board.

The OPTICA-groups, were they more monetarist than the Marjolin Committee?

Yes, on the OPTICA groups we had two prominent monetarists, Pascal Salin who was more a true Hayekian, and Emil Claassen, who was an international monetarist in the tradition of Harry Johnson and of the Brunner – Meltzer School. There was certainly more expertise to focus on international monetary issues than was the case in the Marjolin Group, but the perspective was less applied and down-to-earth, and clearly more academic than that of the Marjolin Group.

At the same time, there was also the All-Saint's day Manifesto in 1975. What were the main issues in that Manifesto? Who were the influential personalities in that group?

The four of us in the first OPTICA Group became very doubtful whether modest steps to restrain exchange rates would really take us anywhere in the diverging environment if 1975. Reinforced by our acquaintance with more strongly monetarist or even rational expectations-oriented economists (Herbert Giersch from Germany, and the two main monetarists from the UK, Michael Parkin and David Laidler and some others) we found it useful to put out a benchmark for radical action in terms of promoting debate on what it would take to reach EMU. We converged on the idea of defining a new anti-inflationary monetary standard, designed to provide stability in terms of average prices in the monetary area. Technically, the Manifesto may have been quite a good proposal, but it was politically beyond the realities of this world; governments are not prepared to take a far-reaching decision when they cannot anticipate what will happen afterwards. We had a lot of understandable criticism along such lines, but the proposal was nevertheless an inspiration, because it provided a somewhat more ambitious vision to all this discussion. In that sense, it helped to generate more debate in Europe and make possible progress that came in the course of the 1980's with the European Monetary System (EMS), trying to reconcile the external and internal dimensions of stability.

How did the Commission react to the Manifesto?

They were clearly annoyed that several members of one of their own working groups had joined such an enterprise. They thought it was much too far-reaching and they didn't participate in the deliberations. They took place at the University of Leuven where Paul De Grauwe, and Theo Peeters were our hosts for a weekend-long conference to edit the Manifesto, published by The Economist on 1 November 1975 – All-Saints Day. And two years later we took stock of the subsequent debate, also at a conference in Leuven.

Was the idea of the Manifesto to reach a larger audience for those monetary issues?

I think it was an effort to reach some of the intellectually strong economists who were interested in these issues both in the US and in Europe, but also to reach the followers of the more radical views of Hayek. Basically, the idea of introducing a new monetary standard in Europe goes back to Hayek when he proposed that as part of sanitizing a national monetary system, you should have more free competition within countries in the issue of money. The Manifesto applied the idea to competition between states, in issuing the best quality of money. That appealed to a different audience beyond readers of more pedestrian reports on how you manage exchange rates, and how you may adjust policy very gradually that the OPTICA Group produced. It was a radical idea that, if it worked through strongly influencing expectations, it could be seen as having a very significant effect. However, that was precisely the core of the problems of implementing it because national governments would see that this could have incalculable effects on their own monetary systems and shrink their monetary jurisdictions, making it unlikely that governments would support the idea. Interestingly, it did come up at a more practical level 16 years later; the UK government's so-called 'Hard-ECU' proposal of 1991 can be seen as a modest descendant of the more radical idea of the Manifesto. But the offspring was so cautious that it would not have caught on. You have to produce a radical design of a parallel currency to have a major effect. If you do something that is less radical, it might be implemented, but it will have very limited effects - which may also have been one purpose of the British proposal.

An important person was also Robert Triffin. How did you get to know him? What do you consider as his main merits and his weaknesses?

Robert Triffin had over a long period a major impact on the debate in Europe, starting in the 1950s and 1960s. Triffin had close links to policymakers in Europe, not least to Marjolin. But when he came back to his native Belgium in the mid-1970s, he engaged again very strongly in the debates in Europe, both in the Commission – he was an advisor to several of the senior people in the Commission – and in the academic world. He was very keen on building up a European pillar in the international monetary system, always retaining the perspective that Europe was part of an international system that was no longer functioning, Europe should contribute, sometimes directly in the global fora, sometimes by way of example; more indirectly by showing forms of monetary policy coordination possible within Europe, that would also be of interest to the rest of the world. I believe Triffin was not discouraged that we were not about to achieve an international and European currency and monetary union right away. His main interest was in the policy coordination that was a key part of the process, and a prerequisite for success.

When the EMS reached the agenda in 1978-79, Triffin was very helpful in organizing research and reflections on how one could refine this system. He obtained substantial funding in Europe and from the USA for a series of conferences between early 1979, just as the EMS was starting, and 1981. These meetings dealt with various aspects of the EMS: the internal workings of the system, central rate adjustments, the international role of the EMS, practical banking matters such as the role of the ECU in promoting European integration. After two or three years of reviewing the experience with the EMS, Triffin was becoming enthusiastic to the point that he was regarded by some European policymakers as a bit naïve. He was so keen in promoting European integration that some of his US friends also thought he was becoming too critical of US policies and performance. While Triffin remained very active until the end of the 1980's, I sense that, for him, it was really the aspect of better policy coordination that was essential, more than the finer points of how you finally organize a single currency, which he regrettably did not live to see. He remained very close to Padoa-Schioppa when he was in the Commission and subsequently in the Banca d'Italia; they strongly shared the fundamental insight that, to be a useful international monetary standard, a national currency can not qualify.

A personal story may illustrate Triffin's attitude to the EMS. In 1979 the long-serving Economic Counsellor of the IMF, Jacques Polak, was reaching retirement age. In view of my involvement in the preparations for the EMS, Robert became keen on the idea that I should apply to succeed Polak, an idea that certainly appealed to me. I was duly interviewed by Jacques de Larosière, then Managing Director, and Polak in the summer. I learned that the other main candidate for the position was John Williamson, who had by then become a good friend – and also a member of Robert's network. But a third and stronger name appeared with William (Bill)

Hood, just stepping down as Deputy Finance Minister of Canada, and a econometrician of high reputation. So Polak ended a long period of a European Economic Counsellor at the IMF, only resumed with Olivier Blanchard 28 years later.

Triffin had close links to Belgian banking. One of the most successful meetings we organized in that period was a conference in Luxemburg in 1980 where Kredietbank had pioneered the use of the European Currency Unit (ECU). He followed the development of the ECU market particularly closely, stressing a market approach to currency integration. He also liked the element in the All Saints Day Manifesto that the market had to play a role in choosing among currencies and in developing a unit that was suitable for international transactions.

Triffin was one of the founders of the Centre for European Policy Studies, which you were also involved in. Could you tell us somewhat more about the creation of the centre?

The Centre for European Policy Studies (CEPS) started in 1981, in fact, in Robert Triffin's institute in Louvain-la-Neuve (LLN) initially for the first year. But it was not very practical, since there were many seminars and other events that had to be organized and attended by officials and academics based in Brussels. So CEPS moved, with financial support from Kredietbank and others, into a nice building in Rue Ducale in Brussels from 1982. The Belgians were very instrumental in bringing CEPS to Brussels. It was the first, trans-European policy oriented institute at the time, well before the several well-endowed think tanks we now have. So, it was not too difficult to get some funding, also from the USA, for a European initiative, now that Europe seemed, finally, to get its act more together. The EMS was one obvious theme and as soon as the Single Market idea began to develop, European industrialists also became interested, making funding available for trade-oriented issues. There was a strong CEPS Executive Board initially: Robert Triffin, Etienne Davignon, Tommaso Padoa-Schioppa, then director general of DG ECFIN in the Commission and Jacques van Ypersele, then a leading monetary official in Europe. Michel Didisheim. of the King Baudouin Foundation was also a major supporter. Michel Woitrin from LLN and I were also involved. We had a very energetic director in Peter Ludlow, an English historian who had toiled with the idea of a European policy centre for a few years. He had tried to start it from the European University Institute near Florence, but that was too far away to do something that was both policy- and research-oriented. So he moved to Brussels and started it up - and it is still working now after 39 years under the leadership of Karel Lannoo and Daniel Gros.

You worked a lot with Daniel Gros. Could you tell something more about it?

Yes, we recruited a few young academics early on; the most successful one was Daniel Gros, now Director of Research at CEPS. He came from the International Monetary Fund. He was a German, educated in the USA, PhD from the University of Chicago. At the time we advertised the position at CEPS, there were quite a few European economists in the US who had been trained there but anxious to come back to Europe, as things were finally beginning to move. Daniel fortunately chose to come back and engaged first with CEPS, but also for a while with the Commission. He became part of the Commission team that did the background economic analysis for the Maastricht Treaty, notably producing the Commission's big report on One Market, One Money in 1990.

Could you tell a bit more about the work you did at CEPS on European monetary integration?

I personally owe a lot of debt to CEPS because they had funded a couple of initiatives, first in the early 1980s, for me mainly from 1985. We set up a working group, partly of academics, partly of officials, to see how we could move the EMS forward. And we applied for funds from the central banks, in particular from the Bundesbank. The first time I really thought that monetary union was becoming feasible was when Peter Ludlow and I went to visit Karl-Otto Pöhl, then President of the Bundesbank. I found him surprisingly sympathetic to the idea. He recognized that as other countries in Europe began to perform better than they had done in the past, particularly with respect to inflation, it was not justified that Germany should alone claim the monetary leadership in Europe. Pöhl was also getting tired of that role because it had exposed Germany frequently to US criticism in the 1980's (and again very recently). Pöhl felt it could become a role for Europe as a whole to defend European interests in the IMF, the G7 and in other international fora. He gave CEPS a major grant and supplied one of his most senior Bundesbank Council members for our working group, which proved very useful. Shortly after I was able to recruit Daniel Gros to CEPS, and he and I became 'rapporteurs' for the group.

Who was the Bundesbank member?

Professor Norbert Kloten, President of the Landeszentralbank in Baden-Wurkemberg and one of Pöhl's, more conservative colleagues. So Pöhl said: "If you can convince him, you'll come a long way". We did, I believe, bring Professor Kloten partly on board by at least integrating his critical arguments in the CEPS Report. In February 1988, the group produced a report of 60-70 pages on the future of the EMS. It was not so radical as proposing a full-scale monetary union, but it had a number of reflections in that direction and on how one could, by a system of delegation to individual central banks, collaborate closely and develop a much tighter EMS.

February 1988 was appropriate timing - just when the debate on the possible steps towards EMU came up initially from France and Italy and surprisingly, also from Germany, or at least from the German Foreign Minister, Hans-Dietrich Genscher. This early advantage was probably why I was nominated to join the Delors Committee, while Daniel later worked for the Commission on the subject. Jacques Delors personally took the initiative to appoint him.

If we go back in time, as you were in the OPTICA reports and All Saints day Manifesto, in the mid 1970's, there was a lot of scepticism about a renewal of European monetary integration. And then you have the speech by Jenkins in Florence. Were you surprised by that speech?

No, I wasn't really surprised because I knew well Michael Emerson, Economic Adviser to Jenkins, who drafted the speech; there was some forewarning that Jenkins was sympathetic to both monetary and fiscal integration. The Florence speech focused mainly on following up the MacDougall Report, but Jenkins was side-lined subsequently by the initiative of Schmidt and Giscard when they came up with a detailed proposal for the EMS in April 1978. Jenkins supported it, but the EMS outline was only specific on the monetary side and that, in a sense, set the agenda for the rest of Jenkins' Presidency. So, no, I was not particularly surprised, I knew Jenkins had sympathies of that kind. There were few with that attitude in the UK then and hardly anyone today.

When the European Monetary System was created, what did you expect?

Like Robert Triffin, I was hopeful that we would now have a more constraining system in the sense that the decisions about exchange rates would become more European decisions, not just national decisions as they had been in the snake: countries just announced that they were devaluing and adjusting. That was a potentially major change and I thought the whole way in which monetary cooperation was being reinforced sounded promising. I was one of the most supportive economists in the academic world, but I was not alone. There were also many central bankers that welcomed a tighter structure with the EMS relative to what they had before it. Schmidt and Giscard also proposed a European Monetary Fund, again an idea that has come back recently, as a second stage of the EMS in the shape of regional IMF-like safety net. It never materialized because the more institutional aspects had not been thought through and they remain difficult to tackle, even four decades later. Lending to a sovereign is basically a political task for other governments, not 'just' an extension of central bank credit over longer horizons.

What did the governor of the Danish central bank, Hoffmeyer, think of the European Monetary System?

He recognized that it was a sensible system, but he was close to the German view that the EMS was basically an enlarged snake with Germany as the anchor and with cooperation now extended to France and Italy. He was not enthusiastic about it, but he welcomed the more constraining influence of the new system and backed it up in 1982 when that aspect became very clear. The ability of Denmark to adjust its own currency was demonstrably constrained by the way the EMS was beginning to function. Hoffmeyer would have liked the EMS to continue, not to go any further towards EMU.

Giscard and Schmidt created the Committee for the Monetary Union (CMU) in Europe and you were also a member of it.

Yes. I knew some close advisors of Schmidt and Giscard, after they retired from their respective elevated political positions, Paul Mentré in France, in particular. When Schmidt and Giscard wanted to build up a group of senior policymakers, not currently in government, but with still considerable influence, I was approached, not to serve myself, but to facilitate links to one or two Danish policymakers as candidates. I set up interviews between the representatives of Schmidt and Giscard and two senior Danish policymakers. But these Danish policymakers thought the initiative was too adventurous, so they did not want to engage themselves in it. So, in the end, the two chairmen said 'why don't you join us'?, so I obliged – obviously with pleasure. That was not good for the influence in Denmark of the Committee, but for myself the CMU was a fascinating group with powerful members : Wilfried Guth, Chairman of Deutsche Bank, Rinaldo Ossola, former Deputy Governor of the Bank of Italy, Renaud de la Genière, former Governor of Banque de France; Tommaso Padoa-Schioppa, Onno Ruding; former Finance Minister of the Netherlands and Vice-Chairman of Citigroup; from Ireland Peter

Sutherland, former Commissioner, and from Belgium Etienne Davignon, and, Xenophon Zolotas, former governor of the Central Bank of Greece. The network was influential - and on a couple of occasions members did play a role by nudging attitudes in governments that really mattered in Europe. It had links also to a group of industrialists that were in the so-called Association for Monetary Union in Europe, led by, Giovanni Agnelli from Italy, who funded part of the activities of the CMU. We made a couple of publications and had very good meetings on some occasions, pushing ideas forward.

