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*"The impact of the university on regional economic development and the evolution of the
knowledge economy",*

Leuven, 1 February 2010

Excellencies, Ladies and Gentlemen, Dear Colleagues,

I am delighted to have the opportunity to participate in the celebration of the 25 years of the COIMBRA Group. What could be more appropriate to mark this occasion than an event devoted to the reflection on the impact of universities on the regional economy? It is a topic, especially relevant today when more and more attention is given to the question of how to fully exploit development policies of the entire European territory, how to enhance competitiveness of European regions and cities and ensure that they can fulfil their potentials in the modern knowledge-based economy. This is a topic of high importance to regions and cities aiming to upgrade their human capital and capitalise on their resources via research and innovation – which is a must among the preconditions of increasing regional competitiveness. Why does this regional and local dimension matter so strongly today? Because we must link crisis and the way we get out of it with our long term capacity to grow and be globally competitive.

And, we are in the deepest crisis since the 1930s. It has financial, economic and social dimensions. We, policy makers, scientists, business people alike, have not anticipated it. Nor have we prevented it. It is not a shame, it puts us in pretty good company. Most of us would also agree that the prevention of future crises will not be attainable either. But we must learn from the experience of this crisis and we must do our best to put our house in a sustainable order. Crisis exit strategies must connect the exit policies with long term growth, sustainability and competitiveness. We know that future growth will not come primarily from numerical additions to the labour force, as in China, or rapid growth in the public sector as in the United Kingdom in the last decade. We know that we must care not only about restoring production gaps generated by the crisis, we must put productivity gains on track. If the European economy is to grow in a sustainable way, this would allow governments to pay back huge debts. But the growth to be sustained and sustainable must come from advances in knowledge and technology, from innovation and creativity, from intelligent investment of new capital.

High growth rates in big emerging economies in Asia, speed of structural change in those economies that exceeds the speed of change in any industrial revolution of our Western history, growing assertiveness and role of those new actors in the global world – all that presents challenges that Europe must take seriously and see the urgency of action. Costs of non action, or too slow action, today will be paid by next generations.

It seems legitimate today to question common sense of yesterday. It seems legitimate to ask from where the growth can come and what should be the priorities for a new European strategy. How should we address ageing of our population, as demographics will continue to work against us, how to address scarcity of natural resources in particular in the context of skyrocketing growth rates in China and other emerging economies, how to address climate change related risks when there is no

certainty about future standards as Copenhagen failed, or how to position ourselves against new patterns of globalization.

The world of today is already different from the pre-crisis one, and it will be even more so in the future. There are new expectations of citizens, there are new markets emerging to respond to those expectations, jobs are being created in new sectors. We have to transform our economy into a low carbon one. We have to make innovation an essential element of our culture. In Europe, growth policy focussing on a limited number of locomotives on a limited number of growth poles is no longer an option. Europe must expand its innovation basis, mobilize creativity, knowledge generation and use across its territory. Rethinking growth delivery mechanism, exploiting better the potential of cooperation, of multilevel governance, of integrated approach to policy thinking and making – can make the grand transformation which is awaiting European economy more efficient and effective.

Public policies, public sector and public expenditure have a role to play in this new growth model. The most efficient place for public interventions must be identified. Over the last years we have witnessed a gradual shift in public investment toward local and regional level. This is true for energy related actions, for knowledge and innovation promotion, for job creation.

Technology development does not have to take place in the capitals only and very frequently it doesn't. If we look at the most dynamic technology industries, the common factor is not a location in or near capital cities but one close to the most innovative technological universities. This was true in the United States, first with the Boston area and the famous Route 128 and then in Silicon Valley itself - both of these regions house many excellent universities. Many of the technologies which were the basis of entrepreneurial success were spun out of these universities.

Gradually major companies developed in these regions but the importance of the University-business interface has remained. And it can only grow in the future.

Europe also has many exciting examples of technology development in the regions. We have all heard of the great success of the University of Cambridge in spinning off new technologies into companies which have then progressed to become international enterprises. Many examples can be found amongst all universities linked together in the Coimbra Group.

It is however certainly true that in this area of economic activity, Europe lags the United States and perhaps even some of the more dynamic countries of south-east Asia.

