Flash Economics

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Companies can't do everything

There is a widespread view in the United States and Europe today that companies could take over many of the functions of government. But companies cannot do everything, and it is crucial that governments have substantial financial resources and an economic development strategy.

This can be seen, for example by:

- The fact that the United States and Europe are lagging behind China in the production of electric batteries, wind turbines and solar cells, due to the lack of strategic planning for the needs of the energy transition in the United States and Europe;
- The weight of public budgets on fundamental research, while companies focus on applied research; the need for public agencies and companies to work together to develop innovation;
- The need for an effective public education and health system.

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Could companies replace governments?

A thesis that is spreading rapidly in business circles is that **companies could take over many of the functions of the state and make them more efficient**. This is the thesis defended in particular by Elon Musk in the United States, in the libertarian tradition (libertarians want the introduction of deregulated capitalism and a minimal state).

We will defend the opposing view that companies cannot do everything, **and that it is necessary to have a State with substantial financial resources and an economic development strategy**.

We will illustrate this necessary role of the State with a few examples.

The need for an energy transition strategy

The United States and Europe are lagging massively behind China in the production of electric batteries, electric cars, wind turbines and solar cells.

In reality, there has been no strategic thinking in the United States or in Europe about how to organise the decarbonisation of the economy.

If there had been strategic planning, it would have become clear that we could not switch to electric cars or decarbonise industry without an effort to organise the production of electric batteries, wind turbines and solar cells. China's strategic planning has enabled it to develop the decarbonisation of transport and industry in parallel with the development of the equipment needed for decarbonisation.

By 2023, 37% of cars sold in China were electric (electric or rechargeable electric), compared with 24% in Europe and 9.5% in the United States. Europe has decided that by 2035, all cars sold will be electric.

In 2023, **production of electric batteries** reached (source: International Energy Agency Trends in electric vehicle batteries):

- 481 GWh in Chine ;
- 101 GWh in Europe ;
- 62 GWh in North America ;
- 25 GWh in Japan ;
- 6 GWh in the rest of the world.

China's production capacity is 1.570 GWh, which shows that there is a huge overcapacity.

As for wind turbines, China has 45% of the world's installed capacity, France 2.3%, Germany 6.6%, Italy 1.1% and Spain 2.9% (source: WWEA).

Finally, as far as **solar cells** are concerned, China accounted for 77.8% of world production by 2023 (source: International Energy Agency), followed by Vietnam (6.4% of world production) and Malaysia (2.8% of world production). There is a very low level of production in the United States (1.9% of world production) and virtually no production in Europe.

The consequences of the lack of strategic planning for the industrial needs associated with the energy transition in Europe and the United States are the undersizing or the almost total lack of production capacity in strategic industries.

The need for fundamental research

Research and development can be divided into fundamental R&D and applied R&D:

- Fundamental R&D is carried out mainly in public laboratories and universities;
- Applied R&D is carried out mainly in companies (**Charts 1A/B**).

Chart 1A
R&D spending of the government sector and the higher education sector, (as % of nominal GDP)

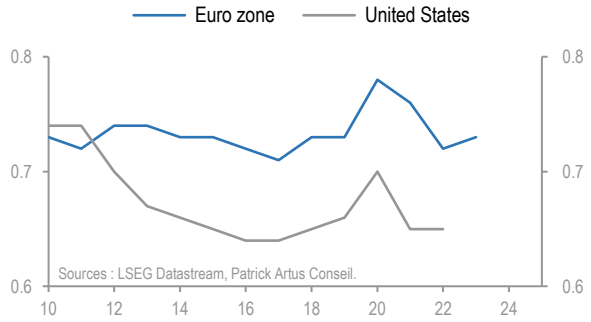
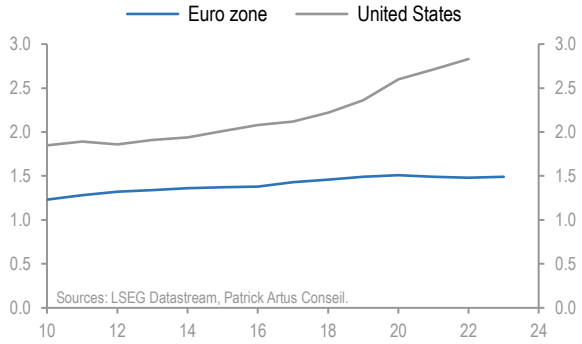


Chart 1B
Corporate R&D spending (as % of nominal GDP)



Fundamental research is essential if we are to achieve the **breakthrough innovations** that will eventually lead to new goods and services once they have been adapted by business research. Basic research cannot do without public funding. For example, the **DARPA (Defense Advancement Research Projects Agency)** in the United States, with a budget of 4.1 billion dollars in 2024, is involved in the design of new aircraft, robots; and in neuroscience research or genetic research. Still in the United States, the **Natural Science Foundation** co-finances research into the polar regions, space, biology, chemistry, computers, the environment, education, infrastructure, new materials, mathematics, physics and technology. Before the 2025 budget cuts, the Natural Science Foundation had a budget of 10 billion dollars and had funded around 25% of basic research in the United States.

