

The euro's future in the face of economic divergence across Member States

Note written by Didier Cahen with Kiann Conlon

The euro was conceived not merely as a currency, but as a means to pursue and promote stability, economic convergence, cross-border capital flows and political integration across the European union. Thanks to the euro, exchange rate risk disappeared, price transparency improved, and value chains integrated. The euro is the most recognisable component of the European Union.

However, for the past 25 years, Europe has fallen behind the United States particularly regarding productivity and economic growth. The cooperation between EU member states is still insufficient. The refusal of some founding Member States to respect the common fiscal rules laid out at the euro's inception – enabled by the Commission's weak enforcement of the Stability and Growth Pact – has stalled European economic and financial integration. Despite abundant savings, productive investment has weakened, and surplus savings are flowing out of Europe instead of circulating among EU member states. The euro finds itself in dire straits – if not in serious danger. Despite the upheaval of the current world order, the threat currently facing the euro does not stem from external factors, but rather from internal economic and financial divergences that have accumulated gradually and are now reaching a dangerous threshold.

This paper will first present the facts at hand before explaining the causes that have led to the current situation. It will then highlight what Europe must not do to extract itself from this situation – the traps one must not fall into in order to resolve the EU Member States' problems. Lastly, this paper will present a series of solutions, measures to be taken, in order to set EU Member States on the right path.

1. European Economic Decline and Structural Divergence

1. Europe's economic and financial decline

The most striking development of the past 25 years has been Europe's economic decline relative to its

peers. Since the global financial crisis, economic growth in the Euro area has significantly lagged behind that of the United States. Whilst GDP in the US has grown in real terms by 37% between 2008 and 2024, GDP has grown by only 15% over the same period in the Euro area. Between 1995 and 2024, labour productivity has grown by 45% in the US, compared to a meagre 10% in the Eurozone.

The facts are as clear as day: productivity growth has weakened, innovation capacity has eroded and Europe's share of global output has diminished. Europe largely missed the technological revolution. No European company is currently in the top 20 largest companies in the world by market capitalization¹. Europe's global influence has declined.

This is not primarily a failure of the currency itself. The euro continues to provide undeniable benefits. Rather, the problem lies in the growing heterogeneity of national economic policies within the monetary union. Instead of improving competitiveness, some Member States let public finances deteriorate by supporting consumption and redistribution rather than investment and private initiatives. A single currency cannot be expected to succeed when fiscal trajectories, competitiveness levels and reform efforts diverge too widely. Convergence was seen as an inexorable result of the monetary union. Instead, disparities have amplified in its wake. Debt levels have diverged across Member States. Productivity gaps have widened. Living standards have evolved unevenly. In several countries, especially in those with already fragile public finances, expenditure kept on increasing whilst vital reforms have been postponed time and time again due to political complacency. The final product is a monetary area where stability is maintained in appearance only, but where underlying imbalances gnaw at its foundations.

The divergence between France and Germany is the clearest illustration possible of this problem. At the launch of the euro, both countries displayed similar debt levels and comparable competitiveness. Both countries stood at around 61% of GDP. Today, their trajectories differ markedly. Germany has preserved fiscal discipline and accumulated current-account

1. LVMH (France) and Novo Nordisk (Denmark), both of which were among the world's top 20 companies at the beginning of 2024, are no longer in this ranking today.

surpluses, while France faces persistent deficits and rising public debt. In 2024, Germany stood at 62.5% of GDP, whereas France had reached 113% of GDP. As of December 2025, France had a 7.7% unemployment rate, whereas Germany stood at only 3.7%. Since 2000, the French balance of payment has oscillated around -1% to -2% of GDP, whereas Germany has stood at a constant +6-7%. Despite having a population of nearly 10 million more people, Germany has one million civil servants fewer than France.

Such divergence weakens not only economic cohesion but also the political trust that was so necessary to European integration. If France and Germany – the two biggest Member States and the driving couple behind EU integration since the Schumann declaration – can't even align their economic trajectories, then how can the EU expect to be taken seriously on the world stage as a coherent entity?

1.2 The numerous causes behind Europe's economic decline

1.2.1 The Disappearance of Adjustment Mechanisms

The main weakness of the current framework lies in the disappearance of automatic correction mechanisms. Under the previous European Monetary System, unsustainable policies quickly triggered market reactions. Fiscal indiscipline and uncompetitive policies were met with rising interest rates and currency depreciation that eroded purchasing power. This inevitably led to political backlash, which forced national leaders to correct course.

The single currency eliminated these mechanisms without fully replacing them with credible and enforceable alternatives. As a result, solutions to current problems no longer arise from impersonal market forces but instead depend entirely on political decision-makers and have therefore become inherently political in nature.

