

**Address
by Federal Chancellor Angela Merkel
to the OECD Conference in Paris
on 19 February 2014**

Mr. Gurría, Ángel,
Excellencies,
Ladies and gentlemen,

I promised Ángel Gurría a long time ago that I would visit the OECD. Today, I am fulfilling that promise.

The OECD has been an important player in international economic policy for over 50 years. I think that we, Germany, have also done our part in helping the OECD, alongside other international organisations, to play an important role in the new formats for cooperation in the world. In recent years the OECD has successfully managed to shake off its image as an elite organisation for developed, industrialised countries simply through its involvement in G20 meetings and through the fact that new Member States have joined the Organisation. There are now 34 Member States. Accession negotiations are under way with Russia, and the OECD has begun an accession process with Colombia. Your own country, Mexico, as an emerging economy, has been a member for 20 years.

The OECD has acquired a high reputation as an uncompromising but important advisor when it comes to drawing comparisons, compiling statistics and issuing recommendations. Criticism from the OECD is perceived as being relatively harsh in Germany. For example, the initial results of the PISA studies were not exactly flattering for us. But having to acknowledge that we were not as good as we thought we were in a field that comprises the core of our self-esteem, in education, really inspired change in Germany. Over the years, we have been able to see a steady improvement in our performance in the PISA studies. They have therefore become a truly important tool for us.

The issues here are structural reforms and coherent global economic growth. That is why the global organisations played such an important role as advisors during the crises of recent years and continue to do so today. From the standpoint of an EU Member State we have basically weathered two major crises since 2007: first the international financial crisis, followed by the euro or sovereign debt crisis, from which we have not yet fully emerged.

With the Heiligendamm Process we sought to find a way out of a situation in which the G8 could no longer be the only format. At the time we spent endless hours discussing whether it should be G13 or G15. Then suddenly the financial crisis hit, and soon after we had the G20. Since then, everything has gone quiet on the subject. For in my opinion it has become a very interesting format which, in cooperation with regional economic organisations, provides us with a broad picture of the global economic system.

I would still like to think that the lesson we have learned from the financial crisis could inspire us to formulate a charter for sustainable growth – and I would like to

thank the OECD for its support for this idea. It would doubtless have to be constructed piecemeal, chapter by chapter. But one example which shows that we are really making practical progress – I find it a very good thing and can only encourage Australia, too, to discuss it further – is the issue of corporate taxation. The question of fairness is at stake. Many people wonder how it is possible for companies not to pay any taxes in the countries where they create their value. The subject of base erosion and profit shifting is now being addressed. The OECD's role in defining standards in this area should not be underestimated. The next step, I believe, must be to implement such standards really quickly, not only within the context of the G20 but maybe also in countries like Switzerland – I was talking to the President of the Swiss Confederation about this only yesterday – so that we can increase the transfer of information and make the tax system fairer.

In highly industrialised countries we, too, are concerned with the question of what globalisation means for us. Globalisation makes some people fearful. However, I believe that if we can embrace it with openness and curiosity, mindful of the world's diversity, we can shape globalisation in a positive way. Yet we still have a lot to learn in this area. What the experience of our German economic system, the social market economy, has taught us is that markets need to operate according to certain rules. In the context of globalisation, effective rules can only be agreed on an international scale. That doesn't mean applying the same yardstick everywhere, but steps must be taken to prevent the formation of oligopolies which shape the economy in such a way that it rules the people. I think it goes without saying that people all over the world believe that the economy should serve the people. That is the core issue which concerns us greatly when it comes to regulating financial markets. With the G20 we have introduced a process which drives many of these regulations forward. In this area, too, the OECD needs to exert further pressure.

Ladies and gentlemen, we Europeans have a contribution to make if we want to continue to enjoy prosperity in future. The question of competitiveness plays a central role here. Everything that the OECD urges us to observe, whether these recommendations are country-specific or apply to the eurozone as a whole, not only shows us where our strengths lie but also identifies our weaknesses. We in the European Union make up seven percent of the world's population. That is certainly not very much, and the trend is downwards. We still generate around 25 percent of global economic output, which is good considering we comprise only seven percent of the population. But we also account for nearly 50 percent of global social expenditure. That shows the magnitude of the challenge facing us. That is why innovation capacity and competitiveness are key issues for Europe.

In the euro area in particular we must be careful to ensure that as well as achieving fiscal soundness we manage to harmonise our economic power, and I use the word "power" advisedly. I don't mean that all the eurozone economies should be the same. That would be wrong. We have quite different strengths and weaknesses. But we must address the issue of competitiveness in a consistent manner. We cannot have a situation, for example, where some in the eurozone spend less than one percent on research and development and others more than three percent. That will lead in the long term to great economic imbalances which a currency system on its own cannot withstand. That is why I am grateful to the OECD for placing a special emphasis on competitiveness and on the question of how we proceed. Within the

eurozone I would like to see us conclude binding agreements with the Commission on economic issues which would oblige us to make certain improvements.

