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# The future of European competitiveness



By [Scott Hammen](#)

## Is Eurosclerosis again threatening the economy and forestalling a recovery?

The question is this: how can European countries - suffocating under unmanageable sovereign debt, massive youth unemployment, and political gridlock - compete in a ruthless survival-of-the-fittest world economy?

“When we speak of competitiveness, we are actually speaking of imagination - the imagination to re-think our economy,” says **Jean-François Copé**, government minister and current leader of the opposition UMP party in France. “We have to find a way to control public spending and this is more important than even reducing debt because it can prove we can do better with less.”

Copé and other international political and business leaders joined INSEAD faculty for a series of panel discussions at the INSEAD Global Business Leaders Conference in Paris on July 6, 2012.

## Motivation by crisis

“Europe will be OK because Europe is only motivated when there are difficulties, and things are so difficult today there is no way to escape,” declares **Thierry Breton**, former French Minister of the Economy, Finance and Industry and head of France Telecom/Orange and now chairman of Atos. But he cautions, “France has doubled its public debt in the past decade and is still increasing borrowing. These debt levels put France at great risk to market gyrations. The next decade will be the most difficult for Europe.”

Being competitive today encompasses more than just creating new products or services. **Markus Christen**, Associate Professor of Marketing at INSEAD, says providing broader solutions to customers is another way forward: “Rolls Royce no longer just makes jet engines; it sells 'power by the hour'. Air Liquide does not just sell liquid oxygen but the whole process of producing frozen foods. And Syngenta sells planted rice fields to countries, not just seeds - it's solutions these companies are selling.”

It's also about how and where you deploy your resources, as that depends on more than just the semblance of saving money. **Jim Hagemann Snabe**, co-CEO of German business software maker SAP, was blunt: “It costs SAP five times more to hire a German technology worker than one in India. Does that mean if we hire five Indians instead of one German, we get more productivity? No. You don't go to India for cheap labour; you go there for the talent.”

Young European talent, however, is largely to be found in the unemployment lines these days. They also feel disenfranchised politically, according to a panel of young entrepreneurs. **Mads Jensen**, CEO and co-founder of Sefaira, said, “I believe that more young people would be willing to go into politics if the institutions were able to do something other than protecting the status quo - until that happens I don't think it makes a difference who is in power.”

## **Save vs spend**

INSEAD Deputy Dean of Faculty & Research **Ilian Mihov**, who is also a macroeconomist who studied at Harvard under U.S. Federal Reserve chairman Ben Bernanke, says Europe can surmount these problems by removing barriers to new business creation and warned against a continuation of economic stimulus packages. “You cannot create growth by printing money to put into the economy,” he warned, “you only create inflation.”

Acting Dean of INSEAD and Professor of Strategy [Peter Zemsky](#) added an ominous historical note to highlight the downside of incessant cutbacks: “Germany is still traumatised by inflation...We should keep in mind the post-WWI Treaty of Versailles and the effect austerity had on Germany at that time.”

How does the rest of the world view the situation in Europe? David Arkless, president of corporate and government affairs at Manpower, said the Chinese look at Europe and see demographic decline because of immigration restrictions; a failure to educate the next generation for the job requirements of the future; overly rigid social protections; and chronic under-investment.

Concisely put, the conditions for competitiveness in Europe today can be fostered by reducing public spending, creating a flexible labour system and modernising the social system. It’s a challenge but it can be met, according to Copé, “By very small steps... to get people to trust again in the future - to get people to believe and talk about competitiveness.”

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