# Europe and America Need Growth

Remarks by His Excellency Peter Ammon, Ambassador of the Federal Republic of German to the U.S. at The European Institute in Washington, DC

November 8, 2012

Europe may be an old continent, but it still is the largest economic entity in the world and the most important economic partner for the US.

German investment alone has created more than 600,000 jobs in the US.

Transatlantic trade is over $600 billion, the transatlantic economy accounts for over 50% of world GDP. And for many German companies, the United States is almost a second home market.

Take, for example, BMW's engagement in South Carolina. Since 1994, BMW has invested more than $2.2 billion in its Spartanburg production plant. Approximately 7,000 employees have produced more than 2 million cars. You may be surprised to hear that, according to data from the U.S. Department of Commerce for 2011, BMW is the largest automotive exporter from the U.S.

But it is not just about German blue chip companies being successful in the U.S.

In fact, one in every five euros from Germany invested abroad went to a company in the U.S., and this includes many U.S. subsidiaries of German small and medium-sized companies.

The direct investment of both countries reflects a deep sense of mutual trust, which is felt from big global players down to the smallest firms.

So it is important that we have a European Institute in Washington D.C., which has always been an important voice in calling for deeper and better understanding of transatlantic relations.

As I have said, the EU and the U.S. are each other's most important trading and, even more important, investment partners.

The transatlantic marketplace remains the most important global market.

Like an aircraft needs two wings, we have to develop the transatlantic marketplace to complement the Transpacific Partnership.

Europe – like America – urgently needs growth.

Traditional instruments to stimulate growth, like fiscal deficit spending or conventional and unconventional monetary policies, have reached their limits.

The only bullet left is a new dimension of free trade.

Already in 2007, Chancellor Merkel and President Bush took an important step to this end during the German EU Presidency.

They established the Transatlantic Economic Council – the TEC.

So far, the TEC has already been able to abolish a series of non-tariff barriers.

At last November's EU-U.S. summit, our leaders went one step further and set up what is known as the "EU-U.S. High Level Working Group on Jobs and Growth," which operates under the umbrella of the TEC.

Its job is to look into every opportunity to deepen our economic relations.

This includes a potential free trade agreement.

I recommend reading the conclusions of the last European Council Summit: The EU leaders expect to launch negotiations on a comprehensive, barrier-free transatlantic marketplace already in 2013.

After all, we have common goals: to promote trade and investment, to achieve stable economic growth, and to improve our international competitiveness.

So do not be surprised that Germany will continue to call for a comprehensive and ambitious new initiative.

It should be far-reaching and comprehensive.

Our future should not be held hostage by individual issues and sectoral interests. What counts even more is liberalization of trade in services, free access to government procurement markets, as well as alignment of standards and rules on key areas of the economy, for example intellectual property rights and investment, to name just a few. And, although tariffs between the U.S. and the EU are already low, an additional lowering can provide a significant boost to growth, given the huge volume of our trade.

Any growth we manage to unleash in transatlantic trade will leverage up the immense scale of our transatlantic trade and investment volume. It is simple math: Increasing growth by one or two percent on more than 50 percent of the world's GDP gives an astronomical sum.

Let me say a few words on the debt crisis.

First of all, we are talking about a global phenomenon.

At the beginning of the century, money became cheap. High savings in Asia and other emerging markets and low interest rates set by central banks made it easy to borrow. As a consequence, many governments in the developed world started to live beyond their means. The private sector in some countries also took up huge debts when the real estate market became a bubble. Debt-to-GDP ratios bumped up by about 20 percentage points.

Spreads skyrocketed overnight.

So, for a number of European countries borrowing at the financial markets became so expensive that they simply could not afford it anymore. Therefore, a rescue strategy had to be hammered out for those countries in need to refinance until they regain access to the markets.

The rescue strategy relies on 3 pillars:

1. Solidity: government expenditure had to be made commensurate with government income.
2. Solidarity: A rescue fund to provide financial life support.
3. Growth based on domestic reforms – flexibility of labor and product markets and increasing the efficiency of the public sector, cutting red tape and creating efficient tax collection systems, to name just a few examples – have to be implemented on the supply side of the economy.
   Sometimes that means overcoming vested domestic interests from some quarters of society that had enjoyed privileges in the past.

All three elements are part of one great bargain: There can be no solidarity without solidity or without reform. And reform is politically almost impossible without solidarity.

