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What economic sovereignty for Europe?

Facing the threats with lucidity, and boldly seizing an opportunity

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Mr Director, Dean (dear Enrico),

Ladies and gentlemen, teachers, dear students,

It gives me great pleasure to speak before you today. I follow in the footsteps of several Ministers of Foreign Affairs, including Jean-Yves Le Drian and Nathalie Loiseau. Caro Enrico, thank you for your invitation, knowing this makes me feel all the more grateful and honoured! The decision to switch from diplomats to a central banker such as myself perhaps sends out **three signals**. First, rarely have geopolitics and economics been so closely intertwined. Faced with the rise in protectionist tensions and the verbal volleys, which unfortunately intensified again this summer, some even say that economic interdependence – the “sweet ties of commerce” praised by Montesquieu – is the only thing still shielding us from military conflict. Conversely, rarely has a global economic slowdown been so clearly attributable to political causes: nearly everywhere, public policy instability and uncertainty are on the rise and are damaging private sector confidence; I shall come back to this.

Second signal: rarely have central banks been called upon to do so much. I’m not going to bore you with a lesson on the technical delights and subtleties of monetary policy. Let’s just say that we have a central mandate – price stability – and a main instrument for achieving this – the short-term interest rate. But for the past ten years, since the great financial crisis, we have been using new instruments: quantitative easing (QE), forward guidance[i] and even negative rates. These non-standard policies have been effective; but they can also create the – mistaken – illusion that monetary policy is omnipotent.

Third signal: rarely has Europe appeared so necessary and at the same time so divided. I am a French and European official, I was in Maastricht 28 years ago to launch the euro; every two weeks I take part in meetings of the ECB Governing Council which manages the currency. I stand by this conviction in Europe and in the belief that the joint work carried out by France and Germany is an indispensable driver, even if it is not enough. Nearly 30 years ago, the fall of the Berlin Wall injected new impetus into the construction of Europe. Today, Europe is turning in on itself, is on the defensive. Yet it is vital that it make itself heard in the face of the threats that it is facing, and that it do so with one voice if it doesn't want to be inaudible. But beyond the threats, and at the risk of sounding paradoxical and even a little provocative, I would like to present you with an opportunity: in the current crisis of globalisation, Europe doesn't need to keep its head down; it should assert and propose a model – its own social, environmental and mutilateral model. I propose that we do this in the spirit of Stefan Zweig, who as early as 1934, admirably described the state of mind of the great European Erasmus of Rotterdam: "Instead of listening to the vainglorious claims of petty princelings, of fantastical sectarians and of national egoists, the mission of the European is on the contrary to emphasise that which unites the peoples[ii]".

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I. Lucidity in the face of two economic threats

There are currently two main types of challenges to Europe's economic sovereignty: the first are linked to political decisions ("man-made"); the second to the emergence of technological powers whose reach extends beyond the confines of individual states ("tech-made"). At the top of the list of political threats are the protectionist tensions stemming from the United States, but also the uncertainties surrounding Brexit. They are weighing on our multilateral order and already contributing to the global economic slowdown:[iii] in the space of a year, the 2019 forecast for world growth has gone from 3.9% to 3.2%, and for the euro area from 1.8% to 1.1%.[iv] This loss of growth occurred **even before** tariffs were raised, and for a reason that is often underestimated: protectionist uncertainty reduces business leaders' confidence in the future and leads them to postpone their investments. Britain under the threat of Brexit has been a clear illustration of this private sector confidence deficit over the past three years [the Bank of England estimates that business investment is 20-25% below its previous trend], and even the United States is beginning to suffer. Faced with this situation, political leaders – and one of them in particular – have the most important role to play: it is up to them to restore the confidence they have undermined. Monetary policies do their part by keeping interest rates low in the face of the slowdown, but they cannot tackle the underlying cause.

For the euro area, these uncertainties are being compounded by a painful paradox: the **causes** of the slowdown are largely external, but the region is being acutely affected. This imbalance is attributable to the weight of Germany, which is highly specialised in the manufacture of capital goods and "overexposed" to global trade. It nonetheless also illustrates the fact that Europe needs to make greater use of the scope it has to respond: it has less public debt (81% of GDP) than the United States (106%) or the United Kingdom (87%), but it makes less use of fiscal stimulus, especially in Germany.

In addition, the expansion of the euro's international role would be a useful means of consolidating our economic sovereignty. The euro is 20 years old and it is our success: it ranks second in the international monetary system, but it still needs to increase its importance at the global level. The dollar remains a key pillar of America's global power, and China is taking a greater interest in the internationalisation of the renminbi.

