

Europe's role in a changing global economy - speech by Klaus Regling

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Speeches

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(Please check against delivery)

Good afternoon and thank you for the invitation. Always good to be in Brussels, especially here at the Charlemagne where I spent a lot of time when I worked in DG ECFIN last decade.

Laurence has covered the outlook for the global economy and Philip spoke about the macroeconomic policy mix and the role of the euro. Listening to them, it seems that times are not getting easier.

Let me make a few remarks on where I see the longer-term challenges for Europe. I will start with four observations:

First, it is very unlikely that we will see increases in welfare in the next 20-30 years, in the EU and in other advanced economies, comparable to the average increases during the last 50 years.

Inequality of income and wealth, which was discussed this morning, may well become a dominant issue in many countries – especially as average annual growth will remain moderate.

Third, there will be a financial crisis sometime in the future, one that will catch us by surprise – otherwise it would not be a “real crisis” if we had foreseen it.

And finally, the relative size of the euro area in the world will decline continuously. As a share of world GDP:

- It was almost 22% of world GDP in 1970.
- It is in 2019 around 13%.
- It will be just over 6% in 2050.

So, what does this mean? How should we react? My personal “recipe” consists of two parts:

First, **strengthen multilateral cooperation wherever we can.** In the EU, we practice multilateral cooperation every day. It is not easy, but we know how to do it and it works.

It is good for economic development and for peace. The rest of the world admires Europe for this. On all continents there are attempts to copy us in this regard. From ASEAN to the African Union to Mercosur.

We should support these attempts on other continents and, most importantly, we should use the international organisations which we have:

- The Bank of International Settlement (BIS) is a good example how cooperation among central banks works well – the ESM signed a Memorandum of

Understanding (MoU) with the BIS just two weeks ago.

- Reform the World Trade Organisation (WTO).
- Strengthen the International Monetary Fund (IMF) and its governance through a quota reform and by offering one single seat for the euro area as a whole.
- Finally, the RFAs have become an important part of the Global Financial Safety Net (GFSN). Together they [the RFA's] have more firepower than the IMF. There is a good cooperation among them and with the IMF. This is important whenever another crisis hits in the future.

Second, **Europe needs a stronger say in the world.**

How do we do that? By taking further steps towards fiscal and political union, where needed.

We will not become the United States of Europe. However, deepening the Economic and Monetary Union (EMU) through completing banking union, and a Capital Markets Union (CMU), creating a European Deposit Insurance Scheme (EDIS), a fiscal capacity for macroeconomic stabilisation, and ultimately a safe asset.

All this will take time. Certain conditions have to be in place. But it is important to start the process now and to agree on the final objective.

All this will definitely improve the functioning of monetary union and increase the international role of the euro.

To wrap up: Europe's relative weight in a changing global economy will definitely decrease. But we can counteract this process – by combining our strengths, by integrating more in a few key areas, by speaking with one voice and by promoting multilateralism at a time where the U.S. is moving away from it.

Thank you.

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