

Ladies and gentlemen,

For years, for decades, Germany has been regarded as incapable of economic and social reforms and insufficiently mindful of the future.

A fundamental liberalization of every aspect of life and work was needed, but seemed very far off. We had resigned ourselves, coming to believe that regimentation and the status quo were simply the natural order of things.

For too long, Germany resisted carrying out much-overdue reforms.

Today, however, after the global economic and financial crisis, such an attitude seems not only odd, but out of touch with reality.

The global crisis swiftly and brutally upended traditional ideals, goals and political orders. What is left is a still-reeling world economy and societies in search of a new framework for meeting today's challenges.

Germany, as a major exporting country, was hard hit by the crisis. The export industry experienced unprecedented losses. We saw a greater decline in our gross domestic product than any of the other G7 countries – over five percent in a single year.

Nevertheless, the effects of the crisis have been less severe in Germany than in other countries.

How is this possible? Back in 2008, we at the Bertelsmann Stiftung focused our attention on the structures and tools needed to protect Germany over the long term from the effects of global crises.

We identified three areas for action:

- restoring trust in politics and business,
- achieving social, economic and ecological sustainability, and
- putting in place effective leadership and a clear framework to meet the needs of a globalized world.

We quickly focused on the social market economy, which we believed would shield our country's people against the consequences of a crisis. Every relevant study has confirmed that view.

For all its mistakes and weaknesses, and despite the criticisms leveled against it, the social market economy provides a solid foundation for German society and for economic and social stability. It is supported by a social system that is stable enough to withstand the effects of a global economic crisis.

Moreover, its political and social structures are designed to encourage decision makers to reach a consensus on measures that are capable of gaining broad popular support.

Naturally, the social market economy of today is quite different from that of the 1950s, given how much the world has changed.

But for Germany and its people, it still stands for security and stability.

It is true that people have an emotional sense of its role, but that sense is based in reality, as demonstrated by Germany's success in dealing with the crisis.

It comes as no surprise that a recent survey by the Bertelsmann Stiftung has shown that confidence in the social market economy increased during the crisis – for the first time in years.

But while we may feel relieved and satisfied with Germany's current situation, this is no time to let down our guard, given the situation in the euro-zone countries and threats to the American economy.

We need to take a critical look at our shortcomings and determine where action is needed. The survey I just mentioned offers important guidance in this regard.

Although confidence in the social market economy has grown, there is widespread recognition that our society is increasingly divided.

The gap between rich and poor is unacceptably large.

The social market economy used to stand not only for stability and security, but also, and especially, for social harmony and opportunities for all to participate. People are aware that it is no longer living up to this responsibility, a fact that is also borne out by the data gathered in our studies.

Action is needed in the interest of greater participation, equality and justice.

But we need to do more than simply restore the old virtues of the social market economy – promoting social harmony and participation.

There are new challenges to face: The social market economy needs to develop and adjust to the profound changes in society that have taken place over the past few decades.

We need a social market economy for the next generation, a Version 3.0, so to speak. The Bertelsmann Stiftung has identified five major areas for action:

First, **education**.

We all know that knowledge is the only resource our country has for meeting the challenges of a global economy. We need a significant improvement in the quality of our educational system, at every level and for every age group; we no longer rank at the top relative to other countries.

To compete in the knowledge society, we need more people with higher levels of education.

Education is important not only for our economy, but for every aspect of life. An unfair educational system creates lasting divisions in society. This is unacceptable in a country that seeks to achieve social equality. Adapting educational systems is thus a key challenge for regulation.

Second is **integration**.

It took Germany decades to accept the fact that it is a country of immigration, which unfortunately has meant decades of squandered opportunities.

Changes are needed! A sustainable social market economy embraces and integrates people from an immigrant background, takes advantage of their diversity and talents, and offers them a positive outlook for the future as well as recognition and acceptance.

A social market economy that is reserved exclusively for those traditionally seen as German, shutting out anyone with foreign roots, will divide our society and lead our economy into a blind alley.

Regulating on integration poses many questions to rule makers: questions of how to facilitate peoples' access to society, but also questions pertaining to a society's fundamental values.

The third area is **demographic change**.

Our expectations of the social market economy – that it will encourage stability, security, equality and participation – will have to be adjusted in keeping with the needs of a population that is growing older.

From a personal perspective, I welcome the fact that people are living longer and remaining active!

I have no intention of painting an alarming picture of an aging society.

However, a sustainable social market economy needs to take demographic changes into account and find ways for society and the business community to respond to those changes.

This is, of course, also a challenge for regulation.

Fourth is **participation**.

The social market economy is embedded in our representative democracy, and both systems have proved very successful.

It is clear, however, that many feel shut out of the decision-making process and would like to have a greater voice in society.

A modern social market economy needs to take this into account and encourage more interaction between government and the people.

Greater participation enhances not only a society's stability, but also its vitality.

In designing regulation, increased room for participation is necessary.

This also requires new approaches in rule-making and regulation.

Fifth, finally, is the area of **work and the labor market**.

While the current situation especially in the German labor market may offer some reason for optimism, we cannot simply sit back and hope that required structural change will come automatically. We must take steps to make it happen.

Over the long term, we will need new ideas, beyond simply cutting hours to retain jobs and prevent unemployment.

While the reforms put in place between 2003 and 2005 have clearly helped to reduce unemployment significantly, they are also associated in the public mind with an increase in short-term or temporary jobs, part-time work and low-wage positions.

Those reforms were a response to the challenges of increasing globalization, demographic shifts and the changing face of modern families.

Today our focus is on other expectations as well: We want labor market reform to lead to more equitable participation in society.

This is essential for creating a stable political and economic foundation for a sustainable social market economy.

The challenge facing the social market economy is to ensure that all people will soon be able to share in the benefits of education, health, work and participation in political and social life.

Access to the world of work will remain essential for the success of our economy.

A steady job is the only guarantor of long-term security and social recognition.

From a regulation vantage point, setting the rules for labor markets in times of globalization and European integration, according to the principles of the social market economy, is a challenge bigger than ever before.