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Strategy for European recovery

Keynote speech by Wolfgang Schäuble on the strategy for European recovery given at the Fifth Bruges European Business Conference on Thursday, 27 March 2014.

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“European recovery”: What does that actually mean? What do we mean when we say “recovery”?

We mean three things: first, achieving sustainable growth. Second, reducing economic imbalances. And third, fighting unemployment.

When it comes to fighting unemployment, we will only be successful in the long term if we understand that global labour markets continued to change while the crisis in Europe was occurring. This was, is and will be a result of globalisation and digitalisation.

Competition with other parts of the world has become fiercer. And this has accelerated during the crisis. This has also led to more competition on the labour markets. In more and more industries and service sectors, there is a global labour supply with much lower wages and labour costs than in Europe. In addition, qualification levels and know-how are not that different from those in Europe.

As a result, many of the jobs that have been lost in Europe cannot be brought back in their old form. For this reason, we need new, different jobs.

We need a forward-looking recovery. Conventional government programmes are not the answer. What we need are the right conditions that will generate innovations to strengthen our competitiveness. We need to invest in research and innovation to create the jobs we need.

The specific European characteristics of the labour markets are not the only thing we need to consider when we think about recovery. There are other ways in which we are different from other parts of the world. Our strategy needs to take account of our continent’s unique character.

Our continent is very different from other continents. It is more densely populated. It has fewer natural resources and energy reserves. It is experiencing difficult demographic changes. In Europe, we have a much higher need for security. Europe’s social benefits are, in relation to GDP, significantly higher than in other large industrial nations. And when it comes to new technologies, in particular, we don’t have a big appetite for risk.

If we Europeans want to stay this way, and yet want to remain at the top of the world's pyramid of prosperity, then we can only do this by working together, by creating the right incentives, so that all countries – and Europe as a whole – continue to work on improvements. And we can only do this if we keep the European model efficient and sustainable, if we are competitive and if our political system is robust.

By the way, some people say that we want a German Europe. That is nonsense. We want a strong Europe.

We Europeans are different, and therefore we cannot copy solutions from elsewhere. We have to find our own answers. We have to find the road that is right for us, even if it is more difficult than other roads.

In particular, we Europeans have to prove that we are reliable. We have to show that we have the will to implement the necessary reforms. We have to show that we are capable of permanently stabilising the situation.

Around the world, people are watching very carefully to see if Europe is able to stay on course. It's not just about fixing the crisis. It's a kind of political and economic stress test for Europe. Are we strong enough to follow this difficult path of self-improvement? The world is watching to see if we will stick to all the agreements that we have made.

For the sake of our unique characteristics, Europe must always be a bit better, a bit more stable and a bit more attractive than other regions of the world.

This will only be successful if we continue to move towards taking decisions at the European level. In recent years, we have begun to understand that.

The rules for sound fiscal and economic policies in Europe are now more binding than they were in the past. The coordination of national fiscal and budgetary policies has been improved. The reform requirements are more targeted. Monitoring is stricter. And sanctions are smarter. We have enshrined debt brakes in national constitutions. And we have created a permanent crisis management mechanism, which gives us time to carry out reforms and reduces the risk of contagion to other countries.

All this has created good conditions for recovery. The last four years marked the start of the process to put Europe on a more solid foundation. Our policy of helping others to help themselves is showing results. In economic terms, Europe is no longer the world's main cause for concern.

The government deficit in the euro area has been cut by half in recent years. Ireland and Spain have successfully completed their assistance programmes. Portugal is making progress and will complete its programme in the middle of this year. Investors are regaining trust once again. Risk premiums on sovereign bonds have declined sharply. Our European strategy is beginning to create sustainable growth in the eurozone.

By the way, German exports also create growth in Europe. To achieve high export levels, we need to import preliminary products, and this contributes to growth and employment in Europe and far beyond.

As a matter of fact, German current account surpluses with other euro area countries have declined substantially. Thanks to strong employment and robust wage developments, we expect current account surpluses to fall further.

Claims that domestic demand is weak in Germany and that there is not enough investment are no longer true. Private consumption is now one of the central pillars of growth in the German economy. Private investment in fixed assets has recently increased, contributing to growth in Germany.

In 2013, German local authorities increased their gross investment by 12 percent compared with the previous year. The Federation is increasing its investments. We are allocating an extra €5 billion to transport infrastructure. Education is getting an additional €6 billion in total up to 2017. And we are spending an additional €3 billion on research up to 2017. Germany is among the countries at the top of the European rankings when it comes to spending on research and development. All of this boosts growth in Germany and in Europe.

Together, we Europeans have found the right way out of the crisis. But the crisis isn't over yet. We haven't solved all of the problems we face. High unemployment in some European countries, especially among young people, is the clearest reason why we shouldn't be satisfied with the progress we have achieved so far.

We have to press on, and continue with the initiatives we have already started, such as improving conditions for small and medium-sized enterprises. For many people, these kinds of companies represent the best chance of quickly returning to the world of work.

