Keynote Address by

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Ladies and Gentlemen,

I am happy to see so many outstanding individuals meeting here in the State Capital of Bavaria. You, Ladies and Gentlemen, are all leading executives and opinion leaders in the process of Europeanisation and globalisation. I hope that you feel at home in Munich and that you will take home with you a good impression of our Bavarian hospitality.

While our subject today is "Striking a Half-Time Balance of Europe's Lisbon Strategy and its future up to the year 2010", this Conference also stands under the immediate impression and impact of the vote against the European Constitution taken in both France and the Netherlands.

The response of all friends of Europe to that vote against the Constitution must be clear and unequivocal: "We understand!"

In other words, simply continuing along the old lines would be both wrong and inappropriate. For the referenda in France and the Netherlands have clearly shown that Europe has taken on too much, particularly with the perspectives opened up for Turkey but rejected by citizens in both France and the Netherlands, as well as by many people in Germany.

Europe has also taken on too much in terms of its agenda. Come what may, we must make sure that what we have achieved in Europe is not destroyed. We must see the current crisis as an opportunity. And precisely this is why we make specific demands:

First: We must show all our determination in overcoming the lack of democracy in the EU. In future we must debate EU legislation to a greater extent also in the German Bundestag. Europe must, at long last, become an issue of domestic interest.

Second: Following the enlargement of the EU to the east, we now need a period of consolidation. The admission of new members to the EU must follow the strict fulfilment of all admission criteria and must take the capacity of the EU for accepting new members into account. Under a German Government led by the Christian Union parties, our focus on Turkey would change. In the event of negotiations, we would strive from the start towards a re-orientation of the EU's policy towards Turkey, looking at a status of privileged partnership.

Third: Not every problem in Europe is also a problem for Europe. The sheer number of tasks taken on by the EU must be cut back to what is really necessary and affordable. Following the referenda in France and the Netherlands, it is fair to assume that the Constitution Treaty in its current form will not come into force. However, we should endeavour to save the positive elements and features of the Treaty.

This applies particularly to the institutional rules and regulations set forth in the Constitution Treaty serving to make Europe more active and democratic. It also applies to the provisions dividing competences between the EU and the Member States.

I therefore hope very much that, in its session on 16/17 June, the EU Council will find a way to agree on this objective. Indeed, the entire integration of the EU, the position of Europe in the world, and the quest for democratisation and close civic relations in Europe would suffer significantly if the EU of 25 Member States were required to continue working on the basis of the institutional provisions established and set forth in Nice. This we can no longer afford also in economic terms in the day and age of globalisation.

A great German statesman once said: *"It would be a grave mistake to forget that industrialisation is making significant progress also in countries outside of Europe rich in raw materials, progress we would never have envisaged in the past."* – This statement was made by Gustav Stresemann on 16 April 1925 (at the Hamburg Overseas Conference).

I wonder whether today, 80 years later, we still believe in the hubris and misconception of European superiority that Stresemann warned us of at the time.

Five years ago, the Heads of State and Government agreed to make the European Union the most competitive, dynamic and knowledge-based economic region in the world by the year 2010. Those were too many superlatives.

At this year's Spring Summit of Heads of State and Government on 22 and 23 March, this objective was abandoned, being replaced by the almost equally ambitious targets to create more than 6 million new jobs by the year 2010 and to increase the European gross domestic product by an average of 3 percent each year, again up to the year 2010.

We are still far away from these ambitious targets. Rather, since 2000 Europe has continued to fall behind the United States in terms of both growth and productivity.

Airbus, Galileo, Ariane – these are examples of European competitiveness. But in economic terms Europe continues to play second fiddle behind the United States: Economic growth in America is twice that of the EU, the increase in labour productivity is 2$^1/_2$ times greater.

The latest figures again confirm the ongoing structural weakness of growth in Europe, with the EU Commission reducing their growth forecast for this year from 2.0 to 1.6 percent, miles away from the objectives we have set ourselves.

A further point is the employment rate, which was to be 67 percent within the EU by the year 2005. In reality it is just 64.4 percent at the moment.

