

Why the EU should put innovation at the centre of its recovery plan



Innovation is often viewed as a key driver of economic growth. Yet as [Marcel de Heide](#) and [Gosse Vuijk](#) write, the recent agreement between EU leaders on a Covid-19 recovery package cut funding for some programmes linked to innovation. They argue the European Parliament should push for innovation to be placed at the centre of the recovery plan.

Europe is facing an unprecedented crisis and as a consequence a threat to its unity. The health, social and economic consequences of the Covid-19 outbreak have been felt very differently across the Union. This is exacerbating existing disparities between the member states. The EU's recovery strategy should therefore not just repair the damage done, but also actively prevent further divergence in the Union.

In July, European leaders agreed on a recovery package, which European Council President Charles Michel presented to the world with the words "Europe is strong, Europe is robust, and above all, Europe is united". But does the deal indicate that Europe is strong, robust and united? We believe that our leaders have missed a crucial disparity which needs to be addressed to ensure long term positive convergence within the Union: [the innovation divide](#), namely the disparity in the ability of member states to generate new ideas and to translate them into economic growth and prosperity. Instead of investing in innovation to address this divide, innovation spending has been cut by EU leaders.

This was a surprising outcome because innovation has been put forward by several member states and the Commission as a crucial part of the recovery in Europe. And rightly so. Innovation is the only way through which we will eventually defeat Covid-19 by developing a vaccine and effective treatments. Innovation is also crucial in addressing the twin-transitions Europe was already facing before the pandemic: the digital revolution and becoming a sustainable continent.

However, most crucially, innovation is regarded as a way to reinvigorate economic growth. One could even argue that for Europe, innovation is the key driver for sustainable economic growth as it has been found to [fuel two-thirds of economic growth in Europe](#) and up to 30% of productivity growth in the member states.

However, Europe also has an innovation deficit when compared to its global competitors and the innovation divide is [one of the causes](#). The recovery from the Covid-19 induced crisis should address this deficit because it is a crucial factor in slowing Europe's sustainable growth. Unfortunately, our leaders did not recognise this crucial role of innovation in [their deal](#).

In theory, economic growth can be generated by increasing labour force participation ('more people in work') or by increasing labour productivity ('creating more value per employee'). Before Covid-19, unemployment in Europe was at historic low levels. These levels have risen (and are expected to rise) due to the outbreak, but after they rebound, increased labour force participation will not drive economic growth in Europe sustainably.

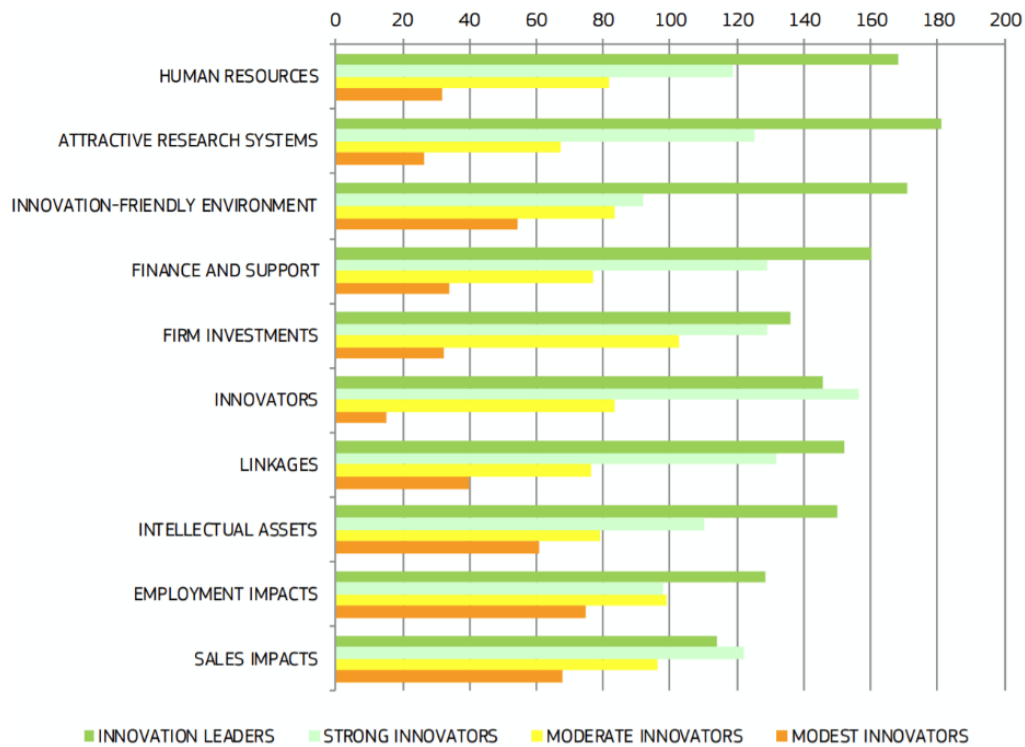
This means we need to increase labour productivity for sustainable growth. Increasing labour productivity can be achieved first and foremost by increasing the capital intensity in an economy, in other words more and better machines. However, following the law of diminishing returns, we can expect that for the already highly industrialised European economy, the added value of those investments will be low and will become lower over time.

