

A Call for Europe

Speech by Sabine Lautenschläger, Member of the Executive Board of the ECB, at lecture series
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“I am a German and will remain a German, but I have always been a European too and have felt as such.”

These are the words spoken by Konrad Adenauer in 1946, when reconciling Europe and securing peace were paramount. National arrogance and isolationism had culminated in two world wars – two world wars which had wreaked death, misery and chaos on Europe.

Adenauer’s conviction had a profound influence on many people, including my parents. His core belief that “we’re Europeans first and Germans second” is still a great inspiration to me today. For those who lived through the Second World War, a strong Europe, a united Europe, represented the future and the path to lasting peace.

But today some people harbour doubts about the European idea. Nationalism and populism are flaring up again and parties that are critical of the European project, or even reject it outright, are gaining ground in many countries.

This is an alarming development.

We must not forget the lessons from our history. Borders and walls within Europe have never created security. A united Europe has bestowed peace and prosperity to each Member State and its people – the German people included.

And the future challenges facing each and every one of us can only be met by working together in Europe.

1. Scepticism towards the advantages of Europe

And yet Europe is increasingly subject to criticism. Public scepticism towards Europe has grown: in 2007 some 57% of the EU population said they trusted the EU, but this share has now fallen to 44%.^[1]

At the same time, Eurosceptic parties have almost doubled their share of votes over the past ten years.^[2]

One explanation is that people feel unsettled, not only in the face of advancing globalisation and structural changes but also because of increasing migration.

Far-reaching changes, fear and a sense of disorientation often cause people to reject what’s new and retreat to what is familiar.

And this withdrawal becomes menacing if people no longer want to exchange views and opinions and applaud seemingly simple answers as ultimate wisdom.

It becomes dangerous if, owing to social media and the filter bubbles affecting what we see online, we merely find confirmation of our own beliefs.^[3]

And such withdrawal becomes particularly dangerous if people lose empathy and the inherent willingness to take other people’s viewpoints and values seriously.

All of this leads to rejection and exclusion in our society. When people feel that their voices are no longer being heard and that they are no longer represented, populists find it easy to undermine the system and propagate simple solutions. The populists' success is based on the perception that they are seriously addressing people's concerns by proposing radical solutions. This is how they spread their new nationalism.

Some Eurosceptic parties are pushing for a retreat from Europe, a withdrawal behind national borders. All too often, regaining national sovereignty is seen as an opportunity to acquire more freedom of action and security in the face of global developments. This suggests that we can preserve our prosperity by sealing ourselves off.

This notion and the retreat to nationalist thinking is wrong. Because it fails to recognise the many benefits that Europe has brought us.

Europe has brought peace.

With the European Union we have found a way of resolving conflict that has ushered in the longest period of continuous peace in the history of Europe. The EU has transformed a continent of war into a continent of peace. We should not take this for granted – and the award of the Nobel Peace Prize to the EU reminds us not to do so.

Europe has brought freedom.

Human rights, democracy and the rule of law are prerequisites for EU membership. Let's not forget that in 1957, only 12 of the current Member States were democracies, compared with 28 now.

Europe has provided an unprecedented degree of freedom of movement. Thanks to the EU, European citizens enjoy border-free travel and are free to study and work within the EU, creating inestimable development opportunities for everyone. And the consequences can be felt in everyday life:

17 million people and 1.4 million commuters live or work in another Member State, approximately equivalent to the entire population of the Netherlands. And every year we cross one of the internal borders within the Schengen area an almost inconceivable 1.27 billion times.^[4]

Europe has brought prosperity.

Some 25 years of the Single Market have generated real growth for more than 500 million consumers. Average per capita income in the EU has risen by half over this period.

This last point, more prosperity across Europe, is one I must address separately. Because the economic benefits of Europe are often a point of contention in Germany.

Hardly any other economy has profited from the Single Market as much as Germany. Were it not for an open Europe and the creation of the Single Market, the robust economic growth of the post-war era would have levelled off over time.

The **free movement of goods**, in other words, the abolishment of customs barriers and other obstacles, has created a large European market which promotes trade and growth.

Likewise, the **freedom of services** has enabled people to offer their services in all EU countries.

And the **free movement of capital and payments** created the conditions for the euro and a common financial market.

Free movement of goods, capital and payments and freedom of services have allowed Europe to grow more closely together, have advanced the German economy and have brought prosperity to us all.

German firms last year exported goods to the value of almost €780 billion to other EU Member States.

Without trade barriers, without exchange rate risk.

