Entrepreneurship and Bureaucracy: Impact upon Innovation and Economic Competitiveness of the European Union

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Abstract
The socio economic model of the European Union at the core of which stands social market principles, increased state participation in the economy and as a result high bureaucracy has proved its weak efficiency in increasing European economic competitiveness in the conditions of growing globalisation. The present research introduces two main theses explaining the vulnerability of both strong and weak economies of the European Union which arise as a result of implementation of social market driven policies. First, it is regarded the example of EU states having low socio-economic development and fragile institutions, mostly represented by the Eastern and Southern EU countries, and second, advanced nations with strong institutions from the West and North of the community. It is necessary to underline that the research regards the theses from the perspective of entrepreneurship-bureaucracy interaction and, the effect of them upon innovation and economic competitiveness. The results reached through applying quantitative analysis comes to prove that socio-economic model developed in the European Union is hindering the economic competitiveness of both groups of countries, yet the factors weakening economic progress differ. Thus, the paper concludes that the European Union needs to reform its economic priorities to be able to compete on the global markets.

Keywords: entrepreneurship, bureaucracy, innovation, economic competitiveness, the European Union.

JEL-classification: D73; O30; O43; O52; L26

1. Introduction

The European Union is presently facing multiple internal socio-economic challenges which threaten its future development perspectives. This situation aggravates under the influence of raising global competition which puts additional pressure upon the European business and institutions. Presently, the European Union is known for its social market oriented policies at the core of which stands an increased role of the government in the economy. State intervention and regulation are widely applied in the European Union to balance economic growth with low unemployment and inflation. Public services and the promotion of social welfare principles are two of the main pillars determining socio-economic equilibrium. As a result, bureaucracy or the state apparatus is an important player

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maintaining operational the social market economy. Hence, the present research comes to offer two theses.

First, the European Union is heterogeneous socio-economic structure comprising 28 nations which differ in the level of economic development, institutional efficiency, governance priorities and social & economic policies. Due to these differences, the promotion of social market economic principles at the EU supranational level can be beneficial for some countries and detrimental for others. Thus, logically, in the European Union states with weak institutions empowering bureaucracy through offering additional regulation and intervention instruments can raise red tape, corruption and destroy entrepreneurial environment since public servants and particularly high level ones, in such conditions, tend to pursue their own benefits disfavouring the state's interests. Consequently, it is clear from the very beginning that more bureaucratic control over the economy is not an option for a range of the European Union states, particularly mentioning the Eastern and Southern ones.

Second, the Northern and Western European Union tend to have stronger institutions where the problem of red tape and corruption is less vicious for the economic processes. Nevertheless, in these countries occur the problem of taxation burden and at a lesser extent of the regulatory one since additional empowerment offered to government requires funding which is levied upon the business. In such circumstances, the European business becomes less profitable and the cost of failure raises the fact decreasing the entrepreneurial motivation in the society to develop and invest in risky innovation projects. Thus, in the long run the effect of excessive taxation results in the decline of business attractiveness the fact having negative impact upon overall economic competitiveness and progress. By raising the business costs bureaucracy minimise initiatives to undertake business activities, reduce their capacities to compete and invest in innovation.

Therefore, the present research comes to prove or reject these theses by analysing relevant indicators and reaching comprehensive conclusions.

2. Literature review

Research in the area of European bureaucratic effectiveness has been of high relevance during last years. Academics, business representatives as well as public servants pay increased attention towards this issue since the degree of bureaucratic efficiency is a determinant factor taking into account economic competitiveness and socio-economic development. This matter is of high importance since the

European Union faces multiple challenges one of the most significant being lack of viable economic growth in most of the member states determining a gradual decline of the general European economic competitiveness. Consequently, if the actual economic tendency is preserved, than the European space can become a backward development periphery of the world. To have a better understanding of this issue, a subset of relevant literature has been selected.

Thus, according to Audretsch (2009) entrepreneurship is the main driver of global economic growth. In 1990s entrepreneurship has been offered a totally new perspective its role increasing gradually in determining modern economic relations and in shaping economic policies worldwide. Countries which succeeded in providing more favourable conditions for business activities are presently leading in terms of socio-economic development while those which did not face lower economic competitiveness. In the states where business is flourishing, it has emerged and gained weight an entrepreneurial society characterised by a specific business oriented cultural environment. Certainly, globalisation enhanced global economic potential and the countries which managed to effectively fit in this new economic era attracted human capital, better paid jobs and therefore assured increased growth potential. Nyström (2014) comes to underline that entrepreneurship is slowed by the red tape since imposing regulative barriers demotivates business to enlarge their activities as once they expand the bureaucratic pressure grows too. Administrative burdens hamper entrepreneurial activities and overall economic growth since they increase the cost of starting, developing and closing a business. At the same time, it should be noticed that higher bureaucracy in some cases has positive impact on general societal welfare since market interventions which they may apply can correct market imperfections. Yet, long run effects of over regulated economy tend to be negative as diminish economic activity and therefore society's progress. Between business and bureaucracy there is complex interrelation which should be offered a neutral character to provide the same treatment for all stakeholders. Certainly, the higher the quality and efficiency of bureaucracy, more business activity is enforced.

