

Business Europe / By Casey Koppelson

Time for Europe to Start Making Lemonade

The heading of a recent document issued by the European Commission reads in bold letters: "Ten minutes to improve the business environment in the EU."

No, it's not a fast-tracked tax break. The paper is a questionnaire, a call to all European business owners and entrepreneurs to submit examples of rules or procedures that have negatively affected their business. "Tell us where to cut red tape," the commission says, offering the questionnaire with its left hand while no doubt signing new regulations into law with its right. One can only wonder how the results will be scrutinized by EU staff members when they are published in what the commission titles the "Red Tape Observatory."

The EU, struggling with stagnant growth and unemployment figures of more than 10% in many of its member states, is stepping up its efforts to promote business, particularly entrepreneurship. The reduction of red tape lies at the center of this discussion, not only at the EU level, where an Enterprise and Industry directorate-general leads the process, but also among individual countries. In classic bureaucratic fashion, new governmental posts have been created in Luxembourg, Belgium and the Netherlands, with the sole purpose

of dealing with "administrative simplification."

Yet these efforts seem to do little more than point out the communication gap between civil servants and business owners.

Brussels fights paper with paper.

The need to stimulate the creation of new businesses in Europe is far too pressing to be solved with surveys.

Slashing the red tape is a start—studies have shown small businesses are badly hit by regulatory burdens—but it is far from the only measure. Europe has long suffered from a cultural opposition to entrepreneurship as well. A survey published by the Global Entrepreneurship Monitor in 2003 found Europeans are half as likely as their American counterparts to start a business, for reasons ranging from regulatory hurdles to a high fear of failure. In the U.S., entrepreneurs are bred at an early age—the kids who sell lemonade and offer dog-walking services graduate to Internet-based businesses with millions of dollars in revenues.

Zolt Feher, a director at Junior Chamber International, an organization that unites young entrepreneurs and professionals, believes the problem must be

attacked at its roots. "American children are assigned to make presentations and perform debates, they learn how to write and present their ideas in front of an audience—these are skills which are important in the business world and which European students are not usually taught."

Rich Karlgaard, Forbes columnist and author of "Life 2.0," says European countries' emphasis on scholastic achievement and regulation is a factor. "People who strive to become the top grade earner in school are generally people who like to play within existing rules," he wrote in an email. "Follow their careers and you'll see they become lawyers, judges, professors, doctors. Entrepreneurs, on the other hand, like to smash existing rules."

A common European argument against taking risks to create a business has been that failed start-ups are detrimental to the labor force, causing layoffs and other disruptions. This brings us back to one of the main obstacles to fostering entrepreneurship in Europe—inflexible labor laws.

A Eurobarometer survey published in April found that among 4,000 one-person enterprises in Europe, one in three did not recruit new employees because of the nonwage costs of labor, such as social contributions and taxes by employers, and that more than 10% were reluctant to hire because of the red tape involved.

While politicians in France and Germany are promising to make improvements to the complicated hiring and firing processes, many Europeans fear the loss of their protective labor laws. "Most Europeans, particularly in Western Europe, want security, not risk," says Caroline Jenner, of the Brussels-based Junior Achievement Young Enterprise. The nonprofit organization teaches "economic literacy" to students age 6-12.

"In countries like France, the employee has more rights, is mandated more paid vacation days and a more comfortable pension plan than Americans," Mr. Feher, the Junior Chamber International director, adds. In an increasingly economically liberal climate, these rights are precious to European workers. Yet they also force European start-ups to choose between hiring an additional worker and doing without.

While a compromise between business owners and Europe's welfare state may be unlikely, what is certain is that without reform, the future of European entrepreneurship remains bleak. With luck, the "Red Tape Observatory" will yield more than what is already known—that European entrepreneurs are a distinct minority.

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