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The IPTS **REPORT**

EDITED BY THE INSTITUTE FOR PROSPECTIVE TECHNOLOGICAL STUDIES (IPTS)
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Employment

EUROPEAN COMMISSION
Joint Research Centre



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ABOUT THE IPTS REPORT

The IPTS Report launched in December 1995 on the request and under the auspices of the Commissioner for Science, Research and Development, Edith Cresson, has now completed its pilot phase. What seemed like a daunting challenge in late 1995, appears now in retrospect as a crucial galvaniser of IPTS energies and skills.

The Report has published articles in a number of areas, keeping a rough balance among them and exploiting interdisciplinarity as much as possible. Articles are deemed 'prospectively relevant' if they explore issues which are either not yet on the policymaker's agenda (but due to be there sooner or later), or aspects of issues which although on the agenda their importance has not been fully appreciated.

The thorough drafting and redrafting process based on continuous interactive consultation with our collaborating network of institutes, which will progressively become even more involved in the process, guarantees quality control.

The first, and possibly most significant, indicator of success is that the Report is being read. Issue 00 (December 1995) - of which 2000 copies were printed in what seemed to be an optimistic projection at the time - has become a collector's item. Since then circulation has risen to 6000. Requests for subscriptions have come not only from all over Europe but also from the US, Japan, Australia, Latin America, N. Africa, etc.

The positive comments our efforts have received have been highly gratifying and the constructive and engaging criticism of our readership has formed part of the ongoing process of improvement. The comments we have received range from the informal, formal communications (in paper or electronic form), and also include the result of a Reader Survey commissioned by IPTS.

Readers' direct engagement with the content of the report's articles has led us to include a Letters-to-the-Editor section, which started in the June issue.

The rising esteem in which the publication is held is also making it increasingly attractive for authors from outside the Commission. We have already published contributions by authors from such renowned institutions such as the TNO in Holland, the VDI in Germany, the ENEA in Italy, the Council of Strategic and International Studies in the US, etc.

The Report is produced simultaneously in four languages (English, French, German and Spanish), by the IPTS, to these one could add the Italian translation volunteered by ENEA (yet another sign of the Report's increasing visibility). The fact that it is not only available in several languages, but also largely prepared and produced on the Internet's World Wide Web, makes it quite an uncommon undertaking.

We will continue to strive to meet the expectations of our very diverse readership, to avoid the traps of oversimplification, encyclopaedic reviews or the inaccessibility of academic journals. The key is to remind both ourselves and our readers, that we cannot be all things to all people, that it is important to carve out our niche and keep on exploring and exploiting it, hoping to illuminate topics under a new, revealing light for the benefit of the readers, to prepare them to manage the challenges ahead.

P r e f a c e



This special edition of the IPTS Report covers an exciting new initiative called 'Made in Europe'. 'Made In Europe' will be more than a project, it will explore, debate and communicate the competitive advantage of Europe. 'Made in Europe' is a forward-looking concept which extends and builds on a whole range of socio - economic studies as well as corporate experiences. It seeks to explore and valorise those essential positive attributes of Europe in terms of employment, competitiveness and technology which provide high and sustainable living standards for its citizens.

Europe is a diverse, multi-cultural society with a relatively skilled and well-educated work force, attributes which on the face of it would be judged a base for a robust competitive economy. Europe is heterogeneous - but how can it act quickly and flexibly to make a competitive virtue of the ability to change? Europe competes in a world which is undergoing rapid, and some would argue chaotic change. It is in this context that we need to develop a new flexibility to turn change itself into a European competitive advantage. As recent studies have shown, technology based, high added-value employment pays better and offers better prospects to those citizens who can change and exploit new opportunities. The quality of our labour force is the link between technology, employment and competitiveness.

One of the main objectives of the Institute for Prospective Technological Studies in launching 'Made In Europe' is to contribute to the achievement of a shared understanding of these features and their implementation, which should result in a more competitive Europe.

'Made In Europe' is an ambitious initiative. Like many other projects its full benefits will flow not only from special studies that IPTS and the collaborating institutions will undertake, but also from the active involvement of all parties concerned, notably the companies and investors who play an active role themselves in the project.

