

Benoît Cœuré: Addressing Europe's economic and political challenges

Introductory remarks by Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, at TUM Speakers Series/HEC Débats organised by the Technical University of Munich, Munich, 21 November 2016.

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Recent political developments in the United States and the United Kingdom have been interpreted as reflecting widespread concerns about globalisation as well as scepticism about international cooperation¹. Many Europeans also regard the responses to cross-border challenges such as economic fragilities, migration and terrorism as unsatisfactory. A broad debate is under way about the European Union's *raison d'être* and its future. This debate resonates particularly strongly as we approach the 60th anniversary of the Treaty of Rome and the 25th anniversary of the Treaty of Maastricht.

For Europe to thrive, Europeans, young and old alike, need to be confident that working together is still the best way forward.

Participation in the European project has rested on three successive promises. For the post-war generation, it was a guarantee of lasting peace and democracy. For Europeans who witnessed in their youth the fall of the Berlin Wall, it held out the promise of freedom of movement and better life chances. For European workers hit by technological change and global competition, it promised economic security and protection.

The first two promises have been fulfilled and generated strong support for the European project.

But many now consider that the third promise has not been kept. Europe has suffered from the worst economic crisis since the 1930s. It partly originated abroad but it was partly also of its own making.

Next summer it will be ten years since the crisis erupted in Europe. Many people of your age have felt its effects to a disproportionate degree. With high levels of youth unemployment in several Member States², large numbers of young people feel economically and socially marginalised.³ For them, the national and European responses have not been sufficient. The emergence of a “lost generation” is morally unacceptable – and it would affect Europe's prosperity in a persistent way⁴.

In my remarks tonight, I will tell you why I believe that Europe's *raison d'être* remains strong and could be made stronger. As a European central banker, I will focus on the economic dimension. I will only touch on the political dimension insofar as it influences economic outcomes⁵.

The benefits of European integration

As President Obama said during his recent visit to Europe: “...at a time when the European project is facing challenges, it's especially important to show the benefits of economic integration.”⁶ I believe that the way Europe addresses its current challenges does not only matter for our own future prosperity. It also holds lessons for the rest of the world.

European integration translated European values into tangible benefits: EU citizens today have the right to live, work, study and do business anywhere in the Union. They enjoy equal judicial protection, guaranteed by European courts of law.

In fact, the establishment of a single European market was never solely about economic

efficiency. It was also about creating a free and open European society under a common rule of law.

Today, the European Union is one of the world's biggest economic blocs, alongside the United States and China. This will not last forever. At a time when several regional powers are increasingly assertive on the global stage, the single market and the single currency are essential assets. They enhance Europe's significance and influence worldwide.

Beyond its economic benefits, the euro indeed forges political bonds that have been repeatedly underestimated – not least by observers outside of Europe. The crisis put those ties to the test and the commitment to the euro area's integrity was strongly reaffirmed. One example of this was euro area leaders' commitment last year to secure the future of Greece in the euro, provided that it undertakes the necessary reforms. It is also reflected in public opinion in Europe: popular support for the euro has remained high throughout the crisis⁷.

And indeed, the crisis showed that when Europeans act together, they are stronger. But when uncertainty has the upper hand, attention turns inwards to national fragilities, fuelling economic selfishness and accentuating financial fragmentation.

Monetary policy as an example of acting together

Monetary policy is a clear example of where we did act together in a decisive manner.

Monetary policy undeniably played a key role in stabilising the economy in Europe after the crisis. By deploying a range of conventional and unconventional monetary policy measures, the European Central Bank (ECB) avoided deflation, reduced financial fragmentation and supported the economic recovery. We've done it within the mandate given to us by the people of Europe, namely price stability. And we are fully accountable to the European Parliament and the European Court of Justice.

But monetary policy alone cannot achieve sustainable growth. It needs to be complemented by economic, and where available, fiscal policies at national and European level.

Organising our interdependencies

We also need to better organise our interdependencies.

First, we should not ignore our economic and financial connections when considering national policies. Under EU Treaties, Member States have a duty to regard their economic policies as a matter of common concern and to coordinate them.

