Addressing Economic Stagnation and the Climate Challenge: The Role of (Innovation) Policy

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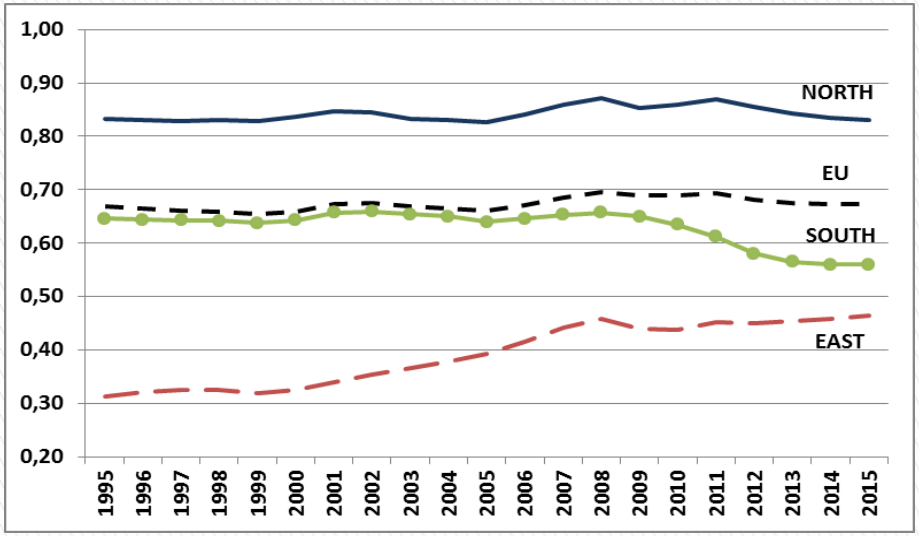
Main message

- Europe is stuck in a (partly self-inflicted) **stagnation**
- And need to transform the economy due to the **climate challenge**
- These challenges are **closely related and** require a **coordinated** policy response
- With **innovation policy** as a central element
- Problems most manifest in the **South**

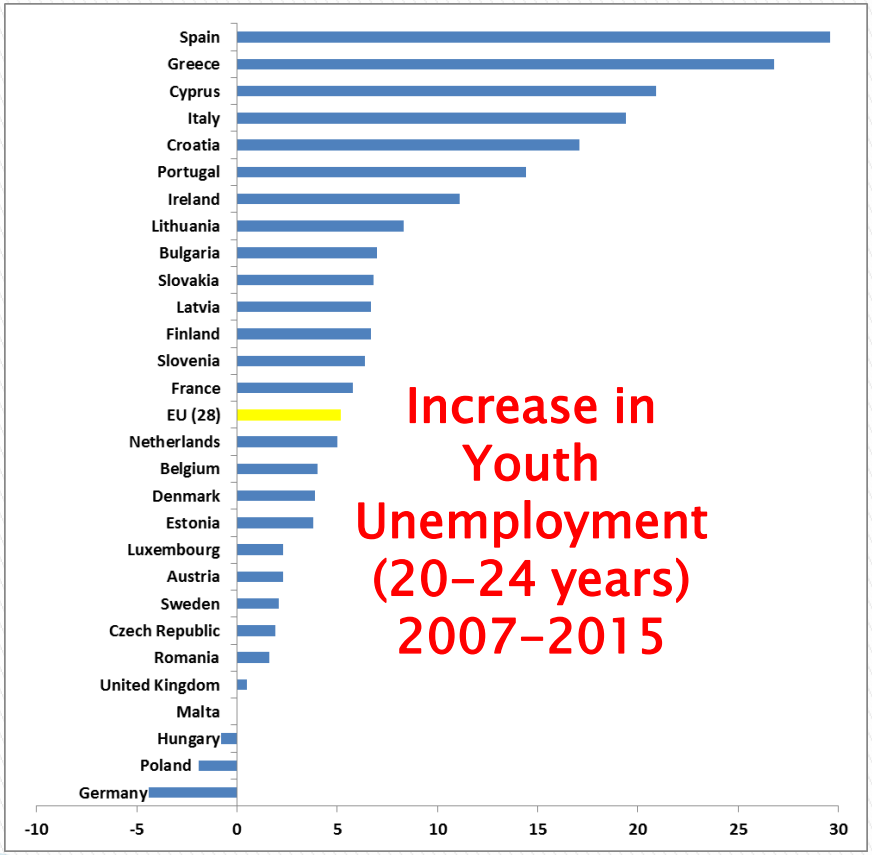
Europe: From growth & convergence to stagnation & divergence, with Southern Europe falling behind

