

**RETHINKING
CAPITALISM AND THE
ROLE OF THE STATE IN
EUROPE POST COVID**



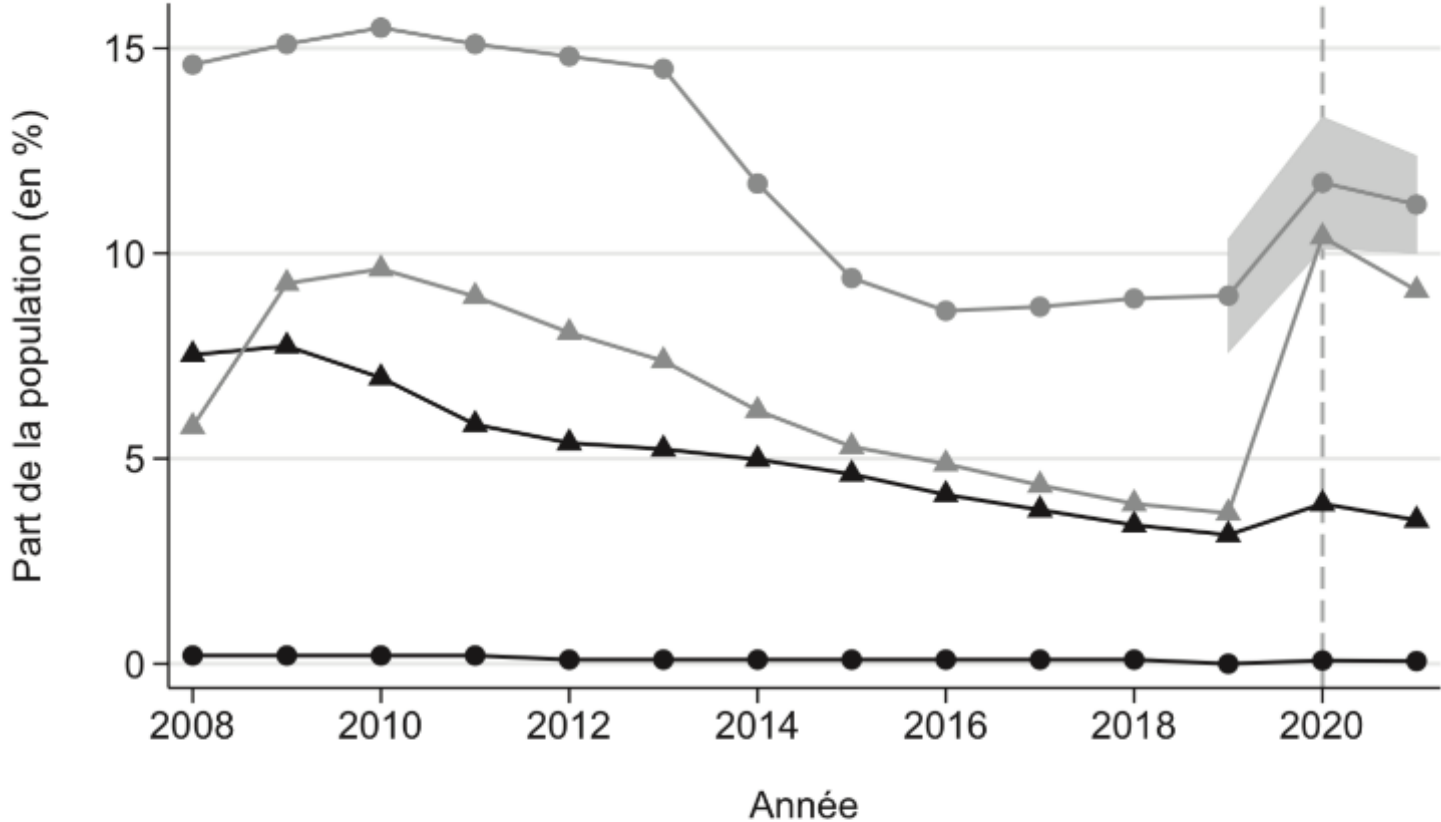
THE POWER OF CREATIVE DESTRUCTION

**PHILIPPE AGHION
CELINE ANTONIN
SIMON BUNEL**

RETHINK CAPITALISM : COVID AS A REVELATOR

- Broken social model in the US
- European ecosystem does not favor innovation

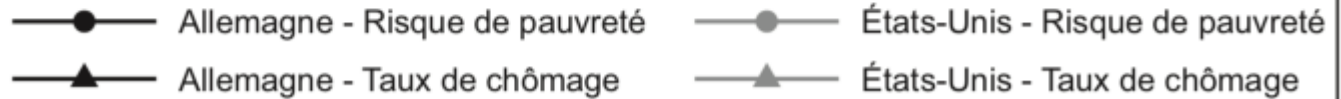
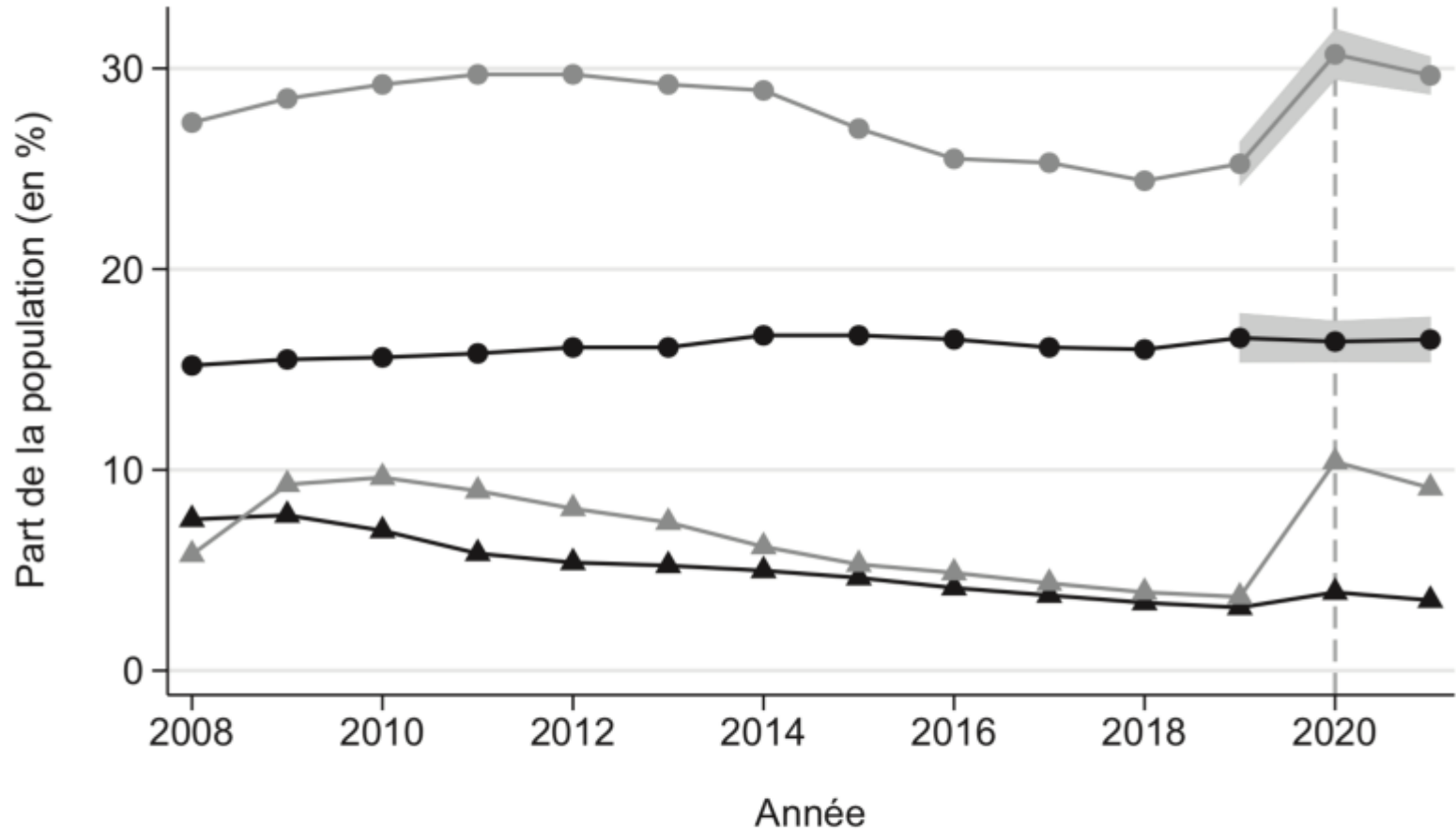
COVID AS REVELATOR



Legend:

- Allemagne - Non-assurés
- ▲ Allemagne - Taux de chômage
- États-Unis - Non-assurés
- ▲ États-Unis - Taux de chômage

COVID AS REVELATOR



COVID AS REVELATOR

Brevets en biotechnologies (pour 1 million d'habitants)

	2010	2011	2012	2013	2014	2015	2016
US	10.37	10.56	10.84	12.25	11.74	12.71	12.77
EU27	5.12	5.19	5.02	4.87	5.13	5.02	4.67
OECD - Total	6.69	6.75	6.69	7.11	7.17	7.47	7.48
China	0.23	0.25	0.25	0.31	0.34	0.42	0.49

Source: Authors' calculations using OECD data.

Notes: Reference country: Inventor's country of residence. Reference date: priority date.

