

14th ANNUAL ECONOMIC KÖNIGSWINTER CONFERENCE

Friday 5 September – Saturday 6 September 2014

at Schloss Landsberg, Essen, Germany

***“Prospects for economic growth in Germany and
Great Britain”***

Conference Chairman: Prof. Dr. Clemens Fuest, President ZEW

The 14th annual economic Königswinter conference took place at Schloss Landsberg near Essen / Düsseldorf on September 5th-6th 2014. As usual the interventions and the discussion were all held under the Chatham House rule. This note seeks briefly to draw out some of the common threads that emerged from them, but without any attributions.

Starting with some comparisons between Britain and Germany, the group heard that the British economy was picking up speed, with annual growth of perhaps 3% this year, compared with only 1.8% for Germany. In both countries the risks to growth were increasingly seen to be political or geopolitical – for instance, the Scottish and European Union referendums in Britain, and the sanctions on Russia for Germany.

In both the first and the second sessions there was much discussion of Britain’s position in the European Union. Some felt that it ought to be possible to satisfy British demands for reform of the EU through such measures as the completion of the single market, a digital Europe, a free-trade deal with America. Others pointed out that Germany no longer felt it would be possible to amend the treaties before 2017. There are big reservations about any attacks on the “four freedoms”, notably the free movement of labour. And the Germans (and others) are strongly against any effort by the UK to “cherry-pick” from the EU’s rules.

This part of the discussion also dwelt at some length on the relative positions of the “ins” (18 countries at present) and the “outs” (10 countries). It was suggested that Germany was the king of the ins and Britain the queen of the outs. But it was also pointed out that neither group was cohesive: the ins had many policy differences and most of the outs were in reality pre-ins. Indeed, in many ways Britain could be seen as being on its own in the EU, though this did not mean the others wanted her to leave the club. The continuation of the City of London as Europe’s financial centre was important, and might need to be underpinned by a European capital markets regulator. It was even argued that Britain could find it easier to work with a more closely integrated euro zone as one big partner.

Over dinner there was further talk of the common interests of Britain and Germany in the European Union, despite the emergence of its multispeed, multitier structure. Yet as it has evolved from its origins in the European Coal and Steel Community, essentially an elite Franco-German project, the EU has also lost touch with the people: thus the growth of populist parties like UKIP and AfD. More needed to be done to convince voters of the EU’s benefits. National politicians needed to stop using the “Brussels bureaucracy” as a scapegoat for everything that went wrong at home. Governments like the French needed to be more honest to their people, telling them that structural reforms were unavoidable, no matter if France was a part of the euro zone or not. The

importance of British involvement was also increased because of continuing worries over France's economic weakness and inability to pursue deep structural reforms.

Several of these topics continued to be discussed during the second session, on September 6th. The political risks ahead for the UK included the Scottish referendum, the 2015 general election and a possible EU referendum in 2017. There were clear links: a Scottish yes vote would increase the risk of a no in the EU vote, for example. It was noted that the Scottish vote could ramify across other European regions, including Catalonia, Flanders and northern Italy.

The opinion polls in Scotland had narrowed, making the outcome less certain (the first ones finding a majority for yes came out after the conference). It was noted that in many respects the Scots were being assured, whether falsely or not, that even if they chose independence, many things would stay the same (the monarchy, the pound, EU membership etc). Some Scots wanted independence to ensure they stayed in the EU. One telling statistic about why Scotland is more left-leaning than the rest of the UK: only 1,300 out of 250,000 top-rate UK taxpayers are in Scotland. The absence of British business in both the Scottish and the EU debate was criticised.

It was suggested that Angela Merkel was ready "to do whatever it takes" to keep Britain in the EU, but this would not extend to major treaty revision. The risk of the UK leaving the EU by accident was real. Some British participants urged the German representatives to produce a wishlist of issues that the UK government should bring to the table to push EU reform, which would also be in the interest of Germany. Common areas of interest in possible reform that remain between the two countries, are the digital economy, the single market and reform of the budget, cooperation in EU defence policy and the common agricultural policy. The areas of energy policy, a general reduction in rules by Brussels and more subsidiarity were also mentioned. It was pointed out also that Europe could become an issue that split the British Conservative Party for years to come.