This special edition of the IPTS report contains a number of articles raising issues which the authors think should be at the core of the debate. Your contribution will be the key to ensuring the success of this major initiative. To start this process, IPTS is preparing a Seminar which will take place in Seville at the beginning of October 1997.



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SPECIAL ISSUE

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The 'Made in Europe' project should not just be a repeat of the pioneering 'Made in America' report. New challenges have emerged and so new focuses are needed

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Dramatic changes in the nature and sources of competitiveness which have come about as a result of the new global context demand a rethink of policy approaches to strengthening Europe's position on world markets, particularly with regard to the inclusion of 'non-cost' factors in the competitiveness equation.

15 The New Socio-Economics of Organization, Competitiveness and Employment

Employment and growth are increasingly recognized to depend upon knowledge accumulation and distribution in society, thus the role that institutions, business practices and patterns of organization play in these processes needs to be better understood, particularly in the European context of diversity.

21 The Impact of Globalization on European Economic Integration

European efforts at integration in manufacturing, services and research have produced paradoxical results, and have to some extent been overtaken by globalizing forces. In their over-reliance on economies of scale these efforts have tended to underestimate the importance of diversity and local creativity as factors for competitiveness in the global market.

29 Made for Living? Sustainable Welfare and Competitiveness

Social welfare tends to be seen as a burden on the European economy which jeopardizes its capacity to compete effectively, thus models of sustainable welfare tend towards reducing it to the minimum, and its contribution to creating the social conditions which make growth possible is generally overlooked.



EDITORIAL

Made in Europe: employment through excellence and diversity

This special issue of The IPTS report, produced in conjunction with the Scientific Committee, focuses on one of the main questions facing policy makers in Europe today: How to balance a high quality of life with a fair distribution of work, in an economic and social space where 'traditional' competition is generally reducing employment and worsening the social conditions of the under-employed. It is an attempt to open a space for a debate which we hope could produce new insights over the next two years, which would allow us to create a new "virtuous circle" of competitiveness, excellence and quality of life.

In discussing these issues it was considered appropriate to position this debate in a readily understandable context. "Made in America, regaining the productive edge" produced by the MIT Commission on Industrial productivity (1989) provided such a point of reference, creating a useful framework within which to examine the idea of "Made in Europe..." and to do this the IPTS has formed a Scientific Committee comprising IPTS members Bob Whelan and Gustavo Fahrenkrog and authors Benjamin Coriat, Giovanni Dosi and Luc Soete, all of whom are actively engaged in research into these issues.

By way of introduction, R. Solow, one of the authors of the seminal American project has provided us with a comment on this idea drawing on the benefit of his experience. In his short, sharp article entitled "If we were to do it over again" he signals five trails which the original study did not follow, which, particularly in the light of developments over the last ten years, might be interesting or even essential today.

- The study focused mainly on manufacturing. Today the blurring of the borders between manufacturing and services makes it absolutely necessary to consider both

- Outsourcing across national and continental boundaries and its employment consequences and strategies now deserve more attention.
- Focusing on high productivity employment and in non-tradables means that we have to take the need to invest in human capital seriously.
- Financing the social safety net needs a new, nation-specific debate
- Regulatory barriers to flexible adaptation need to be re-examined.

To these general points one could add a significant sixth, and specifically European difference with earlier "Made in..." projects; Europe is a heterogeneous collection of very different social and economic "cultures". The articles by Dosi and Ducatel et. al. clearly recognize this to be both an asset and a challenge.

The four main articles of this Special Issue focus on different aspects of some of the questions a project/action like the one we have started should deal with. They are certainly not the only ones, and the authors have sought to define the issues from different perspectives, raising questions rather than giving answers.

Benjamin Coriat's article, "The New Dimensions of Competitiveness: Towards a European Approach" reviews the different notions and factors determining competitiveness, focusing in particular on the new determinants based on "non-price factors" and on infrastructures and positive externalities. It stresses the fact that these new determinants open new possibilities for employment policy both at the micro or firm level and at meso or macro levels. He suggests that a "Made in Europe" initiative should focus on three features:

- The approach should be a micro-economic one and take the behaviour of the firm as its starting point, since firms are at the root of the comparative advantages from which prosperity stems. Renewal of organizational skills is an essential element of competitiveness

- Diversity, divergence and convergence. Since Europe is not yet a fully integrated economic union, but is already operating in a relatively open global economy, we will need to consider the different national and regional practices which moreover might be the base of substantial comparative advantages.
- Last but not least he considers it necessary to focus specifically on employment and social issues generally as the basis of competitiveness.

