

# EC funds are not the way to spur venture capital and innovation in the EU

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Venture capital funds relatively risky businesses with significant upside. It's expensive capital. When successful however it has an outsized economic impact. Think PayPal, Square, Google, Facebook Amazon, and Uber.

EC bureaucrats worry the EU has insufficient venture capital and is therefore disadvantaged relative to the US in creating big, transformational businesses.

When Brussels perceives a problem, the answer is always more Brussels. Lo, Commissioner for Research, Science and Innovation [Carlos Moedas is championing the EC providing €400 million as a limited partner in a handful of venture capital firms](#). But euro-corporatism isn't the path to boosting innovation and growth.

The EC awards [monetary prizes for innovation it likes](#). Brussels bureaucrats investing would be a step in the wrong direction. Even if they don't manage investments directly, their participation will politicize venture capital.

Venture capitalists will be mindful irrespective of potential risk-adjusted returns, that their state limited partner will favor politically-fashionable "investments" – say solar power, but not others like subprime credit. Additionally, the EC will want firms it funds to stay in the EU. But private venture capital invests with the expectation its would-be high flyers will organize themselves across different geographies to maximize value, not to score points with the state. If that means putting much of a business in California or Bangalore instead of Paris or Frankfurt, so be it. Israeli ventures early on typically put their front office in the US or Europe, to address bigger or global markets.

Brussels worries that being individually smaller than the US, the EU's national markets can't support the same scale of venture capital. National GDP however isn't dispositive. In 2016 [more venture capital was invested in Israel than in the EU's economic locomotive Germany](#). As much venture

capital was invested in Israel in 2016 as in France, and considerably more than in Italy or Spain.

Small European markets can launch great multinational businesses. Dutch Adyen is a high-growth, global payment processor. Swedish payments unicorns iZettle and Klarna enjoy success beyond Scandinavia.

The UK leads the EU in venture capital and fintech creation because of its law, universities, openness, English, and critical mass of talent and financial services. Still even in the UK the cost of failure, of shutting down unsuccessful enterprises, is greater than in the US. The higher the failed ventures, the fewer the attempts.

The EU climate for venture capital could be improved. While they would still have smaller networks of venture capitalists, technologists, entrepreneurs and service providers, if France, Italy and Spain had at-will employment, eliminated taxes on carried interest and embraced muscular Anglo-contract law, more venture capital would be deployed there.

Capital goes where it can be productively employed and is well-treated. It's continually and dynamically reallocated to its best use. In the same vein, innovators vote with their feet going where they have the best chances of making their ventures successful.

Silicon Valley has the greatest network of venture capitalists, technologists, entrepreneurs service providers and tech firms with which to partner, on Earth. It welcomes talent hailing from anywhere on the planet, has world-class universities and a pleasant albeit costly quality of life. Consequently, notwithstanding California's decidedly anti-business climate, Silicon Valley remains the most compelling place on the planet to attempt to build transformational businesses.

Government attitude matters.

No US regulator or politician is hostile to successful European tech giants such as SAP, nor to Chinese fintech behemoths Tencent and Ant Financial.

In contrast, the EC is decidedly hostile to successful American firms like Microsoft, Google, Facebook, Amazon, Mastercard and Visa. It hailed putative continental payment-system champions Monnet and the Euro Alliance of Payment Schemes, both of which ultimately amounted to naught. And, its latest salvo in payments PSD2 aims to weaken the global card networks. If Eurocrats knew how to design and incubate a euro-tech platform to challenge Google, doubtless they would try.

Under free-market capitalism, it isn't the state's role to provide or direct capital for commercial innovation. If the EU and its member states want more venture-capital-funded innovation, they should create a more favorable regulatory and tax climate for VCs, entrepreneurs and global talent, and cheer private-sector risk taking and profit seeking.