

Christine Lagarde: How can a united Europe meet the challenges it faces today?

Opening remarks by Ms Christine Lagarde, President of the European Central Bank, during a dinner on "Uniting Europe", World Economic Forum, Davos, 23 January 2020.

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This year marks the 70th anniversary of the Schuman declaration, which first put forward the idea of a single authority to govern the production of coal and steel in Europe.

Robert Schuman's method for building Europe was clear: "Europe will not be made all at once", he said, but "through concrete achievements which first create a de facto solidarity".

His idea was that, by taking deliberate policy steps to become interdependent – like sharing raw materials – European countries would become inseparable.

And indeed they have. We have become both safer and richer. The formation of the Single Market gives every EU citizen average welfare gains of €840 each year¹.

Today, Schuman's sequence is, in some ways, being reversed.

Interdependence is now being driven increasingly by a fast-changing global environment – and policymaking has to catch up.

European countries have joint exposures to the climate, to the global economy, to multinational firms, to foreign powers. And now we need to work together to address them.

So what does that mean practically? There are three key aspects.

The first is demonstrating what is needed to make openness globally sustainable.

The EU is the most advanced example of cross-border economic and political integration because it has invested in institutions to ensure fairness – a single court and a single set of rules.

And when new forces have arisen with the potential to undermine openness – the threat of competitive devaluations or of financial spillovers – Europe has not responded by raising barriers.

Rather it has sought – and is seeking – to fill the gaps in its economic and monetary union with institutional innovations like the banking union.

At a time when trade tensions are rising even as global institutions are being weakened, these examples can provide useful lessons.

The second aspect is leveraging the areas where the EU is powerful, namely the Single Market.

The EU has become a leader in ensuring strict and fair competition laws which are enforced at arm's length². This is crucial at a time when winner-takes-all dynamics are increasing in many markets, which raises concerns about firms' political and market power.

For example, in 2018 the average monthly cost of broadband was about 100% higher in the US than in Europe³. Lobbying expenditures in the US are also estimated to be twice as high.

So this is an area where Europe really gives power back to ordinary people.

Being the world's largest exporter of manufactured goods and services and the biggest export

market for around 80 countries gives the EU considerable power as a global standard-setter, too⁴.

In the past this capacity mainly affected technical areas that were less visible to the public, like chemicals and food standards. But today it clearly helps us to protect and share our values.

Take for example the EU's Data Protection Directive. Since it was passed, over 30 countries have adopted EU-type privacy laws, including most OECD countries.

Reflections are now also under way on how the EU's market force can be harnessed to accelerate the fight against climate change.

The third aspect is linking Europe's potential more visibly to people's concerns.

If we ask Europeans today what they see as the main issues for the EU, 38% say climate change or the environment, 34% say immigration and 30% say the economic situation or unemployment⁵.

These are mostly challenges that have a cross-border, geopolitical or technological dimension.

The upshot is that the areas where Europe adds the most value – addressing challenges that are beyond the remit of nation states alone – are the areas where people now want to see results.

This provides a huge opportunity for the EU to connect more strongly with its citizens and to strengthen the foundations of the European project.

Doing so would in turn set the stage for integration in more complex areas, like fiscal policies.

Empirical evidence suggests that EU citizens tend to be much more supportive of economic integration if it rests on a sense of togetherness rather than focusing solely on maximising economic performance⁶.

In the spirit of Schuman, a united Europe is one that acts with Europeans' common good at heart and addresses their challenges in a tangible way.

If we look to our past, we are reminded that economic integration can only be sustainable if it is based on a culture of stability, fairness and togetherness.

And if we look ahead, it is clear that a united Europe needs to provide the public goods that will shape our common future: turning challenges into opportunities in our natural, digital and economic environment.

And the ECB, within its mandate, will play its role in upholding this spirit and tackling the shared challenges we face.

¹ See Mon, Giordano and Ponattu, Dominic (2019), "Estimating economic benefits of the Single Market for European countries and regions", *BertelsmannStiftung Policy Paper*.

² Philippon, Thomas (2019), *The Great Reversal: How America Gave Up on Free Markets*, Belknap Press.

³ Faccio, Mara and Zingales, Luigi (2017), "Political Determinants of Competition in the Mobile Telecommunication Industry", *NBER Working Papers 23041*, National Bureau of Economic Research.

⁴ See European Parliament factsheet (2019), "The European Union and its trade partners", www.europarl.europa.eu/factsheets/en/sheet/160/the-european-union-and-its-trade-partners

⁵ Standard Eurobarometer Survey 92, Autumn 2019.

⁶ Bergbauer, Stephanie, Hernborg, Nils, Jamet, Jean-Francois and Persson, Eric (2020), "[The reputation of the euro and the European Central Bank: interlinked or disconnected?](#)", *Journal of European Public Policy*, January.