COMMENTARY

Thinking ahead for Europe

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Europe's big tech contradiction

Andrea Renda

Why are all the tech giants American or Chinese? Should Europe have its own Facebook? Why aren't any of the top digital companies European?

If you live in the Brussels bubble, or attend tech conferences throughout Europe, you will have heard these questions dozens of times. And there's a reason: Europe has not been very good at raising tech giants, despite a vibrant startup environment and a fistful of very solid companies in this domain. Europe simply did not create any of those 'superstar firms' that economists coo over, and which largely explain the different economic performance of EU and US business over the past decade (as a matter of fact, excluding the so-called FAANGS, 95% of the most advanced US companies (part of the S&P 500) have not improved their productivity in the past decade).[1] Already in 2016, Michael Moritz observed in the Financial Times that "Europe's eight most valuable companies are only worth about 10 per cent of Facebook or 6 per cent of Google".[2] A recent publication by the European Political Strategy Centre recalls that "while the EU was home to 42 'Fortune 100' businesses in 2007, it boasted only 28 in 2017", and "only 5 of the world's top 100 unicorns – companies with a valuation of over 1 billion US dollars – are from the EU27, with the first only in 56th place".[3] Europe's fear of lagging behind the US and China keeps spreading like an oil slick across public debate. Commentators point to several factors that would, in their opinion, explain this mounting problem: heavy regulation,

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[1] See i.a. David Autor & David Dorn & Lawrence F. Katz & Christina Patterson & John Van Reenen, 2017. "The Fall of the Labor Share and the Rise of Superstar Firms," CEP Discussion Papers dp1482, Centre for Economic Performance, LSE.

[2] Michael Moritz, Europe should forget Google and investigate its own shortcomings, Financial Times, 22 April 2016, available here.

[3] See EPSC (2019), "EU's Industrial Policy After Siemens-Alstom", available here.

Andrea Renda is Senior Research Fellow and Head of Global Governance, Regulation, Innovation and the Digital Economy at CEPS and "Google Chair" for Digital Innovation at the College of Europe in Bruges.

lack of venture capital, lack of skills, big government, political unwillingness to complete the single market, and more.

But isn't this "big tech syndrome" paradoxical? Why would Europe want to have a Facebook or a Google, when regulators and trustbusters in the EU and in large member states demonise their size, power and business model? And how could Europe ever generate such companies, while cherishing and praising an approach to competition that mostly favours fragmented markets, market pluralism, and consumer choice? How could Europe ever become the land of data-driven innovation, when one of its landmark regulations pushes a "data minimisation" principle? And why would Europe want to build tech giants today, at a time in which two decades of regulation-free Internet are being questioned and revisited, and big tech's influence on the political debate seems to warrant a more careful look into the once-unexplored workings of superstar (or 'supernova') firms? Why are there calls for Europe's own Facebook when even Marc Zuckerberg, fearful of his own magic like the sorcerer's apprentice, pleads for stricter regulation of "harmful content, election integrity, privacy and data portability" and beseeches governments to take a more active role?[4]

Beyond the paradox, there appears to be a lack of coherence, perhaps of courage. At a time when tech giants are on trial even at home, Europe can regain the trust of its citizens only if it provides a consistent answer to this dilemma: either it tries to catch up with existing (largely, American) tech giants, or it builds its own model. Such a model could focus on those parts of the economy where Europe is stronger, such as B2B industrial platforms, rather than on attempts to emulate non-indigenous models. And it could also come up with a new economic background, more Arrovian than Schumpeterian, more Ordoliberal than Chicagoan. Technological developments, including distributed ledger technologies, as well as the 'servitization' and 'datification' of the economy, make such an approach more attractive today. The future Single Market could thus look much more like a distributed, or even decentralised system in which small firms provide services in compliance with common standards and protocols, interacting with interconnected, interoperable administrations, and hopefully relying on a more mature and efficient capital market in support of sustainable entrepreneurship.

Does it look likely Europe will find this courage? Currently, the emphasis is on the need for European champions, especially after the European Commission rejected the Alstom-Siemens tie-up. This decision led France and Germany to call for a reform of competition rules and even letting the Council overrule merger decisions when necessary.[5] These two countries even embarked on a complex joint project to foster disruptive innovation *à l'américaine* by creating

[4] See Marc Zuckerberg, "The Internet needs new rules. Let's start in these four areas", Washington Post, 30 March 2019. Available here.

[5] See Chazan, G. "Germany backs French call for right to overturn EU merger decisions", 19 February 2019, available here.

a DARPA-style agency.[6] But no alternative paradigm is in sight, despite ongoing research in the European Commission.

When it comes to debating alternative models for Europe's sustainable growth, the Internet economy can teach us a lesson. Future winners never look like the legacy firms they have displaced. Market success is never achieved by doing 'more of the same'. Playing catch-up is never a world-beating strategy. With elections coming and Agenda 2030 looming, perhaps Europe will find the courage to build its alternative vision of cyberspace. Whatever the ultimate 'theory of growth' will be, it should at least be transparent and coherent, or Europe will be doomed to remaining prey to its big tech contradiction.

[6] See "a JEDI to disrupt Europe", Euractiv, 5 September 2018, here. And see https://jedi.group/.