Christian Noyer: How to combine a deepening and widening of the European Union

Speech by Mr Christian Noyer, Vice-President of the European Central Bank, at the Oxford University European Affairs Society, Oxford, 22 November 2000.

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Ladies and gentlemen, it is a pleasure for me to come to this prestigious university and to address the members of the European Affairs Society tonight. As I was told, your Society is an independent forum for the discussion of European issues within this university. Independence and a certain level of detachment from the everyday political debate, as I know from the experience of the European Central Bank, can indeed provide propitious conditions for true discourse and the free expression of ideas. This is why I appreciate the opportunity I have tonight to address the important topic of how to combine both the widening and the deepening of the European Union. In so doing, I shall approach the subject from the specific viewpoint of a central banker and share with you some ideas concerning the particular role of the euro in the further integration process of a growing European Union. At the same time, I should like to stress that it is clearly not for central bankers, but rather for politicians and European citizens to make the necessary "hard decisions" in the coming weeks, months and years.

The challenges of enlargement

European integration was conceived as a project aimed at ensuring peace, stability and prosperity in Europe. It has remained so throughout the five decades of its successful progress. At the beginning - owing to the geopolitical circumstances at the time - this new and innovative concept of achieving reconciliation and stability through economic integration could only be applied to western Europe. Today, ten years after the "return to Europe" of those countries unfortunate enough to be on the other side of the "Iron Curtain", we face the challenge of extending the successful model of European integration to the whole of Europe, so as to truly overcome the division of our continent. Therefore, I would regard the forthcoming enlargement of the EU not just as the institutional response to central and eastern European countries' application for membership. Rather, it should be seen as the realisation of the Union's longer-term objective of providing a framework for political stability and economic progress. Such a vision is clearly underlined by the EU's current political agenda, which treats enlargement to include 12 applicant countries, mostly from central and eastern Europe, not as a question of "whether or not", but rather as a matter of "when and how".

What will the impact be of the European Union almost doubling in size? It is reasonable to expect that the forthcoming enlargement will increase diversity and complexity within the Union to an unprecedented extent.

In economic terms, the proper fulfilment of the so-called "Copenhagen criteria", which require the accession countries to be functioning market economies and able to adopt the existing Community rules, should help to avoid severe imbalances within an enlarged Union. In this context, it should also be borne in mind that the combined gross domestic product (GDP) of all accession countries - measured in today's figures - accounts for only 5% of the European Union's GDP. In addition, the inherent dynamics of the single market and the "convergence pressure" exercised by policymakers and financial markets alike are also set to aid a rapid catching-up of the future new Member States. The evidence of real convergence provided by Ireland, Spain or Portugal after their accession to the European Community gives grounds for confidence in this respect.

In political and institutional terms, however, the EU will indeed be facing great challenges. The sheer increase in numbers will make decision-making more difficult and the legitimate interests of the "newcomers" may diverge significantly from those of the existing members, given the different stages of their economic transition and development and their specific historical experiences which undoubtedly shape their views on Europe.

The Member States appear to be committed to addressing these challenges in the context of the ongoing Intergovernmental Conference on institutional reforms. Let us hope that the IGC can agree on at least those reforms which are absolutely essential to allow the Union to function even after enlargement. Even so, it appears almost certain that the forthcoming Nice Treaty will only be a milestone. It will by no means be the end point of the ongoing fundamental institutional debate on the future shape of Europe. In this wider debate, many observers have argued that the original objective of an "ever closer Union" might be somewhat incompatible with the current movement towards an "ever wider Union".

Combining the deepening and widening of the European Union

In addressing this altogether intelligible concern that the greater size and heterogeneity of an enlarged European Union might lead to a standstill in integration or even an unravelling of the degree of deepening achieved so far, I would suggest starting with a certain amount of "introspection" aimed at assessing the depth of integration in the EU today.

I believe there can be little doubt that the EU has already achieved a high degree of integration, both in economic and political terms: a functioning single market has been complemented by the successful introduction of a single currency. The framework for the pursuit of a common foreign and security policy is being given real substance, soon to be underpinned by a nascent military capability. In addition, the scope of common activities now also extends to highly sensitive fields such as internal security, immigration and asylum.

