

# Let's choose **growth**

Why we need reform to  
unlock Europe's potential



# Why Europe must change

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These are no ordinary times. What Europe needs is a transformational agenda. Only by working together can Europe have the critical mass needed. We face a choice: either we collectively shape the new order, or Europe will become irrelevant.

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*José Manuel Barroso, Political guidelines for the next Commission, European Commission, September 2009*

## European countries could disappear from the world's top 10 economies after 2050

1	US	China	China	China
2	China	US	US	India
3	Japan	India	India	US
4	India	Japan	Japan	Brazil
5	Germany	Russia	Brazil	Japan
6	Russia	▼ Germany	Russia	Russia
7	Brazil	Brazil	▼ Germany	Mexico
8	UK	UK	Mexico	Indonesia
9	France	France	France	▼ Germany
10	Italy	Mexico	▼ UK	UK
	2010	2020	2030	2050

# Why it's time for growth in Europe

We may not want to admit it, but many of our long held assumptions, the result of decades of progress, are under threat. Our belief that the world will always demand Europe's products. Our belief that Europe has jobs for its people to do, and that standards of living will always rise. Our belief that European nations will always be global economic leaders. One by one, these beliefs are being called into question.

Look at it this way: if current trends continue, by the middle of the century, leading EU nations could fall out of the world's top-10 most powerful economies. Europe had four years of annual growth wiped out in the recession, and our growth rates are now half their pre-crisis rates. Without reform, Europe will fall further behind our competitors and will never make up the income lost during the crisis.

The European Commission says that unless we reform Europe could grow at just 1.5 per cent a year for the next decade. Compare this with current growth in Brazil at 4.1 per cent, India 8.2 per cent and China 9.5 per cent. While we welcome the rise of emerging economies, we should not surrender the EU's position at the forefront of technological and economic progress.

Without strong, sustainable growth, our future is less secure, and the social models of each European country may become unaffordable. To realise our dream of a fair Europe, with well-paid, high quality jobs and full employment, we need to be more productive. We need to reach out to the world and drive trade and exports. We need to understand what's holding us back so that we know what to change. We need to understand the brakes on growth.

# Let's unleash the Single Market

The Single Market is the EU's greatest economic achievement. It gives us a competitive advantage, and makes us global players alongside the US and China. Our 500 million consumers generate €12 trillion<sup>1</sup> every year in the world's largest marketplace.

But there is still much to do, and the Commission is right to make this a priority. Only 12 per cent of EU online trade is cross-border.<sup>2</sup> Consumers in one part of the EU are often prevented from buying digital content from another. EU citizens can only access iTunes in 15 Member States, and Spotify in seven. The benefits we have shared by freeing up the airline industry have yet to be realised on the railways or in other forms of transport. These are just a few examples – there are many more.

The Single Market already adds €600 billion a year to our economy.<sup>3</sup> Further liberalisation of services and the creation of a digital single market could add €800 billion<sup>4</sup> more. This is the equivalent of making the average European household almost €4,200<sup>5</sup> better off each year.