1.2.2 The blatant disregard for the Stability and Growth Pact

The Stability and Growth Pact was intended to provide the discipline needed for the success of the single currency. Indeed, the Stability and Growth Pact dictates that Member States' deficit should be no larger than 3% of GDP and their debt levels should remain under 60% of GDP. Yet the Stability and Growth Pact's repeated suspension and flexible interpretation have undermined its authority.

The facts are damning:

From 2000 to 2025, six countries recorded a deficit exceeding 3% of GDP for at least ten years. These

countries are Belgium (12 years), Italy (14 years), Spain (16 years), Portugal (17 years), Greece (18 years) and the most damning of all: France (20 years).

By contrast, Germany (9 years), Austria (8 years), the Netherlands (6 years) and Finland (4 years) did not exceed the 10 years of non-compliance threshold.

It is thus no coincidence that the countries which have most frequently breached the 3% rule are also those whose public debt has deviated the most from the 60% ceiling. For example, according to European Commission, France's public debt stood at 57.4 percentage points above the ceiling by the end of 2025, whereas it stood at 0.3 points below the threshold in 2000. Spain and Italy are in a similar situation, with their respective debts growing from -2.2 points to 40.9 points and from 48.7 to 76.7 points over the same period.

Beyond its economic implications, this dynamic also raises a deeper moral and political issue, the blatant disregard of the Growth Pact has dire moral implications for all parties involved. Indeed, the current situation in the European Union strongly resembles that of the prisoner's dilemma. Member States unwilling to take the necessary measures to control their spending and reduce their deficit are currently shielded from the consequences of their own actions. If the fiscal, inflationary, and economic drift in the Eurozone were to continue, the 'virtuous' countries would end up paying for it. That would be the definition of an uncooperative game, in which most players try to evade their obligations by passing on the costs to those who respect them. We must therefore take the Union's destiny into our own hands and not let it drift. If this were the case, the logical outcome would be a new and inevitable crisis in the Eurozone.

In addition, when rules are not consistently enforced, it encourages an "everyone for themselves" mentality. A generalised climate of distrust sets in. This creates an obstacle to the development of collective projects, particularly when it comes to exposure to public or private risk. Ultimately, persistent fiscal laxity in large countries has blocked deeper Economic and Monetary Union.

1.2.3 The Commission and Council's role in Member States' erosion of discipline

The erosion of discipline cannot be attributed solely to national governments. The European institutions entrusted with safeguarding the Treaties, namely the Commission and the Council, have also failed to exercise fully the prerogatives conferred upon them. Whether through political complacency, fear of confrontation, connivance or structural

limitations inherent in their mandate, enforcement of the common fiscal framework has repeatedly been softened, delayed or suspended.

The Commission, formally the guardian of the Treaties, has too often acted as a mediator of political compromise rather than as an impartial enforcer of agreed rules. The Council, representing the Member States, has likewise preferred consensus over discipline, even when collective credibility was at stake. The result is a paradox at the heart of the Union: institutions designed to ensure compliance have found themselves constrained by the very governments they are meant to supervise. This inability – or unwillingness – to uphold the rules not only weakens fiscal credibility; it raises deeper concerns about institutional independence and the effective functioning of the Union's governance framework. A monetary union cannot rely solely on goodwill. If enforcement becomes negotiable, the architecture itself becomes fragile.

1.2.4 The euro has not only shielded weaker EU economies but has more fundamentally masked underlying structural imbalances

The euro has acted as a shield for weaker EU economies. By suppressing exchange-rate adjustments and compressing sovereign spreads, it has **protected** Member States from the immediate consequences of deteriorating competitiveness or fiscal slippage. This protection has had an unintended side effect: it has **masked** the gradual erosion of structural fundamentals across member states. Diverging productivity paths, rigid labour markets, persistent primary deficits and declining industrial capacity could accumulate beneath the surface without triggering the abrupt corrective signals that once forced reform. The currency thus provided financial stability, but at the cost of delaying adjustment. Imbalances that would previously have surfaced rapidly through currency crises instead deepened quietly within the monetary union.

1.2.5 The compounding effect of asymmetrical differences

The consequences of the Euro don't stop there. For highly competitive northern economies, the euro may be undervalued relative to their productivity levels, supporting exports and industrial strength. For structurally weaker southern economies, the same currency may function as an overvalued exchange rate, limiting their competitiveness. The single currency thus imposes uniform monetary conditions on structurally diverse economies,

making domestic reforms and productive investment not optional, but indispensable.

1.2.6 Monetary Expansion, rather than alleviating the pressures faced by Member States has only deepened their vulnerabilities

The prolonged period of ultra-accommodative monetary policy between 2008 and 2022 has fundamentally altered the economic landscape. Massive liquidity injections and historically low interest rates prevented financial collapse and stabilised sovereign debt markets.

