Christine Lagarde: Stability through balance - rethinking power in a connected world

Speech by Ms Christine Lagarde, President of the European Central Bank, on the occasion of the 25th anniversary of Institut Montaigne "Conversations pour demain", Paris, 15 September 2025.

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It is a great honour to be invited to celebrate the 25th anniversary of the Institut Montaigne with you. For a quarter of a century, this institution has stood out for its independence of thought. That independence has given its work both credibility and influence.

As a central banker, independence has a special meaning for me. In this uncertain world, institutional independence is a key source of stability and trust.[1]

But the question of independence extends far beyond monetary policy. As Michel de Montaigne once wrote, "La plus grande chose du monde, c'est de savoir être à soi". *[The greatest thing in the world is to know how to belong to oneself.]*

Today, Europe and its Member States are asking what it takes to "belong to oneself" in a world where the foundations of the international order are shifting.

Since the 17th century, independence has always been guaranteed by balance. Countries built systems of strategic balance to prevent the strong from dominating the weak.

From the Westphalian age until the first half of the 20th century, this balance rested on hard power: the ability to balance others through military force.

After 1945, it shifted towards soft power among Western states: balance was achieved through rules and norms to which all agreed.

Today, it rests on system power: the ability to manage the dependencies created by the infrastructures and technologies that bind us together.

Safeguarding independence in a world of system power is the defining challenge of our time.

And to succeed, Europe must transform – to restore strategic balance in this new era. Only then can we prevent interdependence from descending into cycles of coercion that would ultimately weaken us all.

The path to system power

In modern European history, three distinct paradigms of power stand out.

The first is hard power. For centuries, the independence of European states rested on military strength – the ability to defend oneself by force in a world of feudal and imperial hierarchies.

The Peace of Westphalia in 1648 marked a turning point in international relations. Under the Westphalian order, each state had the exclusive right to govern its territory without external interference.

This laid the groundwork for international law, or at least norms of coexistence. Yet in practice, balance of power still meant military competition, an equilibrium maintained as much by arms races as by agreements or marriages of convenience.

As a result, this system had its limits. When the equilibrium held, it provided peace. When it broke, escalation was swift and uncontrollable. Twice in the space of a few decades, Europe descended into catastrophe.

To avoid a return to the unstable balance-of-power dynamics, a second paradigm emerged after 1945 and gained momentum after the fall of the Berlin Wall: soft power.

Power was no longer exercised only through armies, but through the ability to create and enforce rules, norms and values. Multilateral frameworks and institutions were created that aligned national interests with collective stability.[2]

As long as countries complied with these rules and accepted enforcement, there was no need for an explicit balancing of military or economic capabilities. Independence was safeguarded by global institutions – and enhanced by the ability to shape those institutions in one's favour.

This period coincided with a sevenfold rise in global GDP per capita. Over a billion people were lifted out of poverty. And the world experienced the longest stretch in modern history without direct war among major powers.

In this rules-based world, Europe thrived. It became a so-called "regulatory power", able to project its influence not through armies but through markets.

As the leading trading partner for 72 countries, Europe exported not only goods but also standards, shaping corporate practices and laws worldwide – a phenomenon known as the "Brussels effect".

But open markets and shared standards led to a third paradigm of power emerging: system power. Some countries embedded themselves in global trade and financial networks in ways that gave them leverage over others.

At the time, this shift went largely unnoticed. Many assumed globalisation and democratisation were permanent, and that trade partners would not become adversaries. And because economic interdependence had reached unprecedented levels, it was assumed that no country could coerce another without hurting itself.

Today, US-EU trade is worth around €1.5 trillion annually, EU-China trade about USD 900 billion, and US-China trade around USD 650 billion.

Is that sufficient? Probably not.

It is now clear that asymmetries matter.

A country that controls a raw material or a critical technology can hold "escalation dominance" even over partners with much larger markets. When the United States raised tariffs, China used its leverage and struck back at choke points in US supply chains.

Other forms of power have not disappeared – as Russia's unjustifiable invasion of Ukraine, and now its violation of Polish and Romanian airspace, have brutally reminded us. But the recognition of system power is profoundly reshaping policymaking worldwide. Achieving primacy in complex networks – or disentangling oneself from them – has become a central goal.

We see some countries building alternative financial infrastructures, like China's Cross-border Interbank Payment System (CIPS) and Russia's financial messaging system SPFS, to shield themselves from US sanctions.

We see a new "great race" for mining resources and trade routes that secure access to metals and rare earths.

And we see a rapid turn towards state intervention: China is spending more than 4% of GDP[3] on industrial policy, and the United States – once the bastion of free market rules – is now taking direct government stakes in chip and mining companies.

Some look at these policies and lament their inefficiency. But efficiency is not the goal. The goal is to secure the foundations of economic and political primacy.

Here lies Europe's challenge. It thrived in the rules-based era as a regulatory power. But it was not designed for a world of system power. And it failed to develop its military power on the grounds that regulatory power prevailed.

If Europe wants to preserve its independence in this new world, it must transform.

Operating in a world of system power

Europe's overriding goal in this changing order is clear: to defend its values, without compromising its principles, and act with complete independence.

To do so, we need to uphold as much as possible, at the global level, a system based on the rule of law, which remains the aspiration of most nations.

But we must be realistic. If major powers, encouraged by military might, are turning away from multilateralism and embracing the logic of system power, we need to be prepared.

The aim cannot be to stoke global tensions. It cannot be to dominate others. It must be to restore balance by reducing asymmetric dependencies – so that coercion becomes self-defeating and people in sovereign countries can live in freedom.