The most memorable example was a meeting in 1991, shortly before the end of the Maastricht negotiations. We had seen in the Draft Treaty that there would not be any definite deadline for starting monetary union; the start could be deferred every two years, if a majority of countries was not ready to join. Schmidt and Giscard then asked members to interfere in France, Germany, Italy and the Netherlands to accept the idea that there had to be a deadline for starting monetary union, regardless of how many countries were ready; otherwise positive expectational pressures to join the final stage of EMU would not arise. And that came through as a major Italian-French initiative at Maastricht itself, accepted by Chancellor Kohl. Without that, we might still not have had EMU. The specific proposal to restore an end date was formulated by Padoa-Schioppa.

How much was it an intellectual group? Was producing papers important or was it more about influence?

I suppose it was more about influence, but there were two reports in 1987-88. There were also sometimes critical discussions with high officials in key roles. I remember we had a session in Frankfurt where Helmut Schmidt took Karl-Otto Pöhl to task for being too negative about monetary cooperation, and said he was assuming too much of a negative role in the German debate. The CMU survived until 1995-96, it had at a minimum an annual meeting, during the decade it existed. Once EMU was firmly on the rails, CMU was dissolved.

Did you have other important moments in the Committee?

One of the strong impressions was joint meetings with the business people from the Association for Monetary Union in Europe, which gave me some confidence that monetary union and tight monetary integration was not just an academic idea but it was in fact something that could have a strong positive impact on the business climate in Europe. I must say advocacy of monetary union in Europe was stronger among the business people at that time than among the academics where, support for monetary union was a minority position. That was very encouraging and I also recall that some of the leading business people from the UK were on that line, so it was not confined to Continental industrialists. Mr Decker of Philips, besides Giovani Agnelli, was important in the group. The move towards EMU was seen by the industrialists as the super-structure and logical complement to the Single Market, which was the prime interest of the business leaders. One thing I have retained from these meetings was the strong link from the single market to the single currency, as perceived by the business representatives, less so by politicians and by academics.

Back to the position of Germany towards monetary union, according to you, was the main reason to support the idea their relation with the USA or do you think there were other motivations?

I would not claim it was the main reason, but it was a reason that had some weight with Karl-Otto Pöhl and also with other senior German policymakers. They were getting a bit tired of being admonished by the USA. But the main reason for Germany (as for the industrialists) to be in favour of EMU was the link to the Single Market - the idea that, if there was no movement towards further monetary integration, there would still be disruptive exchange-rate changes in Europe. The German trade unions were basically of that same view. The critical Germans were in the financial sector, not least the smaller banks and some members of the leadership of the Bundesbank who feared the possible inflationary impact of tighter monetary integration, which could make Germany lose the ability to control its price level. That fear turned out to be exaggerated, but it was a real concern at the time. And that was a main obstacle when Chancellor Kohl, through much of the period up to 1999, had a hard time avoiding a German rebellion against EMU.

How were Schmidt and Giscard in that Committee? How important was their role? How were their personalities?

They were, as you would expect, rather overwhelming personalities. They spoke much of the time, while they did not listen all that much to what the rest of the members said. They would normally arrive half an hour after meetings had started; all proceedings would then be interrupted, and they would make their own statements. By contrast, at the personal level they were very friendly and open. It was impressive to see two people who had great clout politically, but also the technical knowledge to make detailed suggestions on monetary policy and other technical matters. They had a unique grasp of policymaking, less evident in most other policymakers that I have seen. It was also encouraging to see how well they understood each other's problem. They were completely open to each other ('I have this problem, and you can help me if you say this or that and have an influence on the debate in France or Germany'). This was long after they had served as Heads of State and Government, but they liked to recall their joint initiatives of 1974-81, in particular the EMS, and they were highly critical of their successors for not having established the same kind of close working relationships. The relations between Kohl and Mitterrand were strong in other respects, but they did not have that intimate and detailed nature, playing ball with each other and helping each other out of difficult political situations.

Schmidt and Giscard were both highly impressive in their own way. When I was on the Delors Committee, I was a Visiting Professor at Sciences Po in Paris part of the time. I had a couple of meetings with Giscard d'Estaing in his home with long discussions about EMU. He had understood issues perfectly, as I recall, and his critical questions were exactly to the point. Though not a central banker, I could not help thinking that he would have made an excellent first President of the ECB.

Are there things you'd like to add?

One interesting thing I thought of myself was that, at the time when Schmidt and Giscard took the initiative with the EMS, it was not realistic to talk about EMU. That was too far away, countries and traditions were too different, but the process was at least beginning. So they started looking for intermediate joint initiatives, not least, Europeanizing assistance between the participants, not relying, as had been the case in the 1970's, on the IMF when a European country gets into external difficulties and loses access to financial markets. That was the core of their idea of a European Monetary Fund (EMF): to make the IMF superfluous in Europe. The IMF had, after all, taken strong actions in Italy and in the UK in 1976. Unfortunately, they had not developed that idea enough; the EMF got stalled in the Committee of Central Bank Governors, because Schmidt and Giscard thought they could extend the credit lines that existed in the EMS into the medium term and even into the longer term. However central banks, especially the Bundesbank, were strongly opposed to getting into anything beyond the very short-term mutual liquidity assistance that existed in the EMS. On the other hand, there was simply not any readiness in the ECOFIN Council to take up the challenge of defining how an EMF could be built in Europe as a political institution. It's very interesting to see how these issues came back after the financial crisis and how the intergovernmental European Stability Mechanism (ESM) has developed into a medium-term lender to governments – with conditionality. We have learned something from the way the discussions proceeded and stalled in the early 1980's on that point.

Schmidt and Giscard were in a different time period. It was not realistic to start the EMU discussions with fiscal integration, or with a balance-of-payments support mechanism, rather than with monetary integration. And there the initial steps had to be rather timid. But when the opportunity to move towards EMU arose in the mid-1980s, they adjusted and became promoters of monetary union. They could see that there was momentum behind that. But that was not their prime aim when they started the EMS or even with its evolution into an EMF. But if Schmidt and Giscard had still been in charge of the two main countries five years beyond the end of their roles at the Summit, I believe we would have seen a different emphasis in the main elements of EMU – more on fiscal, less on monetary integration.

Part 3 – The Delors Report and the Making of European Monetary Union

Before discussing the Delors Committee, could you tell us how you got to know Jacques Delors?

I met Jacques Delors first as an academic economist. He was temporarily Professor at Paris Dauphine in the 1970s and developed his approach to labour market and employment policy at that time; I had the good fortune of meeting him in a couple of conferences. So, I knew him a bit when he became Finance Minister of France, and I had a discussion with him when he visited my country in 1981 to review EU economic policies. But I did not really have direct contact after he became President of the Commission prior to 1988, when I was nominated to be a member of 'his' Committee to prepare EMU.

How do you assess the influence of Jacques Delors in the EMU process?

Jacques Delors played a major role in this period and in this process, particularly by reviving at the appropriate time (1985-6) the idea of EMU which had been dormant for many years. Delors seized the opportunity and saw the link between the single market and the single money. It was a link that was appreciated by the business community, by a number of politicians in Europe, even by trade unions, who were getting worried about too many exchange-rate changes. Although there was some support for him, he did not succeed in putting EMU into the so-called Single Act of 1986, but it was mentioned. But soon thereafter he started to prepare the essential alignment of German and French views, crucial to bring the project forward. And he fostered the idea to set up the Delors Committee consisting mainly of central bankers, and that proved helpful. He did so skilfully, based on his uniquely close relation with the German Chancellor, but also with the French President – he was a member of the Mitterrand Government 1981-4. So, Jacques Delors did play an important role. He kept the pressure up and used the propitious circumstances to advance the project. By propitious I mean that there was from around 1990 a unique confluence of interests among many countries in Europe. Germany was already not as strong and dominant at Maastricht as had been feared by others, because unification was becoming a major economic burden for the Germans; they needed the kind of currency stability that the preparation to EMU would give in a difficult period, and they had problems similar to those of many EU countries in containing public expenditure. So Delors seized quite well the opportunity. Other initiatives of his were less successful, and he did not build the framework for coordinating fiscal and structural policies that he hoped. But, on the whole, he had an essential influence over most of the decade he was in office until the end of 1994.

What was the importance of the Delors Committee in the EMU process?

The Delors Committee was, from a technical point of view, an elegant move, in the sense that it brought the central bank governors into designing the project. It did not ask them to express their views on whether EMU was a good or bad idea, because they should just assume that governments wanted to build EMU. But how should it be designed? This was a task on which the central bank governors were more prepared to speak up; they had ideas, clear ideas, which were not controversial. Part of Delors' strength was that he had seen, in contrast to how the EMS was negotiated a decade earlier, that it was important to have the central bankers on board to lend credibility to the project. He succeeded, as all twelve central bank governors did sign; whatever reservations they may have had, they all found it impossible not to sign up at the end.

In the Delors Committee, who were the main protagonists, the heavyweights?

Jacques Delors was obviously a heavyweight since he was guiding the proceedings, but he was a discrete chairman, he did not try to impose himself. Delors had great respect for the central bankers, as he had been himself in the central banking world early in his career, and he was a good listener; most people did not expect that from him. He was invariably polite and correct towards the central bank governors, who were not always as correct with him. That applies in particular to President Pöhl of the Bundesbank, who was obviously another major figure in the committee although he did not say as much as the outside world might believe, because he relied on his own colleagues in Frankfurt and his allies among the governors. The Bundesbank produced a major paper just before the Delors Committee started, restating its basic views and Pohl felt that liberated him in a way from saying too much, while it also assured him legitimacy vis-à-vis his domestic colleagues who had worked on this paper. So he could relax a little bit and leave the follow-up to some of his allies: like-minded governors in their approach to EMU, notably Wim Duisenberg of the Netherlands, Pierre Jaans of Luxembourg, and Erik Hoffmeyer of Denmark. They were his allies, meeting for breakfast before meetings to distribute interventions between them. So this was one flank in the group, led by Pöhl in a rather subdued manner himself, while his three colleagues were more outspoken. The most outspoken were Hoffmeyer and Jaans. On the other side, the two main protagonists were Jacques de Larosière of the Banque de France, and Carlo Ciampi, Governor of the Banca d'Italia, later President of Italy. Ciampi spoke a great deal as the most enthusiastic supporter of EMU, using rather flowery language to describe the project, to the annoyance of some of the more critical Northern members, Ciampi was eloquent, but he also devoted attention to more technical issues; his staff had briefed him very well on how to manage the intermediate stages of monetary integration.

Jacques de Larosière was clear and strong and had the view also that more attention should be devoted to the intermediate period: to stage two in particular and even to stage one in which he argued that there should be coordinated interventions in dollars and other third currencies by the European national central banks. This idea did not appeal to many of the other governors, particularly not to Pöhl. It was not voted down, but left as a minority position mentioned in the report by Jacques de Larosière. He was nevertheless very influential in shaping the discussions, and in pushing harder than Delors.

Somewhere between Pöhl and de Larosière was Alexandre Lamfalussy who was not only the host of our meetings at the BIS but also a wise man, at the same time, more independent as a policymaker than his central bank colleagues but also a mediating figure between them and highly respected as such. He provided substantial input, not least on the fiscal side, because his collaborator Claudio Borio, still a prominent BIS official, had done excellent work on how national federations operate on the basis of fiscal rules and, in a secondary role, of market discipline. These two subjects were Lamfalussy's particular contributions to the debate and he carried a considerable authority, drafting most of the paragraphs that relate to these subjects.

I would say those were the main figures, while many other members did not speak too much. All were encouraged to write individual papers on particular topics. The two secretaries of the committee must not be forgotten because they were very important (Tommaso Padoa-Schioppa and Gunter Baer) also wrote annexes, notably comparing the project we were then developing with the Werner Plan for EMU 20 years earlier, pointing out the differences and similarities. More important, since the two Secretaries did not from the start agree amongst themselves, they had argued out some difficult topics before submitting drafts of the main report to the Committee. They were highly influential without being formal members.

Personally, I was on the side of de Larosière and Ciampi (and Delors), collaborating with the assistants of both of these two governors in preparing a couple of background papers. At one point, an initiative I took was struck down firmly by Pöhl. The story is related to the intermediate stage, to the idea of Jacques de Larosière in particular of having central bank cooperation developed already in the intermediate stage. Ciampi and de Larosière supported that and put me in contact with their respective foreign exchange chiefs in their respective banks. We convened a meeting, in the Berlaymont building in Brussels: that was a mistake. We had also invited Mr Pöhl's personal representative Wolfgang Rieke who would have liked to come. But in the end he was asked by his boss not to go. I was told not to have a meeting, and certainly not in the Berlaymont building, as that would suggest a dominance by the Commission, hence by the chairman of the Committee. So that idea was shelved, though it survived in a couple of the Annexes of the Delors Report, but that was not very important. In that respect, I certainly failed.

You said there were two groups in the committee. What were the main points of disagreement? You've been talking about the intermediate phase. Were there also differences on the final phase? Or was it only about the intermediate phase?

The main disagreement was on the intermediate stages. Most members of the Delors Committee no doubt imagined the intermediate stages, particularly stage one, would last much longer than it actually turned out. Only seven years after the Maastricht Treaty was signed, the euro was introduced as a financial currency - and in no less than 11 countries. If you had asked the members of the Delors Committee, they would have thought it would take at least 15-20 years, and that there would be fewer participants. In such a longer perspective, the intermediate stages became very important; Lamfalussy said at one point: 'if we don't define these stages more clearly, we shall never get to the final stage'. The temptation was, for both these groups, to concentrate on the final stage and define what the central bank would look like in the final stage, and also to discuss in some detail what the non-monetary underpinnings of a monetary union should be. But that was looking far into the future. There was too little attention, several of us felt, to the intermediate stages, and there the opinions clashed because de Larosière, supported by Lamfalussy, said 'we must have some operational joint experience in a long intermediate period, otherwise we cannot just on day one of EMU start a new central bank'. So, he and Lamfalussy pushed for this idea of "learning-by-doing" during stages one and two, but that was met with strong resistance because the Bundesbank was marking its firm support for the principle of monetary policy indivisibility: authority should not be shared until there was a single central bank. Then there would be a straight transition from a decentralized national central banking system to a fully Europeanised system.

