

***Growth and Employment -
Reforms in Europe for Citizens and Companies***

Speech by

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(2:00 o'clock pm)

Mr. Hofheinz,
Ms. Mettler,
Ms. Kuneva,
Mr. Gurria,
Ladies and Gentlemen,

Thank you for the invitation to deliver this year's "Ludwig Erhard Lecture on the State of the European Economy". I gladly accept this opportunity on behalf of Chancellor Merkel.

This series of lectures organized by the Lisbon Council follows the intellectual tradition of Ludwig Erhard, Germany's great and pioneering Minister of Economics who was the father of the social market economy.

Ludwig Erhard would have celebrated his 110th birthday on February 4.

To mark this occasion, we placed his bust in the Ministry of Economics and Technology in a spirit both of commemoration and motivation.

Against massive resistance, Erhard removed the government's hold over the economy and abolished price controls in 1948. He ended investment controls, state rationing, and economic isolation.

This bold fundamental decision in terms of regulatory policy at such an early point in Germany's post-war history was Erhard's great historic achievement.

It laid the foundations for our social market economy. And it launched the Federal Republic's success story.

Ludwig Erhard firmly believed that people must enjoy freedom, the latitude to act, and responsibility.

He saw the social market economy as a way of freeing society of its bonds.

The social market economy inspires individuals to work hard and perform; it releases creativity and energies. And it combines efficiency and economic success with social security and responsibility.

Today's challenges are not those of Ludwig Erhard's times. We are living and must act under different political framework conditions: in the Europe of the 50s and 60s competition was located in our neighboring European countries.

Today, Europe must compete globally: we are competing with the United States; and the emerging economies of Asia such as China and India are becoming stronger and stronger.

Our prosperity has increased. Europe's citizens are now concerned about maintaining their prosperity levels.

They ask how secure their jobs are and whether they will be provided for in illness and old age.

And they are focusing growing attention on the major topics of secure energy supplies and climate change.

Even if the world has changed since the time of Ludwig Erhard, his ideas are still valid.

The chain of principles underlying the social market economy are:

From freedom to competition and from competition to prosperity and social security. These elements must continue to guide our policy.

It was Ludwig Erhard, who created an atmosphere of encouragement in the early years of economic reconstruction. This is still one of policymakers' most important tasks.

It is therefore all the more regrettable that people's confidence in the ability of Europe to solve our problems is not quite what it should be.

According to the Euro-Barometer of December 2006, less than half of EU citizens have a positive picture of Europe. But more than half still think that their respective Member State generally profits from the EU. However, only a third of EU citizens see the Union as moving in the right direction.

I therefore welcome the fact that the Lisbon Council is seeking to collaborate actively in elaborating a strategy for more growth and employment in Europe. For this contribution, I owe you appreciation and thanks, Mr. Hofheinz and Ms. Mettler.

At the European Council in Lisbon in the year 2000, the EU Member States set themselves the goal of making Europe the most competitive knowledge-based region in the world. That was a courageous, or even an overly bold decision. It is now understandable only when we recall the euphoria amidst the so-called New Economy. The fate of that phenomenon is well known: the bubble burst!

In 2005, we took a more sober look at the situation and saw that not much had been achieved. Or, as Commission President Barroso once said, it doesn't help if we can no longer "see the wood for the trees."

We thus began to re-orient just a few of the priorities, and now growth and employment have surfaced into the focus of attention.

It was right to rework our priorities: the outlook is now significantly brighter in Europe.

The EU-27 scored the strong economic growth rate of 2.9% in 2006.

In the EU-25, the unemployment rate has declined from an average 8.8% to 7.9%.

And the EU Commission has revised upward the level of expected economic growth for 2007 to 2.7%.

Furthermore, national reforms are helping set the right framework conditions for "tomorrow."

Germany is among the leaders. Our growth rate of 2.7% in 2006 surpassed all expectations.

The domestic economy - for many years Germany's weak spot - has been energized again, above all in the field of investment. In January there were 764,000 jobless persons less than a year ago.

And the government budget deficit in Germany has dropped to 1.7% of GDP.

But even though we are making progress again, the German government is determined to use the upturn to accomplish further reforms.

In this connection, I need only mention our corporate tax reform, the inheritance tax reform, reforms in the low-wage sector, the reform of long-term care, and the second stage of our reform of Germany's federalist structure. But many of our European neighbors and friends should also continue to follow the path of reform. And this is where better cooperation among the Lisbon coordinators could be helpful by comparing good practices.

As the Chairman of three Council formations and of the trade ministers, I attach particular importance to improving European framework conditions. The EU must show determination and act energetically in those areas for which it bears responsibility.

We must finally complete the internal market. Doing so will yield not only hundreds of thousands of new jobs, it will also strengthen Europe as a competitive location for economic activities.

We must remove barriers to trade in the field of free movement of goods.

In the area of non-harmonized products, we must seek to improve the functioning of the principle of mutual recognition.

It is not easy to see why in the 21st century ladders, scaffolding, and bicycles still cannot be marketed in all of the Member States without problems. I will therefore do everything in my power to further Council negotiations of the corresponding Commission initiative.

A second step toward completing the internal market is the liberalization of the postal sector.

We want to make progress in that area and finish our work by 2009.

We also want to re-adjust the excessive roaming rates before the end of this year.

