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Digital Europe – Europe's Fast Track to Economic Recovery

*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

The Ludwig Erhard Lecture 2009

Lisbon Council, Brussels, 9 July 2009

Dear Mr Hofheinz, dear Ms Mettler,

Ladies and gentlemen,

I feel very honoured that you have invited me to give this year's "Ludwig Erhard Lecture". The moment for this is very well chosen, and I would like to congratulate the organisers of the Lisbon Council for their excellent timing.

In these days where Europe is in the deepest economic crisis since the 1930s, it is very useful, in particular for politicians, to remember the work of Ludwig Erhard and to take another look at his writings. Before becoming German Chancellor, Ludwig Erhard was the first Minister of the Economy of the young Federal Republic after the Second World War. After years of dictatorship and centralised management of the economy, after a national catastrophe of unprecedented dimensions and total economic and social break-down, Erhard was entrusted with the Herculean task of rebuilding the German economy. That he managed to do this, that by the end of the 1950s, he was able to transform West Germany into the second most important economy in the world after the United States, is often described as "the economic miracle" ("Wirtschaftswunder").

However, when we look more in detail at what Erhard did in his policy, this was no miracle at work. It was rather a good combination of strong political determination and sound economic principles, coupled with a good understanding of the importance of psychology for macroeconomics. In view of the crisis we are currently experiencing, allow me therefore to take a step back and to elaborate a bit on this: first on the principles needed for a sound economic policy. And then on the necessary political determination.

Core principles of a sound economic policy

The starting point of Erhard's policy for re-launching the German economy was a firm belief in the benefits of the market economy, in open markets and in the rules of supply and demand. The return to a market economy was not at all self-evident in post-war Germany, after a decade of nationalisation, protectionism, and centralisation of most industrial sectors. Bringing the market economy back to Germany was therefore one of Erhard's key achievements. However, Erhard also knew well that it would be naïve to trust market forces alone. The rules of supply and demand allow the market to maximise individual freedom *only* when one market player, or several market participants jointly, are prevented from achieving a position of market dominance. The State has thus an important role to play. In particular, the State has a responsibility to ensure effective competition on the market, and to fight against monopolies and cartels. This might appear obvious to us today, but it was not at all self-evident in the 1950s when Erhard fought hard for Germany's very first Antitrust-Law – a law that provided a lot of inspiration for the creation of the competition provisions of the EEC Treaty.

Erhard's approach did not end with a reliance on market forces and ensuring effective competition. He had personally witnessed the effects of the 1929 World Economic Crisis where millions of workers lost their jobs within days; where banks went bust and massive bank runs showed that the population had lost all trust in the financial system; and where economic depression led ultimately also to a social crisis. This experience was crucial to Erhard's personal thinking and in his policies. This is why he wanted Germany's post-war economic system to be a "**social market economy**". A stable currency, protecting citizens' savings from inflation is an important pillar of such a system, and price stability a social policy measure par excellence. Another factor is a social policy that protects the weaker parts of society and compensates for market failures; and that allows each and every citizen to see the advantages of the market economy in their pockets. The title of Erhard's famous book "Wohlstand für alle" ("Wealth for All") is very telling about the real objective of the social market economy.

Erhard would be certainly proud to see that over 50 years after he and his close collaborator Alfred Müller-Armack coined the term "social market economy", the Lisbon Treaty now states that the economic constitution of Europe's single market should become a "social market economy"¹. This means of course that the EU continues to have the core responsibility to ensure effective competition, monetary stability, and financial stability, and to create a sound legal framework for this. It also means that, ultimately, the benefits of stability and a competitive single market must be felt by citizens. As Erhard said: "An economic policy may only be called social where it makes sure that economic progress, higher performance and productivity growth in the end will benefit the consumer."² In this Erhardian sense, the EU's competition policy (to mention the most prominent example) is not an end in itself, but a policy that allows consumers, thanks to the determined intervention of the European Commission against anti-competitive practices, to save up to 11 billion euro per year. In the same way, telecoms liberalisation driven by the EU is a success story not only because it has led to open markets, new market players and enhanced investment. But in particular because it has allowed Europe's consumers to save around 35% on their communication bills in the past five years alone. Relying on market forces and competition on the one hand, and generating tangible consumer benefits on the other, are therefore the two sides of the same coin in a social market economy. And it should, in my personal view, certainly be the guiding principles for the first European Commission to take office under the new Lisbon Treaty.

