

NEWS – ECIPE PRESS RELEASE – NEW OCCASIONAL PAPER

The Services Revolution: Industrial Policy for a Modern Economy

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Brussels, 24 November 2025 - A [new study](#) from scholars at ECIPE challenges the growing political consensus that Europe's future competitiveness depends on a return to manufacturing. Europe's future prosperity will instead be shaped by its ability to unleash the potential of the services sector – the largest, fastest-growing, and most innovative part of the European economy.

Services now represent around 70 per cent of the EU's GDP and employment, and the EU is the world's largest exporter and importer of services. Yet, unlike manufacturing, the sector continues to be overlooked in policymaking and held back by excessive regulation and fragmentation.

“No wealthy country has achieved further prosperity through reindustrialisation, while all advanced economies have grown richer by embracing the servicification of their economies”, said co-author Fredrik Erixon, the Founding Director of ECIPE.

The report dismantles the myth that services are inherently low-productivity, low-value, or low-innovation. Knowledge-intensive services such as ICT, finance, scientific research, and professional activities are now among the most productive sectors in the economy. Furthermore, labour productivity in ICT services has grown 1.9 per cent per year since 2015, outpacing manufacturing (1.6 per cent).

The findings also show that services generate higher wages: average earnings in ICT and professional services exceed those in manufacturing by a wide margin. Moreover, high-growth firms are disproportionately found in services. In ICT, 17 per cent of all firms are high-growth – almost double the share in manufacturing.

The report also points to a clear transatlantic divergence. Between 2000 and 2020, services-sector productivity in the US grew by 60 per cent, while the EU managed only 10 per cent. This difference – not manufacturing – explains most of the current EU-US productivity divide.

One key driver of this is private R&D investment. While EU and US industrial R&D levels are broadly similar, services tell a very different story. US services R&D has increased tenfold since 2003, reaching €232 billion in 2023. Over the same period, EU services R&D grew only to €38 billion – just one-sixth of the US level.

On top of greater spending volumes, the US directs R&D to the most innovative activities: software, computer programming, and scientific R&D. In Europe, services R&D continues to concentrate in more traditional activities such as finance and telecoms.

Crucially, if the EU were to create a more competitive and innovation-friendly environment for services, the economic gains would be substantial. The report's quantitative assessments show that removing barriers to services could boost European GDP by €280 billion over five years, equivalent to 1.6 per cent additional growth.

“Europe’s current industrial strategies are rooted in outdated assumptions. To compete globally, the EU needs the dynamism of a modern services sector. If better growth and competitiveness are the goals, EU policy should now focus at freeing the single market for services”, said Erixon.

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