- GDP per capita (rel to USA)



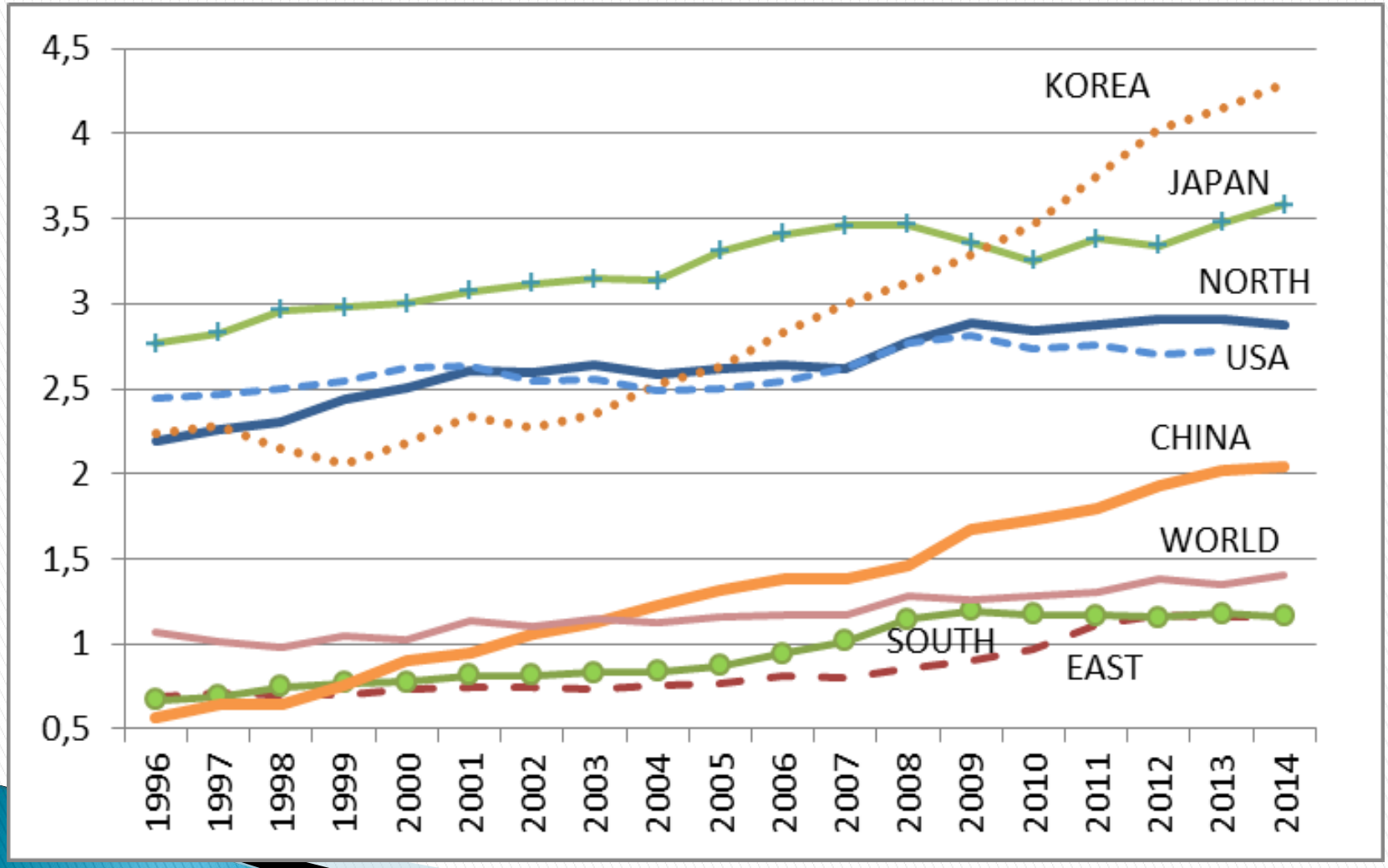
Social cohesion – a goal of the past?