The political determination now needed for economic recovery

The sound principles of a social market alone were of course not sufficient to allow post-war Germany to recover economically; nor will the words "social market economy" suffice to bring Europe today back on track to sustainable economic growth and jobs. The principles of a social market economy must be implemented by concrete and determined policy action. Ideological solutions will not do the job. Pragmatism and an openness to new solutions are needed, in particular in times of crisis. Ludwig Erhard was very good at that, as he was telling people from the beginning what to expect from his action, sometimes also by resorting to "self-fulfilling prophecies".

¹ Article 3(2) of the reformed Treaty on European Union.

² "Eine Wirtschaftspolitik darf sich aber nur dann sozial nennen, wenn sie den wirtschaftlichen Fortschritt, die höhere Leistungsergiebigkeit und die steigende Produktivität dem Verbraucher schlechthin zugute kommen lässt." (Wohlstand für Alle).

What must be avoided is a “Christmas Tree Effect” in recovery measures. Let's be clear: Those who try to satisfy everybody will in the end satisfy nobody. Priorities, focus and political leadership are thus needed when the European Union works in the next weeks and months on further measures for the aftermath of the global financial and economic crisis – the measures which citizens expect will help to bring about sustainable economic recovery.

For the EU today, the first priority must be to transpose the important proposals of the De Larosière-Report into concrete EU legislation. These proposals aim to ensure financial stability, which is the pre-condition for lasting economic stability in Europe.

In addition to that, we need to focus on those measures which have the best chance of stimulating our economy and preserving jobs in the European Union. There is an important consideration which we need to bear in mind when setting our priorities. In the past months, governments and central banks have been pouring unprecedented amounts of money into the economy to provide liquidity and to limit the downturn. Fiscal stimulus packages adopted by governments across the euro area amount, for 2009 and 2010, to €400 billion, or 4.6% of GDP (including automatic stabilisers). This stimulus is an unquestionable necessity, and Ludwig Erhard would probably have agreed with many of these measures. He had always warned against an ill-conceived “austerity policy”, in view of Germany's bad experiences in the late 1920s and early 1930s. We also heard this week from the Ministers of Economy and Finance that the time for an exit strategy from stimulus measures is still not there yet, in spite of the first "green shoots" of economic recovery that can be detected. But public authorities should never forget that it is the taxpayer who picks up the bill for all this at the end. And that ordinary citizens would be the first to suffer from inflationary developments that could result from further monetary expansion.

If we don't want to hang this burden around the necks of future generations, governments will have to make very smart use of the public money that will now be invested into Europe's recovery. They will also have to seize increasingly those opportunities with little or no extra cost attached for the taxpayer. And yes, there are such opportunities.

The Digital Europe Strategy

This brings me to my specific answer to the present economic downturn: Europe's digital economy, where private and public investors can expect a particularly good return on investment.

This innovative sector with importance across the whole economy generates already today substantial revenues via the internet and mobile phones, in particular by providing access to news, information, music, books, films, games and other digital content. And Europe's digital economy has tremendous potential: With a mobile penetration rate of 119% (up from 84% in 2004 when the Barroso-Commission took office), there are today more mobile phone subscriptions than citizens in the EU. 60% of households are connected to the internet (up from 41% five years ago). And while in 2004, only 33% of these households had a high speed broadband connection, this has grown to 80% in the five years of this European Commission.