That accounts for almost two-thirds of all German exports. The Single Market creates and secures high-quality jobs in Germany.

According to the Bertelsmann Foundation, the Single Market contributes €37 billion a year to German real GDP growth. That represents additional income of €450 per person and year.^[5]

We also owe these advantages to the euro, as the bulk of trade is invoiced in euro. The euro cements the Single Market; our common currency prevents exchange rate fluctuations and competitive devaluations between the Member States. The euro has thus provided stability and prosperity. Without the euro, open markets in Europe would not have lasted long.

And all this has not only benefited enterprises, but first and foremost consumers too. The inflation rate has been stable for many years. For the euro it has averaged 1.7% since its introduction, compared with 2.8% for the D-Mark.

I have now spoken about the past advantages of a united Europe. Let's now take a look at the future. Here, too, I am convinced that all of us, Germany too, will be able to master the challenges of the future in a united Europe.

2. The advantages of Europe for future challenges

All countries in Europe face major, predominantly global, challenges, such as increasing worldwide competition, climate change and technological progress.

a. Global competition

No country, Germany included, can turn its back on globalisation if it wishes to secure future prosperity and distribute it evenly.

And we need the EU in order to retain our capacity to act and to shape global developments.

The economic weight of Europe's Member States has drastically declined over the past decades. Looking at the aggregate economic performance of EU countries, the EU's share in global economic output has fallen from around a third in the 1980s to a sixth today. Germany's share has more than halved over the same period and now stands at around 3%.

And individual European countries will continue to lose their significance in the world, for one because our birth rate is far lower than that of other countries. More than 500 million people now live in the EU, representing 8% of the world's population. In 2050, this share will have declined to just 5%.^[6] The German population will then make up no more than 0.8% of people in the world.

In such an interconnected world, individual countries will therefore find it increasingly difficult to uphold their prosperity and social security provisions.

Globalisation reduces the capacity of individual countries to levy corporate taxes and finance their social security systems. Free movement of capital allows enterprises to use differences between tax systems to their advantage and to distribute both profits and intangible assets across different countries. This leads to corporate tax bases being eroded. The OECD estimates that the global revenue shortfall owing to tax avoidance amounts to between 4% and 10% of corporate income tax receipts.^[7]

Moreover, globally-active companies can threaten to cut jobs and move production to other countries. Countries are thus tempted to use lower labour and social security standards to their competitive advantage and enter into a race to the bottom, making it harder for them to defend their social standards.

By pulling together, countries in Europe are in a better position to withstand global developments. As a whole, Europe is still large and economically significant enough to tax corporate profits and put an end to social dumping. The EU is a market that firms can hardly do without.

Power lies in numbers.

That is especially true for trade. The EU is the most tightly integrated economic region in the world. Two-thirds of EU trade takes place with other Member States. And around 50% of cross-border financial holdings in the euro area are from other euro area countries. That is true for Germany too. In practical terms, this means, for example, that Germany exports more goods to France than to China.

So it's not surprising that turning away from Europe could have disastrous consequences for our prosperity. One study shows that, for example, new trade restrictions in Europe could reduce Germany's economic output by 8%.^[8]

In their external trade, too, countries that go it alone only stand to lose. No country has the heft required to make itself heard in international trade talks and significantly influence trade conditions. And no national economy is large enough to set the common standards for globally integrated value chains. Neither is Germany: our share in global trade is only half the size of that of the EU.

Moreover, Germany's significance for world trade is set to dwindle further in future. The European Commission predicts that, over the next 10 to 15 years, 90% of global growth will be generated outside of Europe. But in Germany especially, employment relies heavily on open markets and international trade: nigh on 30% of German jobs depend directly or indirectly on exports, and this is true for as many as every second job in industry.^[9]

If we are to profit from this international growth, we need open markets and a strong voice in international trade talks. Only the EU can offer us these.

The EU improves the ability of all Member States to control outcomes. By acting together, we can attain objectives that we would have been unable to reach alone. For the EU is the main trading partner for 80 countries worldwide. And with the combined weight of EU Member States in global value chains, European firms can set their standards throughout the world.^[10]

b. Climate change

Ladies and gentlemen, joint action in Europe is also needed to overcome a completely different challenge facing all countries, namely climate change.

People in this country are serious about tackling climate change. But countries cannot win the struggle against climate change on their own: pollution does not respect borders.

Think of, say, pollution entering the Rhine or the Danube and potentially affecting another country further downstream. Or the acid rain caused by UK coal-fired power plants in the 1980s which harmed the forests and lakes of Scandinavia.