It is on this premise that I should like to put forward the following proposition, which I will try to illustrate in the remainder of my presentation: ***The depth of integration in the EU today, which is based not only, but especially, on the establishment of Economic and Monetary Union, in itself will, over time, trigger further integrative steps***. These dynamics are at work anyway, and are unlikely to be derailed by the process of enlargement. Using the metaphor of the "bicycle theory", which is the notion that European integration has to progress in order to avoid backtracking on past achievements - just like a bicycle has to keep going to avoid falling over - I would argue that the future EU, rather than being diluted, is set to achieve further deepening, even if enlargement increases diversity.

Allow me to illustrate.

EMU as a catalyst for integration

Economic and Monetary Union in itself could be regarded as a source of, and catalyst for, deeper integration in Europe - and the fact that both sides in the euro debate in this country use this argument might be seen as underlining its significance. There is plenty of evidence to support this proposition, which can be seen from the preparatory phase of EMU (during the 1990s) or in connection with the actual launch of the euro in 1999. But I believe it is also true from a longer-term perspective.

Over the past decade, the very process of preparing for the introduction of the euro has brought about a greater degree of integration. The aim of achieving Economic and Monetary Union by 1999 at the latest called for the complete liberalisation of capital movements within the European Community, closer coordination of national economic policies, as well as institutionalised cooperation among monetary authorities within the European Monetary Institute. An emerging "stability consensus" among policymakers in Europe on the desirability of a stable currency and sound public finances provided the crucial backing for a, sometimes painful, process of budgetary consolidation and disinflation, in which domestic policy objectives needed to be brought in line with the need to fulfil the Maastricht convergence criteria.

If the preparatory phase of EMU could be best characterised as generating common policy objectives and a joint outlook among policymakers - albeit without changes to the existing institutions - the actual introduction of the euro on 1 January 1999 certainly marked a quantum leap in institutional terms. As of that day, a new supranational institution, the ECB assumed responsibility for the management of the single currency. Endowed with the necessary competencies to define and implement the single monetary policy, given a clear objective to maintain price stability and granted full independence, the ECB now exercises a core aspect of state sovereignty at the European level.

In policy terms, the single monetary policy is by definition indivisible and aims to ensure the maintenance of price stability in the euro area as a whole, meaning that it cannot take into account specific national situations. There is only one key interest rate, a single integrated money market to distribute liquidity across the euro area, and - what has been a focal point of media reporting - only one euro exchange rate.

Sharing a common currency implies the need to take a policy perspective which goes beyond the level of the national economy, and this also applies to policy fields other than monetary policy. The Stability and Growth Pact, aimed at shoring up the proper functioning of Economic and Monetary Union, requires Member States to observe fiscal discipline and to make their national budgetary plans subject to the scrutiny of other Member States. Increasingly, the Member States are also willing to take and give advice and to learn from each other in policy areas which have traditionally been - and will remain - exclusive national domains, such as labour market reform or the financing of pension liabilities. In all of these areas, closer cooperation in Europe does not mean the forced acceptance of a uniform model, imposed by an ever-more powerful and increasingly remote Brussels bureaucracy. Rather, such exchanges of views help to identify best practices and provide room for the free play of competing concepts and policy designs - which is to the benefit of all involved.

Finally, “deeper integration” within the sphere of European economic policymaking could be seen as no more than the long-overdue, political response to market developments towards globalisation which, in any case, cannot be avoided. Take, for example, the increasing integration of financial markets, driven by the desire of market participants to reap the benefits arising from the introduction of the euro. Closer cooperation among policymakers and regulators, the setting of common rules and the promotion of consistent practices merely help to provide the necessary framework for the proper functioning of a single European financial market, with a depth and sophistication similar to that of the United States. It is in such an integrated European financial market that resources will be allocated most efficiently, to the benefit of all, be they individual savers, institutional investors or corporate borrowers.

As I have amply illustrated thus far, the introduction of the euro has undoubtedly marked a significant step towards the deepening of the European Union. It has also further advanced the emergence of a unified EU economy, which, in turn, has contributed towards developing an external perception of “Europe” as an entity in its own right.