On the design of the final stage there was less disagreement. With some reluctance, de Larosière and Ciampi (and myself) accepted an almost ideological tone in the way in which the mandate for the ECB was described - a very ‘purist’ one, I have called it in subsequent contributions. That term implies that the future ECB was being designed as ‘just’ a monetary rule, an expression some American critics (like David Folkerts-Landau and Peter Garber) initiated; they asked ‘is this ECB really only going to be a monetary rule or is it going to be a genuine central bank with all the functions that we know, that we have in the US?’ They were thinking, in particular, of a lender-of-last-resort function, but also of a stabilizing role for the central bank in government bond markets.

There was considerable agreement on the need for central bank independence; no surprise that all governors supported that. At the time, in 1989, they were not independent: the Banque de France was not independent; Banca d’Italia, one may discuss… they had begun to liberate themselves already in 1981 from pressures to buy government bonds at issue. If you had asked most of the governors, they would say ‘we’re not formally independent, but we have found a way of living with that, we are more independent than we may look’. If you were to begin to touch this nationally, it could not be done; however, if done as part of a European process, that might prove more appealing and feasible. So the governors all supported that, I believe.

As regards price stability, the slogan at the end of the 1980’s, when EMU was being prepared, the basis for starting monetary union discussions was the early success in finally bringing inflation down towards a low and stable level. There was not yet full convergence of national rates; Italy seemed stuck around 4%, while France had more or less reached 2%, which became later the norm, while Germany had dropped below. But a key premise for EMU was that it does not serve any good purpose to allow diverging national inflation rates. The Germans still had the fear that the emphasis in a monetary union on external stability - that you have fully fixed currency relationships - might make central banks collectively lose control of the inflation rate, because it could then be raised by implicit agreement in the ECB. In Bundesbank circles some were pointing to the risks inherent in ‘a cartel of central banks’. That’s why Germany and her allies insisted on a very firm commitment to medium-term price stability internally as the primary objective of monetary policy in the Delors Report. That was not really contested - not only because it was seen as a condition for German support for the whole project, but also because that was in fact what the Banque de France and other national central banks had been striving for. All participants in the EMS, which had aimed to stabilize from around 1983, had aimed for lower and more stable inflation rates than they had lived with for a decade or more.

What was more controversial were the fiscal underpinnings. They were discussed intensively, but again, I would not say there was less disagreement than on the intermediate stage. There were more or less firm perceptions of how one could design the fiscal guidelines, replicating positions we still see today. German officials put great stress on the disciplining elements - binding guidelines and upper limits to deficits and norms for debt - whereas others argued that rules would have to depend on circumstances and, in particular, on whether a country had particularly large private savings; if so, it could sustain a higher public deficit. In the end the point prevailed that the fiscal underpinnings had to be simple and fairly uniform to be monitored and enforced - though not automatically. That view went into the Treaty and its Excessive Deficit Procedure, and later the Stability and Growth Pact (SGP).

Was it Pöhl who, at the last meeting, came with the formula of 'binding guidelines' on budgetary policy?

That was implicit in the discussions most of the time… But I remember other governors saying at some point, what I just said, a country like Italy, maybe Portugal … 'we have very large national private savings and no external deficit, do we really need to observe such strict guidelines on fiscal policy'? There was also a perception that some of the Southern European countries might need a catching-up process where they had more public investments, hence an external deficit. Some of these arguments were indeed made in the Delors Committee and again at Maastricht. But they were not reflected in the Treaty. Pöhl was certainly the strongest proponent of the binding guidelines, which were further developed a few years later in the SGP, where the German Finance Minister Theo Waigel famously stated '3 means 3.0', not anything else. But there had to be an element of flexibility (or discretion) in implementation. Even the Germans recognised that - and they were to appeal for it to be used liberally a few years later.

Just a question about the two groups in the Delors Committee, so you weren't really on the side of your own governor, wasn't that a little bit complicated for you?

We were definitely on opposite sides. I was maybe the most radical in favour of the monetary union project; when Le Monde wrote about the nominations for the Delors Committee, their main observation about me was that I had not been nominated to slow down the process. On the other hand, Hoffmeyer thought it was a project for the very long term, and that it should be postponed. It would demand much more than the fiscal underpinnings outlined in the Delors Report. He had a point; he was a more of a professional economist (he passed away recently) than most of the other governors. But it is true that it was a bit awkward to be on the other side. He was my former teacher also and a personal friend, so it created some tension and he was also less generous than I had hoped in giving me access to some of the central banking documents that were in the background and that were familiar to the governors. Some of these documents I managed to obtain due to the kindness of de Larosière or Ciampi.

Hoffmeyer basically thought I should not have been part of this exercise; he would have preferred a pure central bank governors committee. To him, supposedly independent people should not have been put into such an official position. He was always very correct personally and the two of us presented the report together to Danish audiences, taking up different parts of the report. But that, I suppose, could have happened between any two members of the group who had different views. Hoffmeyer regarded me as naïve in putting so much confidence in a monetary union with its various rules and entrapments; he was also a strong exponent of the view that national central banks had developed good relations with their governments. They were not independent in a formal sense, but it might be better not to wake up the sleeping dog, since public debates would risk creating serious complications. But if the formal change could be achieved at the European level, maybe that was alright. I continued to have arguments with him in public meetings for a couple of decades, while he became gradually even more sceptical. Meeting him shortly after the crisis in 2008-2009, I said to him ‘I suppose you feel you had anticipated some of these troubles’. He answered 'I did not expect it would be that bad’. He tended – in my view wrongly - to attribute much of the responsibility for rising and very high unemployment levels in Southern Europe to the constraints imposed by EMU. In contrast, I believe that it was primarily the external constraint of having joined EMU that made Spain and some others, even Greece, finally embark on the reform process to bring down unemployment in a more durable way than through occasionally overheating of the economy.

One person you place in the middle in the Committee is Alexandre Lamfalussy. Could you say something more about his role and your relation with him?

I knew Alexandre Lamfalussy first, I think, through one of the academic associations in which he was one of the early active members. He was the Treasurer of the 'Société Universitaire Européenne pour la Recherche Financière' (SUERF) when the organization started in the late 1960's, and he spoke regularly at their events; I got to know him already while he was a banker in Belgium, but much better after he moved to the BIS in Basel. I went to meetings and conferences at the BIS and we were both active in SUERF throughout the 1980's and 90's. We both joined informal groups of economists offering policy advice in the late 1970's, when the EMS began to develop. Alexandre was a major source of good ideas in these groups as well.

Which ones?

One was called a strange name, the Villa Pamphili Group, which met a few times in 1977-78 and had among its members Jacques van Ypersele, the Chair of the Monetary Committee in the EU, Conrad Oort, former Treasurer General of the Netherlands, Stephen Marris, OECD chief economist, Bela Balassa of Yale and the World Bank, like Alexandre from Hungarian origin. Andrew Shonfield, a British member of the Marjolin Group that both of us knew well, and two German members, Norbert Kloten who later joined the CEPS working group on preparing EMU and Armin Gutowski, Chairman at the time of the Hamburg economic institute (HWWA). It was quite an articulate group, including from Italy Giovanni Magnifico, a senior official of the Banca d'Italia.

Another group that became active from the spring of 1979, when the EMS was being implemented, was inspired by Robert Triffin. He was not a member of the group itself, he was more an active policy adviser in Europe. I somehow managed to get him to serve as the Convener (and fund-raiser) for the group. It was a most stimulating group - and Alexander Swoboda, Rudi Dornbusch and John Williamson contributed greatly to that.

During the 1980's I saw Alexandre regularly at conferences - finally in the Delors Committee. I followed him closely during his years at the European Monetary Institute. After that I had the honour to succeed him in one position in the private sector: the chairmanship of the board of Mercato dei Titoli di Stato (MTS), an Italian company which operates an electronic exchange in Europe for bonds, which had been started by the Banca d'Italia. MTS had asked Alexandre to become Chairman in 1998 and when he stepped down in 2003 he generously proposed that

I succeed him with my old friend professor Giorgio Basevi as Vice Chair. At that time, I had a couple of long meetings with him in his house in Ohain where we discussed this particular project and I could appreciate fully his deep understanding of how financial markets operate and how this particular electronic exchange functioned. Alexandre was a wise Chairman of MTS, while he also led the so-called Wise Men's group on joint supervision of Europe's bond markets that led to today's European supervisory authorities (ESAs) for financial markets, banks and insurance and pension companies. In short, I had many occasions to meet Alexandre and to develop great respect and personal liking for him, though I cannot claim to have been a personal friend. He did show me the honour of speaking at the conference marking my retirement from university and of attending the dinner in my house along with Wim Duisenberg, Robert Mundell, Mario Monti and other friends.

Was he very active in the Delors Committee? How was he playing there?

Alexandre acted as a central figure providing some important inputs into the basic questions: the role of market discipline in monitoring fiscal behaviour, and also on the design of fiscal policy where he brought insights from non-European federal countries such as Australia and Canada on how to structure intergovernmental fiscal relations. So he was extremely useful, in a sense, as a scientific member of the group. He was not, as I mentioned, identified with one of the two groups, to the disappointment of Jacques de Larosière and Tommaso Padoa-Schioppa who remarked: 'Alexandre is too passive, too cautious'. While that may have been a fair observation, the quality of prudence was also the reason he enjoyed respect from all.

What was the importance of the Werner Report for the Delors Committee?

The Werner Report was an obvious point of departure, because it had been a similar exercise 18 years earlier. At that time (1970), there were both more positive views on the importance of fiscal policy as a stabilizer in an EMU, but also more boldness about how authority over fiscal policy might be in part centralized. So, the main difference between the Werner Report and the Delors Report was that the former had proposed an additional centre of decision-making to that of the common central bank - a Council of Finance Ministers that could at times override national decisions on fiscal policy. Most observers and governments, not least that of France, doubted that this would prove practically or politically possible, but the idea appealed to some members of the Werner committee. Hans Tietmeyer, the alternate German member and much later President of the Bundesbank said on a couple of occasions that he preferred the Werner Report to the Delors Report. We reviewed the former as one of the first tasks of the Delors Committee by travelling to Luxembourg to have a full-day session with Pierre Werner to discuss his Report. Our two secretaries, Padoa Schioppa and Baer, wrote an annex to the Delors Report on the differences in approach. One difference was that 20 years after the Werner Report there was less conflict because fiscal policy had basically not been stabilizing in individual countries over the two decades prior to 1990. There were many examples of fiscal decisions having been taken too late, on the basis of inadequate information, and on political grounds, enhancing the cyclical swings of the economy rather than dampening them. That disappointing record had been amply documented in economic research at the time. So, there was no appetite for saying that the Delors Committee wanted an EMU to override national budgetary decisions on fiscal stabilisation grounds in individual countries; what was needed was some form of constraints on strongly deviant fiscal behaviour – so-called 'gross policy errors' - when harmful spill-over effects across borders become observable. In normal circumstances fiscal spill-overs would not be strong enough to justify joint concerns.

There were other differences. The Delors Report was persuaded that a single currency was definitely needed to make EMU truly irreversible - not just fixed exchange rates. The atmosphere was also different in another sense: in 1970, when the Werner Report came out, capital movements were restricted, while two decades later there was the problem of how to manage exchange rates in a world where capital has become far more mobile. Most remaining restrictions on capital flows were being removed, as we wrote the Delors Report; when the Maastricht Treaty was signed three years later, even short-term flows had been fully liberalized. That made it much more difficult to envisage exchange rates just being fixed and still potentially adjustable; you then needed a single currency to stabilise the system: that was another difference. But on the whole the two reports were similar in spirit, also by proposing to approach monetary union through three stages of gradually tighter commitments. If the Werner Report had been prepared a couple of years earlier, before the crises of 1968-69 and of the early 1970s, it might have had a chance of being implemented – though it would hardly have been equipped to survive the turbulences of 1973-76. But something did survive from the first stage of the process launched by Werner: a currency arrangement (the 'Snake'), based on a network of unlimited very short-term central-bank credits, and a European Monetary Cooperation Fund, the beginning of an institutionalization of an intervention and credit system among European central banks. Those were useful legacies of the Werner Report, even though its basic ambition was premature.

Besides the monetary pillar, you also have the economic pillar. How would you assess Delors' view of the economic pillar of the EMU?

It would be unfair to say that this was disregarded, because we did spell out four required elements in an economic union: completion of the Single Market – which seemed well under way at that time; a tough competition policy, in order to ensure that large companies do not exploit their position in the single market; some mechanism for structural and regional funds, ensuring that weaker regions share in the faster economic progress that was seen to be the purpose of EMU; and, finally, some (minimum) fiscal rules to underpin monetary union. These rules were hardened and made more operational in the Stability and Growth Pact (SGP) of 1997 with a ceiling to public sector deficits and a norm for the long-term evolution of public debt; the financing of public activities through central banks was prohibited already in the Treaty . These were progressive steps underway in several Member States; in most of them in the 1980s already there was some readiness to have them consolidated. The four elements while fairly defining the prerequisites for an economic, union did not include reforms of labour markets to facilitate adjustments in competitiveness. Jacques Delors would have liked to do much more in that area; he did leave a legacy of an EU employment policy with ambitious objectives, but with no instruments to implement it; he also wanted to do more in the coordination of policies, and an unemployment fund was part of the economic mechanisms that Delors had foreseen for EMU. But the time was not ready for that by 1994 when he left office; and it still seems difficult to agree on and implement today, 25 years later.

And financial stability issues, were they discussed?