There are numerous explanations for this difference between Europe and the USA, including somewhat intangible contrasts in the social approach to risk or different demographics. I would like to concentrate briefly on some areas in which I think we Europeans need to pay a lot of attention.

Let me say a few words on funding. The major universities in the United States are extremely well funded, although their endowment funds are somewhat less now than they were two years ago. These endowment funds usually dwarf those that even the richest European universities have and in many European countries universities simply do not have endowment funds at all and do not receive significant amounts from their alumni. In America, universities like MIT also receive significant funds from the state, often in the form of research contracts, some of them relevant to the military. They have generous funding through the National Science Foundation and various other agencies.

In Europe, on the other hand, the funding of our universities is predominantly done by the state through the annual budget. The worry is that with the dramatically bad public finance situation, which can only improve slowly over the medium term, there is a real danger that governments will find it convenient to cut education and research budgets, and particularly those for higher education, on the assumption that this will not lose them too many votes.

I do not have to convince you that this would be an extremely short-sighted way of cutting the deficit, because it would reduce our capacity for technological development and therefore our medium and long-term economic growth potential. This could lead to a lost decade, which Europe cannot afford.

One of the great advantages which American business has is that it has a domestic market of over 300 million people with an average income per capita higher than that of the EU. In Europe we are very proud of our greatest achievement - internal market. But it is far from complete. We have 27 countries, which on many accounts and in spite of the development of the EU's internal market, still operate as separate market areas. This is explained by a large number of factors including language, institutions, traditions and history. This makes it somewhat harder for promising start-up companies to rapidly exploit our internal market of around 500 million. This makes also cross-border cooperation and networking more difficult and less efficient.

Many still existing concerns will only be overcome, if at all, in the long term. What we must do is to continue to develop the EU's internal market, also in the services, in particular in research and technology sector, so that we can achieve at least some of the benefits which the Americans take for granted. Protecting and, indeed, expanding internal market should be our shared European objective.

Unfortunately the current economic and financial crises have shown that protecting and developing the internal market of the Union is not the automatic reaction of governments. Many governments, including those of some of the largest member states, ignored the spirit and sometimes the law of the internal market in their rush to try to prop up their national economies. The risk that solidarity will go out of the window and national protectionism replaces it is not at all gone. So yes, we are technically getting out from the recession, but what will be the post-crisis European new normal is a big unknown.

It is very much en vogue to complain that the Lisbon agenda for economic reform in the Union has for many reasons not achieved very much of what it set out to do. Its aim was to lay the basis for stronger growth and competitiveness in the Union through tackling some of the rigidities which have grown up in our economic system. I believe, however, that the reformed Lisbon of 2005, and especially taking the strategy it down to regional and local level, has started to bring about change, including change of mind.

The fact that little has been achieved does not at all mean that the diagnosis and the reform programme were wrong. If we want to be able to develop across Europe strong structures which will create a basis for our future economic growth, then we need to continue to tackle the barriers to innovation, enterprise and liberalisation which are identified in the analysis behind the Lisbon agenda.

A particular area, which finds less room than it perhaps should in the Lisbon agenda, is the financing of high growth knowledge and technology-based enterprises. This is one area where Europe has been behind development in the United States, where access to venture capital and subordinated debt instruments have always been more readily available. Unfortunately the current banking crisis, which has made banks far

more restrictive in their lending policies, is liable to make this situation even worse. And I have doubts whether in our efforts to regulate financial markets and sectors we pay any attention at all to the contribution of this sector to growth.

Let me also briefly touch on the role of regional policy, with which I have been closely associated for several years now. There are large disparities between regions in the EU regarding their capacity to develop and absorb knowledge and technology. The performance of many of them is below the EU average, but, on the other hand, there are also some regions that perform better than the US or Japan. Fact is that all regions, however competitive they might be today, are confronted with the permanent need to restructure, modernize and foster continuous knowledge-based innovation in order to meet the challenges and exploit opportunities of globalization, climate change, demographic trends, energy security, and last but not least, to find the way out of this crisis. One of my aims when I took over as European Commissioner for regional policy five years ago, was to move that policy towards building comparative advantages at the regional level. We linked regional policy to the aims of the Lisbon agenda. The introduction of 'earmarking' regional policy measures as conforming to the Lisbon agenda objectives helped to encourage the use of community resources to strengthen the knowledge base of the regions.

