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Christian NOYER

Britain, France, Germany and Europe

Most people know the famous speech by Sir Winston Churchill, at the University of Zurich on the 19 September 1946, calling for the creation of a “United States of Europe”. “There is a remedy which would in a few years make all Europe as free and happy as is Switzerland today... It is to recreate the European fabric, or as much of it as we can, and to provide it with a structure under which it can dwell in peace, in safety and in freedom. We must build a kind of United States of Europe”.

As a matter of fact, he was speaking mostly of continental Europe. And he added “the first step in the re-creation of the European family must be a partnership between France and Germany... there can be no revival of Europe without a spiritually great France and a spiritually great Germany”.

The same year 1946 saw the first meeting of Robert Schuman, Konrad Adenauer and Alcide de Gasperi in Cologne, at a congress of Christian democrat parties, about the foundation of a United Europe that preceded the famous declaration of Robert Schuman on the 9 May 1950 that led first to the creation of the European Community for Coal and steel in 1952 and later to the European Economic Community (1957), then to the EU.

What is perhaps less known is an episode involving the United Kingdom in 1955. After the rejection of the European Defense Community by the French Parliament in 1954, Jean Monnet convinced the Belgian foreign Minister, Paul-Henri Spaak, to re-launch a new initiative. Together with his colleagues of the Netherlands and Luxembourg, Spaak issued a “Benelux memorandum” proposing both

a Euratom Community (concept from Jean Monnet) and a common market (idea of Ludwig Erhard). That led to the conference of Messina in June 1955 between the six continental countries, where a political agreement was reached to go ahead with both ideas, on what would become the treaty of Rome.

But here comes that episode. In Messina, it had been decided to invite the United Kingdom to join in the negotiations and indeed the UK participated in the Spaak Committee that worked from July 1955 to April 1956. But the United Kingdom decided to leave the discussions in October, and the head of the British delegation explained the reasons why in this way. He said: “We are leaving because you will never agree; or if you agree, you will never implement; or if you implement, it will be a disaster...”

As we all know, already in 1961, the UK was knocking at the door, but that did not work. One had to wait until the early seventies and a new political context (with Edward Heath, Georges Pompidou and Willy Brandt) to enter positively into negotiations that led to the entry of the UK in 1973.

What were then the respective objectives of Britain, France and Germany? In broad terms, probably the following: for Britain, revitalize its economy, but also and mostly to exert an influence on the development of the European construction –where the influence of France on the continent might have appeared too strong... For Germany, extending the common market to the north of Europe, reinforcing the liberal and free market influences in Europe. For France, apart enlarging the benefits of the Common Market, there was probably the hope of having an ally against the most federalist tendencies of some of its partners. Finally, France and the United

Kingdom could hope to regain collectively some diplomatic and political strength that had been questioned after the misfortune of the Suez expedition in 1956.

I do not intend to dwell too much into history and I must apologize for this already long journey into past decades. What I would like to do is to ask myself two questions: what can we learn from the past? And did we all benefit from having the three most important countries inside the EU?

WHAT CAN WE LEARN FROM THE PAST?

As Winston Churchill rightly said, not only the revival of Europe, but the following process of the development of the EU (the competences transferred, the new policies designed, the institutional deepening, etc...) could only proceed under the joint effort of Germany and France. If they disagreed, no progress was possible; if they agreed, many things were within reach, since when united their capacity to convince jointly the others has proved to be extremely powerful. In saying that I do not intend to minimize the role of all other members, which sometimes has been key in the building up of new steps of the European construction.

But one can say that the UK, despite its extremely cautious approach to new developments and to the “deepening” of the EU, has been really key in several instances. Needless to say its agreement was essential in all new negotiations and major institutional or policy developments. But its role has been particularly strong, in my view, in at least two instances, where it was a major force behind a significant step forward.

One was the enlargement of the EU to Eastern Europe countries after the fall of the iron wall. In Germany, and even more in France, public opinions and politicians, although supportive in principle, appeared more cautious given not only the cost associated, but also the risk of a weakening of the culture developed over several decades, which had been protected through very cautious enlargements in terms of the number of countries involved in each step.

A second instance was the establishment of the “single market”. Whereas the “Common Market” was functioning well for the exchange of goods, it was obviously less effective for the provision of services, among which Financial services which was of course of major interest to the City of London. What is the difference between common and single market? Essentially, that the free provision of services (directly from one country to the other) is made possible, in fair competition, thanks to the adoption of common regulations: banking, insurance, financial services and financial market regulations. And the UK was key in defining these principles and pushing in favor of the agreement.

Eventually, the benefits of the single market were even extended to non-EU members of the EEA (European Economic Area). But provided they observe the EU legislation, even if they have no say in their design. In other words, the system is simple and absolutely logical. A single market requires single rules; either you are part in the EU and take part in their design; or you are not in the EU and observe what is decided elsewhere; or you are not part of this market.

Thinking of the discussions we have today in the EU, at the initiative of the UK, I believe all this to be of very significant interest.