Pelkmans (2013) underlines that market regulations, enforced by government, are aimed to anticipate and properly react to market failures and disorders. EU common policies are efficient mechanisms in this regard. Nevertheless, it is necessary to mention that reacting to market failures, taking into account the peculiarities of the European Union's decision making process, takes long time, the fact diminishing policies' efficiency since the due time effect is lost. The capacity of properly reacting to economic challenges is also reduced by the necessity of implying national governments in the decision making process. Thus, internal market should have central decision making organism capable of developing policies and implement in due time over the whole common market irrespective of the national states. At the same time, Radaelli & Meuwese (2009) highlight that public management is a key characteristic of the European economic development model. It is represented by both supranational and national institutions, and often these two levels of governance come in contradiction. Therefore, the European Union as well as the member states pursued administrative reforms aiming at increasing efficiency of bureaucracy. Thus, there were proposed to increase the quality of regulation as well as of the institutions implementing it. Also, it has been proposed to rationalise existing regulation as well as increase the managerial expertise. Adelle & Jordan (2014) pointed out that regulation coherence is crucial for enhancing business climate. Policies should be coherent when they are developed and implemented. This fact means that policies should take into consideration the needs of business and society in all regulated areas. Policy coherence is one of the goals of European decision making factors, thus there has been established special impact assessment mechanisms intended to support efficiency goals. The author concluded based on 2007 & 2013 reforms of the EU sugar sector, that policies rather supported the dominant positions of large companies and did not improved bureaucratic environment for smaller ones, policy coherence being not reached. Thus, there is advised to improve the efficiency of monitoring policy coherence by applying less bureaucratic procedures. Furthermore, according to Coletti & Radaelli (2013) the European Union officials have adopted policies to establish instruments of regulatory efficiency assessment, supervision and monitoring, post implementation evaluation taking into consideration the provisions of smart specialisation agenda. One of the most important instruments in this regard is the regulatory impact assessment. Regulatory efficiency is benchmarked taking into account the general principles of welfare economics. In this context, the European Union implements and promotes regulation which regards the main features of the welfare state, thus, entrepreneurship is viewed rather as a secondary actor, while public sector and society being the primary one.

Radaelli (2010) mentioned that in the last period, the tendency of increasing control over the regulation making process has accentuated, or in other words there is higher regulation over the rule making. Regulatory impact assessment is an expression of this tendency, administrative factors having higher impact on overall policies promoted. Moreover, many times administrative factors ae influenced by political ones, the fact decreasing the overall quality of bureaucratic regulation. Some countries are more predisposed to political control than others, it depending on the specific socio-cultural and economic characteristics. Wille (2010) stressed that over the last years, the European Commission, the main executive body of the European Union has incurred several structural reforms aimed to empower accountability and control. On overall, the reforms implemented during the lead of Prodi (1999-2004) and first mandate of Barosso (2004-2009) strengthened accountability and Commission's efficiency. Moreover, the system of administration and policy making was empowered. Thus, bureaucratic mechanisms were consolidated taking into account the best legal and professional experience. Moreover, Van den Abeele (2014) highlighted that the European Union policy makers understood that the community is in need for qualitative legislation which will assure the reduction of inefficient bureaucracy. Thus, European officials pursue simplification of legislation and its qualitative improvement, ideas promoted under the general concept of "smart regulation". Diminishing regulative burdens is a key to reinforce economic activity through stimulation of business. The priorities in this area were united within the framework of the Regulatory Fitness and Performance Programme aimed to redefine European legislation enhancing its performance. Despite of the general goal of red-tape reduction, author has found that smart regulation agenda has strengthened further bureaucratisation moving its power centre from the political area to the expert one, empowering overall rigidity.

Individuals confronting red tape incur important economic squanders. Research in the area of combating red-tape is of recent origin. According to Feeney et al (2010) a certain degree of bureaucracy is necessary for assuring efficient administration and regulation. Nevertheless, often bureaucratic practitioners impose more regulation than necessary the fact having overall negative impact upon socio-economic development of the country. It affects enterprises at the organisational level slowing decision making process and action capacity enlarging the possibility to incur resource loses. Red tape occur both in the public and private sector, yet in the first it determines more inefficiency since it has macroeconomic impact. Therefore, it is necessary to promote research in this area involving large consortium comprising entrepreneurs, public servants, policy makers, academics and students to enhance bureaucratic efficiency and administrative capacities to smooth economic processes within a society. At the same time, Kaufmann & Van Witteloostuijn (2012) pointed out that in its evolution, the European Union has heavily increased its rules stock. This phenomenon happened both at the supranational level as well as at the national one. The effects of rules accumulation are often linked to the raise of red – tape and inefficient bureaucracy which hampers entrepreneurial development in the European Union. Moreover, as the author determined, the Europeanization of Dutch rules stock had rather negative effects upon country's legislative framework since it decreased the efficiency of decision making process. Therefore, it can be observed that over regulated EU bureaucratic environment complicated market relations in at least one member state the fact which had unfavourable effect upon economic competitiveness. Tonoyan et al. (2010) deepened the insight upon the subject mentioning that red tape is hampering the economic development of the European Union. This phenomenon is particularly valid for almost all former socialist states now member of the EU as well as for Southern EU countries. Entrepreneurs in the European Union do not benefit from the same bureaucratic attitude, thus an efficiency business gap arise between East and West. Since red tape is increasing the risk of corruption, entrepreneurs and business representatives from some EU countries are coerced to engage in corruption acts to be able to operate without bureaucratic pressure, while in other countries not. This fact is determined by the lack of efficiency of the institutional framework as well as by specific social characteristics i.e. nepotism and institutional partisanship. The European Union must implement policies to reduce bureaucrats' attributes in developing business activities thus diminishing the possibility of them to take bribes.

Centralisation of power inside the European Commission aimed to increase the structure's efficiency did not bring the expected results since the reform did not affect the activities of managing directors. Moreover, from the historical point of view the ordinary behaviour of officials remained rather rigid despite of multiple re-organising efforts. In such a way, many activities performed at the organisational level tend to overlay and co-exist being diffused among multiple organisational subunits, the fact raising the probability of red-tape to occur. Thus, policy makers should be aware that reforming the bureaucracy is a corner stone to enhance EU's structures performance and accountability (Trondal, 2012). Several attempts to reform European bureaucratic framework have been made starting with the very top, the European Commission. One of the most important reforms in this regard was undertaken by Kinnock in 1999. Ban (2015) came up with an opinion on this matter. Thus, he mentioned that the effects of Kinnock reform are controversial. The official motivation to implement the reform was linked to the reduction of corruption, increase of accountability and transparency as well as to raise the efficiency of management. Nevertheless, the long term effects of this reform are rather negative since it reduced the quality of developed policies. The system of promotion of staff members rather de-motivated and increased job insecurity, enforced anxiety and internal conflicts which lowered Commission's effectiveness. Moreover, general skills were enhanced the fact lowering the specialisation of staff determining negative effects upon the quality of policy drafts. Based on this experience, 2013 reform of Staff Regulations promoting payment and benefits cuts, slower promotion, longer careers and extension of work days creates precedents of lowering the quality of administrative services. Furthermore, these measures more or less were promoted at the level of national governments which in the long run will worsen the quality of public services. Thus, administrative reforms should be implemented with particular cautiousness since their effects are decisive in assuring efficient administration and therefore minimise the cost of bureaucratic intermediation.

