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## MACRON'S EUROPE SPEECH: A WISHLIST WITH SOME SENSIBLE PROPOSALS

### Berenberg Macro Flash

**“I have no red lines, I only have horizons”.** In a passionate speech at the Sorbonne University yesterday, French President Emmanuel Macron outlined a long wishlist of proposals to strengthen the cohesion of the EU (“the Europe we know is too weak, too slow, too ineffective”). Kickstarting a serious debate about the future of the EU, he offered few details on the Eurozone, though. He knows that German Chancellor Angela Merkel will not agree to a transfer union in which European authorities (Eurozone finance minister, EU/Eurozone parliament) could decide on major unconditional transfers between member countries. Signalling clearly that he wants ambitious reforms, Macron suggested stepwise and in many cases sensible changes. First reactions to his more than 100-minutes long speech range from praise in Brussels and from the German Greens to reticence from the German Liberals, scepticism in the UK and some hostility in eastern parts of Europe.

**Macron started off by calling for a closer cooperation between military, intelligence and asylum agencies** – projects that sound sensible and have mainstream support in many parts of Europe by now. His proposal for an EU-wide financial transaction tax (FTT) to finance development funding in Africa will go down less well, as currently only 9 of the EU27 national governments support it, even though Macron may find more support for an FTT of a UK stamp duty style as he suggested.

**He reiterated his wish for a common Eurozone budget funded by corporate tax receipts, supervised by a finance minister under the control of a beefed-up European Parliament.** As long as the additional pots of money for the EU/Eurozone are modest, targeted and the big member states retain a – de jure or de facto – veto over the use of such funds, we expect that Berlin will in the end find a compromise with Macron on a watered-down version of these ideas. Macron will likely have to scale down his idea of a budget worth of a few percentage points of Eurozone GDP to Merkel’s “small budget” for specific tasks. Another key question for Germany will be whether a Eurozone budget would need to be funded by an additional tax burden that may distort incentives and weigh on the economy – or whether such a budget would be a substitute for spending at the national level.

**Macron suggested to harmonise corporate taxation between France and Germany within four years,** as a push to align tax policy across the EU and avoid unfair competition. He also proposed that French and German regulatory regimes should be integrated by 2024. On debt sharing, a particularly contentious issue in Germany, Macron emphasised that he wants to reduce youth unemployment, not mutualise risks. He thus discarded, at least for now, calls to pool debt at the Eurozone level (beyond the pooling that is de facto done by the ESM, the ECB and – potentially – other EU/Eurozone institutions).

**The timing of the speech was no coincidence** – two days after Germany voted a new government for the next four years. Parts of the speech were tailored to address Merkel’s probable new coalition partners, the FDP and the Greens. Macron talked about investment, particularly for the digital economy, energy and renewables (including a carbon tax). In essence, he kept all his, and the new German government’s options open.



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### **Macron also made many other proposals or suggestions:**

- By 2024, half of the European Parliament should be elected from a pan-European list – starting with the seats that the UK vacates from end of March 2019 onwards.
- By 2024 each EU student should ideally be able to speak at least two languages and there should be at least 20 cross-border "European universities".
- Macron wants to limit the number of EU Commissioners to 15, ending the practice that each member country nominates one commissioner, with big countries giving up their places first.
- Macron put into question the EU's common agricultural policy, saying it is "too complex, bureaucratic, ineffective". For a French president that is quite a bold and courageous statement.

For the UK after Brexit, Macron imagines a place in an outer core of Europe, suggesting a very multi-speed Europe, of which the UK will remain a part.

**To start a debate, Macron has outlined ambitious proposals. As a next step, Berlin has to sort out its position upon – most likely – forming a "Jamaica" coalition.** We look for serious discussion in the EU27 and the Eurozone during the first half of 2018 to yield some modest results, probably enough to let Macron claim that some of his ideas will be implemented in a muted form. Macron said he would be willing to take on the arduous task of changing the EU treaties but did not provide a time frame. Far-reaching proposals that would require treaty changes are unlikely to be finalised next year, though. Such a process – if it happens at all – would take much longer.

On our proposals for European reforms, please see the report ["Reforming Europe: which ideas make sense?"](#).

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