

Robert Philipps

Building a Strong Digital Economy:

A field of action for European social democracy

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Digitalisation means a fundamental transformation for the economy: products, processes and business models are changing, sometimes radically. Many things are becoming more efficient and completely new products and business models are being created. It is precisely these new digital business models that have seen global success in recent years. For example, the invention of platform business models has revolutionised entire industries - like retail - or given rise to new ones such as social networks, app economy, online advertising, or cloud computing. The new business models are so revolutionarily successful that today's global economy is clearly dominated by the leading companies in this field. Despite all the known downsides of their business models, these companies are responsible for an ever greater share of the value creation.

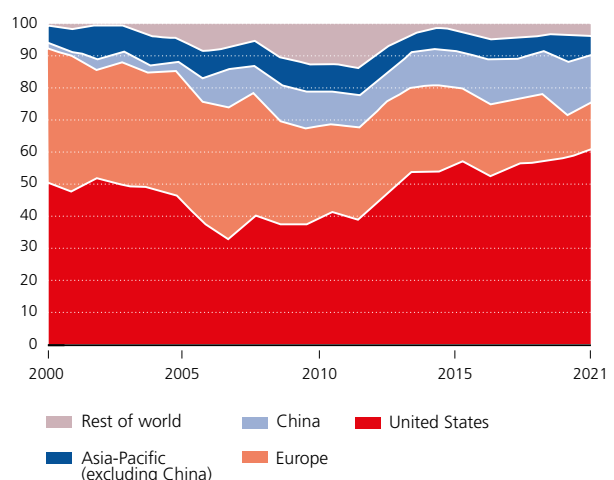
While some companies are profiting from the process of digitalisation, others whose business model has become obsolete or which have not withstood the competitive pressure, are disappearing. **This inexorable structural change is also redistributing wealth between regions and nations.** The winners of digitalisation are the regions and countries where companies emerge or invest that know how to exploit these huge new markets - and these are primarily companies in the digital economy. As early as 2011 the Wall Street Journal had been running the headline "Software is Eating the World". This is the main reason, besides of the idea of preserving autonomy ("technological sovereignty"), why governments around the world are trying to support domestic economies in the digital transformation process. They engage in industrial, technology, innovation and location policies, trying to promote key technologies and to build an internationally competitive tech sector.

In the hardware and software sector, Europe is far behind the international competition. Future technologies such as cloud computing, IoT, 6G, digital platforms, blockchain, quantum computing or artificial intelligence have disruptive potential for large parts of the "old economy" and are dominated by US or Chinese companies. Even in Germany, still the economic engine of Europe, the situation is hardly better. Alt-

hough there are positive individual examples (such as Siemens, Bosch or SAP), overall it shows "considerable weaknesses in the development of digital technologies", according to a report by the German "Expert Commission on Research and Innovation" (EFI) 2022. Germany is not only losing touch in a technology area that is becoming increasingly important economically, but is also endangering its existing strengths in production technologies as well as in the bio- and life sciences, as these are increasingly being penetrated by digital technologies, the report continues. The consequences of this technological weakness are already evident today: among the 100 most valuable companies in the world there are only 15 European companies, including only one German one (Siemens). Not a single European company is to be found among the top 10.¹

Fig. 1

If only we could turn back time
Top 100 companies by market capitalisation
World, % of total



Source: Bloomberg; The Economist 2021

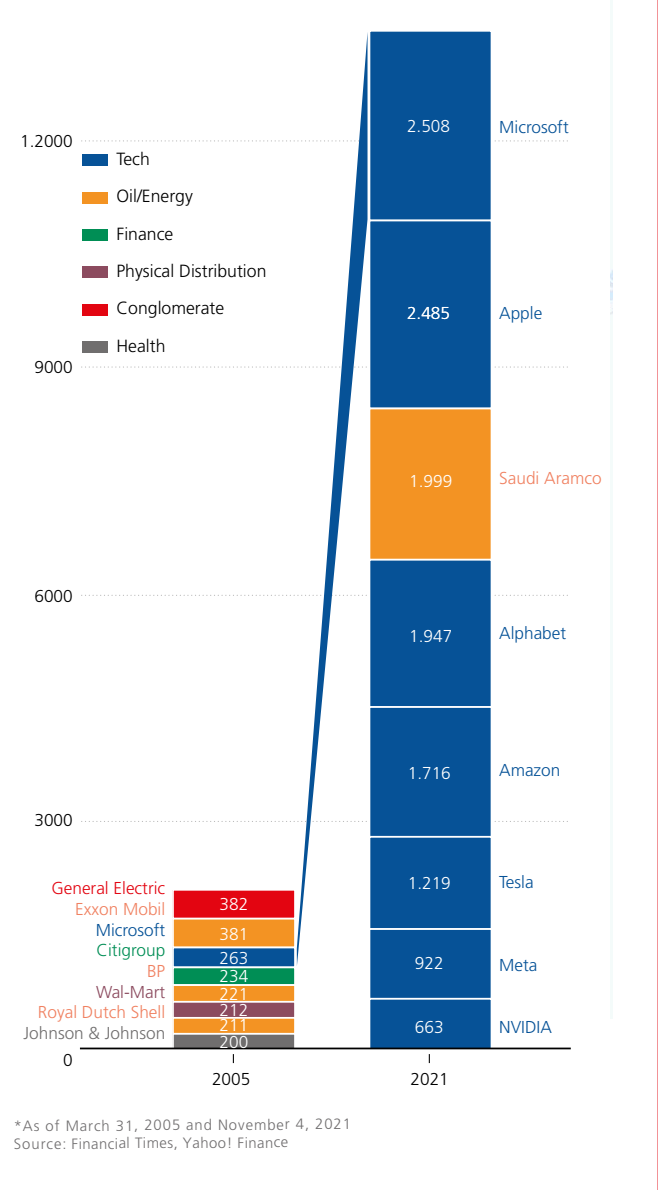
In order to maintain prosperity in the future, European policymakers must see it as a central task to catch up in digital technologies of the future and to transform these technologies into globally successful business models. This would also strengthen the autonomy and resilience of the continent. This would be a suitable field for European social democracy to raise its profile. Broad sections of the population, also beyond the narrow core milieu, could be addressed by corresponding narratives: European Social democracy promotes the economy of tomorrow in order to make the continent fit for the future and to secure prosperity for future generations. Other concepts linked to this are "industrial policy" and "innovations and technological progress", which can also connect to social democracy voters. So far, however, completely different discourses have dominated the centre left's approach to the topic of "digitalisation": ethical questions, risks, regulatory options. These are important, but there is a need for a balance between an opportunity- and risk-centered approach.

