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EUROZONE AT A CROSSROADS (AGAIN):
A CONVERSATION WITH WOLFGANG SCHÄUBLE

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Introduction:

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Featured Speaker:

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P R O C E E D I N G S

MR. TALBOTT: Good afternoon, ladies and gentlemen. I'm Strobe Talbott and it is my pleasure to welcome you here to the Falk Auditorium at the Brookings Institution. Those of you who have come from the other side of the Atlantic, thank you for bringing the spring. Please leave it behind when you go home.

This is a particularly important event and I want to say a couple of words about that, but we're very pleased that we have a number of very distinguished visitors and friends in the audience here and I want to particularly point out that Ambassador Peter Wittig of Germany is here. He is a friend of many of us here at the Brookings Institution and indeed he's a friend of the institution itself.

Brookings is delighted today to welcome and to host Finance Minister Wolfgang Schäuble. His importance in the German government, the importance of Germany's role in Europe and the transatlantic community is reflected I think by the representation of three units here at The Brookings Institution and a number of our scholars. This event is being organized by our Center on the United States and Europe, our Global Economy and Development program, and our Hutchins Center on Fiscal and Monetary Policy. And we're very pleased also that one of our leaders of the Board of Trustees, Glenn Hutchins, who has an association with the Center, has come down from New York to be with us this afternoon.

The minister's visit could hardly be more timely. Europe and the Atlantic community are confronting serious challenges: economic challenges, political challenges, and geopolitical challenges. I'm thinking, of course, of the rise in nationalism and Euro-skepticism in Europe itself, Russian aggression, Islamist extremism, and, alas, the viability of the European project itself is now being questioned and, in some minds, in doubt.

Germany obviously plays and has played and will continue to play an absolutely pivotal role in managing these problems. And Minister Schäuble has for decades, in a series of high posts, been an indefatigable defender of European integration and transatlantic partnership. Following his opening remarks, he will be joined by David Wessel, the director of the Hutchins Center, and Kemal Derviş, the vice president and director of our Global Economy and Development program.

For those of you who Tweet, it's #eurofuture. And, Mr. Minister, we thank you for being with us and we look forward to hearing your remarks. And after there is a conversation here at the table we will, of course, open the conversation for as long as time allows to include as many of you as possible. Thank you very much. (Applause)

MR. SCHÄUBLE: Thank you very much, Strobe, for your kind introduction and thank you for inviting me to Brookings. I'm happy to be here and very honored. I can only touch a few of the many problems you just have raised because I'm only finance minister and not for all the geopolitical problems responsible. Therefore, I will try to explain Europe once again.

And today I would like to explain why Europe sometimes moves a little slowly, but in the end is quite successful after all. You might think that our decision-making processes are cumbersome and complicated. And you might feel quite certain that Europe's current policies will lead to little or no growth. I could simply answer by telling you that the eurozone's economy is growing again, and that this year every country in the eurozone and the EU is expected to post positive growth, but I want to raise a more fundamental question.

And it's how can advanced economies achieve growth today? They won't grow sustainably by taking on more debt and by pursuing ever-more expansionary monetary policies. This is what has led the global economy into an unending cycle of credit booms and busts. Over the past quarter-century, we saw a credit boom in Japan that burst after 1990. Then there was a credit boom in emerging Asian economies that collapsed in 1997, and after that we had a credit boom in the advanced economies of the West that went bust starting in 2007.

And at the beginning of each of these cycles, people said we were entering a new era of prosperity, but each one ended in a crisis that incurred high and long-lasting costs. It became clear long ago that macroeconomic instruments no longer work the way they used to. And then we saw it for the first time clearly when Japan tried to use monetary and fiscal policy as a way to create growth artificially.

In my view, expansionary monetary policy and debt-financed fiscal policy are not the solution. On the contrary, I consider them to be one of the main causes of the financial and debt crises that have occurred in recent decades and of the weak growth that we are seeing. In my view, economic policies to promote sustainable growth -- which we are pursuing fairly consistently in Europe -- will be more successful over the long term than economic policies that lead to cycles of “boom and bust.”

One reason for this is that policies to promote sustainable growth pay more attention to the central role that psychology plays in economic activity, particularly the importance of long-term expectations. Business owners, investors, and consumers expect policymakers to establish a stable policy framework and to create long-term incentives for sustainable economic activity.

Debt levels in the global economy continue to give cause for concern. Recent studies show that global debt now stands at $199 trillion. This is up $57 trillion since 2007, when the financial crisis started -- government debt alone has increased by $25 trillion since then. In China, debt has nearly quadrupled since 2007, from $7.4 trillion to $28.2 trillion today. China’s growth appears to be built on debt, driven by a real estate boom and shadow banks.

Here in the United States, the debt ceiling will have to be raised again soon, probably no later than fall of this year and we still remember -- I do -- the government shutdown that took place in October 2013 and an alarming amount of corporate debt is being issued by companies with a poor credit rating. Europe, too, is not being crushed by austerity and I do not mention what we call the very specific role of the dollar for indebtedness, but even having this in mind, Europe is in its limit, not being rushed by austerity.

Absolute debt in Europe is higher than before the crisis, and the debt-to-GDP ratio in the eurozone is higher than ever. We have a deficit ceiling of 3 percent in Europe -- so we are only trying to keep a cap on deficits in Europe, and to achieve lower debt ratios. So the most important question for the euro area is: Can we adhere to the rules which prescribe fiscal consolidation and structural reforms in the euro area? I think we can -- and we have to because of the special conditions of European governance.