In contrast to the fiscal issues that were perceived and dealt with early, though in an overly timid way, financial issues were not discussed. And this, you might say, was strange, because there was exceptional financial expertise in the Delors Committee – Alexandre Lamfalussy, Jacques de Larosière, Tommaso Padoa Schioppa – three prominent and highly experienced officials who contributed more than any other individuals to financial integration in Europe when it restarted from the late 1990s. But in 1989 banking crises seemed to be remote, banking was largely a national activity, and Member States were then building up their own national supervisory systems, covering both financial markets, banks, and insurance companies/pension funds; they did not want to discuss whether there was also to be an EU responsibility for regulation and supervision. There was simply a lack of imagination among the participants in the Delors committee, and later at Maastricht, as to what the single currency would imply in terms of deeper financial integration and of how the single currency would strengthen the interdependence of countries, notably through the bond markets. That seemed beyond the horizon; it took ten years before EU and national authorities began to discuss the subject carefully.

What is your assessment of the Delors Report now?

I think the Delors Report was useful in clearing up the main issues of principle about EMU and the powers of the ECB, notably its mandate and independence. It was less successful in describing other subjects such as economic union and the stages through which one would get to a monetary union. That was more controversial. Several countries felt that there should be strong advances in the first and second stages towards EMU. Indeed, as already mentioned, the steps outlined by the Delors Report were so vague that one might wonder how would one ever get to a monetary union. The Report was most useful in clarifying some issues of principle and a long-term vision for the ECB. On those issues, a lot of agreement among the central banks became visible because they were all keen to establish the principle of pre-commitment to stable monetary policies and low inflation by the future central bank.

You have the Delors Report, the Maastricht Treaty, and we got to EMU in 1999. What were the most critical moments? Could the project have derailed after the ERM crisis in 1992/93?

That crisis gave rise to very different interpretations. The British, for example, took it as an example that fixed exchange rates would not work within Europe. If governments were not willing to meet the soft requirements of the EMS, how could they ever build a full monetary union, it was argued in London. Others said the opposite: precisely because the EMS was too fragile, the only way forward was to aim for full-scale monetary union. I had sympathy for the latter view, which was shared by the French and by some others countries. But there was an uneasy period between the first crisis of September 1992 and August 1993, when the margins were widened. Italy left the system in 1992, but came back in 1996, just in time to be ready to join the EMU two years later. In the end, the French strategy – 'la fuite en avant' - seemed to work : once you had a firm plan and a starting date for the final stage of EMU, many countries would be anxious to get ready to join on the first day, as Italy, Spain and Portugal in fact did. That was a surprise for many and certainly not foreseen in 1991. Amazingly, only seven years after Maastricht was concluded, EMU started with a common financial currency shared by eleven countries.

Do you think that with the ERM crisis the project could have derailed?

It could well have derailed, yes, because it left bitterness in certain quarters. In the UK in particular they really took this as an example that other European countries were not ready to accommodate British requests for 'coordinating' interest rates. That story was built up in the UK, to some extent in Italy as well although they did not complain so much at the time. The wisdom of the reaction to that crisis was: preserve central rates of the exchange rate system and leave some more freedom of movement; then we shall see whether the exchange rates are broadly in equilibrium. In the case of the French Franc and the German Mark, their crucial relationship proved through a market process that the bilateral exchange rate, unchanged since 1987, was validated. That helped also the smaller currencies, but initially not the Italian lira. However, the Italian economy stabilized from 1995, and the lira came back into the ERM the year after that. It was in a way a necessary and salutary period, but it certainly looked more dangerous at the time and many observes had a different interpretation.

After the Delors Report, what was your main involvement in EMU?

I was definitely on the side-lines, in the sense that I had no official role in my own country or in EU bodies. I did speak about the project a lot while the Maastricht negotiations took place and as the committee of central bank governors developed the statutes for the coming ECB. There were intense conference activities, some of them organized by central banks, so I was still in contact with the official environment, although I had no role in it. I got to know some of the next generation of officials that negotiated the adhesion of their countries to EMU. To the surprise of many of the original members Spain and Portugal were among them; it was by no means given that they would be able to join within any foreseeable horizon. But they were determined to do so and they had very able negotiators, from both these countries, as was the case for Italy, which was not assumed, certainly not by the Germans or the Dutch, to be ready to join within 10 or 15 years after the signing of the Maastricht Treaty.

As regards my own country, Denmark, the electorate voted no to the Treaty although we already had obtained a form of delayed opt-in to monetary union at the end of the Maastricht negotiations. After the no in the referendum, there was a broad political agreement - known as the ‘national compromise’ in my country - to change that status in a second referendum to a straight opt-out from the final stage of EMU as well as announcing reservations about committing to some other policy future policy areas - foreign and defence policies and home and justice afairs. This - from my viewpoint unfortunate - course of events meant that I also had to focus on what kind of arrangements could be made for countries that were in the EU, but not in EMU – the ‘Outs’. I wrote a couple of papers at that time and visited the UK, Sweden and Finland whose position was similarly uncertain.

It is interesting to reflect that it was only in the course of 1996 that it became clear that EMU was likely to start with more than 5-6 countries. The Finns decided to make themselves ready by joining the ERM; you had to be in that tightly-managed regime for two years before you could join the EMU. That was the crucial step and signal for both Finland and Italy. Both of them had been outside the ERM for several years prior to 1996. I participated in discussions with officials in both these countries regarding their possible participation, while trying to support in my own country and in Sweden the idea to join. In Finland it was difficult because they had had such a deep crisis in the early 1990’s, had to devalue massively and had developed a truly excessive public deficit. But they had embarked on serious reforms on their own. My own country remained ‘on the fence’; economically, we could easily have joined in the course of the 1990s, but we did not for political reasons – hesitations about the implications of EU integration. And once you have had a referendum, it means you need another referendum to reverse the result of the first one and that becomes difficult because having voted for not joining creates inertia, making it very difficult to reverse the outcome. By 1996 it was highly likely that we were going to continue to peg our currency to the euro, but there was much interest in what was going on, keeping me busy with talks on the 'ins' versus the 'outs' in my own country but also in countries preparing for EMU.

Were you surprised by the ‘No-vote’ in Denmark?

Yes, I was surprised. I probably should not have been on closer reflection, because we had not prepared public opinion well enough. The views of Hoffmeyer and a few other senior policymakers who said ‘this is an interesting project but it cannot really materialize for quite a long time, so we do not need to take a stance on that’ were not helpful in developing any sense of urgency. A widespread perception in my country was that Germany would in the end raise the bar for starting EMU so high that several other EU countries would lose the incentives to join. Senior politicians chose to say ‘let’s see them develop this project and then we can take a stance on it. But not right now, this is too early for us’. There was a ‘wait and see’ attitude, but hardly any ideological opposition to EMU, as observed in UK political circles. But when the time came to raise EMU participation in 2000, the voters did not change their verdict. They decided against once more even with a reinforced majority, though for reasons that were largely unrelated, in my view, to EMU itself. This time EMU had started and could not be dismissed as a fantasy or ‘a rain dance’ - the expression John Major had used in the UK. On the contrary, more countries than expected had joined the first group, including Spain, Portugal and Italy and, as I mentioned before, Finland. So there was a broad base, to the great surprise of many, also in my country: EMU had eleven members at the start - and twelve two years later when Greece joined, again unforeseen and, in retrospect, probably too early.

Anything to add about EMU?

I have not mentioned one important and time-consuming activity that I had embarked on which proved significant in a longer-term perspective. I wrote a book together with Daniel Gros titled ‘From EMS to EMU’. A first edition came out in spring 1992 when the Maastricht Treaty had just been signed. We agreed to do an enlarged and updated second edition, which came out in June 1998, just around the day the ECB started. So that was good timing on both occasions and the book contains forward-looking discussion on various issues related to EMU together with a rather systematic account on how the EU had come that far. Since then I have kept writing articles on the basis of these chapters. The book was a success, in the sense that I continue to get feedback from some who studied it at university or while working in the financial sector. It is not an academic book in the sense that it looks primarily at models. Paul De Grauwe has written one such excellent analytical volume on EMU; Daniel Gros and I tried to be academic certainly, explaining precisely how the EMS and EMU worked, but we also subjected the reader to a lot of more pedestrian descriptions of how central bank cooperation functions and how the European economies interact. When I became Chairman of the European Fiscal Board, I reread once more our chapter on fiscal policy and found it still quite relevant after 20 years.

A last question about EMU: What is your opinion now? Would you still defend the same attitude towards monetary union?

I think EMU is a great advance in EU integration. Of course it is imperfect; people in the Commission like to say we should 'complete' EMU. I do not think any monetary union is complete even in large federal countries, but this one certainly needs repair work, or 'deepening' – a now preferred term. I always regarded EMU as work in progress and some of that progress could have been outlined more clearly from the start. The main omission is that we failed to foresee the interaction of government finances and the financial system; that was not obvious in 1989 or at Maastricht. Financial activities were much more national then and it was hard to foresee the massive swings that we saw in financial flows around the financial crisis. We focused too much on how EMU would help the Single Market in goods to develop, but not enough on what enormous push to financial integration it would imply. The unwillingness to centralize elements of financial supervision and give some European responsibility to supervisors and regulators was modified only very slowly. Alexandre Lamfalussy was one of the first to see that, as I already mentioned, setting up a more unified supervisory structure was made urgent by EMU.

But these are things that can be repaired, and they are being addressed. There are still many things to do and the work now going on in the Commission under the heading of deepening EMU is making it more effective and better functioning. It did not function well in containing the crisis from 2008 on, but the original design was not as flawed as seems to be the general view. EMU was work in progress, but if its principles, notably on the fiscal side, had been observed to a greater extent, it could well have survived in close to its original shape. It did survive quite well the first decade after 1999, partly because the German reunification weakened the German economy, so they had the same problems of public finance as France and even a sizeable external deficit for the first 10-15 years after signing the Treaty. It was initially an easy passage and I am happy the decision was taken at Maastricht – and with a definitive deadline of 1999. If that decision had not been taken there, there would have been all kinds of arguments. We might still be discussing, in 2020, what the conditions are that should be met to have EMU - and they might look forbidding to the national governments. The context of these conditions changes, but once you have a monetary union, you have something to build from. We would not in my views, have a Single Market that could function without EMU. It is not possible to construct a counterfactual scenario, but the one that I can imagine is inferior to what we have today, even with all the complaints that have persisted - not about monetary policy so much as about some incomplete underpinnings of the Union.

One should not be overly critical of the large membership, currently of 19 Member States; the serious problems in EMU relate overwhelmingly to the first 12 members, not to the seven more recent ones that have not had serious crises in the meantime - except for Cyprus, but then as a by-product of the Greek crisis. EMU has done a great deal of good for most of its members. I note also that in my own country there is not much criticism of EMU. We follow the policies of EMU, the fiscal rules, monetary policy, since they suit us quite well. They partly also suit Sweden, although the Swedes are more detached from EMU, as shown by their lack of attention to stabilizing the euro exchange rate of the Swedish krona.

The three large Central and Eastern European Members States (Poland, Hungary and Czech Republic) are a different story. I do not have any idea of when they will feel politically ready to join. The three newest member States in the Balkans (Bulgaria, Croatia and Romania) are keener to join EMU, but less ready, though Bulgaria and Croatia are soon to join the ERM. It will take some time before we see an expansion. But the aim of joining remains for the long term, even in countries that have become critical of EMU such as the Czech Republic and Poland. If the pre-2015 government in Poland had survived, my guess is that Poland might well have joined by today; there are no obvious economic impediments.

Part 4 – Life beyond EMU

Let us move on to your other activities after the intensive work around the Delors Committee and the Maastricht Treaty.

Let me refer to these three recent decades under three headlines: activities as adviser to governments and international institutions, participation in other activities – informal groups and private organisations - and private life.

An early challenge was the crisis in Sweden in 1992-3?

Yes – and that assignment was a spill-over from my EMU activities. In December 1992 then Prime Minister of Sweden Carl Bildt asked me to become one of the two foreign members of a Commission, chaired by the leading Swedish economist Assar Lindbeck, to study the responses to the crisis that hit Sweden in 1992, culminating in the exit of the Swedish krona from the EMS following a prolonged currency attack and the emergence of an unprecedented public sector deficit. We did a massive amount of work in a short period of a few months and came up with over 100 proposals for reforms, ranging from major fiscal and monetary decisions and bank reconstruction schemes to detailed structural measures; my Swedish colleagues claim that at least half of our proposals were implemented in the course of the 1990s. The assignment was illuminating and encouraging: when a country is struck by a serious crisis, a new willingness emerges out of what the Swedes call 'crisis consciousness' to take major steps: 'we must get out of this crisis and we must all together put our efforts into it'. Sweden did a major effort, maybe in propitious times; the 1990s was not like the crisis years two decades later, since the international environment was relatively benign. Still they made impressive domestic efforts in correcting imbalances. Hence the experience in Sweden was quite different from that in the EMU after 2010; certainly the major convergence of Swedish bond rates towards the lower rates of the EMU candidates helped the fiscal adjustment. Yet it was clear that Sweden was not politically ready to join the EMU for some time, though the country had not assured an opt out from participation in their accession negotiations. Anyway, the discussion on EMU came back in the late 1990s again and was settled in a significant no vote in a referendum in 2003. My early experience in the Swedish Commission gave me the background for participating in 1995-6 in a report from a major Swedish think tank on the possible application of prudent fiscal norms, inspired by the SGP – an area where Sweden has since become a pioneer, easily overtaking most EMU participants in terms of compliance and solid methods of expenditure control.

Your next official assignment was for the IMF – how did that come about?

A signal event of future challenges to the international economy was the crisis that struck a number of Asian economies in 1997, spreading from Thailand through South-East Asia, after some months reaching also Korea. The International Monetary Fund (IMF) Executive Board set up a group of three independent experts – former Governor of Bank of Canada John Crow, who was Chair, Argentinian banker Riccardo Arriazu and myself – to study the effectiveness of IMF surveillance in the run-up to the Asian crisis. Equipped with a small secretariat, notably Jonathan Portes, now professor at Kings College in London, we travelled to interview leading national officials in 12 countries in all parts of the world, five of them in Asia. While we found IMF surveillance to have been of generally very good quality, it had been deficient in anticipating the problems created by increasingly mobile capital; the expertise of the staff did not at the time extend to the financial – and some structural – areas. During 1998-99, I worked for the IMF about half time, not often in Washington DC, but travelling from my base in Copenhagen, where I maintained a (lighter) teaching schedule. The general perception which our report supported was that the IMF (and other official institutions) had not been giving the best advice to countries in preventing crises. This experience with international surveillance turned out to be quite relevant in the European context when crisis struck there a decade after the Asian crisis; one of the weaknesses of pre-crisis EMU was that there was not enough surveillance in the early years.