Second, the crisis has shown that common institutions can help respond to crises and also to prevent them from occurring in the first place by avoiding excessive risk-taking.

Important measures to improve the financial architecture of Economic and Monetary Union (EMU) have already been adopted. For instance, the creation of the European Stability Mechanism (ESM) and the launch of banking union were essential steps towards safeguarding financial stability. As a result, our Monetary Union is considerably more resilient today than it was at the peak of the crisis in 2012.

Some institutional shortcomings remain, however.

Banking union still has to be completed. What has been called the "doom loop" between banking and sovereign risk remains to be broken. Agreement on a European deposit insurance scheme is not within sight and the Single Resolution Fund still lacks a common financial backstop. ECB Banking Supervision is doing impressive work, and euro area banks are now more resilient⁸.

But achieving a level playing field in banking supervision, at arm's length from national and vested interests, will be a long journey given the place we started from.

Fiscal rules, albeit revised several times, have failed to build confidence in fiscal sustainability at national level, which is a prerequisite for any further move towards shared fiscal sovereignty. Likewise, the rules aimed at preventing macroeconomic imbalances remain untested.

The ESM is a strong and efficient institution, but the euro area's crisis resolution arrangements, which are still mostly intergovernmental, are unnecessarily slow and costly, as the protracted discussions on Greece showed last year. Enshrining crisis resolution in Union law and bringing it under the oversight of the European Parliament should remain a key objective.

Europeans of all ages are demanding that Europe offers more protection.⁹ And indeed, Europe's focus today is clearly on defence and security, rather than on completing EMU. This is for very good reasons, but make no mistake: Europe will not strengthen its capacity in these areas if it cannot rely on a stronger economy and a more resilient monetary union.¹⁰

And let me be clear: we should only embark on new projects if there is a consensus that joint action is necessary, that it is clearly linked to people's concerns and that it addresses a matter of European or global relevance.

When we do take joint action, we need to be consistent in our efforts and complete the initiatives we have started. Half-built houses are the most dangerous option. We cannot take competences away from the national level without empowering the Union level to provide at least as much protection for citizens as they had before.

And where responsibilities are clearly assigned to one level, there needs to be commensurate democratic accountability at that level.

Conclusion

Let me conclude.

Policies often create winners and losers. For this to be acceptable at European level, we need to share a feeling of belonging together as Europeans. One way to develop and strengthen that feeling of belonging is to share tangible common goods that we can all relate to. Democracy comes to mind first. The euro is another example, and so is the commitment to make our social model sustainable. They bring us together and shape our identity in the world.

¹ On the backlash against financial globalisation and how it could be better designed, see also B. Coeuré, "The Case for Rethinking International Capital Flows", Paris, 15 September 2016.

² In September 2016, youth unemployment stood at 37.1% in Italy and 42.6% in Spain. Youth unemployment stood at 42.7% in Greece in July 2016. See Eurostat euro indicators, 3 November 2016.

³ European Youth in 2016, Special Eurobarometer of the European Parliament, May 2016.

⁴ See Coeuré, B., "Monetary Policy and the Risk of a Lost Decade", speech at the Amundi World Investment Forum 2013, Paris, 5 July 2013.

⁵ For a discussion on the need for a more political Europe, see Moscovici, P., "Keynote public address at the 2016 Summit on the Future of Europe", November 2016, Harvard University, Minda de Gunzburg Center for European Studies.

⁶ Remarks at a joint press conference with Chancellor Merkel, Berlin, 17 November 2016.

⁷ In spring 2016, support for the single currency stood at 68% in the euro area, with a majority of citizens in favour of the euro in *all* euro area Member States.

⁸ See also Draghi, M., “The state and prospects of the euro area recovery”, speech at the European Banking Congress, Frankfurt am Main, 18 November 2016.

⁹ Eurobarometer April 2016. In particular, younger age groups associate Europe more with social protection, free movement and a stronger say in the world.

¹⁰ See “The Five Presidents’ Report: Completing Europe’s Economic and Monetary Union”, a report prepared by J.-C. Juncker, in close cooperation with D. Tusk, J. Dijsselbloem, M. Draghi and M. Schulz, 22 June 2015.