Europe's Problem Is Not Lack of Capital

By Antonin Bergeaud, André Loesekrug-Pietri, and Jean Tirole

It's a lack of courage.

The conventional wisdom in Europe is that we lack homegrown technology giants because we lack the capital to generate them. Every debate on competitiveness thus ends with a recommendation to put billions more dollars on the table and focus on scaling up technology companies.

This view misses the point. It conveniently allows governments to announce grand plans without pursuing serious reforms. While it enables investment funds and startups to access more financing, it does not question the rules of the game. Worst of all, it sidesteps the fundamental question: European economies boast some of the world's highest savings rates, so why does private capital invest so little here?

A perfect illustration of the problem is the new Scaleup Europe Fund, a vehicle launched by the European Commission, the European Investment Bank, and large private investors to provide late-stage growth capital to innovative firms in so-called strategic technologies (artificial intelligence, quantum, semiconductors, and so forth). Once again, billions will be deployed to address a problem that is not financial, but structural.

For private investors, risk is now globalized. Launching an industrial startup or deep-tech firm is just as difficult in Boston or Shanghai as it is in Paris; and, by the same token, a vibrant startup ecosystem can emerge almost anywhere, as smaller countries such as South Korea, Israel, and Switzerland demonstrate. But American venture capitalists do offer sustained support and networks, opening doors to the United States and its continental market of 330 million consumers. While market size is not everything, early access to a large, solvent market is a decisive advantage.

This is where Europe remains far behind. None of the world's twenty largest technology companies, and none of the twenty most highly valued startups, is

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European. Unfortunately, this is what one would expect from twenty-seven separate regulatory and labor-law regimes, twenty-seven tax systems, twenty-seven public procurement markets, and twenty-seven health authorities. An entrepreneur who secures a permit quickly at home may still have to wait two years for the same result in a neighboring country.

Who can hope to scale up under such conditions? As former Italian Prime Minister Enrico Letta's 2024 report for the European Council emphasized, Europe's single market exists only on paper, not in practice. Its lack of genuine scale explains the U.S.-EU valuation gap far better than any abstract debate about "available capital." Without a genuinely functioning single market, Europe's savings cannot be channeled into the continent's real economy.

As long as the current conditions for returns and exits (when early-stage investors cash out) persist, introducing more public money can be only a limited remedy. When an American investor takes a stake in a European startup, that automatically opens access to the U.S. market, instantly increasing the startup's commercial potential and justifying a higher price. This is not because the investor is more daring, but because the potential upside is incomparably larger. That is why large funding rounds are overwhelmingly led by U.S. investors.

Europe's own savings are plentiful, but poorly allocated. The vast financial wealth held by households tends to be invested in low-risk products or property, and large institutional investors are constrained by prudential regulations that discourage investments in unlisted equity, despite the importance of this asset class for innovation. Still, even without weakening these safeguards, some unleveraged actors could take on more long-term risk. What restrains risk-taking is not a lack of financial resources, but an incentive structure that favors safety over long-term returns.

Redirecting part of this savings pool toward innovation is not impossible, but it requires changing the rules. As long as the perceived profitability of investing in technology remains low in Europe (because the single market does not offer scale), it is rational for savers to prefer government bonds over deep-tech startups. Forcing a reallocation without reforming the economic model would merely create an illusion of dynamism. Large sums would pour into structures whose growth is constrained, yielding little genuine value creation. Before moving money, markets must be opened.

Even the best startups cannot thrive sustainably in an environment where each country protects its national champions, and where administrative barriers prevent the emergence of truly European ones. If Europe wants to be a technological power, it must finally dare to do what it has postponed for two decades: implement a genuine single market. Not until France extends its support beyond Mistral to companies founded elsewhere (for example) will Europe be able to say that it has a market comparable to America's.

In addition to unlocking more scale, Europe needs to address another common misconception: that disruptive innovation comes only from startups. In fact, a startup's priority is survival, which is ensured by finding markets, customers, and revenues quickly. It cannot sustain ten-year bets on its own. True breakthroughs—lasers, GPS, biotechnology, and new materials—have all come from investments backed by a willingness to embrace long-term risk.

Without a change, Europe will continue to lament that while its laboratories and universities generate hundreds of scientifically rich startups every year, only a few ever break through.

True, such breakthroughs have often been underwritten by the state, foundations, or independent agencies with substantial resources and agile governance. But in the case of the European Union's public research-funding framework, Horizon Europe, the program suffers from overly political governance, fragmented subsidies, excessive bureaucracy, and neglect of disruptive innovation. Without a change, Europe will continue to lament that while its laboratories and universities generate hundreds of scientifically rich startups every year, only a few ever break through.

Precisely because Europeans lag on most technological fronts, they have an opportunity to reshuffle the deck. They can allocate a meaningful share of their budgets—at least 10 percent of research funding—to high-risk, high-reward programs that are more agile than national agencies or Horizon Europe, and are not focused solely on startups (like the European Innovation Council is nowadays). As long as researchers must spend more time filling out forms than running experiments, Europe will be capable only of incremental innovation.

What Europe lacks is not money, but political courage, continental-scale ambitions, and the capacity to execute. Only by fostering these attributes can Europe move from cheap talk to action. And only then can it start to catch up technologically, proving that it is still in control of its own destiny. ◆