Our report was well received by the IMF Executive Directors to whom we reported directly; the staff thought less highly of it. Apart from some changes in the search for new expertise in recruitment, our report led to the establishment of the Independent Evaluation Office in the IMF, which now produces two or three excellent reports a year on specific topics, evaluating how well IMF advice has been offered and received. So this was a very rich experience and very relevant to my recent work in the European Fiscal Board. Our little team travelled widely; in Europe we visited Sweden, one of 'my' countries, and the Czech Republic, not yet an EU Member State at the time, but preparing to become one. Everywhere we were in contact with senior ministers and other high officials. We had included a couple of the large creditor countries, notably the USA, where we conducted interviews with both Allan Greenspan, then

Fed Chair, and Larry Summers, then Treasury Secretary; neither thought much of the policy advice offered by the IMF on the US – but they were positive about advice to other countries.

And then you moved almost straight to the OECD?

By the end of 1999, the Chair of the OECD's most active committee, the Economic Development and Review Committee (EDRC), resigned and I was proposed by some member countries as a successor. Other countries had a different candidate, a senior French official, but after several rounds of voting I was elected. The EDRC meets 2-3 times a month to look at individual country reviews prepared by the OECD staff; the members of the Committee are Financial Attaches from national Ministries of Finance, supplemented from capitals when a country is one of the two appointed examiners – or, of course, when a country is itself being examined. I served as Chair for eight and half years from mid-2000 to the end of 2008; it was another half-time job, also requiring a lot of reading and background work, but not much travelling except to Paris, attending EDRC meetings, but also those of higher bodies, the Economic Policy Committee; and I got familiar then with a wide range of international experts, some of whom I now meet again in Brussels. One of my best moments there was when I met two good old friends from the OECD 15 years later greeting me with a ‘welcome back’.

The EDRC was a rich experience professionally and I enjoyed my time there thoroughly. The OECD has a wider view on how economies function than does the IMF, focusing primarily on more structural issues and on longer-term adjustments. This wide horizon and the high professionalism of the OECD Secretariat complement to me the EU experience, giving me more of a background in important policy areas I had never worked in myself, such as the design of longer-term reforms of pension systems or of labour-market institutions and practices. I wrote a couple of papers comparing the range and practice of surveillance procedures in the IMF, the OECD and the EU, which received some attention in all three, and that clearly was a useful introduction to what I am now doing. At the time, I was associated with the OECD, so I thought we had some features there that were attractive also from the viewpoint of individual countries. Possibly due to the presumed weakness of the OECD - there is no question that the OECD can impose anything on countries, only offer advice – there was a freer range of discussions and perspectives admitted in the detailed exchanges with leading officials in the country. The day-long meetings in the EDRC were attended by several top people sent by their countries (Finance Ministry and/or Central Bank). So it was an intensive exchange, not found in the IMF where the staff does basically all the work and the Board, if I may say crudely, rubber-stamps what comes out; nor in the Council of the European Union, where countries tend to be more defensive because they feel this could be unpleasant if the debate goes too far into politically difficult areas. There is a more antagonistic tone to the dialogue in the EU than is the case in the OECD, which is more like a seminar; sometimes the ideas that come out are more easily considered by the country concerned. The national officials in the EDRC could say ‘this is a very good idea, it will not please some of the politicians at home, but do bring it up, that is fine’. That is less likely to happen in the EU where the reaction to a controversial idea may be to say 'no, no, you should not mention that; it is not on the political agenda’. But since several of the officials in the EDRC attend similar meetings in Brussels, there is a process of osmosis, as ideas move across institutional frameworks.

Another refreshing element in the OECD is the presence of some non-European countries that have interesting experiences - Canada, Australia and New-Zealand, Israel, Japan and Korea - sometimes exotic from the European point of view, but often potentially relevant. Altogether, the EDRC was a welcome change and I would gladly have stayed on even longer than my almost nine years. But my colleague rightly wanted the occasional change; when they thought I had served long enough, they told me ‘you have become too old now’. Some of them are a bit puzzled that I have now, after more than a decade, come back to policy advice in another function.

From your experience of the IMF and OECD, which was mostly about surveillance, which lessons would you draw for EMU now, here in the European Union?

The EU is different in the sense that it does have some common policy instruments, notably monetary policy; it is currently developing also instruments in the financial sector. And in the area of monitoring national fiscal policies, it has a rather detailed set of rules to go by. In the latter area as well as in structural policies the EU may still be a little bit less analytical and comparative in advising on some issues than are the IMF and the OECD. There is, possibly, too much of a preconceived scheme of how things should be done as compared to the more free-ranging surveillance by the OECD. The IMF is different because of its narrower focus on stability in a shorter-term perspective, though there is now also some focus on long-term issues – ageing, climate change, sustainability of debt; the IMF is also now very active in monitoring financial stability. Still the mandates are different. I firmly believe that the EU institutions have much to learn from their more global sister institutions and the more relaxed atmosphere at the OECD and even the IMF, which I sometimes miss when I listen to exchanges in EU fora. However, in the EU you often have the very top officials in the meetings. In no other international framework do national Finance Ministers meet every month – and the central bank governors even more frequently. Before EMU only the central bankers knew each other well and had mutual confidence; now that extends – to some extent – to Finance Ministers. I was struck on the few occasions I have been present in the Eurogroup by the elements of frank directness that can only arise when you meet regularly over longer periods of time. But Finance Ministers do not serve as long as central banks governors, and it seems that their average time of service is falling over time – from four to around two years over the past decade. Still, there is, also at the ministerial level, a certain club atmosphere. That becomes more evident, when one moves to the Committees that serve the ministers; these officials meet even more regularly. This does not exist with the IMF, which is regarded as remote by senior national policy officials; the IMF comes in rarely, makes some recommendations and then leaves again, while the EU institutions are there all the time. You cannot really escape from them. That creates close working relationships, but tempered by caution that this type of cooperation may be more binding, making it hazardous to commit.

You were also involved in a lot of academic policy work. Can you tell us something about all this?

In terms of subject matter, there has never to me been a clear distinction between on the one hand my main professional interest in European integration and the main policy areas associated with it and on the other hand activities in private associations and think tanks. And my basis at the University of Copenhagen, teaching and doing research in international and monetary economics, had clear synergies with both types of policy activity - until I retired from teaching at the end of 2004. But let me take these other activities in chronological order, since some of them antedated my involvement in EMU. Although I have referred briefly to the first two in Part 2, they deserve a bit more comment.

Since the early 1970s I was active in the Société Universitaire Européenne de Recherches Financières (SUERF), an association of academics, bankers and central bank officials. I spoke at the annual SUERF colloquia, became a member of the Management Board, and, finally succeeded Mario Monti as President in 1988-91. SUERF gave an extremely valuable net of contacts, not least with financial sector economists, and I have continued to enjoy a more occasional participation in SUERF events since I left the Board in 1994.

An important framework for my interests in European policies has been the Centre for European Policy Studies (CEPS) in Brussels. Started in 1981 by my friend Professor of History Peter Ludlow, CEPS was the obvious place to be involved in, and I was a Senior, non-resident fellow for a decade or more and a Member of the first CEPS Board. We got it off to a promising start; one of the first initiatives was the CEPS Macroeconomic Policy Group of prominent transatlantic economists, chaired by Rudi Dornbusch of MIT, which offered some much-needed brutal advice to Europe, stuck with slow growth and precarious public finances. In 1985 CEPS triggered my first efforts in the direction of EMU by helping to organize – with financial support mainly from the Bundesbank and the Bank of Spain – a working group to study how best to move beyond the EMS. I chaired the group of academics and central bank officials which met for a year and a half from mid-1986 on and produced a report, much of it prepared by Daniel Gros, that gave much input to the debate on EMU that was just starting as the report was published in early 1988. In 1991-93 I chaired the CEPS Macroeconomic Policy group, succeeding Edmond Malinvaud, the great French economist. Charlie Bean of the LSE, later Deputy Governor of the Bank of England, and Jean-Pierre Danthine, now Dean of INSEAD, were close associates. I have continued to participate in a number of CEPS groups and activities since, including its highly successful annual CEPS Ideas Lab, and, above all, I have maintained close contact with Daniel Gros, first as co-author of our book on the EMS and EMU, and later as a great repository of clear ideas.

Also around 1980 I first joined the Trilateral Commission, which is not an academic activity, but an inspiring forum of high-level policy-makers and leaders from business, academia and the media to debate current international political and economic issues. There is an annual global meeting and a regional one for the European members. I am grateful to the Danish Economics Minister who invited me to take his place in 1979 – so much so that I have managed to stay on, though in recent years as an Honorary Member, throughout four decades. I headed the Danish group of 4-5 members for most of that time, served on the international Executive Committee, and in 1996 wrote one of the annual reports together with a US and a Japanese colleague. Membership of the Trilateral has been a true mind-opener to a number of major issues, well beyond what I could otherwise be involved in, quite apart from the long-lasting friendships created; some of them were Belgians – Alexandre Lamfalussy was active in my early years, Daniel Janssen of Solvay for most of my time; and Governor Luc Coene were or are there. In the global meetings the presence of Paul Volcker, who was for a decade the Chair of the North American Group, invariably provided for lucid comments on international monetary affairs and on EMU which he always referred to with a positive tone, rarely heard from US officials or academics.

All of this activity started prior to your engagement in EMU, but you have built up additional relationships with think tanks or other private groups more recently?

Yes, let me mention three such groups that have provided important elements in my calendar – and, indeed, in my professional development. First, in 1997-98 I was one of the founders of the European Shadow Financial Regulatory Committee (ESFRC) with a number of academic colleagues; Professor Harald Benink has been our highly effective Chair. At the time financial integration had finally reached the EU agenda, thanks not least to Commissioner Mario Monti who developed the Financial Services Action Plan. The ESFRC was modelled on a US sister group; we have met normally a couple of times a year to review financial issues on the EU legislative agenda, and to present a statement with proposals for action. Fortunately, there has been more and more to discuss over the years and we have been able to interact constructively with policy officials in Brussels and in national capitals as well as in the European Parliament. Due to my work for the EFB I have been less active in the ESFRC in recent years than I would have liked, particularly as I have always learned a lot from the intensive weekends spent in the group drafting our statements to make them ready for presentation in a press conference on Monday morning.

Second, at the time when EMU started in 1988-89 I was approached by people I had come to respect greatly – Edmond Alphandéry, former French Finance Minister, Jacques de Larosière and Alexandre Lamfalussy and two academic colleagues, Luigi Spaventa and Richard Portes – to join what has become known as the Euro50 Group. The number refers to the (supposed) maximum number of members; it was added in to distinguish it from the real Eurogroup which began meeting at the same time. I have been active ever since the foundation in 1999, when we had our first meeting in the National Bank of Belgium. The group meets 2-3 times a year, usually in Brussels or Paris, to discuss current issues in EMU; it brings together a highly qualified audience of officials, financial sector executives and economists, and academics. The last few years the Euro50 Group has also developed closer links to think tanks in the USA and in China. Every year there is a conference alternating between Beijing and Brussels/Paris. I was involved in organising those events as well as several of the regular ones together with our Chair – throughout the two decades, Edmond Alphandéry. I have appreciated the Euro50 Group enormously as a source of information about my closest long-term interest – monetary policy; my main recent task has been to help in inviting good guest speakers to our events. We celebrated our first two decades of good exchanges in Rome in December 2019.

Third, in 2010 David Marsh, former European Editor of the FT, started an association, Official Monetary and Financial Institutions Forum (OMFIF), based in London, to organise regular meetings on international monetary issues. The participants are made up in much the same way as for SUERF and the Euro50 Group, but with a stronger Anglo-American flavour. OMFIF for which I have remained a Senior Adviser has spread its activities well beyond Europe, with regular meetings with Fed officials and Asian central bankers. I have learned a lot from taking part in the European and Asian activities, and in the UK debates, first on Scottish independence and then Brexit; in 2014 and 2016. I participated in panel discussions prior to the two referenda. The latter experience has made me see more clearly the logic of Brexit. For someone keen to deepen European integration, there is an element of relief in seeing a country exit which, despite having been granted a number of significant opt-outs from central parts of the EU, has continued to try to stop others from going ahead. The UK attitude is distinct from that I find in my own, much smaller, country, where there is an, in my view, unfortunate reluctance to engage, rather than a fundamentalist opposition to sharing sovereignty. I just took part in OMFIF's tenth anniversary and look forward to staying in touch. The quality of debates with UK-based academics or financial sector specialists is too high to be missed.

And the Centre for Imperfect Knowledge Economics?

Shortly after the financial crisis, George Soros, the famous investor and philanthropist, created the Institute for New Economic Thinking (INET), a global network of economists, in recognition of the growing dissatisfaction with the way in which economists had failed to address the problems leading up to the crisis and their overconfidence in the existing methodology of macroeconomic modelling. A long-standing friend and colleague, Professor Roman Frydman of New York University, was closely involved as an original contributor to the analysis of fundamental ("Knightian") uncertainty. I joined this exciting initiative and was asked in 2011-12 to help set up an INET centre at my university with colleagues at the front line of research into time series analysis and econometric methodology.

The INET network has been a unique opportunity for me to get closer to advanced research in economics and finance. George Soros himself obviously has a unique understanding of how markets function, so his experience and perceptions – the role of 'reflection behaviour' beyond the traditional modelling framework – provided some of the original inspiration for INET. Roman Frydman and my colleagues have pursued an ambitious program of implementing some of these new ideas with statistical methods that see ambiguity in the perception of economic relationships and heterogeneity of economic agents as essential for the analysis of aggregate market phenomena in a perspective, which can not always remain quantitative over long periods of observation.

