

European Internet Foundation
i2010 dinner at the European Parliament
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Good evening ladies and gentlemen and thank you for inviting me to speak.

What I would like to do in the next few minutes is to provide a challenge to the i2010 initiative and to explain why I believe it needs to offer a more radical agenda for change; to explain why it needs to be less a re-branding exercise and more an agenda for revitalising Europe; and, to be blunt, to explain why the future prosperity and economic growth of the EU is at risk unless there is major reform to encourage profitable investment in information and communications technology - or ICT.

But before I do so, I would like to acknowledge there are many aspects of the i2010 initiative that are to be endorsed. These include:

- The focus on growth and jobs;
- The desire to develop a consistent set of rules that explicitly acknowledges digital convergence;
- Actions to facilitate the take-up and productive use of ICT;
- A substantial increase in the share of R&D funds going to ICT; as well as
- The emphasis on making sure ICT benefits all citizens.

However, beyond that, the initiative falls short of specific policy actions in many areas. How, for example, will it lead to growth and jobs? How will ICT use be more profitable for business? And, in the public sector, how will we ensure it is of benefit to citizens rather than the departments concerned?

But what lies behind these shortcomings? What is the context for the Lisbon agenda and i2010? Where are we now and why have we not made good progress towards achieving the Lisbon objectives?

The analysis I am going to offer is presented more fully in our report *Achieving the Lisbon Agenda: the contribution of ICT*. [Copies of the report summary are available].

Our report sees four major factors at play:

First, Europe's economic performance is weak and productivity performance is poor;

Secondly, investment in ICT underpins future economic growth;

Thirdly, we are not currently investing enough in ICT; and

Lastly, change is required to make that investment effective and profitable.

Our first point is stark: Europe's economic performance is weak. In particular, productivity performance is poor. Productivity matters because it is the main source of medium-term income growth. After 50 years of catching up with the US, European productivity growth has recently declined relative to America. If no action is taken, Europe's relative economic performance will fall even further behind. Our medium-term forecasts show that real GDP

growth in the EU-15 over the period to 2010 will be about 60% of that in the US and below that in Japan, even after assuming some catch-up to US levels of productivity.

Secondly, it is important to acknowledge that in the “information age”, investment in ICT will underpin future economic growth. So far, we have only seen the very beginning of the changes that will occur. ICT investment has had a major impact on the operation of only about one quarter of the private sector. Its use in the public sector is even more limited. But such investment has the power to close the productivity gap.

Unfortunately, our third point is that, while ICT is having a major impact on our economy, we are not investing enough. ICT accounts for 18% of private sector investment and about 40% of productivity growth in Europe. So there is a significant spill-over benefit from ICT investment to the rest of the economy through the use of ICT in many different sectors. However, in the US these effects are even greater. ICT comprises about 30% of private investment and 80% of productivity growth – and most of this growth has come from ICT intensive sectors such as retailing and distribution, financial and professional services.

ICT investment in Europe (measured on a per head basis) is currently at levels seen in the US twenty years ago. So, why is ICT investment lower in Europe as compared with the US?

Our last point is that this position is a symptom of the lower profitability and effectiveness of ICT investment in Europe. Our analysis suggests this is caused by five main factors:

- difficulties in making investments in organisational change;
- employment protection;
- product market regulation – for example, many regulations block innovation in the retail sector;

It is also caused by

- inappropriate educational and skill levels – for example, more general and less specific craft-based education is required, and ICT skills need to be improved;

And, finally, lower profitability and investment is caused by

- low levels of service market integration across Europe - There are significant scale economies in deploying ICT and the US economy is better able to exploit these because it is more integrated.

As a result of these factors, simply increasing total investment in ICT will not in itself deliver improvements in productivity and economic growth. To be productive, this investment also requires complementary changes in the way organisations are structured and function, and in human capital – we call this ‘creative destruction’.

So, given our analysis, how can we allow ‘creative destruction’ to revitalise Europe? Our report contains a number of recommendations designed both to promote ICT investment and innovation, and also make ICT use effective in the public and private sectors.

To make ICT use effective, we need to find ways of achieving greater labour market flexibility in the public and the private sectors, as well as greater product and service market flexibility and integration. Some may claim that these are policy areas that fall outside the scope of the i2010 initiative. We, on the other hand, would argue that they are intimately linked to it. Without change in these areas, there will be insufficient investment in ICT and the investment will not be as productive as it should be. Consequently, without these changes, the growth and jobs agenda will not be promoted.

Final

To move the policy debate forward we think there needs to be recognition of the fact that the trade-off between productivity growth and 'traditional' social protection shifted abruptly in the mid-1990s. The costs of inflexibility associated with some elements of social protection rose sharply. And these costs are low productivity, a loss of competitiveness and, ultimately, a loss of jobs.

No-one is pretending the necessary changes will be easy. And recent referendum results make the task even harder. But our challenge is clear: we need to develop innovative policy approaches that allow "creative destruction" consistent with the European social model. This might, for example, involve identifying the most restrictive policies and focussing on ways of reducing their impacts.

Secondly, and in parallel with this, we need to enable more effective use of ICT in the public sector. The public sector accounts for around 20% of EU GDP and has a major impact on public well-being and the efficient operation of the rest of the economy. Policies we propose in this area include a better understanding of costs and benefits, and targeting funding on e-policy projects that break down traditional "departmental" boundaries.

As we have noted, ICT has the potential to be the engine of economic growth. We need policies that promote investment and innovation. This means, for example, getting rid of regulation that cannot keep pace with market developments and not handicapping the sector through specific taxes. It also means putting more weight on innovation and investment than short term price objectives.

Ladies and gentlemen, the Lisbon Agenda was clear and bold in its scope. The i2010 initiative is laudable in its aims. We will achieve neither by wishful thinking alone. The challenges they pose are real and I believe Europe is able to meet them. What we have yet to see is whether Europe wants to meet them. Thank you for your attention and I look forward to your questions and discussion.