

Orthodoxy at the service of high ideals

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Book Review

This political history of European monetary union is packed with details of bruising encounters and blunt speaking backstage, writes **Ralph Atkins**

The euro – the currency of Europe's 10-year-old monetary union – has always been a matter of more than economics. Victor Hugo, the 19th-century French poet and dramatist, dreamt of a currency that would replace “all the absurd varieties of money that exist today, with their effigies of princes, those symbols of misery”.

In the end it was French and German anxieties in the decades after the second world war who spurred the project to completion. French leaders saw monetary union as a way to counter German economic power, as exercised through the fiercely independent Bundesbank, while strengthening Europe's world role. Germans regarded European economic integration as an obligation and chance to spread Bundesbank orthodoxy across the Continent. Britain was often a sceptical bystander.

All of which makes for a compelling political story, which has not previously been written as well. David

Marsh, a former Financial Times journalist, interviewed more than 100 of those most closely involved, including political leaders such as Valéry Giscard d'Estaing, the former French president, and Helmut Schmidt, the former German chancellor, both of whom were “acerbic and difficult; this is one reason why they got on so well”.

There is an eye for captivating details. Some of the most enlightening concern Jean-Claude Trichet, the French former bureaucrat who since 2003 has headed the European Central Bank, the eurozone's monetary authority. Under Mr Trichet the ECB, based in Frankfurt, has a reputation as strong as the Bundesbank's for defending its independence. But Marsh reveals that Mr Trichet took a different stance as director of the French treasury in the late 1960s. Then, as now, the instinct in Paris was to favour a *gouvernement économique* – the co-ordination of economic policies – to balance the powers of the central bank.

Marsh reconstructs a meeting at the French finance ministry in April 1989, called to discuss the “Delors report”, the monetary union blueprint drawn up by a committee led by Jacques Delors, then European Commission president. According to Jacques de Larosière, then France's central bank governor, Mr Trichet told him bluntly that: “the Delors report went too far in proposing a degree of independence for the European Central Bank that went even further than the independence of

the Bundesbank. He thought I had made excessive concessions.” The story of the confrontation, passed around the international central bankers' circuit, “explains why, for years, the Bundesbank and Nederlandsche Bank were sceptical about Trichet's suitability to head the ECB”, argues Marsh.

Mr Trichet had a more direct and bruising encounter with the German authorities during the currency turmoil that hit Europe in the early 1990s.

The Euro

The Politics of the New Global Currency
By David Marsh
(Yale University Press, £25)

After sterling was ejected from the European exchange rate mechanism, Paris found itself repeatedly at odds with Germany in the “battle of the franc”, in which France fought to protect its currency from speculative attacks. Mr Trichet found himself heading a small French team in what Marsh describes as a “highly unequal contest” on the sidelines of an International Monetary Fund meeting in Washington. Opposite sat an array of ministers and officials from Germany's finance department and the Bundesbank. “I felt I was ‘on the front,’” Mr Trichet recalled in a handwritten letter sent later to François Mitterrand, French president.

Marsh devotes the last chapters to tensions that remain within the monetary union. Nicolas Sarkozy, the current French president, for example, is quoted as criticising the “hard franc” policy pursued by Mr Trichet in his later role as French central bank governor – and Mr Sarkozy continues to snipe at his performance in Frankfurt.

From the eurozone project's beginning, ideological differences existed between those, such as at the Bundesbank, who believed economic convergence had to precede monetary union, and those who believe monetary union would provide a catalyst for convergence.

German misgivings about the weaker economies have been borne out by recent credit downgrades and a dramatic widening of yield spreads on eurozone government bonds. Although the euro has acted as a shelter for its member economies it is not clear how stable are its foundations.

Throughout the book, however, Marsh captures the sense of common political purpose across continental Europe, sometimes underestimated in London or in the US. There is no certainty that the euro will survive its second decade unscathed, he argues. But its durable success would be “the richest of triumphs”.

The writer is the FT's Frankfurt bureau chief. The book is available at www.londonandoxford.com/The_Euro/The_Euro.htm