



Welcoming Address by

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### **STRENGTHENING THE EU'S ROLE**

On behalf of the government of the Free State of Bavaria I have great pleasure in extending to all of you a hearty welcome to the Second Munich Economic Summit held in the Bavarian capital.

My special thanks go to the initiators and organisers of this conference: CESifo and BMW's Herbert Quandt Foundation, headed by Professor Sinn and Horst Teltschik, respectively. Thanks also go to the staff and the sponsors.

This year again you have succeeded in bringing together high-ranking representatives of business, the scientific community, politics and the media. The Munich Economic Summit thus gains profile and weight; it is a welcome addition to Munich's calendar of events.

Ladies and gentlemen,  
the theme that has been chosen for this year's forum is Europe's role in the world economy and its position vis-à-vis the United States; it is difficult to imagine a more timely theme.

It is only a fortnight since the treaties on the accession of ten future EU Member States were signed. This event marks the most ambitious step yet taken in enlarging the European Union, to which there is no political alternative. When the process of ratification will have been successfully concluded and the referenda in the candidate countries will have been held, the act of accession will take place next year on the first of May.

With that act, the mental and physical division of Europe will be finally and definitely overcome. And not least of all, Bavaria will once again take her traditional place in the political and economic centre of Europe!

This new and larger European Union, which represents an economic area with a population of 450 million people, will gain in economic weight. But at the same time that the Union is getting larger, the challenges it faces are growing as well. For institutionally and in terms of content, the Union is approaching its limits.

Even now, procedures and institutions with their overflowing bureaucracies suffer from their own complexity, lack of transparency and from their distance from citizens. If no changes are made, the vast size of EU bodies alone will lead the European Union into crisis.

There has been an awareness of the problem for some time. The first attempt to make the Union capable of enlargement, with the Treaty of Nice at the end of 2000, remained rudimentary. At present we put our hopes in the EU's Constitutional Convention which is now entering the critical phase. And the debates are correspondingly heated. We must pay close attention that the Convention, which should make essential contributions to solving the urgent problems confronting the EU, does not become a problem itself.

In my view, it is critically important that at the end of the process there will be an effective application of the principle of subsidiarity and a reordering of the European structure of competencies.

At the same time, the formal equality of rights between all member countries – without regard to population or size – must be guaranteed. Furthermore, in order to ensure Europe's internal and external coherence, the possibility of taking part in the political process on the basis of equality must be extended to the smaller countries.

The EU Constitutional Treaty should provide for a fundamental remodelling of Europe's architecture. These far-reaching changes require the support and the active participation of the population. Europe should not be thought of as a "project for the élites." On the contrary, the new Europe must

convince all the citizens from the North Cape to Malta and Cyprus.

That is why I am in favour of a referendum in Germany – as is planned in many other EU countries – in which the Treaty on the European Constitution is put to the citizens. In this way, we can strengthen consciousness of the European idea and obtain a clear picture of the further course of the European project.

In terms of content, the most pressing task is to adapt the common agricultural policy and the regional policy to the new situation. If this is not done, it will no longer be possible to finance in the long term an EU with twenty-five or more member states.

With respect to economic policy, three years ago, in Lisbon, the Union set itself an ambitious goal: by 2010 Europe should become world-wide the most competitive and the most dynamic knowledge based economic area.

Today we are further from this goal than we have ever been: based on key macroeconomic variables such as economic growth, unemployment, economic performance per capita, Europe clearly lags behind the United States. The Lisbon process is advancing very slowly, if indeed it is advancing at all.

The disparity between intentions and reality has been manifest in recent weeks and months in the area of foreign and security policy. As a result, the European Union had to face the most severe crisis since its inception.

One can no longer speak of a common foreign and security policy. Quite the contrary: triggered by the solo action of the German Chancellor in the Iraq crisis, we have experienced not only the most profound disagreement with the United States since the Second World War, but also a far-reaching division in Europe.

The German Chancellor has conducted himself in a most inappropriate and imprudent way towards our most important ally and partner, the United States, to whom we owe such an immense debt of gratitude for the reconstruction assistance provided after 1945, for the protection given during the cold war, on through to the active support in the process of reunification.

This is not the way to treat friends! It would appear that collaboration on a basis of trust between the president and the chancellor will not be possible in the foreseeable future. And the fracture in the relationships between the two countries will be difficult to repair.

Germany must reopen a dialogue with America – not least of all for economic reasons. For our economy is much more dependent on the American market than for example the French economy.

