



WHITE PAPER:

## **GETTING EUROPE BACK ON TRACK - A PLAN TO MAKE EUROPE COMPETITIVE AGAIN**

*Adopted at the YEPP Council of Presidents, Vienna, Austria on the 8th of October 2016*

### **A success story to be continued**

The European Union has given us the longest prosperity of human history and we commit to continue this story. Ranging from the printing press in the hot air balloon, the thermometer, the locomotive, the Kaplan turbine, the soft contact lenses to Skype and many more – Europe has allowed talent to prosper, creativity to flourish and created a continuous aspiration for innovation and improvement. The list above is a tribute to all European inventors who contributed to the expanding influence Europe has had in technology, the economy and progress. Every effort in continuing the story of success is something that we try to achieve for and together with the young people in Europe.

### **The lost track of innovation**

However, it seems as if Europe has lost track in innovation as the recovery from the financial crises has continued at a slower pace than we would have hoped or intended. We have been facing an enormous variety of challenges within the last couple of years. To overcome these,

we have to undertake reforms to support long-term investment and innovation, and in turn complete the digital transformation of our economy.

### **The challenges we need to overcome**

The economy of the European Union is characterized by unsatisfactory growth, rising risks, and limited policy buffers. The recent developments in economic growth measured by GDP are particularly worrying. Among the Euro Area growth was estimated to be 1,5 % in 2015, opposed to 2,5 % in the US.<sup>1</sup> Among the top ten economies in the world, Germany was ranked 4<sup>th</sup>, the UK 5<sup>th</sup>, France 6<sup>th</sup> and Italy 7<sup>th</sup> at market exchange rates in terms of GDP in 2014. These European countries are expected to move down the rankings or will even lose their place within the top ten until 2050, as the robust rise of Asian economies is predicted to continue.<sup>2</sup> Emerging markets are expected to continuously grow and are likely to overtake current global leaders. Furthermore, the unemployment rate throughout Europe is alarming, particularly for the young generation. Youth employment in the EU-28<sup>3</sup> increased from 18,5% in 1991 to 25,1% in 2014.<sup>4</sup> As described in Okun's Law there is a statistical relationship between a country's unemployment rate and the growth of its economy.

### **From where we start**

To strive for reinvigorating the success story of Europe, we need to focus on our strengths and opportunities. In 2015, Europe was in prime position when it comes to export of agricultural products, fuels and mining, iron and steel, as well as chemicals. The World's merchandise volume has grown at a slower pace in recent years. The contribution of regions to the world import and export varied throughout the years. Europe was responsible for 64% of global trade growth in 2015 – measured by the annual percentage change. A gradual recovery of trade within the European Union in 2014 and 2015 was responsible for much of the rebound in

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<sup>1</sup> Worldbank (2015), Global Economic Prospects - Spillovers amid Weak Growth

<sup>2</sup> The Economist Intelligence Unit Limited (2015), Long-term macroeconomic forecasts -Key trends to 2050

<sup>3</sup> As Article 50 of TFEU has not been triggered yet we are still using the definition of EU 28.

<sup>4</sup> Worldbank (2015), [ <http://data.worldbank.org/indicator/SL.UEM.1524.ZS>]

Europe, as the negative impact from the European sovereign debt crisis faded.<sup>5</sup> Until 2012 the EU ranked first in inbound and outbound international investment, however GDP/capita has moved down in recent years.<sup>6</sup> To maintain this strong position of economic welfare and enhance the prosperity of our societies, structural policy reforms are urgently needed to get Europe back on track and secure our future.

## **Getting Europe back on track**

This white paper aims to determine the issues regarding the economic situation we are facing and to propose policy measures and instruments for the EU. We put our trust on a strong, united Europe for a common, prosperous future. To get Europe back on track it is crucial to improve the business environment, foster innovation and the culture of risk-taking, speed up digital transformation, secure a sustainable fiscal and taxation policy, to focus on export-orientated industries and strengthen the role and capacity of education as a key to success.

### ***1.) A better environment for Doing Business***

There is a complex relationship between regulation and innovation in the economy. Regulations at a European and national level are often not properly enforced and bring along administrative burdens. The EU must become more competitive to hold its own against both emerging and developed markets around the world. Efficient regulations tools are needed for better results within the EU and to allow businesses to operate in a friendly environment, which will drive growth and create jobs.