Yet maintaining a persistently expansionary monetary policy has had negative consequences for both financial stability and the real economy in the Euro area, contributing to its relative decline compared to other advanced economies in recent years.

This policy has had at least five major adverse effects²:

1. It has led to a sharp rise in debt levels, driven by persistently low interest rates, thereby increasing the risks to financial stability.
2. It has dampened productive investment by encouraging a preference for liquidity and short-term returns over long term capital formation.
3. It has facilitated the proliferation of zombie companies made viable only by overly accommodative financial conditions, which has weighed on overall productivity.
4. Fourthly, it has contributed to the formation of speculative bubbles, disconnecting asset prices from their fundamentals due to artificially low rates.
5. Lastly, it has weakened the incentives for Member States, particularly those benefiting from the ECB's public debt purchase programmes, to implement the structural reforms necessary to boost their long-term growth potential. When borrowing appears costless, the urgency of reform diminishes. Monetary policy, initially designed to stabilise the system, gradually became a substitute for structural adjustment.

The link between monetary expansion and the fall of productive investment deserves to be further analysed: why did unprecedented monetary expansion not translate into stronger productive investment?

Indeed, Europe has not suffered from a shortage of savings or liquidity. On the contrary, the Euro area

2. See Chapter 3 of Part 1 of Dider Cahen's book *The Euro is in Danger* for further information.

has accumulated vast pools of savings, and yet investment remained persistently weak, particularly in intangible assets, innovation and industrial modernisation. This paradox is in fact not cyclical. It reflects a structural malfunction in the transmission of savings into productive capital.

Prolonged periods of near-zero interest rates alter behaviour. With persistently low – and sometimes negative – interest rates, the investment horizon for financial actors is considerably shortened, with private investors favouring safe, short-term investments. This is particularly pronounced in Europe, where households are significantly more risk-averse than their American counterparts. When the return on long-term productive investment no longer sufficiently compensates for industrial risk, savings naturally gravitate toward liquid, low-risk financial assets. This corresponds to the *Liquidity trap* concept laid out by Keynes, where abundant liquidity does not automatically generate productive capacity; but instead encourages asset price inflation, short-termism and defensive balance-sheet strategies. This has now been demonstrated by a number of studies³.

In addition, the liquidity abundance has fuelled an unprecedented financial bubble, driving up the value of stocks, bonds and real estate well beyond levels justified by economic fundamentals. In recent years, stock market performance has been largely driven by central bank monetary expansion; property prices also soared under the overwhelming influence of central bank liquidity.

While rising asset prices may strengthen balance sheets and generate wealth effects, they do not necessarily translate into higher productive capacity. Indeed, capital gains are not synonymous with capital formation when savings are invested in non-productive or speculative assets (residential properties acquired solely for resale). This type of investment does not benefit the real economy, unlike innovation, industrial expansion or technological upgrading.

The Bank of International Settlement (BIS) in its 2024 annual report notes that: “No healthy economy should operate with negative interest rates for too long because capital is misallocated and growth is hampered. Persistent strong and monetary easing contribute to the build up of financial vulnerabilities.”

Another consequence of an expansionary monetary policy is capital outflow. Currently, a substantially amount of European capital is invested in American public debt and equity markets. Said outflow

currently represents EUR300 billion a year. There are two main causes for this outflow. On the one hand, the expansionist monetary policy in Europe keeps interest rates artificially low. Investors are thus attracted to the naturally higher rates in the US. On the other hand, the return on equity offered by American companies is substantially higher than European ones. Structurally lower fiscal pressure and a more accommodating business environment allow for higher returns. Ultimately, European savings end up financing foreign expansion rather than domestic productive renewal.

1.3 The Euro area is again at a critical juncture

1.3.1 Fiscal Fragility and the French Question threaten the Euro itself

Public finances now constitute the central vulnerability. Several founding members of the Euro area carry debt levels exceeding 110 % of GDP, with limited fiscal buffers to absorb future shocks. Rising interest rates, even if moderate by historical standards, significantly increase debt servicing costs in highly indebted countries. When growth remains weak, the arithmetic of sustainability becomes increasingly unfavourable. Markets may tolerate gradual deterioration for a time, but confidence can shift abruptly. History shows that sovereign spreads often widen slowly before accelerating sharply once doubts emerge about a government's capacity or willingness to restore balance.

In this context, France occupies a pivotal position. As the Euro area's second-largest economy, its fiscal trajectory carries systemic implications. Public spending lies at 57% of public GDP, eight points above the Eurozone average. There has been no primary budget surplus since 2002. In a context of rising interest rates and low growth, if the current trajectory for public finances remains, interest payments will reach €100 billion in the next two years, representing 3% GDP in a country growing at 1%.

Should France's financing conditions continue to tighten, it risks an erosion of market confidence and, eventually, a financial crisis. Markets may not react to France's worsening public debt at the Euro area level, but contagion could still spread to the Eurozone's most indebted countries.

