



Investment, growth and structural reforms

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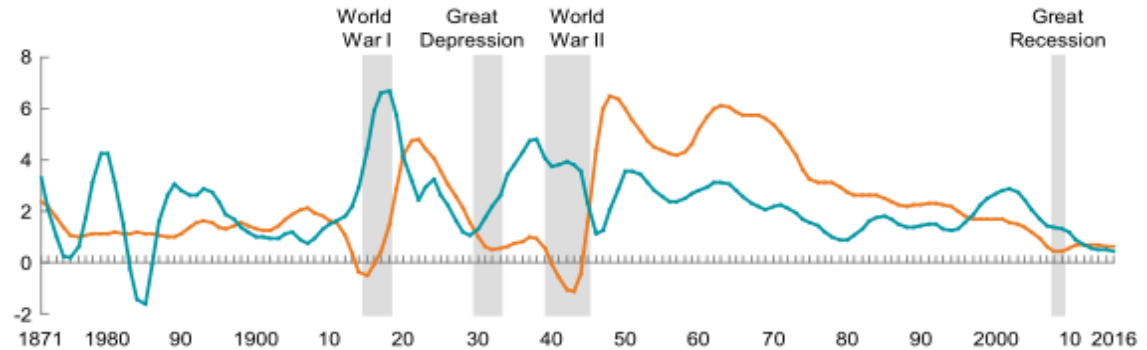
European Commission, Directorate-General for Economic and Financial Affairs

Unlocking productivity growth

Productivity growth has fluctuated over time; it has been declining since the 1960s and today stands near historic lows

Trend line of labor productivity growth, total economy
% year-over-year

— Europe¹ — United States



Note: Europe is here an average of France, Germany, Italy, Spain, Sweden, and the United Kingdom. Source: McKinsey (2018)

- *Productivity paradox:
Deceleration of productivity
growth in times of fundamental
technological change...*

What do we do in Europe?

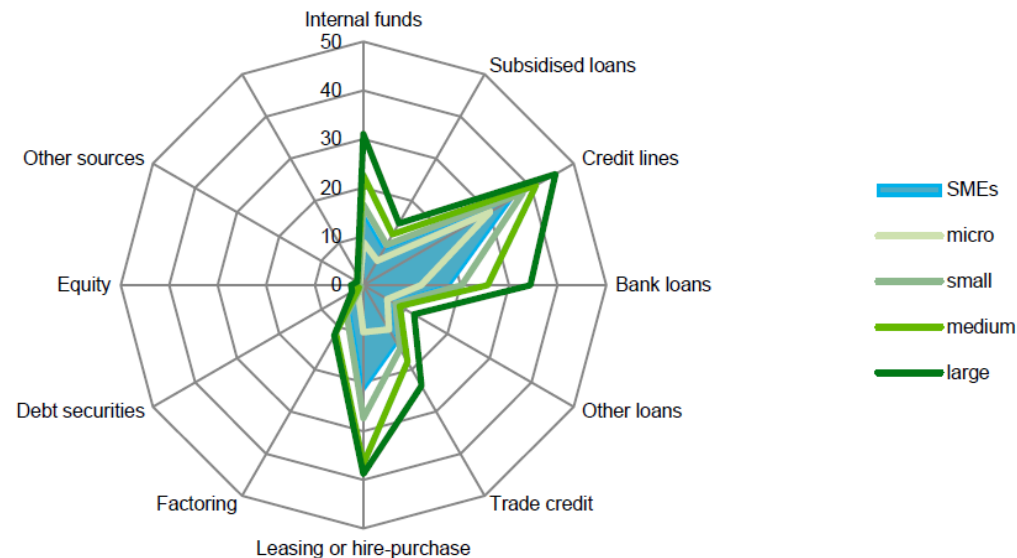
- **Country Specific Recommendations**, calling on Member States for structural reforms improving the business environment and the conditions for investment and innovation
- **EU initiatives** to develop physical and human capital, e.g. Erasmus, InvestEU...
- **National Productivity Boards:** supporting reforms by exchanging views and best practices

Creating enabling framework conditions

- *Strengths: the EU Single Market is the largest in the world for goods, services, capital and labour. Predictable regulatory framework and policy objectives. Five EU countries in world's top 10 in e-Government: DK, SE, UK, FR, FI (Source: UN)*
- *Challenges: still segmentation in services and digital market. High bank dependency: for example, EU attracted only 11% of Venture Capital flows vs. 50% in the US in 2016.*

What do we do in Europe?

