

Benoît Cœuré: The political dimension of European economic integration

Speech by Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, at the 19th Université d'automne de la Ligue des droits de l'Homme, Paris, 23 November 2013.

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I would like to thank Jean-François Jamet for his contribution. I remain solely responsible for the opinions contained herein.

Ladies and Gentlemen,

Before I start, let me thank the *Ligue des droits de l'Homme* for inviting me to speak today.

As we approach the 100th anniversary of the First World War, it is worth remembering that the European project emerged from a moral imperative. Following two tragic episodes of self-destruction and the abandonment of the most fundamental humanistic values, Europeans acknowledged that, in the words of Robert Schuman 50 years ago: "Serving mankind is a duty demanded of us equal to that of national loyalty".¹

Europe thus became our common political project, a project of peace, democracy, freedom and economic reconstruction. And in fact the European Union has succeeded on each of these accounts.

The people of Europe have also expected European integration to promote convergence towards high standards of living and social protection. An enlarged European Union has welcomed poorer countries which fully belong to the European project. The resulting dispersion in income levels has been a first challenge to the convergence process. The crisis has then reversed this process across Europe, with states having to launch debt reduction programmes accompanied by structural reforms, and rising unemployment bringing widespread social hardship. Faced with the costs of this adjustment, many people are tempted to turn their backs on Europe.

And the more they do so, the further we are from a solution.

It is, I think, acknowledged that the crisis had its roots in a flawed vision of European integration that should now be corrected. But this reconstruction work will only be legitimate if it creates the conditions for growth and employment. So I want to consider three issues today:

First, I'd like to make a case for the EU and the euro's achievements, which are too often overlooked in the current crisis.

Second, I'll explain how policies at European and national levels can help to restore growth and reduce unemployment, with a focus on what the European Central Bank (ECB) can – and cannot – achieve.

Finally, explore ways to strengthen the political legitimacy of our Economic and Monetary Union (EMU) and revive the political dimension of the European project.

1. The benefits of European integration

European integration has been our quest to achieve a common civilisation. Today, we frequently forget how much it has contributed to the reconstruction of Europe – morally, politically and economically. In what ways?

¹ *Servir l'humanité est un devoir à l'égal de celui que nous dicte notre fidélité à la nation*". Schuman R. (1963), *Pour l'Europe*, Éditions Nagel.

European integration means peace in Europe. Not only did it end the long-standing Franco-German confrontation, it also reunified the continent after the Cold War – a point which resonates even more strongly for people of my generation.² There is however a creeping temptation to take this achievement for granted and to underestimate the risks posed by nationalist tendencies being stirred up by the crisis in Europe.

European integration has contributed to the spread of democracy, freedom and the rule of law. For the founding countries, the European project was a unique chance to anchor democracy on this side of the Iron Curtain. The enlargement of the European Union has helped to strengthen democratic principles in countries that suffered years of dictatorship.³

European integration supported post-war economic reconstruction in Europe. For Europe's founding fathers, making war impossible meant making Europe resistant to another Great Depression. This was obtained by way of a “*de facto* solidarity”⁴ based on the pooling of coal and steel production, and the gradual creation of a single market, and subsequently complemented by cohesion policies and the creation of the euro.

Let me also say a few words on the benefits of our common currency.

The euro is the most visible and most internationally known symbol of a united Europe. Surveys show it has become the first element of the European identity: when asked to identify the most important elements that make up that European identity, 41% of respondents in the euro area first mention the common currency, just ahead of democratic values (40%).⁵ Moreover, the euro is the world's second reserve currency after the US dollar: in 2012, around 24% of declared foreign reserves were held in euros.

With the euro, we enjoy the benefits of price stability, which preserves the value of incomes and savings, especially for the most fragile in society, who hold their savings as cash or bank deposits and can't protect themselves against inflation. Since the creation of the euro, inflation has risen on average almost exactly 2% per year in the euro area. By comparison, inflation from 1961 to 1991 (when the convergence criteria for participation in Economic and Monetary Union were decided) averaged over 10% in Portugal, Greece and Spain, but also 6.6% in France and 3.4% in Germany.⁶

The euro reduces transaction costs for producers, their employees and end clients. It facilitates price comparisons and bank transfers, while eliminating currency risks in intra-euro area trade and investment. Note that close to 50% of France's exports go to other members of the euro area.

