

Address  
by Federal Minister Thomas de Maizière  
Head of the Federal Chancellery  
during the German Week  
of the German Society at the London School of Economics and Political Science  
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Translation of advance text

Professor Featherstone, ladies and gentlemen!

Anyone who has been following media reports on Germany's economic situation over the last few months could be forgiven for thinking that people are talking about two different countries.

- In some sources we read about a nation with some of the most competitive and successful companies in the world.

In 2005 this country was the world's leading exporter for the third time in succession.

The prosperity level of its population remains extremely high.

This country is one of the foremost patent recipients internationally.

Its companies are frequently the driving forces behind international mergers.

German sportsmen and women won the most medals at the Winter Olympics in Turin. And this country is set to become Football World Champion in 2006.

Last year the Economist referred to the super-competitive Germans.

- However, other reports suggest that Germany is a country which has had its day.

Its economic strength is restricted to the old economy.

It is no longer able to finance its social welfare systems due to demographic change.

This country regularly breaches the European Stability and Growth Pact.

Its enterprises are, at the most, attractive options for takeover bids from financially strong investment companies.

This year the Economist warned that Germany could risk finding itself stuck with "amerikanische Verhältnisse, or American conditions" if it fails to introduce the necessary structural reforms.

Such reports strongly influence the way in which people abroad perceive Germany.

But which of these two images of Germany is more applicable, considering that they appear to be mutually exclusive?

In my opinion, the answer is both and neither.

The individual facts listed above are all accurate. And yet the reality is too complex to be viewed in black and white. Germany is neither terminally ill nor automatically Europe's number one.

Indeed, in economic terms Germany is still a very successful nation which is grappling with the same problems as most other developed economies.

The aging society is placing considerable demands on our social welfare systems, which depend on the contributions paid by the active workforce.

The impact on Germany is especially high, since the country has the lowest birthrate in Western Europe. The number of babies born in East Germany has halved since reunification in 1990. In other European countries this development has (as yet) remained hidden due to higher birthrates among migrants.

Another issue is the increased international competition resulting from globalization. With the up-and-coming economies of Asia and Latin America new competitors have entered the arena. In Poland and the Czech Republic, Germany's next-door neighbours, wages are around one third of German levels.

However, Germany has coped with the challenges of globalization comparatively well. It was the only country in the G7 which was able to increase its global market share in spite of the massive gains made by China and India.

Ladies and gentlemen,

Nonetheless, globalization is anything but a new development.

People in every generation imagine that they are living in times of unprecedented upheaval. However, if we take an objective view, we must concede that this applies to very few generations. If we are honest, globalization processes involving radical changes have been common for centuries. What was the discovery of America if not globalization?

Countries have always traded across borders. The British Empire and the Commonwealth of Nations are two examples of many.

The Hanseatic league was likewise a global trade network. And if we go right back to antiquity, the Roman Empire also established extensive trade relations. Ancient trade routes for salt, spices and fabrics bear witness to globalization.

Perhaps all that has changed is the speed at which globalization is moving forward. And people all over the world are feeling the effects of globalization. This is another new phenomenon.

Between 1975 and 2000, over a period of only 25 years, the world national product rose by a factor of 2.4, global trade increased fourfold and international capital investment grew by a factor of 30.

The collapse of socialism in Eastern Europe, the digitization of the media, the spread of low-cost, effective IT infrastructures and the liberalization of international trade all facilitated this development.

Globalization in itself is therefore not a new phenomenon by any means. On the contrary, it represents a return to normality.

The exception to the rule was actually the relatively short period in which nation states took centre stage and the fact that the global economy was largely dominated by relatively few industrialized countries in the wake of the Second World War.

In Germany this impression of a stationary, to all intents and purposes closed global economy was particularly widespread thanks to the strong economic wonderland of West Germany.

Due to the Cold War Germany was able to maintain only very limited economic relations with many of its neighbours.

The movement of people, ideas and products between the two German states was strictly regimented.

Consequently, East and West Germany developed largely in isolation from each other, not only at different speeds, but to some extent also in opposite directions.

The removal of the Iron Curtain roughly catapulted the whole of Germany – especially but not only the new federal states – into the global arena and forced it to embrace the international division of labour in an economic, political and security context.

The East German economy suddenly had to contend not only with greater competition on the global markets but also with the collapse of its traditional sales markets in Eastern Europe.

The resulting mass unemployment led to heavy migration, particularly of well-educated people, to the West. Conversely, many people with expertise moved to the East.

Developments which would normally have evolved over several decades – structural change, migration, full international integration – took place in Germany over a few months and years.

This historic break goes a long way towards explaining the origin of the problems Germany faces today. Objective changes and, moreover, the subjective perception of these revolutionary changes led to repression, unfounded optimism and premature pessimism. The winds of change were colder than expected.

The European Commission, for instance, attributes two thirds of Germany's growth deficit compared with the European average to as yet unmastered consequences of reunification. That may be an exaggeration. But the fact remains that if we succeed in overcoming the challenges posed by reunification and high unemployment, we can remove some – if not all – structural barriers to growth.

A dose of British pragmatism would no doubt do us Germans good.

Ladies and gentlemen,

It is perhaps no coincidence but rather a ruse of history that an East German woman has now become Chancellor. She embodies the opportunities which change can hold. And lo and behold, following the initial typical German scepticism, optimism is now spreading throughout the country.

The new Federal Government has already laid the keystones for better competitiveness and more growth in the first three months of its term of office.

Our goal is for Germany to regain its position among the three most successful nations in Europe within ten years. Great Britain will no doubt be one of the other two ...

To achieve this we are focusing on a threefold approach involving restructuring, reform and investment:

- We are working to increase the level of investment in research and development to three percent of the gross domestic product.
- We are taking account of longer life expectancy by increasing the retirement age to 67 to stabilize the financial basis of mandatory pension insurance.
- We will cut non-wage labour costs to below 40 percent in the long term through lower contributions to unemployment insurance and other measures.
- We are restructuring the responsibilities of the federation and the Länder in order to modernize the federal system, which has proved its worth in Germany, and to bring the speed at which policymakers are able to act into line with the increased tempo of globalization.
- We are working on a reform of corporate taxation with internationally competitive tax rates.
- We plan to consolidate public budgets and are prioritizing childcare and education.

The Federal Government is therefore not interested in stimulating the economy in the short term, but is focusing on structural reform. We still have a long way to go – I can't deny that – a health sector reform, the opening of the labour market, energetic red tape cutting. But we

have been in office for only 100 days, as of yesterday. We are taking small steps in our grand but complicated coalition. Yet they are small steps in the right direction.

Ladies and gentlemen,

Germany is in the process of overcoming its obstacles to growth.

German Angst is gradually dissipating.

The private sector is putting its trust in the new Federal Government.

The German share index, the DAX, has risen by almost 20 percent in the last six months.

The commercial business climate has reached a new high since 1991, and consumers are regaining confidence.

We will not betray the trust that companies and consumers have vested in us. We intend to pursue a decisive course of modernization to bring Germany back to the helm.

I invite my British listeners to visit this Germany, which is often portrayed in such a contradictory light, and to become better acquainted with it.

Only one third of British people have ever spent a holiday in Germany. A mere 32 percent of the British feel they are well informed about Germany.

This year's Football World Cup offers just one of many ideal opportunities to visit Germany. The referees will not allow any Wembley goals. We intend to be perfect hosts, as Britain has always been, and welcome our guests as the London School of Economics has always welcomed Germans, not only during German Week.

I am now looking forward to an animated discussion.