

A reform strategy for an entrepreneurial Europe

Encompass Europe den 2 december 2019

The European project is threatened by a nationalist populism sweeping across the continent. At its roots lie a perceived lack of opportunity in Europe, which yields injustice and feelings of frustration and anger. To counter populism, the European Union needs to support those that challenge the status quo. This will also help to tackle the “innovation crisis” that is currently plaguing the EU. This crisis can be addressed by undertaking extensive reforms in several areas, with the aim of promoting innovative, economic growth that benefits everyone.

Even the European Commission believes that the EU is suffering from an innovation crisis, describing the current state of affairs as an “innovation emergency”. That is why the EU launched its “Innovation Union” in 2010, a package of measures that so far has had little effect and is unlikely to have much effect in the future, owing to its flawed focus. The policy measures are almost exclusively geared towards research and development (R&D)—based on the assumption that if you invest in R&D, the EU will become more innovative. The reasoning exposes a mechanical view of how innovations come about.

Europe does not lack innovation because it lacks new knowledge or ideas or even people willing to act on them. The problem is the lack of access to resources and competencies for doing so. An entrepreneur cannot single-handedly turn an opportunity into a flourishing venture—inventors, competent customers, key personnel, and financiers are all part of the ecosystem needed for entrepreneurial projects to succeed. Without an institutional framework that benefits all those actors, new knowledge and R&D will not result in much of value.

Innovation is experimental in nature and can therefore not be managed “top-down” by politicians and government agencies. What European politicians can and should do is to design an institutional framework that allows and facilitates the spontaneous emergence and growth of entrepreneurial ecosystems. By ensuring that such ecosystems are both efficient at promoting innovation and inclusive, they could make all Europeans see an appealing way forward and thereby reinvigorate the European Project. Our book *The Entrepreneurial Society: A Reform Strategy for the European Union* (Springer) has just been released. [The book can be downloaded for free](#) and synthesizes the key insights from the three-year EU-funded project Financial and Institutional Reforms for an Entrepreneurial Society (FIRES; <https://projectfires.eu/>) involving over 40 researchers from nine institutions in nine EU countries. We argue that strengthening the EU’s entrepreneurial ecosystem necessitates actions beyond what is traditionally understood as entrepreneurship or innovation policy and propose reforms in the following six areas:

- *Strengthened rule of law and property rights protection.* These are essential conditions for the entrepreneurial society to function. Here, especially Eastern and Southern Europe have a lot of homework to do.

- *A simple tax system with few exceptions.* Since no one knows where or how tomorrow's major innovations will emerge, the tax system must refrain from favoring specific ownership categories, sources of finances, and economic activities. A level playing field for challengers of the status quo is paramount.
- *Properly channeled savings.* Europe's problem is not the volume of its current savings, but that banks and pension funds are often required to channel the vast bulk of savings into "safe" assets such as real estate and bonds issued by governments and large firms. A vast creative potential would be released if they could invest only a little more in entrepreneurial projects that challenge the status quo.
- *Flexible social benefits.* The opportunity to act entrepreneurially increases when workers can move between jobs and occupations more freely. In a flexicurity system, social benefits would accompany the individual who leaves a permanent position to, for example, start or join a startup firm. Experimentation in an entrepreneurial firm is inherently risky, but a well-designed social security system could help lowering the opportunity cost for entrepreneurs and employees.
- *Low entry and exit barriers in markets.* When it is easy to start, run, and close down companies, new ideas can be tested swiftly and at a low cost. At the same time, this gives rise to competitive pressure that forces existing companies to improve their operations.
- *Entrepreneurial human capital.* If R&D is to lead to innovations education systems of EU member states should put substantive knowledge and creativity first and foremost, from the first grade all the way to postgraduate education. In that way, Europeans can recognize and act on the opportunities they encounter in life.

The reforms will not be easy to implement, and policymaking itself will have to be entrepreneurial to ensure a good fit to local needs and conditions. Remaining passive is not an option and the rise of populist sentiments will not be stemmed by entrenching the status quo. If the European Union cannot deliver on its promise that economic growth and change is for the better, people will turn to those promising to protect what they have. That will be the end of the Entrepreneurial Society and spells doom for the European Project.

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