Finally, and above all, *the interdependence and shared responsibility implied by the euro create a European solidarity imperative in the face of the crisis.* This “*de facto* solidarity” is the greatest challenge that the European Union faces today, against the background of a greater disparity across countries. If I may turn Schuman's formula on its head, it now calls for “concrete achievements”. The temptation to go it alone in economic affairs, so evident in the past (remember the competitive devaluations of the 1980s and 90s) is no longer

² This logic also underpins the gradual integration of countries that emerged from the Yugoslav wars.

³ In particular, the so-called “Copenhagen criteria” notably require that national institutions guarantee “democracy, the rule of law, human rights and respect for and protection of minorities”. It also makes membership conditional on “adherence to the aims of political, economic and monetary union”. *Presidency Conclusions*, Copenhagen European Council, 21–22 June 1993.

⁴ “Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a *de facto* solidarity”, Robert Schuman's Declaration, 9 May 1950.

⁵ Standard Eurobarometer 77, *European Citizenship*, Spring 2012.

⁶ Source: AMECO database (European Commission).

appropriate. This does not preclude countries from having different views or different interests, but it creates a duty to overcome these differences and act together.

2. Reducing unemployment

The current crisis, with its associated fall in incomes and rise in unemployment, has however bred misunderstanding and sometimes anger in many parts of Europe. Unemployment in the euro area stood at 12.2% in September 2013, compared with 7.6% at the beginning of the financial crisis in the second quarter of 2007. Young people have been hit especially hard: more than 3.5 million persons under 25 are now without a job in the euro area – that's almost one in four. In Greece and Spain the youth unemployment rate is over 50%. Absent a strong push for growth, there is a tangible risk to create a "lost generation", as Europe has done in a more tragic way in 1914-1918.

This situation is undermining trust in national and EU institutions.⁷ And it is worrying because we cannot resolve this problem by resorting to the nationalist solutions of the past. Only a joint effort can reduce unemployment in a sustainable manner, using both national and European instruments.

Our first objective must be to reduce financial fragmentation in the euro area, which is illustrated by the different borrowing conditions in the various euro area countries and which has contributed – among other factors – to a divergence of investment and unemployment rates. Stressed economies are also those where investment has decreased the most.⁸ As a result, the average unemployment rate now stands above 18% on average for the group of countries hit by financial stress,⁹ whereas it is below 8% on average in non-stressed countries. Interestingly, these average unemployment rates were essentially the same before the financial crisis.

Against this background, what can European institutions do?

The ECB has reduced its key interest rate, the rate at which banks refinance themselves every week, to a historic low of 0.25%. We have said that, in view of the subdued outlook for inflation, we expect interest rates to remain at current or lower levels for an extended period of time. Additionally, we have taken several measures to ensure that euro area banks can pass on these low interest rates to the real economy, in particular where they are needed the most. The measures include providing banks with as much liquidity as they need – against adequate collateral. We have offered them the possibility of depositing additional collateral consisting of credit claims from their clients (for example, SMEs) directly with the ECB and have announced that we would intervene via Outright Monetary Transactions (OMTs) to remove unwarranted risks to the integrity of the euro area. Such support has benefited directly to the stressed economies, even though they ultimately benefit the entire region.

These measures have been entirely in line with the ECB's primary mandate of medium-term price stability. Contrary to what is sometimes said, this objective has in no way constrained our ability to act and support the euro area economy at a time of crisis, when downward pressures on prices have appeared.

These measures will however be efficient only if banks pass on to their clients the favourable financing conditions (in terms of price and quantity). The priority is to re-establish trust in the strength of the European banking sector and its capacity to finance the economy. With this

⁷ Roth, F., Nowak-Lehmann F., Otter, T. (2012), "Crisis and Trust in National and European Union Institutions: Panel Evidence for the EU, 1999 to 2012", *EUI Working Papers*, RSCAS 2013/31.