In "The New Socio-Economics of Organization, Competitiveness and Employment" Giovanni Dosi argues that Europe is characterized by its diversity of institutions, business practices and patterns of organization, which persist despite the pressure of global competition. The governance, structure of ownership, labour relations of a German, British or Italian firm are substantially different. The analysis of such variety and the differing performances related to it, might provide not only insight but also give rise to major policy issues. Transfer of "best practices" through different socio-cultural environments might have to be seen in a different light, and adapted to the specific local/regional/national conditions.

In the same vein he also argues that the capacity of technological learning and organizational learning shape the long term competitiveness of firms and in the long run of nations and regions. The fact that both forms of learning have to be flexible in periods of transition are highlighted in this article.

Luc Soete's paper examines the relationship between European integration policies and globalization. It looks at the role of new technologies in driving globalization forward. It also considers whether European attempts to harmonize

markets in the pursuit of economies of scale are still appropriate, and suggests that the key to competitiveness may lie in diversity rather than standardization.

European integration policies on a single market of 350 million consumers, on economic and social cohesion and the European innovation system have been careful but slow. In an era of globalization, they are too slow. They may also be increasingly inappropriate in the global village where economic success is increasingly built upon differentiated markets and local creativity.

In the article "Made for living? Sustainable Welfare and Competitiveness" Ducatel, Fahrenkrog and Gavigan argue that the debate on European competitiveness tends either to disregard social issues or to see high social standards as a cost which will have to be minimized if Europe is to remain competitive. Too little of the debate has looked at the positive role which is played by social innovation, yet it is in the social economy that we have to look to find the critical challenges and possibilities for new policies which can help us to construct a new self-reinforcing system of growth between the economic and social realms.

The paper argues that higher social standards are needed for international competition and growth. Of course, we need a high quality, well motivated workforce and social spending represents an important area in which effective demand is created. Attempts to meet, rather than stifle, new social demands can be a seedbed of an innovative economy. This is particularly true in the context of new forms of education, the provision of health services and the care of the aged and their different needs.

Made in Europe

If we were to do it over again

R M Solow

The original Made in America was completed eight years ago, the work of a group of scientists, engineers, economists and political scientists at MIT. That is just the sort of mixed enterprises that IPTS was created to encourage. If a competent team is available, the other great necessity is a demand for the product. Ten years ago, American industry was worried, insecure, afraid that it had lost the technical and economic superiority that it thought —falsely— to be a sort of genetic birthright. European industry may be in that sort of mood now, facing intensified intra-European competition, poor macroeconomic performance nearly everywhere in Europe, and some still undefined “threat” from the low-wage economies that fill the rest of the world.

But Europe in 1998 is not America in 1989. A new study can not just follow the pattern of the old. I would like to give some examples of trails that we did not follow then that must certainly be explored now. For instance, even then I thought that my engineering colleagues were a little too focused on the problems of manufacturing and not enough concerned with the service sector. In the end, we limited ourselves to a group of manufacturing industries, if only because that was where our expertise was strong. You can not afford that. The trend to services has continued. It seems to be an inevitable part of rising incomes. It is just as important to realize that manufacturing and service production are becoming less separable as computerization, mass customization and other such developments expand, driven both by technology and consumer preferences.

The MIT team had some things to say about customer-supplier relations, but it did not pay serious attention to the nature of outsourcing, especially outsourcing across national and continental boundaries, to take advantage of low wages elsewhere. Today that has become a central issue. To take an extreme

example, some of my MIT colleagues have just published a study called Made by Hong Kong, not “in” but “by”. Here I state my own opinion: firms in the advanced countries can not compete with poorer countries in aspects of production dominated by unskilled labour. And they should not want to do so, because it means acquiescing in poverty.

