

**Opening speech at the  
4th Lindau Nobel Laureate Meeting in Economic Sciences**

**Lindau, 24 August 2011**

**“Our Europe has to be worth every effort to us”**

It's a wonderful picture I'm seeing from up here: in the front rows, young people, the future, and in the rows further behind, the present. But a little while ago a baby was crying at the back there, so you young people here at the front could hear that the next generation is already making its presence felt. But it is you who will be crucial in the next 20 or 30 years, and great expectations are being placed in you.

I'd like to warmly welcome you all to the beautiful town of Lindau on the banks of Lake Constance! Germany wants to present itself to you as a cosmopolitan country and is keen to hear of your experiences in your countries, regions and continents.

First of all, I'd like to express my sincere thanks to Gräfin Bernadotte and Professor Schürer, as well as to the Foundation staff. For there is no doubt that it is your great personal commitment that has made these Lindau Meetings in Economic Sciences a forum of discussion renowned far beyond Germany.

Seventeen Nobel Laureates and several hundred talented young economists from around the world are gathered here under one roof. Yesterday we were even out on a boat on Lake Constance: a lovely symbol for what is more important now than ever. Decades of trailblazing academic endeavour and many decades of future research and policy consultancy under one roof and in one boat.

We will need them. The future is in the hands of the young generation and we are currently, I am firmly convinced, at a very crucial juncture. At some point it will become clear to us how much our present actions or omissions will determine future decades.

To my mind, this is the time to take stock of a few things: the importance of the United States of America for the world and the global economy, the importance and the responsibility of Europe for the world, and the importance of transatlantic relations between Europe and America based on our shared values. Because more and more it can be said that we have a global domestic policy. And it is absolutely crucial to recognize interdependences in this global domestic policy, to find ways to engage in cooperative forms of joint decision-making and responsibilities.

We in Europe should remind ourselves of how turbulent and contradictory the last one hundred years – from 1911 to 2011 – have been, and what has happened over that time on our continent: in the first half, there were two World Wars, the Shoa, the global economic crisis and the division of Europe and the world by the Wall and Iron Curtain during the Cold War. We should also remember what has been achieved during the second half of these last 100 years: the positive creation, first in the West and subsequently throughout Europe, of peace after thousands of years of war and conflict, a single internal market, prosperity, an area of freedom, democracy and justice. What achievements!

It is the task of each and every one of us to ensure that these achievements are safeguarded in the future and to square up to the major tasks facing us at this present time. Our Europe has to be worth every effort to us. None of that can be taken for granted. Nothing can be squandered. Europe's fate is in the end the fate of all its peoples. German and European interests are indivisible, two sides of the same coin. That's why it's so crucial to represent our common interests in a consistent manner. We Germans are aware of this responsibility in and for Europe.

There have always been difficult times, as I pointed out just now. The fact that the last fifty years have passed smoothly should show us what possibilities are opening up for us, as well as the responsibility we have for the next 100 years – to ensure that they too are characterized by freedom, democracy, peace and coexistence, and that we don't relapse into the old hostile stances.

Over the last weeks, it has become abundantly clear in Europe as well as in the US that the bank and debt crisis has tested politicians, governments and central banks to the limit. The challenges facing governments around the world are immense and impact on the entire world: increasing prices for raw materials and foodstuffs and overheated economies, for instance in the emerging countries. Many of the measures used to tackle the crisis are extremely controversial. After all, it's not as if all economists are of like mind. I know that the Economics Nobel Laureates here today have very different views. Indeed, I saw this for myself in a super discussion with five Laureates yesterday evening. Governments have to take decisions on this uncertain foundation. Nonetheless, they have to show courageous leadership if they are to regain confidence and credibility soon. And they always have to keep in mind which measures citizens will accept. We should remember all this when we criticize politicians for being too hesitant and sometimes contradicting themselves.

When the crisis broke out, consensus was quickly reached at global level. Stimulus packages on an unprecedented scale were adopted. There was a rush to aid the financial sector and banks – with taxpayers' money, state guarantees and massive monetary transfusions by the central banks. In 2008 the aim was to do everything possible to prevent a collapse and to stabilize the global economy. I would like to point out that all of this was done with the aim of treating the patient, the world economy, as quickly as possible. Today, however, the banking sector is still fragile, public debts in the major economies are at record levels and in many cases the fundamental problems hindering growth and competitiveness are as present as ever. More time was gained than was actually used to treat the patient.