⁸ Some figures from the second quarter of 2007 to the first quarter of 2013: Greece –60%, Slovenia –55%, Ireland –50%, Cyprus –49%, Portugal –41%, Spain –39% and Italy –32%.

⁹ Greece, Portugal, Ireland, Spain, Cyprus, Slovenia and Italy.

aim in mind, the ECB will become the single supervisor of around 130 of the most significant euro area banks in November 2014.¹⁰ Until then, it will conduct a comprehensive assessment of their balance sheets to create greater transparency in respect of the risks and ensure, should the assessment reveal excessive risks or insufficient capital, that they take prompt corrective action when warranted.

Rules recently adopted or still under discussion in the European Union also ensure that shareholders and creditors will have a strong interest in banks avoiding excessive risk-taking, for a simple reason: they will now be first in line to absorb possible losses, rather than taxpayers.¹¹ Let me be clear on this: the time when taxpayers were first in line to bail out banks is behind us. Banks' senior managers will also be held responsible: the new framework sets a cap on executive remuneration as long as a given bank is undergoing restructuring or relying on state support.¹²

These new principles complement all the international rules adopted under the auspices of the Financial Stability Board and which aim to put the financial system on a sounder footing, as well as other measures under discussion, such as the separation of banks' proprietary trading, on which the European Commission will shortly submit a proposal. For many European citizens, these reforms take too much time and they question the reassuring words they can hear. I understand their impatience, but this is about changing a system as a whole, and it takes time.

While making the financial system sounder is key to recovering investment, further steps are needed to support job creation in a sustainable way. These measures are the responsibility of states, either individually or in a coordinated way.

- The euro area economies can become fairer and more competitive, for instance, by removing the barriers to entry in the labour market, which protect those with a job but reduce opportunities for the unemployed, especially the young. Likewise, it is also possible to reduce barriers to entry in goods and products markets, which maintain artificially high prices for the benefit of a few, and create obstacles to entrepreneurship. It is a matter of both efficiency and fairness, and imposes no burdens on public finances.
- It is necessary to create a climate that favours business investment. Given the above figures, there will be no sustainable recovery in employment without a pick-up in productive investment, and that pick-up is also likely to rebalance growth in Europe, which is weak today because it relies too much on demand from the rest of the world, which is uncertain.
- Our social model(s) are only as sustainable as our public finances. We therefore need to rebalance fiscal revenues and expenditures. This rebalancing will undoubtedly weigh down on growth over the short term. But not keeping public debt and deficit in check would be tantamount to accepting that an ever greater share of fiscal revenues is channelled towards servicing debt instead of financing collective action – which comes down to accepting a loss of sovereignty. It is also as if the state, in the future, gives up performing its function of consolidating the economy

¹⁰ See Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

¹¹ See the press release from the Council of 27 June 2013 on the draft bank recovery and resolution directive.

¹² See the "Communication from the European Commission on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis". Article 37 thereof states: "...if recourse to State aid could have reasonably been averted through...management action, any entity relying on State aid for its restructuring...should normally replace the Chief Executive Officer of the bank, as well as other board members if appropriate".

during a slowdown or a crisis – but there will be other downturns and other crises. When debt does not result from crisis action or from socially valuable investment, it is unfair to future generations. We cannot build future growth on new debt.

- This consolidation will promote growth sooner or later only if it is used as a lever to make public spending more efficient, notably in the form of investment in R&D, and education and training.

These adjustments to our social model are not forced by the crisis, and even less so by Europe. In all the large countries, the crisis has simply revealed trends that were unsustainable, encouraged by an unchecked financial environment which allowed the financing of untenable promises. In the five years preceding the financial crisis, the annual rate of growth of public spending exceeded that of GDP by 0.25 points in the euro area, by 1.5 points in the United States and 2 points in Japan.

For each of these steps, there is both a national and a European dimension: each Member State has to act in the knowledge that what happens domestically has direct implications for the rest of the monetary union, while recognising that what happens in the rest of the union will also impact on its own situation. This is the only way we can create the basis for shared responsibility and solidarity in EMU.

This leads me to my third point: if we are to strengthen responsibility and solidarity in EMU, we need a strong political dimension to accompany financial, economic and fiscal integration.