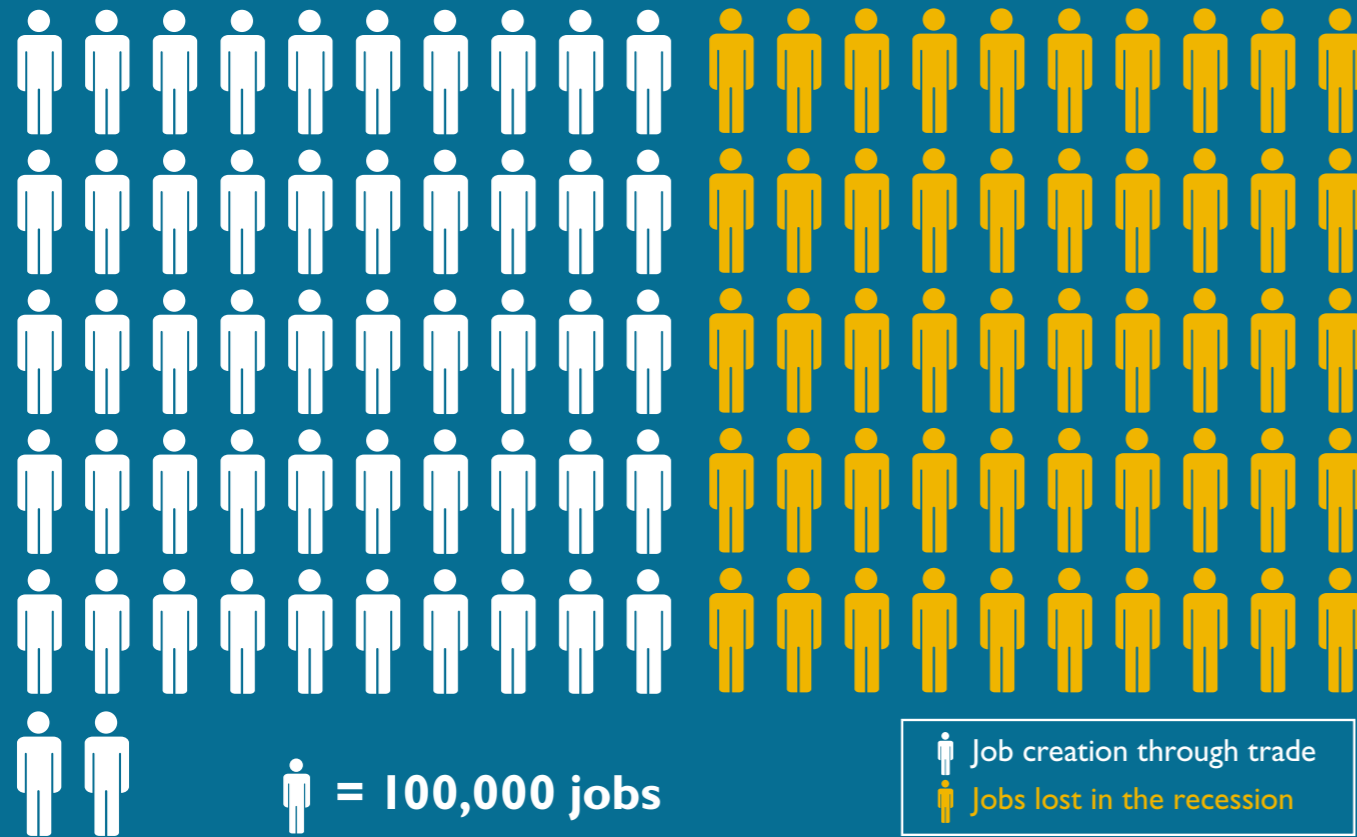
“A true Single Market would add €800 billion to EU GDP.”

BIS Economics Paper No. 11

## Completing the Single Market in services and digital would increase average household incomes



An extra 5.2 million jobs could be created by reducing barriers to trade outside the EU, more than all the jobs lost in the recession



Source: UK Government analysis, using OECD, ILO, World Bank and WTO (2010) *Seizing the benefits of trade for employment and growth*, and Eurostat

# Let's unlock the benefits of trade

Europe can do more to reach out to the world. If we open up new markets, aggressively access new sources of wealth, and reduce barriers to trade between the EU and other dynamic markets, the prize would be huge: Europe could gain 5.2 million jobs,<sup>6</sup> more than the number we lost in the recession.

Free trade keeps inflation down and pushes income up. Free trade has helped raise the incomes of manufacturing workers in Europe's largest economies by about €3,600 per worker since the barriers began to fall.<sup>7</sup>

Failure to remove barriers to trade with some of the world's most dynamic economies costs us money and jobs, not least by making the imported components we use more expensive and the products we make and export less competitive.

