



Q&A

JACQUES DE LAROSIÈRE

Honorary President - EUROFI

Internal consolidation is a prerequisite for European integration

We need to be very careful about our economic choices in the circumstances that Europe is going through today: French budgetary and political crisis, Germany's economic weakening, demographic decline, growing inequalities, increasing nationalism, weakening democracies, disrupted transatlantic relations, etc. The economic performance of the various countries is very heterogeneous, the strength of the states is very uneven and there is little cooperation.

One temptation to solve the economic problems of the EU countries is to complete Europe by giving it the power of a state. According to this line of thinking, a fundamental change would have to be made: the transition to a single state in all matters of economic, financial and even military sovereignty.

It's an old tendency to take refuge in this doctrine of European unification! Ah, if there were only one state, only one financial system, only one market, only one army, how much happier we would be!

But this idea of turning the Union into a state has never been realised. Why not?

Because the states (and their citizens) do not want it. At their request, Europe was not built on the federal principle after the Second World War. The construction of Europe was based on the sovereignty of the nation states, and the progress made in Europe, even if it had a federal dimension and logic, was based on compromises between the divergent interests of the member states.

As P. Herzog points out: "Today our nations want a Union that protects them, but very few support the idea of a political community... The European Union has been a great political innovation in creating understanding between states, but it has done so without sharing sovereignty and by making competition a veritable sacrament to the detriment of public goods, for which responsibility is being returned to the nation states..."

Promoting a single European state means forgetting that we now have two economic and financial Europes:

On the one hand, there is the relative equilibrium of the northern states, which respect the minimum discipline required by a monetary union. On the other hand, there is the massive imbalance of a number of over-indebted states, whose budgets have no room for manoeuvre and which are contributing to the weakening of Europe.

It's like water and oil: they don't mix.

The debt-ridden countries of the South may be tempted to take refuge in the illusion that Europe will take care of everything. But realism does not favour such a solution. We must be aware that a number of European countries have now overstepped all the boundaries and yellow lines of the economic discipline they have chosen and ratified.

Those who advocate taking refuge in a rescuing European state do not take into account the need for the over-indebted states to return to the normal level that has been jointly decided. This blindness does not bode well. The failure to highlight the importance of the problem of the massive heterogeneity of fiscal situations is worrying. This blindness deprives the idea of a unified budget, which by some miracle would have eradicated untenable and unsustainable national situations, of a great deal of credibility.

It is time to correct this error and look at things as they are: what is sustainable is sustainable; what is unsustainable is unsustainable. To this end, the European Commission should encourage over-indebted countries to put their public finances in order. Unfortunately, the particular interests of individual states prevail.

We will never eliminate the excesses of debt by calling for fiscal and financial unity. The only way to move towards financial union is to repair what is unsustainable, because, as they said in the 18th century, "you should never put money into a bad fund".

The weakness of the argument criticised above is that no one asks the central question: who will pay? The huge European loans envisaged by the proponents of the single finance thesis

require a guarantee. The market will ask what procedures will reassure lenders. What will happen if certain states are unable to contribute to the repayment of a common debt? Will their obligations be shifted onto the stronger shoulders of states that have performed better from a budgetary point of view?

The problem of the guarantee is never mentioned in the reports calling for fiscal union, which is quite inconceivable.

Moreover, the claim that the fiscal rules have become “obsolete” and that breaking or changing the thermometer (to the extent that military expenditure would be excluded from the calculation of the public deficit in relation to GDP) would solve the problems would only aggravate the situation of the public finances of the most indebted countries and weaken the euro.

* *
*

One of the clearest thinkers of our time, Raymond Aron, has shown us the way: “Internal consolidation is a prerequisite for international integration”².

Consequently, all the Member States must work together to improve the economic level of Europe as a whole, in other words, they must start by respecting the budgetary and economic commitments they have made in a spirit of solidarity.

Can we indefinitely consider as acceptable and credible a whole whose founding rule (a minimum of budgetary discipline must be respected) is violated by a number of Member States? We must stop believing that the permanent violation of budgetary commitments ratified by national parliaments is a solution. The law prosecutes individuals who break the law, but when it comes to the state, the same principles should apply.

The truth is simple. If we want to revive the European economy, there are not several methods, but only one: work more and invest more. It is these two weaknesses that explain Europe’s economic decline.

Instead of calling for illusory European funding and continuing with easy monetary and budgetary policies, we need to start rolling up our sleeves: get our public finances in order and get back on the road to economic convergence in Europe. And move from an economy based on the permanent stimulation of domestic demand to one in which productive investment stimulates supply.

What is certain is that we must ensure that the return on savings in the euro area is at least equal to that in the United States and that a climate of confidence is created to encourage individual initiative. In this respect, the current interest rate differential between Europe and the United States is glaring and needs to be corrected.

The problem is not playing with numbers. It’s about tackling the underlying problem. It’s not easy money that will solve everything, but productive investment, which is the basis of future growth. That’s what we need to encourage... And not discourage by the burden of taxation (due to accumulated budget deficits and public debt) and abusive regulation.

Advocates of easy European money admit that “Europeans are poorer than Americans but save twice as much”. But we need to draw the right conclusion from this observation: keeping interest rates in the eurozone much lower than in the United States will certainly not encourage long-term saving in Europe. On the contrary. Experience shows that artificially and permanently low interest rates discourage productive investment and prevent governments from undertaking structural reforms.

Every effort must therefore be made to improve the profitability of companies and their equity financing so that the return on capital in our continent is at least equal to that in the United States.

1. P. Herzog, « Un nouveau récit pour l’Europe » *Les Entretiens européens*, 2024.
2. R. Aron, « L’Unité économique de l’Europe », *La Revue libre*, n°2, October 1952.