HEINRICH BÖLL STIFTUNG

Digitalisation – What can be done to make Europe competitive?

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Abstract:

The digital transformation affects every aspect of European societies. The public discourse in the EU, however, focuses all too often primarily on the economic consequences of this technological revolution. When talking digitalization and what should be done to make Europe more competitive in the global digital economy, the discussion quickly slides into the technical details of specific EU Regulations and Directives. Corporates and governments are the main drivers behind current narratives around digitalisation in the EU, whereas social entrepreneurs, start-ups and digital civil society organizations find themselves less represented in the digital public space and relevant policy discussions. More open questions about spirit and purpose of the digital transformation of economy, society and culture in the EU and its inclusivity often go unanswered. This gap in the discourse needs to be addressed with higher vigour; otherwise the social consequences can be dire. Excluding or marginalizing voices and ideas from the civil society on the future of the digital transformation in Europe will increase distrust, suspicions and resentment towards a techno-economic development that appears to inevitable. Instead, a re-thinking of the entire idea of digitalization is needed, away from a technical perspective towards narratives that include cultural and societal implications more inclusive policy solutions.

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In this spirit, the expert group on digitalisation addressed the most important questions around the competitiveness of the European digital economy from two main angles. The first set of interventions circled around questions of economic competitiveness and harmonization within the Single Market: What is the state of the Digital Single Market Strategy of the Commission? Does the Single Market currently provide the right environment for European start-ups to grow and scale-up across borders? The second set of interventions however combined this economic perspective with a socially and culturally more inclusive one. What is the European Unique Selling Point (USP) when it comes to business models? Do we as Europeans want to copy American and Chinese approaches to digital growth or is there a third "European" model of growth that focuses as much on social inclusivity and impact as on economic growth factors? How can we generate mental shifts towards a more inclusive European model of digital growth? These questions guided the discussion on the future of digital policy in the Single Market.

On the Digital Single Market and the Scaling Up of European Start-Ups

Almost three years have passed since the European Commission launched its Digital Single Market (DSM) Strategy comprising of over two dozen policy initiatives, spanning telecom markets, copyrights and digital skills. The aim of the strategy is to modernize and harmonize the rules governing for example online commerce across the Single Market. Where do we stand today? According to the experts in the group the Digital Single Market is still far away from becoming fully harmonized and instead remains fragmented for consumers and businesses alike. Despite some success stories like the abolishing of roaming fees or the temporary portability for audio-visual content (for example a Netflix subscription), the pace of harmonization remains slow and cumbersome. A salient example for fragmentation in the Single Market that hurts both start-ups and consumers are the territorial licensing principles, which govern copyright provisions in the EU. As a result, geo-blocking of most audio-visual content from movies to sports events along national borders will likely stay the norm. For start-ups intending to scale up in the Single Market, this fragmentation constitutes a major impediment. Territorial licensing was also one of the reasons for one of the most successful European digital companies, Spotify, to grow their customer base in the US first where the company found a more unified Single Market. Apart from fragmentation, ill-designed copyright proposals could also seriously hamper future European innovation. Without an exception or a "fair use clause" many text- and data-mining companies in the EU will find it difficult to operate in the Single Market because of the copyright fees they would have to pay for the text corpora they are "mining" in order to find relevant statistical patterns. For instance, autonomous cars, which constantly have to take pictures of their environment could face problems as the so-called "panorama freedom" does not exist in some European member states, which could lead to a situation where pictures taken by autonomous car would infringe copyrights.

Data protection on the other hand, while an important issue for start-ups, is not considered a main challenge or impediment for growth in the Single Market, even for data-driven businesses. In contrast, the upcoming General Data Protection Regulation (GDPR) is largely seen as business-enhancing as it harmonizes 28 different national sets of rules and introduces a one-stop shop for companies.

Apart from fragmentation stemming from differing national regulatory requirements, start-ups face two more main barriers to growth in the Single Market: Raising the right amount of funds and risk capital, especially at a later stage, remains a main problem for start-up growth scaling. Probably most important however is the cultural fragmentation both within and between member states. An example for such cultural fragmentation was given by one participant recalling the introduction of a medical App, which helps shortening first-aid time from accident to heart attack. While it was relatively easy to roll-out and scale-up this potentially life-saving app in the UK, the introduction in the Germany was much more complicated. The developers faced challenges such as critical attitudes to change, an internally fragmented medical systems and overall cultural issues such as reluctance to rely primarily on technological solutions for questions of life and death.

