

## **A New European Innovation and Growth Agenda**

Germany, unlike most European countries, let alone the US, is fully aware that the present goldilocks economy will not last. The levels of public and private debt are considered unsustainable. The revolutions in information- and bio- technology are causing wide spread concern about the future of the automobile and pharmaceutical sectors, cornerstones of the German economy. There are also worries about the lack of new business models that should provide the basis for the next round of economic growth.

Another important question is how the 2,8 million German enterprises, in their various stages of development, will identify and realize the potential benefits of the technological revolutions. It would help if this debate, presently focused on Germany, was broadened. Europe's economic fate will be decided by, and within, a circle of interlinked, innovative cities: Berlin, Munich, Milan, Turin, Lyon, Paris, Amsterdam, Hamburg, Copenhagen, Stockholm, Berlin. Coordination of policy development and implementation at EU27 level is called for.

The search should be on for policies that help real companies, operating in the real economy, to design new products, to improve productivity, to increase return on investment and to generate sufficient cash for innovation and investment. These policies, all focused on the creation of economic value and not optimizing short term accounting profits, would provide a counterweight to the financial economy and the destruction of economic value inherent in many of its practices.

The policies can capitalize on the many competitive advantages EU27 enjoys vis-a- vis the other trade blocs. Advantages that help explain why European enterprises are as profitable as their US counterparts, whilst contributing far more to society, for example in the form of employer's contributions to a variety of social benefit schemes. Advantages that explain why European companies hold the high ground on world markets. Advantages that apparently compensate for the fact that US companies operate in one large, homogeneous and rich market, under one legal and fiscal regime, with very deep capital markets, and without language barriers.

Many of these EU27 advantages have, so far, not been recognized as such. A change in outlook yields many pleasant surprises Obviously, programs to enforce what is already strong are far more efficient and

effective than programs to remedy weaknesses. They are relatively cheap and resistance to change, if any, can be easily overcome.

After the German elections, EU27 integration will receive a considerable boost, particularly in the financial and economic domains. This will provide a unique opportunity to draft a new European Innovation and Economic Growth Agenda, far removed from previous programs based on macro-economic targets and instruments, i.e. the Lisbon agenda and its many successors that never delivered.

Below are several EU27 competitive advantages (among others) and next steps are suggested that deserve to be explored in building the new agenda.

### *Law*

Unlike England, Wales and Ireland contract formation in the other EU countries requires good faith, including pre- and post- contractual obligations. Reasonableness and fairness guide contract partners in handling all favorable and unfavorable developments that could not be foreseen at the time of execution of the contract. This contrasts sharply with the Anglo-Saxon world in which partners are allowed any action that is not excluded by law or by contract. This makes contract formation a lengthy and costly process, all undesired behavior must be specified, and sets partners up for continuous negotiations down the road.

Also, the use of civil law in EU27 in settling disputes is far more efficient than the use of common law. These are major assets at a time when enterprises, particularly small enterprises, are increasingly relying on a multitude of partnerships of various kinds for various purposes, for the short and the long term.

However, many EU27 courts have been subjected to restructuring and cost cutting. As a result, proceedings have been delayed and the quality of the rulings has been compromised. This is at the expense of economic growth in the form of lost sales, postponement of investments and distraction of management. An investment program to bring the courts up to strength, including support staff is long overdue.

### *Finance*

Banks provide most of the capital for public enterprises and family businesses and cooperatives tend to rely on their cashflows to invest.

Stock markets play a modest role in corporate finance. As a result, most EU 27 enterprises can escape the web of expectations financial markets spin around listed enterprises. There is less pressure to focus on shareholder return on investment. The incorrect assumption that increase in profit per share leads to a higher stock price causes less havoc in the form of cutting costs and buying back shares. The perverse effects of management remuneration, linked to the shareholder return on investment, can be avoided. The damage caused by financial markets has now reached macro-economic proportions in the US, EU 27 can and should make a stand to avoid a similar fate.

EU27 should help enterprises to reduce dependence on stock markets further by stimulating competition amongst the suppliers of capital and by facilitating the creation of new trading platforms.

### *Innovation*

Progress increasingly depends on cooperation and EU27 can point at many examples where government, knowledge institutions and business came together to achieve breakthroughs. This is stark contrast to the US which continue to rely heavily on competition. EU27 has already caught up with the US in terms of new startups.

It should now transfer funds from a bewildering range of subsidies with unproven effectiveness, to programs that have demonstrated that they work. Building an advanced ICT infrastructure, providing R&D facilities to start ups, compelling government agencies to act as first customers of truly innovative products and services, increasing government sponsored fundamental research and setting environmental, energy savings and other standards.

### *Patents*

Friend and foe agree that EU27 has created the best patent system in the world. The Unitary Patent has been a major step forward and programs are being implemented to speed up the granting process. However, filing a patent still requires the involvement of expensive patent lawyers, the servicing of patents is costly, and the defense of a patent is an expensive race over an unknown distance. Moreover, the appeal process is in transparent and lengthy. These are all barriers for small companies to benefit from the system. To add insult to injury, small companies suffer from the use of patents by large companies to defend their positions and their first impulse to try to work around patents, before

a decision to take out a license is taken. Patents remain crucially important as most investments can only be financed when patent protection is in place.

Several measures have been suggested that could at least help to alleviate the identified problems. A “use it or lose it” provision would reduce the size of the net of large companies’ patents in which small companies can get ensnared. Raising the level of inventiveness prevents large companies to keep adding small improvements to push the expiry date of the original patent to the distant future. The lifetime of a patent could vary from industry to industry depending on the time to market after the granting of the patent.

These steps will contribute to a reduction of the workload of the European Patent Office but the opportunity to increase the speed and increase the quality of the work will still require more manpower, an end to the personnel issues and a more service oriented approach.

### *Competition*

European Competition Law and DG Competition are the envy of the world. However, there is a strong case to be made to complement the present focus on consumer protection with the protection of small companies in their roles as suppliers, customers and partners of large companies. Abuse of power by large enterprise takes the form of predatory agreements, renegeing on contractual obligations without impunity and extracting intellectual property without proper remuneration. This abuse should be countered at a time that cooperation between large and small companies is one of the keys to the creation of economic growth

### *Taxes*

The quality of tax code and tax rulings in EU27 varies but minimum standards have been achieved. It remains to be seen whether the US can close the considerable gap with EU27

Still, bringing the speed and quality of the handling of corporate tax filings to a structurally higher level comes with major benefits. This is an area where the interests of all enterprises, large and small, are completely aligned. A well-organized tax office sufficiently manned by motivated and high-quality staff is essential, as are advanced and secure ICT systems. Such investments will bring a high return in terms of economic growth.

## *Corruption*

In EU27, corruption, the abuse of entrusted power for personal gain, is modest in comparison with other trading blocks. Yet there are significant differences amongst the member states. Also, where high quality legislation and codes of conduct are in place, criminal investigations and prosecutions are still undermanned and underfunded. In too many instances corruption prevents newcomers to gain access to closed markets. The integrity of tender procedures is at stake. In general, stamping out corruption prevents the misallocation of capital, the appointment of unqualified officials and enhances the reputation of the public institutions.

In conclusion: EU27 support for economic value creation by EU27 enterprises will open new avenues to economic growth for the benefit of its citizens.

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Amsterdam, November 5. 2017

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