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Innovation nation

Europe's future growth and democratic stability depend on universities stepping up their innovation game

Across advanced democracies, economic stagnation and growing geographic divides are no longer just regional or financial concerns — they are political flashpoints, fueling the rise of populist movements. Reversing these trends demands a bold new approach: building high-tech, innovation-driven economies that create jobs, revive regions and strengthen democratic resilience.

The economic and political challenges facing most advanced democracies, including Canada, the UK, Germany and the rest of Europe, are two-fold. The first, amidst stagnant economic growth and living standards, is to jump-start a more dynamic high-growth and high-tech economy — an agenda and wake-up call for Europe set out in the 2024 Draghi report on EU competitiveness. This task has become even more urgent with the new US Administration's retreat from international trade and institutions and its threats to pull the plug on European defence and security commitments.

A second and related priority is to close yawning geographic economic divides — like those between US coastal economies and ailing 'Rust Belt' States in the Midwest; between prosperous London and Southeast England and hollowed-out communities in the Midlands and North; or between former steel and coal communities like Gelsenkirchen in Germany's Ruhr and Cottbus in the former East and other regions of the country.

The answers to both challenges lie in boosting innovation and increasing the commercialisation of new technologies, products and processes into new startups and fast-growing

Rebooting these flagging former industrial-region economies is vital, as they otherwise provide the bedrock for populism. There is a growing body of evidence that when once strong industrial communities like these remain in economic decline, residents are responsive to polarising, anti-system populist movements; but when these communities do turn a corner and build newly vibrant innovation-led economies –

companies that spur local and national economic growth.

as has happened in many communities across the US, UK, and European industrial heartlands – residents' attitudes and voting patterns support political moderation. This means local economic policy – often considered purely a provincial issue – can now be seen as vital for national policy, helping to stem the wider rise in support for populist, often ethnonationalist, anti-system politics as embodied in the US MAGA movement, the UK's Reform Party, Germany's AfD and other right-wing nationalist parties that have seen growing support across Europe.

The answers to both challenges lie in boosting innovation and increasing the commercialisation of new technologies, products and processes into new startups and fast-growing companies that spur local and national economic growth — and the good jobs and increased living standards that flow from them. So it is now an urgent priority across democracies to nurture robust, innovation-driven economies and domestic high-tech industries, particularly in economically transitioning regions that aren't finding this path on their own.

Drawing the right lessons from the US experience

Europe has long diagnosed but not remedied the complex of factors that have delimited the onrush of a creative R&D and finance-driven US-style startup and technology industry. The 'blockages' to its development are many: layers of EU and national country rules and regulations, university incentive structures that are unfriendly – or even hostile – to commercialisation and entrepreneurship, corporate cultures that reward incremental improvements to existing businesses rather than disruptive breakthroughs, and a limited risk-taking culture and a relatively small pool of large-scale, fast-moving venture capital and early-stage investors.

Even in Canada and the UK, with different business and social cultures than the rest of Europe, despite strong research universities and significant corporate R&D, too few discoveries are translated into high-value start-ups. In almost all countries, many new technology start-ups are bankrolled, bought and relocated abroad by outside investors, particularly larger US venture capital firms and tech industries — leaving countries essentially dependent on US high-tech for defence technologies and much else.

Drawing the right lessons, policies and strategies from the US experience is essential. For decades, America has continuously created economic clusters and game-changing technologies, from the semiconductor and Internet to today's start-ups, launching everything from Google to Uber to Amazon and Instagram. At the heart of America's innovation ecosystem are its universities — private and public, alongside thousands of colleges, research institutes, and medical research and teaching hospitals. Institutions that collectively attract and train the top talent in the world, including in computer science, engineering, business, finance and medicine.

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The conditions that nurture the US' dynamic innovation ecosystem aren't just a quirk of America's crazy free-booting culture. A family of policies, programmes and robust innovation ecosystems in non-coastal former industrial capitals like Cleveland, Ohio and Pittsburgh, Pennsylvania, and manufacturing states such as Wisconsin, Michigan and North Carolina demonstrate that dynamic innovation ecosystems aren't confined to Silicon Valley. They can and are being created elsewhere, including across many communities in what had been derisively (and today inaccurately) labelled the US 'Rust-belt'.

The policy recipe includes: robust public and private funding of basic and applied research, along with expanding existing and building new research and learning institutions. States like Michigan and Indiana, as well as communities like Green Bay, Wisconsin, Cincinnati and Columbus, Ohio, have also created state and local innovation funds to grow venture and early-stage capital (and smart investor talent) in regions where this hadn't been occurring naturally. University-linked innovation ecosystems are also catalysed by the creation of public-private innovation intermediary organisations where seasoned investment managers and successful entrepreneurs are steering VC investment into promising startups emanating from local firms, universities and research institutions in these transitioning regional economies.

And at a national scale, Biden-era investments in Science and Innovation via the CHIPS and Science Act have sparked new 'innovation engines' and 'tech hubs' —purposefully seeded away from coastal 'superstar' regions.

But the challenge for nations seeking to jump-start their own high-tech

economy isn't just about finding the right family of national and state/regional policies — the combinations of funding, incentives, regulation and programme design for universities and regional economic development actors to work together. It is about changing the cultures of universities and research institutions to embrace a mission of spurring new businesses and economic growth, including incentives and support for commercialisation. This is the pivot made by the University of Pittsburgh and Carnegie Mellon University that turned Pittsburgh from a dying steel town into a thriving AI, robotics and IT tech hub.

A thriving regional innovation ecosystem that contributes to a strong national high-tech economy depends on what research universities alone can do, but the reverse isn't always true. If such ecosystems are to fully develop and maximise impact on their surrounding regions and the nation as a whole, then universities should be full and active partners rather than just chance actors. That means universities – and their funders and regulators – should not be agnostic in regional economic development.

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Now is the time for advanced democratic nations to seize the opportunity and punch through the sense of self-limitation and inertia — the belief that Europe and its allies can never rival Silicon Valley. Europe clearly has the capability to build new, disruptive technology-producing and economic game-changing innovation ecosystems. The challenge now is to broaden these successes: while cities such as Paris, London, Berlin, Stockholm, Amsterdam, Tallinn, Helsinki, Porto and Vilnius are all thriving tech hubs in Europe – city-regions that have deliberately built successful high-tech economies – many other regions still lag behind.

The importance of continuing to learn from each other across boundaries, and the urgency of putting in place effective innovation strategies, is mounting. The US now animates an international order-upending mercantilist policy that stresses the economies of all nations — both friend and foe alike. The now urgent and newly embraced imperative for Europe to defend itself is crimped by dependence on US technology in weapons systems and everything else. Meanwhile, US tech companies demand unfettered access to the EU and other markets.

The good news is that innovation leaders from universities such as Duisburg and Dortmund in Germany, Newcastle and Manchester in the

UK, and Michigan and North Carolina in the US are joining others and beginning to connect to better meet these shared challenges. By working together and learning from each other, we can rebuild struggling regional economies in Europe that otherwise will continue to ferment support for populist parties — parties that, as we have seen in the US, have very different ideas about universities, science and their values. At the same time, we can better drive national innovation and economic outputs too, strengthening domestic economies and also an international coalition that can stand up to those seeking to undermine our shared democratic values and ways of life. It is in all of our interests to learn and act together and to do so quickly.



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