

CHALLENGE EUROPE

Challenges and new beginnings: Priorities for the EU's new leadership

September 2014



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Europe's economic challenges and the importance of ideas and innovation

Herman Van Rompuy

How will we Europeans earn *our* living in 20 or 30 years' time? And how can it be done, while remaining true to our values of fairness, freedom and solidarity? These fundamental questions predate the financial crisis and will still be with us once we have fully overcome it.

The world is becoming a hugely competitive place by the day. We see hundreds of millions of men and women from Asia, Latin America and Africa escaping poverty and entering the global market for jobs, ideas and resources; not just with energy and enthusiasm, but also with good diplomas. It is a movement that is unique in human history and obviously a reason to rejoice. But not only are new competitors catching up, older competitors are racing ahead too. For instance, the United States is now running on much cheaper energy than Europe, thanks to their shale-gas revolution. These sweeping worldwide changes matter much more than how we arrange banking oversight or coordinate economic policies within the Union. Globalisation, new technologies, the ageing of our populations, the race for resources: for all our countries, these are the real challenges.

In a job like mine, you get to meet a lot of business people. I also regularly meet trade unions, very often at my own request. Twice a year we hold a Tripartite Social Summit, bringing together the unions and business with EU institutions. In such exchanges, it can sometimes seem that we have two different understandings of economic realities, two separate narratives. And during my years in office, I have seen this gap widen. Of all the groups in society, business leaders are probably most keenly aware of the challenge posed by globalisation. They have their finger on the pulse of global economic activity and keep alerting me that Europe is losing out. The trade unions, generally more focused on the economy's demand side, regularly call for more (public) investment. Their leadership remains highly committed to Europe but they can sense a rise of Euro-scepticism among their members.

We must, and can bring these two narratives together. Yes, global change is relentless and our societies must adapt, but we can also preserve what makes Europe such a special place: a unique combination of relative prosperity, solidarity, individual freedoms, and security. This challenge was always on my mind.

The power of ideas

As Antoine de Saint-Exupéry once said: *"A pile of rocks ceases to be a rock pile when somebody contemplates it with the idea of a cathedral in mind."* Such individual strokes of genius are indispensable for any nation to grow and prosper. But nobody builds a cathedral alone; you build them as a society. Here also, it is a matter of improving conditions and opportunities.

Throughout my mandate, I have worked to impress upon European leaders the importance of ideas and innovation. By putting the topic high on the agenda of our European Council meetings – for instance, in February 2011, October 2013 and March 2014 – but also with concrete breakthroughs. I was pleased that on my watch we have finally been able to broker a deal on the remaining issue for the European patent (the seat of its court). This set the seal on the work of the Belgian Presidency in the second half of 2010, which had solved all but this point through 'enhanced cooperation'. It was the end of an odyssey that started forty years ago. I can still hear former Prime Minister Leo Tindemans speaking at a party meeting on the European Patent. It was in 1978... The point of patents is that by protecting an idea across national borders, they provide an incentive to be inventive. The new unified patent and its patent court mean that inventors and businesses at last have a real 'one stop-shop' for requests, delivery and after-sales, in no fewer than 26 EU countries. If you realise that the existing European patent office in Munich receives some 260,000 patent applications each year, it is clear that there is a real need. It will mean less time, less money, less worry and larger markets for businesses, so that innovation can spread further and faster, and progress can more easily benefit all Europeans.

Some argue that, as a society, we are no longer as innovation-minded as we used to be. In his book *Mass Flourishing*, economics Nobel Prize winner Edmund Phelps looks back at the exciting century leading up to the 1960s, during which Europe and the United States experienced a tremendously creative surge. He describes a grass-root, innovation-minded society, where people – not just geniuses, but ordinary people as well – would get excited about finding new ways to do things, and do them better. There is a wider lesson in this story. Innovation is not something that happens only in science labs. It can and should be happening in every workshop, in every office, behind every computer, in every meeting room. It means being open to trying out new things. Testing ideas until they work. Asking ourselves: how do we turn brainwaves into breakthroughs, and breakthroughs into real business?