The other major threat to Europe's sovereignty is **technological**. Of the large digital corporations – the GAFA and other bigtechs – whose power equals that of sovereign states, none is European. And Europe is seriously lagging behind in investment: in 2015, the euro area's stock of information and communication technology (ICT) capital amounted to 7.6% of GDP compared with 10.9% in the United States.[v] Yet Europe has the advantage of having a single market: you can see what happens without it with Brexit and the cost of a "no deal" for the British economy. But we need to be more bold. By taking full advantage of the size effect: there are still too many implicit borders and too much fragmentation. By using the power of standardisation, notably to direct innovation, as illustrated by the GDPR and data where Europe is taking the lead. By daring to implement an industrial policy with public-private partnerships, as in artificial intelligence and batteries. And lastly, by mobilising our financial resources: Europe has the largest pool of private savings in the world, with more than EUR 300 billion of excess savings invested outside the region each year, but our venture capital market, and more broadly our equity financing market, are underdeveloped compared with the United States.

In the financial sector, the bigtechs have the potential to cause a genuine "Big Bang": they have a strong brand image, a global client base and privileged access to new technologies. Of course, financial regulation needs to remain neutral vis-à-vis technology: the principle of "same activity, same rules" needs to be applied to maintain a level playing field for all players. But we need to increase international cooperation in four key areas of the regulation of digital finance: (i) cyber-security; (ii) data protection; (iii) preserving competition in the face of the risk of ultra-dominant networks and private monopolies; and (iv) fair cross-border taxation. Facebook's Libra is a prime example of a case where cooperation is imperative. The G7 under the French presidency underlined the challenge this poses for sovereignty, and wants to address some "serious regulatory and systemic concerns"[vi] before such projects can be implemented.

II. Boldly seizing the opportunity of a social, environmental and multilateral model.

I now come to my provocation, or rather what should be our boldness. To this uncertain, troubled, disruptive, and uncooperative world, does Europe have nothing to offer? Let us start with the very criticisms levelled today at the multilateral economic order, and at what has been called the "Washington Consensus". It was economically sound, but socially too weak. Globalisation has often been felt to have mainly benefited large corporations – and their tax evasion. Inequalities between countries – notably between the North and the

South – have fortunately decreased; those within countries have increased. And your generation is demanding that we guarantee the protection of the planet. Behind these criticisms are often our very European values.

This echoes the work of many researchers who highlight the diversity of capitalist models and seek to correct their excesses.[vii] I am thinking in particular of Marie-Laure Djelic, co-Dean of the Sciences Po School of Management,[viii] of Michel Aglietta who denounces the "excesses of financial capitalism"[ix] or of Dani Rodrik who highlights the dysfunctions of liberal capitalism.[x] At the beginning of the 1990s, Michel Albert theorised "Rhenish capitalism".[xi] Jean-Dominique Sénard is now calling for “responsible capitalism” in Europe.

Europe, if it is bold enough, is in a good position to provide concrete answers to the expectations of the world's citizens. The new Commission, led by Ursula von der Leyen, has the means to achieve this ambition. In my view, the "European model" is articulated around **four requirements**: the fight against inequalities, the promotion of individual autonomy through education and knowledge building, the preservation of the climate, and the renewal of multilateralism. By the way, we are talking here about a “European model” and not a “European way of life” which has been discussed a lot in recent days. In short, Europe can proudly define itself as a social, environmental and multilateral model.

2.1 The social model: the fight against inequalities

The rise in inequalities has – fortunately, in my eyes – become once again a major economic and social issue, as evidenced by the success of the work of Joseph Stiglitz[xii] and Thomas Piketty.[xiii] This too long-ignored problem has been at the heart of election results – from Donald Trump to Brexit – and is one of the main reasons for the democratic crisis and the rise of "populism". On the economic front, international institutions, the OECD[xiv] and the IMF,[xv] have studied the impact of inequalities on growth. Their findings are clear: persistent inequalities reduce the long-term growth potential of economies. According to some OECD estimates, in the United States and United

Kingdom, growth in GDP per capita between 1990 and 2010 would have been 20% higher if income inequalities had not increased.

Much can be learned from the European model. Firstly, because it is **less inegalitarian**, especially thanks to redistribution. According to the World Inequality Lab, after redistribution, the income of the wealthiest 10% of US households is, on average, twelve times higher than that of the poorest 50%, compared to a ratio of eight in Europe. This ratio has doubled in the United States since 1980, while it has remained relatively stable in Europe.[xvi] Our social welfare system plays a key role here: it even defines Europe, whether it is based on a Bismarck or a Beveridge model. Secondly, the European model **organises industrial relations and economic power relations** in a more balanced way between employers and employees. This is enshrined in the Charter of Fundamental Rights of the European Union, whether one follows the Nordic traditions of negotiation or the Latin ones of regulation. Finally, a **high level of public services** remains a key factor of integration, from transport to health. As regards the level of public spending, there are significant differences between European countries: unfortunately, France displays the highest level of public spending, at 56% of GDP, and must make its public sphere more efficient. But the euro area average, at 47% of GDP, illustrates a different societal choice to that of the United States and the United Kingdom, with ratios of 35% and 38% respectively, and even more so the large emerging countries

Redistribution and social welfare system + industrial relations + public services: let us call it the European social model, or "Soziale Marktwirtschaft" if one is German and more liberal. The vast majority of our fellow citizens, beyond their national or political differences, are attached to this common matrix. Let us affirm it, without shame: it is not only a legacy from the past, it is an asset, today. But we need to recognize that this ambition to achieve social justice is no longer sufficient. We cannot be content with an ex-post "repair" of inequalities.[xvii] We have to create equal opportunities for all **ex ante**, and this is the second requirement, that of individual autonomy through education.