Red tape is affecting many key socio-economic areas of the European Union, including the strategic ones such as the research in health sector. Thus, during the last years the European Union has invested billions of Euros in enhancing its research potential including in the health domain, yet these framework programmes met difficulties which reduced their efficiency, one of the main difficulties being related to the troublesome bureaucratic procedures. The present most important document in this area is Horizon 2020 which has taken into account the previous framework programmes' feedback and defines the present research potential of the European Union. Despite that major achievements were achieved, much effort should be undertaken to deal further more efficiently with the bureaucracy through reducing red tape as well as by providing more support for the Eastern European countries (Galsworthy & McKee, 2013). Moreover, the impact of red tape on citizens' satisfaction is quite predicable. Therefore, according to Tummers et al (2016) people experience strong displeasure when they meet unjustifiable red-tape. This effect of the inefficient bureaucracy occurs as a result of excessive regulation and rigidity of procedures which hinder the decisional processes of people and reduce their actions' possibility. Paper work, multiple procedures and people to approve them makes regular citizens act slower the fact producing waste of time and resources.

Williams (2013) underlined that neo-liberalists claim that the poor economic performance of European economies is a consequence of over-regulation, high taxes and state interference in the free market processes. A solution provided by them is summarised to economic liberalisation, tax reductions and minimisation of bureaucracy. Author comes to reject these neo-liberalistic ideas underlining that European economies could be reinforced by implementing more regulative policies. These are efficient instruments which can be applied to reduce shadow and hidden economies diminishing informal sector and the related employment. Nevertheless, several authors come to the opposite. Thus, De Rosa et al (2010) highlighted that corruption arises in the moment when business is forced to pay informal duties to bureaucrats to ease day to day operation of enterprises. These informal payments are also called bribe taxes since this notion reflects the red tape power of the public sector over the private one in determining the success of their activities. As it was demonstrated, corruption has negative impact upon firms' productivity level since they reduce overall society's efficiency. Claiming that bribing can raise enterprises' productivity as these acts have "greasing economic effects" is at least economically and ethically unjustifiable since they reduce companies' investments and innovative capacities as well as the motivations to enhance organisations' competitiveness level. Besides these, author also concludes that corruption is worse in countries pursuing EU integration, since higher regulation required for the membership stimulates red tape in these states the fact destroying business productivity. Quratulain & Khan (2015) argued that excessive bureaucracy does not only affect the business and society, it also influences negatively the working satisfaction as well as the motivation of public servants. In such conditions, public services efficiency is diminished since de-motivated staff is unable to provide high quality work. Exacerbating factor is this regard is played by the constant displeasure received as a result of performing useless procedures and formalization. Even the most motivated public servants are susceptible to de-motivation and therefore decrease their work efficiency. Aristovnik & Obadic (2015) stated that excessive bureaucracy is particularly hampering the development of SMEs since it diminish their competitiveness through raising overall business cost in terms of time, money and resources. The bureaucratic efficiency in the European Union is not homogeneous, thus the North-Western EU is more efficient in this regard as compared to the Southern and Eastern European Union. It is necessary to underline that most of the former communist countries, presently member of the community, made important steps forward in making their administration more effective and lucrative, nevertheless, much is to be done further. SMEs are very sensitive to the red-tape since they have limited resources and any pressure from the external environment can cause irreversible erosion of organisations' efficiency. Williams (2014) in a later research comes to rather oppose the ideas he stated previously, promoting liberalist concepts. Therefore, it was underlined that high bureaucracy and over taxation can determine enterprises as well as employees to step into undeclared employment. Moreover, burdensome procedures as well as high level of corruption occurring as a result of red tape make business representatives to search for ways of minimising their expenses and costs, the situation stimulating shadow economic activities. Thus, less corrupt and more regulative transparent European Union states with well-shaped social protection mechanism face lower undeclared employment and the size of shadow economies is minimal. In such a way, minimising bureaucratic pressure motivate business environment as well as employees to practice their activities legally.