The INET grant to my university was initially for a three-year period, but the work has continued until now. The small team led by Roman Frydman has reported on promising progress in their papers. I am not capable of contributing to this type of fundamental research, which draws on both formalised estimation methods and advanced economic theory. What I have done in some relation to the project is the more mundane task of trying to evaluate to what extent the deficiencies of traditional macroeconomic modelling have already been recognized in central banks; I tried to illustrate this through the role of research in reaching decisions in the ECB. I did a report on that for the Director of INET – and my conclusion was that there is of necessity a good deal more scepticism about traditional macroeconomic modelling and reliance on more judgmental insights in central banks than in university teaching. The more ambitious types of modelling which could be the outcome of the INET research programme is so difficult to design that only a few financial institutions and central banks are beginning to experiment with it.

INET has provided insights into Economics at a time when I thought I had left the discipline. It has been a great learning process, allowing me to meet a number of both leading researchers and officials open to new ideas, some of them are financial regulators. The Chairman of INET was the former head of the Financial Supervisory Authority in Great Britain, Lord Adair Turner - an experienced and imaginative man and one of the best communicators I have met. University economics needs outside inspiration from people like him – and, in particular, from the rare individual who, like George Soros, combines familiarity with financial markets, analytical ambition, and common sense.

Aside from your academic career, did you also have business activities?

I am not a businessman as you can imagine; I do not have the talents for it - to the disappointment of my father who was good businessman. My two grown-up sons are also definitely in that category, but somehow that capacity bypassed me; I seem even to have limited talent for managing my own affairs. Nevertheless, I did serve for many years as a Board member in some significant companies, notably the largest company in Denmark at the time, A P Moller-Maersk, active in shipping – it remains the largest container shipper in the world – and oil and gas exploration, mainly in the North Sea. I did not deal with the business aspects; I was there as an economist, following trends important for trade flows, for oil markets and for container shipping, and I served on the Board Committee overseeing the financial operations of the company. That was quite another perspective on the world than the one I was used to, a more practical and applied one.

Over much of the same period I was also Deputy Chair of the foundation that owns the largest pharmaceutical company in Denmark, Novo-Nordisk. It is one of the world's leading producers of insulin, along with Sanofi in France and Eli Lilly in the US. Again I was not dealing with the main business, but reporting on some of the relevant international economic trends or with financial aspects. The foundation has become the largest private philanthropic institution in Denmark, supporting, in particular, medical and biochemical research.

Maersk and Novo were the two significant companies I have been associated with, but I had a couple of other board positions. I chaired the Board in Denmark of the large American company 3M which makes a wide range of simple, highly practical industrial products. 3M is based in Minneapolis with subsidiaries in most European countries; the higher echelons are largely staffed by Americans. I visited their headquarters on one occasion, when I was there for an academic conference; they listened politely to me when I tried to ask questions, but they clearly wondered why I was Chairman of the Danish 3M Board, since I asked so many general questions, and so few that were specific to the business. I once more revealed a lack of business acumen.

Then I was for 20 years on the board of an investment company in Luxembourg, Nordea Investment Funds, closer to my professional profile; advising on financial developments across Europe, sometimes other continents, was interesting and relevant. Investments funds (UCITS) have been very successful in Europe, and the experience taught me quite a lot about capital market integration. But gradually the work became more and more oriented towards compliance and regulatory issues, for which I was neither particularly equipped, nor attracted to. I gave it up when taking on my role in the EFB in Brussels. I miss travelling to Luxemburg which is a refined financial centre in Europe and a very nice town and where I seized the opportunity to visit the European Investment Bank and, more recently, also the ESM.

We can maybe conclude with sports… as you were a golfer and you also became the president of the Danish Olympic Committee (OC)…

Yes, I was the Chairman of the Danish OC for four years, from mid-1984 to just after the Seoul Olympics in 1988. That role was an outgrowth of my activities in my own sport, which was golf. I had served for a few years as Chair of the Danish Golf Union and as such I joined the Board of the Danish National Sports Federation. When the Chair of the Olympic Committee became Denmark's military representative at NATO, I was invited to replace him. So I did that for four years - also a rewarding experience, both nationally and internationally, meeting very different types of people from my normal environment of academics or policy-makers. The International Olympic Committee (IOC) is partly a highly professional body of business men – who raise funds and manage the enormous economic project which the Olympic Games has become, with all the contract work on advertising and sponsorships and all the money that flows through the IOC – partly a group of past athletes who have been prominent at the world level. In the old days of my times - the 1980's – there was still a third group: representatives from the Socialist countries, all high Communist party functionaries. Altogether a very interesting mix of people, not an obviously harmonious group as you can imagine, but very entrepreneurial and, in a way, impressively well organized. I went to the Olympic Games in Los Angeles just before becoming Chair; in 1985-88 I travelled often to international sports events and finally to the Seoul Olympics in September 1988.

But 1988, you may recall, was also the year of the start of the Delors Committee. The first two meetings in the Committee were complicated, partly due to the Seoul Games. Jacques Delors was very understanding, as I travelled directly from the first of our meetings in Brussels to

Seoul… and I came back just in time for our second meeting in Luxembourg, not very well-prepared. But actually several fellow members seemed as interested in the Olympic sports as in monetary policy, not least Jacques Delors himself; he used to read ‘’L’Equipe’, the French sports newspaper, as attentively as he read ‘Le Monde’.

My four years in the Danish Olympic Committee took a lot of time because people in the sporting world, the national federations that constitute the backbone of the Committee, are very keen on their own activity and they will fight hard for their interests, budgets and their participation at the Olympics; so meetings were very protracted. One can barely imagine a more difficult task than selecting an Olympic team, especially due to those that end up just below the line and do not get there. You hear more about those last two people than you hear about the 100 selected, and I became very unpopular in some circles. But it was a fascinating environment; some of my colleagues had devoted their time and energy fully to sports, to creating a good environment for the athletes. At the start of the period when I served, the Danish government set up a public foundation to support elite sport activities, and I became a member of the Board of that foundation – Team Danmark - as well. That was a professional organization led by a mix of politicians and athletes, also including colleagues from the Olympic Committee. The foundation was very useful as it aimed to integrate athletic training programmes with the high school and university curricula, creating more flexibility in degree structures for those who had an ambitious career in sports in mind. I learnt a lot from it - but it was in the end too time-consuming. I had to decide in 1988, as other activities were picking up, to step down. I left the sports world completely, and have not been back to the Olympics since. But I would not have missed this exposure to international sports as I look back after 30 years.

Do you remember certain events that were really special in the business or in the sports world?

I do remember in particular the Olympic Games in Seoul. They were a testing experience, because the IOC had to be uncertain about holding the games in Seoul at the time. Korea had just gone through a modification of its then military regime; and the security arrangements to guard against possible attacks from North Korea were massive. I saw some rehearsal exercises in the main stadium when I was out there in 1986, preparing for the games two years later. They were absolutely astounding: a full-scale test in military operations by the South-Korean police and military forces, simulating helicopter attacks on the stadium. Equally memorable was watching some of the great events; as Chair of a National Olympic Committee I was pampered in a way one is unlikely to experience any other time in life. You are taken straight to the VIP lounge, with champagne coolers and the best view of the stadium. From there I saw a number of the most spectacular events, including the famous 100m final when Ben Johnson was disqualified a few moments thereafter, having been tested positive for steroids.

From my experience in the business world, I remember watching the launch of some of the enormous ships built for A P Moller Maersk. I went once to the launch of a major ship built in Nagasaki, Japan, a majestic shape of 300 metres sliding into the ocean.

Is there a common denominator for your activities over the almost three decades from the hectic days of the Delors Committee until you resurfaced in the EFB – and how did you find a balance between private and professional activities?

The period from about 1990 to 2016 was a happy and invigorating one. The major event in my personal life was that I started a new family. I remarried in 1993 and had a son, almost on my sixtieth birthday; that may be part of the explanation that I feel today as much at home with the generation after me as with my own. My son, now 25, is the same age as some of my six grandchildren. It was a wonderful experience – and more demanding than I recall the earlier one – to become a father again. I had once more a great young family around me in Copenhagen, on the family farm on the Baltic Sea and on a number of trips. My wife and son would not have been averse to living abroad for a few years, and I did put my hat into the ring for international positions on three occasions – President of the European University Institute in Florence, Director of the IMF Independent Evaluation Office in Washington DC, and Independent Member of the Bank of England Monetary Policy Committee. But I did not get beyond the short list and the final selection stage in these cases – and today I do not see that as a source of disappointment, since I thrived with what I did and had in Copenhagen, my OECD assignment and my more private and family activities.

Professionally, I was privileged to have a relatively freer schedule, combining my final 10-15 years at the University prior to my retirement from teaching at the end of 2004 - primarily seminar classes and supervision of theses of often high quality – with the more temporary and part-time activities in international organisations and working groups. There was hardly any clear overall direction in my activities, but my less systematic studies in fields contiguous to what I had been doing earlier, prepared me better for what I see as my final sprint in my

European activities. I have time for that now, as I concentrate on my main activity with fewer distractions. My daily routine when in Copenhagen, continuing to go my office at the university most days for some hours of work, interaction with colleagues and reading papers, has been relaxing and productive, and I am very grateful for continuing to be part of that environment. The university has also treated me generously by organising, on the occasions of my round birthdays, international conferences where I could invite my international friends to a programme of intensive debate as well as festivities. So with such a privileged background it should not be a surprise that I am anxious to continue working on the European agenda that has remained my main preoccupation for half a century.

Part 5 – EMU at twenty and the European Fiscal Board

How do you look back now on the structure of EMU as conceived in the Maastricht Treaty?

In contrast to many others I look back to the start of EMU as a successful venture, because it was to me a major step forward. It was clearly 'work in progress', it was incomplete, but that was also clear to people I think at the time. More should have been done but an economic and political opportunity was seized. In economic terms there had been substantial convergence within Europe, mainly between France and Germany but also, to some extent, other countries, including Italy. That made the prospect of monetary union feasible for, at least, the original members of the European Community, but also some others, notably those who were about to join in the course of the 1990s (Austria, Finland and Sweden). In political terms there was a prevailing mood of optimism; the Single Market had been underway for some years, creating a favourable view of the capacity of European integration to move forward constructively. The global environment was also favourable – good Atlantic relations and the prospect of massive political change in Central and Eastern Europe, with moves towards more market-based economies. An opportunity was seized and helped by the process of reunification in Germany which probably advanced the date for reaching EMU, though not the ambition itself. Basically the positive sentiment was there, also in Germany, despite grumblings in conservative circles about risks to stability.

As I have already argued, the Germans had their own interests, not only in having more stable permanent exchange-rate arrangements with their close partners; they were also becoming more disposed to Europeanise the role in global economy policy-making that Germany had increasingly come to play in the IMF, in the G7 and in other global fora. The Germans were tired of being blamed for all of Europe's economic problems, being reprimanded by the United States, in particular. These arguments are often forgotten now, also in Germany, but they would quickly reappear if we did not have EMU – in fact, they have become visible even with the single currency in the most recent period. An opportunity was seized but looking back, one sees the flaws in the structure more clearly. Some of them were seen at the time, but it was thought they could be repaired as time passed. Others were overlooked; the major omission was the lack of attention to financial issues. The negotiations at Maastricht focused on the complementarity with the single market in goods, and the incentives provided by entry into EMU to bring national wage cost trends in the participating countries onto a more parallel track - but not on the major impact that the single currency would have on financial integration, particularly of government bond markets. But of course, at the time, perceptions were very different from today. Around 1990, banking was still largely a national industry, there were few cross-border activities, and national bond markets were much less integrated than today. So it was understandable that these problems were not foreseen. But I still look back on to the Maastricht Treaty as a successful seizing of an opportunity that might not have been available subsequently, if one had waited a few more years. I do not share the view that deciding on EMU was a failure of design and foresight. You never create something whole from the start.

Were you surprised by the Euro area crisis? Which aspects of the crisis were the most surprising for you?

Like most observers, I had become used to the idea that capital flows within Europe would be basically stabilizing, in the sense that they were creating new opportunities, enabling peripheral economies to grow faster. And most of us commented extensively on how fast Spain, not to speak of Ireland and even Greece, were growing and how fast they were catching up with the core economies of Europe. When the crisis and the consequences of the massive reversal of capital flows occurred, it was belatedly realized that much more should have been done to promote financial stability and oversight, not least by assigning much more supervisory and regulatory authority to the European level, rather than maintaining only national systems of financial supervision and regulation. That was a new perception, even to senior officials and colleagues well-versed in financial matters. As late as 2009 after the crisis had struck, it proved impossible to agree on the reforms we now regard as essential, as illustrated by the fate of a far-reaching report prepared by Jacques de Larosière in 2009; there was still an optimism that the financial crisis was a very exceptional set of events. And then attention was diverted to fiscal policy from late 2009 with the eruption of the Greek crisis which did have its roots in excessive public debt accumulation rather than in private activity or financial market behaviour.

You talked about the destabilizing element of capital flows. That had been observed before, in the ERM crisis in 1992-1993. So would you say that that crisis then had not left a deep impression on policymakers about vulnerability?

Looking back at the crisis in the early 1990s, it was of a different nature. The EMS may have become, in its near-final stage, an over-ambitious effort at exchange-rate stability, too early for some of the participants. There was a widespread ambition to move towards ever tighter monetary relationships, so it was difficult to recognize that before we could lock up exchange rates completely, there had to be some currency adjustments since cost levels had drifted out of line; convergence remained incomplete. But one should not exaggerate the impact of the crisis. In fact, the crucial Franco-German relationship survived that crisis, passing through a temporary period of more currency flexibility in 1994-5. The experience of the 1992-3 crises had been not forgotten, but they should, in retrospect, be regarded as an adjustment period useful for testing the viability of EMU.