One would be gravely mistaken however to place blame solely on France. EU countries don't operate alone. They are a part of a larger institutional

3. For instance, see, G. Naacke, “What Is the Impact of Low Interest Rates on the Holding of Liquidity by Individual Investors and Companies?”, Les Cahiers du Centre, January 2022.

ecosystem which has a role to play in the health of all Member states' public finances. On the 26th of July 2024, the Council of the European Union approved the European Commission's recommendation to initiate excessive deficit procedures against Belgium, France, Italy, Hungary, Malta, Poland and Slovakia since these countries exceeded the 3% public deficit limit set by the Stability and Growth Pact in 2023.

However, on the 26th of November 2024, the European Commission approved France's draft budget for 2025 and its budget plans for the following year. Despite the resignation of the Barnier government and the French Parliament's rejection of the 2025 draft budget on the 11th of December 2024, the Council still endorsed the Commission's proposal. The height of absurdity indeed.

It is Member States, aided by the European institutions that are putting the euro at risk.

Some observers may nonetheless argue that high levels of debt can remain sustainable under certain conditions.

1.3.2 The Temptation of an Erroneous Comparison to the United States

European leaders severely underestimate how dire the situation truly is. One might argue that concerns over European public debt are exaggerated. Indeed, The United States is supposedly in a comparatively difficult budgetary position due to the fact that it carries a debt burden exceeding 120 % of GDP which set to rise to 143% of GDP by 2035⁴. Such comparisons, however, risk conflating fundamentally different economic realities.

The United States combines high public indebtedness with robust growth dynamics, sustained productivity gains and unparalleled innovative capacity. Since the pandemic, the American economy has experienced markedly stronger growth than the Euro area, driven in large part by its leadership in high value-added sectors such as digital technologies, artificial intelligence and advanced services. Its deep capital markets, fiscal unity and global reserve currency status further distinguish its structural position.

Another important distinction lies in the share of output collected in taxes and compulsory contributions. In the United States, total tax revenue amounts to around 25–27 % of GDP, significantly below the 40 %-plus levels typical in the European Union, where countries like France

individually exceed 45 % of GDP in such levies. This lower tax burden in the U.S. reflects both political choices and differing welfare-state models, and it affects not only fiscal space but also incentives for growth and investment. Also, unlike most European countries, the United States has managed to attract industrial investment once more. Over the course of 2025, industrial invest in the US surged by 32%, reaching USD1.800 billion, most of which comes from the US itself⁵. It currently appears that the US is at the cusp of a full-on reindustrialisation.

While US debt levels undeniably pose long-term challenges, they are underpinned by a dynamic and expanding productive base with comparatively lighter tax burdens. The US benefits from having a single market of goods and services much more deeply integrated than the EU, a unified political authority, a technological leadership, energy independence. In contrast, several European economies face high and rising debt in a context of weaker productivity growth, fragmented capital markets, higher compulsory levies and limited technological dynamism. To equate the two situations is therefore misleading: debt sustainability cannot be assessed in isolation from growth potential, institutional architecture, fiscal structure, innovation capacity and output growth.

European leaders often refer to aggregate Euro area indicators to reassure markets and citizens. Yet averages can obscure structural divergences between Member States. Unlike the United States, the Euro area does not rest upon a fully unified fiscal authority, a deeply integrated capital market or a single political executive accountable for macroeconomic stabilisation. The currency therefore relies heavily on mutual trust and credible adherence to common rules. When that trust weakens, the architecture itself becomes more fragile.

Furthermore, the US also hosts the largest army in the world as well as having sole control of the world currency: the dollar. But most important of all, the federal government is directly responsible for repaying the debt. It has at its disposition the means and tools to levy additional resources in order to repay its debt. The EU does not have such tools at its disposal. The EU depends on its Member States' contributions and would thus have to negotiate with them in order to increase its cash inflows. The EU does not have the power to unilaterally do so. Finding extra resources appears all the more difficult.

4. https://m.economictimes.com/news/international/us/us-debt-crisis-america-to-surpass-italy-and-greece-for-first-time-in-100-years-can-washington-fix-it-before-its-too-late/amp_articleshow/124851494.cms?utm_source=chatgpt.com

5. GUICHARD Guillaume, « Les Etats-Unis de Trump continuent d'attirer un déluge d'annonces d'investissements industriels », Les Echos, 23 February 2026.

2. What Europe Must Not Do

2.1 Further indebtedness cannot replace the necessary structural reforms

Europe must first resist the temptation of false solutions. Structural problems cannot be solved by increasing debt, nor by monetary creation and inflation. Public leaders must imperatively understand that public debt cannot replace structural reforms and that using debt to artificially support demand or maintain an obsolete production system amounts to postponing problems and weakening the competitiveness of businesses.