“Concluding all ongoing trade negotiations could add €60 billion to EU GDP.”

European Commission (2010) *Trade as a driver of prosperity*

# Let's reduce the COST of doing business

Doing business in Europe is too costly and time-consuming. Dealing with bureaucratic rules and regulations hits our small businesses hardest and stifles enterprise: for every €1 per employee a large business spends to comply, a small business can expect to spend up to €10.<sup>8</sup> European companies spend €8 billion each year complying with EU regulations

just so that they can trade with non-European countries.<sup>9</sup> At a time when companies can start up and locate anywhere in the world, and at any time, this is unsustainable. When it costs €593 to set up a business in Brazil, €641 in India and €644 in the US, why does it cost on average €2,285<sup>10</sup> to do so in Europe?

The result is that our citizens are simply not getting the best deal. Why are so many of our skilled tradespeople discouraged from operating across borders? And why does it cost as much as €18,000 (€10,000 of which is spent on translation) to obtain an enforceable patent in the EU, nearly 10 times what it costs on average in the US?<sup>11</sup> We need to tackle these self-imposed obstacles, which cost money and jobs for European citizens.

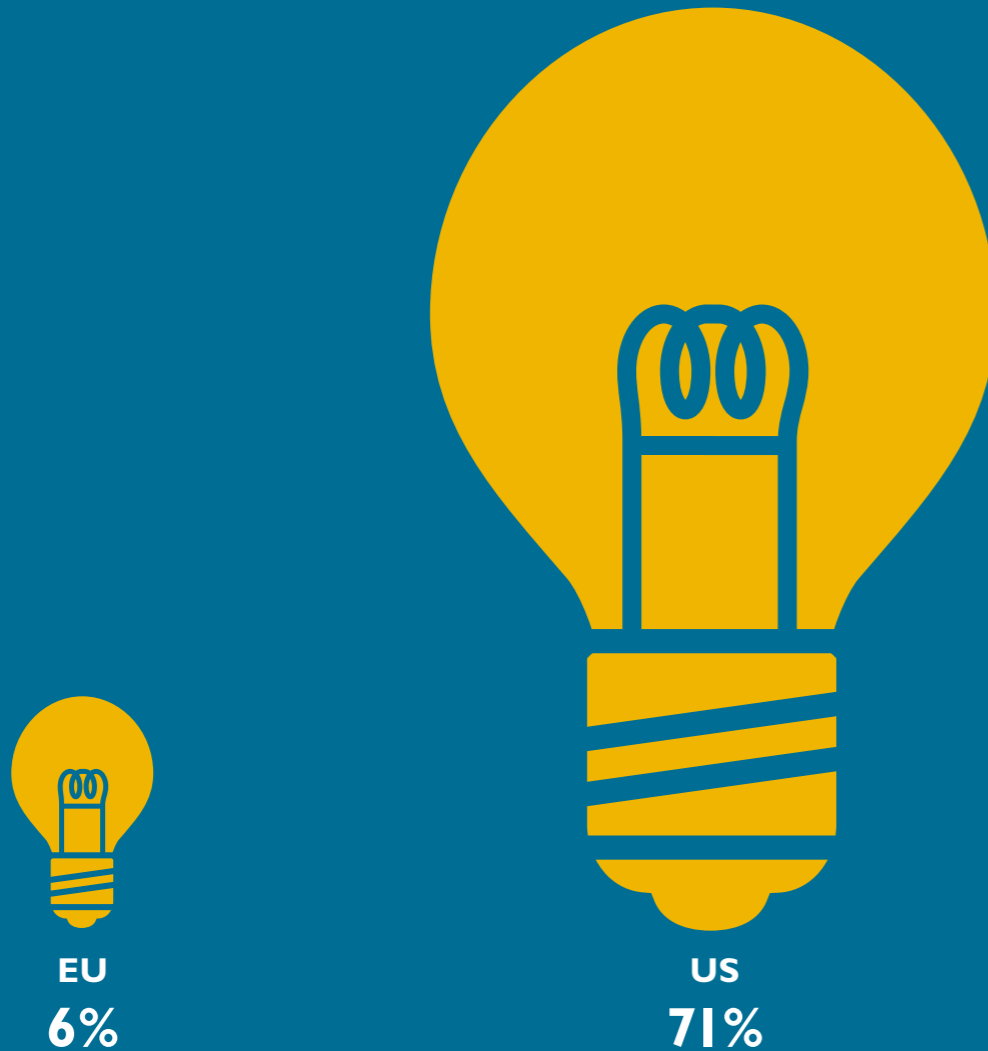
“ Dealing with legal and administrative requirements is the major obstacle to the success of young enterprises. ”