In addition, there was a perception that EMU would be a much more robust construction than the EMS, because in the latter market participants knew perfectly well that exchange rates had not been fixed forever. There were potentially significant gains and little risk in attacking currencies, as we saw with the attacks on the Italian Lira and the British Pound in September 1992. Once in EMU attacks play out differently – through widening spreads of interest rates, as currency markets have been eliminated. After the EMS crisis came the Asian crisis in 1997-98, which should have also been a warning, because it was once more a reversal of capital flows which caused massive pressures on currencies and financial markets more generally. But that crisis had almost been overcome as EMU started, and, in any case, the Asian countries affected were regarded as less stable with limited similarities to Europe. There was a surprising element of complacency in saying 'it is not too relevant to us what has happened to these other regions of the world, or even in the periphery of Northern Europe'. There had been major currency crises in two prospective Member States (Finland and Sweden) in the early 1990s to provide relevant experiences, but they were disregarded as well.

Since the crisis, we have had several reforms in the governance framework of EMU. What is your assessment of these reforms?

Most of the reforms were related to fiscal policy. The main failure that many still see today in the original construction of the EMU is the weakness of surveillance of national fiscal policies. There was some surveillance originally - the rules in the Treaty of 3 and 60% for public sector deficits and debt - but these 'reference values' were meant as guideposts that countries should stay clear of in their own interest; there would then be no need to design a more intrusive system. The rules were overly simple and inevitably somewhat arbitrary, as most economists pointed out from the beginning. It was discussed already in the Delors Committee, that it would make more sense to monitor primarily the cyclically adjusted or structural positions of government budget balances. But that idea was not adopted at Maastricht; it was seen as too refined and not sufficiently observable. If one relies largely on indicators of behaviour that are not observable, each country will come with its experts to argue with the Commission and the Council that they are doing better than the indicator suggests. It seems safer just to put down the rough (headline) figures that we can read in the annual government accounts and for which governments can be held accountable; then you might hope to avoid all the debates about intrusive interference into national budgetary sovereignty. It was a deliberate choice, in retrospect not entirely indefensible, to aim for as much of a hands-off attitude to national fiscal policy as consistent with a minimum of coherence.

Nevertheless, subsequent reforms have taken the fiscal rules into the territory of detailed interpretation. Reform came first with the Stability and Growth Pact (SGP) of 1997, which tightened procedures and introduced a preventive perspective, supplementing the corrective one of the Treaty. There was recognition that the underlying structural budget position was also important, that one had to maintain balance over the cycle, but this guideline was not observed very well in the early years of EMU. In 2005, some new dimensions of flexibility were introduced, and the framework drifted away from relying on general norms towards a system of annual negotiations of how individual countries perform in order to better accommodate country differences. From an analytical perspective that seems satisfactory and logical, but it is at the core of the problem that we face today. Some countries believe the rules are being applied too liberally, while others will argue that, on the contrary, surveillance is becoming too rigid and doctrinaire, or whatever word you use to characterize them. It is a difficult balance to strike; the dilemma was already there with the 2005 reform to save the framework, after France and Germany had jointly refused to accept the Commission's policy recommendations for 2004 to undertake adjustments to bring deficits under 3%. A very difficult period of renegotiation followed.

However, as the Commission subsequently recognized, the analytical preparedness for evaluating budgetary positions prior to the crisis was still inadequate, despite the refinements introduced. Looking back during the crisis at how much less reassuring the underlying positions for government finances really had been in 2006-7 when assessed ex post relative to what one had interpreted in real time, was a shock. The next set of reforms, negotiated in 2010-12, marked a return some way towards the original concept, i.e. to emphasize the primacy of longer-run sustainability as a national responsibility, and to build up more solid fiscal positions. I think the Commission, when the crisis struck in 2009 had little choice, except to say that we can not use rules in a crisis as deep as this, when public debt ratios jumped from 60 to 90% on the average. The so-called European Economic Recovery programme (EERP) was of impressive magnitude: 1.5% of collective GDP for 2009-10. But it also illustrated the danger of conducting a common policy; when you announce such an effort, all countries will want to expand their economy, whether they are in a precarious position or not. Some of the countries that did expand at that time went well beyond what was in their own longer-term interest.

The key word that emerged from the crisis was that one has to maintain a differentiation in national policy recommendations. The Euro area is still far from being one economy; the legacy of where individual countries have come from is very important. A country with massive debt problems should not be encouraged to expand by anything close to 1.5 % of GDP. The cost of the EERP was that the subsequent consolidation became more brutal since international financial markets lost confidence in the countries where the debt problems had become dramatically worse as the combined impact of the negative shock of the crisis and then of the EERP. Investors responded to this sequence by getting out fast from the markets of weak economies. The emphasis in the reforms that were agreed over 2010-12, had to go in the direction of underlining sustainability as the primary objective not to risk a repetition of the experience. While this reaction was logical, it created a conflict with the need to sustain demand as the downturn continued during the critical period 2011-13, when most countries in Europe contracted substantially - to the point that the Euro area, alone among the major economies faced a double-dip recession. The IMF staff pointed out that the Europeans had underestimated that, once you have nearly every country consolidating - also Germany and the Netherlands that might have used a somewhat slower pace of consolidation - then you reinforce recession in Europe through demand spill-over effects. The conflict between sustainability and the active use of fiscal policy as a stabilizer clearly emerged.

But the ECB saved the day?

Fortunately, in 2012 the ECB to a substantial degree saved EMU from an existential crisis by saying that it was prepared to ‘do anything within our mandate to save the euro’. The method was to declare readiness to buy sovereign bonds, provided the issuing country had entered into a borrowing agreement with the new European Stability Mechanism (ESM), based on strict conditionality. This approach was consistent with the Treaty as regards the division of labour between the monetary and the political authorities: if a government is prepared to seek an ESM programme, then the ECB can support its bond market; that would no longer be a monetary policy decision, but a follow-up to a political decision. Mario Draghi said, ‘believe me, that will be enough’ - and it proved to be enough to narrow bond spreads dramatically, and to put doubts about redenomination risks to rest. No country (except Cyprus) has since asked for a programme – in that sense the intentions were not met - but the announcement itself proved to be sufficient, making it the most effective example of central bank communication ever. Monetary policy became more expansionary at the same time with large liquidity programmes for banks and lower interest rates. The ECB had not been without responsibility for prolonging the crisis prior to the summer of 2012; it had even raised the policy rate in 2011. But the bold steps of 2012 were in retrospect fully vindicated. And then, from late 2013, fiscal policy finally ended its contractionary phase, improving the climate for recovery that began at the end of that year.

Since 2014 fiscal policy has been broadly neutral or slightly expansionary. But the balance between monetary and fiscal policy was from then on highly unusual from a historical perspective; there were not, or could not be, efforts at ‘coordinating’ the two policy areas. If one goes back to the deliberate design of EMU and its division of labour between the ECB and the national governments, the ECB is supposed to look only at the Euro area as a whole – though with a responsibility for the cohesion of the area, threatened in 2012 - whereas governments, when they meet in the Eurogroup, are supposed to look at countries one by one. The agendas were designed to overlap as little as possible; therefore, it took another two years or so before any discussion of how monetary and fiscal policy could interact more constructively came up. Mario Draghi tried to start it in 2014 by asking for help from fiscal policy to sustain a recovery that again looked weak and accompanied by some unanchoring of inflation expectations further below the ECB inflation objective; monetary policy should not continue to be the only tool. Another couple of years passed, before that view got any hearing from governments; several of them continued to have serious imbalances in their public finances as a legacy from the crisis or from before it, while those in more comfortable positions were not so dissatisfied with the recoveries in their countries as to see a need for a fiscal stimulus. These tensions in national perceptions of fiscal policy proved durable; so the ECB message fell on deaf ears most of the time - until 2019 when the economic outlook deteriorated and became more uncertain.

Another aspect of the reforms of EMU governance was the creation of the Banking Union. What is your assessment of the Banking Union? Do we already have a full Banking Union?

No, we certainly do not have a full Banking Union. But we may have more than half of a Banking Union - already a valuable contribution, although it would be very helpful to see it completed, supplemented by a Capital Markets Union and by elements of risk sharing through public finances. Governments have felt encouraged by what they decided in 2012 into thinking that creating a Banking Union could substitute for other private as well as for public risk-sharing, another frequently used concept in the European policy debate. In large federal countries such as the USA and Canada, well-functioning private capital markets take care of much of the risk sharing through smoothly flowing capital, while the safety of banks in a Canadian province or in a US state is largely divorced from the state of finances at the sub-national level. In Europe it has rightly been seen as vital to divorce the banks as the dominant financial intermediaries from national public finances. A two-pronged approach has been adopted: banks should become safer, diminishing the need for costly fiscal rescues and the associated risks to fiscal stability, while national governments should step back from pushing their government bonds onto the balance sheets of their banking system. Taking the first steps towards a full Banking Union with the set-up of the Single Supervisory Mechanism (SSM) and the Single Resolution mechanism (SRM) were major steps, justifying the label of half a Banking Union. But these steps are not, in particular, a substitute for fiscal union with some possibility of public risk sharing. A back-up function for the SRM, as is found e.g. in the United States, is now underway for 2024, while joint deposit insurance, or re-insurance, is further in the future, but since the main risks in the banking system are hardly those of runs by private depositors. But rather those of a sudden loss of wholesale funding, joint deposit insurance might not be as essential as it is often claimed.

The relative robustness of the US financial system is that you have nation-wide federal agencies that look after the stability of the financial system and we are gradually building up these institutions now. The (good) half of Banking Union is major progress, and the new institutions are doing a fine job in Frankfurt as in Brussels. There have been examples of bank rescues that have not been in conformity with the 'bail-in' principle of the system – i.e. that creditors of a failing bank have to be those primarily responsible for losses, rather than taxpayers – since new practices take time to work their way through. For some smaller institutions in Italy and in Germany the principle was not followed, partly because decision-making around resolutions in the financial sector is highly complex, involving both the SSM in Frankfurt, the SRM in Brussels, and the competition authorities in the Commission; yet much progress has been made. There has been a major reduction of the risks to public finances from exposures to financial sector engagements - arguably the single most significant change in the environment for deficits and debt relative to a decade ago.

We can move on to the European Fiscal Board (EFB). Why did you apply for the position of the Chair of the Board?

The EFB is a child of the Five President’s Report of 2015, signed by then Commission President Juncker and his four colleagues in the Eurogroup, the European Parliament, the ECB and the European Council. Unfortunately, that thoughtful and ambitious report came out in June 2015, and was soon overshadowed by the dramatic events on the refugee and security side in Europe. So it was not followed up, except in one small element, mentioned almost as an aside: within two years an independent European Fiscal Board to advise the Commission should be set up. Why did this, apparently unnecessary, proposal find support? Why would a large and technically very competent body, supposedly independent of national governments and charged with looking after the general interest, need a watchdog or adviser ? Putting it frankly, the EFB was set up because there was a growing lack of trust in how the Commission implemented the fiscal rules. The process was becoming less than transparent, difficult to follow for Member States and certainly for a broader public, too much marked by political considerations, and too bilateral. I mentioned earlier that the process had become a negotiation process, but it does not have to become a bilateral negotiation between the Commission and individual countries.

Some level of distrust on the side of the more orthodox countries vis-à-vis the Commission had developed, as the Commission was seen as becoming less of a 'Guardian of the Treaty' in assuring compliance with the rules than could have been expected. The countries that benefited from a more flexible implementation of the rules on the other hand felt that the rules remained too much of a strait-jacket during the prolonged aftermath of the crisis. The Commission had worked hard to document in excruciating detail how and why the flexibility had been applied, and it had obtained clearance in the Eurogroup for all recommendations. By 2015 all three parties seemed to accept that there was a useful purpose in having an independent body look critically at the practice and, possibly, propose reforms of the fiscal rules and governance.

When I read about it, the assignment seemed potentially very interesting and challenging. I applied like quite a few others; I understand that a sizeable number of candidates were considered. I was short-listed and invited for an interview with a panel of senior European officials from the Commission and the Council. The nominations to the Board were vetted not only by the Commission, but also by the ECB, the Eurogroup, the ECON Committee of the Parliament and by the independent national fiscal councils (IFIs). You will not be surprised that I found the nomination process fair and open; I am very proud to have been selected. When I presented myself to the panel and already in a note that I sent to them, I referred to my experience from work on OECD and IMF surveillance, but also as a participant in the early stages of preparing EMU and designing its fiscal framework; if nominated, I felt I could serve as Chair - an unusual degree of immodesty on my part. The Chair of the panel asked if I would only accept if nominated Chair. I said no; it would be an interesting assignment anyway to serve as an ordinary member. It has all turned out very well and I have been very fortunate to have had four excellent colleagues with deep and complementary experience from academia and/or policy-making at a high level. We have worked very well as a team, with no major difficulties in reaching agreement; and we have had indispensable support from a Secretariat of great competence and with the essential familiarity with the intricate details of the EU fiscal rules. I may spend more time on the EFB than my colleagues, particularly at the time of presenting our work, but I am privileged to have more time than they have in demanding full-time positions.

What do you think of the expression that "the EFB is a watchdog for another watchdog" – the European Commission?

That is an apt description - we are indeed a watchdog of an already, in principle, independent institution, which is, however, not always seen as truly independent. There is as hinted at a perception among several member countries that the Commission has become less than fully impartial and excessively political in its recommendations. The Commission is trying hard to do a solid job, particularly its large professional staff. However, at the end when recommendations have to be addressed to a country, the process becomes - and has to become - more political as it passes through the College of Commissioners. The EFB fully accepts that the College is a political body, but we have argued in our two latest annual reports that more of an effort should be made to demarcate the underlying economic analysis of the staff from the ultimate policy recommendations adopted by the College - into which political considerations must enter. But the Commission should be expected to embody clear economic arguments in its recommendations; otherwise it becomes too difficult for the other political body – the Eurogroup – to react properly to the proposed recommendations.

Some years ago, Juncker said that France was a special case. What do you think of that?