I am a firm believer in the capacity of EU regional policy to achieve two objectives with one instrument! It can at the same time tackle its original objective of increasing welfare in the less prosperous regions of the Union and contribute to creating the basis for innovation-driven development leading to higher economic growth rates for the whole Community in the medium term.

As regions develop – and given their growing links to global markets, their ability to innovate becomes an increasingly critical determinant of international competitiveness of the entire European economy. Gradually, as the ability to innovate has become accepted as a crucial prerequisite of enterprise development and entrepreneurship, concepts such as ‘innovation policy’ and ‘innovation systems’ are increasingly attracting the attention of policy makers in most EU regions and cities. Today, basically in all regions all partners are involved in designing and implementing regional innovation strategies.

The low growth and economic stagnation experienced in the last decade, and more recently aggravated by the crisis, have made it clear for regions and cities that they cannot simply rely on relative favourable macroeconomic framework conditions to ensure competitiveness and growth. Instead, European regions and cities have understood that they must seek to combine macroeconomic assets with implementing effective microeconomic measures within enterprises, and thus, in fact, putting in place regional innovation policies, truly and concretely enabling ‘framework conditions for innovation’.

For the European regions this means that in order to compete successfully in the global market, and to continue to grow at a pace that will allow them to bring their GDP per capita levels to a good and sustainable level, they must strengthen the ability and willingness of their enterprises to innovate, to be internationally competitive. This will not occur unless regions and cities enhance their research centres and their academic institutions to not only achieve a strong basis and a critical mass of high quality research, but also create an appropriate entrepreneurial climate in a university context. An adequate legal framework with respect to commercialisation and industrialisation of their knowledge production, has to be in place, as well as incentives and policies to encourage research groups to actively seek knowledge transfer opportunities.

There is a need of a dual incentive mechanism to maintain a balance and healthy tension between striving for scientific excellence and gearing this excellence towards application and innovation.

Today, the role of university goes far beyond its traditional mission. They get engaged with local community, they engage in skills improvement, in raising the quality of education, they generate businesses, and very often are leaders in stimulating innovation and knowledge transfer.

Times when only capital cities and world class universities would drive progress and innovation are gone. Across Europe in many small and medium sized towns universities stimulate start-ups, spin-outs, knowledge transfer, innovation and growth. Cities, towns and regions which are smart enough to harness the capabilities of their universities are today critical to driving the European Union economy toward innovation, toward sustainability and global competitiveness.

The challenge Europe's regions and cities face today has two faces: they need to foster regional and local development, based on indigenous factors and at the same time to be part of a global knowledge system and be competitive on an international scale. In this respect it is very important that regions succeed in creating a favourable environment to research and innovation.

Sometimes it is not evident that benefits of education and research can be reaped locally. It can be difficult to capture benefits especially in case of regions where local firms cannot absorb research findings well. That is why we need long-term R&D cooperation between academia, the public sector and industry in order to create the missing bridge between research centres and local companies.

Universities must get ready to foster such long term relations “at home”, and become better anchored in the local economy and society as a hub of knowledge and talent attraction.

The challenge for universities in lagging regions is ever greater. Lagging regions have lower participation in EU framework programs and networks, and it is more difficult for them to retain talent. “Talent” seems to have a tendency to be concentrated in academically better off regions. However complex the challenge might be, I am confident that European regional policy has a key role to play in overcoming these obstacles.

But in my opinion, regions and cities must themselves be actively engage in the maintenance of research and innovation systems and should create favourable conditions for cooperation at local and regional level. To faster advance successful research and innovation, existing role models can be used as examples, however there is no “one size fits all” solution. Therefore, all parties at local level - local institutions and universities embedded in the regional economy - have a great responsibility in defining a place-based approach and creating a portfolio that can also be linked to the local industry’s profile.

Europe is too small to ignore development potential of all parts of its territory. Its share in global population has been decreasing and without smart immigration policy will continue to do so. Its share in the global GDP has been declining and will continue to do so taking into account growth rates across the globe. Full exploitation of potential that can be mobilized at local and regional level is the path to follow in the

time when comparative advantages are man-made and linked to the capabilities and role of universities.