3. Reinstating the political dimension of the European project

Together, we Europeans have created and developed public goods that make us stronger, such as the euro. These are our shared *res publicae*. To be properly managed, they need a well-functioning and legitimate political system. In words which will be familiar to us, the *res publica* needs a republic. The European “republic”¹³ in my view does not mean a European state, but rather a widely shared agreement on the scale and management of the goods we have in common, with a view to contributing to our ultimate goals: peace, democracy and shared prosperity.

So what could be the pillars of a renewed political project for Europe?

First, a common culture

It is often suggested that Jean Monnet said “if I had to do it again, I would first start through culture”.¹⁴ Given the emphasis on social and economic policies in European integration, a shared European culture should include common economic and social understanding and values.¹⁵

In this respect, and limiting myself to the economic domain, if something can be learnt from the crisis, it is that we share responsibility for preserving financial stability in the light of spillover effects and interlinkages within Economic and Monetary Union. In addition, growth should not be pursued at all costs, and certainly not on the back of unsustainable policies leading to debt overhang and macroeconomic imbalances, which inevitably lead to costly

¹³ An expression borrowed from S. Collignon (2004). *Vive la République européenne !* Éditions de La Martinière.

¹⁴ Quoted by J.-C. Trichet in “Building Europe, building institutions”, speech delivered on receiving the Karlspreis in Aachen, 2 June 2011.

¹⁵ Incidentally, an increasing body of literature emphasises the importance of economic “culture” on economic outcomes. See for instance S. Bützer, C. Jordan and L. Stracca (2013). *Macroeconomic imbalances, a question of trust?* ECB Working Paper Series, No 1584 / August 2013. See also Y. Algan and P. Cahuc (2007), *La société de défiance. Comment le modèle social français s'autodétruit.* Editions Rue d'Ulm.

adjustments in terms of activity, employment and social protection. At the same time, risk-taking must be at the service of entrepreneurship, not of financial speculation.

Common values imply exemplary institutions. This is true in terms of ethics; in this respect, EU institutions in general and the ECB in particular have enacted strict codes of conduct for their staff members and senior executives. This is also true in terms of offering equal opportunities and promoting diversity. In the words of Jorge Semprun, “Europe cannot be based on the exclusion of diversity; it must be built on the essential unity of diversity”.¹⁶ The ECB has recently launched an initiative to promote gender diversity, including detailed targets at management level. These efforts would be significantly complemented if Member States were also to promote this diversity in the ECB’s top decision-making body, the Governing Council – which consists solely of men.

A second pillar should be European cohesion

From the domestic perspective, cohesion entails having a common understanding of fairness and showing solidarity. Cohesion also – and notably – means clarifying the rights and responsibilities *between member countries* so that it is based on mutual trust. It also implies that Member States should submit to stronger fiscal, economic and financial governance.

Once trust is established, the social contract between member countries – *solidity with solidarity* – can be expressed in a variety of ways.

One way is by having public and private mutual insurance against shocks: the European Stability Mechanism already provides a public safety net, while Europe-wide insurance mechanisms financed by banks would allow the costs arising from the resolution of banks to be covered (Single Resolution Fund) and, ultimately, depositors to be protected (European deposit guarantee fund).

Another way is to combine resources for the provision of public goods at European level. For instance, shared public investment in research and development (R&D) and network infrastructures help to “denationalise” industrial policy, thereby aiding the functioning of the Single Market.

Any steps beyond that would imply identifying common sources of funding, either in the form of common tax resources or of common issuance of public debt. Tax or financial techniques are, however, no substitute to politics. Such common sources of funding could only be envisaged after the establishment of a genuine fiscal union among euro area Member States that includes a sharing of fiscal sovereignty and proper accountability vis-à-vis the European Parliament and national parliaments. Without that framework, the fiscal union would not be democratic. This does not imply that it will never happen: for instance, it could start on a limited scale around common projects, jointly financed and aimed at enhancing long-term growth in the region in a way that benefits to all.