COVID AS REVELATOR

Mesures de la BARDA pour lutter contre le COVID-19

Type of Product	Total Award Amount (\$)	Total number of funded companies	Total number of funded products
Vaccines	10,799,025,489	7	7
Diagnostic	44,996,752	22	28
Therapeutics	991,702,154	9	9
Rapidly Deployable Capabilities	10,432,068	9	9
Other	37,333,253	4	4
Total	11,883,489,716		

COVID AS REVELATOR

Financement de la Commission européenne et de la Banque européenne d'investissement

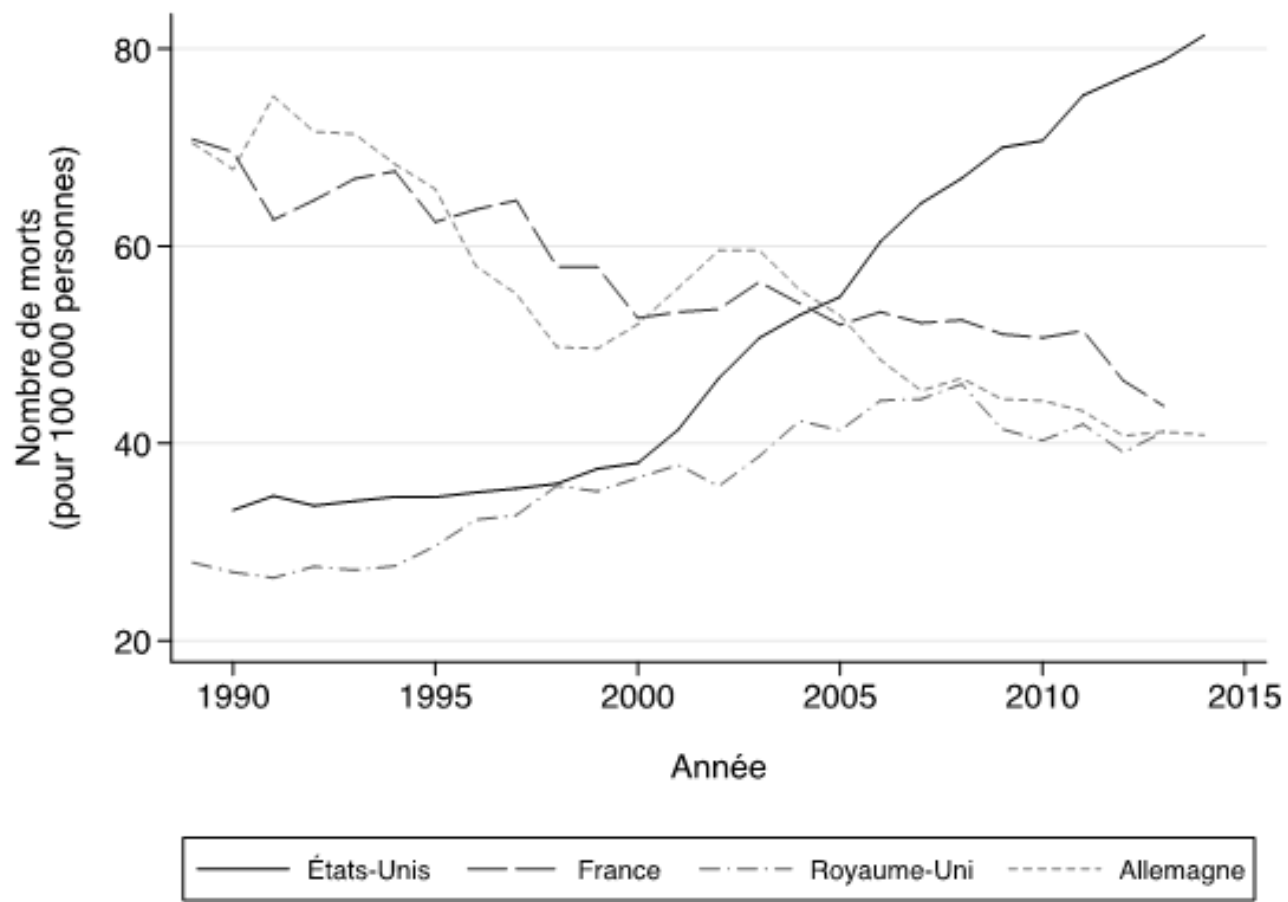
Funding Purpose	Amount (USD)
European Commission	
R&D	1,081,600,000
Preparedness and emergency response	217,107,249
Unallocated	436,667,248
Vaccine development	109,166,812
Total EC	1,844,541,309
European Investment Bank	
Manufacturing and delivery of therapeutics	63,316,751
Manufacturing and delivery of vaccines	91,700,122
Preparedness and emergency response	2,025,044,367
Total EIC	2,180,061,240

Source: Authors' calculations using data from the COVID-19 Health Funding Tracker, from The Economist.

RETHINK CAPITALISM

- Combine good side of American model (innovation) with good side of European model (protection)
- No trade off, rather, complementarity!!
 - Flexsecurity
 - Education and lost Einsteins
 - Competition

