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Opening Address: Twenty-Five Years of European Monetary Union in Times of Polycrisis

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The invitation to open this conference, which I most gladly accepted, is both an honour for me, on a personal level, and for the institution I represent.

The ***Strategic Plan of Banco de Portugal for 2021-25*** aims "to promote proximity and strengthen the trust" among Portuguese citizens, and one of the tools we use to promote proximity to society is precisely the interaction with academia and universities. My presence here today is an example of this.

I would also like to warmly congratulate the Faculty of Arts and Humanities and the Faculty of Economics, as well as the Centres directly involved, on the joint organisation of this Conference.

However, before I move on to the subject of my speech, since this is my first public event after receiving the sad news of the premature and unexpected passing of Professor Luís Silva Morais on 15 September, I would like to express a few words in his memory.

I met Professor Luís Silva Morais over three decades ago, at our "shared home" – the Faculty of Law of the University of Lisbon – and we remained friends thereafter. Naturally reserved, he leaves behind a remarkable body of work, recognised in Portugal and abroad, on competition law, regulation law, and European law, specialising in finance, regulation and the Banking Union. He joined the Appeal Panel of the Single Resolution Board in 2016 and was elected Vice-Chair in 2018, a position he still held. His untimely passing is a tremendous loss for Portuguese academia and, of course, for his family and many friends, whom I acknowledge here with profound sadness.

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It is extremely important to mark an anniversary so important at so many levels as the 25th anniversary of the European monetary union, celebrated on 1 January 2024.

The creation of the European monetary union was the most significant step forward in the European integration process to date. It was the largest structural reform of the European Union. It established a new economic regime for the participating Member States and also changed the landscape of the international monetary system.

The date is therefore a key milestone in the history of European integration. Portugal was one of the eleven founding Member States of the euro and, therefore, it is also a key date in the recent history of our country.

We must all congratulate the Faculty of Arts and Humanities and the Faculty of Economics of the University of Coimbra for providing us with this opportunity to discuss the present and the future while remembering the past.

The European monetary union is an unprecedented and highly original creation. Indeed, throughout history, several attempts have been made to create monetary unions, but none with the scale and characteristics of the European monetary union.

The European monetary union was the result of the will of a heterogeneous group of free nations, very different from each other in terms of economics, development, history, geography and culture. In 1999, there were eleven participating Member States and today there are twenty. Croatia was the most recent addition to the euro area on 1 January 2023.

The creation of the European monetary union in 1999 resulted directly from the Maastricht Treaty in 1992, but it materialised an ambition dating back to the 1960s and 1970s, with the first failed attempt carried out under the Werner Plan.

Behind it lies a long road of theoretical work and progressive monetary integration, particularly through the European Monetary System.

But it was not consensual. Especially when the process to build it was set in motion. In France, for example, the Maastricht Treaty was adopted by a very narrow margin. It has been passionately discussed and has always had political and academic opponents. Today, however, the approval rates of the single currency are at their highest in most Member States.

But the context surrounding the creation of the European monetary union could not have been more in contrast with today's circumstances. In 1999, the European Union was much smaller (there were only fifteen Member States) and, in a sense, so was the world, because several international players that are now extremely relevant were still emerging from a long period of lethargy and trying to find their place. The acronym "BRICs" was not used and China had not yet joined the World Trade Organisation.

At that time, optimism in Europe was evident, confidence in the future was high, and the triumphant international order seemed destined to be accepted almost without question.

The bursting of the dotcom bubble in 2000 was merely an episode of no major consequences, but in 2001, with 9/11, the world experienced a major shock.

After all, the 21st century did not begin under the best auspices: Francis Fukuyama's concept of the "end of history" was perhaps somewhat exaggerated or, at least, from the author's perspective, wrongly interpreted.

The first years of the European monetary union seemed to have been successful. However, under this apparent success, serious macroeconomic imbalances were building up due to design flaws in the Economic and Monetary Union (which were known but not sufficiently taken into account) and wrong economic policies in many Member States.

The big shock came with the dual crisis: the global financial crisis (2007-09) and the sovereign debt crisis in the euro area (2010-12).