- Overcoming remaining fragmentation in the Single Market
- Promoting a single European Capital Market
- VentureEU



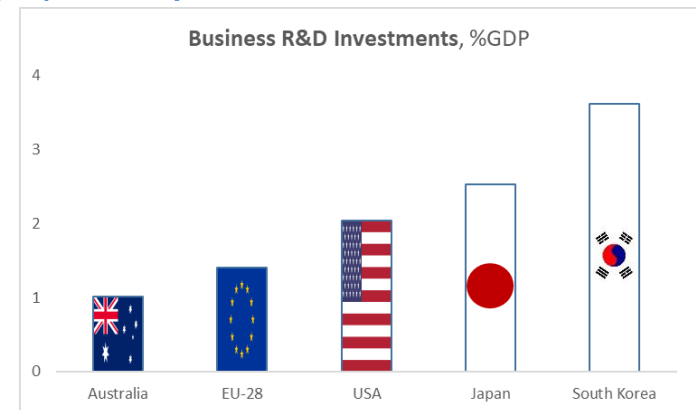
Note. Percentages of respondents that used the respective instrument in the past six months. Source: SAFE (ECB), November 2018.

Stimulating research and innovation

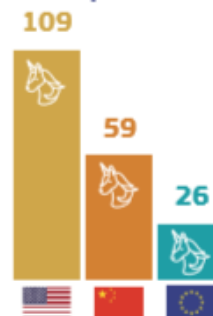
- *Strengths: substantial industrial base, high-quality scientific production in EU Universities*
- *Challenges: weak in translating science into business success and productivity gains; insufficient investment in research and innovation (esp. private)*

What do we do in Europe?

- Improving the regulatory framework to promote innovation
- Stimulating R&I across Europe (e.g. Horizon 2020)
- Stimulating private and public investment (Investment Plan, InvestEU...)
- Supporting innovation procurement
- European Innovation Council



Number of Unicorn start-ups



Investing in human capital & skills

- *Strengths: highly educated population in the EU; broad skill set*
- *Challenges: Addressing skills mismatches, strengthening intangible investment (not only R&D, also training, organisation, etc.), ageing.*

What do we do in Europe?

- Structural policy coordination through 'European Semester'
- EU policy initiatives such as:
 - *European Social Fund*
 - *Skills intelligence coordination*
 - *New Skills Agenda for Europe*
 - *the Investment Plan for Europe and InvestEU*
- Boosting skills supply and demand supporting investment in lifelong learning and skills; promoting job creation in skills-intensive sectors

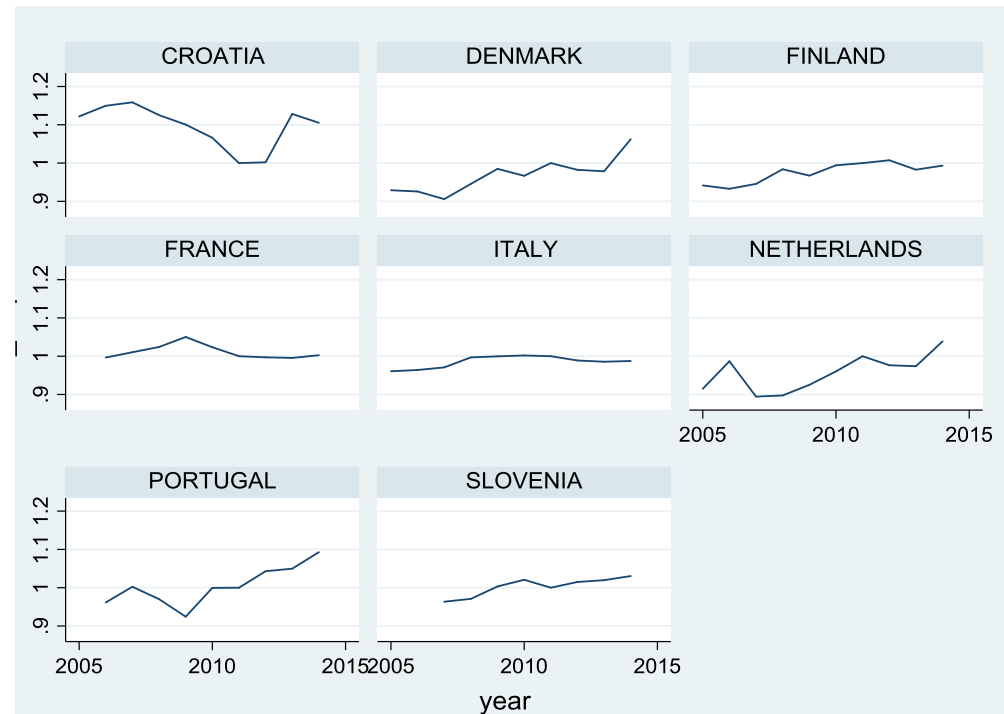
Strengthening competition

- *Strength: EU Competition Policy playing an important role in shaping policy in the digital era*
- *Challenges: Increasing market power also in Europe, although to a lesser extent than US and with differences across Member States. Dynamism mostly among "frontier" companies: what about the rest?*

What do we do in Europe?

