



Europadialog

**Speech by François Villeroy de Galhau,
Governor of the Banque de France**

“Franco-German relations - experiences and challenges in the euro era”

Mainz - 21 March 2017

Madam Minister-President [*Ms Dreyer*], Madam Finance Minister [*Ms Ahnen*],
Mr Spokesperson [*M. Dexheimer*], Ladies and Gentlemen,

I am delighted to be here with you today in Mainz, and I sincerely thank you for inviting me. On a more personal note, I am here as a committed European and a friend of Germany. I am particularly attached to the Franco-German friendship: I am French and live in Paris, but my family's roots are in a neighbouring *Land*, Saarland, where my family has lived since the end of the 18th century and where its porcelain manufacturing company Villeroy & Boch forms part of the German “Mittelstand”. When I spend my holidays in Saarland and I go north, I admire Trier; or east, Neustadt an der Weinstraße. And when I come fortnightly to participate in the ECB Governing Council, I am very close to your beautiful town of Mainz.

There is no doubt in my mind that “we, the citizens of the European Union, have united for the better”, as stated in the Berlin declaration of 25 March 2007. This was for the 50th anniversary of the Treaty of Rome, and this is still just as true four days before we celebrate its 60th anniversary. And yet, our unity may appear threatened today: euroscepticism is on the rise, driven by populism throughout Europe; Brexit triumphed in the United Kingdom last June; and the new American government freely expresses its reservations about the European Union. In these times of turmoil, we mustn't lower the European flag. Let us remember the formidable progress that we have made since our two countries decided to share their destinies by signing the Treaty of Rome, along with Belgium, Italy, Luxembourg and the Netherlands. Today, in Europe, we share three major economic assets: the single currency, the single market and our common social model. We have built them together and we can be proud of them. This will be my first point. For the future,

European unity continues to be, in my view, the best answer to all the questions. And for that, the remarkable friendship between our two countries must continue to inspire us. As Chancellor Konrad Adenauer already stated in 1963: “Imagine, if this friendship [between France and Germany] didn’t exist, any attempt to create Europe would be doomed to fail from the outset.”ⁱ This will be my second point.

I. What we currently share in Europe: our three economic strengths.

Let me start by our shared successes. Today, in Europe, we have three major economic assets: the single currency, the single market and our common social model.

First asset: **the euro**. It is a solid currency that is recognised worldwide. The great majority of euro area citizens are attached to it: 70% according to the latest Eurobarometer Surveyⁱⁱ. And contrary to certain claims, our monetary policy is not some Latin flight of fancy. It is very much in line with the German values that I fully share: independence, respect of the Treaties, price stability and a long-term approach. Monetary policy is decided collectively by the Governing Council, and we take the task entrusted to us of ensuring price stability very seriously. This means making sure that inflation is neither too high nor too low: our target is below, but close to 2% over the medium term. Our monetary policy has enabled us to prevent the mortal danger of deflation that has been threatening the euro area in recent times. Today, inflation is rising again in the euro area, as we had announced: we have moved from a fall of 0.2% in April 2016 to a rise of 2% last month, due somewhat exceptionally to energy prices. Beyond these short-term fluctuations, inflation is expected to stand at 1.7% in 2017, 1.6% in 2018 and 1.7% in 2019.

Second asset: we share a large **single market** that belongs collectively to the Member States of the European Union. This is a major step forward for European trade. It is no coincidence that single market access is at the centre of the Brexit debate. Naturally, we cannot anticipate the results of the forthcoming negotiations, but one principle of consistency must be observed: access to the single market must continue to be contingent on the strict observance of all of its rules. There can be no cherry-picking or free-riding. And we must obviously maintain our common European trade policy if we wish to retain our clout in future trade negotiations at the global level.

Third asset: our common **social model** in Europe. It is less widely discussed, but it is what fundamentally defines continental Europe, and it is what German and French society and public opinion share. Our social model combines a high level of public service, relatively low levels of inequality – much lower than in the United States – and a good intensity of social dialogue. And this has been achieved in a market economy. I would like to stress the extent to which this social market economy (*Soziale Marktwirtschaft*) is a response to the questions raised in the

Anglo-Saxon world, rather than protectionism: Germany, like many other European countries, proves that economic success can go hand in hand with social welfare, and less inequality.

We can be proud of these three assets that we have built together. But for the future, while some no longer seem to believe in the benefits of the European project, we can no longer afford to be complacent; we cannot simply rest on our laurels.

