

Sabine Lautenschläger: Europe - past, present and future

Speech by Ms Sabine Lautenschläger, Member of the Executive Board of the European Central Bank and Vice-Chair of the Supervisory Board of the European Central Bank, at a meeting with students at Copenhagen University, Copenhagen, 14 May 2018.

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It's always nice to visit universities. They are special places, meant for the free exchange of ideas – places where bold thinking is encouraged and the orthodoxy challenged.

So today I'm going to step back from the technical aspects of my day-to-day work. I'm going to take some time to reflect instead on the big picture. I will first talk about some of the EU's historical milestones. After that, I will tell you a bit about my work. And once I've finished my brief remarks, I look forward to answering your questions – and to asking you some of my own!

Looking back to look forward

As students of economics, many of you will, I'm sure, have read articles and books about the future of European Economic and Monetary Union. Some of you may even have read about the new system for banking supervision and resolution – the banking union. I hope you have enjoyed learning about these topics.

But I also think it's important for students to look beyond technical policy debates. From time to time, it's good practice to go back to the fundamental questions. Things like: what has the European Union achieved in the past 60 years? And what would we like it to achieve in the next 60? We insiders would also benefit from this kind of reflection. In the humdrum of meetings, papers, non-papers and briefings, I feel that we do not take enough time to reflect on the achievements of the past. Nor, perhaps, do we think enough about the strategic, long-term perspective. So today I hope that, together, we can do just that.

Let us start by travelling back in time. Let's try to put ourselves in the shoes of a European citizen in 1945. Whether we imagine this person living in Paris, Berlin, Rome or Copenhagen, we know they are living in a country scarred by war.

Now, if this person were able to see what the future would hold from 1945 to 2018, they would find it in many ways almost miraculous. For one thing, anyone over the age of 27 in 1945 had lived through two world wars. So, they would be happy to discover their countries would see more than seventy consecutive years of peace. I believe the European Union has played a large role in ensuring such long-lasting peace. It seems that Robert Schuman was right to predict that the European Coal and Steel Community would make war both unthinkable and materially impossible.

And peace on the European continent has also meant the spread of democracy. When the Treaty of Rome was signed, only 12 of the current EU Member States were democracies. Today all 28 of them are.

And with democracy came freedom. With the Charter of Fundamental Rights, the EU enshrined all personal, civic, political, economic and social rights within one document. The Charter also established the right to data protection, guarantees on bioethics and transparent administration. I am sure you recognise how topical these issues are today. And I hope you appreciate the unprecedented protections that EU citizens enjoy.

Peace, democracy and freedom in turn brought prosperity. Of course, we still face challenges on this front. Some EU countries today face difficult economic conditions, largely a legacy of the Great Recession. Employment levels still vary significantly across the Union. And high levels of

inequality exist within countries too. OECD data show that in many European countries, a small minority owns a disproportionately large share of the wealth. Income inequality is also higher than it was a generation ago.

But let us not forget the shared economic benefits of the Union. The average GDP per capita of EU countries has almost doubled in the past 20 years alone.

And our future prosperity is also a function of today's education, research and innovation. Some of the best universities in the world are located in the EU. Over the past 30 years, around 9 million people have benefited from the Erasmus programme. The EU also supports research across the Union. Horizon 2020 is the largest multinational research programme in existence, providing around €77 billion in funding over seven years.

All of these historic steps have been achieved in the spirit of unity in diversity. But there is no denying the fact that such unity is hard to manage. Resolving the challenges ahead will involve negotiations between all Member States. And each of them has slightly different priorities and views. Moving forward will take time and effort.

But if we want this effort to be meaningful, we must reflect on the long-term goals. As far as I am concerned, one goal should be to strengthen Economic and Monetary Union. To do so, we must be willing to accept meaningful changes to the institutional framework. As I have said in the past, a good starting point would be to assign powers to a European finance minister. In keeping with the spirit of the Maastricht Treaty, the finance minister could coordinate national economic policies in a different way. He or she could ensure that national fiscal policy is conducted with a view to contributing to the achievement of the EU's objectives.

