„The Euro and the Future of Europe“

Speech by

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CHECK AGAINST DELIVERY!

Dear Fiona Hill,

Distinguished guests, ladies and gentlemen,

I am honoured to be the guest of the Brookings Institution today. And I am especially pleased to see so many friends of Europe in the audience.

The famous line from Mark Twain's memoirs about Wagner is also true for Europe: “The music is better than it sounds”. And I say that as a great fan of both Richard Wagner and of European integration.

I know that there are many questions and concerns about Europe these days.

Questions about the current crisis and what it means for Europeans, Americans and others around the globe.

Questions also about Germany's approach to the crisis, about the place it sees for itself in Europe.

I have come here to answer four fundamental questions as openly and directly as possible:

- What is the nature of the crisis we are facing?
- What are we trying to achieve?
- What is Germany’s role in all of this?

  And, of course:
- What’s in it for the United States?

I.

First, the nature of the crisis.

The term “Euro-crisis” is convenient but misleading.

In its first ten years, the common currency has been remarkably successful by any standard:

Its exchange rate and inflation rate are as stable as that of the Deutsche Mark.

The Euro has assumed the role of a second global reserve currency.

In times of globalisation the Euro was the right thing to do.

If we did not have it, we would have to invent it now – as a lesson learnt from this financial crisis that would have had worse effects without a common currency.

But it is also obvious that a number of European countries are no longer enjoying sufficient trust in the financial markets.

The reasons are slightly different in each case.

But three things are at the root of the crisis:

To begin with, the world financial crisis as the trigger,

secondly, excessive public and private debt,

and growing macroeconomic imbalances as a result of lacking competitiveness and flaws in Eurozone governance.
All of these factors are interlinked.

In the aftermath of the financial crisis of 2008 the state had to rescue an over-leveraged and ill-invested banking sector. At the same time it had to provide a huge fiscal stimulus for the economy.
The German fiscal stimulus, by the way, was comparable in relative size to US efforts at the time.

As a result, financial markets started questioning the ability of some Eurozone members to repay their debt or to grow their way out of the debt burden - first in Greece, then in Ireland, then in Portugal.
The debt crisis morphed into a crisis of confidence, questioning the political will and determination of Eurozone members to fix the flaws in the construction of the monetary union.

II.

What are we trying to achieve?
There are those who argue that an early and massive rescue operation would somehow have prevented the crisis from developing.

As if some sort of unlimited guarantee of Greek sovereign debt by all other Eurozone members in the spring of 2010 could have put everything on hold.
I frankly don't think that this argument holds up.
It focuses exclusively on the contagion issue but completely ignores the deeper origins of the crisis.

The same is true, in my view, for the argument that Germany, Europe's anchor of stability, somehow misreads the nature of the crisis. That we are trying to amend the rule-book instead of putting out the fire.
From the very beginning we have focused on a double-track strategy: Linking solidarity with partners under pressure with a firm commitment to fix the Eurozone and put all members on a path of fiscal responsibility.

Let me emphasize this point again because it represents the core of our approach:
There are those who argue that we underestimate the severity of the crisis. That we mistakenly focus on long-term remedies for what is in reality a short-term problem.

My answer is: It is actually this argument itself that underestimates the nature and the scope of the crisis.

Yes, we need short-term crisis management.

But we should not opt for measures that would lay the ground for an even bigger crisis in years to come.

And most importantly: our short-term measures will only be credible and effective if we address the root causes at the same time.

Solidarity with countries having liquidity problems is an indispensable part of our effort.

We are now in the final stages of setting up a permanent *European Stability Mechanism* to deal with liquidity problems.

Germany’s share of these financial guarantees is more than a quarter of the total.

The German parliament has approved financial guarantees of more than 200 billion Euros.

Translated into the size of the US economy this would be the equivalent of far more than one trillion US dollars in guarantees by the US Treasury.

Can you imagine members of Congress approving such a sum to help out non-Americans?

The theory that Germany is not demonstrating solidarity with its fellow Eurozone partners in trouble is an urban legend and simply not accurate.

The European Central Bank also has a very important role in managing the crisis.
It will do what it considers necessary and appropriate within its mandate. It is not for me to comment or to give advice.

The core of the problem, however, goes even deeper than providing liquidity. The crisis of confidence requires decisive action on two fronts:

First, we have to fix the flaws in the Eurozone's construction. When setting it up shortly after the fall of the Berlin Wall we were not able to go all the way and create a Political Union, side by side with the Economic and Monetary Union.
It took a while for the consequences of this failure to become apparent because we enjoyed a decade of low interest rates and strong economic growth especially in Southern Eurozone members.
This made it so tempting and easy to neglect the dangerous productivity and competitiveness gap within the Eurozone.