All this is only the starting point. Europe promises to become even more digital in the years to come. A demographic analysis tells us that today, only 35% of the total population in the EU have used advanced internet services in the last 3 months. This is markedly different for people between 16 and 24: 73% of them have recently used the internet for advanced data transmission, in particular for uploads and downloads of content and for social networking. This figure rises to 89% in Denmark, Europe's most competitive telecoms market.

With these young, regular and intensive internet users, there is a whole generation of "digital natives" ready to apply innovations like web 2.0 to business and public life, whether as podcasters, bloggers, social networkers or website owners. It is in this new generation that there is real growth potential for Europe. Very soon, these digital natives will be turning into consumers with important purchasing power. This is one of the reasons why the European Commission believes that the roll out and development of high speed broadband internet – whether via fixed or via wireless connections – could create around one million jobs in Europe, and spur broadband-related growth in economic activity to the tune of €850 billion. Let us not forget that each 10% of additional broadband penetration yields 1.3% extra growth, according to a new World Bank study.

To seize this potential in our digital economy, Europe will need to create the right framework for ensuring effective competition and sound regulatory conditions in a well-functioning single market as well as incentives for innovation. In view of the commitment to the social market economy, we also need to make sure that, in the end, consumers benefit from the digital economy. This is particularly important if we want to convince the digital natives to become the drivers of our digital economy.

President Barroso has clearly set out our ambitions when he wrote to the Heads of State and Government on 17 June. He said that we now have to bring about **“a Europe committed to the radical transformation towards a knowledge-based society.”**

To achieve this radical transformation, I have been working with my team in the past weeks on **a strategy for a Digital Europe**. This plan has two parts: First, action which the EU institutions can take or prepare still this year, under the present Commission, on the basis of work already started. And secondly, action which we believe should become a priority for the next five years.

The imminent actions for boosting Digital Europe

In line with Ludwig Erhard's understanding of the social market economy, we have so far been focussing our action on the structural pre-conditions needed to get the digital economy going. Our policy target is clear: We would like to have internet broadband for all Europeans by 2010. And high-speed internet broadband for all Europeans by 2013.

The "first movers" in Europe have already started implementing these targets: The French government, with its plan *France Numérique 2012*, is pursuing the objective to equip all French households with an internet connection of at least 512 Kbit/s by the end of 2012. In the UK, Lord Carter told us, in his ambitious *Digital Britain* report, that the government sets the objective to serve all British households by broadband networks of at least 2 Mbit/s by the end of 2012, eased by the creation of a *Next Generation Fund*. In Germany, the federal government, in its *Breitbandstrategie*, calls for connections of 50 Mbit/s to serve 75% of the population by 2014. Finland has even committed to a universal broadband service at 100 Mbit/s. These are examples of countries who got their priorities right. They all have recognised the need for boosting the digital economy.

What can Europe add to this? We can make sure, over the next months, that these positive beginnings are accompanied and reinforced by clear European signals and complemented by concrete measures. We must encourage *all* EU countries to join the "first movers" swiftly, in the spirit of our open single market and our common European competition rules.

To promote competitive infrastructures for a Digital Europe, there are four concrete steps we can and should take in the next months:

