

Speech at the International Financial Forum (Paris Europlace) - New perspectives after the UK referendum

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06/07/2016

Speeches

ESM

Paris, France

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International Financial Forum (Paris Europlace)

Paris, 6 July 2016

(please check against delivery)

Ladies and gentlemen,

It is always a pleasure for me to come to Paris, the city of light, of culture and « art de vivre ». And now also football. Next Sunday, Paris will host what many consider to be the most important event of the year: the final of the « Euro 2016 » football championship. For a moment, Paris will truly be Europe's capital.

Less positively, I wish we were here to discuss another topic than the UK referendum. The « Leave » vote is a bitter pill to swallow for supporters of European integration. So it is crucial that we reflect on what caused it, and on what the consequences for Europe will be.

Let me first put things into perspective. One of the benefits of age is that it brings experience. I have seen countries collapse when working at the IMF in the 1970s. I've witnessed the European currency crises in the '80s and early '90s, and experienced setbacks such as the failed referenda on the European constitution. As the head of the ESM, I've had to deal with the euro crisis. Five countries - Greece, Ireland, Portugal, Cyprus and Spain - ran into major problems and lost market access.

When the euro crisis was at its peak, many people predicted the end of the single currency. They were wrong. The euro still exists. Four of the five crisis countries have successfully reformed, and are back on the market. That's what a crisis is like: when you're in the middle of it, you don't know if, when and how it will end. Now again, many doomsayers predict that the UK decision to leave means the end of the EU. But Europe has seen similar crises in the past, and survived them. In many cases, it has come out stronger than before.

Britain's rejection of Europe is linked to a worldwide backlash against globalisation. It is also visible in the US election campaign. The EU - and the euro area in particular - represent the most advanced form of globalization in the world. This includes cross-border cooperation and shared sovereignty. So, it is not surprising to see anti-European movements in some EU countries given that anti-globalisation is getting stronger. But that does not mean we can ignore those movements. We need to address their concerns.

For economists, a rejection of globalisation is hard to understand. There is a broad consensus in our profession that cross-border cooperation and trade raise overall living standards. Economic history shows that time and again. Clearly, we - economists, politicians and bankers - need to work harder to explain this. But economists also know that free trade produces both winners and losers. Sometimes, we may have neglected to cater sufficiently for those who weren't on the winning side of globalisation, but who experienced only the downside.

So much for the diagnosis. What are the lessons to draw from the UK referendum and the anti-European mood? What are the perspectives after the UK referendum?

First, simply proceeding with what Europe has been doing is becoming less and less acceptable to the public. But that does not mean there should be an unwinding of EU

integration. The return to a collection of European nation-states would not be in the interest of the European people. Because: let's be realistic about our relevance in the world, and our ability to shape it. Both are diminishing fast. In 1970, Europe represented 32% of the global economy. The share now stands at 23%, and by 2050, it is projected to be down to 9%. Countries like France or Germany – which like to think of themselves as big - will be even smaller players. The only way for Europe to promote its interests globally is for countries to act together.

How can we do that? An unqualified call for more Europe cannot be the answer. The backlash against European integration is too much of a reality. We have to reconcile an apparent contradiction: on the one hand, we'd like to push for some steps in well-defined areas of European cooperation. Like the good functioning of monetary union. Or control of our common borders to protect Schengen. On the other hand, we should accept that some problems in Europe can be better solved at a local, regional or national level. The solution is an approach I'd like to call 'smarter integration'.

What does that mean in practice ? A European approach would only be appropriate if the objectives can be better achieved by working together across countries. Economists call this 'positive externalities'. Two obvious examples are the EU single market, and the Common External Trade Policy. But the approach cuts both ways: if there are no positive externalities, then a policy area should be dealt with on a level closer to the people. Smarter integration is a two-way-street.

Applying these criteria to monetary union, I see a case for two steps to make EMU more robust, and less vulnerable. Both can be put under the heading of stronger risk-sharing. We know that risksharing in the euro area is under-developed, not only compared with the United States, but also compared with the degree of risk-sharing inside large European economies. Risk-sharing can be done in two ways : through capital markets and through the fiscal channel. I will say a few words about both channels.

When it comes to the former, it is crucial that we work on the Capital Markets Union, an ambitious undertaking to facilitate cross-border capital flows. Completing Banking Union is equally important, including a European Deposit Insurance Scheme, or EDIS. I know this is highly controversial, because the current systems in the euro area countries are very different. They cannot just be merged overnight, but need to be made more comparable first. Also, some countries need to reduce

legacy burdens of their banks. Still, after a transition period, EDIS would make the currency union less vulnerable.

When it comes to the fiscal channel, it could be useful to establish a limited budgetary capacity for the euro area. The currency union does not have such a fiscal capacity that can be used in case of economic shocks hitting only some countries – asymmetric shocks, as economists say. A fiscal capacity that does not lead to permanent transfers or a mutualisation of debt would improve the functioning of the currency union. Comparable instruments exist in the U.S., where states can tap so-called rainy day funds. Once the crisis is over, they have to repay the money.

If smarter integration is a two-way-street, some competences should be returned to Member States, if that is where they are best dealt with. But I do not wish to be misunderstood. Overall, I believe that the division of competences between Europe and Member States, as enshrined in our treaties, is good, and well thought through.

What I have in mind simply requires a smarter use of the European competences. This would give Member States more room in some areas, and would have the additional benefit of not requiring Treaty change. Several lists exist of EU measures that might benefit from being transferred to the national level. Examples include overly detailed rules on employment conditions, efforts to promote the distribution of milk, vegetables and fruit in school, or the requirement for countries to draw up noise maps. Such changes may sound small. But this is precisely the point. It is such tangible things that have the biggest impact on how people perceive Europe.

Leaving decisions on such issues closer to home would give people a greater sense of involvement, and accountability. It would shield the EU from criticism and prejudice, and enhance its legitimacy. This in turn would create space for more integration in the few areas I have mentioned, where it really counts.

And that, ladies and gentlemen, is why I see smart integration as the way forward for Europe after the UK referendum.

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