When some of us from the EFB visited the ECB, I was asked what I thought of this remark. When I began to argue that it is hard to show empirically that there have been significant differences in treatment of large versus smaller countries (or over time), my ECB colleagues clearly thought I was naïve. President Juncker's expression was unfortunate in terms of retaining the respect for the economic background to policy recommendations to extend deadlines for adjustment, or whatever. The proper background to any such recommendation should be to look as carefully as possible at the better output/employment performance which would be made possible by a slower pace of adjustment than under strict compliance with the rules - and at any additional risks from slower debt reduction. As an EFB member - or as a Commission staff member - I would not refer to additional political considerations specific to France, but they will legitimately be in the mind of policymakers in Europe, including the College of Commissioners. The mission of the EFB is necessarily focused on economic arguments. We have been critical that some countries, not least France and Spain, have been allowed, with the acceptance of the Eurogroup, to follow what is called in popular language 'the nominal principle': as long as the 3% rule for the headline deficit is observed or clearly on the way toward that, then that was seen as good enough, even when the performance was due largely to a sustained recovery, as was the case in 2017-18, in particular. These two countries should in our view have been held on a more prudent path of debt reduction in the good years (2017-18).

There are many interesting cases to discuss as to how one achieves the best trade-off between two main desirable objectives: a declining path for the debt ratio and a fiscal policy contribution to counter-cyclical stabilisation. As the euro area countries entered a more solid recovery, it became increasingly appropriate to revert to a more traditional view of strengthening sustainability, insisting that good times be used to build up fiscal buffers ahead of the next crisis, which is bound to come at some point. The EFB still gave the Commission good marks for how they administered the rules in 2016, but the longer the upswing continued; the more the emphasis should have been on sustainability and less on the need for flexibility of implementation. The recovery was not obviously 'fragile' by 2017-18, the loose term used by the Commission, not sufficiently underpinned by economic analysis. In fact, the fiscal policies pursued in the best years of the recovery became somewhat pro-cyclical. However, the upswing slowed in the course of 2018, making the trade-off between the two objectives more topical again. But we were still not at that time (around the end of 2019) facing threats of recession which would require reflections on how to go beyond automatic stabilizers.

How did the Commission respond to critical remarks and proposals?

The Commission was mandated, already in the 2011-13 legislation, to review by the end of 2019 how the rules had worked. But in January 2019 President Juncker gave the EFB a similar mandate to be met by end-July, not least with a view to provide input into the Commission's own later review. We accordingly had the opportunity to get into the debate early and to raise issues relating both to the lessons of the past decade and to desirable future reforms. We outlined some considerable simplifications; focus only on significant departures from guidelines and on the minority, currently of 6-7 countries with debt ratios of 90% or more. We suggested an expenditure benchmark would help to assure that debt ratios in these countries stay on a declining trend, while weakening the focus on annual monitoring of deficits and of policy indicators subject to major uncertainties and subsequent revisions.

More boldly, we proposed that it would be desirable to provide more room for public investment than has been the case under the current system, where incentives to achieve such protection have been excessively constrained. New investment, essential for growth, has borne the brunt of cutbacks during the crisis years - without recovering subsequently. We are well aware that, if the future rules are to protect growth-friendly expenditures better, there will be major challenges in defining categories of investment that lend themselves to EU monitoring, but we also point to ways how one may begin to address these challenges. We are, of course, well aware that we have only begun to scratch the surface of these problems, but it would be surprising if it were to prove impossible to find - in the areas of high European priorities as defined in the EU Medium-Term Financial Framework for 2021-27 or in the Green Deal, announced by the Commission - examples of public investment expenditures that could qualify. But there is strong political reluctance from several Member States to this proposal; even the Commission is currently not convinced of its feasibility. All I can say with any confidence is that the EFB has helped to put the subject on the agenda. To sum up, we envisage that fiscal rules will remain important; that they should be simplified with only a broad escape clause, while any other residual flexibility in implementation should become more soundly based. We hope in the first place to convince the Commission of that.

When I hear you speaking like that, I was thinking you were the person who proposed Friedman for the Nobel Prize in Economics. When you speak here about discretion versus rules, it's difficult to imagine that you were the person who proposed him…

I do not find it impossible to reconcile these positions. I continue to have great admiration for Friedman's work. He is not as easy to classify as most people think. Though a proponent of simple policy rules and limited discretion in monetary policy, he would not have been unhappy with some flexibility in reaching the objective of stable prices in the medium term. You can not hit an objective precisely when there are long and variable lags in the transmission of monetary policy to inflation and other objectives – indeed, Friedman would, in my view, have been critical of the ambition of the ECB to hit a 2% target with any precision over a relatively short horizon of a couple of years. Central banks should aim to influence medium-term inflation expectations, only very gradually approaching a target for actual inflation. As to fiscal policy, the objectives are more multidimensional than those for monetary policy; we should not be surprised that it takes quite some time to reach decisions and for them to have the desired impact. Friedman always stressed the degree of uncertainty and the long and variable time lags in economic relationships, so I do not believe that I undermine his views by stressing the need for flexibility in policy design. Friedman may have been too doctrinaire in presenting his ideas as well as very effective and persuasive; I retain admiration for his communication skills and how he used this talent. As a graduate student at MIT in 1960 I was, as a disciple of Modigliani, attacking Friedman for being overly simplistic and too rejectionist of other approaches than his own. One good consequence was that he spurred highly refined analyses from his many critics who tried to show that it was possible to develop macroeconomic models that allowed for more ambitious and detailed policy design than those of Friedman and other monetarists thought would be possible. Here the jury must be said to be still out 60 years later, as also discussed above in my comments on new approaches in macroeconomic modelling; there are limits to the kind of refinements economic models can incorporate and remain tractable for the purpose of policy advice. We simply do not have the information required to derive guidelines for detailed short-term monetary or fiscal stabilization; simple rules based on Friedman's humility in policy advice is not without merit.

Back to the EFB, what is the relationship between the EFB and national fiscal councils?

The EFB is often seen as the European analogy to independent national fiscal councils (IFIs). Some of these institutions were established long before the crisis, with broad remits to raise the level and transparency of national policy-making. After the crisis many more such councils were set up to improve the demonstrably poor record of macroeconomic and budgetary forecasts of their governments and to look critically at the compliance with fiscal rules at the national level, the latter reflecting broadly the EU fiscal rules. There is an analogy to what the EFB does, but the main value of the national fiscal councils lies in the decentralized approach to surveillance which they embody at a time when the limits to effective centralized surveillance have become more evident. The IFIs can make recommendations that are hard to copy in Brussels; they are nationally better placed, while independent, in their countries. Their detailed knowledge of their economies makes them a valuable source of monitoring and surveillance; and some IFIs have shown they are able to use these assets to influence public policy. The Five Presidents Report said that an EFB would have the task of 'coordinating' the efforts by the national fiscal boards. But that went too far, because that would have made it more difficult for the IFIs to appear as independent as they need to be. In the EFB we take careful notice of the IFIs, looking at best practice, and taking up as examples national fiscal outcomes that have proved difficult to manage and where the Commission has made recommendations to adjust. What did the national IFI do in these cases? Have they contributed to redressing some imbalances already? Our relationship with the IFIs has to remain a somewhat arms-length one. The really important relationship for any IFI is that with its national government.

After more than three years at the EFB, how do you look back? What is your first assessment of the strengths and weaknesses of the EFB?

Fiscal policy is an area where it is hard to gain any visible influence, because it is a politically very sensitive area. As already argued, the main reason why the EFB was created was the tension between national governments and the European Commission, for long entrusted with the kind of work we are now also engaged in with our far more limited resources. Believing that we could have a major impact would be over-ambitious, but I hope we will have an impact on the reform of the rules that will come at some point, despite the current lack of agreement on how to proceed. In both the Commission and among the Member States in the Council there is considerable inertia, because, after all, no disasters of economic policy have been observed in recent years. ‘If it ain't (totally) broke, why fix it?’ is a widespread attitude among EU governments. This is not incorrect, but in the EFB we believe that there is a steadily accumulating cost of operating in a way that generates growing frictions and even distrust among the main actors.

Our message is basically the positive one that there is a need for improving the rules, making them simpler, yet tougher. Any updating of the rules-based framework should be accompanied by elimination of ambiguities, not least reliance on unobservable policy indicators that express unrealistic ambitions of accuracy. That is a hard message because you will always find one or two countries that would say ‘that one particular rule makes sense to us and we have explained why we think this catches the right picture for us, for our economy’. We do not underestimate the resistance we get, but on the other hand there has been a willingness to listen to some of the arguments. The Commission tried at the end of 2017, understandably in my view, to bring out really ambitious long-term institutional reforms requiring changes not only in secondary legislation, but also in the Treaty: headline-catching ideas such as an EMU Minister of Finance, and integrating the ESM and the fiscal compact into the Treaty, and other major institutional reforms. These proposals never found their way into the Council's agenda and even in the best of circumstances they would have taken a very long time to agree to implement. The Commission feels that at times one has to look into the distant future to get a sense of how a 'complete' EMU would look. But when the time for the ambitious ideas has not yet arrived, and legislative steps look unfeasible one should, in our view, intensify efforts to update the more pedestrian rules and governance practices over the shorter horizon. The EFB is more impatient on this part of the agenda - as it is our role to be.

We have sympathy for one important reform which the Commission has proposed several times, but without finding broad support in the Council: a Central Fiscal Capacity (CFC) with a role in stabilization when very large and common disturbances hit EMU. All that has survived in the current medium-term budget negotiations is a so-called Budget Instrument for Convergence and Competitiveness (BICC), which is certainly not useless as an additional structural policy instrument - and capable of subsequent up scaling, to use the expression of the new ECB President.

Conclusion

Looking back on your long professional career, what were the most important achievements, the most satisfying ones for you? And what were your biggest regrets?

Nothing is certainly complete, one way or the other. But the most important achievement, the most fascinating enterprise I have been engaged in, is the economic integration of Europe in which I have been fortunate to take part in at various stages over nearly half a century. Early, in the 1970s, nothing seemed possible. But gradually, and only a few years later, cooperation strengthened and the EMS improved the policy framework. A crowning achievement was the progress towards EMU, started in the Delors Committee, for me a momentous event and personally deeply moving; suddenly I found myself among very prominent policymakers and being taken into their personal confidence. That was an exceptionally strong experience. Even if the design at Maastricht was not an unmitigated success in terms of the way that the EMU has functioned over its first two decades - how could it have been anyway? - I regard the decision to create EMU as the high point.

In our EFB reports we say diplomatically that, sometimes, European considerations have to be given more weight in important national debates. Growing interdependence is the inescapable consequence of sharing a currency and the policy framework associated with it. I thought that Maastricht offered a balanced compromise to both France and Germany. Both gained something while making concessions, but the two governments unfortunately tended to emphasize to their respective national publics primarily how their preferences had been met and not enough why EMU was a highly satisfactory package altogether. The vision of compromise in European decisions has been very important for me. Over the year and the half also before the EMU debate started and the Delors Committee was created, I spent a lot of time participating in discussions with officials and academic colleagues in Germany and France. That was a truely formative period for me, trying to better understand common interests and national preferences.

My recent re-entry into that kind of experience at an elevated level is for me a precious opportunity to be involved once more, a unique opportunity for an independent academic to be close to senior policymakers. It may be more anonymous and less innovative than 30 years ago, but still extremely rewarding – and, I hope, useful. My main regret is that there remains such a great gap between political debates in each of our countries. We see in Germany, also though less so in France, a relapse into more strictly national debates where European perspectives and the need to preserve and deepen joint efforts do not play the role they deserve, even from a national view. My experience as a member of the group that Schmidt and Giscard d'Estaing set up, is a reminder how important it is to have policy-makers who can both inspire at a more general level and retain the detailed know-how to make things happen. There is no equivalent to the combination of leadership qualities these two statesmen provided.

We have spoken mostly about technical aspects of the Union. Besides this, what are, according to you, the most important values behind the European project? How to reconcile citizens with Europe as a means to a peaceful and prosperous future?

Of course, I am – as most observers of the debate in our countries - very concerned about the dissatisfaction of many citizens with the European project. I am old enough to retain some of the original spirit that motivated the founders of Europe, a few of whom I have been fortunate to get to know: the prevention of future catastrophic conflicts and wars through the slow and gradual build-up, through concrete cooperation, of a basis for a feeling of common shared interests and values. While successful in the early decades after 1945, this approach has become increasingly questioned, not least in relation to the start of EMU which went beyond 'gradual steps', as recommended by Jean Monnet, to transfers of central elements of what has traditionally, but with diminishing realism, been regarded as national sovereignty. In addition, the process of globalization, though a trend beyond the regional sphere, reinforced the tendency for electorates, encouraged by their politicians, to blame the EU, and EMU, for growing challenges and inequality. The extreme example of that we saw in the United Kingdom, even outside EMU, turning her back to several key aspects of cooperation in Europe.

There are now topics at the top of the EU agenda – climate change, internal and external security, migration, the digital economy – where the arguments for joint efforts are even more visible than for earlier priority areas. The EU relies for its success and even acceptability on a mixture of competition between nation states and joint efforts; if the latter are well executed and more productively than would be possible individually, competition works better as well. The challenge for the EU and, in particular, for the national governments, is to encourage the two elements to complement each other, while demonstrating where joint efforts are likely to work, hence justifying that merging of sovereignty in selected areas would not be in conflict with national interests. The key element in believing that such recognition can spread is, obviously, that there are enough common elements in the national values of EU nations. If one travels to other parts of the world, notably the US and Asian countries, that has invariably served, at least for me, as a reminder that there are shared European values, finding their expression in attitudes to democracy and in the preservation of social balance or cohesion. Maybe my optimism on the latter point comes from my base in Northern Europe where the concepts of a social contract and a social market economy have retained more prominence and wider support than in other parts of the Continent, not to speak of the US and Asia. I hope that the departure of the UK, which did not share the optimism that the EU can sustain such values, will make the rest of us do better at showing it is possible to be at the same time innovative and protective of social values.

EMU with the euro remains central to the hopes for progress in Europe. It is encouraging that the euro – though not quite the institution(s) responsible for it – has found wider support recently than at any other time since the start in 1999, as illustrated also by the European elections in 2019. The prospects are not entirely discouraging.

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