Only five countries currently fulfil the Lisbon objective of implementing 98.5 percent of the Internal Market directives. Particularly Belgium, France, and Germany are not fulfilling their duties. Germany is lagging behind!

The announcement made in Lisbon was that the Europeans would be “landing on the moon in 2010”. But even after five years there is no rocket in sight to boost European growth. Indeed, so far we have not even agreed on its blueprints.

I naturally realise that external shocks such as worldwide terrorist attacks or the collapse of the new economy were not exactly helpful in achieving the targets set forth in Lisbon. But the European Commission is quite right in stating that the main reason for Europe's disappointing performance in implementing the set targets lies in a lack of reform on the part of the EU Member States.

Germany in particular lags behind in the structural reform of its economic, employment, social and fiscal policies. From 1995 to 2004 Germany was the slowest growing country throughout Central and Western Europe!

While Germany is No 1 in terms of exports, value added in these exported products is moving increasingly to regions outside of Germany. For example, 85 percent of the production of some German cars now takes place abroad. This clearly shows that Europe's high-wage countries in their entirety have no choice but to move foreward and open up new perspectives: We must quite simply be better, more innovative and faster than our cheaper competitors.

Helmut Schmidt, the former German Chancellor, was quite right in stating that “everything we are complaining about comes from within – it is all of our own making!” (20 June 2004, speech on the occasion of Rainer Barzel’s 80th birthday).

Turning this statement around, it means, quite simply, that everything else is nothing but a poor excuse!

One of the things Germany needs most is simple and competitive tax legislation. In a comparative study, the World Economic Forum examined the efficiency of fiscal systems in no less than 104 countries. And they found that Germany ranked last, No 104 out of 104.

While we might live with last place in the European Song Contest, we must be really worried about coming last on such an essential criterion in the competition among countries. I am confident that we Germans can do better than that!

We must focus on Germany’s strengths and push these strong points to a higher standard. I am convinced, for example, that the Social Market Economy and the stability it establishes within society give us a particular benefit also in global competition.

Without social peace there can be no economic success – and vice versa. So it is wrong and inappropriate to pitch social policy and market policy against one another.

But if egalitarianism is the only goal regarded as desirable, if egalitarianism is interpreted as "comforting" and "secure", maintaining existing values and vested interests, and if at the same time we hear polemic criticism of a more competitive spirit, greater freedom and self-responsibility, if reforms seeking to maintain the social state are wrongly claimed to constitute "social harshness" – then that has nothing to do with the Social Market Economy as a concept for success also in this day and age of globalisation.

Activating the individual is required, not a levelling off. Politicians must offer incentives for performance that can truly be felt in one's wallet. This is the only way to really help those who need and depend on solidarity. Trying to make everybody equal, will just make everybody equally poor.

The fact remains, however, that the implementation of Europe's Lisbon strategy so far is one of the reasons for the generally disappointing performance we still see today. Increasingly overburdening the Lisbon strategy over the years by adding on new targets, indicators, projects and programmes has proven to be extremely counterproductive: If everything has priority, nothing has priority!

A very positive point, therefore, is that this year's Spring Summit has set out to re-orient the Lisbon strategy of the European Union. Indeed, Commission President Barroso wishes to make this a core feature of his policy.

What we need is

- greater deregulation of EU law,
- more investment in research and development,
- strict observance of the stability and growth pact.

Europe needs further deregulation and internationally competitive conditions for companies

In the meantime, the European Commission, too, has redirected its policy, realising that we will only be able to afford our social and environmental standards in future through more employment and greater growth.

An important step towards more growth is the Deregulation Initiative proclaimed at the 2004 Spring Summit. However, the Deregulation Initiative should cover not only provisions, rules and regulations imposing burdens on companies, but also provisions regarding our administrative system and its various tasks, since this is highly relevant to the public sector share and, accordingly, the competitive position of our economy. First and foremost, we must seek to improve general conditions for companies on an international level and *not* pursue an active industrial policy simply inhibiting and slowing down competition and innovation.

