

## ECB-Monetary Trichet to be surer hand at ECB helm but have little near-term impact on European monetary policy (1)

The appointment of Banque de France Governor Jean-Claude Trichet as president of the European Central Bank, approved at the European Summit in Porto Carras at the weekend, was always the most likely outcome for President Wim Duisenberg's succession. For a Frenchman to be appointed to an eight-year mandate to represent Europe in global monetary policy was a much too important position to jeopardise in a specious judicial dispute.

In any case, the Crédit Lyonnais investigation was in essence little more than a settling of old scores between the right and left in France, with roots in still-opaque 1980s political machinations under late president Francois Mitterrand. There was, in reality, little genuine, justifiable culpability to be attributed at civil service level where Trichet operated in the early 1990s.

As the ultimate, discrete public sector mandarin, Trichet will make little or no difference to European monetary policy for the foreseeable future, except at the margin - personnel appointments etc. He will be a much surer hand at the ECB helm but his natural inscrutability means communications is unlikely to become any clearer. The following is the first of a two-part profile.

**Asset conclusions:** Trichet ECB appointment to bring surer touch to euro management; unlikely to institute much near term change in monetary policy

### Other French ECB candidates counted out on political, monetary grounds

Trichet's appointment as successor to Duisenberg will take effect in Oct03. The position was always much too important for Paris to jeopardise in a judicial affair of extremely vague proportions. The fact that the other candidates floated by Paris were unacceptable either politically to President Jacques Chirac or professionally to the central banking community meant that pressure was high on the French judicial system to make a clean, correct judgment. In clearing Trichet of any suspicion of wrongdoing, we think they did.

In the 1980s, under Mitterrand, the French Socialists' behind-the-scenes tussles with the political right over control of influential French institutions such as Crédit Lyonnais were continuous and unrelenting. Such institutions were used flagrantly to meet political objectives and for sources of enrichment for various political parties or persons. The appointment of Jean-Yves Habérier as chairman of the bank in the late 1980s by Mitterrand and Finance/Prime Minister Pierre Bérégovoy remains as unexplained to this day as the real grounds for the multi-million-dollar loans extended by the bank's Dutch subsidiary to known mafia-linked fraudsters living in Hollywood.

Thus, any genuine culpability over Crédit Lyonnais lies squarely in the political sphere of those days. The real challenge of civil servants in key positions at the time, such as Trichet, was to stay out of the way of a covert political dogfight that could cost career or even life.

### Early political leanings pointed toward left wing, but morally meticulous

Trichet was born in Lyons on Dec. 20, 1942. The son of a university lecturer who was himself a graduate of a prestigious college (École Normale Supérieure) he grew up south-east France near Lyons. First attracted towards the world of sci-

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**Trichet showed first signs of following academic career**

ence and letters, Trichet published a book of poems at 19 and seemed destined to become an intellectual academic. In his youth Trichet tended toward the political left wing, joining the Young Socialists in the town of Nancy, where he first studied at the School of Mines (École des Mines), a prestigious springboard into post-graduate financial education.

In later years he moved toward the liberal side of the right - one of the reasons why Chirac and those on the Gaullist flank remained suspicious of him. His qualifications in the late 1960s were sufficient to take him into the even more prestigious School of National Administration (ENA). It was a period of great social unrest in France. Students were taking to the streets in demonstrations that ultimately led to the fall of then-Prime Minister Georges Pompidou.

Trichet's class at ENA was marked by a general leftist leaning, born out of frustration at the absence of fundamental reforms in France, and in 1970 Trichet co-founded a group that affiliated to the left-wing CFDT union. His CFDT section at the time passed around a petition which protested against, "the setting up of a system of political censorship and police repression which undermines the notion of a democratic state".

**Earns nickname 'Justix' for morally correct behaviour**

Among fellow students were Michel Huchon and Jean-Louis Bianco; the former a head of private office for Socialist Prime Minister Michel Rocard in the late 1980s; the latter to head Mitterand's staff in later life, and thence named Minister of Social Affairs in 1991. Even if the protest Trichet signed in 1970 contributed to Pompidou stepping down his youthful radicalism was never less than extremely correct. His college friends nicknamed Trichet "Justix" - the apotheosis of a moral judge, in a term based on the popular Asterix comic.

In the early 1970s Trichet worked his way through administrative bureaucracy as a deputy inspector of finances - a title earned by only the top 10 ENA graduates each year. In 1975, he entered the French Treasury, part of the Finance Ministry and the traditional launch pad for many an énarque career.

At that time the Treasury's influence on economic policy derived from its primary responsibility for administering state borrowing on capital markets. Thus its opinion on the monetary policy impact on long yields made it a significant counterweight to the Banque de France (BdF). The remit of the BdF was primarily limited to the relatively narrow field of monetary policy and short interest rates, as well as the external value of the French franc.

One year after joining the Treasury, Trichet became general secretary of the CIASI, an inter-ministerial committee for administration of public sector industrial holdings, an emergency help organisation for companies close to insolvency. There, Trichet first got to grips with the more thorny problems of French finance and industry.

**Joins Élysée Palace staff of Pres. Giscard d'Éstaing**

Helped by a team of young inspectors of finance, Trichet worked to bring parts of the French micro-economy back to profitability in the market economy - just at a time when the debate over nationalisation was raging.

In 1978 he was appointed adviser to the Ministry of Economy and Finance under then-minister René Monory. But it was to be a short stay. Later that same year he made a still more significant move into the corridors of power by joining the staff of President Valéry Giscard d'Éstaing. Once in the Élysée Palace, Trichet took over responsibility for industry, energy and research.