There is also an external dimension to cohesion. It is in our relationship with the world that we become aware of our European identity. When asked in Eurobarometer surveys which policies they would want to see transferred to the European level, a majority of Europeans point to foreign policy. However, the external dimension of the European project has so far remained underdeveloped. Strong external powers were transferred to the European level only as regards trade.¹⁷ More could be done, with a view to bringing together scarce

¹⁶ “L’Europe ne peut pas se fonder sur l’exclusion de la différence ; elle doit se construire sur l’unité essentielle de sa diversité”. Jorge Semprun, *Une tombe au creux des nuages : Essais sur l’Europe d’hier et d’aujourd’hui*, Flammarion, 2011.

¹⁷ On the connection between the wishes of Europeans in the field of external relations and the existing institutional arrangements, see Cœuré, B., and J. Pisani-Ferry (2007). “The Governance of the European Union’s International Economic Relations: How Many Voices?”, in Sapir, A. (editor), *Fragmented Power: Europe and the Global Economy*, Bruegel.

resources, defending European interests globally and pushing the European agenda in respect of “global common goods” (e.g. improving global economic and financial governance, protecting human rights). This is not only about selling products that create jobs in our economies, but also about being able to exert influence on the future course of globalisation.

Europe, if it were to speak with one voice in international financial fora, would be in a stronger position to shape global policy outcomes. In this regard, creating a unified euro area representation in global economic fora would be consistent with the very high level of economic and financial integration in EMU. The two euro area countries that each have a permanent seat on the IMF Executive Board, France and Germany, could lead by example and merge their seats.

The third pillar would be the strengthening of democratic accountability at European level

Trust in EU institutions rests on both input legitimacy (the legitimacy of their mandate) and output legitimacy (the achievement of the objectives set in the mandate they have received). Concretely, this means citizens must be confident that EU institutions are democratically accountable.

For the ECB, this means fulfilling its democratically assigned mandate of price stability. It also implies resisting the temptation to act in ways that are not compliant with this mandate. To give a few examples: it is within our mandate to provide liquidity to banks so that they can fund the economy, but it is *not* in our mandate to provide them with capital in place of their shareholders and investors. It is within our mandate to eliminate financial market distortions that hamper the effectiveness of our monetary policy, but it is *not* in our mandate to ensure the solvency of states or to aim at distributing wealth between countries in place of democratically elected governments.

There is sometimes a thin line between these choices, which call for the monetary authorities to show judgement. Hence, we need transparency and accountability vis-à-vis the general public and the European Parliament.

This takes the form of a monthly press conference, extensive reporting, public hearings in the European Parliament and replies to MEPs’ written questions. The Governing Council of the ECB will also be examining how it can enhance the transparency of its decision-making processes and how it could publish an account of its monetary policy discussions. This will also be the case for the new bank supervisory tasks that the ECB will assume. In this regard, the ECB has agreed to an Inter-Institutional Agreement with the European Parliament that foresees extensive information and reporting.

Ensuring a high degree of democratic accountability is also key for European political institutions. This is particularly important given the increase during the crisis of the degree of European intrusion into national economic and fiscal policies, which have re-distributional consequences. For instance, concerns have been voiced that European support to countries under stress, and the conditions on which it is granted, are decided only by the Eurogroup, i.e. by governments of euro area countries, themselves subject to parliamentary controls of very different kinds.

Stronger involvement by the European Parliament could be a way to alleviate such concerns. It would be similarly important for European issues to feature more prominently in national parliamentary affairs and in national conversations so that citizens can allow their voices to be heard. But above all, only in a truly European public space can common solutions emerge. We can witness today a renationalisation of European politics, including when it

comes to protest against European policies.¹⁸ This renationalisation carries with it the seeds of an erosion of our common values.

Conclusion

In 1935, the German philosopher Edmund Husserl warned us that “Europe’s greatest danger is weariness”.¹⁹ History has proved him right already and risks proving him right once again. To counteract that danger, we should continuously reaffirm our commitment to improving institutions and policies in Europe, in line with our common values.

Thank you for your attention.

¹⁸ See Á. Vasconcelos, « Portugal: o destino da Europa? », *Público*, 18 November 2013.

¹⁹ Lecture delivered by Edmund Husserl in Vienna on 10 May 1935.