A new look must come to grips with the need for high-income countries to specialize in high-productivity employment (as well as in non-tradables). That means taking seriously the need to invest in human capital, upgrade the less-skilled members of the labour force, and generally narrow the range of earning capacities in our societies.

These things can not happen instantaneously. In the meanwhile it will be necessary to rethink the financing of the social safety net. Many European economists have explained why high social charges at the low end of the wage scale are a recipe for long-term unemployment. Each nation has to choose the level of social assistance it wants to provide; whatever it is, more of the cost will have to be shifted away from taxes on wages.

Analogously, regulatory barriers to flexible adaptation should be rethought, and this is just as true of markets for goods as of the market for labour. The old MIT team did not think along these lines, because regulatory obstacles were not a major factor in the U.S., compared with deficient business practice. But a new study can not avoid getting into such matters. That means it will be more public-policy-oriented than its predecessor.

Intellectual cooperation between engineers and technologists and economists does not come easy. One might say that they are trained to optimize different things. We can hope that, when they understand one another, something useful happens. ●

The New Dimensions of Competitiveness: Towards a European Approach

B. Coriat

Issue: Over the last ten or fifteen years, an important debate on competitiveness has taken place, especially in connection with the series of national "Made In" studies: Made in America, Made in France and Made in Japan. This paper draws lessons from this debate, aiming to indicate the dramatic changes in the nature and sources of competitiveness in the new "global" context. It then uses these insights to suggest how the competitiveness of Europe could be strengthened

Relevance: This paper draws attention to the importance of launching a new "Made in" study: Made in Europe. Previous studies have shown that the classical elements of "cost-competitiveness" have increasingly to be supplemented by "non-cost competitiveness". Microeconomic factors like product quality, differentiation and timeliness are increasingly essential to the health of firms. Meso and macro factors such as the quality and efficiency of the inter-firm networks, the quality of the infrastructures, and of public goods like education, and so on, play a major role in the attractiveness of territories and the competitiveness of firms and nations. This paper suggests some new policy directions which are needed to take account of these new factors.

Introduction

The inspiration for this article lies in the author's conviction that it is time to assess the spectacular developments and shifts in recent years in the debate on competitiveness.

By highlighting the essential elements of this debate, the article seeks to **demonstrate all the lessons that may be derived from it with a view to stimulating the economies of the European Union**. A further aim of the article is to explore the implications for **Made in Europe** of the new factors contributing to competitiveness as brought to light by the recent debate. The paper starts by briefly reviewing the different notions and factors of competitiveness. It then focuses on the new

determinants and factors of competitiveness based on "non-price factors" and on infrastructures and positive externalities. It stresses the fact that these new determinants open new possibilities for employment policy both at the level of the firm and at more meso or macro levels.

It finally draws the implications of the above analysis for public action, and for business policies and strategies.

Context: a fresh start for Europe

Confronted with major changes like globalization, deregulation, and the rapid development of the information and organisational revolutions, most industrialized

Major economic changes have spurred industrialized countries to reflect upon their strengths and weaknesses with the aim of making the most of their comparative economic advantage

Made in Europe

Spectacular changes are taking place in the relative competitiveness of nations and those European industries and firms which are able to prosper in the new environment will form the dynamic nucleus of the economy of the future

The dominant conception of competitiveness until recently is based on a comparative measure of trade performance in relation to a country's trading partners, competitiveness is deemed to be determined by costs, in particular wages

countries have recently undertaken a sort of introspection, with the aim of better understanding their unique features as well as their vital forces, whilst at the same time pinpointing the obstacles to the full exploitation of their comparative economic advantage. This introspection has been judged all the more necessary as the changes which have occurred have drastically affected the functioning of the labour market, essentially manifested by **very contrasting performance between the regions, zones and nations of the global economy**. The link between competitiveness and employment, as well as contrasting performance in this respect, have thus come under renewed scrutiny.

It is for this reason that experts have undertaken a series of **Made in** studies, starting in the USA with the publication of *Made in America* (Dertouzos, et al., 1989) This was followed by the publication of *Made in France* (Taddei and Coriat, 1993), *Made in Japan* (Yochikawa, 1994). There has also been a parallel 'Made in' debate in Germany around the concept of "**Standort Deutschland**".

