YANN COATANLEM

Cofounder of GlassView, the inventors of NeuroPowered MediaTM, and President of Club Praxis

Terry Martin, Journalist, TV news anchor

We will start here with Yann.

Yann Coatanlem, Co-founder of GlassView, the inventors of NeuroPowered MediaTM, and President of Club Praxis

Thank you very much. Thank you for having me, Terry. Being an economist, I will start with the economy, if I may. It is now widely accepted that Europe cannot retain its prosperity, its standard of living and its influence on the world if it cannot fix its economy. Now, what do we do about it? In order to propose concrete solutions, I will highlight just one key diagnosis of the Draghi report that has been mostly overlooked.

First, what is the main takeaway of the Draghi report? It is that the European economic performance is lagging the US. You can see on this graph that the US had an extraordinary run in the last 10 years. You have a group of countries in the middle, and you have countries like France, Italy and Canada that have gone nowhere in the last 10 years, that have remained essentially flat. That is a problem. The second takeaway, which I think is even more important, is that most of the gap between the U.S. and Europe comes from the technology sector. I think that is something we need to be very well aware of. That kind of becomes clearer when you look at this graph, which looks at the level of investment in research and development. If you look at traditional industry, industries outside the tech sector, you see the numbers are comparable on both sides. If you look at public investments, the numbers are also comparable, at least in a relative value. However, the big difference is for the high-tech sector, where the US dominates by a factor of five to six. That is a big takeaway.

What is so special about tech? It is the fact that you fail all the time. You fail all the time in an industry that changes at a fast pace as well. Imagine yourself. You are a runner. You have to go very fast because you have competition, but there are so many obstacles you fall every few meters as well. What is the solution? The only solution is to quickly get back on your feet. Unfortunately for European companies, that is not something you can do right now. Let me take a very concrete example. If you look at Meta two years ago, Meta changed their name from Facebook to Meta because of the Metaverse. Well, they realized two years ago that the Metaverse was not going anywhere. What did they do? They fired 20,000 people, about a quarter of their staff. They rehired in a few months thousands of engineers with a more AI profile and then invested tens of billions of dollars in physical capital, all the AI equipment that you need. In terms of duration, it was executed in a few months, and in terms of cost, it was also a few months of the total compensation of the workers who were laid off. Therefore, there is a lot of agility here.

If you contrast that with the European situation, take the big tech companies – SAP, Nokia and Ericsson – at about the same time they announced significant restructuring, but they also announced accounting provisions over several years. Therefore, you see a few months on one side and a few years on the other side. You have an order of magnitude difference. Then, when you value a company – you are an investor and you value a company – obviously the same project that is profitable in the US becomes nonprofitable in Europe because of these restructuring costs. Therefore, the conclusion at this stage is that employment protection laws choke the profitability of high-risk projects that, again, fail very often. Mario Draghi says exactly that in his report, and I quote, and you have it here, 'EU companies face higher restructuring costs compared to their US peers, which places them in a position of huge disadvantage in highly innovative sectors characterized by the winner-takes-most dynamics'.

Because of all that, what do European companies do? Well, they avoid disruptive innovation. They avoid being near the technology frontier, and you see what you see on the screen, which is that – and it is very striking – if you compare the US and Europe, you see that in the US companies essentially invest in high-tech R&D, when in Europe you invest mostly in old-style industries. That is a very striking difference. An even more shocking graph is the following, and I think it puts things in perspective very well. If you look at relatively young companies, less than 50 years, with companies of a significant size, more than USD 10 billion of market cap, here is what you get: high-tech in green, so the big rounds on the US side are what we call the Magnificent Seven, and then you have Europe, which is so little, and Asia would actually be much bigger. That is really striking.

What do we do about it? What we discussed with Draghi, and we are proposing to national governments and the European Commission, is certainly not to copy the US style of employment protection, but to use the best practice in Europe, and that would be something like Switzerland or Denmark. We think in particular if you could adopt the Danish flexicurity but maybe limited to the top 5% or 10% of employees, the kind of area where you are going to hire your highly qualified engineers, then you are in business. It is almost a win-win situation, because the rest of the population is not going to go in the streets to protest. In fact, they may be pleased with the idea that the privileged people are going to suffer a bit more. At the same time, you give European companies more blood and the ability to really regain this agility I was talking about, and the ability to really react in a few months and not in years. That is the idea, and I will stop here.

Terry Martin

Yann, just to get us kind of back to where we started, I am wondering about the ideas that you have just put forth there, and they are really interesting. I love that map that you showed of blue and white with European versus US companies in terms of going from scratch to public, but I am just wondering, getting back to our topic with Europe after the Ukraine war and Trump, how do you see Europe's competitiveness moving forward, particularly in the tech sector, being influenced by those two developments? Do you see any changes coming about, or is this going to be business as usual?

Yann Coatanlem

It is going to make the European situation even more complex because budgets will be more restricted. I think governments, as usual, will have to tackle several tasks at the same time, and it is very difficult. The cost of energy clearly is likely to remain high in Europe because of all of these conflicts, all of these tensions, and, yes, that is going to impact the business landscape big time. Hence the need to start structural reforms now, war or not war.

Terry Martin

Okay, yes. I mean, Europe's competitiveness will be, of course, influenced by both of these developments and already has been. Okay. Let us move on then.