

Speech: CDU Economic Council Annual Conference: Chancellor's words

It is an honour to speak at the annual gathering of The Economic Council of the CDU which for 54 years has promoted a social market economy based on the values and ideas of Ludwig Erhard.

Erhard said, "Ein Kompromiß, ist die Kunst, einen Kuchen so zu teilen, daß jeder meint, er habe das größte Stück bekommen."

[Translation: "a compromise is the art of dividing a cake in such a way that everyone believes he has the biggest piece."]

Wise words with some applicability to the Brexit negotiations although I try to discourage talk of "cake" amongst my colleagues.

For if we get the negotiations between the UK and the European Union right and reach a deal that protects jobs, business, and prosperity across the continent of Europe by maintaining trade flows, and avoiding dangerous cliff edges, then we can maximise the size of the cake and each enjoy a bigger piece.

Erhard also said "Without Britain, Europe would remain only a torso" and that is also pertinent to my message that while Britain may be leaving the political structures of the European Union we are not leaving Europe.

And I believe Britain and the EU still have much to offer each other in a future as partners.

Global Context

So we will seek to forge a new relationship between the European Union and the United Kingdom based on our shared history and shared values in order that we can continue to tackle the common challenges that our continent faces.

And of course these go far beyond the narrow focus of Brexit.

With questions over Europe's future security, an emboldened Russia, the evolving threat of terrorism that has tragically affected us all in recent times, climate change or the challenge of irregular migration, which could re-emerge at any time, on a scale that could again threaten to destabilise our societies.

And challenges facing us in Europe are set in the context of a mixed outlook for the global economy.

The signals are that global growth, including in Europe, is recovering but risks clearly remain.

A slowing Chinese economy, with an unwinding credit boom, a weaker outlook in Latin America and the Middle East and growing sentiment in the developed economies that questions the conventional wisdom of free trade and globalisation and perhaps of market economics and sound money.

As policymakers, we have to recognise and respond to, this growing anxiety amongst some of our citizens about the pace of change in the economy.

It is clear to me that our policy response must be to complement our efforts to boost overall growth with policies that ensure that the benefits of growth are felt more widely in our societies.

For instance, in Britain, we are following Germany's clear example and investing in an overhaul of our technical education system to give more of our young people the skills to succeed, and to raise our productive potential. All of us in the advanced economies have benefited from globalisation and free trade.

But ordinary working families do not always feel they have shared in the benefits.

Much of the thrust of globalisation has focused on the removal of barriers to trade in goods.

But the UK economy is 80% services the Eurozone is 73% services.

And this means that our economies have not necessarily reaped the full benefits in those sectors where many of us have our greatest competitive strength.

So we should work together in the G20 and other multilateral fora to lead a global push for the liberalisation of services trade.

And we should employ the same logic in our efforts to agree a bold and ambitious free-trade agreement between the UK and the EU that covers both goods and services.

Brexit

I campaigned and voted for Britain to remain in the EU.

But I am a democrat and I accept the decision of the British people.

My whole focus now is seeking to ensure that we maintain a close and mutually beneficial relationship between the EU and a UK which is outside the EU.

The truth is, Britain has never been signed up to deep political integration with the European Union – our different histories have perhaps led us to a different concept of the role of the European Union.

But despite that, we are like-minded in so many ways, and have shared values and a shared view of the world – our economy is firmly in the European mainstream, and it is our ardent wish to be able to keep it anchored there.

Last Thursday, marked a year since the British people voted to leave the European Union.

They voted to be outside of the EU's political structures but not to turn their backs on Europe.

They voted to regain control of our borders, not to shut down the flow of people that are the lifeblood of our economy, but to be able to manage it.

They decided that the European Union and its plans for further integration were not for them but we wish our neighbours well as they take that project forward – clear that it is in Britain's interest that the EU should be a successful, growing, bloc, with a strong currency and a confident outlook on the world.

And there is every reason why Europe should feel confident.

Economies across Europe are recovering – Eurozone growth is at a two year high, unemployment is at its lowest since 2009 and recent elections have not seen a breakthrough from populist parties, of left or right, as many had predicted just a year ago.

But we should not be complacent about the risks ahead, our economies are not so strong that they can afford to be exposed unnecessarily to economic and financial stability risks and, in particular, the risks surrounding the outcome of our negotiations for Britain's departure from the European Union.