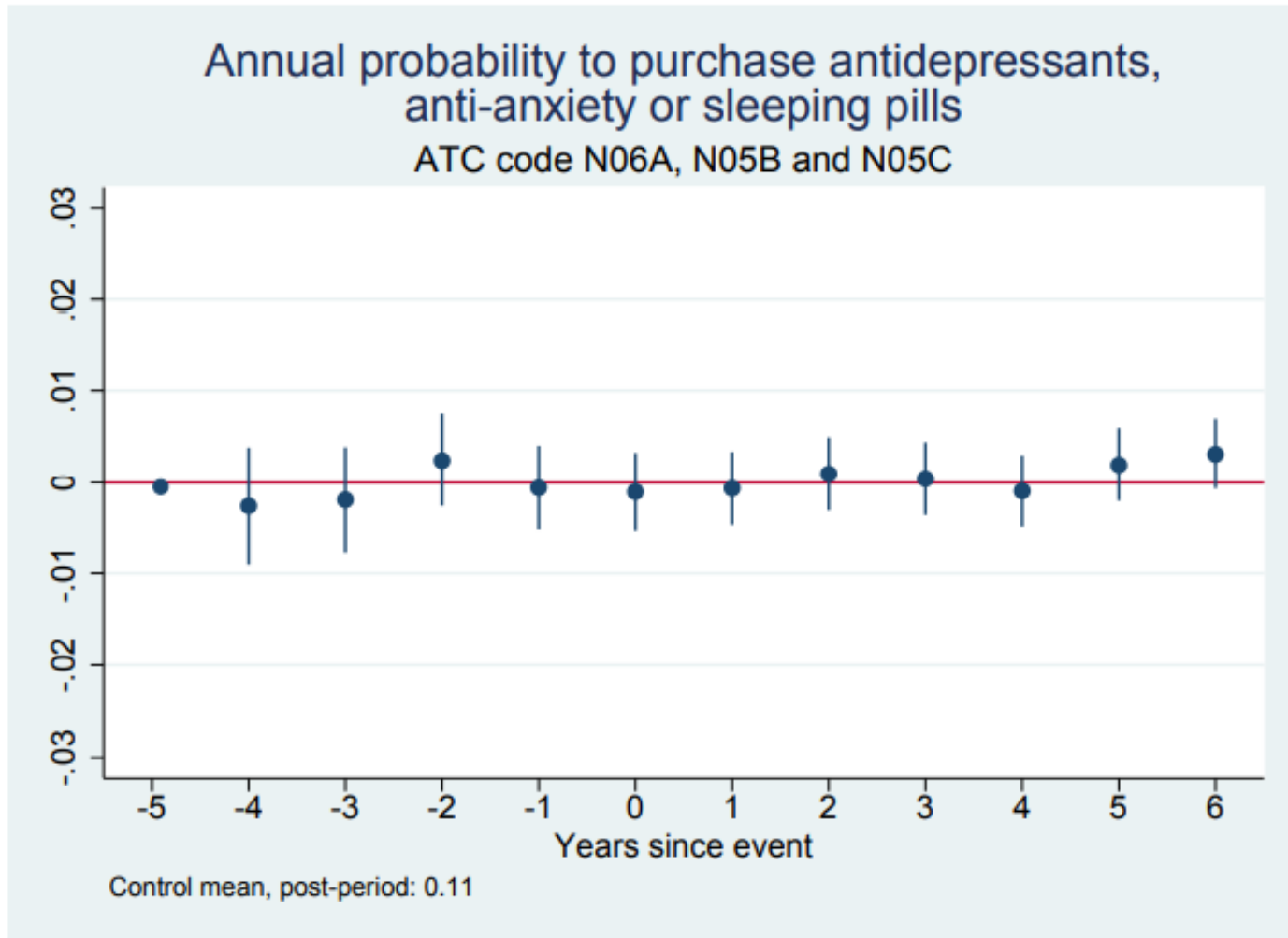
FLEXSECURITY



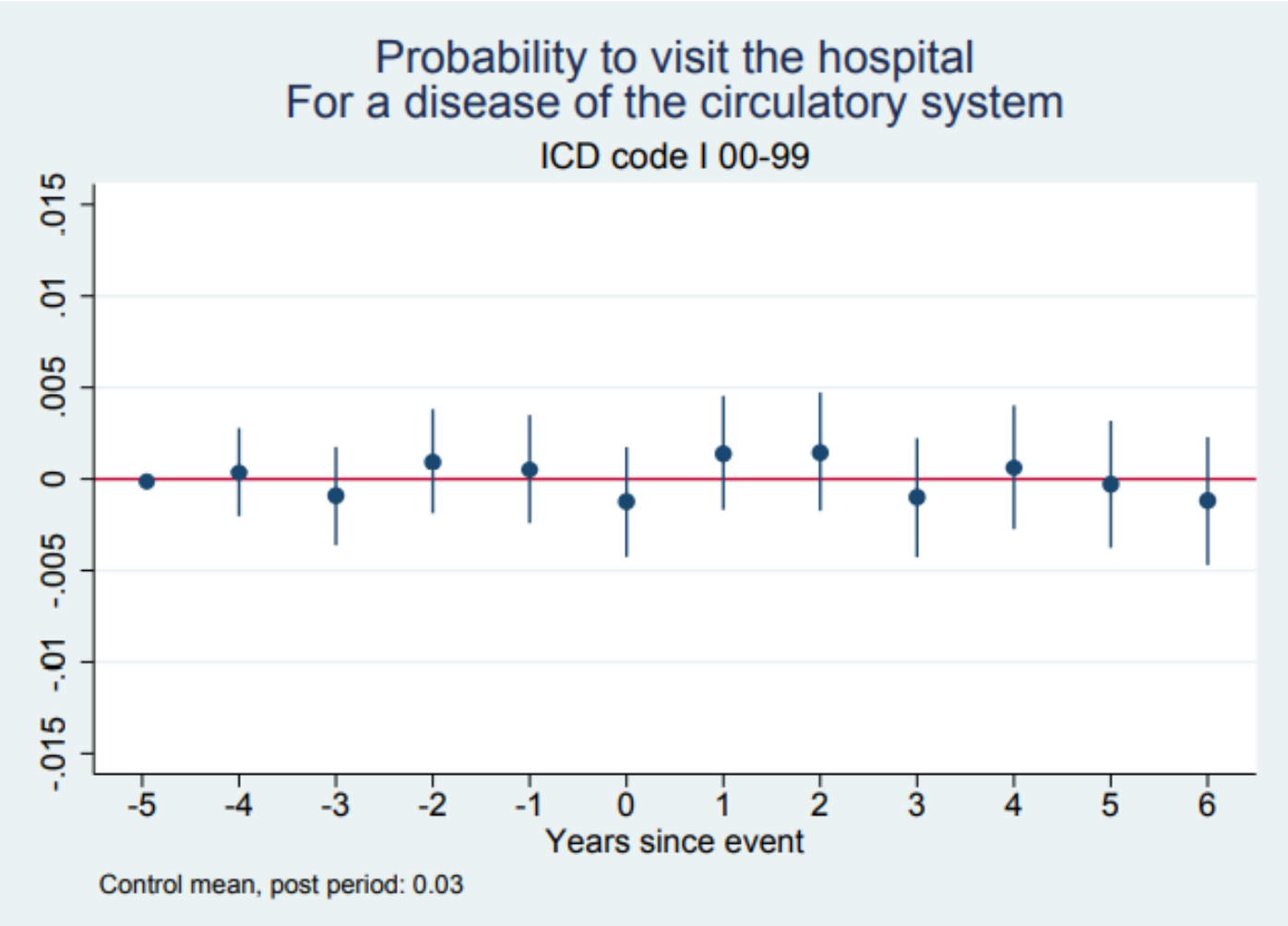
Source : D'après Case et Deaton (2017).

ALEXANDRA ROULET ON DENMARK