The European Union has not been exempt from this self-examination. Since the beginning of the 1990s extensive research analysis has been undertaken by the European Commission, and two important recent studies at least deserve mention. The first is the **White Paper on Growth, Competitiveness and Employment** (CEC, 1994a) which proposes a series of measures aimed at fostering new initiatives at the community level. More recently, the **Green Paper on Innovation** (CEC, 1995) took up the same perspective by focusing on certain critical aspects of the Union's competitiveness.

The observation that all these studies make is that we are currently witnessing a series of spectacular changes in the relative

competitiveness of firms and nations. Furthermore, the key hypothesis which emerges, and one which needs to be closely examined, is that those European industries and firms which are able to prosper in the new environment and **take advantage of the new norms of competitiveness**, will form the dynamic nucleus of the economy of the future as well as being its primary source of employment.

To give substance to this hypothesis and demonstrate its implications, it is necessary to briefly review the notion of competitiveness and the current rethinking of the phenomenon.

Competitiveness: towards a redefinition

In practical terms, it must be noted that the phenomenon of competitiveness has been the subject of vastly differing studies, all using different criteria to define and measure it. These studies therefore develop tools of measurement and assessment that are not necessarily coherent with one another. Restricting ourselves to national studies, we find three distinct levels in the discussion, closely related to three identifiable stages in the process of reflection.

The most widespread and, until recently, dominant conception of competitiveness held that it is a measurement made using a range of economic indicators which **measure the evolution in the foreign trade performance of a given economy in relation to its trading partners**. The most widely accepted "synthetic" indicator is then the "**relative unit wage cost**", which is the indicator that has been adopted by the OECD. Implicit in this conception of competitiveness is the idea **that competitiveness is determined by the evolution of costs, in particular by wage costs**. Most economic models based on this approach assume that the principal input costs (energy, machinery, capital costs and so on...) are

fixed internationally, such that wage costs are the key variable affecting global competitiveness. The ensuing hypothesis is that competitiveness and unitary wage cost are inversely related and that there is a causal link between the two variables, a rise in unit wage cost leading to a fall in competitiveness, as measured by foreign trade performance¹.

This conception of competitiveness was dominant for a long time, despite several pioneering econometric studies that invalidated its hypotheses (see, in particular, Kaldor 1978).

More recently, however, a series of more sophisticated econometric studies (Fagerberg 1988; Lafay and Herzog, 1989; or Ascencio and Mazier 1991) have demonstrated that the inverse relationship postulated does not hold even over longer periods of time (a decade in general). On the contrary, **the studies showed that several countries recording an increase in their relative unit wage cost simultaneously increased their market share.** This finding led to renewed interest in hypotheses about the importance of **"non-cost" factors in international competitiveness**, since these factors compensate for declining cost competitiveness. Unfortunately, there is as yet no conclusive research either on the measurement of non-cost competitiveness (other than just by remaining unexplained results), or on its origins and determining factors (for a discussion on this point, see Taddei and Coriat 1993).

We are at present witnessing renewed progress and new orientations in the debate. A characteristic of most recent studies - and in particular the **Made in** series - is that they do not consider foreign trade performance as the only measure of competitiveness. These studies adopt a more "comprehensive" definition, by complementing foreign trade performance indicators with economic indicators measuring the evolution of

'welfare' in the economy. Thus, it is argued that **changes in the level of employment, working time, purchasing power, access to public goods and services such as health and education are all factors that need to be taken into account.** In this way, the Council on Competitiveness in the United States 1992 defined competitiveness as **"the capacity to produce goods and services which respond to the demands of international markets, whilst at the same time enabling American citizens to enjoy a steadily rising standard of living over the long-term."** This is the approach taken by the **Made in** series, as well as the one outlined in the study on competitiveness in the European Union (cf. Coriat, in Andreassen et al, 1995)².

