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Strengthening Competitiveness and Growth in Europe

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Prof. Calhoun,

Ladies and Gentlemen,

Thank you very much for the kind introduction and above all for the opportunity to talk with you about Europe.

Hardly any venue could be more appropriate than the London School of Economics, one of the most politically influential universities in the world.

As a German liberal, I feel a particular affinity with the LSE.

This is where Lord Dahrendorf and Friedrich-August von Hayek did much of their work. Even today, their ideas remain the key to strengthening competitiveness and growth in Europe.

At heart, this not about a mathematical model; it is about nothing less than our social vision of Europe.

Only a liberal, enlightened Europe can pave the way for a Stability and Growth Union.

People need freedom to be creative! This creativity generates diversity.
And competition is the best way to make sure that our diversity benefits the whole of society.

In your country, the home of David Hume, John Locke and Adam Smith, this respect for personal freedom, for civil rights and fair competition, is firmly rooted.

So often, Britain has stood up for these profoundly European values – and that is good for all of us.

It is, however, crucial that we assert our values together, as European partners.

This includes making compromises, give and take. In the long run, cherry-picking is not the way to run a good partnership.

We share a common goal: strengthening competitiveness and growth in Europe.

I am convinced that the reforms begun in the Eurozone will lead to a European Stability and Growth Union, which will strengthen the European Union as a whole.

In the current debt and growth crisis in the Eurozone, we need the right diagnosis and an effective therapy if we are to see a successful recovery.
My diagnosis is clear: We face a grave crisis of confidence.

Much of the trust in sound fiscal policy and robust competition mechanisms has been lost.

For years, the member states of the Eurozone have breached the criteria jointly agreed at Maastricht. In fact, even Germany has been known to do this!

The promise of stability made at Maastricht has never really been kept.

Confidence is also lacking in the international competitiveness of certain member states. Necessary structural reforms have been put off for too long in too many countries - particularly on the labour markets, but also in public administration and market deregulation.

In the first few years, everything seemed to go well: The introduction of the euro led to unprecedented low interest rates. For a time, this boosted economic growth.

Yet the scope offered by the favourable financing conditions was not used to undertake the necessary structural reforms, or to make sustainable investments in education, research or infrastructure.

Instead, the low interest rates generated by the monetary union were simply consumed. Sovereign debts piled up.

The end result was misallocations of resources and speculative bubbles.

So the current recession in some euro countries is not a cyclical crisis.

It is not due to lack of demand.

Rather, it is the result of deliberately breaking monetary union rules, of short-sighted financial and economic policy.

And it is also the outcome of wrong incentives, with action and liability for that action increasingly drifting apart, especially in the banking sector.

The structural causes cannot be simply remedied through debt-fuelled spending programmes. The only thing that will help is substantive reforms.

The member states must be resolute as they consolidate their budgets.
They must strengthen their competitiveness through more open, better functioning markets.

It's a bit like sport: You don't get fit by doping, you do it by training – and training hard.

You can only expect help if you do something in response. That also holds for Greece.

Future aid payments should therefore be administered via an escrow account with an independent trustee. That would improve oversight and transparency.

It would also underscore our need for sustainable finances <u>and</u> growth. Both form part of one and the same strategy: they are not alternatives.

After all, sound public finances make for long-term confidence, and growth is only possible with confidence.

We have already made some headway in this direction in the Eurozone: Many countries are finally getting serious about balancing their books.

The budget deficits in the Eurozone have almost halved since 2010.
Current account deficits are on the decline in the Eurozone.

Unit labour costs are going down in the crisis countries.

And this success is meeting with a response: markets regain confidence in countries that do their homework.

Interest differentials to Germany are narrowing. We can see this in Ireland in particular, but also in Portugal.

We saw something similar in Germany almost 10 years ago in 1999. The Economist called Germany 'the sick man of the euro'. We were suffering from long-lasting structural stagnation.

With extensive reforms, particularly on the labour market, we got moving again. By 2005, the Economist was already marvelling at 'Germany's surprising economy'.

Willingness for reform and determination pay off in the end, but half-hearted or half-finished reforms go nowhere. They undermine confidence even more.

