

# Europe2020

## Europe's growth strategy

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## Evaluation of the European Union Innovation Policy

### Introduction

With over 500 million inhabitants and an over \$22 trillion market size that consists of 28 countries, the European Union (EU) has put in place one of the most advanced and complicated innovation policy systems in the world. The size, scope and complexity of the EU provides a major roadblock to effective policy management of innovation policies, programmes and funding initiatives and therefore it is these challenges that European governments and the EU itself must address.

### The European Innovation Policy and the Europe 2020 Strategy

Europe has set for itself a wide range of goals they deem necessary for achieving innovation and economic development in the EU bloc. According to the European Commission (2015, p.6), in order to achieve innovation and development, public policy must target and mobilize actors within the “public sector, businesses, academia and finance” as a triple helix of actors. What resulted was the EU Innovation Policy, which is the main component of the Europe 2020 strategy where their stated goal is to create a social, economic and political strategy that emphasises smart, sustainable and inclusive growth as a way to overcome the structural weaknesses in the European economy, while improving its competitiveness and productivity, and underpinning a sustainable social market economy (European Commission, 2018a).

The Europe 2020 strategy are policies that are informed by the values of the developmental state (Niklasson, 2012), wherein each member state's governments and the EU take an active role in promoting research and development (R&D), education and innovation through various projects co-designed by different actors and stakeholders. This strategy is an innovation policy system composed of a support framework and various funding modalities such as the European Cohesion fund where they highlight the need to strengthen and reduce fragmentation of the knowledge base, effectively move promising ideas to the market, improve cohesion in a geographic and social context, create partnerships with the intent of achieving

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innovative breakthroughs and propose initiatives that integrates seamlessly international talent and cooperation with outside countries (European Commission, 2015).

Moreover, the Europe 2020 strategy gives an overview of where the EU should be on key parameters by 2020. These are then translated into national targets that each member country can track its own progress towards each goal under the application of the subsidiarity principles (European Commission, 2018a). This therefore allows the regions to set their own goals towards action within a certain framework following a developmental state approach.

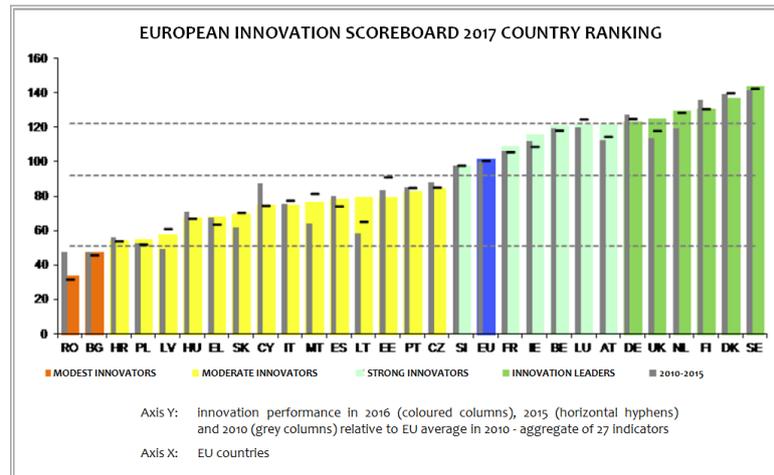
In comparison with the United States (US), the US has a significantly higher average innovativeness and innovation diffusion caused mainly by a stronger pro-market orientation based on the Washington consensus and less influence of the state (Graph 1). However, the US still spends considerable amount of capital and effort subsidizing research and innovation, as the US market has been a source of global technological innovation of such products as the GPS, ARPA (internet), touch screen technology, microprocessors, and telephone networks to name a few (Mazucatto, 2015). It cannot be stated the EU is strongly a developmental state or Washington consensus framework based union as it contains a mix of both concepts. The EU is however stronger on acting as a developmental state with high and increasing expenditures on innovations, while also acting as a regulatory body in setting strict standards on products and services.

<b>Developmental State</b>	Botswana	Japan	EU	United States	<b>Washington Consensus</b>
<b>Pro-state orientation</b>	China	South Korea		Hong-Kong	<b>Pro-market orientation</b>

**Figure 1:** Developmental State vs Washington Consensus based state (Author's estimates)

Based on the Innovation Union scoreboard and the Global Innovation Index, major EU countries such as Sweden, Netherlands, and Denmark score at the top with other non-EU countries such as Switzerland, US, Singapore and Korea (European Commission, 2017; Global Innovation Index, 2017). Therefore, comparing it on the basis of *Figure 1* we can see, that there is a multitude of ways of achieving a high-rank in innovativeness. This means that the history, geography and current economic and political dimensions have to be taken into account.

A significant challenge to the EU's efforts of equalising the competitiveness of innovation environments of various regions within the union are its fundamental differences. For this effort, the EU has set up what is called the EU Cohesion fund which consists of €75 billion worth of capital aimed at minimising regional differences as well as investing in less-developed areas in the Union.



**Figure 2:** European Innovation Scoreboard for 2017 (European Commission, 2017)

The Developmental State approach of the EU has been however widely criticised especially with a strong regulative environmental and often not enough business freedom as argued that the state cannot always be efficient in funding innovations.

## Recommended Policy Actions

Based on the prescriptions provided in the Washington Consensus and the developmental state, 13 dimensions have been mapped and recommendations have been drawn in *figure 3*. First, the EU should increase the subsidies to innovative firms and small-enterprises and start-ups.

Second, the EU should take action to reduce transaction costs to businesses and increase resource allocation into promising market-oriented activities by lessening the regulations imposed on markets and on member states by EU legislation (*figure 3*).

Third, the EU should further increase the R&D and education expenditure, especially in the sphere of radical innovation as this is one of the main parameters where the EU is lagging behind the US as suggested in *figure 3*. This should be done in connection with Venture Capital investments and support of projects with higher-risks.

RED	Current State											
BLUE	Recommended Approach											
Parameter	1	2	3	5	6	7	8	9	10	11	12	13
HIGH												
	---	---			---	---			---			
		---					---	---		---	---	---
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			---	---								
LOW												
	Fiscal policy discipline	Subsidies	Interest rates	Exchange rates	Trade Liberalistaion	FDI liberalistaion	Privatisation	Regulation of the market	Strong Intellectual Property Rights	Pro Market Orientation	Size of the State/ Taxes	R&D Expenditure

**Figure 2:** The evaluation of current state of the EU (red) Recommended change (Blue) (authors estimates)

### Concluding Remarks

The European Union is one of the most innovative regions in the world and has been a frontier through its innovation policies and innovation diffusion acting mostly in a role of the developmental state approach. Strong differences between regions and countries in the EU remain a significant challenge that must be remedied if the goal is to create cohesion in innovativeness performance, R&D and education expenditure, national GDPs and other factors that demonstrate the divide in innovation performance and development. Moreover, the strong and increasing regulation of the EU market has been criticized in the recent decade with many claiming that it hinders innovation in the Union and with recent examples of the East-Asian miracles (Japan, Korea) has demonstrated that innovation performance can be greatly increased by a substantially flexible and agile public policies.

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