At that time, the survival of the euro was clearly at stake, in a way that I believe could hardly happen again. Indeed, the major improvements to the governance of the Economic and Monetary Union and the regulation of the European banking system that stemmed from that dual crisis, in particular with the creation of the Banking Union (even considering that it is incomplete since its third pillar – the single depository insurance scheme – has never been created), make that very unlikely.

During this period, the European Union was in fact on the brink of a precipice, but under the tremendous pressure of reality, and as the worst-case scenarios became more likely, it had the energy and clarity to take measures to emerge from this situation, although at a very high cost, the effects of which are still being felt in some economies.

However, in my opinion, those measures could and should have been adopted earlier.

Still reeling from the financial crisis, in 2020, the world was hit by a pandemic, and, in 2022, it was hit by a war in Europe involving a nuclear power.

It is not surprising, therefore, that in recent times the term "polycrisis" has been increasingly used by several authors in light of a series of negative events that are interconnected in terms of global consequences, generating highly destabilising effects. One of these authors is Adam Tooze, who, however, ascribed the origin of the concept to Edgar Morin.

There are many examples of such negative factors, but climate change, COVID-19, the war in Ukraine and the Middle East, the problems arising from migratory flows or even the effects of artificial intelligence at different levels are worth mentioning.

I use the term "polycrisis" not to emphasise any structural pessimism in the sense that some use it (and which has historically always had intellectual traditions), but merely to underline how interconnected, complex and global the challenges of today's time are.

In any case, and quoting Gramsci, any pessimism of the intellect must always be balanced by the optimism of the will. Regardless of our more optimistic or pessimistic view, it seems indisputable that the present poses enormous challenges and impactful choices if we want to have a decent future.

Therefore, this Conference could not have come at a better time, given that it takes place at a time of major public debate – which will continue – on the future of the European Union.

Indeed, in April this year, the report "Much more than a market" was presented to the European Council as a result of the work of a group chaired by Enrico Letta, former Prime Minister of Italy. On the 9th of this month, and with a much greater impact, it must be said, the report on "The future of European competitiveness" was released, prepared – upon request from the European Commission – by a working group led by another former Italian Prime Minister, Mario Draghi, whose reputation derives mainly from the fact that he was President of the Executive Board of the ECB from 2011 to 2019, a crucial period for the euro, whose crisis he addressed with courage, clarity and assertiveness.

The evolution of the European integration process is fraught with remarkable reports. Some have been more successful in terms of their consequences, while others, despite their potential significance, have ultimately not led to marked outcomes.

However, the European Union needed a report like the Draghi Report, also because of that "polycrisis" framework.

Indeed, the scale of the problems it faces calls for an approach that is not compatible with the usual production of ideas and policies under the Brussels bureaucracy or with the timid initiatives of the Member States, which are too absorbed in their own internal problems and, above all, overly focused on short-term and generally not ambitious management.

The content of the Draghi Report is not surprising, neither in terms of its diagnosis of Europe's economic and strategic situation, nor in terms of the substance of the measures proposed and the priorities selected. However, it is nonetheless very valuable and important. At the very least, it has provided an excellent roadmap for discussion and action on Europe.

Both the diagnosis made and the proposals presented are impressive and brave.

Mr. Draghi stresses that "the starting point is that Europe is facing a world undergoing dramatic change. World trade is slowing, geopolitics is fracturing and technological change is accelerating" (Draghi, 2024).

The Draghi Report identifies three key areas for action:

- closing the innovation gap with the United States and China;
- creating a joint decarbonisation and competitiveness plan;
- increasing security and reducing dependencies.

He notes that the European industrial structure is too static and that European companies support excessively high energy costs compared to US and Chinese companies. He even points to reducing the price of energy as the top priority of a common plan for decarbonisation and competitiveness.

He calls for a more balanced regulation that considers the different interests at play, particularly with regard to innovation, stressing the importance of consistent regulation across the Union.

He outlines a concept of industrial policy based on new parameters, considering the assertion that today the market is global.

He proposes a real investment and increased productivity shock, which is very difficult to achieve, but indispensable for bringing sustainable economic growth to the European Union.

Initial reactions to the Report were generally positive. But, as has already been written, "will EU leaders do whatever it takes" (Tordoir *et al.*, 2024) to achieve the objectives of the Report and put the proposed measures into practice?

