“French proposals for the future of Europe”

Ladies and Gentlemen,

If this conference had taken place a decade ago, in the midst of the Iraq war, a French Minister of Foreign Affairs might well have been welcomed with negative comments. Today, as we face together the Syrian tragedy, I am told that the "French Fries", which were renamed "Freedom Fries" at the Capitol cafeterias, could soon resume their maiden name.

Moods change but the fundamentals remain. The US and France are allies that are bound by more than two centuries of close ties and common values rooted in our 18\textsuperscript{th} century revolutions.

This should encourage us to extricate ourselves from the short term to take a step back from current events. I am pleased to be able to do that with you today. Let me thank the Columbia University Center on Global Economic Governance for giving me the opportunity to talk about Europe’s future.

It is often said that the European Union was built from crisis to crisis. This is still true today. We Europeans have drawn some lessons from the crises which broke out in 2008. We have achieved meaningful results in fighting the financial, economic and fiscal facets of the depression which followed. But let's be honest: major challenges still lie ahead and we, in France, are determined to do what is needed for the European Union to be up to the task.

I will make a few short remarks on the future of EU and France’s vision for it, in order to save time to talk with you.

I. I believe the worst of the crisis is now behind us in Europe.

If we take a step back, it is obvious that Europe’s recent history is one of great success. In the aftermath of the Second World War, Europe was ravaged by destruction, impoverished and split between two blocs in what was to become the Cold War.

Europe now lives in peace; its economy, though our growth is too weak, is the largest in the world. And we have built a Union with 28 Member States, which is an unprecedented organization in human history. This is the first time that sovereign States have chosen peacefully to share their sovereignty – even their currency – in order to be stronger and more prosperous together. The Franco-German friendship is the symbol of this reconciliation and the major driving force behind European integration. Europe has become a model of integration, although it remains so far without equivalent.

As you know, we have step by step given important powers to the EU, which is monitoring their implementation. I have already mentioned the currency. There are also the trade, competition and agricultural policies, to name but three. It is of course never simple to agree between 28 members: the European Union does not supplant the national sovereignties and democratic systems of its members. Such a complex decision-making process is common to all major democratic countries with federal structure. We all have in mind the serious deadlocks which can occur in the US Congress!

In the past decades, European integration has helped the continent overcome the crises it has encountered. Without turning my speech into a history lesson, it is useful to keep examples in mind. In the 1980s, in a
context of repeated competitive devaluations which exhausted Europe’s economies, we came up with the Euro project, which was adopted following the speculative attacks of 1992. At every crisis, Europe managed to invent answers which deepened its integration. In the course of its five decades of existence, the EU has thus always managed to find the terms to adapt and has come out of its crises more integrated. This is the result of the determination of a few key players, including France.

To me, the current crisis is no exception to that rule. The immediate cause of the crisis was an external shock: the subprime crisis. In Europe, the crisis destabilized the financial sector, spread to the real economy and lead to difficulties for several countries. It also revealed pre-existing problems – heterogeneity between the financial, economic, fiscal, tax and social systems of the Member States and macroeconomic imbalances within some countries. It also underlined the lack of EU and Eurozone instruments and structures to react when faced with such a shock.

Several projects were launched in response to the emergency, in order to correct these weaknesses. Decision-making processes were speeded up for action, particularly through regular meetings of Eurozone leaders. We established mechanisms to assist crisis-struck Member States. This led to the creation of the provisional European Financial Stability Facility, which was later prolonged by the European Stability Mechanism with €750 billion of allocation. In parallel, the fiscal and financial regulation of the Eurozone was deepened. We agreed to strengthen bank supervision at EU level, in order to stop institutions taking thoughtless risks. The fiscal surveillance of Member States was reinforced through new fiscal rules, stipulating financial sanctions for Eurozone members that fail to comply. Those first decisions allowed the European Central Bank (ECB) to establish the Outright Monetary Transactions (OMT) programme, which had a decisive effect in slackening interest rates.

Thanks to these measures – and other steps I do not have time to discuss in detail – the worst of the crisis is now behind us. The doubts which arose during the years 2011 and 2012 on the future of Greece have disappeared and the first signs of a return to growth emerged during spring this year. After six consecutive quarters of recession, the Eurozone reported positive growth in the last quarter.

In the recent period, the EU has been associated with question marks over its ability to overcome the difficulties it is going through. It is no longer the case. I am convinced that the European Union and the Eurozone will come out of this crisis more stable.