DID EUROPE BENEFIT FROM HAVING THE THREE MAJOR COUNTRIES AMONG ITS MEMBERSHIP? I believe so. The combination of different cultural and historical backgrounds has been a factor of progress for all.

Of course, one major issue lies in the creation of a two-tier system in the wake of the single currency. Although the design of the ECB and the Eurosystem has been enriched by the participation of the then Governor of the bank of England in the Delors Committee, then of his staff in the European Monetary Institute, the very low probability today to see, in the foreseeable future, the UK adopt the single currency transforms the legal exception into a permanent shift, which raises some problems.

On the side of the UK, it is well known that there is a fear to be “dictated” rules for the EU by a majority of countries... belonging to the EMU. Although I do not see that this risk has ever materialized, as I do not see for the time being any risk that members of EMU act as a voting block inside the EU, this fear can be addressed. But in my view, certainly not to create a permanent option to step out of any rule, if his rule is an essential component of the single market. We would simply destroy the rationale and effectiveness of the single market.

On the side of France and Germany, this duality of areas for the EU and the EMU is a complication. Let me take a few examples: the working of the EMU requires decisions, but the Eurogroup does not have the legal Authority that the Council of Ministers has on EU matters. For the Democratic accountability, there is not Parliament for the EMU, only for the EU: is it not strange that the hearings of the President of the ECB have to be held inside a Parliament that is not restricted to EMU Members?

Therefore, if member states believe that this duality of geographic areas is there to stay for long, some refinement of the institutional setup is probably inevitable, for matters which are specifically and only relevant for EMU members. The same could be said of the banking union, although in principle it could be a larger area than the EMU itself.

An additional question could be: did each of the countries benefit individually from belonging to the EU? I know the political sensitivity of this question, but my sense is clearly yes. For 70 years, peace has been ensured within the Continent: was that not in the clear interest of all members of the EU? Would the fantastic success of the German industry have been the same without the common market, the EMS and the single currency? Would the fantastic success of the Financial city of London have been the same without the single market, and, dare I say, the euro? Would the French economy behave better if it had not been pushed towards opening its borders, enter the global competition, modernizing itself to resist the competitive pressure?

AND NOW, WHAT CAN WE SAY ABOUT THE FUTURE?

Looking into the future, it is always difficult to predict what might or might not happen. "Predictions", Mark Twain used to say, "are always difficult, especially about the future". What I believe is key is that we do not mix the outcome of the EU with our own shortcomings. If we believe the EU has turned into something too bureaucratic, with an excess of detailed rules; or if we think that the cost of running EU Institutions is too high: let us just fix it! And let us stop invoking an abstract "EU" or "Brussels" to justify painful structural reforms, or policy adjustments that are warranted anyhow and in our common clear interest!

I do not want to dwell too much on the future referendum in the UK and involve myself more than I already did into sensitive domestic political issues for Britain. Just allow me a couple of concluding remarks on the future.

First, there should be no ambiguity about the consequence of the choice from an economic standpoint. I personally cannot see any circumstance in which the UK could benefit from the single market without observing its regulations; nor do I see a possibility of associating the UK in the design of these regulations if it did not belong anymore to the EU (that would mean extending the negotiating group to all EEA countries without the majority rules which make it workable within the EU). There are in my sense only two possibilities, if the UK decides to exit:

- 1) Losing the benefits of the single market;
- 2) Negotiating an inclusion in this market, normally as a member of the EEA, provided it follows the rules decided without its involvement. Any other solution is to my mind a fairy tale.

A second final remark is about the euro. It is already very difficult for members of the euro-area to accept a situation where our currency is largely traded outside the currency area, beyond the control of its Central bank and of the institutions that are established in the zone (e.g. the market regulators). The risk that when tensions occur and risks materialize, the interests of a foreign financial place take priority over the interests of the currency zone itself, and of its components, has already materialized in the past in the case of clearing systems. That can only be acceptable if, and as long as the UK is a member of the EU, and accepts the involvement of the European regulatory agencies (the EBA, the EIOPA, the ESMA

and the ESRB) and a strong cooperation between its own regulatory Authorities and those of the euro-area. For this reason, an exit scenario would necessary mean in my view that the euro-area Authorities could no longer tolerate that such a high proportion of financial activities involving their currency would take place abroad.

Allow me to finish on a positive note. For the three countries and from an economic stand point, the building up of the EU has been a very positive undertaking, as it has been for the whole continent. It is an original concept, neither a federation, nor a simple free-trade agreement. It is letting Nation-States with a large degree of Sovereignty, and a capacity of developing specific political cooperations among some of them. (I am in particular thinking of the Franco-British military cooperation). At the same time, it has undoubtedly strengthened the negotiating power of European countries vis-à-vis the rest of the world, not only collectively, but I believe individually –and this seems particularly true for the three biggest European economies.

But the EU itself has considerably changed over the years, not only in size but in substance. Let us not think that it is a frozen concept, and that we should simply either accept its possible defaults, or reject it as a whole. If there are problems, most likely hurting all of our countries, let us fix them!

Thank you.