- Youth unemployment

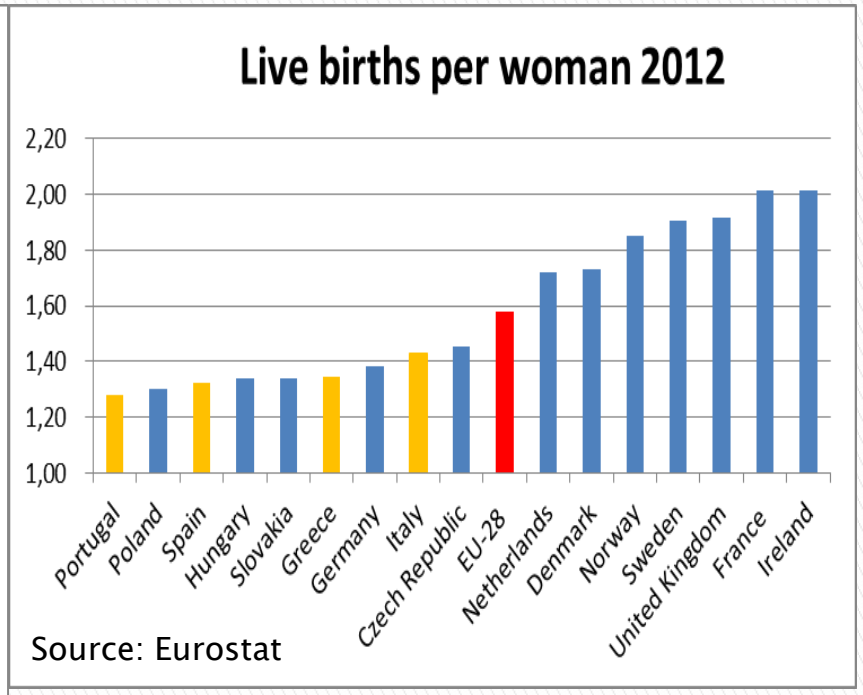


Europe: Stagnating R&D

(share of GDP, 1996–2014)