2.2 The major requirement: aspiring to autonomy through education

It is clear that education must be the absolute priority: to offer all citizens the same opportunities for success, regardless of their social background. It is the best way to prepare each and every citizen for the knowledge economy and the technological transformations that he or she will have to face. It is the prerequisite for social mobility, in order to reduce the "longitudinal" inequalities between generations. And hence, it increases growth by raising the "human capital" of a country.

In Europe, we have some of the best education and vocational training systems. For example, the effective Finish education model and the quality of German and Swiss teaching. The skill levels of European students are on average higher than those of OECD countries[xviii] in terms of mathematics and science scores and of understanding written texts. As well as performing better, our education systems are more democratic thanks to higher enrolment rates[xix] – 90% in Europe compared to 84% in the United States[xx] – and lower average tuition fees.[xxi]

But it is clear that there is a significant North-South divide in Europe in terms of education; and France – it must be said – is "southern" and inegalitarian. PISA studies show that France is the G7 country where academic performance of pupils is the most highly determined by their social environment.[xxii] This observation illustrates what the Nobel Prize winner Jean Tirole described as the "délit d'initié" or rigged system.[xxiii] This collective failure also contributes to a structural unemployment rate that is still too high in France, i.e. around 7 to 8%. This challenge is common in Southern Europe, and goes hand in hand with another one: at long last developing apprenticeships and vocational training. There are now fewer young people in apprenticeships in France, Italy and Spain combined than in Germany alone... while there are many more young people, and young people unemployed. It is not a paradox, but rather an explanation... and a call for action. The "Avenir Pro" law passed in France in 2018 must now be implemented, and Italy's way out of economic stagnation can be achieved by taking the same tack.

2.3 Commitment to the environment and climate

The third requirement of the European model is a firm commitment to the environment and climate. This issue is currently the largest unifying factor among the young as well as older generations throughout the world. The last European elections showed this clearly. The German philosopher Hans Jonas urges us to respect the imperative of responsibility: you should always consider the possible worst case as a likely option and act accordingly.[xxiv] And is this respect, Europe is ahead and Donald Trump's America is behind.

But climate is the very example of a global public good: no country has the means or even the incentive to act alone. All European countries signed the Paris Climate Agreement in 2015. Supervisors and central banks are also strongly committed. In December 2017, some of them – including in several European countries – set up the Central Banks and Supervisors Network for Greening the Financial System (NGFS) at the initiative of the Banque de France. Today, this network has nearly 50 members: it works concretely – and with great enthusiasm – to ensure that banks and insurers better integrate climate change risks and promote green financing. And we must, as Christine Lagarde told the European Parliament, take climate change into account in monetary policy: I made proposals in this respect.

2.4 A new model to renew multilateralism

European integration is based first and foremost on a method: multilateralism and cooperation. These are no longer very fashionable terms, but we must use them without wavering. Nationalist escalation does not provide solutions for the major issues facing citizens. We still need to re-establish multilateralism on the basis of three convictions stemming from our European experience, with its limitations:

- an agenda that meets people's expectations: more inclusive growth, and the protection of common public goods, starting with the climate
- an ability to decide and act comprehensively with regard to a few well-identified projects, rather than discussing everything, at too much length.
- a distinction between the independence of states – which may be formal – and real sovereignty on key issues. Emmanuel Macron was among the first who dared to advocate a "European sovereignty", which is still an oxymoron for many, who only dream of national sovereignty. But it is this common sovereignty that Mario Draghi promoted in a speech in Bologna last February, stressing that: “independence does not guarantee sovereignty" and that "countries need to work together to exercise sovereignty.”[xxv] Let me give you a testimony: this is what we have achieved with the euro. It is never easy – we have cultural differences, including economic differences. But we are proud to have created together a sovereign currency, globally respected, with popular support – 76% of citizens are attached to the euro – and a federal institution – the Eurosystem, consisting of the ECB and the 19 national central banks – which is undoubtedly the one that works the best in Europe.

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A social, environmental and multilateral model must now be Europe’s message to the world. I do not underestimate any of the difficulties involved: we must first manage today's threats. We must involve and convince the citizens, who too often fear that more economic integration threatens their European social model, when conversely it would strengthen it: we should state much more clearly our commitment to these common "fundamentals". Finally, we must have the courage to assert our values openly. But I will conclude with a former student of Sciences-Po, and one of the greatest, Simone Veil: “Setting itself high ambitions, Europe will be able to make its voice heard and defend strong values: peace, the defence of human rights, and more solidarity between rich and poor."[xxvi] This fight is worth fighting; it is mine, and I believe above all that it is the fight of your generation. I wish each and every one of you, good luck.

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