After consideration of all the above elements, the most compelling definition of competitiveness is one which takes into account foreign trade performance (narrowly defined) on the one hand, and economic growth and well-being on the other, the latter being a more comprehensive measure of non-material aspects of the economic system. We may therefore state that a country (or territory) is competitive **if its exports are able to finance the imports needed to secure its economic growth and standard of living, without creating any risk of 'imbalances' or bottlenecks.**

In our view, the above definition has the following advantages:

- By introducing into the measurement of competitiveness considerations about the standards of living, the new definition frees us **from the simplistic or 'dangerous' idea that competitiveness is solely concerned with gaining market share, as measured by a country's foreign trade balance** (whatever the implications of 'external' performance for internal growth)³;
- Having said this, **the definition does not deny the importance of external economic equilibrium**; it fully subscribes to the idea that

Made in Europe 9

Studies have shown that several countries recording an increase in their relative unit wage cost simultaneously increased their market share

A country may be considered competitive if its exports are able to finance the imports needed to secure its economic growth and standard of living, without creating any risk of 'imbalances' or bottlenecks

'Non-cost' factors such as product adaptation, quality and image, need to be added to the classic list of competitiveness factors. Far from being hostile to employment, these often demand investment in human resources

in an open economy (or 'global' economy, to use the current term) 'external' performance plays a decisive role in the sense that it should not act as a constraint on the pursuit of internal economic growth and social progress;

- A further advantage of this definition is that it considers an economy as competitive (however developed its exports or whatever its degree of openness to the global economy) if that economy **is able to increase the well-being of its population by paying for the imports needed to ensure its economic growth**; thus by its very definition the concept excludes the idea that competitiveness is synonymous with competition for market share;
- Lastly, an advantage of the above definition is that it leaves open the question of the origins and sources of competitiveness, whilst at the same time presupposing that many "immaterial" goods and services and/or non-price factors (like for example the quality of public goods provided) are real criteria of competitiveness taken into account.

In conclusion, we may note that the notion of competitiveness adopted in this article, **by linking growth, standards of living and foreign trade parameters to one another** makes **"the degree of freedom a country has in the conduct of its affairs"** (in overcoming 'external constraints') a **decisive factor in its competitive position.**

The new dimensions of competitiveness and their relation to employment

This 'multi-dimensional' approach to competitiveness therefore measures overall or 'global' performance in which quality and innovation in their various forms play a key role.

Seen from a micro-economic and trade performance perspective, a key hypothesis of the new approach is the idea that to the list of classic

contributing factors to 'cost' competitiveness **must be added key 'non-cost' contributing factors** such as non-material investment, the efficiency of the network of co-operation between trading partners, the quality and image of products, the ability of entrepreneurs to differentiate these products, adapt them to different markets and deliver them on time. A crucial point here is that the new dimensions to competitiveness are not hostile to employment. On the contrary, **in most cases additional investment is necessary in human resources and organisation to acquire new skills or to consolidate existing ones.** Thus an improvement of competitiveness often depends on better policies on training, skills and quality of life at work. Such policies make room for new practices in the field of employment and industrial relations

Viewed in a more 'systemic' way, the quality of infrastructure (telecommunications, energy, information networks and the like) or education, and more generally **all public goods with positive externalities⁴ have to be considered not only for what is relevant to their contribution to economic performance, but also to their contribution to the quality of life.** Again this perspective makes economically realistic investments in networks or organisations of all kinds, since they are also key players in the new environment. Thus **the new dimensions of competitiveness are in keeping with concerns about employment and quality of life.**

Finally, what is needed is a systematic exploration of all the different dimensions of competitiveness (cost/non-cost, price/quality, micro-economic, systemic or structural competitiveness, etc.) such that recommendations can be made on how best a country's economy can consolidate its strengths and pinpoint its weaknesses. Such recommendations could conceivably lead to concerted action to reverse the current negative trend and foster new initiatives in fields in which European firms find

themselves in difficulty whilst at the same time strengthening the actions taken to consolidate or create new series of jobs.

Lastly we should note that we are dealing here with micro-economic or systemic factors, and that the new approach to competitiveness requires that special attention be paid to an analysis of the potential for progress towards the dual objective of mastering new technologies and organizational changes, both fields which are currently experiencing rapid change. **Joint mastery of the newly related fields of Technology/Organization is an essential pre-condition for firms to adapt to the new modes of competitiveness.** Indeed, the know-how and specific skills flowing from the mastery of the above-mentioned fields could create a comprehensive group of differential rents (of the organizational, technological or "relational" kind) which would enable firms to prosper without being put under cost pressure, particularly from wages.