At the German Banking Congress I warned the financial sector that we've neither dealt with the causes of the crisis nor can we say today that we've recognized the risks and done everything to eliminate them. In fact, we're faced with a development which resembles a game of dominoes. First individual banks rescued other banks and then states rescued their banks, and now the international community is rescuing individual states. But the question that should be asked is: who will ultimately rescue the rescuers? When will the accumulated deficits be distributed among whom and who will shoulder them?

For many years, many countries kept putting off dealing with problems by raising tax expenditure, accumulating debts and issuing cheaper money. We're going on doing that just now. At the same time, countries were consuming and speculating on a

grand scale instead of investing in good education and vocational training, in future-oriented research and innovations, that's to say in the very things which make an economy productive and competitive. Now there are gaping holes in public finances and valuable seed has been consumed rather than used to till fertile soil. And here in Lindau I'd like to say this: the politics of brinkmanship has reached its limits. What seemed to always go well – running up new debts – will not go well for ever. This injustice towards young people must end. Instead we need an alliance with the young generation.

I understand the indignation and anger felt by many young people in many parts of the world when they feel things are unfair and that their opportunities for the future are in part already being swallowed up in the here and now. Because it is their future opportunities which are at stake here. For some years the International Monetary Fund has even been warning against a "lost generation".

I believe that all the necessary solutions to our problems, whatever they may be, will require sacrifices, will require sacrifices from all involved. Democracy is as simple and as difficult as that. There can only be a bright future, however, if we return to sound economic policies on a long term basis. That will mean painful cuts. In the long term, however, that's the only way to maintain our capacity to act and our prosperity. It's crucial that the burden is distributed fairly. I can understand why many don't want to accept that some bank managers earn exorbitant sums while billions are being spent on propping up banks. And freeloaders in the financial world continue to believe that politicians and thus ultimately taxpayers will continue to provide a safety net because they are, for instance, too big and too important for the overall economy.

I remember when I was your age being told by a businessman that he had learnt this from his father: "When you take out a little loan, the bank has you in its hand. When the loan reaches a certain amount, then you have the bank in your hand." And now it seems that when the bank reaches a certain size it has the state in its hand. And people rightly regard this as being unfair: as the saying goes, it's always the little fish who get caught in the net, while the big ones get away. Inequalities are important incentives, as long as they are not too big. But they won't be accepted if profits are privatized but losses collectivized, socialized, passed on to all. Principles are at stake here. People are indignant when the principles of fairness are violated. Fairness is an intrinsic human need. Addressing 20 young economists this morning, I urged them not merely to consider everything in terms of numbers. Perhaps human needs and behavioural patterns have been somewhat neglected in economic science. But the fundamental need for fairness must not be ignored; it is unacceptable for there to be too many hangers-on in a social group. It seems to me that this aspect has been rather ignored.

The failure of the elites will jeopardize social cohesion in communities and in society in the long run. Those who count themselves among the elite and shoulder responsibility must not withdraw into their own parallel world. Rather, everyone has responsibility for the whole and for cohesion in a country. But ever more citizens believe that what is happening is not fair and that the burdens are not being distributed equally.

In Europe too, individual states submitted false statistics, allowed public spending to get out of hand, sought to nose ahead through low interest rates with the euro for

consumption expenditure or create advantages through their tax rates. Nearly everyone stood by and watched. Too many of us simply turned a blind eye to increasingly wretched finances and economic principles.

Instead of setting a clear regulatory framework, governments are increasingly allowing themselves to be driven by global financial markets. If the DAX falls, politicians should cut short their holidays. When things are going well, it's thanks to the economy; when things aren't going so well, it's down to politics. That cannot be how responsibilities are divided, either now or in the future. More and more often, the politicians make hasty far-reaching decisions just before the stock markets open instead of trying to influence developments in the long term. This strikes at the very core of our democracies.

I know from my own time as head of government in a federal state how much more difficult it is to act rather than simply talk. However, I also know from experience that decisive action, political leadership, to consolidate the budget can be accepted politically. A former head of government of one of Germany's federal states, the lovely Free State of Saxony, is here with us today. Saxony is proof that it is possible to pursue a sound budget policy with the lowest possible level of borrowing and yet still get fantastic election results, up to 60 percent of the vote. Professor Kurt Biedenkopf is with us today. That should give courage to those who believe that the people should not be told the truth. The opposite is true: it's just that you have to tell the truth consistently, convincingly and credibly. At European level, by the way, I would like to point to the beautiful country of Latvia, which undertook to solve its problems on its own and is pursuing a very consistent policy of consolidation with impressive results. A bold course of savings and reforms showing how it can be done.

