

Warsaw 2007 - Background papers

EIN Summer University and European Ideas Fair

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EIN POLICY ROUNDTABLE ON

COMPETITIVENESS AND INNOVATION

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Background

The reemergence of Asia as a world economic power will confront Europe with a radical challenge.

In the United States, over the last ten years, for every one job lost to overseas competitors, 1.2 jobs have been created in the domestic market. But this is not unfortunately the case in Continental Europe (where the ratio is 0.8 job for every job that migrated away). The roots of this situation are well known. Europe is loaded with labour and market regulations and rigidities that prevent mobility, reduce competition, impede innovation and discourage risk-taking entrepreneurship. As a result, today European productivity grows at a one percentage point below what it was ten years ago, before globalisation reached its full speed. Economic growth lingers at below 2% a year while it has moved up to more than 3% on average in America. No wonder that globalisation is negatively perceived by most European public opinions.

It will depend on Europeans to decide whether the relative decline compared to the rise of Asia will remain, over the next twenty years, the consequence of a mere catching up effect, or will mean that Europe is now in the process of being definitely overtaken by younger and more dynamic nations.

There is only one possible strategy to ward Europe off from the disastrous political consequences that would result from such a course. To be prepared for the next round of global competition, to

harness it and ride it with continuous prosperity, Europe must move to the forefront of the Information Age. It must successfully master the Knowledge Economy for information technologies now permeate every policy area, including other key growth areas such as nano and bio technologies.

The task will not be easy. Reversing the trend, closing the gap is basically a matter of education, innovation and entrepreneurial spirit. These are the three fundamental options which Europe must choose if it wishes to remain among the top world economic and leading political powers of the next decades.

Simply increasing money poured into R&D (for example public investment) will never make it since what is needed is not merely more invention, but better 'innovation' which is something very different. Innovation implies a culture that values entrepreneurs and risk taking individuals who know how to turn knowledge into money, and do not limit themselves to turning money into knowledge. To that effect Europe must get rid of the rigidities and mercantilist regulations that stifle the development of a dynamic entrepreneurial mentality.

Today even Education is being globalised. This is the biggest threat now facing Europeans since it means that many people who presently live on a 5000 €/month income will have to respond to the competition of other workers (from India for example) with similar academic and work backgrounds but who will ask for only 500 € to do the same jobs. To respond to that challenge Europe will need not just one big government-funded European Technology Institute, but a network of many smaller competing institutes that help to adapt Europeans to a new environment and mentality of global creative destruction.

To ensure the effective use of Information Technology underpinning the productivity improvements in manufacturing and services which are essential to sustain Europe's global competitiveness, top priority will be needed to ensure that Europeans have the management and workforce with the right skills to grasp the opportunities and to understand and apply the technology.

If Europe wants to benefit from all the opportunities continued globalisation will offer during the next twenty years, it must give priority to a better education and its condition: competition; global and generalized competition as well as competition within the educational system.

Five areas that might merit further examination at this year's summer university in Warsaw are:

? Which areas or sectors are most crucial to reform? Which are 'necessary', which are just 'nice'?

? Where have we failed and where have we succeeded in adapting to globalisation and why

? How can the EU create and finance a more entrepreneurial environment where risks pay?

? What policy lessons can we learn from the rapid growth of emerging economies?

? What concrete steps can Europe take to improve conditions for growth and innovation?