Germany's conduct was, at the very least, just as damaging for the European Union. The German chancellor unilaterally laid down Germany's position in the Iraq crisis in election meetings, without the least co-ordination with our European friends. As a result, the foreign-policy credit that Germany had laboriously accumulated over decades has been severely damaged.

And the so-called Moscow–Paris–Berlin axis together with the project of a defence community with Luxembourg, Belgium and France is more apt to deepen the division in Europe and between Europe and America. And that tender green shoot, the common European foreign and security policy, seems to be withering: because it doesn't speak with one voice, Europe is marginalised in the area of foreign policy.

But precisely in this difficult phase in the history of European integration, we should not permit ourselves to be divided. Rather, we must make every effort to overcome the differences within Europe and at the same time to repair the damaged transatlantic relationship.

Europe can only play an important role in the world

- if it can find a common definition of its relationship to the United States,
- if its inner structure is clear-cut and efficiently organised,
- if it has adequate military capabilities,
- if, as a consequence, it becomes capable of a true partnership.

The Europeans will only be taken seriously by the United States if – as *Der Spiegel* put it last week – they are able “to come to an agreement, and really manage to increase considerably the common elements in their foreign policies.”

The primary task of a future European foreign minister or secretary of state will be to attain this objective. But a common European foreign policy will not be able to manage without a military component.

This is where the really serious problems begin, for it is about money: Germany spends barely 1.4 percent of its gross domestic product for its conscript army, whilst France spends proportionally twice that much for its professional army. Through its “brutal economising measures” (*Financial Times Deutschland*, 24 March 2003) in the defence budget, the German federal government has deprived the common European security policy of one of its most important elements.

Can one interpret one of the Chancellor’s vague suggestions that “something must be done about the German army” as a sign that his thinking on this subject has changed? I should be glad if that were the case!

Europe has always been a global project. Although no one talked about “globalisation” at the time the Union was founded, which place Europe would take in the global power structure was always a question.

With its security interests served by its integration in the North Atlantic alliance, and its economic strength increased by an expanding and continually freer European domestic market, Europe could develop into a “global player” in world markets.

All the member states of the European Union have benefited from this – but above all Germany: We, more than others, owe our prosperity and wealth not only to technical progress, but to our strong integration in the world economy. We must not put this source of our prosperity at risk – especially since there will soon be further serious contenders in the world markets.

India and above all China certainly belong to the serious international competitors. What is more, both these countries represent enormous domestic markets which offer unexpected chances to German business.

During my visit to China four weeks ago I had the chance to experience personally the dynamic spirit which prevails in that country. No other country in

the world has attracted so many foreign investors as China. And with 60 million internet users, China now occupies second place behind the U.S. Europe must exert itself vigorously if it wants to keep pace with this dynamic development.

Whether and how Europe will be able in future to hold its own in international competition, depends above all on how the political and economic environment for a Europe of twenty-five member states will be shaped. In this context, as has already been mentioned, one of the issues is establishing a clear delineation of the competencies between the EU and the Member States in accordance with the principle of subsidiarity. The guideline must be: as much centralism as necessary – for example in the areas of foreign and security policy, policy on granting asylum, monetary policy – and as much decentralised decision making as possible, close to those affected. This will serve to strengthen the flexibility and the innovative forces in the Union as a whole. This is the best response to global competition and the change to knowledge-based industries and services. Differences and diversity, too, form the bases of Europe’s strength!

There is still the task of ensuring the stability of the euro. The Stability Pact must be respected, even if it is unpleasant to do so. Germany has made a name for itself as the advocate of monetary stability in Europe. The fact that, for the second year in a row, Germany, of all countries, has exceeded the three percent criterion for the government deficit is not only a blow to our international economic reputation. It is detrimental to economic development in the countries we do business with – for example in connection with the decisions of the European Central Bank on key interest rates.

In addition, a workable financial framework for the Union in the period after enlargement must be set up. Care must be taken that this framework does not make demands on individual Member States that go beyond their capacity.

We need to carry on with efforts to eliminate imperfections in the domestic market, for example by opening up markets that were formerly dominated by monopolies.

The elimination of trade barriers resulting from different national regulations on product quality and norms is a further important aspect of the gen-

eral framework. It is a matter of creating a European system of norms, of certification and reciprocal acceptance.

And finally, it is important that the European regions should be involved to a greater extent in the decision making process at the EU level – from a Bavarian point of view, this is an essential aspect.

The objective of this general framework is to make Europe fit for global competition. A Europe that is economically strong has the best chances of meeting global competition on the basis of its strength in its own domestic markets. The more weight we Europeans can bring to the scale, the more active a role we shall be able to play in helping to shape the international architecture, the work of international organisations such as the WTO, the IMF, and the World Bank.