Major obstacles to a strong tech sector and possible policy approaches to strengthen it can be presented here only in a cursory manner:

- **Investments:** The USA and China invest massively more in the tech sector than Europe. European start-ups therefore have more difficulties accessing capital. There is still a lack of venture capital here, especially for follow-up financing in the growth phase. The goal must be to mobilise much more private and public venture capital for promising digital business models than has been the case so far.
- **Business creation and risks taking:** Companies in the USA and China are generally more willing to take risks than companies in Europe. The willingness to create businesses is also higher. Especially when it comes to transfer strong research into innovative business models, Europe is still weak.
- **Innovations:** Europe's (and especially Germany's) innovative strength, which can be seen in some data, is based primarily on the international top position of research-intensive industries, especially the automotive sector. In terms of investments and research expenditure in information and communication technologies however, Europe is far behind the USA and China.
- **Single market:** The European market is not uniform, but strongly divided into several countries with different languages, some of which differ greatly in their legislation. In contrast, the USA and China are uniform, homogeneous markets, which makes market entry and scaling easier for tech companies. The Digital Single Market and the Capital Union are essential levers.
- **Talent:** The US and China have a larger pool of skilled workers in the tech sector than Europe. Europe needs to train or recruit more STEM professionals. For the start-up sector, competitive framework regulations for the participation of employees in equity/shares are essential to attract skilled workers (Germany in particular is lagging behind here).
- **Mindset and regulation:** In the USA and also China, a technology-optimistic mentality prevails, which is reflected in less regulation and bureaucracy, among other things.

Fig. 2

The Age of the Tech Giants
companies with the world's largest market capitalizations in 2005 and 2021 in billion U.S. dollars*



- **Infrastructure and public administration:** Cumbersome bureaucracy and weak digital infrastructure inhibit the emergence of new digital businesses.
- **Industrial policy:** Industrial policy is too often pursued from the perspective of the "old economy" that dominates in Europe. This is usually about supporting existing companies in the gradual digitalisation of processes and business models as well as in decarbonisation. However, an understanding of industrial policy that is primarily oriented towards protecting existing companies is not enough. A modern industrial policy should aim to promote the emergence of new digital companies that have the potential to become global corporations with cutting-edge technologies and conquer the markets of tomorrow.

The above-mentioned obstacles have been known for years for the most part. In some cases there exist already political approaches or ideas to counter them. In Germany, for example, a "Future Fund" for more venture capital has been established. A "German Agency for Transfer and Innovation" (DATI) and an "Agency for Leap Innovations" (SPRIND) have been created as well as various strategies for key technologies formulated (digital strategy, AI strategy, data strategy). At the European level the establishment of Gaia-X, the "Important Projects of Common European Interest" (IPCEI) or the new European Innovation Agenda can be cited. However, approaches to date are often small-scale, unambitious or are based on side issues because those appear to be easier to implement. What is missing is the political will to prioritise the problem and tackle the really crucial challenges. This certainly includes the level of overall investment in the tech sector, which must be massively increased.

For social democracy, it would make sense to formulate a clear political mission in this direction, build on this to design a holistic political strategy (consisting of industrial, innovation, education, financial and location policy approaches) and then vigorously embark on implementation. ←

ENDNOTES

- 1 Europe is now a corporate also-ran. Can it recover its footing?
<https://www.economist.com/briefing/2021/06/05/once-a-corporate-heavyweight-europe-is-now-an-also-ran-can-it-recover-its-footing>

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