

PRESS RELEASE - NEW WORKING PAPER

Competition, Growth and Regulatory Heterogeneity in Europe's Digital Economy

Brussels, 12th April 2016 - Far too many policymakers in Europe have a confused vision about the policy conditions required for Europe to grow its digital economy. Their habits of thought – a sense of what is reasonable, necessary and inevitable – are now deeply embedded in the EU's endeavours of digital policymaking. Digital underperformance, as frequently ascribed to Europe, is argued to be a consequence of the superior performance of U.S. technology companies. In this paper, we will diagnose Europe's economy from the viewpoint of digital expansion, and analyse the economics of slow growth in the digital economy. We are focusing less on the digital economy in itself because it is arguably not the essential component in the quest of understanding the EU's problems. Like other innovative sectors, the digital economy is more interesting for its general effects on productivity and competition in the wider economy rather than what it directly produces. It is a general-purpose sector and its dominant contribution to the economy will come through new competition in other sectors. A dynamic digital economy will force labour, capital and other production factors in the economy to adapt to new and, as a general rule, more productive economic behaviour.

We will argue that the EU's most pressing structural impediment for digital businesses to develop and reach scale is regulatory heterogeneity in non-digital industries. Due to fragmented regulatory frameworks for many goods and most services sectors, it is difficult for any digital business to contest traditional industries by digitalising old-economy business models.

Powerful incumbents that have successfully adopted to national laws and regulatory procedures often prevent regulatory change. Regulatory heterogeneity and incumbency protection are intertwined. Both can be major sources of inefficient resource allocation in many industries – irrespective of whether they find themselves in primary sectors, manufacturing or services industries. It follows, therefore, that the paramount task for policymakers should be to reduce the non-digital barriers that hold digital business models back from transforming European economies faster to become more competitive and to facilitate economic convergence.

Publications details:

What is Wrong with the Single Market?

by Matthias Bauer, Fredrik Erixon

The Five Freedoms Working Paper No. 2/2016

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