*European Commission (2007) Report of the Expert Group: Models to reduce the disproportionate regulatory burden on SMEs*

## The average cost of starting a business is higher in the EU than our major competitors



Only 6% of young innovative companies formed since 1975 are European, while more than 70% are American



# Let's support innovation now

Europe knows how to innovate. We are a world leader in science, manufacturing, aerospace, telecommunications and low-carbon energy technology. Europeans invented the web, designed and built world-beating cars and planes, and developed the technology to harness wind power. But if we are complacent now, we won't just be overtaken, we'll be left far behind. For example, China now dominates global investment in clean energy (\$35 billion in 2009). Their ambition is huge. Ours should be too.

Access to finance is vital. For every euro invested in venture capital within the EU, five times as much is invested in the US.<sup>12</sup> And since 1975, 70% of innovative companies have been created in the US.<sup>13</sup>

In 2011, China will register more patents than the US, Japan or Europe, helped by innovation incentives and an innovation-centred economy.<sup>14</sup> And on all but two of the indices against which we measure innovation, China is closing the innovation gap.<sup>15</sup>

“ 8 out of 10 EU citizens agree that it's difficult to start a business due to a lack of finance. ”

*Eurobarometer Entrepreneurship in the EU and beyond  
Summary report, May 2010*

# The plan for growth

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We all have a shared responsibility to provide solutions. 2011 is about making the hard choices that get our economy moving, get people back in work and provide a perspective for those in need of our help.

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José Manuel Barroso, *Charting Europe's return to growth*,  
The European Semester Conference, Brussels, January 2011



- ▶ Let's complete the Single Market
- ▶ Let's be the engine of world trade
- ▶ Let's reduce the costs of doing business
- ▶ Let's make Europe no. 1 for innovation

# How we can make it happen

In many ways, we in Europe have been our own worst enemies. But this also means that we have the power and potential to change. Never forget that we have the expertise, the workforce and the open trading culture to turn our fortunes round. All we need now is a concerted, Europe-wide drive to unleash enterprise. This agenda is not new. Europe 2020 commits the EU to becoming a smart, sustainable and inclusive economy. The challenge now is to make it happen.

We need to open new markets, within Europe and between Europe and the rest of the world. We need to make it easier for companies to start up, grow and prosper; for great ideas to leave the drawing board and hit the market. We need to develop new technologies and build new industries to meet the challenges of the next decade. The transformation we need won't happen with a little tinkering here or there. Only a step change can deliver the prosperity, jobs and fairness we want to see. We must release the brakes on growth and move our continent's economy forward.

“ We need to support growth by putting in place a Single Market that meets the challenges of the 21st century. ”

Michel Barnier, *Plus que jamais, l'Europe a besoin d'un marché unique qui fonctionne (More than ever, Europe needs a single market that works)*  
Speech in Brussels, 9 November 2010

# Complete the Single Market

**The Single Market project will be 20 years old in 2012. We've been talking about completing it for so long. This time, let's make it happen. Let's prioritise areas such as services and energy and modernise the Single Market for the digital age. This is the first step in creating new opportunities for businesses and offering new choices for consumers.**

We should:

