

Benoît Cœuré: Asserting Europe's Leadership

Global governance since World War II has been characterised by American leadership. According to the famous distinction introduced by Thucydides in his *History of the Peloponnesian War*^[1], leadership can be exercised in two very distinct ways.

“Legitimate” leadership builds on trust and common identities. This is what the ancient Greeks called *hegemonia*. But leadership can also be based on *arkhe*, which can be understood as exercising powers through command and control. Interpretations suggest that the move from *hegemonia* to *arkhe* is what Thucydides saw as the root cause of Athens’ defeat by Sparta.

I would argue that American leadership over the past seven decades was of the first, legitimate type.^[2] In other words, it went largely unchallenged because it was built on shared fundamental values that brought nations around the globe together – the values of human rights, freedom, democracy, equality and the rule of law. These are also the values for which we Europeans stand.^[3]

Globalisation and free markets were a natural consequence of American hegemony. Both rested on the ideological victory of the capitalist system on which the US economy is built. Free and open markets were seen as a vehicle to sustain and expand this economic model.

Ironically, this system is now being challenged by its most ardent champion.

Putting one’s country first marks a departure from the sort of prudent and vigilant policy that leadership by a legitimate hegemon would entail. The transactional nature of such an approach arguably belongs much more to *arkhe* – hard power – where policies and doctrines are imposed on others, without their consent and regardless of the consequences. International agreements are repealed, the international rule of law is questioned and other nations are challenged.

How Europe reacts to this dismantling of the current international order will have a profound impact on the world.

Dismissing the current tensions as an accident would be a mistake in my view, not least because they are deep-rooted and predate recent political events.^[4]

In particular, the acceleration of globalisation and technological progress in the past 30 or so years has radically changed the world we live in. While millions of people have been lifted out of extreme poverty, wealth and income inequality has soared, and countries have become more vulnerable to foreign spillovers, and to international crises more generally. Many people feel that not all countries are abiding by the same rules and standards, and that the open market has weakened our democratic control.

These concerns are real and need to be taken seriously.^[5]

But too often the solutions offered to today's global challenges are simplistic and short-sighted. For example, raising tariffs and withdrawing within national borders will deprive people of the economic benefits of trade and integration. According to ECB staff estimates, in an hypothetical scenario where the US raises tariffs on all imports of goods by 10 percentage points, and its trading partners impose the equivalent on US exports, US GDP could be up to 2½% lower than in the baseline in the first year alone.^[6]

Paradoxically, it will also offer people no refuge from the effects of global competition: isolating oneself from global value chains will raise input prices, make exports less competitive and make the country less attractive to investors, with adverse effects on employment and growth.

There is therefore a need for sustainable and effective solutions to today's challenges. But here lies a dilemma: although globalisation has increased the need for stronger and better domestic policies, it has also progressively reduced the range and effectiveness of policy tools available to individual countries to respond to the challenges it creates.

For instance, globalisation makes it harder for policymakers to regulate and supervise financial markets and prevent recurrent crises. And by making the tax base footloose, it weakens governments' ability to support people's incomes and retrain those displaced by global competition.

More and not less international cooperation must therefore be part of the solution.

This is also consistent with the lessons we have learnt from earlier episodes of globalisation – that it needs to be governed by strong institutions to prevent recourse to harmful protectionism or other excessive measures. Already the ancient Greeks were aware that alliances were key in protecting against *arkhe*.

In Europe, international cooperation starts with the European Union (EU). Despite its shortcomings, the EU is one of the strongest alliances of sovereign nations in human history. It provides its Member States with the means to both defend their interests at a global level and to address the negative effects of globalisation.^[7]

For example, in the EU we have the tools to address tax arbitrage by multinational corporations. And EU regulation, together with the European Court of Justice, provides the strongest possible reassurance that openness does not promote rent-seeking and does not harm consumers.

Our response to "America first" can therefore only be "Europe united", as the German foreign minister Heiko Maas recently put it.^[8] In other words, we should foster cooperation on security and defence, speak with one voice on international affairs, and complete both the Single Market and the euro area's architecture.

Let me stress the importance of the last objective: completing the euro area's architecture. The European Central Bank has a fundamental stake in this project, given its mandate to protect the stability of the euro. But completing the euro area's architecture is also necessary for Europe to be able to attain its other objectives. We won't be able to foster cooperation on security and defence, or to speak with one voice on international affairs, or to complete the Single Market if we repeatedly have to tackle economic crises which are largely of our own making.

A series of crises has already taken its toll on welfare and jobs, and they have sown the seeds of division in a way that is still holding us back at a time when we need decisive action. A sound and sustainable euro area institutional architecture will help redirect political capital where it is most needed.

So, these and other shortcomings need to be overcome, not only to strengthen the workings of the EU but also to protect and defend our interests abroad.

If we Europeans fail to make further progress, or if Europe remains divided between north and south and between east and west, then we will be playing into the hands of those who are trying to divide us and marginalise our actions.

Thank you.