Investment, growth and structural reforms

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Unlocking productivity growth

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

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Note: December 2017 data. Source: EC
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

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