Companies would not be able to develop breakthrough innovations without the back of state-funded basic research.

The need for effective public education and health systems

1- Public education systems: the examples of France, Spain and Italy

When we look at the **OECD's PIAAC survey** (concerning the skills of adults) and the **OECD's PISA survey** (concerning the skills of young people), we see the **low level of skills of young people in France, Spain and Italy, or of adults in France, Spain and Italy, compared with that of other OECD countries** (**Tables 1 and 2**).

Table 1: Results of the OECD PIAAC survey (by decreasing score from the 2023 survey, overall score*)

Country	2016	2023
Finland	285	289
Japan	292	285
Sweden	279	281
Germany	271	267
England (UK)	267	266
France	258	253
Spain	249	246
Italy	249	240

*In 2016, average score in numeracy and literacy
Source : OECD

Table 2: Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)

Country	2012	2015	2018	2022
Japan	540	529	520	533
Finland	529	523	516	495
United Kingdom	502	500	503	494
Sweden	482	496	503	487
Germany	515	508	500	482
France	500	496	494	478
Spain	490	491	482	477
Italy	490	485	477	477

Source : OECD

The low level of skills among young people and adults in France, Spain and Italy **has a clear consequence: the low employment rate among 15–64-year-olds in these countries** (**Charts 2A/B**), and hence the low level of production and tax revenues.

Chart 2A
Employment rate of population aged 15 to 64 (as %)

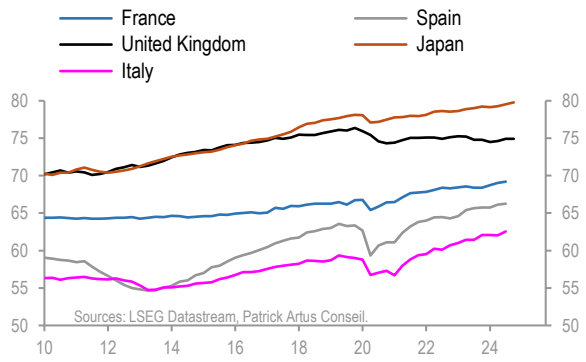
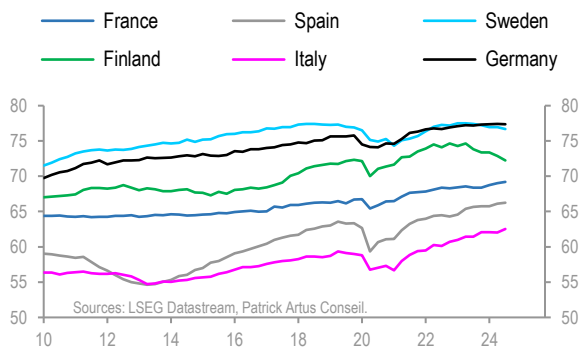


Chart 2B
Employment rate of population aged 15 to 64 (as %)



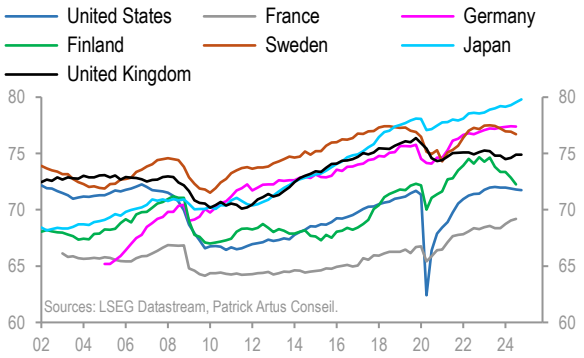
2- Public health system: the example of the United States

In the United States, 8% of Americans have no health insurance (public or private), and above all 23% of poor adults (with incomes below the poverty line) have no health insurance (source: Census Bureau).

The result is a high proportion of Americans who are unfit for work, estimated at 13.4% of the population by the Census Bureau and 26% by the CDC (Center for Disease Control). Americans who are unable to work have lower incomes than the average (28,400 dollars per year compared with 40,900 dollars, according to the Census Bureau, in 2021).

This shows that **the inability of many poor Americans to obtain health cover has a negative impact on their state of health and contributes to a fall in the employment rate** (**Chart 3**).

Chart 3
Employment rate of population aged 15 to 64 (as %)



Summary: companies cannot completely replace governments

We have seen that **companies cannot replace governments when it comes to**:

- Defining an economic strategy involving several sectors of activity;
- Financing and organising basic research;
- Organising an effective education and health system.

The disappearance of the State that libertarians want to achieve would have very negative consequences for the coordination of industrial policies, the ability to achieve breakthrough innovations, the level of education and the state of health of the population.

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