

**Speech by Angela Merkel, Chancellor of the Federal Republic of Germany, at the World Economic Forum Davos, 25 January 2006**

**"The Creative Imperative"**

Mr Federal President,

Mr Schwab,

Ladies and gentlemen,

Thank you very much for inviting me to deliver the opening address for this Forum. I know that this is a great honour for Germany, and I am pleased to be here.

[...]

This is why, when preparing this address, I thought not only of Immanuel Kant but also of one of my predecessors, the "father of the social market economy", Ludwig Erhard. In 1948 he told us: "The connection between freedom and responsibility requires regulation." In 1957, in his book "Prosperity through Competition", he wrote: "I want to prove myself by my own efforts; I want to meet the risks of life myself; I want to be responsible for my own fate. You, the State, must see to it that I shall be in a position to do so."

One's own efforts and the state as regulator - these are the two poles of the social market economy. For me these quotations from Erhard, although dating from 1948 and 1957, have not lost any of their topicality. On the contrary, they characterize a pioneering idea, which led to the creation of the most successful and most humane economic and societal order ever in my opinion, i.e. the social market economy. This means on the one hand placing trust in the responsible citizen and on the other hand the concept of social justice as the characteristic of that responsible citizen. Its philosophical foundation is the idea of freedom with responsibility, the conclusion drawn from bitter experience, exploitation, mass unemployment and war. And in Germany it was not just left as an idea but was translated into reality, leading to what we in Germany call the "Wirtschaftswunder", the economic miracle.

[...]

We see that the industrial countries, although comprising 20% of the world's population, use 70% of its energy. We know that over one billion people live on the equivalent of less than a dollar per day.

[...]

What regulatory framework does our changed world need? What framework does it need to allow every individual to enjoy the fruits and benefit from the progress provided by our society and our world? This question must be answered by the industrial, emerging and developing countries. If we fail to provide a coherent answer to this question, if we fail to agree, the result will be new, severe social and other upheavals for whose consequences we will be responsible.

I do believe that the creative imperative is the correct response. We must therefore ensure that government recognizes both when it is right to intervene and when it is right to let go again. That is the task we face today. We thus have to find a balance between our own

strengths and the potential and requirements of the state, just as we did in the early years of the social market economy.

[...] For in my opinion the steps we have to take require the social market economy to move on. I call this a "new social market economy" - a new stage branching off in two directions - considering both the international dimension and the density of the global network as a whole.

My references to a new social market economy always fuel various discussions in Germany, my native country. People ask, "Are we now abandoning the principles of the social market economy?".

Of course we aren't. Rather, we are acknowledging that we have entered a new era in which we face the challenge of defining the form globalization takes - a challenge which politicians must confront. People's fears derive largely from a loss of confidence in government's ability to determine the effects of globalization. I am therefore convinced that government is called to shape policy even in the age of globalization.

[...] Yet it also requires us to live up to our international responsibility. Mr Schwab, you have just mentioned that Germany will hold the G8 Presidency next year, and we will also do what we can to make a difference in that role.

Secondly, of course, we need a world which considers the question of an international competitive order. At this point I would like to express my clear support for international institutions. I believe that the selective conclusion of bilateral agreements between individual global players will not take us forward. Rather, in a global world we all have to learn to make arrangements with one another. A socialist response with a prescribed central framework of order is therefore not an option. Instead we need to consider new ways of dovetailing private and political activity. We must all devote our attention to this issue, and I think Davos is one of the best places in which to do so.

[...]

I believe that the WTO negotiations also play a major role. Commerce and free trade are one of the major prerequisites for enabling all players to participate on equal terms.

[...] Here, of course, we must ensure that the developing countries have fair access to free global trade. I would like to take this opportunity to emphasize that Germany has reiterated its earnest resolve to implement the UN goal of earmarking 0.7 percent of gross domestic product for development aid by 2015 in the context of the EU decisions. I believe we need to engage in strategic dialogue with emerging market economies. The world is in the throes of change in this area, and as Europeans we have an obligation to drive it forward.

We need to coordinate environmental protection and social measures with the World Trade Organization, the International Monetary Fund and the World Bank. We have to pull together. Just as in the context of the social market economy social and economic justice was always part of a worthwhile society - at least, that is our experience - I believe this should also be the case in any future world order.

[...] Germany lives up to its role in the world: as an engine in Europe, as a responsible member of the G8, as a nation which adheres to the principle that everyone has the same right to improve their standard of living, as a nation aware of the finiteness of resources and as a nation which finally has to succeed in a sphere I regard as a second key point alongside the unleashing of forces: Germany has to say how it is going to deal with its resources and consumption of resources, for example in its energy policy.

At this point in time, we have no conclusive strategic responses and for that very reason the new German Government will draw up an energy strategy which takes into account the various sources of energy and ways of saving energy. I used to be Minister of the Environment and saw that good technologies can also be a creative imperative for further developing the world as a whole.

[...] Rather, I am saying this to demonstrate our willingness to face competition. We want to face competition because we believe that our way of managing the economy and the success of the social market economy created a humane society which was economically successful. Moreover, we must succeed in this again at global level. And I believe that we can make a contribution to this discussion.

[...] "I want to prove myself by my own efforts; I want to meet the risks of life myself; I want to be responsible for my own fate. You, the State, must see to it that I shall be in a position to do so." That is the task for policy-makers - for policy-makers who believe that globalization can be shaped, policy-makers who can reassure people and give them hope, policy-makers who do not have a protectionist approach towards others but, rather, revel in the competition to find the best ideas within the scope of the creative imperative.