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Keynote Address by

MANUEL VALLS

Prime Minister, French Republic

Ladies and Gentlemen,

Thank you for the invitation to address you here in the heart of Bavaria. This is my second opportunity as Prime Minister to speak before business leaders in Germany. The first time was in last September before the Federation of German Industries (BDI), at which some of you were present. The theme you have chosen – ‘Competitiveness and Innovation’ – has a very special appeal for me as Prime Minister, since the economic policy we are pursuing in France has precisely these two objectives. Helping companies and providing them with a framework to develop the industries, technology and products of the future means supporting economic growth. And we all know how necessary this growth is for creating create jobs and combating unemployment.

Prejudices are tenacious – perhaps less so in Germany with its worker participation – and when a socialist prime minister speaks to entrepreneurs, it is always an occasion for commentaries. But they are not justified, because my job is to reach out to the companies, the entrepreneurs, to all those responsible for the strength of our economy, creating the prosperity that our countries need so much. Along with others, I want to embody an effective force on the left, a force that is progressive, that sets things in motion, and that promotes talent and rewards effort. This does not mean that we neglect our pursuit of cohesion and solidarity, on the contrary. History teaches us that economic and social progress go hand in hand.

Today, our policies in France are beginning to bear fruit: the economic upturn is here – though still too weak. But growth in the first quarter stood at 0.6 percent, which incidentally is higher than in the Eurozone. We need to do more here. Of course, we also need to

act at the European level. I have listened to your words very carefully, Mr. Dombrovskis. All our initiatives are aimed in the same direction.

Restore competitiveness

France has much to offer companies: a skilled workforce, a dynamic population development, its infrastructure, its financial system. I know exactly what image France often has abroad. I also do not ignore the weaknesses of my country because I take a sober look at the situation. But my reason for speaking to you here today is to counter certain prejudices, such as: France is a blocked country; a country hindered by clinging to outdated ideas; a country that is unable to carry out reforms. We are proving the opposite.

It is true that France has lost competitiveness since the beginning of the millennium. While the sectors of our economy have increasingly opened up and are facing an ever-growing international competition, we have hesitated too long to take the necessary measures, unlike Germany which has not hesitated. But those days are behind us. Today, we are implementing a programme of reforms that faces the challenges of our economy.

With this reform programme we are pursuing the following major objectives:

- First, a reduction in public spending. This is the precondition for sustainable tax relief for companies and private households. For three years, budget savings of 50 billion euros are planned – 21 billion of which alone is for 2015. Never before has France undertaken greater savings. We will adhere to this objective, and as a result our deficit will fall below the 3-percent mark by 2017.
- Second, the reduction of fees and taxes, which have weighed too heavily on the companies. On this point, everyone agreed but no decisions were taken. We are tackling this problem with great determination. Labour costs will be reduced by 25 billion euros in 2014 and 2015, fees and taxes by 15 billion



euros by 2017. Again, unprecedented efforts that will give companies breathing space.

- Third, structural reforms to promote economic activity and reduce obstacles. We have introduced a variety of simplifications, especially the simplification of numerous, often complex administrative procedures. We are reforming the goods and services markets by facilitating more competition in many areas – from retailing, taxi services, notary publics up to the energy sector.
- Finally, we are making the labour market more flexible and are introducing a *flexicurity à la française*: more flexibility for companies in times of crisis and more security for workers, in the area of training, for example.

We are taking action, and results are already evident:

- Labour costs have been held constant: since the end of 2012, they have risen by only 0.8 percent, compared to 2.4 percent in the euro area.
- Companies' profit margins have been increasing sharply since the first half of 2015.
- Confidence is returning. Foreign direct investment soared by 8 percent in 2014, after having been stagnant for three years.

Of course there is still a long way ahead of us, as our President recently emphasised. The recommendations published by the European Commission last week are an encouragement for us to continue. Pursing this path and keeping to a policy of budgetary consolidation without endangering the growth that has returned. I have often had the opportunity to talk to Chancellor Merkel about this.

Promote innovation

Restoring the competitiveness of our businesses also means acting in the long term and focussing on innovation, public and private research and development and on education. France, like most OECD countries, has been affected by de-industrialization, and to some extent even more severely. We had to take action, because being a great economic power means above all being a great industrial nation. Germany, and Bavaria in particular, provided an inspiring example. They have managed to maintain a strong economy and to produce recognised products. I do not need to sing the praise of *Deutsche Qualität* – this sets off German products from the others.