Good governance is a key to economic development and general societal progress. Corner stone features of good governance are integrity and efficiency. Integrity is important to assure the neutral character of legislation and regulation taking into account general interests of the society and not individual ones of bureaucratic representatives or business. Efficiency regards operational capacities of bureaucracy to develop, implement and monitor regulations' application taking into account time and resource constraints. Morality is also important since transparency; equity and honesty are basic values assuring harmonisation of socio-economic processes. However, many times there take place conflicts between, on one hand, integrity and morality, and on the other hand, efficiency. Thus a balance should be found to respect the rights of all stakeholders (De Graaf & Van Der Wal, 2010). Mungiu-Pippidi (2014) highlighted that it is a fact that the European Union succeeded in promoting democracy in the new member states, yet it failed to promote good governance and efficient administration. It is necessary to distinguish good governance from political regimes. It should be rather defined by underlining key concept's feature and namely who gets what in a given country in the conditions of existing national and international socio-economic environment. Thus, despite the European Union managed to enhance new member states' rights protection and the civil liberties, it has not determined any progress in the area of good governance. In spite of important support offered by the EU, these states made little progress in building efficient administration, justice and policy making structures. Fukuyama (2013) added that some countries succeeded in developing efficient institutions providing high quality services to their citizens, while other states are infested with corruption, rottenness and kleptocracy. Strong and independent institutions from political factors are keys to bureaucratic efficiency. Thus, if the political factors will not be able to exchange benefits for political support the institutions will remain independent and provide strong base for democracy and economic development. Germany and Japan are countries characterised by strong and firm bureaucratic apparatus whose performance are not depending upon the political power due to their independence. In case of Italy and Greece, bureaucracy is interconnected with politics the fact motivating the development of clienteles which exchange favour for loyalty. In this case, economic efficiency or merits are not crucial factors for promotion, but rather clienteles' membership. Therefore, a corner stone of bureaucratic efficiency resides in its neutrality and independence from the political power. At the same time, Raipa & Giedraityte (2014) accentuated the role of innovation in reducing burdensome procedural arrangements. In this regard, innovation is considered to be a key driver of public sector's performance. Nevertheless, implementation of innovation in this area is problematic since a range of political, economic and organisational factors oppose to this process, including individual and group interests, lack of managerial expertise and financial resources as well as string regulatory requirements and reluctance in accepting innovation by the users. Thus, the risk should be effectively assessed when developing innovation driven administrative policies. There must be provided feasible solutions to these challenges in order to optimise the bureaucracy and therefore entirely benefit from innovation (author, 2017). Author (2017a), in their turn, mentioned that innovation and entrepreneurship are key drivers of the European economy. The European Union should provide efficient bureaucracy and progressive regulation to motivate entrepreneurs to undertake business activities and be prepared to face risks linked to innovation investments. Red-tape is economically counterproductive. It creates unjustifiable impediments for talented and motivated people when developing risk related activities and therefore reducing the possibility of technological breakthrough. Thus, present strict European Union regulation combined with specific bureaucratic environment decrease the entrepreneurial liberty and therefore economic development and competitiveness. Most affected are countries from the Eastern and Southern European Union where red tape is flourishing due to regulative imperfections, weak institutions and strict EU rules which are often over imposed. Thus, businesses in these states are suffocating and determined to develop shadow activities in order to survive. Moreover, Author (2017b) underlined that the same observations can be assessed when speaking about associated partners of the European Union, specifically the Republic of Moldova. The weak institutions, high level of corruption, red tape and the imposed EU regulation create highly unfavourable climate for business since the last, in the conditions of weak integrity of bureaucratic apparatus, boost red-tape and business whipping. This fact creates pre-conditions for country's collapse as emigration hit unprecedented levels and business is quickly eroding. In such conditions, the European Union should provide simplified regulation for the Republic of Moldova which must minimise the possibility of bureaucracy and weak institutions to affront and defy proper business to reach individual interests. The same assumptions are also valid for Eastern and Southern European Union countries, yet at a lower level. In these conditions, the promotion of the welfare state by the EU in its institutionally weaker member states as well as in its associated partners is pointless.

Welfare state presumes high governmental participation in socio-economic life of the country. This model demonstrated its advantages in the Northern European Union, yet the success in these states is based on strong institutions which developed during longer period of time. The promotion of welfare state in the countries with weak institutions is not efficient since bureaucracy is rather oriented to pursue its own interests than those of the general public. Therefore, more liberalistic policies should be promoted to strengthen business, particularly SMEs on the base of which institutional progress will occur.

3. Methodology

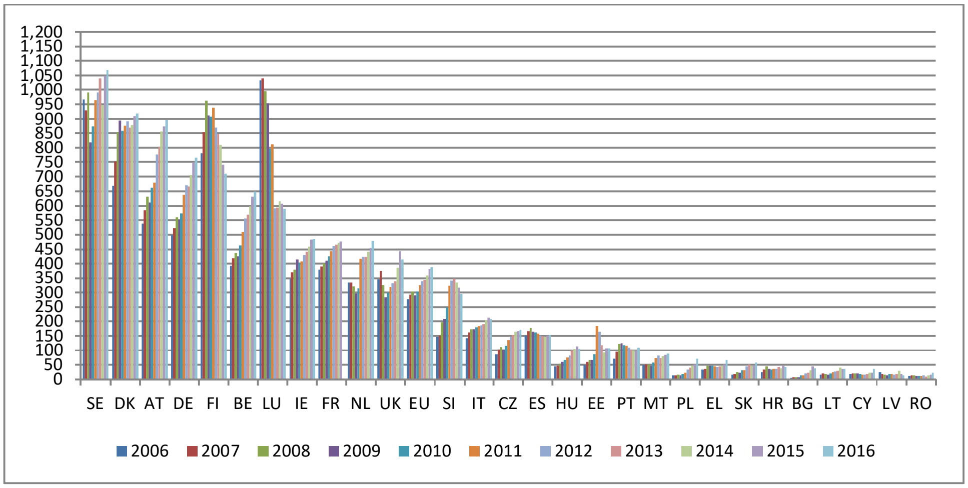
The present paper is based on quantitative analysis which is applied to prove or reject the theses formulated in the introductory section. Thus, there are assessed several indicators intended to comprehensively evaluate the effect of entrepreneurship as well as of bureaucracy upon the evolution of socio-economic and innovation competitiveness of the European Union, in general, and of the member states in particular. Accordingly, it is, firstly, analysed the entrepreneurial competitiveness in the European Union through evaluating the countries' performance in terms of per capita R&D expenditure made by the business sector. Secondly, total general government revenue % of GDP is examined as an indicator demonstrating the level of bureaucracy in the country since the higher is this share the higher is the influence of the government in the economy and, therefore, the stronger is the control of the state upon the economic processes. It is necessary to mention that entrepreneurship and bureaucracy do not necessarily counterpoise, since a certain degree of bureaucracy or of the state control is necessary to counterbalance the effects of economic cycles as well as to keep operational the economy itself and in general to meet the state's commitments. Afterwards, it is assessed the socio-economic and innovation performance of the European Union countries through analysing the following indicators: share of full-time equivalent high tech business R&D personnel in the total number of persons with tertiary education and employed in science and technology; real GDP per capita, EUR per inhabitant, chain linked volumes (2010); gross fixed capital formation (investments) at current prices % of GDP. The first indicator is reflecting the size of the human capital of the country involved directly in high tech and innovation activities in the business sector. It has been specifically selected the share of human capital involved in high tech and innovation business activities since this sector is most of all oriented towards market efficiency and is competitively driven. The second indictor shows the real evolution of the aggregate social welfare as well as of the general economic productivity. Final indicator and namely gross fixed capital formation (investments) at current prices % of GDP determines the total size of investments which is undertaken within an economy to endow it with competitive infrastructure, industrial equipment, and other machinery which leads to increased long run economic competitiveness. Subsequently, it is analysed the interaction of entrepreneurship and bureaucracy with the indicators of socio-economic and innovation development of the European Union countries through calculating relevant correlation coefficients. As a result, it is possible to weight which is the role of entrepreneurship as well as of bureaucracy in enhancing economic competitiveness of the European Union in general and in particular of the member states as well as to prove or reject the theses formulated in the introductory part.

