

Joachim Nagel: Why do we need Europe?

Speech by Dr Joachim Nagel, President of the Deutsche Bundesbank, at the Annual Summit of the Stern Stewart Institute, Elmau, 19 September 2024.

* * *

Check against delivery

1 Global challenges need global answers

We are living in a period of significant change. Many distinct forces are contributing to this change. Examples here include global warming and the switch towards carbon-free energy, progress in digitalisation and AI, as well as geo-economic factors and demographic developments.

What do all the changes I've mentioned have in common? They affect humanity at the global level. It therefore does not seem useful to limit one's attention to national solutions. That said, the European elections have shown us that many voters backed parties calling for greater national sovereignty or even nationalism—as well as less Europe. The Brexit referendum, eight years ago, can be seen as an example of this trend. As, too, can the recent German regional elections.

Why is this? Global changes often lead to global challenges, and sometimes to global crises. This means a lot of complexity. Those who are in charge are responsible for properly explaining this complexity. If we don't assume this responsibility, simple political messages may trump complex ones. And there is no doubt that politics at the European level are complex. Just think of the legislative process behind the new Corporate Sustainability Due Diligence Directive—a directive that sets rules for firms to mitigate their negative impact on human rights and the environment. Or the slow progress that has been made regarding the capital markets union—a topic I will return to later.

However, as the current major challenges are global in nature, national responses alone will not resolve them. Action is needed on a global scale. Take the pandemic, for example. Overcoming this required unprecedented vaccine research, large-scale production and global distribution. Or consider the climate crisis. While Germany can lead by example in terms of decarbonising its economy, it cannot solve the climate crisis alone. As for European countries, this means that we have to work on European responses to the current challenges. This holds true for Germany, too—despite it being one of the largest economies in the world. Germany should see itself as part of a wider European team—a team that can provide greater stability given the current geopolitical risks. Take the increasing global trade restrictions, for example. Between the two main global players, the United States and China, only a unified European approach stands a chance of defending European interests. This view is shared by almost three-quarters of Europeans surveyed at the beginning of this year.¹

2 Europe is not a weak spot—it is a source of strength

It is true that open democratic societies tend to have complex and cumbersome decision-making processes. The more fragmented the political landscape, the more difficult it becomes. This already holds for the national level—as can currently be seen in the case of France and Germany. At the European level, complexity is even greater. There, agreeing on a compromise is like an art in itself. However, democratic decision-making processes have one great benefit. They integrate the diverse interests and preferences of the people.

In fact, a significant majority of EU citizens are satisfied with the way democracy works in the EU.² And the share of people who have a positive image of Europe is nearly twice as big as the share of people who have a negative one.³ This might well reflect an observation made by the Spanish philosopher José Ortega y Gasset at the beginning of the last century. He noted that four-fifths of our intellectual property stem from our common European heritage.⁴ People seem to have a good understanding of what "European" means: the common ground of our liberal, democratic societies and the intellectual achievements we have made.

Once we realise these strengths of Europe, we can use them to move forward, to manage the changes I mentioned at the outset of my speech. Europe does not have an analytical deficit, but a deficit in taking action. For example: A deeper single market could help seize the opportunities of digitalisation more fully. And a unified European approach to decarbonisation could serve as an example and help the formation of larger climate clubs. These clubs derive mutual benefits from sharing the costs of producing less CO₂-emissions. The members of such a voluntary club have incentives to adhere to its rules as long as the gains from the club are sufficiently large.⁵

3 What it will take to move forward

And what will it take to move forward? As President of the Bundesbank and as a member of the Governing Council of the European Central Bank, I am doing all I can within my remit. First and foremost, I am striving to restore price stability. This is because price stability is a crucial requirement for economic development and for the welfare of our societies. And I am also supporting measures that help Europe to act. It is in this context that I return to the topic of the capital markets union. The capital markets union can be an important means of providing companies with the necessary funding to manage change. This includes funding for new scientific knowledge and for innovations to help us thrive in our future environment. Europe is relatively good at research.⁶ And research is a crucial basis for innovation. However, a lack of available capital often prevents young innovative companies from growing. A key reason is that capital markets in Europe are still highly fragmented and rather underdeveloped compared to those in the United States, for example. Although market structures are not fully comparable, venture capital investment may serve as an example here. Relative to GDP, its size in European countries is less than one-tenth the size in the US.⁷ A European capital markets union would give firms better access to risk capital in Europe—notably young firms in their start-up and scale-up phase, and it would provide better exit options. By mobilising more private capital, the capital markets union could improve opportunities for economic growth. And it could foster much needed investments in Europe's digital and sustainability transformation.

It is a real challenge to make progress at the European level and in the 27 Member States on the legal initiatives necessary to realise the capital markets union. But if we agree that the changes we see are global in nature, then we should not try to deal with them at the national level. We should strive for multilateral solutions. Here in Europe, the European Union provides a wonderful opportunity to find common approaches that many around the world can subsequently gather behind.

I am optimistic that the new European Commission will build momentum to move forward—not least with respect to the capital markets union, which was recently given fresh impetus by Member States' political leaders. We have the potential to rejuvenate the European idea. A thriving research and innovation ecosystem will support that goal—with stable prices, sufficient financing opportunities and steady growth. Let us all do what we can to strengthen Europe at the current juncture.

¹ European Union (2024), [Europeans' attitudes on trade and EU trade policy](#)

² See Eurobarometer Spring 2024, question SD18a, [Standard Eurobarometer 101—Spring 2024](#)

³ See Eurobarometer Spring 2024, question QA12, [Standard Eurobarometer 101—Spring 2024](#): 62% say that they are optimistic about the EU, 35% that they are pessimistic.

⁴ Ortega y Gasset, José (1931), *Der Aufstand der Massen*, p. 198.

⁵ American Economic Review (2015), 105(4): pp. 1339-1370, [Climate Clubs: Overcoming Free-riding in International Climate Policy](#)

⁶ [Nature Index: 2023 Research Leaders](#); on Germany see also: [KfW Research: Wettbewerbsfähigkeit—vom kranken Mann Europas zum Superstar und zurück: Wo steht die deutsche Wirtschaft?](#) p. 15.

⁷ Demertzis, M., M. Domínguez-Jiménez and L. Guetta-Jeanrenaud (2021), [Europe should not neglect its capital markets union](#), Policy Contribution 13/2021, Bruegel, p. 6.