Let me now turn to Germany. We are Europe's largest economy and as such we bear a great responsibility. There are some good things going for Germany, which we are proud of and pleased about. But we must not close our eyes to the fact that of course we too need to make improvements in some areas.

Before Germany joined the single currency, the value of the Deutschmark was relatively high. The introduction of the euro required us to take steps to adapt. Basically, we had to carry out structural reforms earlier than others did. In Germany, interest rates on government bonds did not fall with the introduction of the euro but remained virtually the same. In other countries, interest rates fell sharply. That created a situation in which those countries apparently had more scope for consumption. After the major financial crisis it was really a stroke of luck that Germany was relatively well-prepared in structural terms to play a leading role in overcoming this crisis. However, that does not mean that in a few years' time we may not find ourselves back in a situation where we will again be obliged to do more about structural factors because other countries are implementing far-reaching structural reforms now. If we look at unit wage costs, we can see a convergence between many eurozone countries. We can also see that one day we may again reach the point where unit wage costs in Germany are much too high in comparison with other European countries, though we have not yet reached that point.

On the plus side I would note that we devote around three percent of our GDP to research and development. Another plus point for Germany is that in 2015, for the first time in decades, we intend not to contract any more new federal debt. This is prompted in part by demographic change. Germany's debt currently runs at around 80 percent. We want to bring that back down to around 70 percent by 2020. In view of the demographic challenges facing us, we must ensure that we significantly reduce our total debt.

For the time being our labour market situation is relatively sound. Nonetheless, long-term unemployment is stubborn. Yet we have to try to help young people particularly find a way out of long-term unemployment. We are still spending more than ten percent of our entire federal budget on benefits for the long-term unemployed. If we could cut a third off the 30 billion euros and more that we spend on long-term unemployment each year, we would have 10 billion euros more for future-oriented investments, for example in transport infrastructure.

We have weaknesses, which I want to state quite clearly here. One is that where transport infrastructure is concerned we are living on borrowed time. We also have our hands full with the tasks of driving forward digital technology and building modern broadband infrastructure. We must focus on these challenges. In addition, we keep hearing the recurring criticism that we are too insular when it comes to services. This is another issue we have to get to grips with, though it is very difficult, I can tell you, to take privileges away from particular interest groups.

But the greatest challenge facing Germany concerns energy policy. Here too, with the new government, the grand coalition, we have a Herculean task before us. The

point is that a considerable proportion of power generated – nearly a quarter of the total – already comes from renewable energy sources. Renewable energies are no longer a niche but are central to energy policy. They already basically account for the highest proportion of power generation, although the availability of that power varies considerably over time. That raises entirely new questions which we have to address.

We have now reached an agreement with France to take a joint look at so-called capacity markets, i.e. to work towards a common energy market along the lines of the single European market. In Germany, we have the problem that a very large number of people now benefit from financial support for renewable energies. When in a democracy more than half the people benefit from a subsidy, it is no easy matter to do away with the subsidy by democratic means. It takes a great deal of reasoning and considerable powers of persuasion. That is why I believe that as the grand coalition we have a real opportunity here.

We have a problem with the Commission which we have to talk about. The competitiveness of energy-intensive industries is at stake. Gas prices in the United States – and you know this better than I – are currently half or a third the level of gas prices in Europe. Consequently we have real problems keeping energy-intensive industries in Europe. It will therefore be very important that the Commission, with its rules on subsidies, does not put obstacles in our path with regard to the operation of our energy-intensive industries. We still need a primary industry in Europe for materials like steel, aluminium, copper and so on.

In the European Union we must ensure that we retain or regain certain essential skills. I believe that what we are seeing at present is a comprehensive transformation of the whole sphere of industrial production through the merging of digital technology and the Internet with conventional industry. In Germany we call this “Industry 4.0”. In Germany we have skills galore when it comes to car-making, mechanical engineering and the chemical industry. But we have few skills of our own when it comes to chip-making, Internet firms and software production, with the exception of SAP. The same goes for large parts of Europe. What we have to understand is that without the capacity for full integration through modern information and communication technologies, today’s mechanical engineers will have no future. Working with devices which can communicate with one another is only possible with the right software skills and hardware capacities. Given that software production and chip-making will become increasingly dovetailed, the real challenge for Europe lies in the digital sphere if we are not to find ourselves structurally dependent on America and Asia, something we cannot really want to happen. We have to discuss this issue because it demands a concerted European response. It is not something that any one EU Member State could achieve single-handedly. Here again we can see the advantage of a common European engagement. We have seen it in the aviation industry; now we have to achieve the same success in the digital sphere. If we hadn’t made the effort with EADS when we did, there would now be only one dominant aircraft maker, Boeing, and perhaps some up-and-coming Chinese manufacturers.

So I thank the OECD for consistently rubbing salt into our wounds, and for praising us, too, every so often. We need that as well to keep going.

Here's to cooperation!