

Europe needs a growth-oriented economic policy

“German Questions” Symposium

“How can Europe regain its dynamism?”

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Ladies and gentlemen, European union is an unprecedented historical success. Political integration, the Internal Market and, last but not least, the euro have brought us Europeans **security, prosperity and economic stability**. The European idea stands for **peace and freedom**. The power of this idea has brought changes that seemed completely unthinkable only 20 years ago. The Europe of the 25 has consigned the Cold War to the history books once and for all.

Despite this, we are forced to admit today that Europe is currently going through a **sticky patch**. The “no” by the French and the Dutch to the draft European constitution, the failure of the European summit in June and the fierce debate on the EU budget – all these are clear signals. Many observers are talking about a **crisis**.

In Chinese, the word for “**crisis**” is made up of two characters: One means “**threat**”, but the other stands for “**chance**”. Every crisis does indeed contain the chance to learn from mistakes and to emerge stronger as a result. It is this chance we want to discuss together with you today when we ask “**How can Europe regain its dynamism?**”

So let me welcome you, ladies and gentlemen, also on behalf of the Hamburg Bankers’ Association, to today’s 13th “**German Questions**” symposium.

May I welcome in particular the First Mayor and President of the Senate of the Free Hanseatic City of Hamburg, Mr Ole von Beust. Welcome, Mr Mayor!

“**Buoyant city**” - this is how the Frankfurt Allgemeine Zeitung recently headed an article about Hamburg. It was referring to the large-scale urban redevelopment here – for example, in the Hafencity, the harbour area. But Hamburg is also doing well economically. As an international business centre, the city is profiting greatly from the enlargement of the EU towards the East. So Hamburg is the right place to hold a discussion on the future of Europe in a mood of **confidence**.

I would at this point like to welcome to this discussion:

- **Professor Gesine Schwan**, president of the Viadrina European University in Frankfurt an der Oder;
- **Professor Dennis Snower**, president of the Kiel Institute for World Economics, and
- **Mr Gabor Steingart**, the head of the Berlin office of the weekly magazine “Der Spiegel”, which is based here in Hamburg.
Mr Steingart will moderate the discussion.

My words of welcome are also addressed to the Hamburg Bankers' Association, with whom we are hosting this symposium.

Finally, ladies and gentlemen, allow me to extend a warm welcome to our young guests as well. I am delighted to have a group of pupils from the Ohmoor Gymnasium here with us in Hamburg. These pupils are the winners of the "Jugend und Wirtschaft" competition run by our Association together with the Frankfurter Allgemeine Zeitung. Europe is an issue for young people. It is their future in particular that is being decided today in Europe.

Ladies and gentlemen, I have already mentioned that the Chinese tend to always see the bright side even in difficult situations. But, economically at any rate, **China** has every reason to be optimistic.

Its economy is currently growing by around **9%** annually.

For the **global economy** as a whole, the International Monetary Fund forecasts growth of fully **4%** for this year and next year. By way of contrast, in September the IMF had to revise downwards its **eurozone** growth estimate for this year to just under **2%**. For **Germany**, the experts forecast growth of as little as **0.8%**.

9 % in China, 4 % worldwide, 2 % in Europe and not even 1 % in Germany – the diagnosis is clear: **In Europe, and particularly in Germany, economic dynamism is missing.**

Citizens have been aware of this for some time: When asked which region in the world they regard as the most successful economically, only 13% of Germans named the EU. 17% put the US in first place and as many as 64% mentioned China, as a survey commissioned by our Association shows.

This assessment of the economic prospects – unfortunately – reflects the general perception of Europe in Germany. Only one in four Germans now believes that Germany ultimately benefits from membership of the EU. Today the **Euro-optimism** of earlier years has largely dissipated. It has been replaced by **disenchantment and scepticism**.

Politicians are finding it increasingly difficult to explain to citizens why Europe is still in everyone's interests and how it can recover its old strength. The **most recent EU summit**, held in Britain just under a fortnight ago, did not provide any new answers and failed to lift the Euro-gloom.

So how do we put Europe back on the right track? How can we continue Europe's success story of the past today, at the start of the 21st century? I am convinced that **we will only manage this if Europe is also, or perhaps above all, successful economically.**

It is often said that Europe is more than just an economic community. Absolutely right. Europe is also a community of values and of cultures. We will no doubt talk tonight about how Europe can reach not only people's heads but also their hearts, if I may put it that way.

This won't work without a solid foundation, however. **Economic growth is the basis for Europe's success.** I should therefore like to concentrate first on the question of how we can create new growth and employment. This depends on **five key components** at European level:

Firstly: **Europe has to rise positively to the challenge of globalisation.** It will not be possible to build a protective wall at European level against the forces of global competition. **Any attempt to do so blocks the way to prosperity in Europe.** The EU's social policy needs to be reviewed. British Prime Minister **Tony Blair** hits the nail on the head when he asks:

"WHAT TYPE OF SOCIAL MODEL IS IT THAT HAS 20 MILLION UNEMPLOYED IN EUROPE?"

Europe must improve its global competitiveness. This task, which was formulated five years ago as part of the **Lisbon strategy** but then not tackled determinedly enough, is one we have to focus on. A **"shock absorber" fund**, as recently proposed by the Commission, doesn't take us any closer to the target, however. We don't need any new shock absorbers, we need a more powerful engine!