Ladies and gentlemen, what has to be done now? How can states regain their leverage? How can we create the conditions for stable, viable long-term economic and social development? How can we secure the prospects of future generations?

First of all, politicians have to regain their ability to act. They have at long last to stop reacting frantically to every fall on the stock markets. They mustn't feel dependent on or allow themselves to be led around the ring by the nose by banks, rating agencies or the erratic media. Politicians have to formulate policies for the common good and they have to show courage and strength in the face of conflict with individual interest groups. They have to put structures into order and, if necessary, adapt the regulatory framework so that scarce resources can be used in the best possible way and business and society can thrive. Politicians have to take a long-term view and, if necessary, make unpopular decisions. In a liberal democracy, decisions always have to be made in parliament. For that's where legitimacy lies. In a democracy the power comes from the people, who elect and vote for their representatives.

In Europe, the list of structural problems ailing individual states is well known to everyone – and all states have their challenges: reforming the education system, for example, or improving vocational training. Ludwig Erhard said: "The economy is not everything, but without the economy all is nothing." In today's world with its growing population we might change this a little and say: education is not everything, but without education virtually all is nothing. And we need to remove bureaucratic hurdles, modernize public administration, simplify the tax system and combat tax

evasion. No EU member state, no country in the world, should tolerate nepotism, clientelism or corruption.

The goals are the principles of the European Union which we have anchored in our treaties and to which we have to return as quickly as possible: an open social market economy with free competition and stable prices as well as healthy public finances. For years, however, member states – including Germany – have been violating the stability criteria adopted in Maastricht.

All states are called upon to meet their obligations under the Stability Pact. The Stability Pact must not simply be a piece of paper; rather, we must breathe life into it, apply it, practise what it preaches. This applies also to Germany, in which such high expectations are placed.

Under European law, all European states are obliged to bring their public debt under 60 per cent of GDP. In more than half of the member states, the debt-to-GDP ratio fell short of this target last year – especially in Greece, Italy, Belgium, Ireland and Portugal. And next in line is Germany with a ratio of more than 83 per cent. We Germans mustn't allow an embellished impression of the strength of the rescuer to be created, even if it does pander to our vanity. We too have some burdens – additional burdens – to bear as a result of demographic developments and the move to new forms of energy. That too is part of the truth of the matter.

Unfairness, as well as incompetent budgeting and management of public finances must be clearly penalized. Furthermore, the common rules must be applied without any ifs or buts, regardless of whether the member states in question are small or large, like Germany and France. Otherwise, if not everyone is meeting the conditions, recovery will be impossible. Europe's diversity, the various ways it acts, including politically, is a great advantage. For every member state should largely be free to decide how to reach the targets which have been set jointly, and every member state in Europe can decide for itself within its own area of responsibility.

For only in this way will we manage once again to make space for what people are calling for so often in Europe just now: public spirit and solidarity. Solidarity is a key part of the European idea. However, it is quite wrong to measure solidarity merely in terms of willingness to give others financial support, to act as guarantor for them or even to incur shared debts with them. I am always in favour of everyone considering things for themselves. And you shouldn't expect others to do something you wouldn't do yourself.

What is it that is actually being called for in this context? With whom would you personally take out a joint loan? To whom would you want your creditworthiness, established over time, to be extended at your expense? For whom would you personally stand guarantor? And why? For your partner or your children? – I hope so! For more distant relations? – ah, now it might get a bit more difficult. Perhaps we would stand guarantor if that was the only way to give the other person a chance to get back on his feet. Otherwise, only if we knew we weren't overstretching ourselves and if it were in our common interest. Even a guarantor can behave immorally if he is just putting off inevitable insolvency.

In Europe, we are friends, partners and relatives – we speak of the European family, a community of solidarity. To me solidarity also means keeping an eye on the interests of young people. Anyone who tries today to mitigate solely with money and guarantees the consequences of burst speculation bubbles, indeed of decades of mismanagement, is shoving the burden onto the younger generation and making their future more difficult. Everyone acting in this way is basically letting themselves off lightly, thinking “who cares what happens after I’m gone?”.

It gives me cause for thought when governments wait until the very last minute before showing any willingness to give up benefits and privileges and introduce necessary reforms. Especially when the supreme guardians of the currency go way beyond the bounds of their mandate and buy up government bonds on a massive scale – currently more than 110 billion euro. In the long term this cannot and will not be good, and therefore it can be tolerated at best for a short period. The guardians of the currency, too, must quickly find their way back to the agreed principles. I say this circumspectly: I regard the huge buy-up of government bonds of individual states by the European Central Bank as politically and legally questionable. Article 123 of the Treaty on the Functioning of the European Union prohibits the ECB from directly purchasing debt instruments, in order to safeguard its independence. This prohibition only makes sense if those responsible do not get around it by making substantial purchases on the secondary market. By the way, the indirect purchase of government bonds is even more expensive than direct purchase. Again, actors on the financial markets earn commission without themselves incurring any risk at all.