Climate change is a global phenomenon that poses complex coordination issues for national governments and affects many areas of life, including the economy. Allow me to concentrate on some of the economic consequences of climate change. That in itself will reveal the immensity of the challenges which we can only successfully overcome together.

For one, climate change affects competitiveness in the Single Market.

As trade in goods and services expands, it's important to ensure a level playing field. However, individual countries may implement environmental measures that distort competition. That can happen if, for example, production standards are lowered in a bid to achieve cost advantages. Amid international competition, such practices can lead to environmental dumping – with detrimental consequences not only for the Single Market but also for the environment. So countries have to work together to stop this dangerous dynamic.

Even the direct effects of climate change alone may have an enormous impact on the economy. Rising temperatures and shifting precipitation patterns may depress earnings in different economic sectors such as agriculture, energy, tourism or construction.

And that may also affect the financial system. If companies have serious difficulty in repaying their loans or disbursing dividends, banks and their creditors and investors will in turn suffer damages too.

Moreover, environmental and climate protection measures may have extensive economic consequences. The bans on diesel cars and the fall-out from the emissions scandal, for example, not only triggered a decline in car manufacturers' share prices, but also in the prices for used diesel cars. And handling the trend towards electromobility is testing the German automobile industry's future viability to the limit.

All of this shows the extent to which climate change and environmental measures can affect economic activity, assets and jobs.

Europe offers a unique opportunity to combat climate change and so reduce the potential damage to the economy.

Europe can provide well-coordinated instruments and clear, reliable regulation, such as the Europe-wide carbon floor price. The European emissions trading scheme with fixed caps on emissions is the first and largest of its kind worldwide.

As one of the three largest economic blocs in the world, Europe can be at the vanguard of the fight against climate change.

Europe has long campaigned internationally for strong and binding targets. For one, the EU built up a broad alliance of industrial and developing countries with ambitious targets, which significantly contributed to the success of the Paris Conference. Moreover, the EU was the first large economic region to present its planned contribution to the agreement as early as in March 2015.

And Europe can ensure that the financial market helps attain climate targets.

It has now become clear that market participants are failing to take the social costs of their activities for the environment fully into account, leading to a lack of sustainable finance. This arises, for example, when market participants base their investment decisions on excessively short time horizons and fail to factor in environmental risks. Because they would otherwise, from a risk perspective, steadily shift the focus of their investment to green and sustainable assets and so contribute to the attainment of the climate targets. Europe can give impetus and set up the right framework.^[11]

Central banks such as the European Central Bank can also help to fight climate change.

First, the ECB can contribute to the development of tools and methods that can be used to identify, quantify and mitigate climate-related risks in the financial system.

Second, the ECB can use its investment portfolio to help fight climate change. For example, sustainability criteria are already taken into account in our portfolios that are not held for monetary policy purposes. We have also bought green bonds under our asset purchase programme. But we have to make sure that we are not creating market distortions, of course – we have to remain market-neutral. This means that the ECB can only buy a limited amount of the green bonds available on the market.

Third, the ECB – together with other leading central banks – can examine the potential effects of climate change on the conduct of monetary policy. We are still in the early stages of our research into whether and how climate change affects the transmission channels of monetary policy and could lead to bigger and more persistent shocks that could have consequences for price stability, among other things.

Fourth, forward-looking banking supervision can urge banks to ensure that they have an overview of the climate-related risks on their balance sheets, and that they do so on a continual basis and with reference to stress scenarios. This is the approach that European banking supervision is taking.

c. Payments

I have talked about the major challenges facing Europe. But there are also areas which are less prominent and not quite so fundamental, but which are still important in our interconnected world.

Payments are one such example. Safe, reliable and efficient payment systems are a vital part of a well-functioning and integrated economy.

Technological progress and changing payment habits have fundamentally altered the payment system and thrown up new challenges. End users now expect to be able to transfer money around the world in real time and at low cost.

But existing payment systems are fragmented along national lines. The German Girocard scheme and the French Carte Bancaire, for example, are both used by large numbers of end users in their domestic markets, but they exist in parallel and separately from one another.

Many payment service providers retreat behind national boundaries on account of national interests and preferences.

And customers can see this. If they want to make cross-border payments in Europe with ease, they frequently rely on global players such as VISA, Mastercard and PayPal. And the big tech companies also offer payment solutions with pan-European reach. This is easier for them, since their global customer base allows them to achieve the desired network effects.

