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Alexandre Lamfalussy. The Wise Man of the Euro
by Christophe Lamfalussy, Ivo Maes and Sabine Péters
LannooCampus, Belgium
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A delightful book, based on joint interviews by the three authors, brings out the exceptional life story and the amazingly rich professional experience of Alexandre Lamfalussy, who passed away on May 9th 2015. Members of SUERF will appreciate that their Council a few years ago made the best possible choice of their first Honorary Member: Alexandre Lamfalussy embodied the combination of talents that SUERF has tried to attract to its activities. His profile was primarily that of a central banker at the centre of international policy cooperation, but his career also spanned nearly two decades in one of the three major banks in Belgium, ending as its CEO, and a lifelong association with academia, illustrated by an impressive publication list for someone who held top positions with massive policy-making and administrative obligations. In the absence of an autobiography by Lamfalussy himself, the three authors – Christophe Lamfalussy, his oldest son and a journalist, Economics Professor Ivo Maes of the National Bank of Belgium, and History Professor Sabine Peters of the ICHEC Brussels Management School – have earned the gratitude of readers for their well-told story.

Alexandre Lamfalussy was born in provincial Hungary in 1929 with ancestors from several other countries in Central Europe. He was in the middle of his second year as a university student in Economics, with a solid background in Mathematics and in languages, when in early 1949 Soviet control of political and intellectual life in Hungary tightened to such an extent that he and three of his friends courageously chose to flee the country, walking across the border to the Soviet zone of Austria. They arrived in Belgium without resources other than some prior contacts and enrolled at the University of Louvain (then in Leuven). After graduation in 1952 and a year as Assistant to Professor Leon Dupriez, working mainly on competitiveness issues for Belgian industry, Lamfalussy was awarded a two-year fellowship to pursue a DPhil at Nuffield College, Oxford, supervised by P.W.S. Andrews and John Hicks. He obtained his degree in 1956, his last foray into competition and industrial policy; by that time he had returned to Belgium as an economist at Banque de Bruxelles, building up reputation as an analyst, then as a Chief Economist and, over his final five years there from 1971 as Chairman of the Executive Committee. All through this active career he maintained close links to his alma mater at Louvain, spent a very fruitful sabbatical year at Yale University in 1960–61, contributed very actively to policy analysis and advice in Belgium and in the European Economic Community, membership of the Committee headed by Claudio Segre on the integration of European capital markets being a prime example.

Having completed the negotiations for the merger of his bank into Banque Bruxelles Lambert, Lamfalussy had expected to return to academia, but an offer from the Bank for International Settlements (BIS) in Basel to take over as Head of the Monetary and Banking Department was too tempting. He was to remain two decades at the BIS, the second one as General Manager, building the reputation of his institution as the analytical centre for international cooperation on monetary policy and financial regulation. Using the rich information available
at the BIS, he made the Annual Report the most analytically interesting document to appear from the central banks, while greatly strengthening the BIS as the forum for internationally significant central banks and financial supervisors; in the 1980s overreliance on exchange-rate adjustments and a protracted Latin American debt crisis put both global and intra-European coordination of monetary and financial policies at the top of the agenda of national policy makers. As host of the monthly meetings of central bank governors from both the Group of Ten and the European Community, Lamfalussy provided analytical input as well as constructive and authoritative contributions to often polarized exchanges.

Lamfalussy similarly became the perfect host for the meeting of the Delors Committee in 1988–89 of which he was an independent member and where I had the privilege of observing at first hand the respect in which he was held by the central bankers. He provided much of the background research, with the able assistance of Claudio Borio and others, relating not least to what he saw as the necessary underpinnings of monetary union in terms of both fiscal rules to discipline national participants and coordination of national budgetary policies to facilitate a better macroeconomic policy-mix that was a hallmark of all BIS advice. He was not listened to sufficiently, and the design of EMU in the end contained little in terms of either effective monitoring of national budgetary policies or coordination. Looking back, however, he at least was able to remark in the book, that most of the congenital weaknesses in the design were repaired in the update undertaken by van Rompuy in 2010–12, not least the monitoring of macroeconomic – and not only budgetary - imbalances.

When the Delors Report had been signed by all members, Lamfalussy expressed the view that, while a solid job had been done in defining the final stage of EMU, the proposals for the transition were so vague as to endanger the arrival at the destination. He had himself proposed in the Committee that national central banks needed to develop some joint operational experience in the second stage, before a new European Central Banking System could reliably take over sole responsibility for the common monetary policy, but his proposal did not win general support from other members and was seen as difficult to reconcile with the German notion of the indivisibility of responsibility for monetary policy at all times. However, on this point the history later allowed Lamfalussy provide proof that, for once, he had been mistaken. As President of the European Monetary Institute (EMI) over three and a half years from the beginning of 1994 he prepared the ground for the future permanent ECB so meticulously that the transition to full centralization of monetary policy proceeded seamlessly without the prior joint operational experience of the national central banks that he had seen as essential a few years earlier. The book gives a fine, though understated, account of this crowning achievement in Lamfalussy’s long central banking career which was so widely recognized that he was under major pressure to continue as the first President of the ECB – which he resisted with reference to advancing age, though also, as he recounted, that he was reluctant to accept a mandate of only the first half of the eight years mandated by the Treaty – an arrangement later imposed on Wim Duisenberg.

Other, more part-time, assignments followed, notably the Presidency of the “Wise Men’s Committee” on EU Securities Regulation in 2000–01 which produced the first vital step towards Europeanization of financial regulation and supervision. Less timid progress had to await the financial crisis of 2008, but without the inspiration of the “Lamfalussy process” these later steps would have been much more difficult. As Jacques de Larosiere says in his very eloquent foreword to the book, this slim volume brings to life not only a number of important debates on international economics and central banking, but also the vital role that an individual with the unique mix of determination, demonstrated so clearly in his personal history, intelligence and human skills including great persuasiveness can play in moving events. Alexandre Lamfalussy has made a difference, even though the authors at times clearly had a hard time getting him to accept that.