Here I mean the structure of the European Union and the currency union. You have to have in mind that the members of the euro area have transferred their monetary sovereign rights making powers to the European Central Bank, but still the member states dominate the fiscal and economic policy of the euro area. It's of utmost importance that such a construct of semi-sovereign states adheres to the rules they have given themselves to keep the common monetary and economic area intact.

In fact, European governments do just that since the beginning of the crisis -- sometimes more and sometimes less, but the direction is clear. We will succeed in overcoming our current challenges. Europe will continue to stand as a model of transnational governance that the world of the 21st century is so urgently looking for. By the way, if anyone else has a better model for transnational governance, please tell me. I would be happy to take a closer look at it.

Europe has a clear agenda, with three main priorities: First, we intend to make sure that government spending grows more slowly than tax revenue. This generally means that government spending must not grow faster than GDP does. This will enable us to reduce the debt-to-GDP ratio.

Second, we will continue to implement structural reforms. The goal of these reforms must be to improve economic conditions, and especially to boost the innovative capacity of European economies. That is why structural reforms are for. Reforms aren’t just about making the labor market more flexible or ensuring the viability of social security systems. Rather, our reforms aim in particular to improve education and training and to improve institutional frameworks. By this I mean things like streamlining administration, ensuring an efficient judicial system, and reducing bureaucracy -- all of which are decisive for improving economic performance.

And, third, we are boosting investment wherever we can. We are setting up a new investment fund in Europe, which aims to spur private investment of about 300 billion euros. We are also starting to build a capital markets union in Europe, which will open new sources of financing for new, innovative companies. We are adapting regulations in Europe in order to encourage insurance companies to invest more money in infrastructure. Government investment is also going up, including in Germany, thanks to our success in consolidating the budget in recent years.

We have been putting this agenda into action in Europe for quite a few years now -- sometimes more successfully, sometimes less -- but we are headed in the right direction. And the formula is working. The European countries that have already implemented real reforms are starting to see their efforts bear fruit. Countries that have successfully completed their assistance programs -- that’s Ireland, Spain, and Portugal --

are growing faster than other countries. Unemployment is starting to decline as well.

In Europe, we have good reason not to provide financial assistance without demanding something in return and we do not provide help if a country doesn't use it to help itself. A lot of people underestimate the problem of moral hazard, but if you separate decision-making power from accountability, and if you separate opportunity from risk, you can't succeed.

That was the main cause of the financial crisis and as long as the individual member states remain responsible for fiscal and economic policy in the EU, there can be no mutual liability in Europe. Even in the United States, which is just one country, the federal government does not assume liability for the debt owed by individual states. Providing debt relief and permanent transfers over and over again won't help a society to improve the long-term performance of its economy, and the monetary and social costs wouldn't be acceptable to the creditor countries anyway.

Debt relief and permanent transfers wouldn't solve a single structural problem. They would weaken the incentives to carry out reforms. And they would create a problem of moral hazard in political terms, namely the experience and expectation that others will bear the costs of a country's own actions, or failure to act. We in Europe must pay close attention to this problem of moral political hazard. We have to make sure that European solidarity does not weaken a country's motivation to take responsibility for what needs to be done.

Europe is succeeding in changing itself. Sometimes this change comes slowly, but then sometimes it came surprisingly fast. We saw this last year when we launched the European Banking Union, and now Europe has a single banking supervisor and a single mechanism for winding up troubled banks, but even when change doesn't come quickly, this doesn't mean that it has failed. In fact, it is usually successful.

When we call for structural reforms in return for financial assistance, this isn't some narrow-minded mantra being repeated by people who have lost sight of the big strategic questions of the future. In fact, this may well be the most important long-term strategic question we face today. We in Europe will be able to cope effectively with today's global crises only if our member states have strong economies and resilient societies.

Since 2010, we in Europe have been working hard to fight our internal economic weaknesses. Yes, we face external challenges, but we face internal challenges, as well. If we let ourselves become weaker internally, we won't be able to overcome the challenges from outside the EU. And we can't allow this to happen.

In the long term, the conflict with Putin's Russia will be decided only on the basis of economic strength. Military power can stop an opponent, of course. We see this, and we are working together with you on this in Iraq and Syria in the fight against the Islamic State. And, of course, we in Europe continue to depend on the United States for our security, but the conflict with Putin's Russia has features of a new systemic conflict, and it is a conflict that will be won by the side with greater soft power and economic strength. European sanctions are definitely having an impact on Putin's Russia, but we can afford these sanctions only because and as long as we have a strong economy. The conflict with Russia is also a conflict over what makes up power in the 21st century. Is it domination over territory and physical space that counts? This is what Putin's Russia stands for. Or is it the power to shape global structures, networks and the world-wide exchange of goods and ideas that counts? This is what the United States, Europe, and the shared project of the West stand for.

In our joint efforts to ensure the success of the West, Europe can be an effective partner for the United States only if it retains a successful economy. That's what we are trying to do, but we are following our own formula and we will succeed. Thank you very much. (Applause)

MR. DERVIŞ: Thank you very much, Mr. Schäuble, for a very comprehensive and at the same time focused and relatively short speech, which is sometimes rare in this room, but it's very good.

Let me ask the first question, a little bit on the spending issue. You said spending should not grow faster than GDP, you talked about government spending as a whole, but, as you know, there's lots of debate -- and I'm sure you've taken part in many of those debates -- that spending that creates productive assets -- and this could be people in the digital age, it could include education, it could include infrastructure -- actually creates assets in the public sector in the long run or for the nation.