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II. Our on-going work is consolidating Europe’s growth on a sound basis

Coping with emergencies is obviously not enough. Alongside the need for financial stabilization, we, Europeans, also had to act to speed up economic recovery. For the French government, that meant an essential choice: re-orientating Europe’s policies towards growth and innovation. This is why the Government I belong to called for a policy-mix balanced between fiscal consolidation and pro-growth measures. We consider that fiscal consolidation cannot be the sole single economic policy of the European Union, with the risk of killing the patient. This balanced approach, which was initially a minority view, is now more largely accepted, including by the International Financial Institutions. I have in mind, among other things, the IMF’s “Roadmap for growth and jobs” published in July 2013.

A balanced approach obviously means that we remain committed to improving the fiscal conditions. In France, President Hollande launched a plan to control public spending, aiming to a balanced budget in 2017. It is not easy because of the large deficits which were accumulated. Our European partners are following a similar trend, under the enhanced surveillance of the EU. The Eurozone’s deficit – 6.2% of GDP in 2010 – has been cut to 3.7% in 2012. Italy, which worried the markets at one point, will have a deficit of 2.9% in 2013, under the 3% mark.

We also need to correct the macroeconomic imbalances which remain in the Eurozone. The crisis, which was initially financial and then fiscal, took different forms depending on States, including real estate
bubbles, reduced competitiveness, labour market fragmentation, loss of industrial capacity and compression of wages. Each country is trying to correct its weaknesses in an enhanced economic policy coordination framework called the “European Semester”. France, for instance, has set to restore its competitiveness. This is the reason behind this spring’s labour market reform, the competitiveness plan adopted by the French Government in October 2012 and the reform to make public administration more efficient.

As far as pro-growth measures are concerned, the EU set up a pact for growth and jobs in June 2012, for the first time in its history. This plan focuses on three priorities: re-orienting European public spending towards innovation and research; structuring projects at EU level (high-speed Internet, renewable energy and transportation); innovative financing mechanisms to compensate for the scarcity of credit without using public money.

Another important aspect of this European recovery strategy is to strengthen our financial system and the Economic and Monetary Union. No sustainable recovery is possible without reinforcing the structures of our economic and financial system in order to avoid new problems. We launched the project of a Banking Union encompassing a single banking supervision and a mechanism for bank resolution. Single supervision will be effective in 2014, under ECB authority. At the same time, the European Stability Mechanism (ESM) will be able to recapitalize directly distressed banks. Banks and States will thus be consolidated.

These different steps are part of a much wider project, shared with our German partners: to create a genuine “economic government” of the Eurozone in order to improve its management. From our point of view, this involves stepping up tax and social convergence and implementing better coordination of economic policies. The positive momentum generated by the EU in support of reforms must continue and we shall see in the coming months if Germany and France can go ahead on this path together.

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III. France’s ambition for a Europe of progress: innovation, sustainable growth, global peace and security

The new policies that have already been implemented in response to the crisis are positive but still fall short of the long-term vision Europe needs. We are not just facing an economic crisis. What is happening is a deep transformation of the world. We face new competitors, new challenges, which also carry opportunities. If Europe wants to compete, we must thus adapt to ensure that we benefit from them.

To this end, to ensure the support of the people and to maintain internal cohesion, the EU needs a new ambition. France has made proposals for that purpose.

● Of course, we consider we must build on the strengths of the European Union. One of Europe’s major achievements is the internal market, with more than 500 million consumers, including more than 330 million within the Eurozone, representing almost 20% of global GDP. We need to complete the implementation of this internal market to increase the EU’s potential growth.

New trade agreements with our major partners are part of the same logic. The European Union is the world’s leading commercial power and investor. In 2012, exports of EU goods and services, expressed as a percentage of GDP, were much higher, at 26.8%, than those of the United States (14.1%) and Japan (15.4%). It is with this in mind that France is in favour of the negotiations on the TTIP. But we want an agreement that will boost transatlantic prosperity in the spirit of reciprocity and mutual benefit. We will promote our offensive interests, in particular investment, financial services, and access to public procurement. In Europe, 95% of public tenders are open, compared to only 32% in the United States. Like our American partners, we will take into account our citizens’ preferences, such as in the audio-visual and food sectors.