Ladies and gentlemen,  
precisely because we in Europe have no comprehensive centralisation of economic policy and no desire for such centralised policy making, it is all the more important that the individual Member States – and here above all Germany – should look after their own economic policies, and do so speedily and thoroughly.

Germany is the largest European economy, accounting for one third of total European output. This means that Europe cannot prosper as long as Germany is economically prostrate.

Germany, once the country of the “economic miracle”, now requires intensive care; it has become the chronic economic laggard of Europe.

But Germany is still a strong country with great potential. The task now is to shape Germany’s economic, social and financial environment in such a way that this potential can be mobilised. But a marginal course correction will not be sufficient to attain this goal. Rather, we need a fundamental reorientation, a broadly based and forceful new start that affects the entire society.

With these problems in mind I presented, at the end of March, a comprehensive concept which consists of numerous co-ordinated and mutually reinforcing measures. The principal components of this programme are:

- an initiative to make the labour market more flexible, in order to speed up job creation;

- a tax moratorium, so investors may again have confidence in a reliable framework;
- an agreement on limits to social security contributions, in order to relieve the factor labour perceptibly;
- the creation of a financial margin of manoeuvre in the public budgets, in order to encourage more public investment;
- a strengthening of confidence in the economy and business, together with encouragement for small and medium-size firms through deregulation, with a view towards attracting investment in Germany.

As a first step in the implementation of this concept I have proposed forty concrete measures which can be put into effect quickly. With this “programme for immediate action” we wish to create, in a short period of time, the preconditions for more growth and employment in Germany.

In a further step we want to carry out a comprehensive programme of restructuring in Germany, by proposing fundamental and long-term reforms.

It is my belief that there is no alternative to this concept for Germany’s rehabilitation. It includes the structural reforms which are needed for more prosperity, growth and employment. It is a programme that makes Germany fit to face the future. It is our contribution to implementing the vision of Lisbon.

And that is what our European partners expect of us, in order that Europe as a whole can play a leading role in the world economy.

Ladies and gentlemen,  
I close with the best wishes for a successful Munich Economic Summit and for profitable discussions, interesting contacts and a pleasant stay in Munich for all of you.



## VÁCLAV KLAUS

President of the Czech Republic

### EUROPE, THE GLOBAL ECONOMY, AND THE UNITED STATES

I am pleased and honoured to be here today and to have the opportunity to address this distinguished audience. Before starting, I have to say that this is my first speech abroad in my new function – with the exception of speeches at presidential dinners during my first foreign trips. I intend to participate in conferences like this one which means I have to find an uneasy and risky position between official presentations short on ideas and strong views and careless or carefree academic talks full of thought-provoking ideas. I am not sure I will succeed in finding it but I will do my best.

This year's Munich Economic Summit has in its title three words: Europe, global economy, and United States. I shall briefly touch all of them.

In Athens, two weeks ago, I signed – on behalf of the Czech Republic – the Accession Treaty to the European Union. I would like to add a few words on this. We all know that Europe had been for a long time a divided continent. We, who lived in its eastern part, know it even better.

The collapse of communism more than 13 years ago eliminated one of the most important dividing lines in Europe, the Iron Curtain, and this helped to put into motion a dramatic process of opening-up and of liberalisation and deregulation of Central and Eastern European societies. All of them underwent a radical transition from communism to the system of political democracy and market economy. Despite many difficulties, we have, by and large, year after year, seen progress. Now, I dare say, in their basic political and economic structures and institutions, the Central and Eastern European countries are already close to the countries which were lucky not to fall into the communist trap.

Western Europe – finally and with a visible hesitation – recognised their progress by offering them

membership in the European Union. The ex-communist countries accepted it because they wanted to be normal European countries which is, nowadays, impossible without EU membership. That was the main basis for their motivation to enter the EU as soon as possible. They asked for it even though they knew that the nominal, institutional convergence (the acceptance of the *acquis communautaire* and of other parameters and policies connected with membership) in many respects blocks or postpones the needed real convergence.

The Czech Republic is ready to participate in the European integration process and to carry out all necessary requirements connected with the membership. We have, however, a feeling that there is a discrepancy between what we get and what we give. The economic effects of eliminating all kinds of barriers (of liberalisation in a broad sense) have been – in my understanding – more advantageous for the current member countries than for us. We hope that the continuous evolutionary process of real convergence will finally bring about a balance between costs and benefits, but it will take a longer time than is usually expected.