The trouble for politicians is that voters may feel that granting greater scope at the EU level means taking away from national interests. But then there are the 70 years of peace; there's free movement across nearly an entire continent; and there's the world's second largest economy. All this shows us that what we sometimes feel may be taking away our national sovereignty is in fact adding meaningful value to our lives.

And this is why we should take more time to reflect on the achievements of the past. What's more, politicians are not the only ones with a role to play. European unity starts with each individual; it starts with you. You can each reflect on how you could promote Europe as citizens, as students and as future leaders.

The EU's crisis response and the banking union

Dear students, having asked you to reflect on your role within the Union, it is only fair to tell you about how I do my part. A large portion of my professional life since 2012 has been devoted to the creation of the European banking union.

To understand how the banking union came about, we have to go back to the financial crisis. In the EU, it began as a crisis of the banking system and turned quickly from a financial crisis into the Great Recession. And many of the troubled banks held large amounts of their own governments' debt. This, together with the fact that some countries were already highly indebted, created a vicious circle. And so the sovereign debt crisis emerged.

In June 2012, European leaders announced their intention to create a European banking union. But you may ask: why would a Union change things? Well, for a number of reasons.

First, if we want to foster a healthy European banking market that can also serve the real economy in a downturn, we should make sure banks are all subject to the same rules. And to the same unbiased, intrusive supervision and resolution practices. In 2009, the EU had already started working on common rules for the banking sector. These became what is known as the

single rulebook – a single framework for financial institutions in all 28 EU countries.

But writing the rules was not enough. So, the second step was to build European banking supervision. And so the Single Supervisory Mechanism, or SSM for short, was created. It is made up of the ECB and the national supervisors of the 19 euro area countries. The ECB directly supervises the largest banks in the euro area. Smaller banks are still supervised at the national level, but in close cooperation with the ECB.

Our job is to contribute to a healthy and resilient banking system. We make sure each bank respects the rules it is subject to and is supervised according to the same approach. This creates a level-playing field for all banks across the euro area and avoids supervisory arbitrage and national bias.

The next step was to create a European system to deal with bank failures: the Single Resolution Mechanism. This step represented a larger paradigm shift. Banks should no longer be rescued using taxpayers' money. Those who have reaped the benefits, that is the investors and creditors, should pay first if things go wrong. This helps to keep incentives healthy.

But let's go back to the institutional architecture. The Single Resolution Board, or SRB for short, is at the centre of the Single Resolution Mechanism. The SSM and the SRB cooperate closely when a bank is in trouble. The decision to declare that a bank is failing or likely to fail is made by us as supervisors. At that point, when a bank fails, the SRB takes over. It decides whether a bank should be resolved at the European level, or wound up under national legislation.

The details of this process are complex, and I'm happy to tell you more if you are interested. But the bottom line is simple. The mechanism aims to minimise both the impact of bank failures on financial stability and their cost to taxpayers.

But resolution is not the final piece of the puzzle. Nor is it the final pillar of the banking union. It was envisaged that the banking union would be supported by three pillars. European banking supervision and resolution are the first two.

The third pillar is a European deposit insurance scheme. It is still in the making, but its importance is clear. For there to be a true banking union, depositors in all countries need to have the same level of confidence in their banks. This is especially important as the banking union currently has the same member countries as the euro area. And in a monetary union, people must be certain that their money is equally safe, wherever it is. A euro must be a euro, no matter whether it is deposited in a German bank, an Irish bank or a Spanish bank.

Conclusion: let's talk

Dear students, I have talked for quite a long time now. I have talked about some of the EU's historic achievements over the past 60 years. And I have talked about what has been achieved in the last six years, with the banking union.

But as I said earlier, universities are places to exchange ideas. So now I would like to hear your thoughts. For one thing, I would like to know whether you ever feel something important is missing from the policy debates about the Union. Is there a Danish perspective you wish was more central at the EU level? Or a European perspective you think is missing from the Danish policy debate?

Thank you for your attention!