We thought we were doing well even without stronger coordination of fiscal and economic policies. This was a mistake.
We also allowed the hallmark of our monetary union, the Stability and Growth Pact, to be hollowed out and violated numerous times without real consequences. This was another mistake.
And we did not reduce public and private debt in good times. This was our third mistake.
We are now addressing and correcting all three of them.

This is why we have pushed for changes to the European Treaties. This is why we hope to conclude a new Fiscal Compact by the end of this month.
With this compact, we will firmly establish the principles of future fiscal responsibility.
We will introduce strong “debt-brake” provisions in member states’ legal frameworks.
And we will significantly strengthen policy coordination within the Eurozone and its prospective members. I am confident that most non-Euro members of the EU will join in this effort. Our door will also remain open to Great Britain.

Yet in my view, tighter rules and better coordination cannot be the end of the story.
We have to recognize that we need nothing less than a paradigm change for our countries and our societies.
The debt economy itself has reached its limits.
Fiscal responsibility and sustainability are not arcane concepts for experts.
Nor are they awkward hobbies of Germans still traumatized by memories of hyper-inflation three generations ago. They are the imperative of our time.

The policies of debt, combined with the shortcomings of the Eurozone construction, and compounded by the effects of the financial crisis, have led us into the danger zone. We have taken it too far. Beyond the point of credibility.
And – allow me the question – can we really be sure that this is only a problem of the Eurozone?

It is this triple origin of the crisis that defies all the easy answers, all the "big-bazooka"-remedies put forward by economists and pundits on both sides of the Atlantic – and on the island in-between.

That is why we are focusing our efforts on creating a Union for Stability in Europe and on moving towards fiscal sustainability and growth here and now. We cannot postpone this fundamental change of direction to a distant future.

Rescue packages and short-term liquidity are not a solution to the crisis. They are buying us time in which to address the root causes – no less, but also no more.
The key is therefore to strike the right balance between easing the short-term pain and laying the foundations for long-term gain.

Europe has decided to no longer ease the symptoms of the crisis by fighting debt with more debt. This is an enormous challenge. It will be neither easy nor quick. But it is the only viable path to a stronger Europe in the future. Our partners in Greece, in Ireland and Portugal, and many other countries, deserve our respect and our support for the efforts and sacrifices they have made.

When we discuss the merits of this argument let us not overlook the different demographic realities of our societies. In Germany and many parts of Europe every Euro of debt will have to be shouldered by fewer and fewer taxpayers in the future.

Ladies and gentlemen,
by no means do I advocate austerity only.
Apart from the debt issue the widening gap in competitiveness between Eurozone members is the most important cause of the crisis.
Budget cuts alone will not do the trick.
Structural reforms are essential for the creation of new growth. They are also essential for the long-term cohesion of the Eurozone.

It is simply not acceptable that one out of five Europeans under the age of 25 is without a job.
In some countries we are even talking about one out of three. Here we can and must do better.
Reforming labour markets is only one element but a very important one. We know from our own experience 10 years ago, when Germany was singled out as the “sick man of Europe”, that these reforms are politically difficult but very beneficial for long-term growth and employment.
This is the very challenge that some of our partners in Europe are now facing. Others, like the Baltic

states, have already successfully implemented these reforms and have returned to solid growth.

And we will do more:

We will employ unused EU structural funds to stimulate economic growth.

We will focus the upcoming EU budget for the years 2014 to 2020 on innovation and new technologies and move away from subsidizing the economy of yesterday. A budget, by the way, to which Germany will be the biggest net contributor.

And, finally, we should never lose sight of the benefits of free trade. We work hard to expand free access to the emerging markets. Shouldn't we also put the issue of a Trans-Atlantic Free Trade Area high on our agenda? A free-trade area that is not weakening our WTO efforts for global free trade? We are, after all, more deeply integrated through trade and investment ties than any other two economic areas of the world.

III.

This brings me to my third question: What is Germany's role in all this?

When you look at most of the public commentary you can't help but feel a dilemma: We are either

criticised for being too cautious in addressing the crisis or for being too dominant in dictating our own policies to others.
We take both views seriously.
And we believe both are beside the point.

To be perfectly clear from the outset: There is no good future for Germany without a good future for a united Europe.
While there are undoubtedly differences in opinion among German political parties on the details of crisis management, there is a broad consensus that the answer to the current crisis has to be "more Europe", not "less Europe". Germany is and remains deeply and firmly committed to a united Europe.

The integrated single European market is the basis of our wealth and economic prosperity.
The integrated decision-making in Brussels, while often tedious and full of compromises, has been the basis of more than six decades of peace among EU member states.
The integrated trade and foreign policies are our best chance to preserve our European way of life and to assert our values and interests in a globalized world with new centers of powers.

