

# Executive Summary

As Europe slowly emerges from the worst financial and economic crisis of the past 80 years, the need to focus on long-term strategies to increase competitiveness has never been greater. Following the vision set by European Union (EU) institutions in 2010, all European stakeholders need to work together to implement the *Europe 2020* strategy, thereby building a smarter, inclusive and sustainable economy to support robust economic growth and the generation of jobs.

In assessing the state of Europe's competitiveness, *The Europe 2020 Competitiveness Report: Building a More Competitive Europe 2014 Edition* finds that:

**Europe has weathered the financial storm thanks to the adoption of bold monetary policies, the restructuring processes in the banking systems and reforms that have reduced structural public spending in certain countries and brought tranquillity back to the markets.** Fiscal consolidation and the restructuring of the banking system, as well as the current positive assessment of banks' asset quality, have restored market confidence. As a result, the gloomy predictions of the eurozone's breakup have evaporated, government debt yields of those economies particularly hit by the crisis have come down, and fiscal consolidation is starting to take shape in most economies.

**Yet, this is no time to be complacent: decisive measures need to be adopted to raise Europe's competitiveness and, therefore, support higher levels of productivity, employment and prosperity.** While the fiscal situation is improving, Europe continues to record modest growth and, in some cases, record-high unemployment rates with no sign of a quick fix. Against this backdrop, Europe needs to bring the competitiveness agenda back to the centre of economic policy by addressing the factors that determine its economies' level of productivity. This agenda should be firmly focused on productivity gains that allow European economies to increase the prosperity of their citizens.

**The EU continues to underperform in comparison to the United States and other advanced economies in terms of building a smart, innovation-based, knowledge-driven economy.** The EU trails the United States and other advanced economies in all four "smart" areas identified by the *Europe 2020* strategy, as less competitive markets, more regulatory requirements and fewer available sources of finance make the

European operating environment for businesses comparatively less conducive for entrepreneurship. More starkly, the EU is increasingly falling behind globally in building the digital infrastructure and innovative capacity that would allow its economies to unlock new sources of growth.

**In addition, labour market adjustments have been constraining inclusive growth.** On aggregate, Europe's fairly low score in terms of inclusive growth reflects the strong and persistent effects of the crisis coupled with comparatively rigid labour markets in several European countries. This has resulted in sharp increases in unemployment, of a long-term nature in many cases, which deprive a wide segment of the population of gainful employment. The situation is particularly dire for Europe's young population.

**While the EU continues to perform better than the United States in ensuring more inclusive and sustainable growth, it lags other advanced economies.** The EU does outperform the United States in certain important measures: healthcare services are more universally accessible, overall income inequality is lower, and the government is more effective in reducing poverty and inequality. In addition, Europe fares well in providing environmental sustainability, for example by using a higher share of renewable energies. However, despite the EU's strength in social inclusiveness and environmental sustainability, other countries such as Canada perform even better, pointing to room for improvements in these areas.

**Looking at comparisons between EU Member States, a persistent knowledge divide between "innovation rich" and "innovation poor" economies prevails.** Overall, important national and regional disparities exist in providing an enabling enterprise and innovative environment in Europe, with northern and north-western Europe performing strongly compared with a lagging southern Europe and Central and Eastern Europe. Highly competitive markets, well-developed clusters and an entrepreneurial environment provide the cornerstone of the business environment in northern and north-western European economies. A number of countries outperform the United States in enabling smart growth. But at the other end of the spectrum, many European economies, particularly in southern and eastern Europe, lag behind. Such a divide is problematic

for the region as a whole, and not just for those EU Member States that are less innovative.

**Addressing the competitiveness divide will require differentiated strategies that take national and regional characteristics into account.** While a concerted and united effort is desired from all EU Member States to improve Europe's knowledge-driven economy, it is clear from the large regional disparities that paths towards this goal, and priorities for improvement, will differ across countries. For instance, innovation strategies for countries higher on the knowledge ladder will differ from strategies appropriate for countries lower down. However, for all European economies, investments in knowledge-generating assets will translate into important drivers for future productivity growth – those drivers being a common focus on education, information and communication technologies, the digital agenda and reforms to improve the overall enterprise environment across the region.

**Implementing this reform and investment agenda will require strengthening the institutional capacity to overcome pressures from interest groups...** Investing in competitiveness-enhancing measures is a formidable task, particularly in light of the long time lag with which such structural reforms are felt, and the short-term sacrifices they entail. This is further complicated by the conditions in post-crisis Europe, characterized by constrained fiscal stances and high levels of unemployment in many EU Member States. At the same time, enforcement and implementation at the supranational level is challenging. To achieve the goals outlined in this Report, effective governance mechanisms are necessary at the regional, national and European levels for managing, monitoring and enforcing change. Further, transformations that impact competitiveness and productivity require the combined support of government, business and civil society. Building a common vision and multistakeholder commitment to the national and European competitiveness agendas, and mobilizing support from leaders across sectors, will help fulfil the ambitions of the Europe 2020 agenda.

**...and ultimately help create the right conditions for gainful employment to ensure social inclusion within and across EU Member States.** Competitiveness-enhancing reforms have the potential to trigger a self-reinforcing and positive sequence of events. Laying the institutional framework for an enabling enterprise environment, as well as investing in innovation and, above all, education for young Europeans, will provide the necessary fundamentals for smart growth and, hence, for creation of gainful employment. This will further feed into a more inclusive Europe in which all citizens benefit from increased prosperity. In turn, a more inclusive Europe, with a shared vision and high levels of economic and political engagement, creates the conditions for further investments and higher returns for all stakeholders. In the short term, however, measures

that ease the negative or frictional effects of important reforms, combined with communication strategies that enhance debate and increase transparency, will be critical to ensure the initial public support that will enable this virtuous cycle to occur.