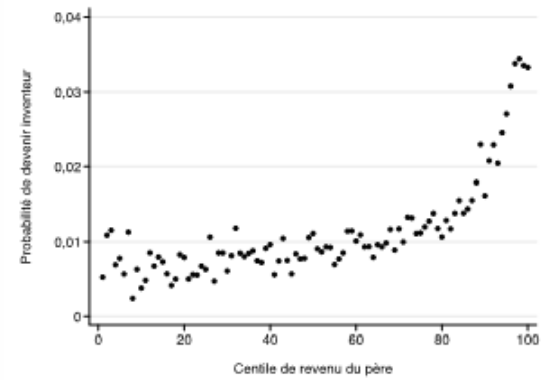
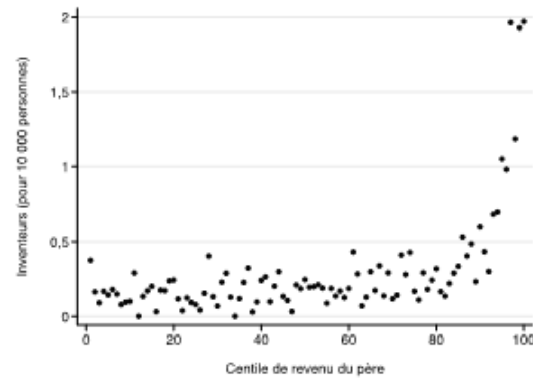
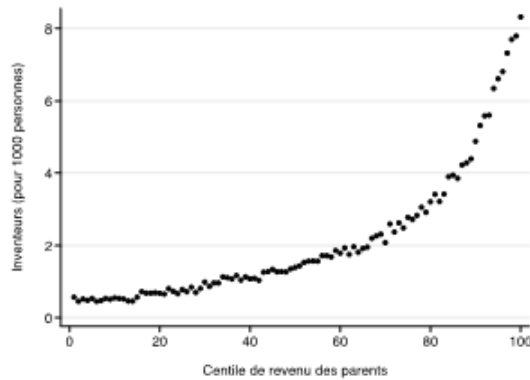
Moving to health: Antidepressants and related drugs