The final session of the Conference discussed the euro-zone debt sovereign-debt crisis. Three possible ways out were devaluation, default and deflation, and the first two were ruled out. But the risk of solving the problem mainly through deflation was that the euro zone could find itself facing demand deficiency and so follow the example of Japan's stagnation through the 1990s, a point reinforced by current record low bond yields in countries like Spain and Italy. On the other hand, structural adjustment was happening in many countries and the ECB was committed to delivering its inflation target of below but close to 2%.

In the discussion, a clear divergence opened: the British participants tended to warn that the current path of the euro zone was unsustainable, whereas the Germans emphasised the enormous political commitment to preserving the currency. Political pressures on the euro were clear enough: there was a lack of commitment to structural reform in some countries, and worries over the acceptability and legitimacy of so many national governments being told in detail what to do by Brussels and/or Berlin. Some debt restructuring might become inevitable, but to many participants debt mutualisation was a non-starter, as was more fiscal expansion or looser monetary policy.

In the end, it was widely felt that the euro zone, rather like the wider EU, would probably "muddle through" as usual.

Schloss Landsberg, September 2014

PROGRAMME

14th ANNUAL ECONOMIC KÖNIGSWINTER CONFERENCE

Friday 5 September – Saturday 6 September 2014

Schloss Landsberg
August-Thyssen-Strasse 1, 45219 Essen (Kettwig), near Düsseldorf, Germany
Tel: +49 (0) 2054 - 929 - 0, Fax: +49 (0) 2054 929 - 195

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Great Britain”***

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FRIDAY 5 September 2014

Afternoon **Participants’ arrival and check-in** at Schloss Landsberg
(Reception Hotel, Gärtnerhaus)

From 15.00 **Tea and registration** in Entrance Hall of Castle Schloss Landsberg

15.45 **Conference Opening in the Wintergarten**

Welcome by

Hans-Henning Horstmann, Ambassador ret., Chairman Deutsch-
Britische Gesellschaft, Berlin;

Peter Brock, Chairman Deutsch-Britische Gesellschaft, Düsseldorf;

Rt. Hon. David Willetts MP, Member of the Koenigswinter Committee

16.00 **Session I: - *Industry and Competitiveness: Contribution of German and British
industry and trade to European Growth***

Introductory Speakers:

- **British perspective: John Cridland, Director General, CBI**
- **German perspective: Dr. Markus Kerber, Director General, BDI**

approx. 17:30 Break for Coffee & Tea

from 19.00 **Apéritiv** in the Entrance Hall of the Castle and
optional tour of the castle

20.00 **Dinner** in the Rittersaal of the Castle
**Speaker: Steffen Kampeter, Parliamentary State Secretary,
Federal Ministry of Finance**

21.45 Drinks available in the bar downstairs at Schloss Landsberg

SATURDAY 6 September 2014

- 7.30** **Breakfast** at Schloss Landsberg, downstairs in the Castle
- 8.30** **Session II: - *Economic impact of potential disintegration in Europe: Will greater divergence result from Scottish and UK referenda?***
- Introductory Speakers:**
- **British perspective: Rt. Hon. David Willetts MP**
 - **German perspective: Dirk Heilmann, Handelsblatt Research Institute**
- 9.45** **Morning Coffee and tea** in the Entrance Hall of the Castle
- 10.15** **Session III: - *Sovereign debt crisis / Monetary and Fiscal Policy: What are the global challenges for the European social and economic model?***
- Introductory Speakers**
- **British perspective: Charles Dumas, Lombard Street Research**
 - **German perspective: Gabriel Glöckler, ECB**
- 11.45** **Winding Up Address: Martin Heipertz, Federal Ministry of Finance**
- 12.00** **Lunch**
- 13.00/13.30** **End of Conference**

Please note that the conference language will be English and there will be no simultaneous translation available. All participants and observers are reminded of the private confidential basis on which this Conference is held. All those attending do so in their personal capacities, not as spokespeople for any country or institution. In addition, all the proceedings, take place under what is commonly known in Britain as the 'Chatham House' rule. All contributions are unattributable, and interventions are made in strict confidence; this applies also to conversations outside the formal sessions. Those present are free to draw afterwards on the substance of what has been said, but not under any circumstances to reveal to any person not present at the Conference who it was that said it.

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