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**Speech**  
**by former Chancellor Gerhard Schröder**  
**at the International Statesman Dinner**  
**of the Official Monetary and**  
**Financial Institutions Forum**

**"Germany's position in**  
**Europe and the world"**

**Thursday, 7<sup>th</sup> February 2012,**  
**in London**

My Lords, Ladies and Gentlemen,  
My esteemed colleague David Marsh,

It was a great pleasure for me to accept the invitation of the Official Monetary and Financial Institutions Forum to participate in this distinguished event.

I'd like to thank the OMFIF and the co-organiser, the British-German Chamber of Industry and Commerce, for their efforts.

It was David Marsh who requested my attendance, and I am very happy to accommodate his wish. David is an outstanding authority on British-German relations. He is also a sharp-tongued commentator whom German newspaper readers appreciate enormously.

You have asked me here to say a few words about Germany's position in Europe and in the world.

Germany's political position defines itself through Europe. Our policies are executed in and for Europe and are embedded in transatlantic relationships.

These are the consequences we Germans have drawn as a result of our erring ways of the 20th century.

Germany assumes European responsibility because it is in our national interest. This is also true in the current European crisis.

Naturally, the British-German relationship also plays a significant role here. When I became German Chancellor in 1998 my desire was to strengthen this relationship.

I was fortunate that, with the election of Tony Blair in 1997, the political situation in the United Kingdom changed.

New Labour and the SPD shared many common views, including those concerning European and reform policies.

Some of you may remember: Tony Blair and I started a policy of reform regarding social issues, as well as social systems and European institutions. We worked confidently together to expand the EU to include the Eastern European states.

But, to be honest: It was only a phase, which came to an end because of the rift between our two countries over the Iraq War.

The United Kingdom turned its focus on the special relationship it shared with the United States, and Germany's particularly close relations with France once again stood in our foreground.

The United Kingdom has traditionally occupied an "in between" position – a position between Europe and the United States. Germany, in contrast, defines its policies in and for Europe.

In my opinion, this may be one of the reasons why we in Germany and you here in the United Kingdom have come to different assessments of the European crisis.

Ladies and Gentlemen,

The current crisis undoubtedly is the greatest challenge the European Union has faced since its establishment.

This is a challenge for the entire Union, and not just for the countries in the euro zone.

During efforts to address the crisis, mistakes were made. A key mistake at the beginning of the crisis was the EU's slow response to the acute problem of Greece's debt.

This mistake stems from German policy, which, at the time, gave too much consideration to our domestic political situation.

Aid to Greece was granted too late, thereby infecting other European countries with difficult budgetary situations. A swift initial response would have made the crisis more manageable and, hence, less costly.

The latest decisions by the European Union, however, are steps in the right direction, because what Europe needs now is stability, growth, reforms and integration.

The fiscal union, together with the EFSF and ESM rescue packages as well as the European Central Bank's liquidity measures, creates more stability for the euro.

In my view, this must be accompanied by the introduction of Eurobonds, as soon as a greater coordination of financial policies is in place.

This is because stability is achieved not only as a result of new and stricter regulations for the monetary union.

We need both fiscal stability and economic growth.

Greece, Ireland, Portugal, Italy and Spain have all made significant progress in cleaning up their national budgets.

The situation in these countries, however, demonstrates that saving alone is not the way to overcome the currency crisis.

There is a risk that the national economies will be quasi strangled by the strict austerity measures. In Greece this is already the case.

This policy contains significant economic risks for the entire European Union.

An economic recession in these countries, for example, would have negative repercussions on Germany, which sells half of its exports within the EU.

The European Union, therefore, would be well advised to soften the harsh austerity measures in these countries with growth programmes.

For example, the income gained from a financial transaction tax, which I support, could be used for this.

Growth is also generated through structural reforms. This, at least, has been our experience in Germany.

The international competitiveness of EU countries must continue to be strengthened not only because emerging countries such as the BRIC nations are catching up, but also because the disparities within the European Union are great.

In Germany we implemented reforms in our social system before other European countries – with the Agenda 2010 reform programme.

With Agenda 2010 we made the labour market more flexible; we raised the retirement age to 67; and we adjusted social security to demographic developments. We also invested additional resources in education, research and development.

Within just a few years, Germany went from being "Europe's sick man" to "Europe's engine".

This is thanks also, in part, to Germany's economic structure, which is characterised by strong industries and many mid-size companies.

Germany now is the most competitive economy in Europe. Other countries, like France, Italy, and Spain, will now also have to follow suit with similar reforms.

Reforms are essential to ensuring that we can once again achieve Triple-A ratings.

Ladies and Gentlemen,

I believe Europe must become more politically integrated if it is to overcome the currency crisis in the long run.

This is because the fundamental mistake of the monetary union is that there is no coordination of economic and financial policy in the euro zone.

François Mitterrand and Helmut Kohl had two basic ideas in mind with the creation of the euro.

