

Welcome Speech by

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Ladies and Gentlemen,

On 20 May 1506, 505 years to this very day, Christopher Columbus died. By order of the Spanish crown, the great seafarer had been looking for a shorter sea passage to India and had courageously embarked on a completely new route. In our day and age, politicians must also embark on new routes. One of the greatest challenges in view of demographic change, a growth in the public debt and increasing international competition, is to put our social system on a firm foundation for the future.

Ludwig Erhard, one of my predecessors as Bavarian Minister of Economic Affairs, once said: “a good economic policy is the best social policy”. This sentence may have once been more popular in Germany than it is at present. But it is still as valid today as it was then:

- Only a dynamic, innovative economy creates sustainable jobs, safe incomes and prosperity.
- Only in a successful economy do entrepreneurs and employees pay sufficient taxes to finance government expenditures such as social insurance on a permanent basis.

This can be seen from the example of Bavaria. With an average unemployment rate of currently 3.9 percent, many parts of the State of Bavaria are on the path to full employment or have already achieved this. At the same time, the number of people whose basic livelihood depends on the help of transfer payments is declining. Compared to the entire population of Germany, Bavaria has the fewest people who depend on a guaranteed basic allowance.

The main task of an effective social policy must be to strengthen the performance of our economy in the face of global competition, for example:

- through the power to innovate,
- through highly-qualified workforce,
- through modern and efficient infrastructure,
- through a transparent and reliable regulatory framework, and
- through an energy policy that guarantees security of supply and affordable electricity.

A successful economic and social policy must therefore ensure that the dynamic forces in industry and society are given sufficient freedom and scope to be able to develop. For me, these are closely linked with equal opportunities and possibilities for participation for every citizen. What I mean here are the parts of the population whose prospects are not so bright. The following statement still holds, especially for the socially disadvantaged: now and in future, the state will continue to be the guarantor of social security. There is consensus on this among the different political camps. The shape, the range of services and the limits of the burden placed on those who have to finance social security are, and remain, the subject of contention.

In my view, a policy that activates people is always better than passive support. It is especially people with low qualifications that we can help more by making jobs in the low-productivity range possible, by providing incentives for entering employment through income supplements and by consistently building on training and further education. This is at any rate better than leaving people unemployed and supporting them fully.

In Germany, people in need who get into difficulties through no fault of their own or are unable to take control of their lives through their own efforts will continue to be entitled to payments through the basic allowance scheme. The Hartz IV, as it is called, is in principle a sensible combination of due solidarity and the incentives necessary to find re-employment. It has contributed to an increase in employment in Germany by providing more incentives to take up employment and reducing minimum-wage claims. This has also brought us one step further along the road to adapting the social security systems to demographic change. What we need for a



future-proof social-insurance system, however, are further structural reforms.

This is why, in addition to the pay-as-you-go system we shall in future also be relying on capital cover. We are therefore, for example, promoting private insurance as a supplement to the statutory pension scheme. We are stepping up efforts in the direction of greater labour-force participation. We want people to start their professional life more quickly, more specifically targeted school and professional qualifications and a longer working lifetime. These measures will relieve the burden on the social insurance system. We are building on more personal responsibility and more self-reliance. For it is definitely not the task of the state to guarantee all-round insurance in every situation. For this reason, we are decoupling the health costs from labour costs in health insurance. I plead in favour of creating a health-premium model in the medium-term, with more competition, more efficiency and greater transparency.

But guaranteeing the financial viability of the social systems in the long term also calls for a solid, sustainable financial policy. This means:

- bringing the ratio of public-spending to GDP back to pre-crisis levels, and
- reducing the level of debt to 65 percent of GDP by 2020.

Ideally, what I would like to see is still a comprehensive and coordinated reform of the system of taxation and social-security contributions. Only in this way will it be possible to effectively contain errors inherent to the system such as the financing of tasks relating to society as a whole, by means of contributions, the so-called shunting yard or the far too large gap between gross and net.

Ladies and Gentlemen,

I am confident that, in the next few hours, the discussions at the 10th Munich Economic Summit will throw light on new approaches to achieving our aims by making the optimum adjustments to our course – and, unlike Christopher Columbus, we will arrive exactly where we want to arrive: at a sustainable social system.

Thank you!