France has been guilty of this for more than 20 years, relying on stimulating consumption through public deficits and artificially low interest rates to create growth and jobs. These policies have had the opposite effect, leading to debt, a decline in productive investment, and encouraging speculation. In other words, spending is not synonymous with recovery. In other words the paradigm of easy money, lax fiscal policy and systematic indebtedness – widely embraced over the last two decades – will not succeed in the future.

2.2 No federal state means no genuine European sovereign debt

The denial of reality by over-indebted states must also be strongly condemned. Settling into the ease of excessive deficits without reducing unproductive spending weakens the state itself, which becomes powerless under the weight of debt. Politicians have perpetuated the illusion that it is easier to go into debt than to reform or work harder, but this strategy is unsustainable and will lead to future crises for the euro. Far from correcting the debt problem, this combination would only exacerbate the economic and social costs and precipitate a new crisis. And no, European common borrowing is not a viable solution.

Mutualising debt without correcting the underlying divergences that produced it would merely redistribute risk without eliminating it. Financial solidarity cannot replace structural responsibility. A currency union built on shared liabilities but diverging fundamentals would become more fragile, not more stable.

There is no such thing as European “magic money”. European borrowing cannot resolve national imbalances. If Member States were unable to borrow in order to make ends meet, why would borrowing with Europe’s backing make any difference? Even if the EU budget provides a guarantee, the EU itself is not sovereign over its

own budget. The EU does not possess the tools to unilaterally raise additional revenue through taxes or levies as a sovereign state would. Rather, it is entirely dependent on the contributions and goodwill of the Member States. Moreover, the creation of common instruments, whether labelled Eurobonds or new joint facilities, cannot in itself generate productivity, competitiveness or growth. The problem is not borrowing more or finding new projects. It is about projects that companies have made more competitive and are capable of carrying out.

Mutualising debt would require profound institutional change and the agreement of the most solvent countries and their taxpayers, who would then have to contribute to the tax burden of over-indebted states. This is politically impossible as it would effectively mean creating a sovereign European federal state. This seems inconceivable in today’s political climate given the economic and political differences between major countries, not to mention the hostility of many national public opinions and the legal obstacles to such a significant institutional change in certain countries.

This prospect, perceived as unfair by the citizens of solvent countries, would risk undermining confidence in the euro and further feed populism and euroscepticism. This is all the more so given that any jointly issued European debt would, given the fiscal divergences between the main member countries, be considered riskier than the sovereign debt of more disciplined countries, which would lead to a heavier tax burden on the citizens of these so-called solvent countries. As long as the fragile countries do not regain their budgetary credibility and the vitality of their companies, the use of European debt will remain a pipe dream. Indeed, mutualising debt without correcting the underlying divergences that produced it would merely redistribute risk without eliminating it. Financial solidarity cannot replace structural responsibility. A currency union built on shared liabilities but diverging fundamentals would become more fragile, not more stable.

But more fundamentally, the problem with European debt is that of responsibility. Common debt issued by the EU is supposed to be backed by the European budget. However, the EU doesn’t have the tools at its disposal to unilaterally increase its resources to repay its debt. It is required to negotiate – or rather plead – with Member States in order for them to increase their contributions. Considering the current political climate and growing euroscepticism, does it appear realistic for Member States to agree to an increase in their contributions?

So far, no one has raised the issue of debt servicing at the EU level, and the can has once-more been kicked down the road. The problem is not about being able to borrow more: it is about encouraging initiative, risk-taking, and finding new projects that companies made more competitive are capable of carrying out. In other terms, Europe doesn't lack the **financing**, it lacks the **projects**. Before even considering financing, one should first figure out what they should invest **in**. The problem is exacerbated by the fact that, as a result of globalisation, companies in countries such as France have tended to invest directly abroad (FDI) rather than simply exporting, as German companies did.

2.3 Inflation and excessive monetary creation cannot solve the problem of excessive debt

Yet "magic European money" doesn't only refer to common debt issuance, but also to liquidity injection by the European Central Bank. Contrary to what many European leaders seem to believe, the ECB will not always be there to save the day. Neither monetary creation nor inflation can serve as a sustainable exit from excessive debt. The past decade has shown that prolonged expansionary monetary policy, while necessary in moments of acute crisis, carries long-term distortions. Persistently low interest rates compress risk premia, inflate non-productive asset values and encourage the financialisation of the economy. When liquidity becomes abundant and capital inexpensive, savings flow disproportionately toward non-productive assets (real estate, ...) rather than toward industrial modernisation or technological innovation. Asset price appreciation may create the illusion of wealth, but it does not expand the productive frontier.

In reality debt monetisation is neither a credible nor a durable solution. It causes inflation and risks eroding institutional credibility and deepening the disconnect between financial valuations and real economic performance. Europe cannot rely indefinitely on central bank balance sheets to compensate for structural weaknesses. Monetary policy cannot substitute for productivity growth.