And at the time when Germany can borrow long-term at negative real interest rates, and at a time when it has a $300 billion-plus surplus probably in the balance of payments in the current account probably this year, don't you see a much more important role for public investment in productive asset creation, which doesn't have to be physical? I mean, as I say, the right kind of education in the digital age is part of that. So, in a way, isn't that a win-win situation for everybody? The public sector improves its long-term balance sheet, Germany's growth rate goes up, Germany's current account surplus goes down. And, to some degree -- not to a great degree because there's a lot going on with the outside world -- to some degree, it helps the whole eurozone.

MR. SCHÄUBLE: In my view the question is a little bit too simple. I'll be very frank. Even if you pay low interest or negative interest -- I'm not very much in favor of long-term negative interest rate to be very reluctant in this regard, but even if you pay low interest rate, you increase your debt. And sometimes you have to pay your debt or otherwise you create an increasing fragility. And you know, all around the world, that is what I tried to mention shortly -- normally I tend to speak longer, but I said I would prefer to take a lot of time for Q&A -- one of the major problems of the world economy is the high level of indebtedness. If you take all of the sovereign debt, housing debt, Communist debt, and that is what has been said and what is shown for increasing concern. To increase this indebtedness is not a really good solution. One question and the number one.

And the number two is, this morning I got and economic outlook of the economic research institutions in Germany, which is a tradition in Germany in spring and in fall -- in autumn. And they have said, yes, okay, we raised up the growth expectation for this year, for the coming years and they have given the recommendation not to increase our expenses, but to reduce our taxation.

We have said we will spend in our government any euro we have additional available for increasing infrastructure investment because, of course, we have a lot of problems in infrastructure. Of course, if I increase infrastructure investment -- you know, Germany is a federal system. We have government level, we have the federal government, we have state level. We have to have in mind can the construction industry deliver more? Or will we only raise prices? Therefore, I think we have found a balanced way to increase investment in infrastructure, roads, railroads.

By the way, since Angela Merkel has become federal chancellor in 2005, she has very much relied on strengthening the part of federal budgets -- increasing the part of federal government which is for research and education. And no government, never, has increased the expenses of our research and education more than -- it’s a different Merkel government in (inaudible) and even in this year we have increased and, you know -- you personally know, since you know Germany very well, that education is mostly to the state responsibility.

But federal spending for states -- to support states to raise money for education has never been increased in so high numbers as we did in the last couple of years, and even in this year. I could tell you a lot about it, but you're not interested in Brookings in details.

So, having said this, I think the balanced way to say the problem is not only investment. The problem is in any member state, even in Germany. Look, I always have to be careful, that is my most challenging task for me, because I always tend to be not so careful.

MR. TALBOTT: Don't try too hard. (Laughter)

MR. SCHÄUBLE: Okay, I will always fail in my best intentions. If I have mentioned institutional framework, a lot of economists all over the world are telling the most important thing are institutional framework. I could tell you in some eurozone member states the weakness of institutional framework as the main reason of not sufficient growth.

Even in Germany, if you look at how long it takes time until you get administration license to maybe build a new airport, oh, dear, that's a -- (Laughter) -- to be very frank, that's institutional framework. After German reunification we got -- it's very difficult to get it in German public opinion because of environmental protection, there's a lot of reasons. They are all legal procedures.

After German reunification, we got some exemption from the normal to disobey for the licensing of investments to be implemented, only for infrastructure in the so-called new (speaking German). It's a form (inaudible). When we asked Parliament, especially the second chamber in Germany what is not to be compared with the American Senate, but even more difficult for any government, if that is possible, I don't know, that we could use this good experience in general terms? No, no, no. Not at all. Institutional (inaudible).

In some other member states it's very difficult to get structural reforms in relation to labor market implemented. If you discuss with my French friends whether it's Michel Senpa, whether it's Emanuel Macron, they can tell you a long story about how difficult it is in French public opinion. And, of course, political parliamentary majorities to convince that factual reforms in the labor market are needed. Spain did. Spain was, by the way, forced by the institutions -- what we used to call troika -- in the programs and it was very successful.

France would be happy if someone could force the parliamentary, but that's democracy. It's difficult to get.

As long as you give them a way out, you will never get the hard decisions you have to take and that is what I call -- you know, any democratic system, in my long experience, tends to take the more comfortable decision, if you have the alternative to do so. And you have only get tough and long-term needed decision if you have no more comfortable alternative, therefore, I am thinking we must give the right incentives.

MR. WESSEL: Let me follow up on that. Germany has a large current account surplus despite the investment program that you have outlined. And despite your calls for higher wage increases, the IMF predicts it will be 8.4 percent of GDP this year and your output far exceeds your domestic spending. What responsibility, what opportunity does Germany have to address that imbalance in ways that would benefit German consumers and workers and make Europe somewhat more balanced?

MR. DERVIŞ: Could I add one thing to this question? The German savings that are indirectly invested -- you know, the surplus savings -- about 25 percent in liquid assets, including with the target balances at the Central Bank, that bring the

German saver a negative return.

MR. SCHÄUBLE: Yes. But our current account surplus -- we have to differentiate a little bit. Every current account surplus inside the eurozone and do we have a current account surplus as the eurozone as a whole because we are a monetary union. Until the last couple of months when we have two very specific reasons for current account surpluses: the fall down of petrol and, of course, the beginning of the exchange rate of the euro. Since then we've had, the eurozone as whole, a balanced current account. A balance. Without a German surplus, we wouldn't have a deficit. We would have -- the eurozone as a whole would have been criticized in the IMF frameworks and the G-20 frameworks again and again as being a deficit part of the economic system. Therefore, the German current account surplus has contributed to a balanced current account of the eurozone as all.

