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A Fearless Culture Fuels U.S. Tech Giants

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Common Sense

By **JAMES B. STEWART**

With this month's announcement that the European Union is investigating Amazon for possible anticompetitive behavior in the sale of e-books, antitrust fervor in Europe seems to have hit fever pitch. Apple, Google and Facebook are all subjects of investigation, and Amazon is now the focus of at least three separate inquiries.

Europe's top antitrust regulator, Margrethe Vestager, wants us to believe it's just coincidence that so many targets are American tech companies: "This just reflects that there are many strong companies in the U.S. that influence the digital market elsewhere," she told Bloomberg this month.

But even if true, why would that be? Why hasn't Europe fostered the kind of innovation that has spawned hugely successful technology companies?

Put another way, when have United States regulators investigated and filed suit against a European technology company for market dominance? (Answer: never.)

"There aren't many European tech firms with market power in the U.S. worth talking about," said Scott Hemphill, visiting professor of antitrust

and intellectual property at the New York University School of Law. “So it’s not a surprise that they don’t get much attention from U.S. antitrust authorities.”

Here’s a stark comparison: In the United States, three of the top 10 companies by market capitalization are technology companies founded in the last half-century: Apple, Microsoft and Google. In Europe, there are none among the top 10.

Yet if any region of the world could compete successfully with the United States in technological prowess, it would seem to be Europe. The European Union has venerable universities, a well-educated work force, affluent and technically skilled consumers and large pools of investment capital.

Europe has a long history of world-changing inventions, including the printing press, the optical lenses used in microscopes and telescopes and the steam engine.

But recently? Not so much. King Digital Entertainment, creator of the video game sensation Candy Crush and now based in London, was founded a decade ago in Sweden, which has emerged as a hotbed of video game innovation. A German, Karlheinz Brandenburg, is credited with the invention of the MP3 format for digital music, and the telecommunications application Skype was created by a group of two Scandinavians and three Estonians. But Apple created the iPod MP3 player and eBay bought Skype in 2005. (It’s now owned by Microsoft.)

This hasn’t gone unnoticed in Europe. Last month, the European Union unveiled its “Digital Single Market” strategy aimed at fostering European entrepreneurs and easing barriers to innovation. European countries have tried to replicate the critical mass of a Silicon Valley with technology centers like Oxford Science Park in Britain, “Silicon Allee” in Berlin and Isar Valley in Munich, and “Silicon Docks” in Dublin.

“They all want a Silicon Valley,” Jacob Kirkegaard, a Danish economist and senior fellow at the Peterson Institute for International Economics, told me this week. “But none of them can match the scale and focus on the new and truly innovative technologies you have in the United States. Europe and the rest of the world are playing catch-up, to the great

frustration of policy makers there.”

Petra Moser, assistant professor of economics at Stanford and its Europe Center, who was born in Germany, agreed that “Europeans are worried.”

“They’re trying to recreate Silicon Valley in places like Munich, so far with little success,” she said. “The institutional and cultural differences are still too great.”

There are institutional and structural barriers to innovation in Europe, like smaller pools of venture capital and rigid employment laws that restrict growth. But both Mr. Kirkegaard and Professor Moser, while noting that there are always individual exceptions to sweeping generalities about Europeans and Americans, said that the major barriers were cultural.

Often overlooked in the success of American start-ups is the even greater number of failures. “Fail fast, fail often” is a Silicon Valley mantra, and the freedom to innovate is inextricably linked to the freedom to fail. In Europe, failure carries a much greater stigma than it does in the United States. Bankruptcy codes are far more punitive, in contrast to the United States, where bankruptcy is simply a rite of passage for many successful entrepreneurs.

Professor Moser recalled that a businessman who had to declare bankruptcy in her hometown in Germany committed suicide. “In Europe, failure is regarded as a personal tragedy,” she said. “Here it’s something of a badge of honor. An environment like that doesn’t encourage as much risk-taking and entrepreneurship.”

When David Byttow, co-founder of the anonymous social app Secret, announced this spring that he was shutting down the San Francisco-based start-up, he didn’t seem the least bit chastened. “I believe in failing fast in order to go on and make only new and different mistakes,” he wrote in a blog post.

There is also little or no stigma in Silicon Valley to being fired; Steve Jobs himself was forced out of Apple. “American companies allow their employees to leave and try something else,” Professor Moser said. “Then, if it works, great, the mother company acquires the start-up. If it doesn’t, they hire them back. It’s a great system. It allows people to experiment and try

things. In Germany, you can't do that. People would hold it against you. They'd see it as disloyal. It's a very different ethic."

Europeans are also much less receptive to the kind of truly disruptive innovation represented by a Google or a Facebook, Mr. Kirkegaard said.

He cited the example of Uber, the ride-hailing service that despite its German-sounding name is a thoroughly American upstart. Uber has been greeted in Europe like the arrival of a virus, and its reception says a lot about the power of incumbent taxi operators.

"But it goes deeper than that," Mr. Kirkegaard said. "New Yorkers don't get all nostalgic about yellow cabs. In London, the black cab is seen as something that makes London what it is. People like it that way. Americans tend to act in a more rational and less emotional way about the goods and services they consume, because it's not tied up with their national and regional identities."

One of Europe's greatest innovations was the forerunner of the modern university: Bologna, founded in 1088. But as centers of research and innovation, Europe's universities long ago ceded leadership to those in the United States.

With its emphasis on early testing and sorting, the educational system in Europe tends to be very rigid. "If you don't do well at age 18, you're out," Professor Moser said. "That cuts out a lot of people who could do better but never get the chance. The person who does best at a test of rote memorization at age 17 may not be innovative at 23." She added that many of Europe's most enterprising students go to the United States to study and end up staying.

She is currently doing research into creativity. "The American education system is much more forgiving," Professor Moser said. "Students can catch up and go on to excel."

Even the vaunted European child-rearing, she believes, is too prescriptive. While she concedes there is as yet no hard scientific evidence to support her thesis, "European children may be better behaved, but American children may end up being more free to explore new things."

None of this will be easy to change, even assuming Europeans want change. "In Europe, stability is prized," Professor Moser said. "Inequality is

much less tolerated. There's a culture of sharing. People aren't so cutthroat. Money isn't the only thing that matters. These may be good things." But Europeans can't have it both ways. She said that successful innovators quickly discover it's hard to break through these cultural norms.

Mr. Kirkegaard agreed. "Europeans are conservative with a small 'c,'" he said. "They pretty much like things the way they are."

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