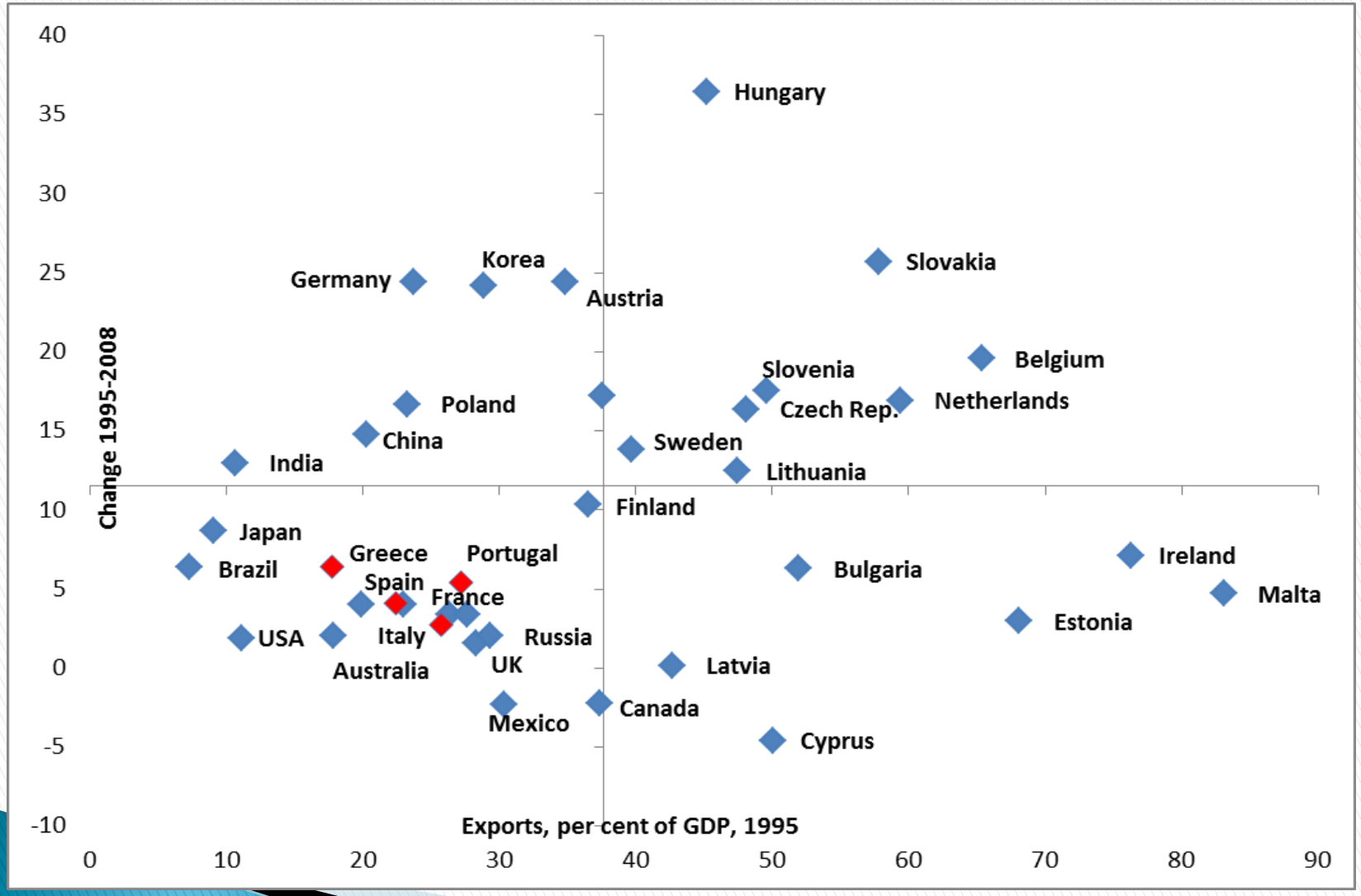
More “headwinds” for the South



The South of Europe needs a “new growth model” – not more austerity

Exports as a share of GDP

(1995–2008)



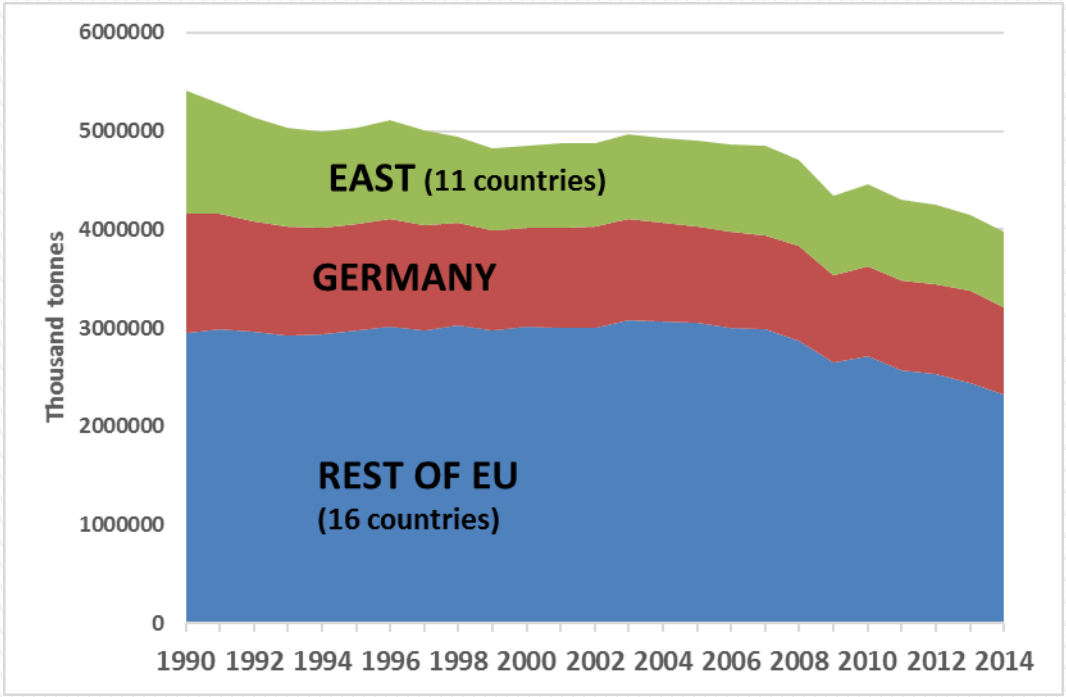
What explains the European stagnation? The financial crisis but also:

- **Different capacities** for dealing with globalization (South lagging, North adapting)
- **Asymmetric effects** of **European integration** (East benefitted a lot, North some, South very little before 2008)
- The **Euro** – lacking necessary **policy coordination** – led to spread of **German-type austerity policies** with **unemployment** soaring, especially in the **South**
- Challenge: How to get Europe, and especially the weaker economies in the south, out of the **low growth/high unemployment trap?**

Without further harm to the climate!