4. Results

4.1. Entrepreneurial competitiveness of the European Union countries

Per capita research and development expenditure made by the business sector is an indicator of countries' business competitiveness. Thus, the higher the business invests in innovation related activities more developed it is since incurring these spending requires increased productivity and operational capacity. This is a quantitative indicator synthetizing the influence of both external factors (i.e. political, social, economic and technological) and internal ones (ex. leadership, financing opportunities, human capital/resources, access to intellectual property and complexity of business processes). Consequently, the success of entrepreneurship in a particular country depends of the overall impact of these factors which depending on the degree of favourability either motivates the development of the business sector or not. It is necessary to specify that this indicator is a synthesis which means that several factors can negatively influence, yet due to the prevalence of stimulating ones the general impact is rather positive and the business, therefore, has enough motivation to develop high innovation capacities. Accordingly, it can be mentioned that at the level of European Union countries most auspicious business environment is characteristic for Sweden, Denmark, Austria and Germany (figure 1). At the same time, states with the lowest level of business research and development expenditures are Romania, Latvia, Cyprus, Lithuania and Bulgaria. This fact determines poor entrepreneurial performance and therefore weak economic development perspectives. In dynamics, the most favourable evolutions have been recorded by, the same Austria and Germany, as well as Belgium, Slovenia, Ireland, France and Hungary. Negative dynamics have been registered by Finland, Luxembourg and stagnating ones by Denmark and Spain and Portugal. At the level of the European Union the dynamics are favourable, the fact expressing that within the period 2006-2016 the business in the EU has increased its competitiveness level.

Figure 1 Per capita R&D expenditure made by the Business of EU countries, EUR

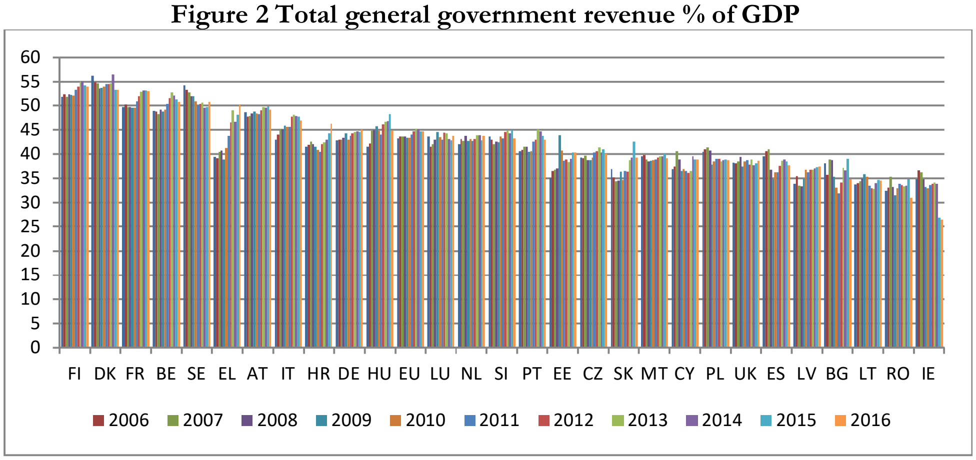


Source: Eurostat, indicator's code [rd_e_gerdtot].

4.2. Bureaucracy in the European Union countries

General governmental revenue is made of all direct and indirect taxes collected i.e. from individuals, households, corporations (ex. taxes on income, wealth, imports as well as social contributions, etc.). At the same time it includes the income generated by the state owned companies. In other words, total governmental revenue % of GDP represents the share of state in the economy. For instance, in the Soviet Union the share of state in the economy was close to 100%, the fact explained by the its economic peculiarities, i.e. central planning, abolition of private property and, de jure, common ownership of the production means, but de fact, state ownership of them. At the general level of the European Union the share of the state in the economy is around 45%, the fact meaning that the governments collect 45% of annual income to function and meet its commitments. According to the OECD (2016), this indicator in the USA is 32.9%. As it can be observed, there is an important difference between the European Union and United States of more than 11%. By examining the figure 2, it can be observed that inside the EU there is only one OECD ranked country having lower share of government revenue in the GDP, namely Ireland, 26.4% (2016), nevertheless, this situation is characteristic only for the 2 last years. All other countries have higher general government revenue % of GDP starting with Lithuania, more than 34%, and finishing with Finland, 54%. Thus, from the point of view of fiscal burden, business sector in the USA is taxed less than in the European Union. Besides this, it should be mentioned that in some EU countries there is a relatively high corruption level which subdues business to additional expenditures. According to 2016 Corruption perception index provided by Transparency International the Southern and Eastern European Union have high levels of corruption compared to the Northern and Western counterparts. Thus, Bulgaria is ranked in the world the 75th most free of corruption country, followed by Greece 69th, Italy 60th, Romania 57th, Czech Republic 47th, Latvia 44th and Spain 41st. RAND Corporation (2016) has estimated that the cost of corruption in the European Union can reach up to 990 billion Euro which makes up to 7% of GDP. Since 7% is the EU mean value, then in the above mentioned countries the corruption cost may easily raise over 7% of the GDP. Thus, the official and non-official business cost in the European Union can grow to more than 52%. This situation has a negative impact upon the community's entrepreneurship since increased regulation; control and taxation raise the entrepreneurial inefficiency. Consequently, the business is less willing to undertake risky activities, it is less flexible due to high cost of failure and as a result entrepreneurship is impeded the fact causing its lower competitiveness.