One of the fundamental principles of the market economy is this: risk and liability go hand in hand. Those who take risks might fail. This principle must also apply to the financial sector, to small investors as well as to big institutions. There is an urgent need here to make up for our failings, going far beyond the measures already initiated in the G20. In the end it is a matter of us all working together to ensure that the financial sector once again takes on a service role and contributes to sustainable global development. We need well-functioning, efficient global capital markets which help to manage risks rather than to create them. And which bring together capital and ideas – ideas on how to solve the huge tasks facing the world today.

Resolute action in the United States and Europe will bring recovery much faster than many pessimists would make us believe – partly thanks to strong economic development in emerging regions. I’m thinking here of Brazil, China, India and Indonesia, but also of Africa. Let’s see the crisis as an opportunity and develop the necessary perspective for a global social market economy with a clear regulatory framework.

Let me go back to what I said at the outset: we should ask ourselves where we want to be in 50 years’ time, as well as what we regard as really important in the coming decades. In the final analysis, what is well-being? And what serves the common weal? And what will turn out to be lasting and sustainable?

Science has not yet reached any consensus on how best to measure personal well-being. But various indicators which try to measure people’s personal quality of life show that increasing GDP alone does not increase their happiness. As long as their basic material needs are met, it seems that people do not need to keep acquiring material things to ensure their happiness; rather, what they need is the chance to

play an active part in the life of society, to develop their personalities freely in stable social conditions. In that case, well-being would mean above all having the opportunity to lead a successful, meaningful and creative life. Many, many people want that, and I very much welcome the fact that science intends at long last to carry out more experiments into human conduct and its psychological and sociological foundation.

Here's something else I find remarkable: attempts to measure well-being have found that in the European countries there is a close correlation between happiness and confidence in one's fellow human beings. Trusting one another, being honest with one another – that's the basis for human well-being, for cooperation and cohesion. And this takes us back to the monetary economy, which involves promises with money, paper money. Trust is irreplaceable; it is hard to win, but easy to destroy. Granting one another credit, however, is the basis for banking, for a functioning market economy and for solid growth. Confidence is essential. We have to be honest with each other and with ourselves.

We should speak openly and honestly about scarcities, as things in this world are not in unending supply. The repeated attempt to ignore the impact of shortages and thus to close our eyes to the realities doesn't bring any lasting improvement. At best, it gains us a bit of time, as is the case now. This is true also when it comes to our handling of natural resources and to a lifestyle to which more and more people around the world aspire. In this context, too, we simply ignore scarcities – because we are not honest and do not charge the true cost of energy, raw materials and the use of water, air and land.

Just as on the financial markets, risk and liability are often viewed as unconnected here too, thus violating a basic principle of sound management. Yet in many instances we are living not only at the expense of future generations, but particularly also at the expense of the weakest on our planet. According to the United Nations, the people of the world's poorest countries are the hardest hit by the repercussions of climate change, such as drought or flooding, even though they have done least to cause the problem. As early as 25 years ago, the Brundtland Commission called for "sustainable development, which implies meeting the needs of the present without compromising the ability of future generations to meet their own needs".

We cannot pay for the comforts of the present with our future and that of our children. We need to change course, towards sustainable management and budgeting. Only in this way can a free and social market economy function. Not least out of my feeling of personal responsibility for my 17-year-old daughter and 3-year-old son, I want us to take decisions today that will allow them, decades down the line, to live more or less the way we do today.

Unfortunately, we're still a long way from sustainable management. We are not yet succeeding in meeting the basic needs of the present for all people. And we are succeeding even less in preserving scope for action for future generations. But I would like to call upon you to act. Changing this is the truly fundamental task facing each and every one of us, be we scientists, economists or politicians. I am counting on your expertise, your scientific curiosity, your enthusiasm and your commitment, to show us powerful, correct action which is sustainable in the long term.

One of the founding fathers of the United States of America, and the country's third president, Thomas Jefferson, said in the summer of 1816, so less than 200 years ago: "We must make our election between economy and liberty, or profusion and servitude." In this summer of 2011, the summer of disillusionment, which to my mind urgently needs to mark the start of a process of reorientation, nothing else needs to be said. Then we would really have learned a lesson from the crises.

Thank you very much.