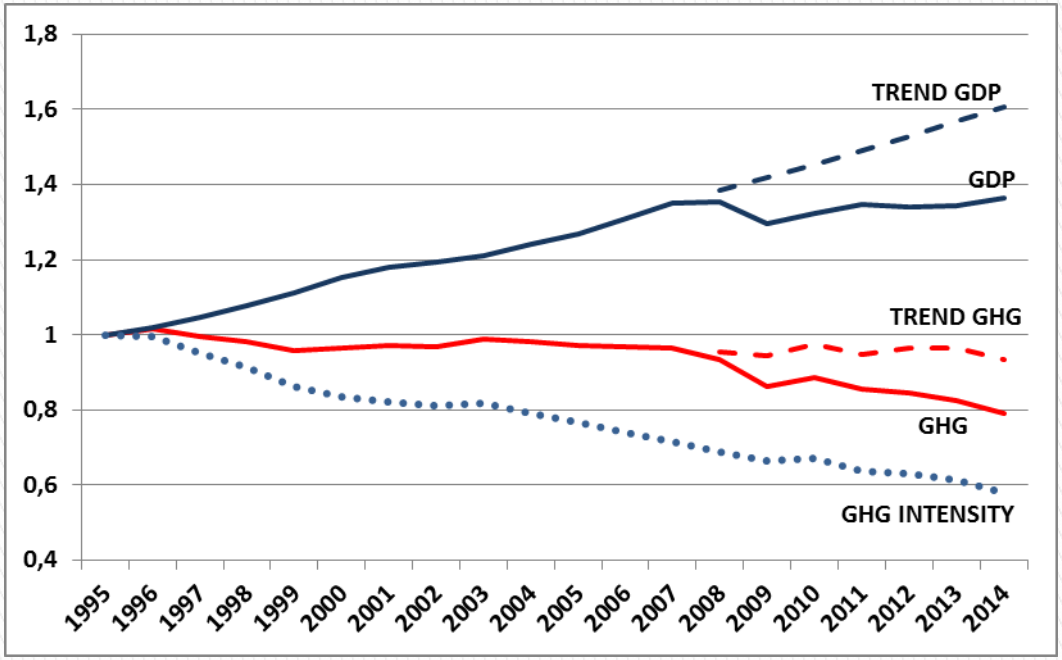
Climate change: EU policymakers pride themselves on being on the right track, but is that really true?

European policy makers like to compare with 1990. No wonder why!



Entire reduction 1990-2007 caused by rapid deindustrializing in the former socialist East in the early 1990s.

Decline in European GHG emissions after 2007 caused by the crisis



To reach 2100 goals, the GHG intensity must decline **twice as fast** as in the past (or **GDP must shrink** every year).