Number two, our current account surplus has been reduced in the last couple of years until these two exceptional causes, which are -- I think they are only timely. And I never recommend monetary decisions because in Germany it's a longer distance that we strongly support the independency of the Central Bank and that it's even more needed in the system of the European monetary union, of course.

But, of course, it was to be foreseen. It was also foresaid if we would get by even by monetary policy -- not only by monetary policy, but not at least by monetary policy decisions -- a weakening of the euro exchange rate. Without any doubt there will be an (inaudible) of the German surplus. That is unavoidable. So that is only for -- it's only time, it's not long-term sustainable. Therefore, on the long-term we are reducing our current account, but, by the way, don't underestimate. We are spending a lot. A huge part of our current account surplus in foreign direct inducement. We were part of the major foreign direct investors. We always ask for more foreign direct investment. Again,

again, we are doing. We are delivering.

And, therefore, we have in mind that we have -- I know, in line with the rules of the Europeans with a brilliant prospect, since our current account surplus has been increased since the last couple of months, the European Commission has taken a procedure to examine what is going on. That is in line with the European rules. I'm fine with this, I accept it. But I'm quite optimistic we can say, okay, we didn't -- this has nothing we have manipulated.

We are concerned, by the way, we increased the wages in Germany much higher since GDP is growing. We have the highest increase of (inaudible) wages. We used to have since decades, actually. The German finance minister has, by the way, already in 2011, publicly said Germany can enjoy and can risk higher increase of wages than other European member states, ever we care on our responsibility, even in the inter-dimension of several places, but please don't underestimate. We have been, after the beginning of this new government, after general elections in late 2013, there was a lot of criticism -- including the European Commission, including the IMF -- that we have with some decisions and agreements in our coalition treaty, let's say, some flexibility in the pension rates.

Increasing pensions for mothers, we have been too complacent and we should care on our long-term or medium-term competitiveness and we should not be too -- we have to have in mind that it will become complex. We have said, okay, we will have in mind, we will do it, but even in Germany we have to have in mind that we have a strong position, actually, but in the medium term, the competitiveness of Germany is not grounded. We have to work for this.

And, last remark, if you ask my European colleagues, would you prefer an economic weaker Germany with a lower current account surplus, they would say no.

And even in the IMF we will get Europe is growing and we have Germany as the driver for European growth. So it is difficult to do everything right.

MR. WESSEL: Speaking of difficult to do everything right, yesterday you mentioned that despite all the headlines about Greece that there'd been very little contagion in the bond markets from the higher yields in Greek bond market to the periphery of Europe. Did you mean to suggest by that that Europe is now strong enough to lose a member from the eurozone that can't do its homework?

MR. SCHÄUBLE: No. I have been asked whether there would be a danger for global economy and, of course, I've felt myself as, do you -- the German finance minister, you German government -- know your responsibility for Europe as a whole for global stability, not only economically, but also politically. Do you have in mind something that would like to tell all the audience? Please believe, we know. We have in mind our responsibility. We don't care -- I'm quite sure I would -- we will, whatever will happen in Europe, will not take the risk to endanger the stability of the global economy and we know, of course, our political responsibilities. That was the very reason why I asked.

Of course we know you will have my Greek colleague this afternoon at Brookings, as well, it will probably be fine. You know, Yanis Varoufakis is a very experienced economist and you can listen to him, what he is saying. We have ongoing discussions because the second program we agreed on Greece has been ended and normally it was until the end of 2014.

We have extended this program twice. First time in February and now we have extended it late February until the end of June and Greece is trying to get the pending disbursement of this given program, which is together 1.8, $1.9 billion, $3.7 billion, but they can only get on behalf of this memorandum of understanding if the three institutions can give a report to the Euro Group that Greece has broadly -- not 100 percent, we never ask for 100 percent. We are not as perfect as we have sometimes be told. No, by far not.

But these programs have always been -- the key of these programs is that we had decided that we want to help any member state which lost access to financial markets to buy time in taking liability. We did it for Italy, for Ireland, Spain, Portugal, Cyprus, and for Greece. For Greece it was the most difficult and the most -- it's very difficult.

Then we have drafted the program to have in mind, how long will it take time until the member state concerned -- in this case, Greece -- can get full access to financial markets, full access? In the case of Greece it was the year 2022. If you may ask Madam Lagarde what is in the lines of the rules of the IMF, it's very difficult to get the approval of the IMF for this. We did it, including a haircut, of the private sector by 53 percent. Of course, and financial state access to markets is defined on behalf of these rules -- it's not my invention -- 100 public debt, not over 120 percent of GDP. That was to be achievable in 2022.

Greece was delivering better than was expected in the program, but, of course, you need a primary surplus if you have a debt-to-GDP ratio by, actually, let's say 160, 170 percent, you have to have a primary surplus to reduce it this quickly.

Therefore, the Greek government -- any Greek government -- has to tell someone what do you think? When will you get access to financial markets? Because then, of course, if you don't have access to financial markets you need someone who will lend you money. The Europeans have said, okay, we're ready to do it until 2020. Suppose you will block that in 2022, you can't deliver. That is the dispute, that is what is on slate to be negotiated.