Heart attacks

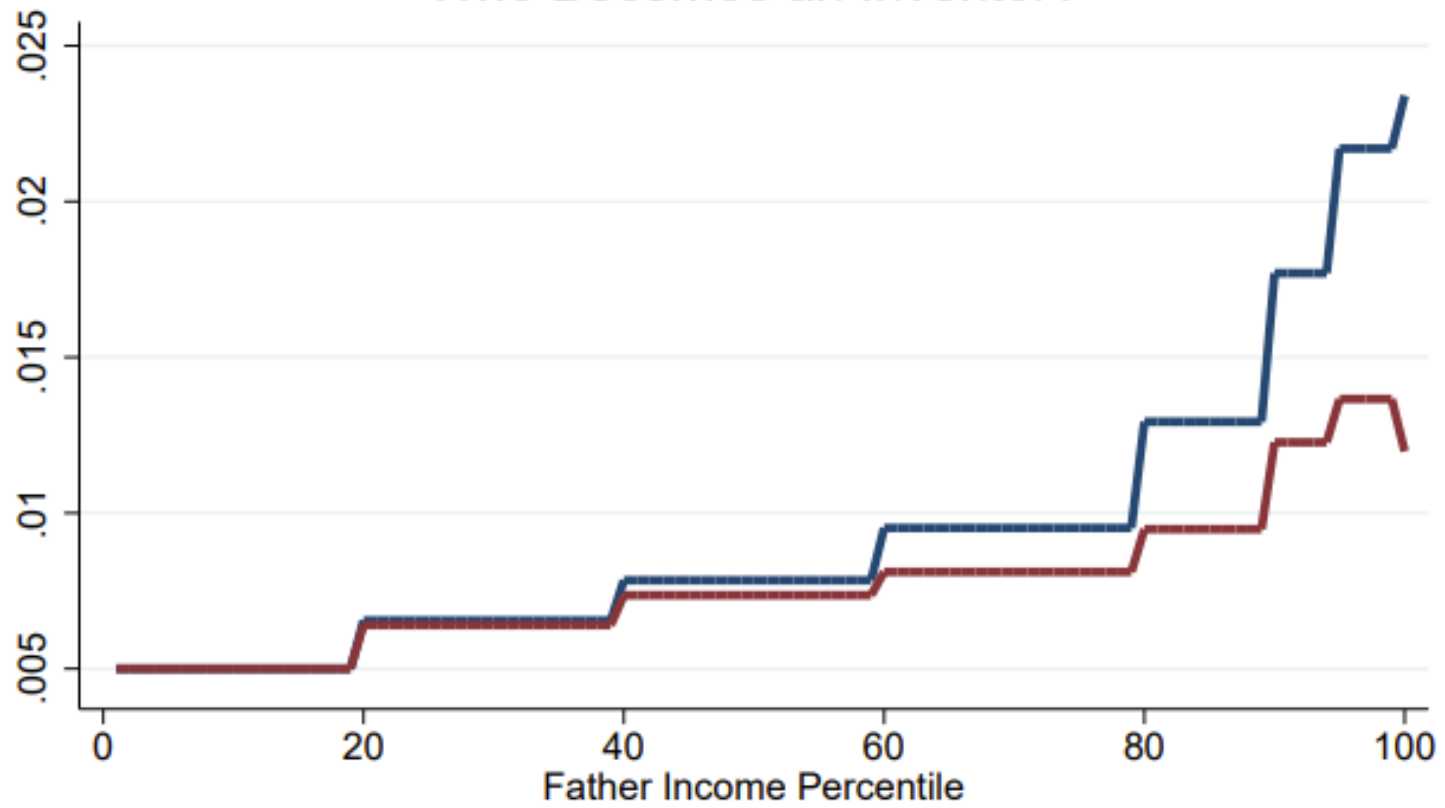


EDUCATION



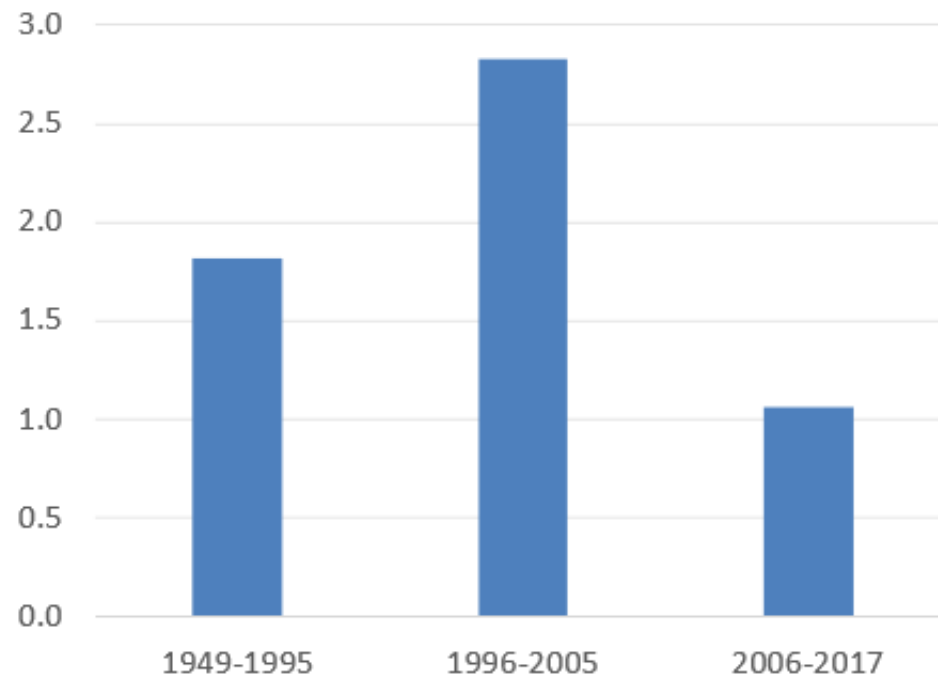
Sources : Bell, Chetty, Jaravel, Petkova et Van Reenen (2019) ; Akcigit, Grigsby et Nicholas (2017) ; Aghion, Akcigit, Hyytinen et Toivanen (2017).