#### **YEPP calls for**

- Ensuring that the administrative and compliance cost of all existing legislation is reduced

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<sup>5</sup> WTO (2016), World Trade Statistical Review 2016  
[[https://www.wto.org/english/res\\_e/statis\\_e/wts2016\\_e/wts2016\\_e.pdf](https://www.wto.org/english/res_e/statis_e/wts2016_e/wts2016_e.pdf)]

<sup>6</sup> Eurostat (2013), [<http://ec.europa.eu/trade/policy/eu-position-in-world-trade/>]

- Carrying out proper impact assessments on all legislative and non-legislative initiatives of major impact
- The introduction of electronic governance in public administration, social insurance services, tax systems, health care and procurement systems across all member states
- Avoiding unjustified “gold plating” of EU rules as this often leads to negative impacts of companies’ competitiveness. Gold plating causes increased costs, unnecessary regulatory burdens and competitive disadvantages for business as well as a fractured single market and uncertainty about what rules apply.
- Setting up, wherever they do not exist, independent National Competitiveness Boards that look at all aspects of the business environment

## ***2.) Foster Innovation & Shape Digital Transformation***

Development and growth are heavily dependent on investments in infrastructure and technological progress, as to allow innovation to flourish. Innovation is a crucial determinant of national progress and competitiveness. Foreign Direct Investment has a significant positive impact on the overall regional innovation capacity and helps to increase national income via export revenues. To compete successfully in the global economy and in order to provide quality jobs and sustainable growth for a future-proof social market economy, it is essential to take forward the digital transformation across all sectors with determination. Only a few aspects of our lives are left untouched by digitalisation. Therefore, a legal, simple and efficient framework is necessary to shape public trust in most recent digital developments.

### **YEEP calls for**

- Ensuring that EU citizens through the education system should have the opportunity to acquire eSkills so they can fully benefit from the new jobs created by digitalisation
- The European Commission to stimulate and facilitate the further digitalisation and so the innovation, whilst keeping in mind those of older age and/or those in need of more assistance

- Addressing member states to reform labour legislation to create a more flexible labour market, whilst keeping in mind the social aspect of reforms
- Push further to provide full Internet coverage in the member states and thus make internet accessible for everyone through market conditions, which can be stimulated by political decisions.
- Establishing a European Cybersecurity-Centre to pool the strengths of the Member States, as well as a European Court of Data protection.

### ***3.) Secure a sustainable Fiscal and tax policy***

Fiscal policy has a significant impact on economic growth, macroeconomic stability and inflation. As seen throughout the crisis, ensuring fiscal sustainability and healthy public finances is fundamental for our economies individually and as part of the Single Market. However, fiscal consolidation should, as much as possible, be done on the spending (debt accumulation) side, rather than on the state's income side which would mean to raise taxes. The overall tax burden in the EU remains already to be over 50% higher than in the USA and over 25% higher than in Japan. Lower taxation is being recognised as a trigger for growth, prosperity and an increase in foreign direct investments.

Member States must implement structural reforms in order to increase growth and job creation, and to facilitate greater convergence of European economies.

#### **YEPP calls for**

- Ensuring that the fundamental rules regarding public finances continue to be properly applied
- Increasing the focus on the full and timely implementation of country-specific recommendations (CSRs) at national level and make the European Semester more effective and relevant.

- Implementing an effective examination tool (similar to the Maastricht criteria), which is geared to lower the effective average tax-rate below 40%, in terms of GDP, in each of the member states<sup>7</sup>
- Emphasising the necessity of a low-tax policy and to develop a long term strategy together with the member states on how to reduce the tax rate in each country
- Incorporating clearly worded debt ceilings into national and European legislations to achieve a balanced budget and subsequently a reduction of debts.

#### **4.) Mindset for future entrepreneurs & Education for Digital Natives**

Labour markets haven been characterised by a need for structural changes due to technological change, globalisation and the digital transformation. Furthermore, the European education system needs a major transformation to fulfil that potential and meet the current and future challenges.

The European Commission predicts that 756 000 ICT jobs will be unfilled by 2020 due to a lack of qualified applicants, while at the same time over 90% of all jobs will require digital skills.<sup>89</sup> There is an enormous potential for innovation when both genders are included in the ICT, science and technology sector. The development of talent in science, technology, engineering and mathematics (STEM) is crucial to Europe´s leadership.

To make the adaption of the ever-changing pace of society possible, the European social system must also be reformed as labour markets need to become more flexible. To boost job creation and new economic opportunities, growth of innovative companies has to be made easier in Europe.

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<sup>7</sup> Already adopted at the YEPP Council, Bucharest, Romania on the 21st of May 2016 - Pursue Low Taxation-Rate

<sup>8</sup> European Commission (2016), [<https://ec.europa.eu/digital-single-market/en/grand-coalition-digital-jobs>]

<sup>9</sup> European Commission (2016), [<https://ec.europa.eu/digital-single-market/en/skills-jobs>]

## **YEPP calls for**

- Encouraging coding classes as well as Entrepreneurship classes to educational curriculums across Europe, both for primary education as well as secondary education. Making the labour and social systems more flexible to better fit the changing needs of Europeans
- Encouraging women and girls to choose education in technical sectors and ICT while supporting women STEM students and researchers
- Strengthening incentives and policy implementation for apprenticeships together with the business sector
- Extending the number of MOOCs offered in Europe to make learning more flexible.