In industrial policy, as I have repeatedly stated, I believe in the visible hand of the state! It is the state's job, together with the economic agents, to project a vision and to help shape industry structures – in short, to provide a favourable environment. This is the goal of our competence clusters, which bring together in one place small and large companies, research laboratories, higher education institutions to jointly utilise existing talent and to stimulate imitation effects elsewhere. In this connection, we also plan to equip the entire country with high-speed rail networks by 2022.

Encouraging innovation also means providing the necessary funding. It is the task of the Public Investment Bank (BPI) to assist small and medium enterprises in the bolder projects that normal banks often do not fund. Encouraging innovation also means ensuring tax credits for research spending – this is regarded world wide as the best tax incentive for R&D. And promoting innovation means using the 47 billion euro future investment programme to support projects for the development of the digital economy, the modernisation of industry, alternative energy and research, as well as education. And finally, we wanted to ensure that new French market leaders emerge that are globally competitive: the TGV of the future, intelligent textiles, green chemistry, e-learning, Big Data, etc. These are the projects of the 'new industrial France' that the state is supporting in order to create pull effects.

The digital economy of course is a powerful driver for innovation. This is also demonstrated by Franco-German endeavours. After our meeting, I will visit an exemplary project: the joint research centre of Siemens and the French IT company ATOS, which has been established here in Munich.

France and Germany in Europe

The aforementioned research centre is further proof – insofar as proof is necessary – of the close ties between our two countries. Our Franco-German partnership – this engine of Europe – must always keep what unites us in mind, our economic ties, but also our political partnership, our cultural and linguistic exchanges. To this end, the *collège reform* that we are initiating will make it possible to increase the number of pupils learning German.

Europe is our common destiny, and I deeply regret that there are those who so often doubt this. Given the

steady growth of populist movements, it is our collective responsibility to ensure that the European project regain all its strength. For Europe is crucial for the influence of our countries on the world outside. In an increasingly globalised world in which we are competing with countries and whole continents, Europe alone has the necessary weight to compete with the United States, China or India.

Europe is also a social challenge

We are faced with competition from emerging economies that are making considerable progress in activities with high value added. And we must avoid at all costs a race to ever lower standards in Europe: low wages, minimum social rights. We would lose everything! Here, in my opinion, Germany must serve as an example. Wage restraint has led to a spectacular increase in exports and substantial trade surpluses. But this cannot be imitated by the entire euro area. Our trading partners would not accept this.

France will thus place all its weight behind an increasing convergence of euro area economies. The report of the four presidents on the deepening of the European Economic and Monetary Union, which will be published next month, will submit corresponding proposals. The strengthening of the convergence of our policies will be accompanied by a deepening of our internal market – this foundation of more than 500 million consumers. We must build on this market in order to develop ourselves optimally elsewhere in the world.

Today, we are not there yet. Just one example: an SME in the IT industry that would like to expand in the European Union is faced with 28 different sets of rules. We need to create a unified IT market so our start-ups have immediate access to a continent-wide market. That is the precondition for the emergence of major European market leaders. And we must also have common rules that ensure free competition and prevent the abuse of market-dominating positions.

Strengthening the convergence of our economies also means combating tax optimisation. This is a question of fairness. Some companies can escape taxation today, while others have to pay the full amount. This is also a matter of economic efficiency. In recent years, progress has been made: the VAT in e-commerce is gradually being levied in the country of the consumer.

Continued reforms are needed, and we especially need to achieve a harmonisation of corporation tax.

The European convergence policy I have outlined must be aimed at promoting investment, which is the motor for growth and employment. This is the aim of the 315 billion euro ‘Juncker’ investment plan. Here too, France and Germany are working together: at the last Franco-German Council of Ministers, we drew up a joint list of priorities. We will need to extend this plan to do justice to the enormous investment needs in the European Union, because investments are the key to innovation. Europe must assume a leading position in fields with high value added. I am thinking of the energy revolution and low-carbon technologies, but also of the digital economy.

This is why we need to expand research. And we have a new tool to do this: the planned EU Patent. It should be implemented as quickly as possible and provide incentives for inventions, which for the first time will be European inventions. The EU must also create stronger links between basic research and applied research. This challenge, of which aim is ‘from the idea to the market’, thus affecting the entire innovation chain, we also must undertake together – EU member states and European institutions.

The world that is changing before our eyes as a result of technological change is full of uncertainties; established positions are being thrown overboard. Our role is not to be paralysed by the *status quo*, which sooner or later will lead to our downfall; the role for all of us is to focus on innovation and audacity. And opportunities like this meeting, where we discuss opportunities, exchange views and take a more distanced perspective, advance our reflections on these issues. Could there be a more appropriate meeting than this one: French and German companies, France and Germany – elected representatives and economic players?

So once again thank you for this invitation to come to Bavaria.