For this reason, we have provided the European Investment Bank with the necessary capacity to take more intensive action in this area. In addition, Germany is offering bilateral support: We are helping Portugal to create a development bank; we have offered Greece assistance with a development fund that is currently being created; and we are helping Spain with a universal loan to the tune of €800 million from our German development bank to support Spanish companies, especially small and medium-sized ones.We are also providing advice to our Spanish counterparts on how to introduce a vocational training model, based on our dual system in Germany.

It is crucial that we stay on course. Every new step that we take must serve the goal of achieving greater competitiveness and sustainable growth. We need to invest in research and development. For example, we need to intensify our efforts to build a European energy market.

Any mutualisation of liability would actually weaken competitiveness – whether we're talking about eurobonds or collective liability for banks' legacy assets. It would create the wrong incentives and give the impression that state support is guaranteed in every case.

Monetary policy cannot take the place of reforms. It can't fix Europe's biggest problem, which is its lack of competitiveness. If the limits on the ECB's mandate didn't already exist we would have to invent them. Otherwise we Europeans might drag our feet on reforms or neglect them completely.

That is what the board of economic advisers to the federal government stressed in its most recent report at the end of last year – we have to avoid creating the wrong incentives through monetary policy, which could be misunderstood as a reason not to take the necessary decisions.

Cutting red tape could also free up energy that Europe needs. The negotiations on the Transatlantic Trade and Investment Partnership offer an opportunity to look at bureaucracy and regulation in Europe and think carefully about whether all of it is really needed or whether some of it might be slowing progress.

You may remember that BASF, the world's largest chemical company, gave up its European research and production activities in the field of green genetic engineering in 2012 due to sustained political resistance, and due to European regulation, and transferred these activities to the US.

Concerning the transatlantic partnership, let me say briefly that I am confident that the Ukraine crisis will help to strengthen transatlantic ties and to rediscover our common interests. There are more such shared interests than many have believed in recent years.

To achieve sustainable growth, we also need to press ahead with the regulation of the financial markets. We want to reduce risks to the system and eliminate false incentives in the future.

In recent years, we have made the financial markets more stable, step by step. Stricter capital requirements, resolution regimes and living wills for banks, sustainable compensation rules, improved supervision and more transparency – all these things make the players act more sustainably and help to build up trust once again, also among market participants.

But our work is not yet done. In the G20, we are working on the regulation of the international shadow banking sector. We are negotiating the design of a European system that separates banking activities and we are negotiating the gradual introduction of a financial transaction tax by 11 member states.

The banking union is beginning this year in the form of a joint banking supervisor, followed by common resolution rules and a single resolution mechanism with a clear bail-in pecking order. Following the regulatory progress of recent years and following the ECB's stress test, we will begin the banking union this year with healthier banks that will be better able to provide credit to small and medium-sized companies. And in the event that a bank gets into trouble, taxpayers' money will be better protected than in the past.

But even if we stick to our path with determination, that will still not be enough. To achieve a strong Europe, which is what we all want, we will need a better legal basis in the long term. The Lisbon Treaty only reflects the European reality of 2014 to a limited extent.

We have significantly deepened European integration in recent years – but not always using the Community method, which is the approach that I would always prefer in principle. To remain capable of action during the crisis, we had to find intergovernmental solutions for some things.

For example, as part of the banking union, we had to choose an intergovernmental construction for the creation of the European bank resolution fund which will be financed by contributions from banks. Under the current treaties, the EU is not allowed to collect banking levies.

In the medium term, we have to put this and similar cases on a better footing in terms of the treaties. This will improve Europe's ability to implement what we have agreed together. Our intergovernmental approach is only second best. It's better than nothing. But in the long term, second best is not good enough for Europe.

For example, I can imagine there being a “eurozone parliament”. Last May, France and Germany suggested that the European Parliament should be involved more effectively in eurozone decisions.

I also think it would be possible for us to use the EU budget as an instrument for setting priorities in individual member states. We could support the European Commission's country-specific recommendations through a targeted use of resources. In this way, we could fight problems in individual countries and support structural reforms.

Responsibilities need to be more clearly divided among the European levels. As many competences as possible need to remain decentralised and in the hands of local authorities, regions and member states.But those things that can only be decided on the European level need to be decided by European institutions.

For example, I could imagine having a European budget commissioner, who would be able to reject national budgets if they don't correspond to the rules that we have jointly agreed. We have such an institution for competition rules, so why not for budget rules?

These are discussions that we need to have now in order to get Europe into good shape for the long term and to create conditions for sustainable growth.

Hard work is necessary – and it will continue to be necessary. But we also know that Europe remains one of the world's most attractive regions.

A 2012 study by the European Union Institute for Security Studies shows that the EU members are considered to have the largest amount of soft power in the world.

This is because of Europe's attractive culture, its well-educated populations, vibrant civil societies, an open and democratic political culture, the social market economy, internationally successful companies, a model of government that successfully combines national sovereignty with pluralism and a diverse range of decentralised relationships, not to mention our experience with integration, our multilateral cooperation and our value-based foreign policy.

All these things are seen as part of Europe's soft power and part of the European model. If we Europeans prove that our model can remain politically and economically successful in the future then – and only then – will other parts of the world be willing to look to it as a model for their own future success.

We Europeans must do our best to live up to this responsibility. It is in our own interest!

More information

Bruges European Business Conference