

France Now “Owns” the EU

BY OTMAR ISSING

*But will that make
Europe even less
globally competitive?*

The outcome of the elections for the European Parliament has caused a shift to the right. This is especially true for France, where President Emmanuel Macron reacted to the disappointing election result with an extreme decision by announcing new elections for the National Assembly. Against great concerns that the extreme right might win a majority, the outcome was quite different from those fearful expectations. Front National achieved only a third-place finish. However, any new French government seems not to be willing to contain public spending, reduce the budget deficit, and stop the increase of the already-high level of public debt. This is an alarming signal not only for France, but also for the process of European integration.

In his speech at the Sorbonne on April 25 of this year, Macron painted a picture of Europe that was—as *Le Monde* commented—almost apocalyptic. Unfortunately, his concerns are more than justified. Europe is presenting a pitiful picture in this time of fundamental upheaval. This is especially true of external security. It took a long time for Europeans to understand that they can no longer rely solely on the protection of the United States. Macron’s intention was to shake Europeans awake by warning that “Europe could die.” Russia’s increasingly brutal war against Ukraine reveals the shortcomings of Europe’s defense readiness. Strengthening this should be a top priority.

The long speech contains interesting analyses of further weaknesses in the European Union’s cooperation. For decades, the EU’s strength and its attraction to neighboring countries was based on its economic success. But it is precisely here that Europe is falling further behind in global competition. Growth, high employment, and stability are the essential basis on which Europe can play its

Otmar Issing is a founding Member of the Executive Board of the European Central Bank.



*Europe is falling further behind
in global competition.*

role in world politics. Fundamental reforms, and this applies above all to the largest member state, Germany, are the order of the day. Unfortunately, Macron's important proposals are going in the wrong direction.

They are based on the deep-seated French conviction that the state must play the dominant role in economic affairs. This is not only Macron's position—it is widely shared by all political parties and economic groups. The composition of the new parliament will strengthen the impact of this ideology on French politics. The tendency towards protectionism culminates in the demand that Europe—and this always means the European Union—must be sovereign in the area of agricultural supplies. The revolt of the French farmers has shown the importance of the agricultural sector for cohesion in Europe. How can world trade contribute to increasing welfare if Europe sees its future in strengthening agricultural production? What scope then remains for European trade policy in negotiations with Latin America and many developing countries, for example?

France has traditionally had a strong preference for state industrial policy. So it is not surprising that Macron is taking up this position and putting a European approach at the heart of his economic policy proposals. This is the strategy that France has pursued from the very beginning, that is, since the founding of the European Economic Community. This aspiration failed mainly because of resistance from Germany, or more precisely from then-German Economics Minister Ludwig Erhard. The Community has done well with a process of integration based on market competition. With the European Commission and the support of German politicians, France could be successful this time.

Whether economic success will actually follow seems more than questionable. In any case, the French experiments with state control of investments give no cause for optimism. There is still little evidence that the state is the superior authority when it comes to discovering successful future projects. In addition—and this makes the whole thing even more problematic—Macron is calling for a significant increase in the EU budget to finance European joint projects. How the money is to be raised remains unclear. Isn't it obvious that the difficulty of raising higher taxes would ultimately lead to new debts with joint liability? The debt fund of (around) €800 billion intended to deal with the consequences of the

pandemic was presented as a one-off exception to the legal ban on the European Union taking on debt. How credible would it be to say that a new debt fund would really be the last exception? The doors would be wide open for the final path to an unrestrained debt union. It is worth noting that the experience of spending the funds from the pandemic program was anything but entirely positive and that the liability of the individual member states is not transparent.

The demand to expand the European Central Bank's mandate to include growth and climate protection targets is the final piece of the questionable proposals. Macron sees it as an indispensable measure. Climate protection, on a par with the previously primary goal of price stability, subjects monetary policy to a complex, almost chaotic approach. (Significantly, the U.S. Federal Reserve clearly rejects a climate mandate.) Given the extremely limited possibilities of "normal" monetary policy to contribute to climate protection, the intention of such a proposal can only be to finance corresponding measures, including accepting higher inflation.

By invoking the European Central Bank's general obligation to support the Community's economic policy as long as the primary objective of price stability is not endangered, the central bank is already going very far in its self-imposed responsibility for climate protection, a task that is primarily the responsibility of governments accountable to the voters, and is thereby jeopardizing its independence.

*The French experiments
with state control of investments
give no cause for optimism.*

Independence of the central bank with a triple, politicized mandate proposed by Macron would not be justifiable in a democracy. But perhaps that is precisely what the proposal ultimately aims to do. In the end, there is little or rather no chance that this proposal becomes reality, as the change of the Treaty on European Union would need the support of all member countries.

All in all, such proposals are anything but surprising. After all, France has always advocated state industrial policy. The current government in Germany is not one to deny sympathy for this course. Is this orientation the proper approach to improve the European Union's position in the global competition? ◆