- First of all, **we need to bring into force the reform of Europe's telecoms rules**: two Directives and one Regulation on which the European Parliament and the Council of Telecoms Ministers have agreed on after 18 months of negotiations. The agreement encompasses a reform package of more than 160 Articles with 750 subparagraphs. There is only one subparagraph on which no agreement could be found so far. I call on both sides of this debate to come to a very swift agreement on this subparagraph. The reform would pave the way for better regulation and coordination of telecoms rules in Europe's single market, improve the way radio spectrum is managed in Europe, and strengthen consumer rights as well as the open nature of the internet. The reform would bring us in particular substantially closer to completing a single European telecoms market. Just think about what more consistent telecoms regulation could do for the providers of business services in the EU. If access rules for businesses were more consistently and effectively enforced across the EU, GDP could be boosted by 1.6% to 2%. Experts also estimate that the present regulatory fragmentation in telecoms costs Europe's businesses €20 billion per year – a cost factor that, in view of the present crisis, we should eliminate as soon as possible by bringing the reforms into force, and by applying the new rules effectively.
- Secondly, we should **encourage effective competition and sustainable investment in Next Generation Networks – in particular into fibre networks instead of copper ones**. As the evolution of the telecoms sector shows, the best instrument for sustainable investment in new networks is a set of solid rules ensuring effective competition. On top of that, market-driven investment can be given extra impetus through co-investment schemes under which several operators deploy fibre-to-the-home. Where investors take very large investment risks to bring fibre-to-the home, Europe's regulators should be flexible. Together with my colleague Neelie Kroes, I have therefore published a draft Recommendation on this matter with the aim of offering regulatory solutions and legal certainty.
- Thirdly, I believe **we should make 3G mobile phones services more attractive in Europe and pave the way for LTE, the next generation of mobile services**. More and more people want to be online wherever they are, and wherever they go, via their mobile device. This is not only a dream for business people and technology savvy consumers, but has the potential to create a mobile knowledge based society in Europe. Thus far, there are only about 92 million 3G users in the EU, only 16% of all mobile subscribers, with Italy, Finland and Austria leading in this field. Here, we are preparing important measures to abolish regulatory restrictions and reduce the cost of offering 3G and more advanced mobile services. The reform of the EU's GSM Directive, proposed by the Commission last year in parallel to the ongoing broader EU telecoms reform, will allow the re-farming of the radio spectrum in the GSM band for new mobile services, thereby leading to savings of up to € 1.6 billion in capital costs for the mobile industry. I will do my best to ensure that this important reform can be agreed and implemented as soon as possible, so that Europe can continue to be THE mobile continent on the globe.

- Last but not least, I believe **the present economic crisis requires us to accelerate the ongoing switchover from analogue to digital TV in Europe.** The switchover will free very valuable radio spectrum, currently used by terrestrial analogue TV, for use by new communications and content services. This process has already been completed in Germany, Finland, Luxembourg, Sweden, the Netherlands, in Flanders here in Belgium as well as in major areas in Austria. The Commission estimates that the incremental value of this spectrum for wireless broadband across the EU is between €150 and €200 billion. Appropriate European coordination of Member States' work on the digital dividend would increase the potential economic impact of the digital dividend by an additional €50 billion between now and 2015. Every corner of Europe could reap this "digital dividend", without it costing the taxpayer a single cent – if all EU governments act now. I recall that the United States as a whole switched to digital TV last month. **I call therefore on all EU governments: Don't wait until 2012, the EU-wide deadline for the final digital switch-off, to bring these benefits to you businesses and citizens. Act swiftly now.** Tomorrow I will present a package of draft measures in order to accelerate Europe's digital switchover. I hope that these proposals will receive a positive reception in the public consultation and by that contribute to a more positive economic attitude. As Ludwig Erhard always stressed: 50% of macro-economics are psychology.

Digital Priorities for the next five years

These four measures mentioned should be implemented in the next coming months. You can be sure that I will not tire in pushing for their successful completion.

However, we already need to look today at the strategic priorities for the medium term. With other regions of the world becoming ever more competitive, Europe cannot simply tread water, by simply ensuring sufficient spectrum and modern infrastructures. Would you take a high speed train that isn't going to an exciting destination? Obviously, high speed internet requires high interest content and attractive services for the end-consumer. Also for this part of Europe's digital economy, a sound framework, combining the strength of market forces with a single-market-wide regulatory level playing field, appears to be the best answer that Europe can give. The Commission will open a broader consultation on our Digital Europe Strategy in August. Already today, I would like to present to you the four priority areas where EU action appears to be most needed³:

1. My first and most important priority for Digital Europe is: **To make it easier and more attractive to access digital content, wherever produced in Europe.** The availability of attractive content that appeals to European viewers, listeners and readers will be decisive in driving further the take-up of high-speed broadband internet. It is therefore regrettable that we currently have an extremely polarised debate on the matter: While many right holders insist that every unauthorised download from the internet is a violation of intellectual property rights and therefore illegal or even criminal, others stress that access to the internet is a crucial fundamental right. Let me be clear on this: Both sides are right. The drama is that after long and often fruitless battles, both camps have now dug themselves in their positions, without any signs of opening from either side.

