

Background Note

Innovation and creativity in Europe's public sectors: time for radical change

Most European countries have larger public sectors than in other parts of the world, with public sectors responsible for up to 40-55% of GDP. This means that the way in which the public sector translates resources into public and social services is critical for Europe's economic and social development. This will become even more important in the future. Europe is facing a deep economic crisis which will affect public services. But even apart from the present, exceptional, economic circumstances, the sustainability of the European welfare state in its present roles and functions has been challenged by two trends: globalisation (with the accompanying need to be competitive to create jobs and growth) and the demographic outlook.

The current economic and financial crisis is creating new challenges to the sustainability of the public sector. The economic downturn is reducing taxes while at the same time new spending pressures arise from the deterioration in the real economy, for example through increased demand for unemployment and social security benefits. But the crisis is also having a negative impact on public finances, which will make it more difficult to finance public activity at existing levels in future. Finally, the crisis has led to a deterioration in asset prices (including property and equity), which has reduced the ability to provide pensions and social services from private funds.

The financing problems that inevitably follow from demographic developments will also put strong pressure on European welfare states. The combination of ageing, lower birth rates and the difficulty in integrating migrants successfully will – in the absence of reforms – pose serious questions for the sustainability of public service provision in the not too distant future. The fact of having older people and more economically inactive people, on the one hand, and fewer young people in the labour market, on the other hand, will make financing social provision increasingly difficult.¹ A possible solution, which is being pursued in some countries, is to increase the pension age. However, it is important to distinguish between the statutory pension age and the age at which people exit the labour market which today is usually significantly lower than the official pension age due to, for example, early retirement schemes.

Alongside having to cope with increasing pressures on social and public services, Europe's economies will need to remain internationally competitive to continue generating jobs and growth. The key intersection between social protection and globalisation is in the labour market where, increasingly, the cost of labour in Europe is under threat from much cheaper developing economies. The only way to cope with this pressure is to move towards higher value-added production which justifies higher wage levels, while at the same time keeping taxes and social security contributions at levels which keep the development of overall labour costs close to the development of

¹ See for example:

<http://www.epc.eu/en/pub.asp?TYP=TEWN&LV=187&see=y&t=30&PG=TEWN/EN/detailpub&I=12&AI=908>

productivity. This implies lower taxes and more investment and better quality education, putting further pressure on public finances.

A broad innovation concept

Innovation and creativity potentially offer a way out, enabling Europe to continue providing high standards of social services with fewer resources. But so far there has been relatively slow progress in public sector reform. Europe's public sectors must innovate more rapidly and increase productivity considerably to be able to deliver the same or higher output in the future with fewer resources and higher demands.

To do this, innovation should take a central role in all public sector activity. Innovation is not only about private sector R&D or investments in academic research facilities. Neither is it, necessarily, about increased use of new technologies. Innovation is fundamentally about doing everything in a more efficient - intelligent – way, based on new approaches and business models. It is thus imperative to foster a creative, innovative culture within the public sector and promote reforms that introduce innovative progress. Incentives have to be created to overcome risk-aversion by public servants and to reward successful innovations and innovators. New delivery mechanisms need to be explored: the focus should not be on who delivers public services but how well and efficient they are delivered.

A European dimension

To create sustainable public sectors, we will need to increasingly provide cross-border solutions, not only to enable EU mobility but also to make public services more efficient.² Innovation requires a large market and in the public services this implies that solutions are taken up by systems across borders. We thus require an Internal Market for such collective services to create markets of scale for development and application of new eGovernment solutions within a large European market.³ There is a need for greater coordination between Member States and more similar approaches to create lead markets for eGovernment activity in Europe. Such similar approaches evolve from identification of best practice, based on a robust benchmarking process, but also require willingness to break with the inward-looking approach of Member States.

The way ahead

Public sector innovation and sustainability should be a key part of the next Lisbon Agenda. Although progress in designing this new framework has been rather slow, it should be expected that a new framework for structural reform for the period after 2010 will be created in the near future. It is important that the public sector is not seen as "separate" in this process, quite simply because of the size, scope and importance of the public sector in European countries. Innovation and creativity is especially important in the large public services such as health and education, which are challenged by demographic change and globalisation but which also offer an opportunity to meet economic and social objectives simultaneously.

European Policy Centre

² See for example: www.epc.eu/Word/EVZuleeg7-11-12.doc

³ See for example:

http://www.epc.eu/TEWN/pdf/659840296_Cultivating%20a%20market%20for%20innovation%20in%20Europe.pdf