Who Becomes an Inventor?

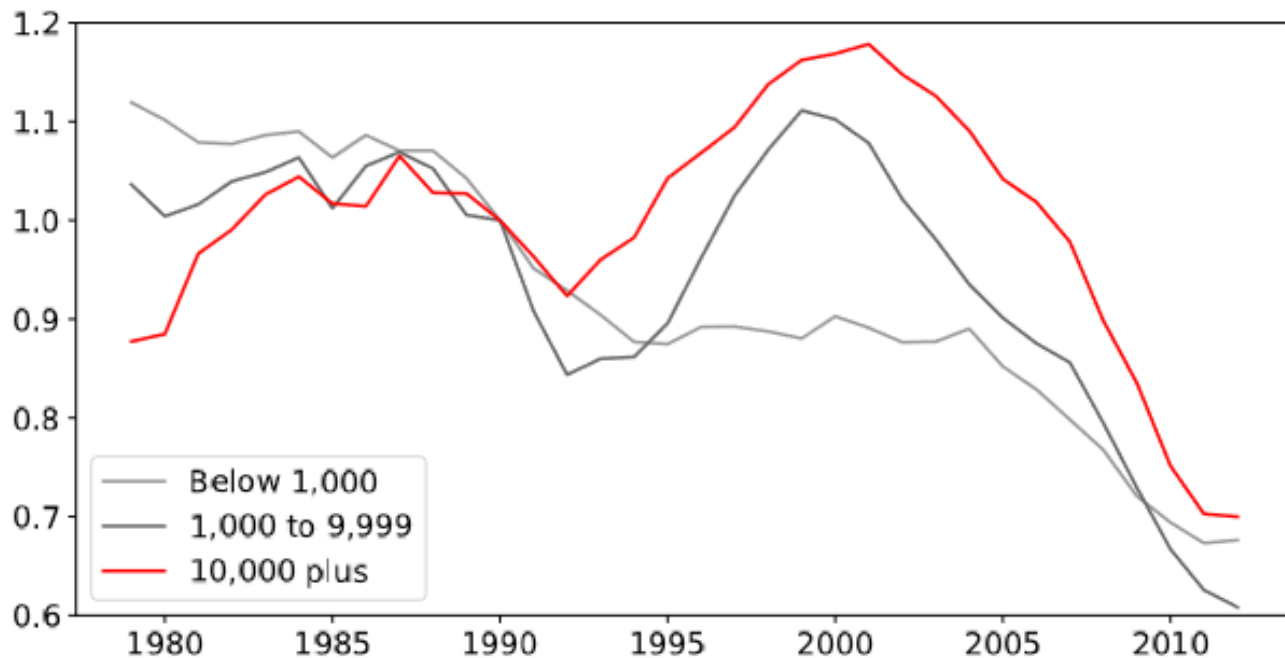


COMPETITION

RISE AND DECLINE IN TFP GROWTH



Rise and decline in employment-weighted plant entry rate



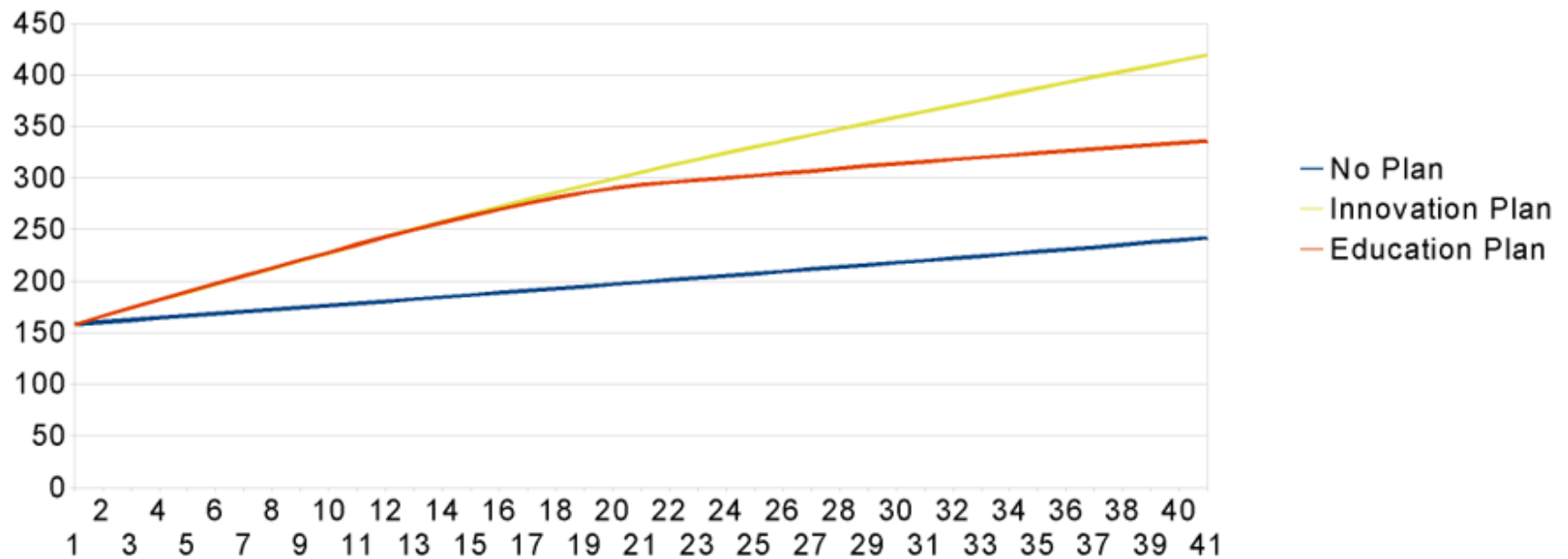
Source: U.S. Census Bureau's *Business Dynamics Statistics*. Job creation by birth over total employment by firm size bins. 5-year centered moving average.