Therefore, Europe will need to rely on other factors to foster labour productivity growth – and innovation has the [capacity to carry a large share of that burden](#). From 2010 to 2016 it was responsible for [about 60% of labour productivity growth](#). Therefore, the ability to innovate, to turn knowledge into new or increased economic activity, is crucial for recovery and the return of sustainable growth in Europe. This makes the innovation divide a central issue for our common recovery.

How to tackle the divide

The [causes](#) of the innovation divide are diverse and could be either addressed or deepened by how we shape Europe's recovery. For example, having attractive research systems, securing sufficient public and private investments, and an innovation-friendly policy environment are among the aspects where the innovation divide is most pronounced in Europe (see Figure 1) and our leaders could have ensured that the recovery package addressed these issues.

Figure 1: Performance groups: innovation performance per dimension



Credit: [European Union](#)

For example, the [Recovery and Resilience Facility](#) will supply cheap money for public investments through national recovery plans in line with the European Semester. This could be a perfect means to shore up national research systems and encourage member states to make their policy environment more innovation friendly. This would require a direct instruction to the member states to address these issues in their national recovery plans.

Unfortunately, the EU's leaders did not include anything along those lines in their deal. To ensure that the facility is working towards closing the innovation divide, the European Parliament as co-legislator could specify in article 16.3 of the [Regulation on the Facility](#) that the national recovery plans have to contribute to making national economies more innovative.

Another way to address the innovation divide is increasing pan-European innovation collaboration. Research [suggests](#) that collaboration with partners from knowledge-intensive regions can be a key driver for improving the innovation capacity of a region. It is precisely this collaboration that should be fostered in the recovery over the coming years, both by EU action and by national initiatives.

National governments could invest more in fostering science and innovation collaboration with other member states as part of their international science and innovation policies. Here the [initiatives of the Czech government](#) since its adoption of a new innovation strategy might serve as an example. The European Parliament has no direct role in this, but MEPs can use their personal positions to encourage it. What the Parliament could also do is advocate that spending under national recovery plans for the Recovery and Resilience Facility is partly invested in cross-border innovation collaboration. At the EU level, the Commission proposed additional investment in the collaborative pillar of [Horizon Europe](#) as part of the recovery plan to enable this. However, EU leaders decided to cut this budget. Horizon Europe was cut by €13.5bn of which about €9bn was expected to go to collaborative research projects.

The European Parliament has already indicated that [it cannot accept these cuts](#), but in the past the Parliament has mostly put its weight behind additional funding for the 'Widening Participation' programme to address the divide. However, this programme is aimed at increasing participation in the [Framework Programme](#) by researchers from 'widening' countries, rather than closing the innovation divide. The innovation divide and participation in the Framework Programme do not overlap fully and so far the widening efforts [have not been proven to contribute to any closing of the innovation divide](#). Therefore, it would be more productive if the Parliament were to focus on restoring collaborative research budgets.

Ever since the Lisbon Strategy of 2000, we have known that Europe's future prosperity and competitiveness is tied to its ability to innovate. The recovery from the crisis induced by Covid-19 represents a perfect opportunity for Europe to tackle one of the key issues to strengthen that ability: the innovation divide. Unfortunately, the deal between EU leaders on the next budget and the recovery package failed to take this opportunity. Our hope now rests on the wisdom and political power of the European Parliament. With the right priorities, the Parliament could truly be the guardian of our shared European future.

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Note: This article gives the views of the authors, not the position of EUROPP – European Politics and Policy or the London School of Economics. Featured image credit: [European Council](#)

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