If you find someone else, whether it's in Beijing, or in Moscow, and Washington, D.C., or New York, who will loan you money. Okay, it's fine. We will be happy. We will be ourselves. But I bet it's difficult to find someone who is lending you in this situation -- amounts by 200 billion euros. And at that time it was much more that $200 billion, indeed, if we'd done these things. Therefore, it's not as simple as it has been said and, therefore, we are saying, please, if you don't deliver, we can't disburse (inaudible), so last pending disbursement.

It's not a matter, by the way, of the Greek debt. The Greek debt is a given. Greek debt is a matter of the actual primary surplus. It's a matter of the actual competitiveness of Greece. The matter of Greek debt is a question which will be raised long after 2020 because the Greek debt is financed for 30 years, in general. And the interest rate, which Greek is paying in average on its total debts is seriously below the interest rates the finance minister has to pay as the German general debt. Not to be.

Therefore, the restructuring of debt is not in the given situations the most problem. The problem is regaining competitiveness, to get a primary surplus.

MR. WESSEL: So what should we ask Minister Varoufakis when he comes here?

MR. SCHÄUBLE: Oh, no, I will not take you as agent because I have -- look, as European finance ministers meet so often -- I met my European colleagues sometimes more often than my colleagues in my own government. I don't need any intermediate. I have good contacts. (Laughter)

MR. WESSEL: I just thought I'd offer.

MR. SCHÄUBLE: Thank you very much, thank you very much. (Laughter) But give him my best regard. I hope to see him in the days of Washington and the IMF.

MR. DERVIŞ: Mr. Schäuble, one more question, I think, before we might turn to the audience. I mean, I have had the honor and the luck to follow your career for quite a while. You are a great European. You believe in Europe more, perhaps, than many, many others on the scene in the European scene now and I've had one meeting with you where you, again, reaffirmed that strong belief. And I also think what Europe has achieved over the last decades is a fantastic achievement when one thinks of where it came from.

But at the same time it seems to somehow run out of steam. The participation rates in European parliament elections are disappointing and I've been falling -- particularly disappointing in the new member countries. And, somehow, the enthusiasm that you have and I -- well, I'm not a member, but I also still have -- is very fragile. You have a situation where Marine Le Pen is close to 25 percent with a program of one thing to get out of the eurozone with taking credits from Moscow. Twenty-five percent of a large European country is quite a figure. You have the fact that the Greek government still, I'm told, in the polls has 70 percent support of its electorate. How can this monetary union -- you told us how the debate took place, but I have the feeling that most people -- I don't know, I don't want to speak for you -- but something has to happen for the monetary union to survive on the political sphere and that has to do in a way with Europe regaining some enthusiasm, some dynamic that gives confidence in the future. How do you see that dilemma, as the great European that you are?

MR. SCHÄUBLE: Do we have another two hours? (Laughter) And that's the key question, but it's not only the question of Europe, it's also the question of all the Western democracies and societies, to be very frank.

If you look what's going on in U.K., not part of the eurozone, I could mention a lot of other (inaudible). First, I would not have tried to not to answer your question in concrete, but I wouldn't -- I can't only react with -- beginning with some general remarks.

I think it's in the substance of the human being that whatever you have, it's not as worthy as what you want to have. And then, we could -- wonderful (inaudible) in this part of Germany which used to be the GDR and the Soviet Union system until 1990, and the first free democratic elections, the participation rate was by far above 90 percent. Since, people are sure that they have the right to elect a free and not manipulated democratic elections, participation is going down. Not only in European elections, by the way.

I heard said in Germany the saying, oh, yes, of course it's on behalf of all the political parties, don't bother, we're terrible. Okay, let's say it. In local communities, when we elect mayors it's often the case that mayors are not candidates for a party. We even don't know if a candidate is a member of a party or not. The participation rate in local elections of a mayor is below the participation rate of the European elections. Therefore, it's not a problem only of Europe, it's a problem of people saying that democracy is granted, we must not care. It's wrong. Democracy without democrats is always just a little bit risky, but, therefore, it's my first remark.

Second remark is so far it's an overhaul, but what can we do? We have to care. We have to think about it. I think we have what we -- I'm asking again and again that we do it, Strobe, in a Western common discussion. How can we end this change of communication by the IT revolution, which is not really understood what it means for our society, for our democratic system, blah, blah, blah, for the procedure of our communication?

And democracy has re-lighted with communication. How can we find a pathway to make -- to set the modern communication system, with modern technologies and this fast speed, is fit with our Western values of democracy and rule of law? I'm quite sure that democracy will only work on the basis of our representative democracy. It doesn't, we see. Non-representative that may work in Switzerland, but not in the -- it doesn't (inaudible) the presentation, it has no democracy. We know it and we have to find the link between democracy and the rule of law and separation of power, all with these relations between the different legislation. Executive power is also disputed even in the U.S., by the way, if I follow what is written in media in Germany on U.S. discussions.

And not to mention the jurisdiction, as well, but democracy is not grounded, but I am quite sure most people -- not only in the Western world, but all over the world -- if they have to choose, they want to choose for our values. Therefore, it's our responsibility. Not to forget that it's not granted, but it is worthy.

Therefore, my third remark is, and then I come to Europe. I'm quite optimistic. As soon as it is a little bit questioned, it becomes better -- by the way all the euro skeptics movements in Europe has not been as successful as expected in the last election, including France. If you look at the elections on the (inaudible) department, the result it was too high performance and not much more, but it was not as high as expected.