People in this room will understand the importance of reaching an outcome that supports our shared prosperity – for it was Britain and Germany's economies that powered Europe out of the financial crisis – between us we have been responsible for over half of all economic growth in the EU since 2010 and created more than three-quarters of all new jobs.

Our economies were the two fastest growing in the G7 last year – you pipped us to the post in Q4 – although beating us through the rounding of the growth rate is a bit like beating us in the World Cup on penalties!

And it is my hope that the economic partnership and longstanding friendship between our two countries – that has helped bring about peace, security, and prosperity on this continent for over seventy years – can be mobilised to support our common goal of a deep, special, and mutually beneficial partnership between the EU and the UK. But the risk of a bad outcome that does not promote jobs, growth, and prosperity is a real one.

Not just for the UK economy...but for the EU economy.

The UK represents almost 13 percent of the population of the EU and 16 percent of its GDP.

That's a significant part of the European marketplace.

And it is clear to me that ensuring that businesses can continue to operate across that whole marketplace after Brexit is essential to securing

prosperity and growth on both sides of the channel and indeed both sides of the Irish border.

Risks

For me, there are two key risks that threaten this future.

The first is an outcome risk: that somehow we allow petty politics to interfere with economic logic, and we end up with a suboptimal solution that fails to maximise our mutual benefit.

The second is a process risk: that we cannot agree, at an appropriate stage, transitional arrangements to get to the new relationship without damaging business confidence and disrupting cross-border trade and investment along the way.

In other words the risk of a “cliff-edge”.

So how can we avoid these risks?

By focusing relentlessly on the key deliverables:

First, the future partnership must allow continued trade in goods and services to allow the complex supply chains and business relationships that crisscross our continent to continue to deliver value because businesses across Europe rely on free trade and all our citizens rely on the benefits of this free trade –greater choice, lower prices, and more jobs.

Second, we in the UK acknowledge that, as Britain moves out of the jurisdiction of EU law, there will be genuine and reasonable concerns among our EU colleagues, about things like the oversight and supervision of cross-border financial markets.

There are good examples of cross-border collaboration on Financial Services supervision around the world. We will engage, in a spirit of sincere cooperation, with all genuine concerns expressed by our EU neighbours to agree a cooperative supervisory structure based on international best practice.

Third, the outcome must protect citizens’ rights – both EU citizens in the UK and British citizens in the EU.

Last week the Prime Minister set out our offer to the 3 million plus EU citizens living in the UK – offering full rights and access on the same terms as British citizens to those who have lived in the UK for five years or who have arrived more recently and are going to stay – and I hope we can get the same certainty for the more than one million UK citizens who are living in the European Union.

And fourth, as we move, hopefully, to a long-term partnership, based on comprehensive free trade in goods and services and a customs agreement that minimises friction at the border, we do so via a transition that protects the free-flow of trade across our borders and the integrity of pan-European

supply chains.

So it means reaching a shared understanding, as early as possible, on what the future relationship should look like and how we get there.

Because businesses and citizens in the UK and across the EU need to know the shape of that future relationship; They need to have confidence there will be a smooth and orderly path to the new arrangements rather than a disruptive and dangerous cliff edge.

Whether it is the British importer renewing a contract with a French component supplier, the German car exporter investing in its UK distribution network, the Dutch grower who is making a contract with a British supermarket chain or the Italian electricity company hedging its exposures through London's financial markets, they all need certainty, well ahead of time, that they won't have tariffs suddenly imposed on them, part-way through their contracts or that their shipments won't face customs delays and bureaucratic costs or that the enforceability of their contracts will not be called into question.

Early agreement on these transitional arrangements so that trade between our countries can carry on flowing smoothly will reduce uncertainty, unlock investment decisions, instil business confidence and protect jobs and prosperity, in Britain, in Germany and across this continent.

Last week we began the formal process of negotiating our exit from the European Union and we will progress them in a spirit of sincere cooperation.

We cannot dwell on the past, on what might have been.

We must focus on the future on the opportunities that lie ahead for all of us.

On the prize of an open, tolerant and free-trading world order while mindful of the risks, to both sides, of not reaching a good outcome.

I am confident that with the political will to run with the economic logic we will reach an arrangement that puts jobs and prosperity first, that keeps our markets for goods and services and capital open, that achieves early agreement on transitional arrangements and delivers an outcome that increases the size of the cake for all.

Because in the end, the question is not whether to have cake, or eat it or even who has the largest slice, the question that matters is whether we can be smart enough to work out how to continue collaborating together, to keep the cake expanding, for the benefit of all.