“Going it alone”is not an option for Germany, however strong our economy may be. History has taught us, with chapters too dark to forget, that European integration was – and remains – the only convincing and viable answer to the “German question”.
This fundamental insight continues to guide our policies. I am personally deeply committed to the idea of a European Germany.

However, it would be wrong to deny that there are different visions of what Europe should be.
There are those who do not want an open, tolerant and integrated Europe. There are those who stress the differences, be they ethnic or religious, rather than what unites us. They are advocating a „fortress Europe“. This is a vision that we need to oppose forcefully. Re-nationalization in a time of globalization is a dangerous concept.
The financial, political and human cost of a disintegrating Europe would be crippling.
And it would be foolish to believe that Europe could withdraw into some sheltered corner.

Yet it is only if we can put our own house in order that we can seriously and credibly establish Europe as a strong political actor on the global stage.

I am deeply convinced that Europe has something to offer beyond preserving its wealth and its own security.

We are a community of values. We are founded upon the fundamental rights of the individual.

Our European model of shared sovereignty can be an inspiration in a globalized world in need of order.

IV.

This leads me to my fourth and final point: What's in it for the United States?

I firmly believe in what Vice President Joe Biden said so eloquently in his speech to the Munich Security Conference three years ago:

“In sharing ideals and searching for partners in a more complex world, Americans and Europeans still look to one another before they look to anyone else.”

This is what we have done in the past.

This is what we are doing today.

This is what we have to do in the future.

The effects of globalisation confront us with new challenges: from climate change to water and food shortages, from cyber security to the protection of the global commons.
New powers are rising faster than we could foresee only a few years ago. Their growing economic weight increasingly translates into political weight. Every government on our two continents is shifting resources towards fast-growing new centers of power in Asia and elsewhere.
And yet, when we confront the pressing issues of today it is above all Americans and Europeans who share the same values, interests, objectives and resources:

We continue to fight alongside each other in Afghanistan. At the Bonn Conference in December we pushed forward our joint strategy for a gradual transfer of responsibility to the Afghan authorities. We are working on a political solution to prevent the country from ever again becoming a safe haven for terrorism.

We stand firmly together in confronting Iran's increasingly dangerous course. The EU will put into place a new and very substantial round of sanctions this coming Monday to forcefully make the point that Iran’s behaviour in the nuclear issue is unacceptable and a danger to world peace.

We are working closely together and with our partners in the Arab League to address the ongoing bloodshed in Syria where a brutal regime resorts to violence against its own people.
We are joining forces to support the tranformation underway in the Arab world towards more representative, more participatory political systems. Both America and the EU put a particular emphasis on the empowerment of women as a key to successful transformation.
We work closely together to facilitate a negotiated and lasting peace between Israelis and Palestinians.

We will re-affirm our close alliance at the NATO Summit in Chicago in May. An alliance of collective defense, an alliance that gives itself the means to be an element of stability in an increasingly fragile world.

Possibly the most important common task of all will be to restore the legitimacy and viability of our economic model.
The proper regulation of the global financial system is still unfinished business.
We have to continue to work on it together and in the G20-framework.
This includes making sure the IMF has what it takes to play its crucial role in the global system.

If we do not address these issues in a convincing fashion we will face a systemic crisis of legitimacy that by far transcends our two economies.
It would undermine our own political systems.
And it would sharply diminish our ability to successfully promote our values and interests globally.

V.

Ladies and gentlemen,
when I look at the American debate over the past weeks I see mostly a caricature of Europe.
The image of a continent mired in gloom and self-absorption.
I beg to differ.

First point: We actually overcame socialism in Europe 20 years ago.
And we owe this among others to the firm commitment to the idea of freedom by both Democratic and Republican American administrations.
Secondly, the World Economic Forum's most recent "Global Competitiveness Index" lists seven European countries in its Top Ten list, three of them members of the Eurozone.
European companies are among the fastest-growing businesses in America, investing billions of dollars and creating thousands of jobs in this country.
Finally, Europe is the largest donor of development assistance and humanitarian aid across the globe.
In short: Europe is a strong and vibrant continent and I firmly believe that we will emerge stronger from this crisis.

My vision of our future strategic partnership sees the United States and a united Europe at the core of an "enlarged West".
In a world with new centers of power agreement between the US and the EU will no longer be sufficient to shape global solutions. But we can and

we should be a motor of progress. We have to engage with new powers and bring on board new partners in order to build a broader consensus. In a world where the idea of freedom continues to gain strength it is imperative that the West, the cradle of freedom, stands together.

Thank you.