But – and I’d like to insist on this point – the heart of our project is to progress with new common policies that will bolster growth, with a particular emphasis on innovation. It requires major research, development
and investment efforts. The EU recently endowed itself with a programme, “Horizon 2020”, which will strengthen European policies in this field by supporting the most promising sectors, in particular green and digital technologies. We are putting in place instruments favourable to companies. For example, France has created clusters at the national level, linking up universities, research centres and businesses in high-technology sectors such as bio- and nano-technologies. They will allow us to take better advantage of our basic research. The French Government decided this year to create a research tax credit to contribute to the dynamism of businesses in this field.

We will have to go further. Europe needs to invest massively in the digital economy, which has a huge growth potential. It is predicted that if the use of high-speed Internet progressed by only 10% in the EU, it would gain one percentage point of growth. Similarly, if online shopping grew to 15% of total transactions as opposed to 5% today, the EU would gain 1.7% growth per year. France wants to promote a high-performance digital economy within the European Union, which respects the rights of creators and the privacy of web users.

Sustainable development and green technologies are another very promising field. The European Union is the world region with the highest standards of environmental and public health protection. France has several industry leaders in these areas. Those are assets we want to develop. It involves setting ourselves ambitious energy targets in order to reduce our dependence on carbon, promote use of clean sources of energy, and ensure supply security. The United States, with the exploitation of shale gas, is enjoying a boost of competitiveness. Because of their geographical and cultural characteristics, not all European countries have taken the same path. They will however have to address the same challenge. This is why France is determined to work towards the creation of a new “energy community” in Europe.

- European integration is not only about the economy. Europe must also fully shoulder its world responsibilities. We want the EU to play a stabilizing role in the world and to strengthen its contribution to global peace and prosperity. For that purpose, it must have the resources to participate in building common solutions to the challenges facing the planet.

Europe is already a major player in certain fields. For development policies, for example, the EU is the leading international donor, accounting for 55% of global aid. But it must ensure that this contribution is well targeted to contribute to peace, political stability and democracy. Similarly, in the fight against climate change, the European Union has set itself high ambitions, with binding objectives to reduce greenhouse gas emissions in the world. We must continue. France will work with its European partners, in close cooperation with the US administration, to achieve a positive result during the Paris Climate Conference in 2015. This is a matter of growth model for the next century and could be a decisive matter of survival for the planet.

- The EU also needs to affirm itself in the political arena. This is indeed essential for the constitution of a more structured, genuine multi-polar world. It implies giving ourselves the means to promote the most fundamental things we share with the USA: the values of freedom, democracy and human dignity. To this end, the European Union needs to be stronger. This is why, alongside our German, British, Italian, Polish and Spanish friends, amongst others, we are supporting the project of a strengthened Defence Europe, allowing us to enjoy enhanced common capacities and a high-performance defence industry. The European Union is already active: it has managed 30 civilian and military missions on three continents, which is too little known. It will have to act more and more. National armies and diplomatic services will not disappear, but in many areas they can increase their impact by coordinating with a strengthened political Europe. France, along with other European nations, is determined to maintain this ambition at its highest level. These are no mere words, as proven by our actions on Mali.

- For the success of those reforms and proposals, we will have to adapt our governance and decision-making structures. As the Union will continue to grow, particularly with future enlargements to the Balkans, we believe it will have to organize itself in several "circles" with different levels of integration. This is what we call “differentiated Europe”. You can imagine how difficult it is to take decisions with 28 members, each of them being able to use a veto. The Union will have to simplify its functioning and ensure better
democratic control. Subsidiarity must be given more consideration, enhanced cooperation between States should be made easier, and a stabilized Eurogroup presidency be set up. We will also have to improve democracy in the Union, through enhanced powers of initiative and control for the European Parliament and for national Parliaments. To implement these reforms, we will work with Germany, our main partner, but also with other Member States including Italy, Spain, Poland and possibly the United Kingdom. These are the challenges of the coming years: we hope to be able to face them, France and Germany together, with Chancellor Merkel.

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Ladies and Gentlemen,

France has been a driver of Europe's integration from the outset and intends to continue. Difficulties still lie ahead on both sides of the Atlantic. But, make no mistake: on the European side, many of us are committed to finding solutions that could build a sustainable growth and ensure Europe’s place on the world stage. As François Mitterrand, a former French President deeply committed to European integration, used to say: “France is our fatherland, Europe is our future”. We are dedicated to meet this challenge. Thank you.