The aim is therefore to elucidate the means available to achieve a **specifically Made in Europe**⁵ "quality competitiveness", by focusing attention on the know-how and skills required by a society in which the accumulation of knowledge plays and will play an ever-increasing role.

The three specificities of Made in Europe

In order to adapt this approach to the European Union and its members, a number of the problem areas designated in the "Made in..." studies need to be reformulated.

The new approach has three features:

1. The behaviour of firms, a key feature of the approach

The essential point of departure of the new approach is the microeconomics and the

behaviour of the firm, since they are at the root of the comparative advantages from which prosperity stems.

As has been said, these new forms of competitiveness require a mastery of renewed organisational skills, which in turn constitute a pre-condition for outstanding performance. Thorough attention needs to be paid here to the diversity of these new skills and the institutional contexts from which they emanate, as well as the structure of the markets in which the firm operates.

There is a dual objective here: the first is to pinpoint 'best practice' techniques in different sectors of European industry and services, and then to make clear how these techniques spread. The second aim is to achieve a better understanding of the types of public policy which work best as regards employment creation, by studying models of excellence within the diverse European system. This would naturally be instructive both for the major economic players (primarily firms) as well as for policy-makers.

2. Diversity, Divergences and Convergences

The second characteristic relates to the fact that we are not dealing here with one nation but with an as yet not fully integrated economic union within the context of a globally open economy. In other words, one must take as a starting point the obvious fact that within Europe practices and institutional contexts⁶ vary greatly, a diversity that requires considerable attention since **it constitutes a potential comparative advantage which needs to be retained and further explored.**

It should be noted that the strengthening of the European Union by measures such as the Single Act and the Single Currency is modifying (by either narrowing or accentuating its divergences)

Made in Europe studies need to be reformulated to pinpoint 'best-practice', identify the strengths Europe derives from its diversity, and to focus on employment and social issues

New policy options can be considered in the light of the emphasis of competitiveness places on organization, infrastructure, and human resources

the European heritage. The debate on the transition to the Single Currency is a clear illustration of the arguments concerning factors of convergence or divergence between the different sub-components of Europe, or between the different levels of macro-economic practice

In addition, based on an observation of current trends, the aim is to arrive at a set of recommendations which ensure, contrary to the saying that "bad money doesn't drive out good", or by analogy, that **poor practices don't spread at the expense of good ones.**

3. Employment and Social Issues

In keeping with the 'comprehensive' definition of competitiveness adopted (cf. above) the third specificity of Made in Europe is **its focus on employment and more generally social issues.** The available evidence suggests that the different factors contributing to competitiveness cannot all be mobilised in the same way and do not have an identical impact on employment, since much depends on whether a sector is exposed to or sheltered from competition, whether it is facing rising or falling demand or whether industries under strong pressure from foreign competition should be protected or whether the comparative advantages which European firms possess should be fostered instead. Similarly, the possibilities for job creation differ according to the sector and field of activity. In addition, when formulating recommendations based on the findings of empirical studies, a balance needs to be struck between, on the one hand, long-established industries subject to mutations, and, on the other hand, budding forward-looking firms. In all these cases, the dynamic relation between industrial activities and services requires special attention to the extent that these relations lie at the heart of the dynamics of employment creation and competitiveness of firms and geographical entities.

An examination of the relationship between competitiveness and employment cannot be limited to the 'direct' relations characteristic of micro- or meso-economic analysis. Consideration must be given to the impact on employment of the different forms of distribution of revenues and the way in **which productivity gains are shared between the different economic agents,** as determined by the regulatory framework, bargaining structures or type of industrial relations in each field of activity or country. These formulae are not equally efficient and the most promising - from a point of view of their ability to balance gains in competitiveness and employment- should be given prominence, just as the conditions under which they spread need to be studied.

Over and above their impact on the competitiveness of firms and nations, the different European welfare systems need to be evaluated just as do best practices in this field resulting from reforms under way. The aim here is to establish positive scenarios for company performance and quality of life.

Implications and Policy Issues

The advantage of this new definition of competitiveness is that it enables new policy recommendations to be made for Europe.