Despite his leftist beginnings, Trichet was had already moved toward Giscard's liberal wing of the right. From the Élysée, Trichet steered all the sectoral programs of the late 1970s - nuclear energy, telecommunications, aeronautics and space exploration, learning the value of laying strategic plans to achieve long-term objectives.

## After Giscard defeat Trichet heads back to Treasury

In the presidential election of 1981, Giscard was defeated by the Socialist Mitterrand and Trichet headed back to Treasury. He immersed himself in the detail of the insurance sector and commercial relations with Algeria.

By 1985, Trichet's rehabilitation in the eyes of the Socialists was complete - and his liberal approach suited the prevailing economic mood. Bérégoovoy therefore named Trichet head of the international service at the Treasury, the Number Two to then-director Daniel Lebègue - who himself had succeeded Michel Camdessus.

By that time, France had made its U-turn away from Mitterrand's initial radical left-wing policies. Two years earlier then-Finance Minister Jaques Delors had tipped Mitterrand away from interventionism and toward favouring the franc fort - strong franc - eschewing devaluation as an instrument of economic policy. The consensus in the Treasury very much approved.

## Trichet takes over Paris Club, deals with Mexico crisis

Precisely at a time when the Third World debt crisis was reaching its peak, focused then on the Mexican debt crisis, Trichet became president of the informal organisation of industrial nations regulating sovereign debt, the so-called Paris Club. He retained this post through the rest of the 1980s despite leaving the Treasury in mid-decade.

In 1986, the conservatives won the parliamentary elections and a two-year 'cohabitation' ensued; Mitterrand, against his will, was obliged to name Chirac prime minister. Edouard Balladur, one of the chief architects of this victory, became finance minister and appointed Trichet to head his private office. Trichet quickly took charge of the swift privatisation program that followed the govern-

### Banque de France Governor Jean-Claude Trichet - Biographical Details

1942, Dec. 20	Born in Lyons, son of university lecturer.
1950s	Fénelon College and Condorcet high school, Paris.
1968	School of Mines and Political Studies Institute (Sciences-Po).
1969	School of National Administration, ENA.
1971	Assistant Inspector of Finances.
1975	Enters French Treasury.
1976	General Secretary, Interministerial Co'ttee for Management of Industrial Structures
1978	Advisor to Economy Minister. Office of President of the Republic Valéry Giscard d'Estaing responsible for Industry
1981	Direction of the Treasury; Head of development aid.
1985	Direction of the Treasury; Chairman of Paris Club (to 1993).
1986	Head of Office, Minister of Finance & Economy Edouard Balladur.
1987	Director of the Treasury.
1993, October	Governor of the Banque de France. Fixed term of six years.
1994, January	BdF given full independence in accordance with Maastricht Treaty. Trichet establishes nine-member BdF Monetary Policy Council.
1999	Re-appointed as Governor of Banque of France. Joins ECB Council.
2003, June	Nominated as second president of the European Central Bank.

Sources: Banque de France, Who's Who In France, Eurozone Advisors.

ment change. It was a period of intense structural reform in France. Price and exchange controls were dismantled, credit controls were eliminated, and the right continued the modernisation of the financial marketplace that the socialist Bérégovoy had begun. But there were frictions.

Hervé Hannoun, a member of Mitterrand's staff at the Elysée, cut off communications in the difficult atmosphere of 'cohabitation'. Hannoun was subsequently named to head Bérégovoy's office in the late 1980s, and he and Trichet were later to renew their professional relationship at the top of the Banque de France starting in the early 1990s.

## At Treasury for SocGen battle, CL manoeuvres

The new finance ministry task turned out also to be a short appointment. In 1987 Balladur named Trichet director of the Treasury in succession to Lebègue - just months before the global stock market crash of Oct87.

This was by no means to be the last such tricky assignment. Trichet remained Treasury director during the abortive 1988 takeover bid for Société Generale, a watershed for the French financial and political elite of the 1980s. Political and financial reverberations continue to this day.

Balladur's plan was to establish Trichet into the top Treasury job prior to the 1988 legislative elections he knew would be difficult. It is a mark of Trichet's diplomatic dexterity that he managed to remain in that post after the Socialists returned to power.

But another problem was looming: Trichet headed the Treasury at a time when the Socialists were attempting to use Crédit Lyonnais to build a French Deutsche Bank with wide financial and industrial influence throughout the economy. Trichet's frequent dealings with CL turned out to be a poisoned chalice. The near insolvency of CL in subsequent years kept Trichet in the firing line from the right, not least from Chirac himself.

## EBRD crisis leads to appointment to top BdFpost

Trichet's nomination as BdF governor came as a result of complicated manoeuvring of senior international positions in late 1993. The storm of controversy surrounding the London-based European Bank for Reconstruction and Development (EBRD) was in the process of unseating its chairman Jacques Attali, a former long-time special advisor and close confidante of Mitterrand.

Determined to win back this post for a Frenchman, Paris decided to nominate then-BdF governor Jacques de Larosière - himself a former head of the IMF.

In Oct93, Trichet was sufficiently well thought of by the Socialists to be nominated to the French central bank, relinquishing the Treasury to Philippe Jaffré, and his chairmanship of the Paris Club to Ariane Obolensky. When Trichet first arrived at the BdF, monetary policy was set by a small directorate - within parameters established by the finance minister.

Six years earlier, Bérégovoy had made the decision that the French franc would no longer be devalued against the DM. He had been defending this policy against serious attack from many sides at home ever since.

But the BdF was on the verge of being made independent to meet one of the criteria of the Maastricht Treaty, signed 18 months earlier. It finally gained statutory independence from government in Jan94. A nine-person Monetary Policy Council (CPM) was established, comprising the governor, vice-governor and seven external directors. **EZA**

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