

Competition and competitiveness in Europe
Speech by the Prime Minister Juhan Parts in Natolin
29 September 2004

Dear Rector,
Excellencies,
Ladies and Gentlemen

I am honoured to speak to you today. For more than half a century, the College of Europe has been a source of most professional Europeans. The administrations of new member states, including Estonia, have benefited significantly from the excellent knowledge on European affairs of Natolin graduates. The College has had a profound impact on raising Europe's professional expertise and ensuring the competitiveness of its institutions. It is therefore a very suitable place to talk about European competitiveness.

Openness

We all know the challenges that Europe is facing today – above all, globalisation with all its consequences, both political and economic. If Europe wants to survive as a major economic power and emerge as a political player, in other words, to be competitive, these challenges must be tackled. We need more competition in Europe. We need more openness.

Opening up politically and economically has been a cornerstone of European integration. There have been ups and downs but an effectively functioning internal market is the prime symbol of integration. Today the signs are not encouraging. The volume of trade between member states has been diminishing, foreign direct investment into the Union has been drying up, employment growth has been stalling. Therefore it has become impossible to continue with old methods. For example, replacing national champions with European ones supported with comforting public funds will not help – you cannot create competitiveness at the expense of competition.

Enlargement is positive

While some view enlargement of the Union to 25 as a further challenge, I believe that the recent enlargement is a solution to many of our problems. Despite the gloomy predictions, the institutions of the Union still work, decisions are being taken, compromises achieved. I believe that soon the

internal market, increasing mobility of people, adoption of a common currency, accumulation of common experiences will merge the bigger Europe into one. Talk of 'old' and 'new' members will be confined to the pages of history. True, both the old and new will have get used to the new situation – especially to the fact that there are other opinions that need to be listened to and taken into consideration when taking decisions.

New member states bring fresh ideas to bolster the competitiveness of Europe. Take, for example, the slow pace of transposition of directives in member states. New member states have been subjected to the rigorous monitoring of the European Commission for years, which has led them to strive to be among the best in the class. When looking at the internal market scoreboard we already see two new member states – Slovenia and Lithuania – pushing for the top places. Estonia is not far behind. I predict that by next spring there will be more new members at the top of the chart. Such competition will take Europe further and make it more competitive.

Estonia and Lisbon

Estonia has compiled a government document called the “Success of Estonia 2014,” which is a long-term plan for reaching the Lisbon goals.

The priorities of the strategy include

- increasing the quality of the labour force
- creating and maintaining an enterprise-friendly economic environment
- investing more into science and technology
- making better use of our achievements in the IT sector and guaranteeing that the benefits would be reaped from the widest possible public
- and, finally, creating a secure environment for development for all.

Anyone with experience in public affairs knows that strategic plans mean nothing if they are not linked with the budgetary planning. In our case, I am glad to say, the national budget for 2005 includes these competitiveness goals. For example, we continue to increase the share of research and development in the budget, although there is still a long way to go until we will meet the Lisbon targets.

We have the vision, the strategic goals, the funds and interlinking policy aims. Now we should start implementing them. This is the hardest part.

What's next?

When looking at the more immediate goals on the European level then first of all we should give our agenda more focus. It is important that the mid-term review of the Lisbon strategy prepared by the Commission will get it right by selecting few key targets that we should all work towards.

Having strong leadership certainly helps here and in this sense I have big hopes for the incoming Commission President Barroso who seems to be intent on making Lisbon his first priority.

We should keep in mind that the Lisbon aims cannot be detached from all other areas. We need to keep the aim of enhancing our competitiveness in sight when taking decisions in all areas of Union action.

I am glad to see that the Dutch presidency has been attacking with vigour the key issue of administrative burden on businesses. Often our decisions are too complicated for the entrepreneurs or the general public. The presidency has put together a list of several hundred problem cases and I hope that the next presidencies will keep up this work. Systematic impact analysis and simpler regulation will help to dispel the myths of complexity and overregulation when talking about the EU. Similarly, member states should apply as rigorous checks to their own domestic legislation.

Taxation, competition and competitiveness

Nowhere is the debate regarding competition and competitiveness as hot as in the field of taxation. Let me explain, why some of this debate is misplaced.

There have always been different approaches to taxation in member states and yet the internal market has been able to function. Lower tax rates in some member states have not resulted in serious disturbances in others. After all, taxation is one of the few remaining tools that a government has at its disposal. Elections are fought, won and lost over how much to tax the people and how to spend the resulting revenue. If this instrument was to be taken away then more and more people might wonder, why to turn up at the ballot box after all.

My country has been criticised that we have too low tax rates and therefore we do not collect enough public funds. Actually, business-friendly tax rates result both in higher economic growth and in increased

revenues for the government. Besides, the total tax burden in Estonia is not that low at all. At 35.2 % of the GDP this ranks near the middle of the rankings in Europe a few percentage points below the European average. Actually when measured in percentages of the GDP we tax our legal persons twice as much as Germany. What is really important is that we give no tax breaks to particular sectors or companies, thus the system is really fair and transparent. Differently from several countries we have practically no state aids at all. Not only lower rates but simplicity and transparency is the trend in most of Europe. Internal competition benefits our economies and makes Europe more competitive as a whole.

Therefore I find the remarks that countries having lower tax rates should not benefit from structural funds really regrettable. Structural funds and business friendly tax rates are two sides of the same coin – they are both targeted at economic growth and realising the full economic potential of a country.

Concluding remarks

I did not mention that Europe should become the most competitive economy in the world by 2010. I did not mention that we should achieve full employment. Those are things, which you can achieve only when you accomplish all the more immediate goals – of timely transposition of directives, adjusting regulations, taking down the remaining barriers in the internal market. But I do hope that also the more distant goals will be reached – if not by 2010 then soon after that. This will take many painful decisions on the national and European level. My government is ready to fulfil its role in it.

Thank you! I wish all the students a fruitful and adventurous academic year in Natolin!