- Updating competition policy to the opportunities and challenges of the digital economy.
- Fostering structural reforms to remove barriers to resource reallocation

Mark-ups in selected EU countries (2011=1)



Note: De Loecker and Warzynski (2012) methodology, Manufacturing only. Source: CompNet Database.

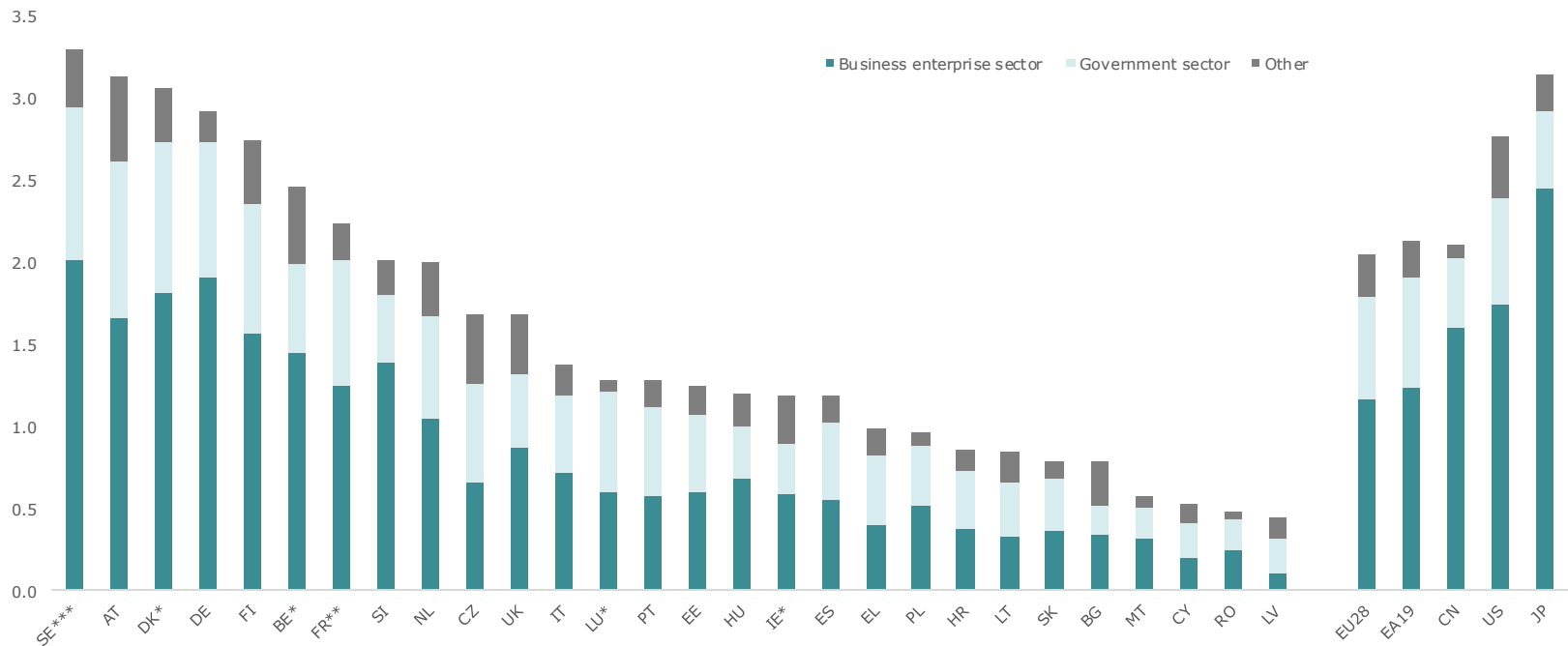
Policy dilemmas

- Intangibles: how to repair market failures?
- Competition: *in* or *for* the market?
- IP protection or open source?
- Innovation policy: focus on frontier technology or on knowledge diffusion?
- Business environment: set framework conditions or identify strategic sectors?

Back-up slides

Europe falls short in terms of R&D

R&D expenditure by source of funds (% of GDP), 2016



R&D spending and GDP per capita