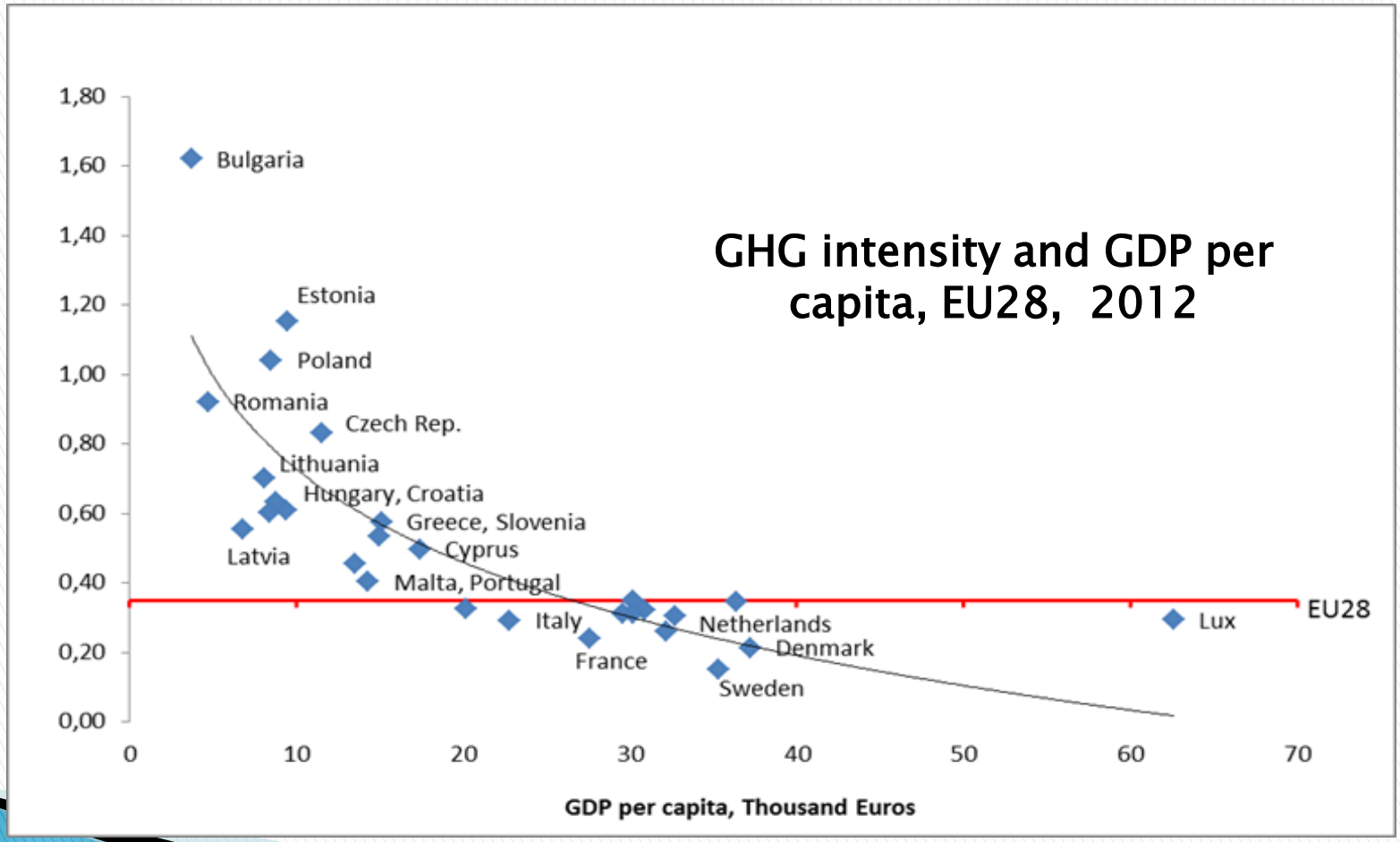
GDP growth , GHG emissions and GHG intensity
EU28, 1995–2014

A radical transformation of the economy required

A new (innovation) policy stance: Riding the waves of the renewable energy & ICT revolutions

- A **vision** (**commitment)** about transforming the economy towards **sustainability essential ("mission")**
- Main policy elements: Support **renewables**, increase **energy efficiency**, electrify **transport**, actively **reduce polluting sectors** (e.g. coal, oil and gas etc.)
- Need to penetrate **all policy areas (sectors/levels)**
- **C**hanges in **governance** (coordination across **levels & sectors**) required
- **Innovation policy**: not only about **supporting R&D**, but creating **opportunities** (e.g., demand), enhancing **learning** and improving **capabilities**

The poorest areas in Europe most in need of radical change towards sustainability



A European program for sustainable growth

- Transition towards **sustainability** requires **substantial investments** in sustainable energy, increased energy efficiency, public transport, infrastructure etc.
- Needed: a European **program for sustainable growth, with a particular focus on the poorer countries, targeting investments for reducing GHG emissions**
- Delivering **growth** – and **jobs** – where it is **most needed** while speeding up **transformation, diffusion, learning and innovation**

*More: Fagerberg, Martin, Laestadius: **The Triple Challenge for Europe,** OUP, 2015*