- ▶ Fully implement the Services Directive by the end of this year. No ifs, no buts, and with a tough and transparent approach to enforcement, through new national scorecards, so countries stick to it
- ▶ Subject all of the restrictive practices that are permitted under the Services Directive to a tough new proportionality test. If they cannot be justified, Member States should get rid of them and we should be ready to use new, targeted EU legislation to outlaw them if necessary
- ▶ Enable savers across Europe to make informed investments, based on transparent and quality advice, by introducing a single, cross-cutting Directive for retail investment products
- ▶ Open up business and professional services by reviewing all of the 4,600 “regulated professions” and cutting them back to those areas where specific qualifications are really necessary.
- ▶ Create a fully functioning digital market by 2015 by overhauling the EU regime for online trade.
- ▶ Take the steps we've already agreed to open up our energy markets to create a single market in energy by 2014, helping to drive the move to a low-carbon economy.

“Trade opening can today contribute to economic growth and through that to creating much needed jobs. The stimulus package of the Doha Round is there to be taken.”

Pascal Lamy, Director-General, World Trade Organization,  
Paris School of Economics, 12 April 2010

## Become the engine of world trade

**Let's connect with the world's fastest-growing economies, signing trade deals that allow our businesses to expand and export abroad. Let's conclude all ongoing trade negotiations and remove all those barriers. We've been talking about it for years. It's within our reach, so let's make it happen.**

We should:

- ▶ Finish the Doha Development Agenda this year
- ▶ Build on the success of the EU–Korea Free Trade Agreement (FTA) by pushing forward and concluding FTAs with India, Canada and Singapore this year
- ▶ Conclude ambitious trade agreements with Japan, most ASEAN countries and Mercosur in the next three years
- ▶ Support open societies in our immediate neighbourhood through strategic partnerships which encourage democracy, and the free movement of goods, capital and services
- ▶ Make sure all European financial regulation is non-discriminatory and serves to attract capital from beyond Europe's borders.

“ We must limit burdens for businesses, especially small and medium-sized enterprises...to what is strictly necessary. ”

European Commission (2010), *Smart Regulation in the European Union*

## Reduce the costs of doing business

**Let's stop loading costs on to our businesses and create a better system of regulation. Let's make it easier for all our companies to start up, grow, invest and take on staff.**

We should:

- ▶ Agree a new target to reduce the overall EU regulatory burden over the life of this Commission
- ▶ Make sure that all regulatory costs on businesses are offset by savings elsewhere
- ▶ Exempt small businesses from EU regulations unless there is a robust reason to include them
- ▶ Work with small businesses to identify the 20 biggest barriers preventing them from exporting to EU markets and work together to remove them
- ▶ Create a tailored regulatory framework to help small businesses access equity markets
- ▶ Reform the EU rules on public procurement, giving our businesses the opportunity to compete in a market worth over €2 trillion per year.

“Innovation is global, with increasing competition for best ideas and applications, and Europe must stand out.”

Brussels Panel on Innovation for the Directorate General Enterprise and Industry, August 2009

# Make Europe no. 1 for innovation

**Let's drive innovation. We have the capability, let's use it. Let's get our ideas off the drawing board, onto the production line and into shops and markets around the world.**

We should support the development and sale of innovative products by:

- ▶ Creating a clear, cost-effective and business-friendly continent-wide patents regime
- ▶ Speeding up standard-setting for innovative new technologies, so our firms can make the most of new opportunities
- ▶ Releasing data held by the EU and individual Member States, making it available for individuals and businesses to create economically and socially valuable new products and services.

We must close the funding gap for innovative firms by:

- ▶ Identifying barriers, including in financial regulation, to cross-border venture capital and reducing burdens wherever possible
- ▶ Developing proposals for a pan-EU venture capital fund that will invest in the most innovative and high growth companies across the EU with any additional funds reprioritised from within the EU budget
- ▶ Making sure that EU programmes that support research and innovation are simple to access, flexible to use and provide value for money.

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