

## Hidden Treasures

### Mapping Europe's sources of competitive advantages in doing business

By Donald Kalff

Introduction at IdeasLab seminar, CEPS 21/2/2019

European competitiveness was always important, but it is now taking on more and more geopolitical dimensions. We offer a new perspective and a new agenda that complement ongoing efforts to bring European competitiveness to a structurally higher level.

The project that we present today started years ago when I noticed that the performance of the average European company exceeds the performance of the average American company. And that by a substantial margin.

Profits are roughly on par, but a European company pays higher wages and higher payroll taxes and faces higher energy and environmental cost. That means, again on average, that a European company creates more economic value than its American counterpart.

The notable exceptions of course are the Facebooks, Amazons and Ubers of this world, companies that capitalized on their large home market and on their capacity to ferociously exploit network effects. But to portray them as proof of the superiority of American capitalism has no basis.

For example, 95% of the companies in the S&E 500 stock market index have not realized any increase in productivity between 2008 and 2018. The focus has been on margin improvement (by cost cutting and use of increased pricing power) and profit growth, and on share buybacks to increase profit-per-share, in the mistaken belief that profit-per-share and share price are causally linked. The focus has not been on innovation and investment.

The relatively poor performance of American companies is even more puzzling considering an array of compelling competitive advantages. Above, I mentioned the large home market. A few others are:

- \* A common language;
- \* One legal system, one tax system and one regulator per economic sector;
- \* The deepest capital markets in the world and the largest and most sophisticated financial sector;
- \* The most renowned universities and business schools;
- \* The most business-friendly government in the world;
- \* A central bank that, as matter of policy, reduced long-term interest rates to stimulate the stock market.

And so on, and so forth.

You have realized immediately that the list of American competitive advantages doubles as an overview of as many European competitive disadvantages. No single market for services, 25 languages, 27 legal systems, 27 tax systems, et cetera.

How to explain this anomaly? How could European enterprises do so well, given the difference in circumstances?

The only logical explanation is the existence of uniquely European competitive advantages that up until now have not been recognized as such, have been covered in dust, or have only recently become apparent as a result of Brexit.

This situation is somewhat comparable with our perfect model of the workings of the universe -- so long as we assume the presence of incredibly large quantities of Dark Matter.

So, what is the composition of Europe's Dark Matter?

Over the years, having worked for large companies and active now as a serial entrepreneur, I have identified 10 European strengths. It's a broad selection, ranging from the 'Good Faith' obligation in contract formation, via Europe's superior patent system, to a low level of corruption in the EU economic heartland.

Enter CEPS and my very fruitful cooperation with Andrea Renda and his colleagues. In our report, the 10 advantages have been critically evaluated and built on solid empirical and theoretical foundations.

We concluded that some of the Hidden Treasures are so promising and so widely applicable that a large follow-up study is warranted. Work is already underway on Europe's diversity in corporate governance and management. In Europe, there is a much larger economic role for cooperatives and foundations and there are plenty legal entities to choose from. This advantage can be built on by development of new models under the umbrella of a revised Societas Europaea, *SE*, not the present hybrid entity based on Anglo-Saxon and continental traditions.

We will put the spotlight on companies such as ASML, Statoil and Novo Nordisk who outperform Canon, BP and GSK on all counts. These companies are well-placed to capitalize on Europe's competitive advantages. They are the frontrunners of an emerging European Enterprise Model that puts economic value creation central stage -- not shareholders' or stakeholders' interests. It's Back to the Future: The enterprise as a working community.

The many believers in the highly standardized Anglo-Saxon way of doing business, the management of listed companies and those who populate the financial markets, will resist. Many European business leaders who have managed to escape the Anglo-Saxon straitjacket will feel encouraged.

We will report on this study later this year, in the form of a book entitled *The European Enterprise: Value creation for society*.

Over the past six months, we have also discovered, to our surprise, a set of underlying principles that are truly European:

- \* Over the centuries, Europe has developed a rich definition of freedom.
- \* The role of the state is fundamentally different from the US and China, as it acts as the protector of its citizens and civil society.
- \* Europe has a long history in fighting inequality.
- \* Europe is also the home of fairness and reason in both the private and public sector. Fairness and reason are the essence of a thriving, and therefore productive, society

These are all crucial traits as economic and societal advancement now hinges on collaborative innovation and collaborative productivity growth. There is no other path towards sustainable economic growth in all its facets, including the resolution to the global food, water and health crises.

Today, it is your turn to assess Europe's Hidden Treasures. We have not ranked them. You might find some more relevant than others. Moreover, as we do not pretend that our list is exhaustive, we hope that you will add items to the list for further analysis and development.

After today, we need help in developing initiatives and policies to defend, refine and strengthen Europe's Hidden Treasures. We all recognize that such an approach takes less time, requires less resources and will meet less opposition than the many programs to remedy European weaknesses.

In our report, we set a direction for this process by identifying several, what we consider to be promising policy arenas. Over the next weeks and months, CEPS will organize a number of roundtables of experts that should result in detailed, appealing and actionable recommendations for the new Parliament, the new Commission and the Council.