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### **Innovation, Entrepreneurship, Competitiveness – Agenda for Growth and Employment in Europe**

#### **The EU's growth strategy is the right agenda**

The Lisbon Agenda is the right strategy for improving Europe's ability to grow, innovate and compete, in order to be successful in a globalised world. It would be wrong to abandon the EU's original goal of becoming the most dynamic and competitive knowledge-based region in the world because of delays in the implementation of the Lisbon Agenda. Global competition does not permit that. The two other big economic regions, Asia and America, are pursuing this goal without hesitation. We should accept the challenge of competition and implement the agenda, which is focussed on growth and jobs, even more consistently now. International investors also count on this largest homogenous market in the world with 450 million consumers, and we should make use of this economic strength. The European Monetary Union is considered a success in the entire world, supporting the integration of this market. Europe should take a leading position in global competition in the areas of innovation, entrepreneurship, infrastructure, excellence of education, skills, labour mobility and investment.

#### **The global challenge for Europe**

The need to act is obvious: There are clear signals that the European manufacturing industry is adapting to the strong growth in Asia, the United States and Eastern Europe and to the slow growth in our home countries, with corresponding effects on employment that is shifting to the growth regions. These changes were accelerated during the past decade by the fact that countries, which adopted the market economy only 15 years ago, are attracting enormous investment due to their big need for development: Eastern Europe, China,

Russia and India. These countries must build their infrastructure and their industries. In the past, European companies have always participated in the build-up of growing world regions, establishing production and maintaining the competitiveness of mature technologies by shifting them to low-cost countries. The value-added lost could always be offset by the creation of new growth by introducing new technologies in the lead market Europe. Conclusion: The creation of value-added is moving to where growth is.

European companies and politicians must therefore accept the challenge of replacing the creation of value-added that is moving abroad. We can generate new growth and prosperity by innovation, by developing and above all by applying new technologies in Germany and Europe. Our motto must be to create lead markets for new technologies here first and later also to export these products and systems. Exports will only be possible for products and services that have their lead market here. We cannot rely on exports of mature products or on exports of technologies that are primarily used abroad. We must rely on new technology applications and create a new base for the prosperity of our countries here. Although the first installation of a magnetic levitation train in China should be regarded a considerable success for Europeans, it means at the same time that jobs and R&D will be relocated to China if we in Europe fail to catch up with applications quickly. Recognisable growth areas are: IT applications, intelligent traffic solutions, energy, health, education, safety, environmental protection, new technologies like sensorics, nanotechnology, optronics, new materials, molecular imaging, biotechnology, genetic engineering.

This means "yes" to more growth and innovation and at the same time "yes" to restructuring and cost reduction. Restructuring and growth measures must be complementary.

A significant increase in productivity and the simultaneous reduction of labour costs in Germany and Europe are necessary, but will only partially

restore our international competitiveness. More flexible and longer annual and lifetime working times and a reduction of non-wage costs to keep the rise in labour costs moderate are useful approaches toward this end. We have to attract innovative talents and risk taking entrepreneurs and investors to Europe. For that we have to offer opportunities. High-Tech and innovation have made us successful for quite a long time, also the active engagement of international companies and the openness of our people and markets. But it is a mistake to limit the reform agenda to the labour market, pensions, and health costs. We have to add an explicit growth agenda to the cost reduction agenda.