At the moment there are only a handful of large payment service providers offering pan-European payment services. New payment methods are being developed, such as Facebook's planned digital currency, Libra, and its underlying payment system.

According to current plans, users across the globe should be able to make payments not in euro or US dollars, but in Libra. We will need to carefully monitor how this will affect competition, because a lack of competition can impair the efficiency and quality of services in the long term, to the detriment of consumers.

Irrespective of how the payments landscape evolves over the coming years, it is essential that users of the various payment systems can be confident that all payment solutions, old and new alike, are safe and efficient.

To ensure that we have a safe, efficient and modern European payment system in the long term, though, we will need to work together at the European level. National solutions on their own don't have the necessary weight to achieve sufficient scale and network effects.

What a future-oriented European payment system needs most of all are efficient, future-oriented, pan-European market initiatives. The Eurosystem would welcome such initiatives and would likely support them, within the limits of its mandate.

A European payment system which has cross-border reach, supports modern payment methods and is accessible to all could set global standards. And it would also foster integration in Europe.

It would allow people across Europe to make transactions cheaply and safely, and this would enhance the benefits of the Single Market, making it more efficient, more innovative and better able to support growth and prosperity in all EU countries. An integrated market would thus increase the benefits of Europe for all countries.

3. A plea for more European integration

Creating optimum conditions for the Single Market and the euro is also in Germany's interest. And optimum conditions include not just the type of robust payment system I have just been talking about, but also the lasting stabilisation and deepening of Economic and Monetary Union.

This topic has many different aspects, but I would like to focus today on one key question: how can we advance the banking union project?

Euro area firms still obtain most of their funding through banks. A robust banking sector is thus vital for a healthy European economy and a stable single currency. We need a banking sector that is able to offer services to customers across Europe. And we need a market in which banks can compete on a level playing field.

And the banking union – a single framework for the supervision and resolution of banks in the euro area – has already come a long way. All euro area banks are now supervised according to the same high standards. And the single mechanism for resolution ensures that cross-border bank resolutions can be carried out without damaging either the economy or financial stability.

But the banking union is still lacking an important component: a European deposit insurance scheme. For there to be an integrated banking sector and a true banking union, depositors in all countries must have the same level of confidence in their banks. People must be able to have confidence that their money is equally safe wherever it is deposited.

In the long run this can only be done through a European deposit insurance scheme.

A shared scheme would make Economic and Monetary Union more robust. It would allow financial resources to be pooled between countries and to be used to tackle severe shocks and systemic financial crises that go beyond the capacity of individual countries.

But it is difficult to reach agreement on this degree of joint liability. If we are to move forward on this, I believe that the journey would need to include three steps.

First, all members of a shared deposit insurance scheme would need to continue to do everything they can to further reduce risks in their banks. Stable banks are, after all, the best form of protection for deposits.

Second, the shared insurance should be introduced gradually, and in such a way that individual countries would provide a minimum level of funding to cover national deposits.

Third, it is critical that banks' contributions to the deposit insurance scheme are risk-based – in other words, that the contribution of each bank is based on the institution's default risk and the amounts involved.

These three features of a shared deposit insurance scheme would strengthen the individual responsibility of Member States, banks and shareholders and further incentivise risk-based behaviour. And this would ultimately be to the benefit of the EU and all its member countries.

4. Finding a common way in Europe

Ladies and gentlemen,

I can't say it often enough: Europe is our shared opportunity.

Europe is our opportunity to act together where we face global challenges. After all, no country – Germany included – can by itself meaningfully shape the trading system, the battle against climate change or technological progress. More Europe is therefore the way forward in such an interconnected world.

But don't get me wrong – this is not an appeal for Europe to regulate all aspects of our lives. The EU brings together the shared features of the 28 Member States, but also their many differences.

Successful cooperation requires us to work on the basis of shared values, objectives and cooperation principles, of course.

We need to observe the principles of subsidiarity and proportionality that have always governed the EU's powers. These principles help us to ensure that cultural diversity and national identities are recognised and respected.

In other words, that we are “united in diversity”.

This is an approach that has proved its worth and we should continue to build on it in the future, ensuring that political decisions are made as close to the public as possible.

And despite all the benefits and the motto “united in diversity”, there is growing scepticism about Europe.

One of the frequent complaints is that the EU always operates on the basis of rigid legal principles, making it seem often technocratic and somehow remote.

This criticism applies to all European institutions and we shouldn't just brush it aside. I firmly believe that the time has come for us to redefine the way in which we work and, in particular, the way in which we communicate.