If you look at Finland, in Finland there will be general elections on Sunday (inaudible). UKIP in U.K. doesn't play in the general election. You may ask (inaudible), he's arriving in Washington, D.C., this afternoon. It will not play the role it was expected one year ago.

Even in Austria, if you'll remember, it was in the late '90s when Hieder, no, we're only concerned with the heritage of Hieder in the (inaudible) and you must not care in the U.S. and vice versa. (Laughter) And sometimes I'm not as pessimistic. I'm not as pessimistic. And as soon as it is questioned, therefore, I'm saying the world is moving trial and error, to quote Karl Popper, and it's the advantage of a free society that it can learn from errors. Dictators cannot be corrected.

And having said -- coming to Europe, even in Europe, if European integration would be at stake you will see huge majorities all over Europe to defend European integration. The European integration in its basis is not really disputed. Even the so-called euro skeptics are -- if you asked them, do you want -- are you not in favor of European integration, they say, oh, no, no. We are also in favor, but not. It's the way it's just done to actually, but not concretely, but in general we are in favor.

There are no huge dangers that we really fall back in nationalism in the part of Europe that is part of the European Union. We have the problem in Russia. Russia is moving -- the Putin government is relying on provoking nationalist sentiments, which is in the short-term successful, but in the long-term not (inaudible), no, but I'm quite optimistic.

But then we have to care. What I've been doing in Europe, we are too bureaucratic, you can't understand how our decision making works, it's true. They have been struggling. The German government is in favor of (inaudible) amendment, difficult to get, but someday we will get it. To make it more efficient, more transparent and thanks to the European parliament, by the way, we have achieved the progress. European Commission, not every head of state and government has liked it. I don't quote one, but you may have followed. But the role of the European Parliament has been strengthened after the last election.

And this possessed -- this dervish going on. If ever we have to -- if you tell people whatever they agree, it's not worth it because they will not stick to what they have agreed. You are not right, even if the German finance minister, the stupid guy, is asking for -- to stick what would have been a great implement, it's to defending Europe. To tell people, now we can trust each other. German has, by far, actually the most advantage of the economic integration in Europe and of the monetary union. Therefore, it's quite clear -- I tell this to my fellow countrymen again and again and again -- it's in our own interest to defend our European currency, and so -- but sure.

Therefore, we have to grant solidarity. Without solidarity, no community works, but solidarity is never one way. It's a double way, it's a two-way procedure, otherwise it will not work. And, therefore, as long as we don't have institutions we have to work for confidence that agreements or rules are taken, not more.

MR. WESSEL: Thank you. I think we have time for some questions. Bill Drozdiak here, start. Please, tell us who you are, wait for the mike, and remember questions end with a question mark.

MR. DROZDIAK: Bill Drozdiak, Brookings-McLarty Associates. Herr Minister, nice to see you again. I have a question about the long-term competitiveness about the German economy. A lot of major German companies are saying they're leaving Germany because of the high costs of energy there. Some of them are stepping up their capital investment here in the United States, like Siemens, BASF.

In your view, unless there's a radical change in the energy policy of your government, is there a risk that there will be a hollowing out of Germany's industrial base?

MR. SCHÄUBLE: I know that energy is really a problem in Germany. That is not to be disputed. And for some energy -- on behalf of the energy prices, it's difficult to stay in Germany and to remain competitive. That's true.

But government does care. I think we are moving in this direction. We have taken the decision that after the disaster at Fukushima we had made a very short limited change in our nuclear energy policy. Actually, we have too much renewable energy. That is one of the reasons where energy is so expensive. It is not easy to be corrected, but it will correct. I think we will not see in the coming years a deindustrialization process in Germany.

You must not believe any quarrel of CEOs of major companies. They have to take their interests (inaudible). (Laughter) Having said this, we care when the energy drought, but we have another problem. Not only Germany, but all Europeans are risk givers. One of them -- the most disappointing news I get in my time of finance minister was in the beginning, I think, of 2011. The BASF, the major company all over the world in fruit and plant technology -- green technology -- moved all its, not only research, but all the production capacity from Europe. From Germany to U.S., not on behalf of German regulations, but on behalf of European regulation.

It was not, you know -- that was one of the key problems in the negotiations of the TTIP issue. We have a different view on gene manipulated. I am not the best expert on this. That is, also, we are risk givers and, of course, we have to discuss how can we link the needed innovation capacity, the speed of innovation.

If you look at the new technology, we all know that teaching the recession of economy is a must. We have the Hanover (inaudible) this week. It was opened on last Sunday by the English prime minister and the federal chancellor and, of course, it’s called “Industry 4.0.” What it means (inaudible) recession of economy, industry. I think we have taken this and soon we will be successful and Chancellor Merkel and her government is very engaged in this, but if it comes to data protection, you know the discussions because it’s what I meant when I said we should start to discuss how we can find a good relations between the revolution in communication systems and our values because, of course, privacy -- and not to be manipulated without any limits and without any control, and who controls the data, and no wonder it's a huge challenging problem, not only for Europe, but also for the U.S.

I bet sometimes we are -- most normally the U.S. is far ahead in development before Europe and Europe is following. Sometimes we are ahead and you will follow in some discussion. I bet (inaudible) protection is been increasing, but actually we have some principles in European legislation, what is a little bit in my view strange, but now I have to ask German journalists to leave the room because I will create a lot of mess. (Laughter)

To make it a little bit blunt, you can have the feelings that in European legislations the principle is in the data collecting. What is not allowed is forbidden. I think this principle must be questioned because if my reading of the history of freedom is, normally it's allowed what is not forbidden. If you make it the opposite, you have to have in mind what will happen at the outcome. And you can see it. It's not easy, if you look really why we are -- I think we speed up, even in the digitalization of the (inaudible), please.

