

# COMPETITIVE EDGE

## Europe's relative prosperity faces long-term decline, says Jeremy Browne

Economically advanced European nations do not appear to fully grasp the rapidly emerging threat to our relative prosperity.

Political leaders often behave as if Western Europe has a divine right to enjoy some of the highest living standards in the world. The reality is alarmingly different and the response is often complacent and sometimes even exacerbates the problem.

The statistics are stark. In 1980 the current EU nations produced 26% of global output. By 2003 this had fallen to 22%. In 2015 the IMF forecasts that it will be just 17%. By the middle of the century some economic predictions put the EU share at around 10%.

We know that China and India are experiencing rapid economic growth, so it is no surprise that their share of global prosperity is sharply rising. Wealth generation is not a zero-sum business and billions of people will benefit from rising Asian prosperity.

But what is particularly striking is the relative performance of Europe and the United States. As two of the most highly economically developed areas of the world, it would be reasonable to expect that the effect of Chinese and Indian growth would impact on both equally.

But that is emphatically not the case. By 2050 the United States will no longer enjoy unchallenged economic supremacy but, despite the surging growth in Asia, it is predicted to enjoy a marginally greater share of world output than it has today.

The part of the world that is heading for freefall is Europe. Our economies may still grow, but far less than those of the rest of the world, including the United States. This relative decline will be keenly felt in the most advanced European economies, which have the greatest advantage to lose.

This should be a major public policy challenge for Europe, and the Lisbon Agenda was a recognition of the problem, but the urgency of the response does not start to reflect the scale of the task. The European social model – with restrictions on the working week and labour market inflexibility – is an economic policy from politicians in a state of denial.

Any business that continued to pay its staff more but required them to work less would be vulnerable to being overtaken by competitors who were more hungry for success. That is what some European politicians, despite global challenges, are keen to force on their businesses and still sell to their people as a viable long-term prospect.

The British government has wisely avoided the worst delusions of the social model. It has come to the obvious conclusion that a faltering domestic economy is not going to be socially beneficial to many people, least of all the poorest.

But, despite more than a decade of economic growth, Britain is still inadequately equipped to address the enormity of the challenge that we face.

Our government has increased the science budget and state support for research and development. But the number of science graduates has fallen alarmingly.

Between 1996/97 and 2004/05 the proportion of British graduates in chemistry fell by 28% to 2,710, and in physics by 8% to 2,235.

Yet the total number of graduates rose in that period by 20% to 306,365. Graduate scientists are vital to drive forward economic growth, but the failings in Britain's educational output are also evident at lower skill levels.

In 2006, 264,300 pupils left school with fewer than 5 A-C grades at GCSE, 40% of the total. There were 301,000 who failed to get a C-grade in maths, 47% of the total, and 435,000 failed to get a C-grade in a modern foreign language, 67% of the total. Some 129,000 pupils failed to get a C-grade in any subject, 20% of the total. This is a national emergency.

The problem is not just that lower-skilled jobs are being exported to China and India. Employers also often prefer to hire staff from new-entrant EU countries to do the jobs that remain

in Britain. Many British citizens do not have sufficient skills to compete effectively on our own terrain, let alone globally.

Meanwhile Britain is spending more on non-pension welfare payments than it is on education. A state apparatus has been created which is alarmingly inefficient, centralised and bureaucratic. Around 650,000 more people are employed in the public sector in Britain than in 1997. Many are doing valuable jobs – teachers, doctors, police officers – but many others have inflated the already excessive numbers of auditors and inspectors.

Just when the economy needs to be lean and efficient to encourage greater wealth-creation in an increasingly competitive global climate, Britain is increasing business costs and regulations.

The forecast for 2050 is much worse, and the direction of travel is clear. The people of Europe are facing a huge reduction in their relative prosperity. Europe is heading for economic marginalisation, and with that will come a severely diminished level of political and cultural influence. After climate change, this situation is the pressing challenge of our time.

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