Where are the European Googles

A big question for the past 20 years has been: where are the European Googles? Why are all the funky, creative, dynamic, innovative companies like Apple, Amazon, Google and Facebook coming out of the US and not out of Europe? The answer you will often hear is: Europe has lots of culture, good food and fashion, but it is not ‘entrepreneurial enough’, not enough ‘garage tinkerers’ and that this is mainly because we have too much state and not enough market.

This view, fed to us on a daily basis by the media and conservative politicians, ignores the fact that all the revolutionary technologies that make the iPhone so smart were actually funded by government. Not through narrow ‘market fixing’ policies, but through ‘mission oriented’ policies that catalysed the creation of entirely new technologies and sectors.

You can surf the web anywhere you are with your iPhone, because the internet was funded by DARPA, part of the Department of Defence in the US. GPS on your phone can tell you where you are anywhere in the world, and that was funded by the government’s Navistar Satellite Program. And Siri, iPhone 5’s voice-activated personal assistant, and the user-friendly iPhone touch screen display were both also funded by government.

Indeed, the Internet, and even the word “nanotechnology”, came from government. Of course you need people like Steve Jobs to turn these visions and ideas into actual products, but it is wrong to think that these geniuses came out of nowhere. Such entrepreneurs, as well as the venture capital funds that finance them, have often ‘surfed’ massive waves created by public money. Not admitting this fact, is putting future waves at risk.

More recently, Elon Musk’s Tesla S electric car benefitted from a large state sponsored guaranteed loan (close to $500million). Today Musk is the new hero of Silicon Valley. But the same size loan to the solar company Solyndra did not fare well: the company went bust. While everyone has heard of the latter, and use it to bash government’s inability to ‘pick winners’, few talk about the successful Tesla loan. Yet failures are inevitable with innovation, for every Tesla there are 20 Solyndras. But while for private venture capitalists, they can use the profits from the wins to cover the losses, the same has not held for the state. Because we have not admitted its role as lead risk taker. This has created a situation where we socialize only the risks not the rewards.

Economists believe that this return to such state funded investments will come back via tax. But neither Google (whose algorithm was paid for by the tax payers) nor Apple pay much tax, compared to their income. So what to do? We must think concretely about how to create more symbiotic ecosystems, where government doesn’t just de-risk the private sector, but also shares in both the risks and rewards. This might come from income contingent loans, the state retaining some equity/shares, retention of a golden share of the intellectual property rights, or other means.

In magazines like The Economist you sometimes hear about the state as Leviathan, almost like a big monster getting in the way of innovation. My mission is to make this debate less ideological and for us to really think about the relationship between the state and the market. It’s time to admit that the state already acts entrepreneurially to drive innovation, and is now overdue a more social return on its high-risk investments.

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