The internal market must also be better adapted to new global challenges.

German companies and business associations often complain that there are no equal conditions for competition in Europe.

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For not all Member States implement Directives by the required deadline into national law. We have therefore set ourselves the goal of reducing the transposition deficit from the previous 1.5% to 1%.

We also want to improve the framework conditions for industry and service providers in Europe.

Our goal is to strengthen the competitiveness of European companies further. I am thinking here, above all, of small and medium-sized enterprises.

An important priority in this connection is the reduction of unnecessary administrative burdens.

Ludwig Erhard once said, albeit in a different context:

"The direction we have to take is clear - liberation from the static command economy that forces everyone under the degrading yoke of an over-powering bureaucracy, that kills all feeling of responsibility, obligation, and willingness to deliver, and that must make a rebel out of even the most docile citizen."

At the Competitiveness Council on February 19 we laid the foundations for an ambitious reduction of bureaucracy. Building on that, we want to launch a comprehensive Action programme for reducing administrative burdens at the Spring Council on March 8-9.

The central element will be a reduction target of 25% for administrative burdens arising from EU law. Achieving this will save the economy billions of euros. President Barroso and Vice President Verheugen have our full support in this regard.

And we must not relax our efforts to strengthen innovation. A prominent element of the Lisbon Agenda is therefore the 3% R&D target. Germany has already redoubled its efforts and will be investing an additional six billion euros by 2009.

But the right framework must also be created at the European level.

The key aspects here are the promotion of European innovative standards throughout the world, a strategy on patents, and the fostering of innovative lead markets.

Furthermore, the competitiveness of the EU in third markets must be strengthened.

This means, of necessity, ensuring the successful conclusion of the world round of trade talks.

A failure here would impair the foundations of the multilateral system of world trade. We all would lose ground in that case.

As Chairman of the EU trade ministers, I will do everything I can to contribute to a successful conclusion of negotiations.

I have no doubt but that Ludwig Erhard would today stand shoulder to shoulder with those who are fighting against protectionism and isolation and working to ensure free world trade and competition.

It was always his conviction not to rely on external economic protection but instead trust in open markets.

And what was right for Germany in the days of its reconstruction after the war also applies in Europe today: only a healthy, open, and efficient economy can help those who depend on solidarity and assistance.

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Among the central issues for the 21st century is surely energy policy.

It is one of the core priorities of the German EU-Presidency and will be at the center of attention at the Spring Council.

A secure, competitive and environmentally friendly energy supply is important not only for consumers. It is also of central importance for the competitiveness of European markets. At the meeting of energy ministers on February 15 we arrived at far reaching proposals for the future of energy policy.

These laid important foundations for an Energy Action Plan that shall be adopted at the Spring Summit and will be graduated according to priorities.

What do we want to achieve?

First, it is important for our energy supplies to be secure. And if we intend to improve relations with the important supplier countries, then Europe must speak with a single voice in its external energy policy.

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Above all, we need more intensive energy collaboration between the EU and Russia. A follow-up agreement for the partnership and cooperation agreement with Russia therefore remains indispensable.

Second, the markets for electricity and gas must finally become a true Single European Market. A genuine separation of the supply of gas and electricity from the operation of their corresponding networks will lead to more competition and lower prices for energy consumers.

Existing rules for unbundling must be fully implemented. And we seek further options for additional measures, to be developed by the Commission. Here, too, we are walking in the footsteps of Ludwig Erhard. I quote: "Our economic policy serves consumers, they alone are the yardstick and judge of all economic activities."

Third, Europe needs more renewable energies. Their cost-efficient development is important as a contribution for better climate protection and for lowering our dependence on energy suppliers. The energy ministers therefore proposed increasing

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the share of renewable energies in primary energy consumption by 20% by the year 2020.

Fourth, energy efficiency in Europe must be significantly improved. Energy conservation makes us more independent, protects the environment, and spares the consumer's purse. In this connection we will orient ourselves to the energy conservation potential of 20% by 2020.

We must also answer the question of how to carry out this balancing act of improving climate protection while reinforcing our companies' competitiveness. The awareness that forceful measures are needed to counter climate change is increasingly growing among industrial enterprises. Last week, for example, some 100 international companies issued a declaration calling for rigorous climate protection measures. But secure energy supplies, competitive energy costs, and effective climate protection must fit together within an overall strategy.

Climate protection cannot be achieved by the efforts of the Community alone, or by individual countries acting on their own.

Last week, the Environmental Council adopted the decision for the EU to reduce its CO₂ emissions by 20% by the year 2020. If other industrialized countries do the same, the reduction level could even be increased to 30%.

Furthermore, we must also include countries with emerging economies in a balanced distribution of burdens and efforts. We cannot allow companies to shift production activities and jobs to countries that do not feel bound by the obligations of climate protection.

All of the projects I have sketched out can only be accomplished if we work together.

The motto of Germany's Council Presidency is therefore rightfully "Europe - Succeeding Together!". We must thus promote Europe as offering us opportunity and securing our future. For a successful Europe, however, we have to win the hearts of our citizens.

And here, once again, it is relevant to quote Ludwig Erhard: "A Europe that fails to recognize the preeminence of freedom and, instead, seeks its confinement and restriction, can move neither the world nor the nations of Europe."

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Thank you for your kind attention; I now look forward to a stimulating discussion!