Ladies and gentlemen, having “prepared the ground” on the basis of existing evidence, allow me to elaborate now on possibly the most controversial aspect of my aforementioned proposition, namely that Economic and Monetary Union will, in itself, act as an impetus for further deepening.

The internal dynamics of EMU as a source of future deepening

The euro is in a unique position in that it is “a currency without a state”. Historically, the soundness of money has always been closely associated with the strength and stability of the political structure of which it is an expression. Therefore, it is a legitimate question to ask whether EMU can function without some form of political union.

Allow me to approach this question in the following manner. To start off, the concept of political union is not very well defined. I am sure that you, as attentive observers of the euro debate in this country, would agree with me that the term “political union” can mean many things to many people, often depending on political expediency or the desired public relations impact. From a central banker’s perspective, that is, “a forward-looking assessment based on all the information currently available”, I would argue that the EU today, with its single currency, already represents a highly advanced institutional construction, combining both supranational and intergovernmental elements. With the introduction of the euro, Member States' governments, especially those of the euro area, have started to jointly assume - together with the European Commission and the ECB - their "shared specific responsibilities for the single currency" (Luxembourg European Council Conclusions). Will the joint exercise of shared responsibilities for an area as pivotal as macroeconomic policy - even if this concerns so far only a sub-group of EU Member States - not inevitably lead to a gradual transfer of competencies to Brussels? Is this what is meant by "political union" - an increasing centralisation of policy decisions? I should think not. Allow me to give you two examples.

First, I would not consider it advisable to centralise employment or social policies at the EU level; rather, decisions should be taken at the national, regional, or even local level to allow for the necessary flexibility to adjust in the context of the specific constraints of the single currency. Second, it is questionable as to whether a centralised "federal" fiscal policy would be the appropriate means to support the ECB's single monetary policy. Instead of such Brussels-steered policies aimed at "levelling out" national or regional differences within the euro area, the current system appears more appropriate. Today, national fiscal policies are subject to basic common rules as laid down in the Stability and Growth Pact. These rules, although constraining, are in fact a means of preserving a certain margin of manoeuvre in the Member States' budgetary policies, while at the same time avoiding undue pressure being exerted on the single monetary policy.

As shown by these examples of economic policymaking, I would argue that making the euro a success does not necessarily call for the creation of a United States of Europe or some sort of "European superstate". In fact, the economic governance of the euro area - although there is certainly scope for improvements in terms of efficiency, effectiveness as well as legitimacy - could be seen as exhibiting essential features of a multi-levelled European polity. Such a political edifice would be based on a respect for the subsidiarity principle and a clear assignment of policy responsibilities and objectives.

At the end of the day, and I should like to make this clear once more, the task of shaping the future constitutional evolution of the European Union, and of determining its "finalité politique" is a matter for the politicians and the citizens of Europe - and not for central bankers. Having said that, the euro is certainly one parameter in this process. A currency has always been a powerful symbol of identity, and this will also be true for the euro. Particularly from the beginning of 2002 onwards, when the euro will be in the pockets of some 300 million European citizens, our common currency is set to become a symbol of a shared identity which brings the reality of Europe into everyday lives.

Conclusion

Ladies and gentlemen, I should like to conclude my remarks on a cautiously optimistic note. As I have illustrated, a substantial widening of the EU can indeed be combined with further deepening. One essential precondition will be a successful conclusion of the Intergovernmental Conference at the summit meeting in Nice in a few weeks' time. Once this long and laborious, but altogether necessary, reappraisal of the EU internal functioning is successfully completed and the necessary institutional reforms are implemented, the Union should be in a position to look forward to the coming rounds of enlargement with some confidence. Our contribution, as the European Central Bank, to this unprecedented endeavour is to help make the euro a success. I am confident that a well-functioning single currency, as a unifying symbol and truly European point of reference, can and will help to provide the EU with the integrative "glue" needed to face enlargement and welcome the new members, and thus to avoid the danger of diluting the integration progress achieved thus far.