Innovation and Economic Growth: From Lisbon Strategy to Europe 2020

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Moving towards 2020

- Europe 2020: 10-year strategy that aims at "smart, sustainable, inclusive growth" with greater coordination of national and European policy.

- Lisbon Strategy: In 2000 the target was to make the EU "the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion", by 2010.

- Valuable Lesson: What did go wrong with the Lisbon agenda?

- Main targets for 2020:
  - 75% of the 20-64 year-olds to be employed
  - 3% of EU GDP to be invested in R&D
  - Fighting poverty and social inclusion
  - Specific National targets
  - ...

## The failure of the Lisbon Strategy

<table>
<thead>
<tr>
<th>EU 27 - key figures</th>
<th>2000 (initial value) (%)</th>
<th>2010 (%)</th>
<th>Target 2010 (%)</th>
<th>Gap (percentage points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average GDP growth rate</td>
<td>3.90</td>
<td>1.62</td>
<td>3.00</td>
<td>-1.38</td>
</tr>
<tr>
<td>Overall employment rate</td>
<td>62.20</td>
<td>64.10</td>
<td>70.00</td>
<td>-5.90</td>
</tr>
<tr>
<td>Female employment rate</td>
<td>53.70</td>
<td>58.20</td>
<td>60.00</td>
<td>-1.80</td>
</tr>
<tr>
<td>Employment rate for older workers (55 - 64)</td>
<td>36.90</td>
<td>46.30</td>
<td>50.00</td>
<td>-3.70</td>
</tr>
<tr>
<td>R &amp; D spending of GDP</td>
<td>1.86</td>
<td>2.00</td>
<td>3.00</td>
<td>-1.00</td>
</tr>
<tr>
<td>People at risk of poverty after social transfers (% of total population)</td>
<td>16.4 (2005)</td>
<td>16.40</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Electricity generated from renewable sources</td>
<td>13.60</td>
<td>18.2 (2009)</td>
<td>22.00</td>
<td>-3.80</td>
</tr>
</tbody>
</table>

What did go wrong?

- Many reasons were identified by the midterm evaluation (Kok-report, 2004) and the Sapir (2003) report:
  - Agenda was overloaded and very ambitious
  - No account was taken of the different initial bases and capabilities of the Member States to meet them
  - Different policy priorities
  - Lack of determined political action by the European institutions and the Member States
  - Poor Coordination across Member States
  - Conflicting and shifting priorities
  - External factors in a globalized world (US stock market bubble)
  - Slow rate of ICT diffusion

- Pisany-Ferry (2005):
  - Lack of incentives, in terms of positive cross-border externalities and pressure from voters with regard to coordination among Member States (poor “supply-side reforms”)
  - Public did not receive adequate information about the potential gains from structural reforms

- Financial Crisis
Lessons for Europe 2020

• Governance must be improved in order implementation to be more effective
• National targets can add transparency and improve incentives
• More enhanced role for European Parliament and Civil Society
• Crisis led to more coordination and surveillance (and frictions too!)
Innovation and the ambitious Europe 2020 target

Business Enterprise R&D expenditure, as % of GDP

Gross Domestic Expenditures on R&D (GERD)  
Source: OECD.stat
Decomposition of R&D Expenditures

**GERD financed by the different sources (2013), as % of GDP**

**Distribution of GERD by the performing actor (2013)**
Innovation and Tax incentives

Tax support as % of total (direct and tax) government support for business R&D (BERD)

Source: OECD.stat

France
Japan
UK
USA
Digital Economy and Platforms: Where is Europe in the global map?

**Platform Companies by Region**

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Platforms</th>
<th>Company Market Cap</th>
<th>Employees, FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>N. America</td>
<td>64</td>
<td>$3,123B</td>
<td>820M</td>
</tr>
<tr>
<td>Asia</td>
<td>82</td>
<td>$930B</td>
<td>352M</td>
</tr>
<tr>
<td>Europe</td>
<td>27</td>
<td>$181B</td>
<td>109M</td>
</tr>
<tr>
<td>Africa &amp; L. America</td>
<td>3</td>
<td>$69B</td>
<td>27M</td>
</tr>
<tr>
<td>Grand Total</td>
<td>176</td>
<td>$4,303B</td>
<td>1.3M</td>
</tr>
</tbody>
</table>
Investments in R&D: Look at the Micro-foundations!

• Competition and Innovation: An inverted-U relationship (see Aghion et. al. 2005)

• Financial constraints reveal the importance of the form of financing
  - Venture capital vs. debt financing

• Intellectual Property and ICT (see Bessen and Maskin 2009)

• Industrial and Competition policies: Complements or substitutes? (see Aghion et. al. 2015)

• Managerial incentives and competition (see Schmidt, 1997)

• The multidimensional market impact of disruptive technologies under different regulatory frameworks