The group eventually addressed the more fundamental question whether a fast scaling up is always to be welcomed and whether size is a goal in itself. Participants pointed out that fast scaling-up is not necessarily always advantageous for European societies at large. Network effects and first mover advantages, which are especially prevalent in online platform markets, lead to market concentration and the abuse of market power by new monopolists such as Google or Facebook. Some experts voiced therefore caution over the idea of trying to build a new big European platform, a "European Google". In a time where fewer and fewer digital "unicorns" emerge it might instead be worthwhile to explore new, "European" approaches towards building digital business models in the Single Market.

A more inclusive European business model for start-ups?

Could European start-ups become competitive in any other way than by becoming big and following the American growth model? In other words: Can there be a European business model for start-ups? Which values and goals would it built on? Many participants urged the group to take a step back and challenge their own mental state of mind for digitalization before discussing the technical details of individual proposals. Instead of a mere technical discourse, digitalization should be viewed as societal, generational and also as a sustainability challenge. A socially-driven approach to digitalization, which mandatorily takes its social impact into account, could eventually lead to a new European business model for start-ups. Instead of finding ways for start-ups to grow faster we should ask ourselves which business models we as Europeans actually want to support.

Apart from a mental shift towards increased support for social goals by entrepreneurs, participants stressed the importance of story-telling and "explaining tech", both to the government and to the public. Introducing technologies like self-driving cars on a broad scale will require deep and comprehensive communication efforts with the public about safety, human autonomy and human-machine interaction. Otherwise, the acceptance for such new technologies in Europe might stay low, which in the long-term could hamper Europe's competitiveness more than anything else. The example of self-driving cars also shows once more how the communication of the digital transformation to the public is a generational exercise. Designated coaching and mentoring programs where digital natives help older citizens to integrate digital technologies in their daily lives, could help European societies to overcome some of their demography-related digitalization challenges.

Conclusion: Which way forward for the European digital economy?

A genuinely European business model could thus be founded on a mental shift towards more inclusive goals for growth that take the social or environmental impact of digital growth into account. Defining an own genuinely European strategy for the digital future can however only be a first step. Eventually, this strategic goals need to be translated into specific policy goals and policy recommendations. In the last part of the discussion and following the preceding debate, the participants proposed a set of possible policies and recommendations towards the goal of a more competitive and more inclusive European model for digital growth.

- **Innovation and social impact**

How do we define inclusive Innovation? How can we avoid innovation if it for example destroys the environment? Future policies on innovation and European digital business models need to be inclusive and have a social impact. Methods and recipes for achieving a good social impact are however not that easy to devise. One possibility could be to shift European funding mechanisms towards social impact in order to reward social entrepreneurship and business models with an inclusive growth model.

- **Communicating the digital transformation**

As established above, one major challenge of the digital transformation in the EU is the question of how to communicate technological shifts and policies to the public, politicians and also civil servants in order to foster sustainable change. As a general rule, governments should give themselves guidelines for investments and get outsiders on board. Modern, lean and iterative processes and agile solutions for problem-solving are up to now usually not the domain of the public sector. Since agility does not come out of ministries, government authorities should instead bring external experts with this kind of expertise on board in order to transform their internal processes.

Another aspect of the communication challenge is the information gap between Brussels and national capitals. More capital and manpower should be invested into scrutinizing European legislative acts and establishing a knowledge transfer from Brussels to each national public sphere. The power of lobbies for social change and sustainable development of the digital economy should also be bundled further on the European level. Joining forces would mean being able to advocate more visibly for social change.

- **How to support start-ups**

How can the EU further develop start-ups with a more inclusive business model? One possibility stated by the participants could be to give incentives for start-ups like tax-breaks during scaling up in order to alleviate some of the funding needs. Another idea could be to co-develop policies together with regulators (especially for new technologies where the regulation is still "uncharted territory") in so-called regulatory sandboxes.

- **Data is "the elephant in the room"**

Is data the new oil? Is data protection an innovation killer? The group of experts largely dismissed both of these currently popular claims. However, in order to help European start-ups it might become necessary to open up some of the data silos that the large online platforms have erected, which has often given them an advantage over their competitors. Another possible solution to open up the walled gardens of some online platforms, especially social networks, would be to introduce strict platform neutrality and also force platforms to become more interoperable. Increased interoperability, would allow customers for example to send a message from Facebook to Telegram without having to subscribe to both platforms.

- **Education: Take away the magic of "digital"**

Last, but not least education should become a central pillar towards a more social and inclusive digital European society. What should be taught in schools about digitalization? First of all, it would be really important to de-mystify technology like machine learnings, virtual reality or algorithms in general in order to take away fears and allow for a self-conscious participation in the digital society. Education about the basic mechanisms of for example networked programming interfaces could be taught already from early on in order to "ensure" a natural, more intuitive use of technologies.