Figure 2 Total general government revenue % of GDP

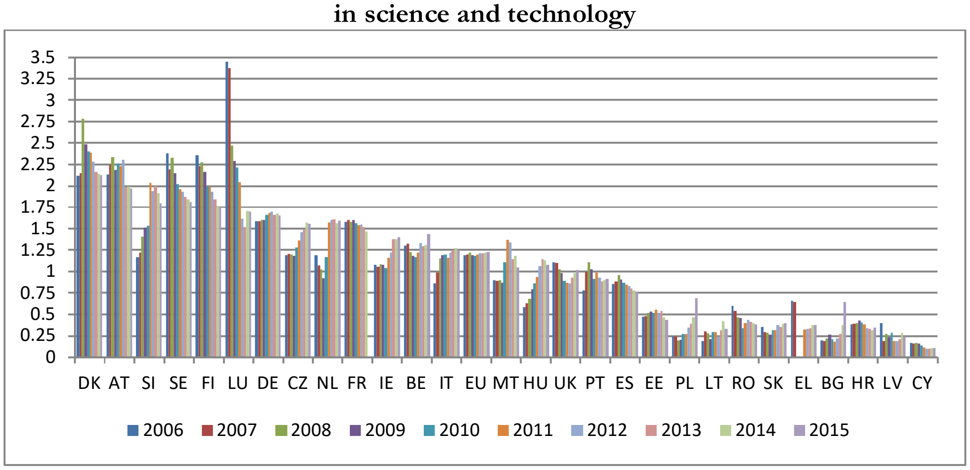


Source: Eurostat, indicator's code [tec00021].

4.3. Socio-economic and innovation performance of the European Union countries

The share of full-time equivalent high tech business R&D personnel in the total number of persons with tertiary education and employed in science and technology is an important indicator showing the level of countries' business competitiveness in the field of innovation and high technology. This indicator represents human capital which is by far the most important resource of a nation. The higher is this share than more research staff the business of a particular state is capable to support and more the innovation activity will be oriented toward the market. As it can be observed in the figure 3, at the level of the European Union this indicator is positive in dynamics and just slightly increased during the research period to reach little more than 1.23%. The leading European Union nations in this regard are Denmark and Austria; however, the dynamics of these countries are not favourable. Impressive growth has be recorded by Slovenia which in the period of 2006 to 2015 increased the indicator from 1.16% to 1.79%. Czech Republic, Ireland, Netherland, Hungary are also some of the few EU countries which have registered gradual and relatively stable positive dynamics. Other countries are either stagnating i.e. Germany or register decline, Luxembourg. Least performant states of the European Union with the lowest values of this indicator are Cyprus, Latvia, Croatia, Greece, Romania and Lithuania. Therefore, it can be remarked the Northern European Union countries have the strongest high-tech research and development sector while the Eastern and Southern counterparts register modest results, nevertheless, the distance tend to shrink partially due to the progress of the last, but mostly due to the regress of leading European Union economies.

Figure 3 Share of full-time equivalent high tech business R&D personnel in the total number of persons with tertiary education and employed in science and technology

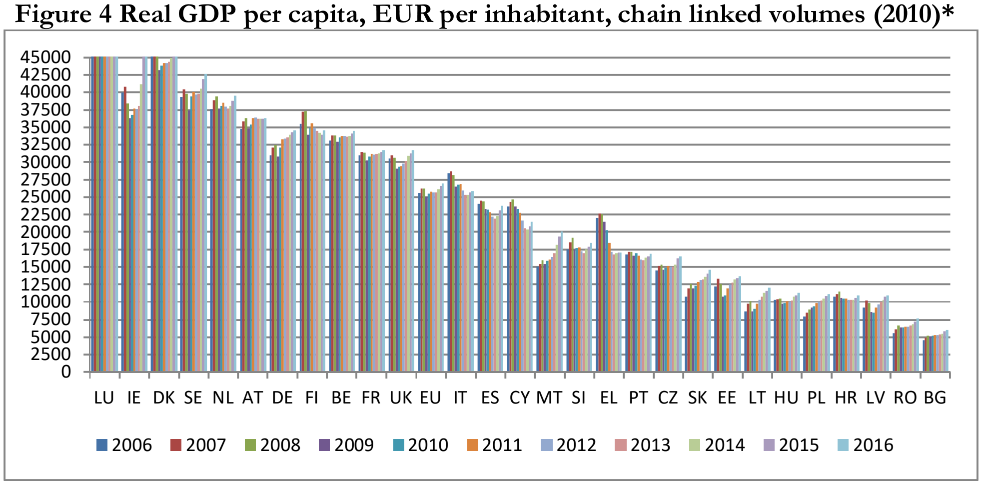


Source: Own calculation based on data provided by Eurostat, indicators' code [htec_sti_pers2 and hrst_st_ncat]

The European Union in the period of 2006-2016 has experienced stagnation of economic development (figure 4). Thus within this time the real GDP per capita has only increased with 5.5% in relative value or 1400 EUR in absolute reaching

27000 EUR in 2016. At the level of national states the results are relatively heterogeneous which can be distinguished in three groups of countries, one experiencing modest economic growth (i.e. Ireland, Sweden, Germany, UK, Malta, and most of the Eastern European countries). The second group experience stagnation of real GDP including Austria, Belgium, Slovenia, and Netherlands. At the same time the third group of states register decline or did not completely reached the pre-crisis levels, ex. Cyprus, Greece, Italy, Spain and Portugal. Accordingly, it can be remarked that European Union's economy is not uniform, the fact creating misbalances which hinders favourable evolution of business. Luxembourg, Ireland, Denmark, Sweden, Austria and Germany are the EU countries with the highest levels of GDP per capita. The positive dynamics of GDP per capita in most of the Eastern European Union is exemplified by the favourable impact of integration which helps to boost economic activity. Nevertheless, economic development is also conditioned by low initial starting point which makes it more facile in reaching higher growth rates of the GDP per capita. Thus, the least 10 countries with lowest GDP per capita in the European Union are from the Eastern Europe. It is necessary to point out that there is an inclination towards the reduction of development disparities between the different regions, however, this process is passive. Moreover, several important developed economies of the EU such as Italy and Spain still remain under the European Union average. This fact is a sign that the present economic policies promoted in the EU and the operational framework is not efficient enough to assure economic development of the EU as a whole as well as to reduce the existing disparities.