³ This adds to, and complements, the "Digital Agenda", presented jointly with Consumer Affairs Commissioner Meglena Kuneva. See the press release of 5 May 2009 "Consumer Rights: Commission wants consumers to surf the web without borders" ([IP/09/702](#)).

In the meantime, internet piracy appears to become more and more "sexy", in particular for the digital natives already, the young generation of intense internet users between 16 and 24. This generation should become the foundation of our digital economy, of new innovation and new growth opportunities. However, Eurostat figures show that 60% of them have downloaded audiovisual content from the internet in the past months without paying. And 28% state that they would not be willing to pay.

These figures reveal the serious deficiencies of the present system. It is necessary to penalise those who are breaking the law. But are there really enough attractive and consumer-friendly legal offers on the market? Does our present legal system for Intellectual Property Rights really live up to the expectations of the internet generation? Have we considered all alternative options to repression? Have we really looked at the issue through the eyes of a 16 year old? Or only from the perspective of law professors who grew up in the Gutenberg Age? In my view, growing internet piracy is a vote of no-confidence in existing business models and legal solutions. It should be a wake-up call for policy-makers.

If we do not, very quickly, make it easier and more consumer-friendly to access digital content, we could lose a whole generation as supporters of artistic creation and legal use of digital services. Economically, socially, and culturally, this would be a tragedy. It will therefore be my key priority to work, in cooperation with other Commissioners, on a simple, consumer-friendly legal framework for accessing digital content in Europe's single market, while ensuring at the same time fair remuneration of creators. **Digital Europe can only be built with content creators on board; and with the generation of digital natives as interested users and innovative consumers.**

I will give you two examples of what Europe could do concretely for this:

- First of all, we could **facilitate the licensing of intellectual property rights for online services covering the territory of all 27 EU Member States**. Today, right holders and online service providers need to spend far too much time and money on the administration of rights, instead of investing this money in attractive services. And consumers often cannot access online content if uploaded in another Member State. For online content in a single market of 27 Member States, economies of scale and consumer-friendly solutions will require a much simpler and less fragmented regulatory framework than the one of today. We had a similar problem when commercial satellite TV started more than 30 years ago. As right clearance for this *per se* cross-border service became increasingly complex, Europe developed the Cable and Satellite Directive and introduced a simplified system of rights clearance for the whole of Europe. I believe it is now time to develop similar solutions for the evolving world of online content.

- Second example: **We should create a modern set of European rules that encourage the digitisation of books.** More than 90% of books in Europe's national libraries are no longer commercially available, because they are either out of print or orphan works (which means that nobody can be identified to give permission to use the work digitally). The creation of a Europe-wide public registry for such works could stimulate private investment in digitisation, while ensuring that authors get fair remuneration also in the digital world. This would also help to end the present, rather ideological debate about "Google books". I do understand the fears of many publishers and libraries facing the market power of Google. But I also share the frustrations of many internet companies which would like to offer interesting business models in this field, but cannot do so because of the fragmented regulatory system in Europe. I am experiencing myself such frustrations in the context of the development of Europeana, Europe's digital library. Let us be very clear: **if we do not reform our European copyright rules on orphan works and libraries swiftly, digitisation and the development of attractive content offers will not take place in Europe, but on the other side of the Atlantic.** Only a modern set of consumer-friendly rules will enable Europe's content to play a strong part in the digitisation efforts that has already started all around the globe.