Why can we trust universities in generating innovation-driven growth from below? Because universities, even if strongly involved in contributing to local growth, care for and maintain their connection with global knowledge and its market. They can help local businesses plug into global supply chains and make them indeed globally competitive. That is why an active role of universities in supporting local development is today of such relevance to Europe. Today all European regions and cities have to position themselves against global backdrop, have to measure their competitiveness in the global context. Universities provide this link, so crucial for modernization, for new industries and new markets.

Knowledge economy is about the state of mind. The challenge to grow knowledge based economy and society goes beyond recurring barriers. Incentives for new behaviour must be generated. This cannot happen unless universities are involved.

And, as I said at the beginning, this crisis must not be disconnected from long term growth and structural change. Whether we get out from the crisis strengthened will depend on our European capacity to harness universities to the post crisis strategies.

Europe and the world of tomorrow will be very different from those from the pre-crisis time. The new European strategy must build on challenges that are already well known. But climate change, energy security and efficiency, natural resources scarcity, demography – these are also opportunities. These can be business opportunities if we harness knowledge to use them. And these are universities that can convert those challenges into opportunities. In short, Europe will not make it

without putting on the top of its agenda a multilevel – European, national, regional, local – enhancement for knowledge, education, research and innovation.

The new European growth model must incorporate all elements of new reality. And we have to move beyond removing barriers to generating incentives. And the feeling of urgency must be introduced into our actions.

In nearly everything we must do today, we need an integrated approach – to policy thinking, policy formulation and policy implementation. Cooperation, shared responsibility, new growth and change delivery mechanism, adequate policy tools – all that requires rethinking. The role of public expenditure, to be efficient and effective requires the right choice of the place for public action. There is experience in the European Union which is tailor made for this situation. I am thinking here of European capacity to mobilize local and regional development potential. 20 years of experience of the European cohesion policy is available. 70% of public investment in Europe is today delivered at sub-national level. They can be a catalyst for the grand structural transformation we need. Concentration of this policy on Lisbon agenda related objectives is already a fact of life. One third of its financial means supports sustainable development, including renewable energy, energy efficiency and climate change related risks. One third supports research and development, innovation and entrepreneurship. After 2013, European regional policy must ensure the involvement of regional and local level in the pursuit of common European objectives as expressed in Europe 2020 strategy. It must continue to deliver sustainable development, innovation and competitiveness and promote the post-crisis restructuring. And it must do it across the entire European territory, mobilizing full potential and bringing responsibility shared between all levels of European governance and all partners in development: public authorities, businesses, academic community and civil society.

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To conclude, let me say a few words on the great place, which is hosting us today. As a matter of fact, the region of *Leuven*, with its unique high-tech environment and its international top talent, is tailor made to provide all the building blocks for a better life in a sustainable society. It is centrally located in Flanders and Europe, and its renowned knowledge institutes, its science parks and its presence of venture capitalists, provide a fertile breeding-ground for spin-off companies as well as for international research-intensive businesses. Knowledge institutes like the *Katholieke Universiteit Leuven*, the *Gasthuisberg University Hospital* and the *Inter-university Micro-Electronics Centre*, generate a huge inflow of state-of-the-art knowledge. That is why innovative ideas abound and all conditions for a highly innovative region are here a fact of life: critical mass of high quality research, stimulating entrepreneurial climate in a university context, conditions encouraging research groups to be active in seeking knowledge transfer opportunities, multidisciplinary teams, cross border links, open minded partners ready to share, to cooperate and to network. I am sure that good quality of life and enthusiasm work here for us as well. And I also know that across the Coimbra group you find the same commitment and concrete results.

So all I can do today is to encourage you in the Coimbra group to continue what you are already doing in the field of education, research and innovation in your great universities in your home cities and regions, but I would also encourage you to use your influence to ensure that we get better knowledge policy at the European and national level to support economic growth and the quality of life of our citizens in the coming years.

I congratulate you your foresight capability. 25 years ago you agreed on the need to share and network and the need to work with the cities where you were born. As the role of cities as the engines of growth and change in our modern knowledge based societies has been recognized, it is also fair to say that cities can be home to innovation only if they can address this challenge jointly with their universities.