Wait and see. You have made a lot people, that's Anglo-Saxons, including U.K., have relied sometimes too much only on services, financial services and so on. We have always tried to have a balanced way between real production and modernization and services and digitalization, so we will still compete.

MR. WESSEL: Eswar Prasad?

MR. PRASAD: Eswar Prasad from Brookings. Mr. Schäuble, let us assume for a moment that the Greek government does everything you want it to do, broadly speaking, in terms of fiscal reforms, in terms of structural reforms, yet there is a crushing debt burden that Greece faces of about 175 percent of GDP. Assuming that Greece does everything you want it to do, do you see a viable part that Greece can survive and prosper within the eurozone without a debt restructuring and what would that path look like?

MR. SCHÄUBLE: Yes, the answer is clearly yes. I do not want anything from Greece, but Europe does want that everyone sticks to what has been agreed. That is called the Memorandum of Understanding and that has to be discussed, as I just mentioned, by the three institutions and they'll tell us, blah, blah, blah, and so. And the Greek program, including this debt-to-GDP will actually -- what have you said, I don't know the actual number precisely, but it's about 170 percent.

In this program the assumption has been that until 2020 this ratio will be below 120 percent. In the years since this Memorandum of Understanding has been agreed, the numbers have increased far ahead of the program. Growth has developed faster than expected. Their using deficit has developed faster than expected. They got earlier primary surplus than expected, therefore Greece has been on a very promising way.

Since they have campaigned, it's a sovereign-decided decision of Greece. People can't imagine and now we have a new government and they wanted to change this. Okay, you are the democratic-elected government with lots of respect, but tell us how you imagine how you can get someday access to financial markets? Maybe you will ask Mr. Varoufakis. But, once again, what I have already said, if he wanted to tell you, it's in six year -- I don't know, but now how long he will serve as finance minister. Let's say he will serve the next six years and this six years his most problem will be not debt restructuring because the Greek debt is for a long time very modest financing, therefore, debt restructuring may be a problem in future decades.

Today the Greek government has total different challenges, huge challenges. I would never change my job with him. I'm quite happy. I have a much better position, much more comfortable, very far. But as long as they are telling the problem is debt restructuring today -- no, the problem is today's -- since I have to move in a way that Greek economy is becoming a little bit more effective. The Greek economy can deliver increasing part of what Greek people want to enjoy. And you have to know -- maybe you can ask how he will explain, that the minimum wage increase, by law, is still higher than in some member states of the eurozone; that the ratio of people occupied in administration is still -- before this government has hired again people who have been reduced in the last couple of years.

The ratio of people occupied in public administration is higher, I think, than in every other member state of the eurozone. And that is difficult to become a competitive economy, not to mention the very difficult challenge to build up institutional framework increase. What is there -- not to criticize this government, but I'll not do it. All these problems are inherited from former bad times, for sure, but that is the real challenges of this and not to blame the Europeans not to understand how economy works. Even Yanis Varoufakis, who is a famous economist, is not the first economist in world history, no.

MR. WESSEL: Fiona?

MS. HILL: Thank you very much. Fiona Hill from The Brookings Institution. Obviously, most of the questions on your presentation has been about Europe and the eurozone, but you're here against the backdrop of global meetings for the IMF. And I'm wondering if you might make some observations about Germany and Europe as a global economic player?

We've just had this rather unfortunate apparent rift between the United States and many of its European partners on the new Asian Investment and Development Bank set up by China. You mentioned the U.K. just a few moments ago.

The U.K. and other European countries have been very quick to join in with this institution and there's a lot of questions now about the implications of this and I just wonder if you can give us some of your observations and thoughts on this general set of issues. Thank you.

MR. SCHÄUBLE: I think, of course, we Europeans have always in the IMF meetings have to explain what we are doing in Europe. And I think the Chinese have to explain what they are doing in China. Everyone prefers to explain what others to do, but it is better to explain what you are doing. It's more difficult because you -- therefore, we are speaking about what we are doing in Europe.

I am strongly in favor, and the German government is strongly in favor, that we strengthen out Atlantic partnership, as well, and, therefore, we are very much in favor even to use the G-7 umbrella and instrument and so to make it efficient.

In this very specific case of the AIDB, this China's (inaudible), I would say -- I would thrust the mic inside -- we all would be very happy if it would be possible to someday convince the U.S. Congress to implement quota reform of IMF. It's always very difficult and we always try not to blame U.S., but it makes things difficult because you can't lead economically and politically as this globalized world only by, to quote Joseph Nye, hard power. You need soft power and soft power needs reciprocity in some regard.

I could mention a lot of -- as a strong, poor Europe -- poor Atlantic man, as Strobe Talbott had so rightly mentioned, I could give you a lot of examples, very complete examples. So then this AIDB is problem. I would have been much in favor to have a common position of all G-7. We didn't achieve it, but what we managed to do is we did it in a closed context. We had a lot of high rents because, actually, I'm the president of the G-7 finance ministers, we have a lot of very concrete and open discussions about how we can manage, some of the G-7 is joined.

U.K. is always leading in Europe in any regard of European integration, therefore, they went ahead. (Laughter) France, Italy, Germany have decided that together now we have a common position for negotiations on the governance, on the conditions, and all this. But we also communicate and we will do it even by the occasion of this meeting today and tomorrow to not only discuss under these G-7 members which have decided to join, but also with our American best friends and most important partners, and also with Japan and Canada.