II. In order to control our common destiny we need to build a better Europe.

How should we react? Not by less Europe. This would be a mistake if we want to take collective control of our destiny in this new world. But by a **“better” Europe**, less caught up in the detail, more focused on a few key priorities, and more efficient. To achieve this, Europe needs the energy of Germany and France, and of their remarkable friendship. I will now cite Chancellor Helmut Kohl: “The Germans and French must together build the hard core of the European Union – a union that sees itself not merely as a common market, but as a community of values, a democracy based on freedom, the rule of law and the social responsibility of the State”.ⁱⁱⁱ Naturally I won’t talk to you this evening about the French election debate: I will simply say that as friends of France, you must not underestimate the strength of its institutions. I will talk to you even less about the German election debate. But I strongly believe that after these democratic elections, whatever the outcome, the governments of our two countries will have to confer to decide on a number of shared bilateral projects, and above all prepare a common initiative for Europe. Because for Germany and for France, the other country is certainly the best possible partner: there is no serious alternative, neither in the east nor the west for Germany, nor in the south for France. And because if our common initiative is not sufficient to reach a European decision – indeed there are other countries and the Commission around the table –, it is nonetheless a prerequisite: without the Franco-German engine, the European car will remain at a stand-still.

The projects for a better Europe must be chosen with care and prioritised; and we mustn’t just talk about them. We must ensure that we have the actual means, through efficient governance, to achieve concrete results. To put it briefly: **little, well, until the end**. There are naturally some non-economic areas such as defence, border security, climate change and youth education and training – an Erasmus-pro programme should be a priority to put an end to the tragedy of the unqualified and unemployed youth. But, as regards economic matters, much also remains to be done. As Helmut Schmidt repeated frequently, we must build economic union as well as monetary union. To my mind, we need to make headway on two projects.

The first project, to be started immediately, is a **“Financing Union for Investment and Innovation”**. The European Commission launched the Juncker investment Plan and Capital Markets Union, and Banking Union is now underway. But it is now necessary to make these initiatives converge, in the interest of European savers and firms. Europe needs a better sharing of private sector risk, in order to channel its abundant savings more effectively towards productive investment. As Jens Weidmann and I wrote last year, the equity financing of businesses, across European borders, must be a priority. Europe is lagging far behind in this area: such financing only represents 67% of GDP in the euro area compared with 125% in the United States. Thus, innovation, which is inherently more risky, is less well financed in Europe.

The second project, on which we could make progress after the elections that will take place this year, is a **collective economic strategy in the euro area**. I know that when the French talk about coordination in Europe, the Germans sometimes think that it may be a new way to wriggle out of reforms. This deadlock must be broken: we need both national reforms **and** a European coordination. Growth and employment would be stronger in Europe with more structural reforms where they are a priority, such as in France and Italy, and more fiscal or wage support in countries with room for manoeuvre, such as Germany. Regarding reforms, like you, I would like France to pick up the pace; I say it frequently in my own country. But you must not consider that your French neighbour is “unreformable”. France has not been immobile over the past few years: pensions have been reformed, corporate charges have been cut considerably, and deficit reduction targets have been met. In practice, in order for this European coordination to exist, the euro area needs an institution that inspires confidence between countries. This is why I have proposed, as have others, the creation of a euro area finance minister. This person would embody and bring to fruition the shared commitment of our Member States. Conversely, to my mind, the priority is not to create a “transfer union” and a common fiscal capacity.

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Hans-Dietrich Genscher said during a previous European crisis in the the 1980s: “scepticism and pessimism are just as poor advisers as national egoism”.^{iv} Yes, we all love our country, our Nation. But the Franco-German friendship can be the defence that we need today against the reigning scepticism and pessimism. Friendship is more than a polite end-of-meal platitude, it is a sometimes demanding requirement, but always concrete as it is embodied in the projects. It must continue to inspire the European project, this singular collective will of which we should be proud. As a central banker, it is naturally not my decision. My responsibility, together with the other euro area governors, is to conduct a monetary policy that is in line with the mandate assigned to us, and to make proposals to render other economic policies more efficient. This is what I have outlined before you with my commitment to Europe. Thank you for your attention.

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- ⁱ After-dinner speech in honour of the President of the French Republic, Charles de Gaulle in Bonn - 4 July 1963.
 - ⁱⁱ Eurobarometer Survey, December 2016. 81% in Germany and 68% in France.
 - ⁱⁱⁱ Speech made on 22 January 1988 during the celebration of the anniversary of the signature of the Elysée Treaty.
 - ^{iv} Speech assessing the German Presidency, before the European parliament - 29 June 1983.