



There is more to innovation than raising GDP¹

Building back better - just a slogan?

The Covid-19 pandemic has resulted in the deepest economic recession in living memory, with world GDP falling by roughly [3½ percent in 2020](#) and many countries expected to return to pre-crisis levels of economic activity only by 2022 - if that. Rebuilding our economies, helping struggling businesses to get back on their feet and addressing the potential “scarring” labour market effects will take all our efforts.

But just returning to where we used to be will not suffice: there is an increasing appreciation that we will also urgently need to deal with the challenges arising from climate change and create more inclusive and resilient societies. These motivations are captured by [Building back better](#). But is this just a slogan? And how are we going to “build back better”?

We need growth to finance the future, pay down our debt and create more inclusive societies

We need economic growth - captured in our GDP numbers - to fund consumption and investment, and raise the tax revenue for governments to spend on welfare, health, education and public infrastructure among many other things. We also need economic growth so that we can start paying down the debt we have accumulated during the Covid-19 pandemic when governments stepped in and supported our societies. And we need economic growth to build more resilient and inclusive societies in which individuals can gain the right qualifications and skills, and take advantage of the opportunities offered by labour-market participation.

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Innovation as a key driver of economic growth

With many advanced countries facing rapidly ageing populations - with the number of people of working age in many countries either flatlining or even declining as the baby boomers are now reaching retirement age (with Japan, Italy and Germany leading the trend) - economic growth will increasingly rely on increases in productivity and the creation of new markets. And this in turn relies on innovation - either in the form of process or disruptive innovation. It is the latter that creates new markets, and allows economies and societies to evolve in new directions, with potential gains to consumers and producers alike.

Not all societies are equally proficient at “generating” disruptive innovation though. It takes a supporting ecosystem to do just that, from making it easy for budding entrepreneurs to establish a new business to attracting and retaining talent to getting the funding to grow and expand - from startup to scaleup. This last bit is crucial: businesses generally require a certain scale to disrupt markets, just having a good idea is not enough.

This is a lesson the European Union is increasingly taking at heart as it tries to catch up with the United States (and to a lesser extent China) as a hub for disruptive innovation. In the eyes of European policymakers, too many promising European businesses have previously turned to the US capital markets to finance their ambitions - Biontech, the German pharmaceutical company accredited for developing the first Covid-19 vaccine receiving regulatory approval, just one of the more high-profile recent cases.

To address this, the European Commission has launched a raft of initiatives covering start-up funding, encouraging “best practice” across member states, pushing for the completion of the Capital Markets Union and even offering grant financing in promising startups to name just a few.

In a recent Bertelsmann Stiftung Policy Brief [From Scale to Purpose?](#) Jake Benford and Frank Eich looked at these initiatives and concluded that the EU was on the right track but that the available funding would probably not suffice to compete with the deep and liquid US capital markets benefiting from the presence of large scale institutional investors such as pension funds more or less absent in the European Union. Size clearly matters.

And in the absence of even more ambitious European initiatives such as setting up a European Sovereign Wealth Fund investing in European startups, the required scale to support a pipeline of new European “unicorns” - startups valued at \$1bn or more - would probably remain elusive.

There is more to life than GDP

But perhaps there is more to startups than creating unicorns - just as there is more to well-being than GDP, as captured by the “Building back better” motto. This is not a new insight, with the OECD-hosted High Level Expert Group on the Measurement of Economic Performance and Social Progress, for example, presenting its findings in the 2018 landmark publication [Beyond GDP](#). GDP is a great indicator but cannot capture all the complex societal, environmental and other factors that matter to us humans.

Innovation with a purpose

If there is more to well-being than GDP, perhaps European governments could encourage startups to focus their attention on addressing societal, environmental and other challenges that raise well-being rather than just aim for “unicorn status”? Benford and Eich find merit in this idea, which could turn a potential disadvantage for European startups into a distinct advantage.

Rather than chasing the latest market-disrupting app, which might make booking a show or choosing your Friday evening take away more fun, perhaps European startups could aim at solving real needs such as greening residential construction, providing quality and affordable long-term care to rapidly ageing populations, offering training and education to the disadvantaged or improving air quality in densely populated urban areas. They might even create global demand for their solutions as most societies grapple with the same challenges, potentially disrupting societies that way. Just like the fledgling impact investment industry is gradually gaining traction, perhaps European startups could make their mark this way? Indeed, these startups are probably necessary to turn slogans into real progress.

A German version of this blog has been published on the Bertelsmann Stiftung’s Fostering Innovation - Unlocking Potential blog. Link here:

<https://fosteringinnovation.de/innovation-ist-mehr-als-die-steigerung-des-bip/>