

“A Primer on Innovation and Growth” **By Philippe Aghion**

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At an informal meeting organised by the Finnish Presidency on October 20th, in Lahti, Finland, Heads of State or Government of the European Union will discuss the EU's innovation policy. It is with this in mind that Bruegel publishes a paper written by non-resident Senior Fellow and Harvard University Professor, **Philippe Aghion**, entitled “**A Primer on Innovation and Growth**”.

The underlying presumption of the EU's Lisbon Agenda is that Europe is not invested enough in Research and Development or the “knowledge economy” and that investment in these areas would be a driver of growth in Europe. However, as the Lisbon Agenda remains unfulfilled and growth in Europe still lags behind the US (in spite of recent cyclical revival), is it time to return to some first principles?

In his paper, which brings together evidence from several years of research, Aghion points out that as advanced European economies have reached the technology frontier, their growth cannot any longer rely on the *imitation* of techniques and products introduced elsewhere but must be based on *innovation*. However, he emphasises that for Europe to stimulate innovation and growth, it is not enough to increase spending on research and development and the protection of intellectual property. Four indirect channels have to be taken into account in the design of policy reforms:

- Investment in higher education
- Competition and market entry
- Reform of credit markets as well as labour markets
- Management of the economic cycle

Innovation-based growth requires coherence among structural policies and between them, and macroeconomic policies over the business cycle. European Union policy lacks this.

The paper stresses that progress on all these fronts matters much more as economies are getting closer to the technology frontier.

Innovation can be and should be a driver for growth in the EU but this paper shows a careful, coordinated approach is needed to successfully turn spending on Research and Development into new companies, industries and jobs for Europe.

The full paper is available at <http://www.bruegel.org>.

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