2.4 A leap towards federalisation is still an illusion

There is currently amongst some European leaders a discourse of further federalisation to solve the economic and budgetary issues face by Member States. They are sorely mistaken. Federalisation is not a solution. Europe's vitality lies in the success

of its individual components. Those who advocate for an all-mighty paternalistic European state to save overindebted countries from their own folly pay too little attention to the moral imperative for overindebted countries to commit to measures that they themselves agreed to.

In any case, one can't have one's cake and eat it as well. Often, those who advocate for further federalisation don't fully understand – whether by short sightedness or wilful ignorance – what it entails. Indeed, a federal Europe would require the transition to a single state of all matters economic, financial, military or diplomatic. In other terms, a relinquishment of even more sovereignty. Are Member States willing to accept for their own dissolution? Can one seriously argue that European citizens, in the current political climate, are supportive of further federalisation?

Because, neither the states nor the citizens want it. Europe was not built on federalism after the second world war, but rather on a logic of compromise and cooperation and a careful balancing of diverging interests.

Federalisation would require such a fundamental shift in paradigm amongst the citizens and political elites that any such suggestion can't be taken seriously.

The only solution is therefore for structurally weaker countries to take the necessary reforms in order to ensure the convergence that the Euro was set out to do. Europe is not a country, but a coalition of states that identify and act upon shared interests.

3. The Conditions for Renewal: work more and invest more

A strong Europe cannot emerge from weak Member States. A chain is only as strong as its weakest link. Something as simple as a return to fiscal discipline would on its own allow for significant advances in terms of cooperation and integrations (Single Market, Innovation cooperation, industrial policy).

3.1 Internal consolidation is a sine qua non condition for further European integration

The quotation by Raymond Aron perfectly summarises the situation at hand: "Internal consolidation is a prerequisite for international consolidation"⁶. Indeed, a chain is only as strong as

6. R. Aron, "L'Unité économique de l'Europe, La Revue Libre, October 1952.

its weakest link. National problems require national solutions.

The first course of action is for over indebted countries to restore fiscal credibility. Member States must aim to achieve durable primary budget surpluses, not through indiscriminate tax increases, but by rationalising current expenditure and improving the efficiency of public spending. It has been shown time and time again that the most indebted states are also the least productive ones. Sustainable public finances are not an ideological objective; they are a prerequisite for sovereignty within a monetary union. Without fiscal buffers, governments lose room for manoeuvre precisely when shocks occur.

Portugal is a perfect example. The case of Portugal shows that a healthy economy goes hand in hand with sound public finances. After receiving financial assistance following the sovereign debt crisis, Portugal undertook ambitious reforms. These measures have allowed the Portuguese economy to recover become one of the best performers in the Euro area in terms of growth, productivity, competitiveness and fiscal consolidation. Despite persistent structural weaknesses such as rigidities in the labour market, complexity and rigidity in the tax system, transparency in the tax system and a lack of human capital, the Portuguese case demonstrates to all indebted countries that a healthy economy depends on sound public finances.

3.2 A fundamental paradigm shift is required: Member States must move away from a demand-based model to an approach based in stimulating productive supply

Europe must return to a growth model driven by productive supply rather than financial stimulus. The objective is not to stimulate demand artificially through permanent fiscal expansion, but to strengthen the economy's capacity to produce. This requires a decisive reorientation toward productive investment: industrial modernisation, digital infrastructure, energy resilience, research, innovation, education and skilled labour. Public policy must create the conditions under which private capital once again finds long-term industrial risk attractive.

In practical terms, this reorientation requires reducing the tax and regulatory burdens on productive sectors and improving returns on savings in order to redirect capital toward long-term investment. This echoes our previous point as this objective cannot be achieved without sound public finances and credible fiscal frameworks, which are essential to restoring investor confidence. Beyond fiscal discipline, structural reforms are

equally necessary, as illustrated by the experience of the United States. Greater labour market flexibility, the facilitation of corporate restructuring, and policies that encourage continuous workforce training all contribute to enhancing productivity and strengthening the economy's adaptive capacity. Together, these measures create an environment in which private investment can thrive and productive supply can sustainably expand.

Europe already possesses many of the structural advantages required to sustain renewed growth. It remains one of the world's largest economic areas, with a skilled workforce, and globally competitive research capacity. Above all, it holds a substantial stock of private savings. The central challenge is therefore not a lack of resources, but the insufficient capacity to mobilise and allocate them efficiently within the Union. With the right financial and regulatory conditions, Europe has the scale to foster globally competitive firms and to generate its own industrial champions.