The second component is **giving subsidiarity and self-responsibility more weight.** In July, the presidents of Finland, Italy, Latvia, Austria, Poland, Portugal and Germany together urged the EU to only regulate what can be regulated better jointly.

I agree wholeheartedly. Everything that remains the responsibility of the member states and can be decided there must hold up in the competition between locations. **This internal competition is what makes Europe strong when it competes externally.**

Thirdly: **The Internal Market must be firmly completed.** But a market without any **liberalisation of services** across borders is not an internal market. Rejecting open markets in this sector means shielding two-thirds of Europe's economic output from the Internal Market principle.

The fourth component of a strategy for more growth concerns finances: **The EU budget must measure up to the needs of Europe's future, not its past.** A budget with plans to pump 70% of its resources into the agricultural sector and the Cohesion Fund until 2013 preserves existing structures and does not shape the Europe of tomorrow.

European financial policy is downright absurd in some cases. In March this year, the Commission launched an **anti-smoking campaign.** Cost: 72 million.

At the same time, Brussels pays out around 1 billion in subsidies to European **tobacco farmers** every year.

Such a policy does not allow enough room for investment in education, research and modern infrastructures. **An honest debate on European financial policy and economic policy is overdue.**

The last important component is deregulation: **We need less regulation in Europe, and wherever regulation is indispensable it must be better and more efficient, meaning it should cost less.**

Brussels has become virtually synonymous with bureaucracy. There is much that citizens cannot understand. The decision-making channels remain unclear and the decision-makers too anonymous. This is why the distribution of powers between European and national level has to be clearly defined.

All regulation must be transparent and efficient. This begins even before the legislative process. Often the best regulation is no regulation. What is definitely necessary is a **realistic assessment of the impact of any regulation that is envisaged.**

This means determining the full cost of regulation, not only the cost to the state but, much more importantly, the cost to the private sector, whether companies or citizens. **Any unnecessary burden must be avoided.**

It is encouraging that the UK Presidency has made **better regulation** a focus of its work and can call on the positive experience it has made in this area at home.

Ladies and gentlemen, the responsibility for Europe's success by no means lies in Brussels alone. It also lies in Berlin. Growth close to the 1%-mark we have in Germany is clearly not enough if we want to finally make a breakthrough in the **fight against unemployment**. But it is also not enough if we want to make a decent contribution to **growth in Europe** again.

It is up to Germany itself, Europe's biggest economy, whether it remains bottom of the European growth table or whether it at last becomes a growth engine again by adopting a determined reform policy.

The situation in Germany is clear. The six leading economic research institutes spelled it out quite plainly in their recent autumn reports:

"THE SITUATION IS SO DRAMATIC THAT WE CANNOT AFFORD TO PUT OFF FUNDAMENTAL CHANGES IN ECONOMIC POLICY ANY FURTHER."

The task that the new government faces in setting the course for more growth is an enormous one.

This includes switching to a **sound financial policy**. Germany will breach the European Stability and Growth Pact rules for the fourth time in succession this year and will probably do so for a fifth time in 2006.

The state must withdraw from traditional fields of activity. This is the only way to cut the ratio of government spending to GNP and to finally make some progress in the fight to reduce the national debt. And only then can we channel the tight resources available more strongly into education, research and innovation, that means into our country's competitiveness.

No less important is a **tax policy** that boosts economic potential. We need reliable, simple and growth-oriented tax legislation. It must lead to a reduced tax burden, particularly for companies. This creates more jobs and helps employees in particular.

We also need a **more flexible labour market, less bureaucracy and lower non-wage labour costs**. This can be achieved through real reforms of the social insurance schemes.

And finally: If the **principle of subsidiarity** between Europe and the national states is right, it can't be wrong in the relationship between the federal government, the Länder and the municipalities.

We need more federal competition. Wherever, for example, the Länder decide, we need productive competition for the best political solutions. That goes not only for the legislative relations but also, above all, for the **financial-policy relations** between the central, regional and local authorities.

Other key issues, such as the financial equalisation between the Länder, must not be excluded from the frame. **Any reform of federalism without a reform of the federal financial arrangements can only be an incomplete one**. It is good that politicians are looking at this question again, but it is about time too. So what does it mean that this point has reportedly been shelved in the current coalition negotiations until the second half of the legislative term?

Ladies and gentlemen, Europe will recover its **economic strength** if we press ahead with the vital reforms at European and national level. If we succeed, Europe will also be **accepted more by its citizens** again.

Earlier I called for a confident approach to a debate on the future of Europe. Given the whole mountain of challenges we face, this is no easy task – indeed, it demands a certain degree of discipline.

The fact that I still count myself among the **optimists** is because the signs of the times and the urgent need for reforms are being recognised more and more strongly. I agree with Commission president **José Manuel Barroso** when he says with regard to Europe’s economic and social model that

“THE STATUS QUO IS NO SOLUTION.”

This can only be endorsed. And it also applies to Germany, the EU’s largest economy. Let us take this as an incentive. Let us all pull together in our own way for a successful Europe.

Mr Mayor, the microphone is yours.