### Prime measures for growth and employment in Europe

1. The fastest and most cost-efficient road to growth is to create a political and market environment in our countries that generate entrepreneurship and attractive conditions for investment. We should insist that the EU Commission and the national governments implement all items on the growth and jobs agenda to improve the economic conditions. We need simpler and better regulation for our industry:
  - Less ideology and detail directives, clear priorities for business and market mechanisms
  - A reduction of administrative requirements, especially for SMEs and new companies (but also for all others)
  - A much simpler, more cost-effective and faster EU patent is indispensable as well as the EU-wide harmonisation of the patentability of computer-implemented inventions.
  - A reduction of business taxes in order to allow the buildup of a sufficient equity base for SMEs. Abolition of the inheritance tax if the firm is continued (corresponding to the British model).
  - Instead of issuing detail directives, the EU Commission and the EU Parliament should complete the free, integrated European internal market in the areas of infrastructure markets, financial services and all those markets that are not yet open to competition.
  - Livelier financial markets, including venture capital and private equity, would help start-ups and create new growth in company segments by making them available to strategically better suited new owners.
2. An unused short-term source of growth is the modernisation of our European infrastructure. Applying new technologies can create new lead markets, especially here in Europe. Many of these infrastructure projects will mobilise the entire value chain from small supplier to general contractor. Infrastructure and consumer markets are connected in many cases, i.e. in digital broadcasting and telematics.
  - Application of information technology (broadband, Internet, e-business, e-government, e-health, e-schools), fast digitalisation of radio and television, traffic telematics and railroad automation, upgrading our health infrastructure by full IT networking are essential.
  - We must refocus our public responsibilities: Less consumption, more investment, i.e. mobilising private investment and transferring the upgrading of the infrastructure to the private sector. Attractive investment conditions for public-private-partnerships will make for success, not the demonisation of private or foreign investors.
3. In the medium term, we can quickly develop close-to-application technology markets through the closest possible co-operation of industry and university research.
  - In order to advance quickly and support new technology markets like sensors, nanotechnology, mechatronics, MEMS, new materials, optical and optronic technologies, biotechnology, genetic engineering, fuel cells, and software technologies, private business needs closer co-operation with research institutions. Regional clusters should be fostered.
  - The German Electrical and Electronic Manufacturers' Association (ZVEI) has suggested to offer a research co-operation reward for our public R&D institutes: for each euro that an institute receives from industry, another 25 cents would be added by the institutional support fund. This will foster competition for private funds, industry will help technologies to market faster, and governmental project evaluation bureaucracy will be replaced by a simple mechanism.
4. Although only effective in the medium term, excellent education is one of our most important growth drivers or could become a growth handicap.
  - Today, education is already one of the biggest differences regarding unemployment: 3.9 per-

cent of university graduates, 5.4 percent of people with secondary education, 18 percent of those with less education.

- Excellence of educational institutions cannot be ordered by the government. But higher effectiveness in the education sector can be achieved by the competition for funds, the best professors and talented students.
5. The labour market also plays a key role in innovation: Innovation means to establish new businesses and product segments, and to phase out the old. The necessary restructuring can only work if our labour market becomes more flexible and labour becomes more mobile. Global cost competition, however, also means a reduction of labour costs wherever possible.
- We must help businesses and individuals to change to new technologies, business sectors, locations, firms and countries. Laws and regulation, which cement old jobs and prevent restructuring, are counterproductive. Instead, restructuring and retraining must be promoted. We must inspire our employees to try new things, to change to new technologies and we must reward mobility.
  - The collective bargaining law needs greater differentiation in order to do justice to the high share of development, especially software development, services and project business in our value added.
  - The advantage of highly automated manufacturing must be supported by internationally competitive labour regulations that permit maximum utilisation of the German capital stock.

Decisive will be how we communicate to our people and employees that the restructuring phase will create new chances for all of them, that it is worthwhile to invest in the future today, and that the social safety net will not disappear.

- If a government invests more into the future, into universities and infrastructure, there will not be enough funds in the budget for all of today's social spending. Some tasks will have to be delegated to the individual and the private sector.
- People will have to be convinced that education and taking individual initiative are decisive for success, that everyone will get the chance for a better education and for improving life and prosperity on this basis.
- They will have to be convinced that it is worthwhile to seize the initiative and that new regula-

tions will make it ever easier to determine one's future oneself; and that with more self-responsibility for social security, education, old-age provision, etc. we will be able to create this new future much faster.

We need this general call for cooperation, for creating a new and bigger pie, rather than fighting over consuming a shrinking old pie. In order to do that, we must show all concerned that we are acting responsibly for our country.