And this applies to the European Central Bank too. The ECB needs to address all citizens, not just an expert audience – without ever becoming political, of course - but only in order to bring facts and explanations to economic issues.

“Do good and talk about it” – in simple and accessible language – should be the motto here. The people of Europe need to be given much more information about what the EU and its institutions are doing on their behalf – and that information should be coming not just from the EU institutions themselves but most of all from national governments and institutions.

Only then will we be able to tackle people's fear and disorientation. Only then will we be able to counter the growing polarisation among the people of Europe.

So we should not be communicating through complex facts, coefficients and rules. This only reinforces the impression that the EU is an arrogant elite that already knows all the answers.

We will also need to work fundamentally on our understanding of politics and our culture of debate.

Communication between the public and institutions needs to involve a great deal of commitment and to flow in both directions. The people need to be included so that we can regain their trust and convince them that the EU works for them and takes their concerns seriously.^[12]

A concept that has worked well in a number of countries is that of deliberative democracy. It essentially involves allowing the public to play a greater role in political decision-making processes.

Ireland provides an instructive example of how this can work.

In Ireland 99 randomly selected members of the public are brought together to discuss and deliberate on various issues, such as global warming, the challenges arising from demographic change or the law on abortion. The topic of abortion, for example, was for many years a very controversial topic in Ireland, and one that polarised society.

And so, before a referendum on abortion was held, a citizens' assembly was brought together to discuss the issue. The results of the conversations were published in a report and debated in Parliament. And while public reaction had initially been divided on the matter, the result of the referendum ultimately largely reflected the outcome of the citizens' assembly, which supported the right to abortion.

Many participants reported that the citizens' assembly had brought logic and structure to the discussion and allowed important facts to emerge. It had also shifted what had initially been a very emotional debate to a more rational plane and helped people to understand complex issues. In the end, the referendum did not lead to a massive divide in society, as had initially been thought. It was instead a process that gave rise to a clear result and social consensus.

A similar kind of model for exchanging views and participating in political discussions on European matters could also serve Europe well.

Citizens' assemblies could be a helpful way of bringing together citizens in a given country to talk about European issues. The example of Ireland shows that citizens' assemblies are particularly effective when they discuss a concrete topic.

But it could also be helpful to have European citizens' assemblies, which would allow citizens of different countries to exchange ideas.

It is particularly important that, within Europe, we develop additional methods and tools which establish shared values that transcend national borders and cultural differences and give rise to a sense of shared objectives.

Assemblies like these could also strengthen the dialogue between the people and the EU institutions. EU politicians and civil servants would be better able to understand the concerns of citizens, and thus better able to represent them. And the EU would be brought closer to the people and enjoy greater trust.

All of this requires hard work, commitment and perseverance, since diversity can slow down the decision-making process. Yes, discussions at the European level take longer than those at the corresponding national level. After all, the many different interests and approaches that often have their roots in national traditions need to be thoroughly discussed and compromises found.

And even if it does take longer, we all stand to gain from closer cooperation within Europe.

We need two things here. First, the determination to hold constructive discussions to establish shared values and objectives. And second, the ability to push through our values and objectives in a globalised world.

I believe that Europe can offer both of these things.

Conclusion

Ladies and gentlemen,

Europe's achievements are significant. Never before in the history of our continent have we lived together in such peace for so long, and never before have we enjoyed such freedom. Europe has brought us considerable prosperity, and this has benefited all countries, including Germany. None of this should be taken for granted.

And yet, Europe faces criticism.

The major challenges we face, such as globalisation, structural change and migration, are unsettling people and causing many to feel a sense of fear and disorientation. It is then often easier to think in

national terms and to ignore the problems to a certain degree. And populists are exploiting this situation to spread a new kind of nationalism – a withdrawal from Europe. I believe that this national way of thinking is dangerous.

And that's because the global challenges affect all countries. At a time when all European countries are seeing their influence wane in the world, we need to hold together if we want to uphold our values and interests in the world.

As Konrad Adenauer once said, "No European nation is able to protect itself militarily or develop economically on its own. If one wanted today to uphold the traditional concepts of nationalism, this would be a task for Europe".

And this is why we need a return to Europe, a process of politicisation which encourages people across Europe to find their way back to a common path. We need to work on loosening entrenched debates, understanding differences of opinion and arriving at compromises.

Only by doing so will we be able to ensure that the people of Europe stand by an EU that is internally united and externally strong.

Germany needs to play its role in Europe. This is not just in the interests of Europe, it is in the interests of Germany too.

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[3] Such as the use of algorithms on news websites.

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