Interdependence can then once again serve as a pillar of stability rather than a source of fragility.

For the EU, this requires three changes: pooling, coherence and coalitions.

First, pooling at European level.

The strategic autonomy agenda, launched in 2016, recognised that balance required developing autonomy in critical technologies.

Several initiatives, including the Chips Act, the Net-Zero Industry Act and the Critical Raw Materials Act, have taken shape and more – on artificial intelligence (AI), the cloud and other emerging technologies – are in the pipeline.

But these policies are still ultimately managed at the national level, demonstrating, unfortunately, that national frameworks cannot deliver true independence.

For example, the European Court of Auditors has judged it "very unlikely" that Europe will reach its semiconductor target of 20% of global production by 2030.[4] In batteries, the EU holds just 10% of global capacity, whereas China's CATL alone controls 40%.[5] And in AI, US institutions produced 40 notable models in 2024, compared with Europe's three.[6]

The fundamental problem is scale. National policies cannot produce globally competitive firms in sectors where the major issue is critical size. This leaves us at an impasse: either we are forced to rely on costly, second-rate domestic products that erode our competitiveness, or we remain captive to the very dependencies we are trying to reduce.

The only way out is a new European approach to economic policy, combined with a new way of taking decisions.

Enrico Letta and Mario Draghi have already said everything there is to say about the Internal Market and its current quixotic state, as well as its potential. And what are we doing?

Europe should extend qualified majority voting. As I have argued before, it is not a weakening of democracy. It is the only way to exercise it fully: by pooling our resources and our capacity to achieve the required scale in these strategic fields, we give citizens back their ability to shape events, and Europe its independence in a world of rival powers, where size and the scale effect are critical.[7] This is how decisions are taken at the ECB – and it works.

Second, coherence.

In this age of system power, weakness in one domain cannot be offset by strength in another, because dependencies now cut across sectors.

We saw this in 2018, when the United States threatened to cut European firms off from its financial system if they continued trading with Iran.

This dynamic was particularly evident when Russia invaded Ukraine: our reliance on Russian gas was used in an attempt to deter us from taking retaliatory measures. That failed – but Europe paid a heavy price: soaring energy costs and five quarters of lost growth.

And we saw another example in our recent trade negotiations with Washington, where concerns about maintaining US support for Ukraine appeared to influence the willingness of some Member State to intensify the economic stand-off – even if that meant settling for a weaker deal.

The lesson is simple: Europe cannot rely solely on its economic influence or regulatory leadership. Those strengths can be neutralised if there are chinks in the armour elsewhere. Europe needs the full range of instruments of a unified state.

Europe is working on this, albeit possibly too laboriously and too slowly. Defence spending is set to rise significantly. Reaching 5% of GDP by 2035 will mean more than €300 billion in additional funding each year.

Europe has already committed over $200 billion in support for Ukraine, making it the largest donor. In doing so, it is restructuring its defence industrial capacity – including through the "Build with Ukraine" initiative – and reducing reliance on external equipment.

Steps are also being taken to strengthen the international role of the euro. The digital euro, in particular, would offer a sovereign alternative to foreign payment systems and the potential to expand the euro's reach in cross-border transactions.

But this progress is being hindered by indecision. The digital euro is still awaiting a legislative act. Energy prices remain tied to gas because investment in grids, interconnectors and clean baseload power is too slow. And defence procurement is still fragmented across the 27 Member States, undermining scale and interoperability.

Third, coalitions.

A world of system power demands a different approach to foreign economic policy. We cannot – and should not – reshore everything. Independence instead requires a layered strategy.

The best option is to keep global institutions at the centre by supporting the International Monetary Fund (IMF) and the World Trade Organization (WTO) as anchors of an open trading and financial system and helping them evolve to meet new challenges.

Just as nuclear deterrence relied on verification and dialogue, economic deterrence today requires frameworks for transparency and cooperation, even among rivals. The IMF and the WTO could take on this role, monitoring subsidies, restrictions and export controls, and offering platforms for dialogue in times of crisis.

In doing so, they would help ensure that interdependence becomes a stabilising factor – not a weapon.[8]

Where universal consensus is out of reach, we should form coalitions of the willing – at times even with rivals – when our interests converge, whether on climate change, migration, or other common challenges.[9]

And where vital security interests are at stake, we must rely on like-minded coalitions prepared to act together. Independence therefore requires us to build partnerships that share risks and create common stakes in stability.

That may mean forming coalitions to pool raw materials, secure access to advanced chips, or protect digital infrastructure. It may also require adopting a more realist approach to trade: one based less on universal values than on defending concrete interests.

This will require Europe to adapt, given our longstanding commitment to multilateral frameworks and international law. But we have a unique advantage. As the world's largest trading network, we can leverage this position to forge new agreements and deepen strategic partnerships. And we still have many like-minded partners across the globe.

Conclusion

Jean Monnet once observed that "People only accept change when they are faced with necessity, and only recognise necessity when a crisis is upon them".

The Westphalian order was born of the necessity to end 30 years of war. The post-war multilateral order was forged in the ruins of two world wars.

Today, we may again face such a moment of necessity, as power is exercised through the very systems on which we all depend, even at the risk of breaking them apart.

At stake is our independence. Europe must be stronger, more aligned, more realistic. Only then can unilateral disruption be made self-defeating.

Stability in this new age will not come from the domination of one over many, but from turning shared vulnerabilities into shared strengths – through a new concept of strategic balance.

Crisis has always driven reinvention. But perhaps this time, we can recognise necessity before it becomes tragedy and shape a balance that preserves independence in an interdependent world.

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