Figure 4 Real GDP per capita, EUR per inhabitant, chain linked volumes (2010)*

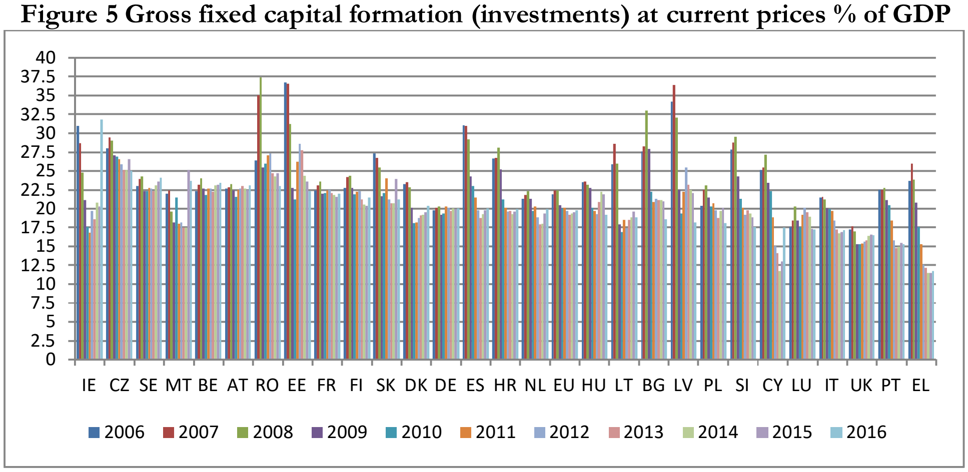


Source: Eurostat, indicator's code [sdg_08_10]

*Note- several EU countries have registered Real GDP per capita of more than 45 000 EUR

According to the World Bank (2016) gross fixed capital formation includes all investments made to improve the infrastructure and industrial potential including equipment, machinery, roads and railways as well as commercial and industrial buildings. In the European Union the gross fixed capital formation as reported to GDP has decreased in dynamics from almost 22% in 2006 to 19.8% in 2016 (figure 5). This fact highlights that the European Union is stagnating since less of the gross domestic product is invested in fixed capital i.e. new equipment, machinery or infrastructure. The vast majority of the European Union states irrespective of the region have faced considerable decline of this indicator during the crisis and did not even closely recovered ever since i.e. Czech Republic, Romania, Estonia, Spain, Croatia, Greece, Portugal, Latvia and Bulgaria, etc. It is important to point out that most of the countries facing decline are from Eastern and Southern EU which need to increase their capital investments to develop and therefore raise economic competitiveness. They should develop roads, industrial fixed capital and other components of fixed capital to be capable of reducing the development gap as compared to the Western and Northern European Union. In case of several developed EU states ex. Germany, France, Belgium and Austria the indicator tend to have constant dynamics. In case of these countries, the evolution is steady due to the regular renewal of production powers and maintenance of the infrastructure without developing new ones.

Figure 5 Gross fixed capital formation (investments) at current prices % of GDP



Source: Eurostat, indicator's code [tec00011]

4.4. The interaction of entrepreneurship and bureaucracy with the indicators of socio-economic and innovation development of the European Union countries

In order to have an improved understanding of the influence of European entrepreneurship and, respectively, bureaucracy upon countries' economic and innovation competitiveness it has been decided to calculate several correlation coefficients (annex 1). The first set of calculated coefficients comprises the per capita R&D expenditure made by the Business Sector of EU countries and (A) share of full-time equivalent high tech business R&D personnel in the total number of persons with tertiary education and employed in science and technology, (B) real GDP per capita, EUR per inhabitant, chain linked volumes (2010) and (C) gross fixed capital formation (investments) at current prices % of GDP. Respectively, the second set of correlations (D, E and F) comprises the total general government revenue % of GDP and the same indicators as it was named previously. Ideally, the first set of correlations should be strong positive the fact demonstrating that entrepreneurship and the selected indicators pursue the same dynamics which in turn allows concluding that business is determining socio economic and innovation competitiveness of the European Union states. As it can be observed, out of 87 coefficients of the first set 47 or 54% represent strong positive correlations. Some of the countries which register the strongest correlations (all three coefficients being relatively strong) in this set are Germany, Poland, United Kingdom and Belgium. At the same time, it can be observed that bureaucracy relatively passively interacts with the indicators of socio economic and innovation competitiveness, only 25 out of 87 or 27.8% of coefficients being strong positive. This fact demonstrates that bureaucracy is rather slowing down socio economic and innovation development, while entrepreneurship is enhancing the European Union countries' competitiveness. It is important to point out that only in Germany and Slovakia all three coefficients are strong positive the fact demonstrating that in these European Union countries' bureaucracy is fostering business activity. Generally, by analysing both sets of correlations it can be clearly observed that entrepreneurial activity is boosting economic, social and innovation competitiveness in the European Union, while additional taxation or bureaucracy is rather hindering it.

4.5. Why too much bureaucracy is unacceptable for the EU's competitiveness

The model of welfare state which is promoted in the European Union, especially in Northern and Western states increases the taxation and, in specific cases, the regulatory burden the fact decreasing the motivation of entrepreneurs to develop ambitious projects. Moreover, the labour market efficiency is also affected due to the provision of high social support for unemployed. Thus, people tend to reject working in relatively low paid positions choosing instead to live on governmental support. For instance, the unemployed rate in Spain is 17.1%, while in Greece it is 21%, France 10%, Belgium 7.3%, Sweden 7% and Italy 11.2% (Eurostat, 2017). In these states and not only there is a high availability of 3D jobs which are presently denied by locals and therefore occupied by migrants, for instance there are almost 2 million Romanians who migrated to Spain and Italy during the last time (various sources), not considering other Eastern European countries or the recent refugee migration towards the Western Europe. Therefore, exaggerated social oriented policies are rather directed towards satisfying the needs of political elites in the European Union countries as to gain another mandate than reinforce economic competitiveness in the European Union. Bureaucrats have too much power in deciding the distribution of resources in the society, more than the proper market. Consequently, the European Union will not increase its economic competitiveness unless they diminish the implication of state in the economy. Taking into account the issues specified above, it should be remembered that taxation burden and too much social orientation will transform the European Union into a peripheral economic region of the world, and unfortunately, the process has been started.