When it comes to our competitiveness as a continent, turning ideas into real business is at the heart of the matter. Recent figures make the problem strikingly clear. The EU-US productivity gap, which had started to narrow in the years before the crisis, is widening again. It means that compared to the United States our collective competitiveness is eroding. The two factors that stand out are research commercialisation and ICT technologies.

Europeans may be leaders in scientific excellence (as Nobel Prize winners regularly show), but compared to our competitors in the US, Japan or South Korea we find it more difficult to bring this research to the market. And if we do not, others will do it for us, with our ideas. As they did for instance with the World Wide Web, which was invented at the CERN, the European Organization for Nuclear Research in Geneva.

We do have the power of ideas. I am certain that behind the scientific breakthroughs of the future, there will be some European research. Our research programme 'Horizon 2020' is one of the biggest in the world. It helps to make research in Europe attractive again. Ahead of the European Council on the Union's long-term budget, I received four Nobel Prize winners, all

urging me to protect the programme's share. They told me that after a period when many top researchers left to work across the Atlantic, we are now witnessing a 'brain-return'!

A second factor holding back our competitiveness is the fact that we are lagging behind in digital technologies. Over the past five years, the annual sales of typical ICT companies from the US and Asia went up by almost 50%, while those of European companies stagnated, or even went down in some cases. This is striking. In the history of communication technologies, there is a glorious tradition of innovation coming from Europe for the best part of the nineteenth and twentieth centuries. 'Made in Europe' communication technology has changed the world, starting with radio and television, right up to CD-ROMs, MP3 music technology and the World Wide Web. But who turned it into real business? American companies... The cutting-edge research and innovation today is in fields like social media, big data, cloud computing, or the 'Internet of things': this is where European companies should now focus.

We do not want to miss the boat again, and there is no reason why we should. It is perfectly clear what Europeans need to do to get back in the game. From intellectual property, to copyrights, to market fragmentation, to consumer protection, to investment in infrastructure, to venture capital for start-ups, to digital skills: we know the remedies. It is the body of knowledge that makes up the EU's 'digital agenda', our joint 'to-do' list, which, once carried out, would hugely benefit European companies and European citizens.

The continent of quality

I am deeply convinced that all our countries have what it takes to prosper in the 21st century. A highly educated workforce, the singular alchemy of our prosperity, freedom and rule of law, the solidarity embodied in our social models: when combined, these are unrivalled assets.

Faced with today's global competition, there is no reason to throw this all away. Other continents may offer products or services that are cheaper than the ones made in Europe. That is a reason to worry, but not a reason to panic. To worry, because cost – the relationship between trends in labour or energy costs and productivity – is certainly important. One lesson from the crisis is that a rise in income which is not linked to a related increase in productivity is not sustainable, and can fuel bubbles.

Labour costs are important but energy costs are also becoming more relevant by the day. In Europe we will probably not have a shale-gas revolution comparable to the one happening in other parts of the world, such as America. So we must win the battle on energy efficiency. There is huge potential in this field; specifically in the construction industry.

Having said this, if salvation for our economies were only to be found in bringing down costs, Europe could 'close shop' now. Fortunately, this is not the case. Our major strengths lie precisely in our so-called 'non-price competitiveness'. Our focus must not be exclusively on costs, but on quality in all its shapes and guises: novelty, reliability, image, design, experience, durability... It is our ability to produce such quality and to adapt to the needs of high-growth markets that will get results.

Europe will not emerge from the crisis by denying its true self. More now than ever before, our continent must be a synonym for innovation and quality. Our European brand is that of a certain way of life, of taste and style, of open social relations, of environmental protection, of a sense of progress. Individual countries offer fine examples. Take Denmark, which excels by the clarity of its design; or Germany, with its cars and high-precision machinery, both in demand in emerging economies; or Italy, with its luxury brands and seducing *belle cose*. All our countries can draw strength from remaining true to themselves. It is perhaps a handicap in some respects, if one sticks too rigidly to a strictly productivist logic that demands ever greater uniformity and speed. But it remains, above all, an asset.

This contribution draws upon Herman Van Rompuy's recent book "Europe in the Storm. Promise and Prejudice" (Davidsfonds, April 2014).

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