



# **CEPS, Centre for European Policy Studies** *Thinking Ahead for Europe*

**Staffan Jerneck**, Director, Director of Corporate Relations, Centre for European Policy Studies (CEPS)

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## Europe 2020 strategy

“Smart, sustainable and inclusive” growth. Growth engines:

- 1.knowledge and innovation
- 2.a greener, more efficient use of resources
- 3.higher employment

Ref. to financial markets, no goals.

Growth condition: Financial stability

## Europe 2020 strategy:

- 1.achieve a target for R&D expenditure of 3% of GDP (need new indicator for innovation intensity)
- 2.increase employment population aged 20-64 from 69% to 75% (women, older and migrant workers)
- 3.increase population aged 30-34 in tertiary education from 31% to 40%

## EU ambition

Reduced from becoming the most competitive economy to ensuring that it does not fall back given deteriorating demographics and the weakness of its financial markets.

## Decline in EU innovation

A decade ago EU second to the US in R&D expenditure

China to overtake the EU 2020 absolute and percentage

2020 China will spend about 40% more than the EU on R&D if growth kept

EU reach 3% of GDP it will keep track

## Business R&D expenditure

Increase by 80% if the 3% of GDP target is to be reached as business R&D expenditure accounts for about 1.25% of GDP. It would have to increase to 2.2% of GDP in the EU-27 if the GDP shares of public and higher education expenditure are to remain constant

## A nation's competitiveness

Capability to use resources efficiently, produce socially and ecologically sustainable wealth in long term.

Sustainable increase in living standards for its citizens.

Investment in innovation (e.g. business intangibles), human and social capital (public tangibles).

**3%**

3% wrong measure, centres on the manufacturing sector.

Not for service economies as the EU-15, services several times larger than manufacturing. Measure the innovativeness of Europe's service sector and knowledge economies, a broader indicator for of innovation crucial.



## New measure: Intangibles

Measure innovation in wider terms by specifying innovation as also including:

1. software and computerised information
2. scientific and non-scientific R&D
3. economic competencies
  - a) marketing and advertising investment
  - b) investment in firm-specific human capital (staff training)
  - c) investment in organisational capital

Intangible capital varies among EU members.  
Highest intangible capital Sweden, Belgium,  
the UK, France and the Netherlands.  
Advanced European economies invest heavily  
in intangible capital.  
Poorest: Mediterranean and Baltic countries.

## The European business sector

Far better prepared for global competitiveness than suggested by official, national account statistics.

## R&D expenditure

Requires more highly qualified engineers.  
Targets of innovation and education not be treated separately. No sense for a country with a low tertiary to invest 3% of its GDP in R&D will not have capacity to employ the necessary researchers for its R&D investment.  
Investment in R&D only if an efficient government protects this investment.

## Education

Prerequisite for innovation and employment  
Skills upgrade of women with lower  
education

Skilled workers special? Technology favours  
skilled workers

## Target

The target for education should be easy to reach, considering that the tertiary graduation rate among the younger cohorts has increased over the last ten years from 22% to about 33%.

## Top 200 universities

Outstanding role of the US. 15 US universities among top 20, 72 of top 200. The UK 29, Germany 14 (best place 43), the Netherlands 10, China 6 (37). 75 EU in top 200.

Italy – 4<sup>th</sup> EU economy - no top 200.

## EU universities

EU universities have to become excellent.  
Europe's ignorance of the much-needed  
reforms of higher education.



## EU

More knowledge spread of the EU system.

Few corporations know the EU system.

## Governments

Should act as leaders.

Rule of law.

Support entrepreneurs.

Create infrastructure.

## Funding

Europe should try to implement US experiences of big private and tax exempt donations to universities (endowment funds)