With the common currency Mitterrand wanted to "enclose" Germany's economic strength and, hence, our political strength.

This was doomed to fail because Germany, as an export nation, profits enormously from the euro.

Kohl's mistake was to assume that the monetary union would force a political union.

We were unable to create a political union in Europe - even during my term in office.

Thus, the current crisis makes it abundantly clear that one cannot have a common currency area without having a common financial, economic and social policy.

This is why we need a European economic government that would be responsible for improved coordination and control of the individual countries' expenses and for the creation of common rules of competition.

The fiscal union is an intermediate step. It creates more stability, but is only a technical solution.

Our next step needs to be towards the establishment of a true political union. For me this means:

We need a European federation, with powers handed over by the nation states.

In 1848 in the "London Telegraph", the writer Charles Mackay - probably the first European to do so - spoke of the "United States of Europe" – but the critics conceded: He was a Scot!

I also see the future to be less a structure as we know it from the United States, and more a federation of states.

To achieve this, European institutions must be reformed so that they become more empowered. The European Commission must be developed into a single government, elected by the European Parliament.

The European Council must delegate responsibilities and should be transformed into a second chamber with responsibilities similar to those of the Bundesrat, the Federal Assembly in Germany.

The European Parliament must be given more rights and in the future should be elected via pan-European lists.

I am well aware that not everyone in Europe is prepared to go down this path. In the future we will have a Europe of "two speeds".

A core Europe that grows together more quickly politically and a fringe Europe in favour of greater autonomy.

I am convinced, however, that the countries which do not wish to be part of a greater European integration, will lag behind politically and economically.

It is especially important for manufacturing industry to be part of this common economic and monetary zone. German industry profits from this and will continue to do so.

Ladies and Gentlemen,

The European Union is also important politically, as the coordinates of international politics are shifting.

And they are not shifting in Europe's favour: countries like Brazil, India, and China are becoming increasingly powerful both economically and politically.

I am convinced that only a united Europe has a chance of survival. This is because, when it comes to global competition, a nation state alone - be it even our strong Germany - is too weak to keep apace economically and politically.

The ascent of the BRIC countries is also changing the transatlantic relationship. The United States is no longer focused on Europe, but rather on Asia.

Just a few weeks ago, President Obama emphasised America's role as a "Pacific nation".

The United States will become more involved economically, diplomatically and militarily in Asia. And, as a result, less so in Europe.

This should make it clear that we need to ensure that the European Union becomes a global force. It is for this reason I am a convinced supporter of European integration.

Ladies and Gentlemen,

In order to survive in international competition, Europe needs strong partners suited to Europe in both their political and economic potential. Two countries offer themselves as partners.

The first country, particularly important for Europe, is Turkey. There are two reasons for this; one, Turkey is an economically strong and financially stable nation.

We cannot afford to ignore the sixth largest – prospectively the third largest - European economy. We must take advantage of the opportunity to fully integrate such an economy into the EU.

And two, Turkey combines a non-fundamentalist Islam with a free society.

This country serves as a role model for people in other Islamic countries, especially for those in the Arab world.

I am convinced that Turkey's accession to the EU represents a win-win situation for both sides: economically, politically and culturally.

I must add, however: In the meantime it is not only Turkey who must make efforts to achieve this, but Europe as well.

We must make the European Union so stable and governable that it is in a position to expand with the accession of new states.

Ladies and Gentlemen.

The other European partner is Russia.

On the one hand because Russia provides us access to vast mineral reserves, thereby ensuring the global energy supply.

But this is not the only reason. Above all, our historical experience has shown us that stability and safety on the European continent is only possible with, not against, Russia.

Everyone in Europe is pleased with the great civil commitment many Russians have been demonstrating in recent weeks in connection with the controversial Duma elections.

The emergence of an active civil society is the result of the modernisation process that Russia has undergone over the last two decades. This is indisputably in part to the credit of Vladimir Putin.

The main question now is how Russia will continue to develop in the coming months and years in this arch of tension between an increasingly open society, which is necessary, and national security, which is equally important.

Russia needs Europe and Germany's support on this path of reform.

It is, therefore, my opinion that the time has come to bind Russia under international law more closely to European structures through an association.

We need a liberalisation of trade - even a free trade area - common infrastructure projects, a steady and enhanced political dialogue, simplified visa regulations and security policy cooperation.

Ladies and Gentlemen,

Even if times are turbulent, I am convinced that Europe has great future prospects. Europe can play a constructive and valuable role interposed between, but also working with, the world power centres, the USA and China.

If the European Union continues its integration course both inwardly and outwardly, she will remain a valid, lively and dynamic social, economic, cultural and political society, a role model for other nations and regions.

Europeanisation is the logical political answer to globalisation. For this reason, it is important to fight for Project Europe. I would be pleased if all good-hearted and far-sighted people in Britain would join in this endeavour.

Thank you for your attention.