2. Priority two on my to-do-list for Digital Europe is: **preparing for a safe and consumer-friendly European space for mobile payments.** Today, the lack of common EU-wide standards and rules for "m-cash" leaves the great potential of "m-commerce" and the mobile web unexploited. We have more than 500 million mobile users in Europe. This means that Europe has the economies of scale to offer for an innovation-friendly environment that will allow transforming the mobile phone into an electronic wallet. Very quickly, we could see the mobile phone being used for buying most day-to-day items electronically, such as tickets in a station, sodas from a vending machine or flowers in a shop. This would make life easier for consumers; and open up new business opportunities for European companies.

3. My third priority for boosting the digital economy is: **Europe's digital economy should be opened up to small businesses.** In Europe, we have 23 million small and medium sized enterprises (SMEs) which make up 99% of all firms. Accounting for over 100 million jobs, SMEs can be the mainspring of Europe's economic resurgence. But in the use of productivity-boosting ICT tools, SMEs lag substantially behind big firms: only 9% of SMEs use electronic invoices, and only 11% of them have technology-based human resource management. If SMEs could access computing power over the web, they would no longer need to buy and maintain technologies or IT applications and services. Such web based services – called "cloud computing" – are the medicine needed for our credit squeezed economy: they can make businesses more productive by shifting from fixed costs (i.e. hiring staff or buying PCs) to variable costs (i.e. you only pay for what you use). However, today these new services are nearly all US-owned and US-based. Once again, the US has started to exploit a business model before Europe has managed to do so. We cannot let this continue. In my view, we need a major effort to set up Europe-hosted "clouds" to give European SMEs access to fast, open and productivity enhancing services. A recent study estimated that online business services could add 0.2% to annual GDP growth, create a million new jobs and allow hundreds of thousand of new SMEs to take off in Europe over the next five years. So what are we waiting for?

4. My fourth priority for Digital Europe is: **making better use of innovative ICT solutions to meet our objectives of a low-carbon economy**. This aspect is still neglected in our ongoing work to prepare with ambition for the Copenhagen Conference at the end of the year. Just consider the following: If businesses in Europe were to replace only 20% of all business trips by video conferencing, we could save more than 22 million tons of CO₂ per year. And cloud computing could, by helping to improve the efficiency of IT solutions, lead to electricity savings in computing activity of up to 80%. Let us also not forget what ICT could do for safer, smarter and greener cars in Europe. I firmly believe that Digital Europe cannot afford to turn a blind eye to its ecological potential, which in turn can open up new business opportunities for European ICT companies. We will therefore have to add some "green" to Ludwig Erhard's social market economy.

Ladies and gentlemen,

Ludwig Erhard wrote, in his book "Wohlstand for alle", that in the course of European integration, politicians could be tempted to focus too much on institutions, and not enough on what these institutions are there for. Too much institutional talk and not enough concrete policy outcomes, was his criticism of the European process. I am afraid that if Erhard could have seen what sometimes happens here in the "Brussels bubble" in these days, he might have felt justified in his criticism – and rightly so.

I therefore hope that, after some weeks of hesitations and doubts, we will now swiftly get back to business. In view of the economic crisis, wait and see is certainly not an option for Europe. I personally feel very confident that with a strong, independent European Commission that seeks inspiration from the principles of the social market economy, we will indeed manage to bring Europe swiftly back on the path of sustainable growth. A clear strategy for boosting a digital economy for businesses and citizens, as outlined in my Digital Europe plan, should play an important role in this.

If we keep Ludwig Erhard, his principles and the importance of psychology for economic development in mind, we may even be able to perform a small "economic miracle" in the coming years. In the past 20 years, Europe led the mobile phone revolution thanks to the innovative force of its researchers and businesses, its team approach and its capacity for creating a level playing field that allowed economies of scale to unfold. The next decade's technologies will be as markedly changed as the economy and society. A generation of high-tech Europeans, using mobile devices to access the internet and using the internet to access mobile services, can be just around the corner – if we focus our policies on the right priorities. I believe the time for this is now. Let's get the job done.