We will try to have common position as well with Australia and are going to avoid that this issue will cause any additional problems in the transatlantic relations because we have had too much problems. None of these problems have been needed. I didn't see any necessity for any of these problems, but we had too many problems and now we are reducing it because we will succeed. We Europeans, as well, only on the basis of a close cooperation. We have common values. If we want to work for our values and then totally decided to do it in this global, as well, I'm quite sure that 80 percent of this 7 billion people prefer to live in line with democracy, rule of law, social coherence, economic sustainability. I don't know.

And you can know, all dictators are very nervous. They have much more confidence in the superiority of our values than they themselves sometimes have. And, therefore, we, ourselves, sometimes have. And, therefore, I'm quite optimistic we should work -- we should have this in mind. But what I said on the motivation of European people for European integration on the questions of Mr. Derviş, we must never think what we have achieved is granted for the future. That is what we have to do.

MR. WESSEL: The gentleman in the pink shirt here. The last question, I think.

MR. DEMATTIS: Thank you very much. Mr. German Minister, my name is Stanos Demattis and I represent Alpha (inaudible) of Greece. I'm a native Greek journalist.

MR. WESSEL: Could you hold the mic a little closer?

MR. DEMATTIS: Yeah, I'm Alpha (inaudible) of Greece. My name is Stanos Demattis. I have two questions for you, Mr. Minister.

You know that accordingly to several Greek media and international media reports, a lot of the members of the Greek government, especially in the pre-electoral process have demonized you as representative of the German policy that, accordingly to their views, you're trying to impose in Greece austerity measures. How do you perceive that? What is your reaction on these arguments?

And, also, I think that the Greek people need a clear answer from you about the potential correction. Do you think it is something which is on the table if Greek government and lender does not reach any agreement until June 30? Thank you very much.

MR. SCHÄUBLE: If you want to stay in politics, and I do it by enthusiasm for a long time already, you have to know you will be criticized. That is, if you don't stand by the heat, you must not stay in the kitchen. That is quite clear.

By the way, it's not a privilege of Greece that media write a lot of nonsense. (Laughter) It's not a privilege of Greece. You can use -- there are protocols of meetings of the federal government in Germany. You can, as a journalist, you can read all these things what I have said since 2010 on Greece. I have always said, in any speech, please, please, my fellow countrymen, don't make Greek bashing. People in Greece suffer much more than most people in Germany and we have to be and we should be -- I could tell you even in German media there have been things, I wouldn't be pleased. I have not been pleased as German politician and I wouldn't be pleased as a

Greek citizen. I am not a Greek citizen, so, therefore, I don't -- by the way, I have not learned Greek language. Therefore, I can't read Greek newspapers. (Laughter)

MR. DEMATTIS: Maybe I (inaudible) you can learn.

MR. SCHÄUBLE: No, look, I am 72 years old. I will not learn to read Greek. (Laughter and applause) Impossible.

Having said this, I have a personal good relation with Yanis Varoufakis. I have never -- and even he did never make a personal offense to me, not at all. And I know we have different political opinions, to be quite sure, but I have a lot of people in Germany, even good friends, which have very different political opinions. It's a different (inaudible) and so forth.

I think and I know in campaigning, political parties, political leaders, including myself, tend to say things, if they will be asked later on they would say, uh, I didn't say this really, or that didn't -- no. Of course, therefore, I am not personally in any regard related. Of course, sometimes you think -- and the real story is, I will tell you a secret. In the last couple of years, not only in my own party, I was for a long time seen as a very dangerous man who would be too generous, spending too much money of Germany for other people, and not to be (inaudible).

And I have often been recommended by people from the IMF that I should be have in mind as soon as I have a friendly discussion with a Greek colleague, it will be misunderstood that Germany will not support (inaudible). So that's a normal political -- it doesn't change anything in the problem's absence. And, once again, I have to be very careful because always the media tend to make news. There is no news on situation on Greece. If Greece wants to get more money and in the given program you may know the Greek prime minister said we don't want another program. That's fine. Nobody will ask Greece to take a program.

It's different as the situation, I know, if we will continue to have negative interest rates. Banks will have to advertise, who will take my money? I will pay something if you take my money. That is not the case with Greece. (Laughter) We don't want that everyone asks for our money, but if Greece wants to get the disbursement of the pending transfers -- one is 1.8, 1.9 billion, in the given program -- Greece has to fulfill, to deliver what has been agreed. If not, it's fine. Then it's up to Greece to decide what is going to happen.

Of course, if my Greek colleague would ask my opinion, my advice, I would give, but not publicly. Not in this forum. No, not at all. It's the decision of the Greek government and the elected parliament, with all respect, to decide what will happen. Therefore, you have to ask Yanis Varoufakis what will happen. Not me.

Please?

SPEAKER: About the exit from the euro, what's your message to the Greek people on that question?

MR. SCHÄUBLE: It's only a decision of Greece.

MR. WESSEL: Thank you. Okay, our time is up. If I can ask you all, please, to stay in your seats so the minister can leave, we'd appreciate that. As you know we have a quick turnaround time to Yanis Varoufakis, so if you got one of those little red stickers you have a seat for the Varoufakis thing, I would recommend you keep it. If you don't, you're supposed to leave and Kemal will personally escort you out if you stay in the seat. (Laughter)

Thank you very much. Please join me in thanking the minister for his time. (Applause)

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