3.3 A return to fiscal discipline all the parts of the Union will inevitably lead to trust and cooperation amongst Member States

If Member States pursue internal consolidation, shift towards a supply-driven growth model and implement structural reforms at both national and European levels, renewed trust and cooperation will follow as a natural consequence. Furthermore, savings would naturally be directed more towards the private sector and less towards financing public deficits.

Fiscal credibility strengthens confidence between partners. When commitments are honoured and public finances are sustainable, solidarity becomes politically viable rather than contentious. By reducing structural divergences and improving the mobilisation of Europe's savings and industrial capacity, reforms also ease the tensions that have fragmented the Union in recent years.

Trust cannot be proclaimed; it results from responsibility. In a monetary union of sovereign states, discipline and reform are the preconditions for durable cooperation. From economic consolidation can thus emerge a shared strategic vision grounded in competitiveness, resilience and collective autonomy.

3.4 Achieving the full potential of the Single Market, which includes a single market for banking and financial services

Europe must finalise the institutional framework that allows savings to be converted into long-term

investment. Deepening capital markets and strengthening the Banking Union would provide economic agents with better financing and investment opportunities. This would improve the productivity of capital and ensure a more efficient allocation of assets, thereby promoting a better match between savings and investment. Unlike the United States, the Eurozone lacks risk-sharing mechanisms capable of absorbing economic shocks.

Progress on the Banking Union has stalled. To address this impasse, the European Commission should propose a comprehensive legislative package to the Council of Finance Ministers (Ecofin). Based on a detailed analysis of the benefits of a completed Banking Union – and the costs of inaction – this package should include:

- An unconditional and legally binding internal support mechanism for cross-border banking groups. Parent companies would be required to support subsidiaries in distress using internal group funds, as specified in their recovery plans. These plans would include predefined triggers (e.g. if a subsidiary's liquidity ratio falls below X%, the parent company would inject Y billion in liquidity) and would be approved by the European supervisor, ensuring that the parent holds adequate capital.
- A European liquidity backstop for banks under resolution, to be developed in coordination with the ECB. Crucially, Italy must also ratify the revised treaty enabling the European Stability Mechanism (ESM) to act as a safety net for the Single Resolution Fund (SRF), which intervenes when a failing bank exhausts its own resources.
- A European Deposit Insurance Scheme (EDIS), to be implemented if and only if – it is accompanied by the full legal recognition of cross-border banking groups. This would ensure that prudential regulation and supervision are carried out on a consolidated basis, and that capital can circulate freely within banking groups.

In other words, banks will only support a shared European deposit guarantee scheme if they are assured that internal capital mobility within their group will be safeguarded.

EDIS should neither aim at weakening effective national mechanisms such as Institutional Protection Schemes (IPS), nor imposing premature mutualisation of losses. Rather, it would serve as a last-resort safety net, activated only when all prior lines of defence – including IPS – have been exhausted.

This approach ensures that all Member States – including those with robust systems like Germany – can be confident that European solidarity will not come at the expense of their institutional autonomy.

Considering that EU leaders have stated that the Banking Union is vital to financial stability and to the smooth functioning of the Economic and Monetary Union (EMU), adopting this proposal would send a strong political signal. It would mark renewed consensus in favour of deeper financial integration and greater European financial sovereignty.

A Vibrant capital markets requires:

- Capitalists.
- Investment plans and a healthy appetite for risk, one that is rewarded at least as generously in the United States.
- Pension funds capable of investing European savings into companies' equity capital.
- Regulations that are harmonised, simplified and uniformly applied across all Member States.
- European marketplaces that are competitive and therefore large and strong enough to operate in a global scale.

Member States and EU institutions must therefore focus on promoting equity financing and pension funds across all EU countries, supporting the development of securitisation and improving business profitability⁷.

Undertaken at Union level, these reforms would unlock scale effects and network benefits that far exceed the sum of national initiatives. Institutional reform, while necessary, is not sufficient. Europe's economic renewal also requires the recovery of a long-term strategic vision. A monetary union composed of sovereign states cannot function sustainably without a shared understanding of objectives and responsibilities. Strategic clarity – regarding competitiveness, fiscal sustainability, innovation and defence of the Single Market – must replace short-termism and reactive policymaking. Equally important is the restoration of mutual trust between Member States.

Fiscal responsibility, structural reforms and credible enforcement of common rules should not be perceived as externally imposed constraints, but as the foundations of collective resilience. Trust is built when commitments are honoured, when rules are applied consistently and when solidarity is matched by responsibility.

7. Although all these measures are necessary, they will not be enough to achieve a true Savings Investment Union. This would require a European Treasury bond to be created, but this cannot happen until there is a sovereign European state.

4. National Responsibility and Franco-German Convergence

A strategy of renewal must therefore begin at the national level, whether it consists in fixing one's public finances or adjusting one's industrial model.