This is further complicated by the fact that Europe faces a big challenge these days. It has to guarantee genuine freedom and liberal democracy (in the classical sense) to the people of the continent as well as to create an efficient market economy. I am afraid that both freedom and efficiency have been reduced by the developments of the last years or decades. It makes me nervous that Europe is not sufficiently aware of these dangers and lives in a nirvana of relative affluency, of vacations spent in pleasant climates of the south, of non-existence of authoritarian or totalitarian regimes on its territory, of several decades of peace and positive economic growth. We should be aware of the fragility and vulnerability of all that. Instead, the European politicians are preoccupied with the building of a continental entity which aims at the formation of a postmodernist, postnational, postdemocratic, multi-cultural pan-European state and at the elimination of traditional European nation-states. I may be wrong in seeing our future this way but I am definitely not alone seeing it this way.



To be correctly understood, I do not criticise the more or less spontaneous European integration process (if it is only modestly institutionally supported), but its current unionistic and heavily institutionalised character. The difference between those two ways of organising the continent is not sufficiently exposed to the citizens of the European countries, and the “unionists” or “federalists” try to blur (not to “blair”) the obvious and substantial difference. They evidently aim at establishing a compact European superstate. They try to sell it, however, with a different title – as an opening of the European continent, as a method of how to guarantee peace, as a way how to make possible the free movement of people, goods and services, money and capital, ideas and cultural patterns around Europe, which is a project I will always defend and support – together with them.

I do not believe we can continue without reforming the current approach. Many of us believe that genuine democracy cannot be established (and maintained) in an entity bigger than a state. Or, to put it differently, we do not see any source of democratic legitimacy higher than the constitutional democratic state. Many Europeans speak about the EU democratic deficit which is – in my understanding – a substitute for saying that the EU is run by unelected bureaucrats, by predominantly “internationally” motivated politicians and by the belief in the advantages of the majority voting schemes at a continental level. We have to ask ourselves whether it is possible to imagine the development of genuinely democratic international institutions at that level? For me only states give people a sense of identity and provide a framework for individual freedom. The current Convention should face such issues straight-on, without escaping to less relevant ones. The Europeans deserve it and our good, old Europe as well.

The opening-up of societies all over the world is going on and the so-called global economy is becoming more and more a reality. It has some pleasant and some unpleasant consequences. The world-wide competition in an increasingly “borderless” world grows and will keep growing. Only efficient, flexible, forward-looking firms will survive. How will the European firms do? There is no doubt that the people of Europe belong to the same category – sometimes caricatured as *homo oeconomicus* – as people of any other continent. They do not need being either reeducated or masterminded by the missionaries (or perhaps mercenaries) of globalisation. They need something else. They need liberal economic

and social policies. They need a new wave of deregulation and liberalisation. They need the restructuring and stabilisation of public finances, of pension systems, of health systems, of social security systems, of industrial and agricultural policies, of antimonopolistic and competition policies, etc.

Europe is characterised – not accidentally – by high mandatory costs, imposed by government paternalism and regulation. The demand for them belongs to the category of luxury goods which means it grows faster than income. There exists, however, an unpleasant trade-off between costs and growth of income. At some level the high costs start to slow down the growth of incomes and a very unpleasant vicious circle begins. Various economic studies demonstrate that this is what has happened to Europe and what goes on despite political promises to stop it. Europe has, I am afraid, no other way out than to react rapidly. The efficient, low cost firms in the rest of the world are not waiting for us and there is no doubt that there will be more of them in the near future. The globalisation, whatever the word means, will continue and eventually gain momentum. We have to accept it and to react.

The United States have a much more liberal economy and a less heavy social system than Europe. This country is consistently more antistatist, individualistic, *laissez-faire* (and because of its dynamics even egalitarian) than other democracies. This is what produces its wealth and strength. We need to maintain a functioning transatlantic relationship for many reasons, but for me the most important reason is its role in enabling the transatlantic transfer of ideas and ideologies, of life-styles and cultural patterns, of work ethic and workoholism, of courage and decisiveness. The currently fashionable European anti Americanism, the caricaturing of American life and culture, the European inability to engage in an open and therefore risky dialogue, are frustrating phenomena. I tried to oppose them for a long time but without success. Let's talk. Civility requires a willingness to listen to others. We should start a serious dialogue because this is the only way to increase understanding on both sides. Saying that does not imply that all of us must be happy with the American handling of the Iraqi crisis but even in this case we should start talking and listening one to another. Listening is the scarcest good these days. I am glad the Munich Economic Summit makes talking and listening possible.