In particular, a policy of promoting individual companies as "national champions" does not improve competitiveness, but rather serves solely to move funds in the wrong direction.

We must make it worthwhile for investors to invest globally mobile capital in Europe. Indeed, this is the simple basic rule of globalisation helping to generate more growth and jobs. And in this context the "National Action Plan" proposed by the Commission and to be developed under the responsibility of the Member States may indeed become the compass for further reforms, particularly in Germany.

Europe needs a major effort for research and development

For decades, Europe was the role model and driving force behind progress. Looking back at the history of the Nobel Prize, for example, you see the dominating position particularly of German scientists. But today Europe has a hard time keeping up with the United States and Asia.

Let me state very clearly that the PISA Education Survey is not only a test examining our schools and educational systems, but also an overall evaluation of European societies and their priorities.

Almost 50 years ago, the Sputnik shock (1957) gave great momentum to our Western societies in fuelling more education, research and development. All of a sudden, the West had the power to make great efforts in this contest among systems.

Today the losers of the global education ranking have no choice but to give maximum priority to education, research, and the transfer of knowledge between science and the economy.

Education and top-flight research are the best investments in the future. We must find new opportunities to replace and make up for the classical industrial production currently being drained out of Europe. New ideas, patents and skills are the most important sources in developing an edge among competitive systems. The know-how which goes into a computer chip is tens of thousands of times more valuable than the silicon it is made of. Natural raw materials are losing significance compared to the raw material "intellect".

This is precisely why the highest social dividend is provided by innovation! The best guarantee for social security is to rank right at the top in terms of progress. This applies both to the individual and – particularly in the age of globalisation – to all highly developed countries.

Bavaria, incidentally, has already reached the EU's target of investing 3 percent of its gross domestic product in research and development. Munich is the home of the European Patent Office with no less than 3,200 employees. Only last week the President of the European Patent Office stated that more patents were registered per inhabitant in Bavaria than, say, in the United States (Süddeutsche Zeitung, 2 June 2005).

However, he also added that about one-quarter of all patents registered worldwide came from the United States, with Germany – that is the good news – following in second place at 18 percent, ahead of Japan at 17 percent. In all, however, we Europeans must catch up, since the competition of regions and locations these days first and foremost means competition in terms of innovation.

We must therefore focus primarily on the promotion of European high technology. To be really effective, such promotion must not be confused with or linked to a policy of cohesion. Pursuing the promotion of research activities within the EU primarily under the perspective of cohesion, we would do nothing but harm Europe in its global competitiveness. Remember that anybody who seeks to make everybody equal ultimately makes everybody equally mediocre.

Money can be redistributed up to a certain limit. Knowledge and education cannot.

Instead of *"knowledge is power"*, the philosophy of the 21st century is that *"knowledge is prosperity"*.

Europe needs a fundamental turnaround leading away from consumption today towards investment for tomorrow

What we need in Europe in the current situation is *not* the reinstatement of old and old-fashioned Keynesian principles and economic programmes financed by debt. That will not solve structural problems – on the contrary. All it would do at the very best is light a short fire. We must not seek on a European level to solve the challenges of tomorrow by pursuing policies of yesterday.

As early as in 1982, Helmut Schmidt addressed his party with a most dismal statement: "Either we continue to increase the national debt – and that is something *I* will not do – or we make cutbacks in our social system – and that is something *you* will not do."

It is no secret that state intervention and a democracy of prosperity have been leading into a growing crisis throughout Europe ever since the 1970s. And it is likewise no secret that many – to a certain extent also *social-democratic* – national governments have already responded to the general pressure for reform.

Making painful reforms in their state and social spending, these courageous governments have initiated a process of lasting success. This all started in Great Britain in 1979 – where Blair continued and did not reverse the reforms introduced by Margaret Thatcher –, in Sweden in 1991, in Italy in 1994, in the Netherlands, and not least in Germany as of 1982 with the success achieved by the Federal Government led at the time by the Christian Union parties.

All long-term international comparisons confirm that a high level of state indebtedness weakens a country in its power of action. The payment of interest in the German federal budget alone amounts to € 40 billion.