France has long nurtured elevated ambitions for itself. Under Robert Schuman and Valéry Giscard d'Estaing it conceived of its role as that of a "major middle power" a state capable of shaping Europe and influencing the international order. Within the European project, France historically stood as *primus inter pares* among EU leaders. As one half of the Franco-German partnership, its political vision often helped determine the direction and tempo of integration.

Today, however, this ambition is weakened by structural fragilities. Persistent deficits, rising debt, high fiscal pressure and the erosion of a competitive industrial base have significantly weakened France's credibility and room for manoeuvre. This partly explains why France has struggled to garner momentum on issues such as European strategic autonomy and the choice of many Member States to continuously rely on US military protection.

A strategy of renewal must therefore begin at home. France must restore control over public finances, rationalise spending to ease the tax burden on productive activity, and reorient its economic model toward strengthening industrial supply rather than sustaining short-term demand.

As for Germany, the country is now faced with the necessity of readapting its economic model in response to intensifying Chinese industrial competition and the resurgence of American protectionism. These conjunctural issues are exacerbated by underlying structural weaknesses, namely an aging population and high energy costs. Unfortunately, its current trajectory reveals a predominantly national reflex. The large-scale rearmament effort launched since 2022 has been structured primarily around domestic industrial priorities, with significant spillovers toward American and Israeli defence suppliers, while cooperation with France has remained almost in-existent. Such an approach risks fragmenting rather than consolidating Europe's industrial and strategic base. By privileging national reconstruction over coordinated capability-building, Germany's path forward sidelines the objective of European strategic autonomy and weakens the collective leverage that only integrated action can provide.

5. Five Lessons for a Sustainable Monetary Union

At this juncture, several fundamental lessons emerge – lessons that may appear self-evident, yet are too often overlooked in practice.

First, a monetary union is not a cure-all. It cannot compensate for structural weaknesses, nor can it substitute for sound national governance. Its effectiveness depends entirely on its institutional design and on the commitment of its members to uphold common rules.

Second, sharing a single currency across twenty-one heterogeneous economic systems is, absent discipline and convergence, a recipe for future tensions. Divergent fiscal policies, productivity paths and competitiveness levels inevitably generate structural imbalances if not actively corrected.

Third, this inherent contradiction can only remain sustainable if European institutions – above all the Commission and the Council – enforce a minimum level of collective discipline, particularly in fiscal matters. Rules that are agreed but not applied erode trust and undermine the credibility of the entire architecture.

Fourth, the mere existence of a monetary union will not, in itself, secure Europe's prosperity. The strength of the Union ultimately depends on the strength of its Member States. The more competitive, responsible and reform-oriented the national economies, the more resilient the common currency becomes.

Finally, the sustainability of the euro requires long-term vision, strategic clarity and political will. Without a forward-looking commitment to productivity, innovation and structural reform, financial stability alone will not guarantee lasting prosperity.

Yet this diagnosis should not obscure an equally important reality: the European project retains considerable strengths. The creation of the world's largest single market remains one of the most ambitious economic achievements of the modern era, and the euro has established itself as the world's second reserve currency, reinforcing Europe's monetary sovereignty⁸.

Recent initiatives such as the Important Projects of Common European Interest (IPCEI) further demonstrate that the Union can coordinate strategic industrial action in critical sectors. The euro is not merely a constraint; properly governed, it can be a powerful catalyst for collective ambition.

8. If gold is included in the ranking of reserve assets, the euro ranks third, behind the US dollar and gold.

6. A Decisive Moment for Europe

The euro is not destined to fail. Europe retains immense assets: a highly educated population, deep pools of savings, and strong institutions. What is required is the political will to uphold shared commitments and to address divergences before they escalate into crises. A monetary union can endure only if its members accept the discipline that accompanies solidarity.

The present moment should therefore be understood not as inevitable decline, but as a decisive test. If Europe chooses responsibility, restores fiscal credibility and rebuilds its productive capacity, the euro can regain resilience and legitimacy. If divergences continue to widen and savings remain misallocated, the next shock could expose structural weaknesses that have long been masked by monetary accommodation.

A complete change in paradigm is required. Internal consolidation is required before Member States can even aspire to enhanced European cooperation and integration.

The fate of the euro ultimately depends not only on rules and institutions, but on Europe's capacity to transform its abundant savings into innovation, productivity and growth. Stability cannot rest indefinitely on central bank intervention alone. It must be grounded in disciplined governance, renewed competitiveness and a long-term strategic vision for productive investment.

In order to reach said goals, it is imperative that we demonstrate to national leaders and citizens that the benefits of collective action significantly outweigh the costs of compromise that European projects may require at the national level. Too often, ambitions are ascribed to the European Union that simply don't exist. Neither the euro nor the Union itself is the cause of Member States' economic difficulties. The EU cannot continue to serve as the scapegoat for domestic policy failures or poor national decisions.