Without the fortitude to keep going until success has been achieved, all we have left to remember are the hardships. The population will then be averse to reform for years to come.

In fact, we should always remember that the markets deal in expectations. As a result, when reforms are done well, they quickly meet with a response.

Even if the measures adopted will only take full effect over time: when a country convinces the markets with credible reforms, its credit-worthiness improves and, with that, its interest rates and credit rating.

Credible and resolute policies aimed at sound budgets and keen competitiveness can restore lost confidence. Ireland is a good example.

On the other hand, you cannot inspire confidence with mere declarations of intent and half-hearted codes of conduct. You must fill the rules with life from the outset.

If you want to be fit, joining a fitness club is not enough. You must actually turn up and do your exercises. With the triad of consolidation, structural reforms and short-term fiscal stabilisation measures under the EFSF and ESM, we have set off on a clearly charted course out of the crisis.

The reforms we have begun in the Eurozone will lead to a European Stability and Growth Union, and will strengthen the EU as a whole.

Now we need to see a consistent implementation of these measures by all the stakeholders.

What we do not need is one novel idea after another, conjuring up ever more complicated coordinating procedures for Europe.

In fact, as I am speaking to the elite economists of the future let me ask you a question:

Can anyone stand up and explain all the mechanisms for coordinating economic and financial policy in Europe and how they interact?

Two-pack, Six-pack, the Macroeconomic Imbalance Procedure, the Euro Plus Pact, the Growth Pact, the Fiscal Compact and so on?

What I am saying is this: our main problem in the Eurozone is not a lack of rules.

Rather, we are not doing enough to implement them. That is what we have to focus on.

New proposals only make sense if they reinforce current procedures and their implementation.

Europe must prove that it also keeps to rules, treaties and agreements.

But let us also look well beyond monetary policy.

Beyond the crisis, where does the economic future of Europe lie?

How can we make Europe even stronger in international competition?

I think we should start by going back to the centrepiece of the European economic union: the single market. You can only play a fast, dynamic game on a good pitch.

The single market remains the best, long-term growth programme for Europe.

But this sustainable growth programme doesn’t have to come at the price of “economic amphetamines” like an expansionary monetary policy or excessive debt.

Britain, like Germany, sends much more than half of its exports to countries of the European single market.

The single market has created jobs, growth and prosperity in our countries.
After more than 20 years, we now need to remove the remaining barriers.

The single market is a project for all the member states.

Despite all the focus on the urgent need for reform in the Eurozone, the European Union is made up not of 17 member states, but of 27 and soon even 28.

The structure of Europe is not set in stone. It must keep developing.

This can mean a different intensity of cooperation in individual areas.

But every stage of cooperation must always be open to everyone.

When we launch new measures - in the Eurozone, for example - the others must be able to join in later on. Every measure must meet opt-in criteria. This is the only way Europe can continue to function as a powerful force for integration.

Europe’s strength is its diversity.

Europe lives from the various ideas and solutions its member states can contribute.

It’s a bit like football: You cannot win if your team only has strikers or defenders. The blend is what counts! And team-play is what gets results.

We in Europe need a blend of diversity and the single market. That will promote the mutual exchange of ideas. That is what inspires creativity, innovation and commercial success.

This is why close macro-economic policy co-ordination, particularly in the euro zone, is necessary and right.

Just like strengthening competition.

Of course, coordination and regulation are not ends in themselves. Rather, the member states must grasp and shoulder their own responsibility.

Diversity in unity means sharing the same basic values, while leaving room for different cultures.

That is one of Europe’s strengths, and we must continue to build on it in future.

This is also a political necessity, because in many member states the European Union is suffering from a loss of public confidence.

Europe will not regain this confidence with centralism. Only competition between different ideas can give us the impetus we need and bring about the best outcome.

Fine words alone will not do. We need a Europe we are committed to with our hearts and minds.

This is why Europe must reform. We must show our citizens - and particularly our younger generation - the benefits of Europe, by giving them genuine prospects for the future.

That brings us back “full circle” to reform policy, which I am now looking forward to discussing with you.

Thank you very much.

END