The result is not only an all-time low in our rate of investment of just 8.8 percent, but also a higher tax burden channelling investment and purchasing power out of the economy.

Given this experience, the one and only choice, obviously, is for Europe and all Member States of the EU to strictly follow the process of budget consolidation while at the same time reshuffling the budget structure, moving the focus away from current consumption within social security systems towards future-oriented investment in infrastructure, research, development, and education.

Looking at the EU budget for the years from 2007 to 2013, we must therefore restrict the scope of the budget preferably to one percent of the EU's gross national income, which is precisely the demand made by Germany and five other EU Member States.

Another fact is that all efforts made for greater growth will inevitably fail if the Stability and Growth Pact does not, de facto, develop a stronger effect. Otherwise we would fail to achieve the consistent, ongoing growth so essential to Europe.

The Stability and Growth Pact helps to secure a stable currency worthy of confidence and thus sets the basis for a low level of interest rates also in the long term.

Any softening of the Pact would lead to an increase in interest rates – which, in turn, would be thoroughly detrimental to greater investment and more growth. So it is completely irresponsible of the German Federal Government to lead the way in softening the Pact by taking a very misguided initiative.

Millions of Europeans – and millions of unemployed Germans and their families – are looking into the future full of concern and even fear, asking "what can the state and politicians do?"

Many also wonder whether they will receive any help at all from politics. Many think that politicians have already been disarmed by the global business players with their dominating economic position and have already been caught in the "globalisation trap" (H.-M. Peter and H. Schumann, *Die Globalisierungsfalle,* Rowohlt 1998).

Our politicians, they claim, have long ago given up the global race among locations for investment and centres of industry with the lowest level of taxes and the lowest standards in social and environmental matters.

Seen from this perspective, politicians and the state are often regarded as nothing but poorly functioning repair operations serving to heal the wounds struck by the allegedly inhuman market and allegedly cold competition.

I do *not* share this opinion.

On the contrary – the state can do something to create the right conditions and environment for growth, work, and, as a result, social prosperity. Here in Bavaria we show this, for example, by companies such as Sandoz or General Electric moving to our region. There is no such thing as a powerless, helpless *state*. The only thing that is powerless and helpless is the wrong *policy*.

In the Middle Ages, the Europeans lagged behind the large Asian countries in most fields of learning, decisive initiatives in science and technology coming to our part of the world from the Far East. But around 1900, Europe became the most progressive continent in the world and people spoke of the "European miracle".

The decisive driving force for progress and prosperity in Europe was constant, ongoing competition among relatively small units – competition taking place *decreasingly* in military and *increasingly* in economic and scientific terms. And in the process the decentralised decisions taken by merchants, industrialists and researchers always remained open for correction. We competed against one another, but in particular we learnt from one another – then seeking to do the job even better than before.

For two centuries, Europe was the first address for industrialists, researchers and engineers. It was the European pioneering spirit which gave bread and work to millions, and prosperity to our entire continent. Today we find this spirit of breaking through to new frontiers in parts of Eastern Europe, in China, India, Brazil, and in the United States.

The new world order of the 21st century with its new power centres will not wait for the antiquated structures we still find in the industrial countries of Europe. And at the same time we still see a lack of competitive spirit here in Europe. However, everybody must realise that only he who is willing to conquer the future will actually win the future! So let us open up the window to the years and decades that lie ahead!

Every generation has its task. The task of our generation in a society that is growing older is to overcome exaggerated bureaucracy, to ensure competitive work structures, social prosperity and strong financial conditions. We don't wish to leave our children and grandchildren mountains of debt and interest payments, but rather opportunities and perspectives for their future.

The value of every generation lies not in what it reaps, but rather in what it sows. Precisely this is why we Europeans have a common objective: To make investments and ensure innovation, to generate profits for employers, wages and bread for employees, and, as a result, social prosperity in Europe both today and tomorrow. Everything that creates jobs is social. So we should discuss the right way to reach this objective.

I now look forward to the discussion and I wish the Conference the best of success.