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Article

Welcome Address

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Welcome Address by

DIETER REITER

Councillor, Head of the Department of Labour and Economic Development, City of Munich

Your Excellencies,
Mr. Chrobog,
Professor Sinn,
Ladies and Gentlemen,

On behalf of the Lord Mayor of Munich, Mr. Christian Ude, I would like to extend a warm welcome to you, the participants of the 10th Munich Economic Summit, here at this business lunch.

First of all, let me congratulate the organizers on this tenth anniversary. With the Munich Economic Summit, you managed to create a forum which is famous for high-level discussions, much-noticed contributions of high-ranking business and political decision-makers and an expert audience. The City of Munich is proud to be the host city of this Summit.

Based on the experience of the financial crisis and all its implications, the role of the state in a globalized world has become a matter of considerable controversy. The advocates of privatizing and liberalizing large parts of the market have lost the upper hand in this debate, the arguments for the necessity of a national competition and distribution policy have regained some ground.

The question we are faced with today is whether we want to continue down that road of deregulation and liberalization – which, ultimately, brought us very close to the collapse of our economic system – or whether we want to return to the model of a social market economy – a model which is not so much about short-term profits but rather about long-term business success and, at the same time, about social and environmental issues.

Let me tell you about our experience with this on the local level. In the years before the financial crisis,

German cities have followed many different strategies regarding the privatization of public services and the experience gained from these approaches was just as varied. The ‘first the market, then the state’ strategy has worked quite well in some fields. But in an alarming number of cases, the results of privatization were highly problematic and do not seem to indicate that privatization can be seen as a silver bullet. That is especially true for sectors which are prone to producing monopoly or oligopoly structures such as energy supply, public transport or water supply, just to mention a few. After years of privatizing formerly municipal services, the results are sobering.

Energy supply was one of the key sectors affected by privatization of formerly public enterprises. Today, energy supply is characterized by oligopolies of private energy suppliers. There is practically no competition on price. The transition to renewable energies is made rather reluctantly and only as a consequence of massive state subsidies and regulatory requirements. The example of Munich shows how the transition process can be sped up if a city owns a utility company. By 2025, our utility company aims to produce so much green energy, that the entire demand of the city can be met. That requires enormous investments – around 9 billion euros by 2025 – and can only be successful if the long-term goal is sustainable economic success rather than short-term profit maximization.

In the history of privatization of local public transport, more often than not, the services provided were reduced dramatically and the prices saw steep increases. If we want to push back individual motorized transport and if we want to reduce CO₂ emissions, we need high-performance local public transport systems and transport companies.

Munich’s drinking water is among the best in Europe. This high quality is a result of the sustainable investment policy of the City of Munich’s waterworks: for decades, they have been purchasing property in the water catchment area and they support more than 100 organic farmers around the source. Which private company would be willing to make such an effort if



the quality values required by law can be met at a much lower cost?

The financial crisis also quite drastically revealed another key function of public enterprises: public enterprises can help to stabilize our economic and financial systems. During the financial crisis we saw how vulnerable our financial system really is. Our savings banks took over important parts of the credit market which could no longer be maintained by the beleaguered private banks. We would be far worse off today if the countless advocates of privatizing our savings banks had succeeded in the past and if, as a consequence, savings banks had also gambled away their customers' money on international financial markets. The lesson to learn from this is very simple: the mix of private banks, mutual banks and public banks is a factor of stability. Those banks which pursue a less aggressive approach, which avoid high risks, think and act sustainably and primarily provide services for local citizens and businesses thus pose a competitive advantage to their home communities.

I am here to make the case for a strong state or for the state having an influence on certain important fields of our lives. The co-existence of private and public service-providers might not entirely rule out undesirable developments, but different corporate strategies and business models do reduce the risk of every provider being on the same wrong track. Please do not mistake that for advocacy of inefficient and bureaucratic state-owned enterprises. The public enterprises I am talking about do not primarily focus on maximizing their profit but they have to be run like businesses: they focus on the common good, but they are not charity organizations.

German cities and towns are currently trying to correct the mistakes made in their privatization policies of the past. There are many examples of newly established or revived municipal utility companies, especially for energy and water supply, or of the repurchase of municipal transport services. Even private housing stock formerly owned by the city is sometimes bought back.

The example of Munich shows that sound budgetary policy is possible even without selling municipal enterprises or the municipal housing stock. Ironically, globalization leads to economic fluctuations getting stronger and more frequent. A strong state and, in line with the principle of subsidiarity, a regional and local level equipped with the means they need to take

action to provide for their future are a necessary corrective to global insufficiencies.

Thank you for your attention!