At the same time, bureaucracy in countries with weaker institutional framework, particularly the Eastern and Southern European Union countries lead to business suppression. Thus, if the business and economic competitiveness in the Western and Northern European Union will decline in the long run, than in these countries it is diminishing in the short run. This situation takes place as a result of present low domestic and foreign investment attractiveness, high emigration draining the labour resources, loss of domestic markets and failure of gaining foreign ones, as well as loss of human capital. Thus, the objective of the European Union to diminish the development gaps will not be realised neither in the short run or in the long run. The core problem is the high participation of bureaucracy in the economies of these states, which in the conditions of weak institutions means the only failure. Corruption, especially high level one which penetrates institutions and reduces the general economic competitiveness since biasness drops the efficiency of governmental supported programmes. For instance, Romania has integrated in the European Union in 2007, nevertheless, in 2018 the country has begun with only 748 km of highways, from 86 thousands km of public roads, which makes the lowest share in the Eastern European Union. In the last three years there have been constructed only 70 km, while only in 2004 it has been built 97 km (CNADNR, 2017). This fact demonstrates that government is inefficient in assuring the necessary infrastructure for the economy due to the involvement of multiple interests in the projects. Moreover, a diminishing effect upon economic growth in the European Union countries with weak institutions is played the red tape which consumes financial and time resources of business subject to unnecessary procedures. In its turn, red tape stimulates corruption in the sector of small and medium size enterprises as well as within population. Thus, the same outcome as in the developed countries is reached and namely high cost of business failure, low motivation to undertake risky activities and therefore poor overall economic competitiveness of countries.

5. Conclusion

Bureaucracy is a necessary element of an economy, nevertheless, having too much of it can be as much detrimental for a country as having too little. The present research has found that the level of governmental participation in the economy of the European Union is high, the fact affecting negatively the level of competitiveness of the community's business sector which in turn decreases the overall economic competitiveness. Social market economic model on which the EU is based has unfavourable consequences upon both economically developed northern and western as well as weaker southern and eastern European Union nations. In the first countries, high governmental participation in the economic processes leads to decrease of overall competitiveness due to high taxation levels which minimise the possibility of the business sector to undertake high profit high risk projects since the cost of failure is fatal.

Entrepreneurship, in its turn, is a driving force of economic development, contrary to the bureaucracy, the fact being demonstrated by the positive effects of stronger businesses upon socio-economic and innovation competitiveness of the European Union countries. Entrepreneurial performance is much more interconnected with innovation performance, short and long run socio economic development. In order to increase the community's competitive capacities, the European Union should develop policies as to diminish the role of bureaucracy in the economy this fact stimulating business activity in both weaker and stronger economies of the European Union. An increased business activity is capable to offer solutions in a more effective way than bureaucracy to the present and future socio economic challenges faced by the community. A more liberalistic approach towards economy is required to reignite entrepreneurial culture by stimulating a more competitive environment.

Further research can be undertaken to examine the competitiveness level of particular European Union countries, to assess the efficiency of the promoted socio economic policies and their impact upon overall competitiveness of the community. Moreover, it can be deeper examined the evolution of economic and innovation competitiveness taking into account specific groups of countries inside the European Union i.e. Benelux, Visegrad, Scandinavian, or Latin countries and determine specific characteristics. Finally, it detail assessment could be developed on issues related to the innovation and economic performance of specific EU programmes, evaluating their efficiency and justification.

Present article has a limiting factor and namely the evaluation of the impact of cultural environment upon social and economic competitiveness of bureaucracy and entrepreneurship in the European Union. Also, it makes abstraction of the historical context in which institutions in each state were formed as well as specific national peculiarities.

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Annex 1: Summary of calculated correlations

	Set 1			Set 2		
	A	B	C	D	E	F
AT	-0,62	0,67	0,96	-0,72	0,47	0,80
BE	0,56	0,68	0,94	0,43	0,36	0,69
BG	0,87	0,93	-0,13	0,47	0,01	0,47
CY	0,19	-0,25	-0,19	0,27	0,09	0,02
CZ	0,98	0,75	0,36	0,88	0,42	0,04
DE	0,79	0,94	0,96	0,57	0,70	0,76
DK	0,31	-0,51	-0,21	-0,49	0,00	-0,17
EE	0,43	0,04	0,01	0,22	-0,47	-0,79
EL	-0,80	-0,50	-0,54	-0,87	-0,93	-0,91
ES	0,92	0,66	0,70	-0,35	0,21	0,25
EU	0,81	0,69	0,35	0,68	0,44	0,14
FI	0,35	0,45	0,11	-0,85	-0,58	0,13
FR	-0,86	0,24	0,73	-0,89	0,52	0,71
HR	-0,30	0,13	-0,12	-0,56	0,22	-0,22
HU	0,95	0,55	0,01	0,76	0,24	0,26
IE	0,86	0,66	0,24	-0,55	-0,84	-0,49
IT	0,91	-0,86	-0,82	0,82	-0,91	-0,90
LT	0,83	0,92	0,25	-0,16	-0,32	-0,08
LU	0,91	0,24	-0,90	-0,73	-0,63	0,45
LV	0,62	0,01	0,06	0,01	0,22	-0,73
MT	0,76	0,85	0,73	0,12	0,47	0,48
NL	0,96	0,25	-0,12	0,23	0,13	-0,14
PL	0,93	0,92	0,51	-0,33	-0,68	-0,28
PT	0,77	0,13	0,12	-0,25	-0,71	-0,88
RO	-0,18	0,76	0,24	0,07	-0,25	0,29
SE	-0,32	0,79	0,83	0,93	-0,44	-0,71
SI	0,98	-0,46	-0,81	0,75	-0,60	-0,78
SK	0,72	0,91	0,58	0,72	0,77	0,62
UK	0,42	0,91	0,95	0,03	0,22	0,06

Source: Own calculations based on data provided by Eurostat