Mr. Draghi is peremptory in stating that "integration is our only hope left", as opposed to the alternatives of paralysis or exit, referring to the disappointment of Brexit, even for those in the UK who advocated for it.

But the problem is that the political leaders of the Member States are answerable to national electorates, and they do not seem to be moving towards the path of deeper integration.

We will see how positions evolve on topics such as new common debt issuances, as happened during the pandemic crisis, even if limited to the strict purposes outlined in the Report.

Despite its focus on competitiveness, the report explicitly states the need to preserve social inclusion. While it praises the US model for its productivity growth and innovation, the report also states that its social disadvantages should be avoided, and that the European strategy should make productivity growth and social inclusion advance concurrently. What is highly relevant in this context is the statement that Europe should avoid the mistakes of the "hyper-globalisation" phase, a concept popularised by Dani Rodrik and used in the Report.

In a sentence that hints at a strategy, it states: “More effective and proactive citizens’ involvement and social dialogue, combining trade unions, employers, and civil society actors, will be central in building the consensus needed to drive the changes. Transformation can best lead to prosperity for all when accompanied by a strong social contract.”

At the age of 25, the European monetary union is still in its youth. But, at a great cost, it overcame the storm of the financial and sovereign debt crisis.

The European response was indeed reactive rather than anticipatory, and therefore late and too slow. Nevertheless, it was a fully-fledged opportunity taken by the European Central Bank to assume its prominence.

On the other hand, it is fair to say that the reforms adopted, and in particular the Banking Union, have been effective and created a much more friendly and stable landscape for the euro area and the financial system. In Portugal, we have witnessed the effects of these developments in the financial stability we have experienced in recent years.

The focus of the Draghi Report is not the problems of the European financial field and that is not by chance. The institutional reform of the architecture of the Economic and Monetary Union is not complete but is far more advanced today.

There is certainly room for improvement. For example, we need to complete the European Banking Union with its long-delayed third pillar; we need to further enhance the crisis management mechanisms, especially those applicable to small and medium-sized banks; we need to eliminate the obstacles to a Capital Markets Union.

However, what most ensures the lasting stability of a monetary union is a high degree of convergence of the economies of the various member countries, as well as a closer alignment of their levels of economic development. And that is why we share a common currency. The single currency is not an end in itself, but a means to increase the convergence of the Member States’ economies and their prosperity (Knot, 2023).

On another level, it is generally acknowledged that the pandemic crisis received a strong European response, well complemented by that of the Member States. And the resurgence of inflation, notably after the war in Ukraine, was and continues to be contained, as the goal of price stability is pursued.

These references may seem benevolent. But they are not, at least not consciously.

Perhaps some of you are asking the following question: if the diagnosis in the Draghi report is correct and so drastic, then what is going on?

The point is that, for at least 15 years, there have been abnormally difficult moments, some of which are real “black swans”, all with multiple and significant negative impacts. However, these impacts are not symmetrical across different regions of the world. On the other hand, the so-called hyper-globalisation process has profoundly shaken the European economic and social fabric since the 1990s, with consequences that only later became fully apparent.

The term “polycrisis” has gained traction precisely because it aptly describes the succession of events we have experienced.

Moreover, we are in the process of rapid economic and technological transformation, with structural and global impact, which has slowly reconfigured global economic power to the detriment of Europe. This dynamic does not depend on us alone.

Europe's demographic, economic and technological decline is real and self-reinforcing. As a result, it has lost prominence in global terms in all areas.

However, it is important to highlight the following: European integration is much more than a market or even an economic and monetary union.

It is primarily a space for sharing common values: democracy, freedom, the rule of law, human rights, peace, equity and prosperity in a sustainable environment (Draghi, 2024).

In a Faculty of Arts and Humanities, I need not say how all this brings us back to the field of culture. In a short and inspired book "The Idea of Europe", George Steiner explains this very well.

Thus, more than all the issues I have mentioned throughout my speech, perhaps the main problem in Europe today lies in the slackening of these values. It is up to each one of us to do something to revive them every day.

Disclaimer

This article reflects the personal views of the author and in no way represents the official position of the Bank of Portugal.

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