RETHINKING MAASTRICHT

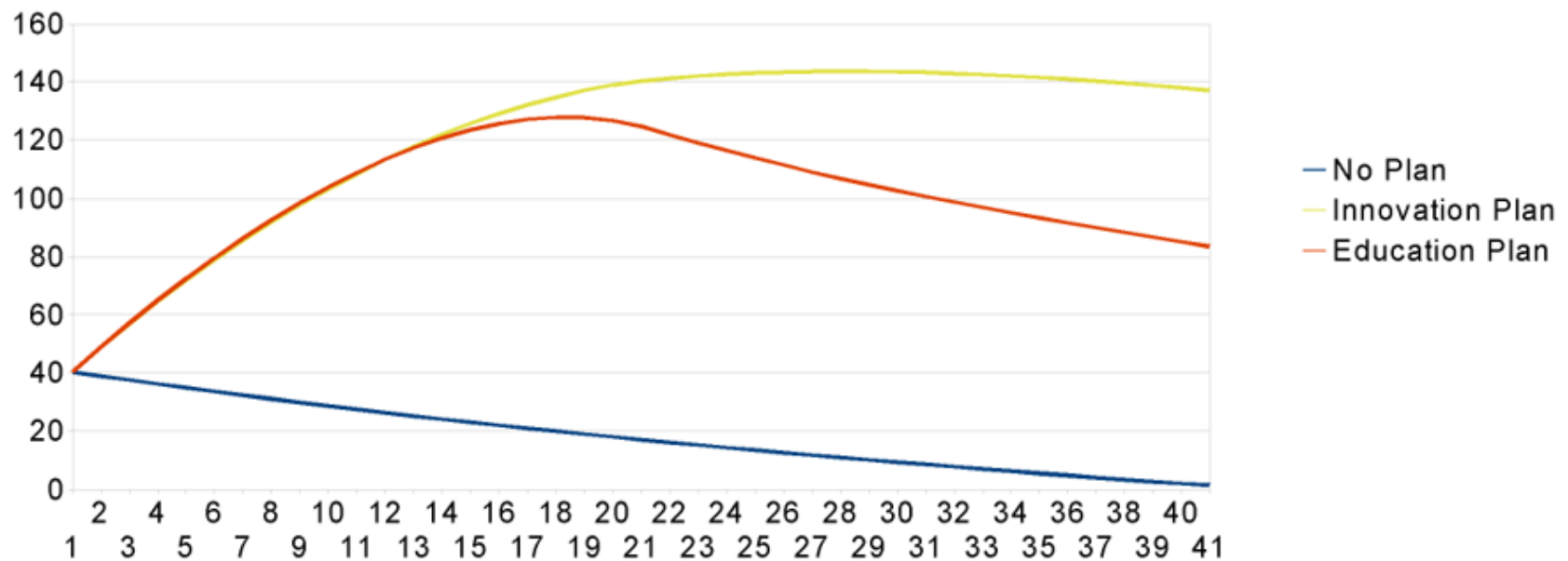
- Europe needs to invest in its innovation system, aiming at more inclusive and greener growth
- Ability to reduce public debt in the long run is positively associated with $g - r$ (Blanchard, AEA)
- Growth g is endogenous, credible estimates from Akcigit et al (2020)
- Hence one should not count growth-enhancing investment as any other types of public spending
- Need to monitor the governance and performance of growth-enhancing investments

	1 year	5 years	10 years	steady state
R&D subsidy	0.58 %	0.76%	1.19%	5.44%
Education subsidy	0.01 %	0.70%	2.38%	20.12%

Evolution of real debt over 40 years
depending on the investment plan adopted, in Italy



Evolution of real debt over 40 years
depending on the investment plan adopted, in Sweden



RETHINK CAPITALISM

- Once can aim at more innovative, yet still more inclusive, capitalism in Europe: innovation and inclusion/protection are not mutually exclusive!!
- Need to rethink Maastricht (Draghi, Biden, environmental disasters)
- But:
 - Governance and performance of investments need to be monitored
 - Need for structural reforms to accompany the investments