



Dinner Speech by

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Bavarian State Minister of Finance

Ladies and Gentlemen,

It is a great pleasure for me to welcome you all very warmly to the “Kaisersaal” of the Munich Residence on behalf of the Bavarian State Government.

We are delighted at the brilliance that this Summit radiates far beyond the borders of Bavaria. Munich is not only a centre of high technology and an art and cultural metropolis. Munich is also a place for world-class economic research.

We would like to thank all of you who have helped to make this so. Our particular thanks go to Prof. Dr. Hans-Werner Sinn, President of the ifo Institute, who launched the Munich Economic Summit and through his own efforts brought it to its present peak of splendour.

We are no less indebted to the BMW Foundation Herbert Quandt and its Chairman, Jürgen Chrobog. This year you have once again supported this top economic event both generously and magnificently by material and immaterial means.

Since our last Economic Summit, not only have you and I become one year older, but the whole of Europe has also aged. According to the statistical experts, the old-age quotient in Germany, for example, last year exceeded the youth quotient for the very first time. This means that for every one hundred people aged between 20 and 65 there will in future be more and more over 65 year-olds than under 20 year-olds. That is a snapshot of an ageing process already extending over decades.

Anyone taking a look at our media could easily gain the impression that we are in a hopeless situation. There is talk of “senilisation” and that the Europeans are dying out.

I do not share the mood of doom that this implies. But we do have to take the demographic challenge seriously, and so analyse it precisely and draw the necessary conclusions. The Munich Economic Summit is making its contribution in this respect.

I think it is essential that the people in positions of responsibility in science, industry and politics exchange ideas and views about how we can respond to this demographic development. You have already debated this at length today. And tomorrow more discussion rounds are on the agenda.

Let me just make a few more remarks in this context from the perspective of a politician: we must tackle the challenges presented by this demographic trend in a number of different ways.

We must improve the framework conditions for economic growth

If population is getting smaller and growing older, then competition for employees will increase, the fight among locations for investments will become tougher. Our objective must therefore be to create the prerequisites for a high level of employment, for investments and innovations and so for economic growth with good locational conditions. Because: If the work is attractive, people will go there. If the work is attractive, people will stay there.

We must introduce basic reforms to social security systems

Our social systems are already reaching the limits of their efficiency. Despite the good state of the economy, pressure on the social security services will continue to increase, unless we counteract it with structural reforms. The welfare-state demands of the citizens are restricted by the performance of the economy. What we need is for citizens to assume more responsibility for their retirement and more equity-funded social security pillars. A generation-oriented

policy must spread the burden of an ageing society fairly on the shoulders of all generations.

We must tackle labour market reforms and make labour markets more flexible

While the strong upswing has brought us a long way in cutting unemployment levels, if we do not back up the momentum of employment with further structural reforms now, we will quickly end up in the next downturn precisely where we were in 2005. And the decline in births and the ageing of the population will not automatically solve the problem of unemployment in Europe. It is symptomatic that in those European regions, where the population is already decreasing, this is by no means automatically being accompanied by a fall in unemployment.

We must therefore exploit the potential of the working population in the best possible manner. The longer life expectancy is a gain for society. But up to now too little advantage has been taken of the potential offered by the older people. Too rigid regimentation of the retirement age will not satisfy many people's ideas of a fulfilling life in mature years.

We must give older people better professional opportunities. For example we can restrict the possibilities for imposing early retirement and flexibly increase their effective working life.

In addition, we must improve the professional opportunities for women and facilitate the compatibility of family and profession, because many women want to work and have to work, in order to make sure that the family income is adequate.

We must increase the potential for start-ups and innovations

Fewer employees tends to mean less growth. In Bavaria, we have therefore for a long time been relying heavily on a proactive strategy of technological progress, networking science and research.

We must place the education programme on a broader basis

We must encourage and develop the talents and strengths of all children and young people even more proactively and effectively – from pre-school teaching through general education and vocational

training and further education all the way to university education. The keyword is “lifelong learning”.

Reforms

In Germany we have in the last 1½ years succeeded in implementing major reforms, and especially under demographic aspects, for example:

- Marked improvement in the economic framework conditions for corporate investment by pursuing a growth- and innovation-friendly policy.
- Progress with consolidating the federal budget.
- Gradually raising the retirement age limit to 67 in order to ease the burden on the statutory pension insurance.
- Introduction of family allowances for parents to make family and work more compatible.

In Bavaria we are on the right track with our three-pronged policy of “Investment – Remediation – Reform”. Next year we will already be launching a big programme for the future “Bavaria 2020 – Children, Education, Jobs”.

We are going to invest in the development of the child-care system and in the support of families. Best opportunities for everyone – that is the goal of our education policy.

The task of economic policy is – not least – to seize opportunities. In this respect we are pinning our hopes on the leading markets of the future. With our “Allianz Bayern Innovativ” Initiative we are encouraging companies, scientific institutions and investors to organise themselves into powerful and effective industry and technology networks. Our aim is that Bavaria stays a world-class centre for innovation despite the demographic changes.

I wish you all a pleasant evening, stimulating conversations and an enjoyable meal. Feel at home here with us in Munich.

I look forward to seeing you again at the Munich Economic Summit 2008.