The good news is that the painful process of de-leveraging and reform is starting to bear fruit. The budget deficit of all euro zone countries taken together has fallen to 4.1 percent of GDP in 2011 after a peak in 2009 of 6.3 percent. Current account deficits are shrinking, and, most important, the spreads on sovereign debt for countries in trouble are coming down again.

Italy, Spain, Portugal and Ireland now pay less for their bonds than they did before joining the euro. Just today, Spain was able to refinance itself for the rest of the year at even lower rates.

Not much mention is made in the US about the solidarity shown among European partners. In Germany alone, the Bundestag voted – in a bipartisan vote – for loans and debt guarantees worth more than 200 billion euros for the temporary rescue scheme. I find that quite remarkable.

So how is our strategy implemented?

With the creation of the fiscal compact, European leaders have created a new fiscal rule to be introduced through legislation, or – better yet - at the constitutional level of the member states, which will ensure balanced public budgets.

Within a few years, government budgets must be balanced or show a surplus – the annual deficit should not exceed 0.5 percent of nominal GDP. Germany – for example – has adopted a balanced budget amendment in its constitution. Our budget deficit stands at 1.5 percent, and we are on track to balancing our budget by 2016. Once a member state is recognized to be in breach of the 3-percent ceiling by the European Commission, automatic consequences will follow.

But exclusive reliance on the consolidation process and discipline in public finances may not always be sufficient.

Consequently, European leaders have introduced a number of new instruments designed to spur growth, stabilize the euro area and deepen the Economic and Monetary Union.

The European Stability Mechanism (ESM) is the main tool to guarantee financial stability. This 700-billion-euro firewall will be able to provide assistance to euro area member states with liquidity problems. Germany accounts for 27 percent of this rescue scheme equaling around 8 percent of its GDP. But this assistance will be conditional on the implementation of a strict economic and fiscal adjustment program, just like the practice of IMF programs.

Another pillar of our strategy is the creation of a Banking Union in Europe. “Banking Union” has become a catchword for a number of measures that have been decided over the past months. The most important step will be the introduction of a single European-wide banking supervision. It will provide for a single rule book for all financial institutions in the single market.

In addition, the EU is preparing a regime for the recovery and resolution of financial institutions in the single market. In accordance with the Basel III regime, the capital requirements for EU financial institutions will also be tightened. These measures have been created to break the link between the financial sector and sovereigns.

The new banking supervisory mechanism will be established at the European Central Bank. It is critically important that monetary policy is separated from the tasks of the new supervisory institution.

European integration has often progressed from such crisis situations in the past. I believe that the crisis will provide us with a window of opportunity to tackle some fundamental structural defects. We will use this crisis to build a better monetary union and emerge as a stronger euro zone and EU.

At the last European Summit, Council President van Rompuy presented an interim report titled Towards a Genuine Economic and Monetary Union. In his report, Mr. van Rompuy proposes a set of measures for an integrated financial and budgetary framework, and an integrated economic policy for the European Union.

This report will again be on the agenda of the European heads of state and government, at the next European Council meeting in December 2012.

Let me come to my last point.

My central message is: Germany sees its future as part of a united Europe. Alternatives are not considered.

This is not the first time Europe had to struggle with difficulties, problems or crises. Many Cassandras have forecast the end of the European project before. But who now remembers the “empty chair crisis” or “eurosclerosis” or those days when granting accession to Britain was considered a challenge?

But we have to move forward, build a better and deeper integrated Europe.

German Foreign Minister Westerwelle together with colleagues from 10 other EU member states has set up the “Future of Europe Group,” which presented its ideas in September. The ministers made clear that strengthening the economic and monetary union is a top priority. Among the proposals are concrete measures to establish mechanisms to oversee member states’ budgets, to better coordinate economic policies between member states, and to ensure the democratic legitimacy by giving more power to the European Parliament.

But they did not stop there.

Convinced that it also takes political adjustments to make the Union fit for coming challenges, they suggested improving the “overall functioning” of the EU, and they were very concrete: They recommended strengthening the Commission as the coordinator and engine of the community method. And: Interested member states should be able to make treaty revisions by a qualified majority vote in future. And they were thinking of a directly elected Commission President.

Germany is firmly convinced that we need strong European institutions, supervised by a powerful European parliament.

A Union of 27 can hardly be run as it was when it consisted of 12 or 15 countries in its early days.

I want our American friends to take home a clear message:

We Europeans want to stay together, and we will do so.

We will not go back to the 19th century.

It took America 200 years to become the strong Union that it is today.

The EU is under way now for about half a century.

So allow us some more time, but let me assure you: We will be much faster.