We may expect three sets of results:

- The application of this methodology highlights the competitive strengths (or weaknesses) of firms and industries, stressing the role played by contributory factors which up to now **have been ignored or insufficiently analysed, such as the importance of organisational innovations and how they spread, the role of organisational and technological skills, the learning process in or between firms and the quality of the various networks which exist in an economy...** These

are all potentially rich in practical applications for the different stakeholders.

- A second implication of this new approach is related to the fact that the introduction of a 'systemic' dimension to competitiveness i.e. one which considers the quality of infrastructure as a positive factor in competitiveness (both because of its effect on standards of living and because of the externalities from which firms derive benefit), once again **brings to the fore the debate on public spending**. As a result, recommendations may be formulated as regards the means available to strengthen the structural competitiveness of Europe and its firms, by particularly focusing on the strengthening of its relative attractiveness, which in turn depends on the existing networks of co-operation between research institutions and industry, the quality and density of the communications systems, the availability of skilled labour or access to educational and training facilities.

- Last, but by no means least, it is important to recall that the new dimensions of competitiveness are not hostile to employment. On the contrary, as it has been said before **in most cases product-quality and product-differentiation, more efficient networks or infrastructures... need and require more investments and attention to human resources...** Employment and quality of life are thus reintegrated as key components of a policy of global competitiveness.

It goes without saying that the above propositions are all rich in implications for the different stakeholders involved - whether employees, employers or public authorities. A series of new ways are thus opened for firms and policy-makers. It is our hope, that the arguments provided in this short paper have contributed to convince the reader, that much additional work in that direction is needed to explore more systematically the different opportunities that we have tried here to sketch briefly. ●

Keywords

Competitiveness, price and non-price competitiveness, infrastructures, public utilities positive externalities

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Notes

- 1- A variation of this model allows one to pass from cost competitiveness to price competitiveness. In order to do this, the influence of relative exchange rates based on different evaluations of purchasing power parity are introduced. It is therefore possible to define an "effective exchange rate" which tempers competitiveness measured solely in terms of unit wage cost.
- 2- It is worth noting that non-cost competitiveness is central to the explanations which these studies give for the results they obtain, which creates a direct link between this notion of competitiveness and the previous one
- 3- A case in point is Brazil which had enormous foreign trade surpluses in the 1980s but low domestic economic growth, rising poverty and unemployment. The country cannot therefore be said to have made gains in competitiveness.
- 4- Recall that externalities (or external economies) include all the 'external' resources which a firm has at its disposal, and which it may call upon during its economic activities. Therefore, good communications networks or an education system which trains qualified people as needed constitute positive externalities.
- 5- With this objective in mind, and with the support of the European Commission, an initial series of studies were recently conducted among 12 European firms (cf. the publication entitled 'Europe's Next Step' by Andreassen et al 1995), the results of which back up the present study. In the same spirit, a recent publication by the MERIT entitled 'European Report on Science and Technology Indicators' (CEC, 1994b) demonstrates that in many fields, greater European efficiency in research, innovation and patents stems largely from organisational progress both within firms and in their relations with public research institutions.
- 6- Thus, for example, as regards government structure, Europe has forms as diverse as those of Great Britain and Germany. Similarly professional relationships are governed by totally different institutional practices.

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What is the influence of particular forms of organization of production, innovative search and market competition upon the competitive performance of individual firms?

The specificities of the European ways of coordination of distributed knowledge need to be examined along with the social embeddedness of corporate routines and strategies

market competition upon the competitive performance of individual firms (measured, say, in terms of profits, market shares, or growth)? Do differences in individual corporate organization/strategies or performances carry an impact also upon the collective performance of whole countries in terms of, e.g. GDP growth, employment or whatever other proxy for collective "welfare" is chosen? But, if there is at least some circumstantial evidence that the answer to the latter question might be positive, what accounts for the non-purely-random distributions of apparently "better" organizations and strategies across countries? Or, in a stronger version, why do firms and, by implication, countries, not quickly converge to the most efficient "way of doing things"?

In turn, were one to assess significant and persistent differences across countries and major socio-economic entities (such as the EU, the USA, Japan, etc.) in both corporate characteristics and aggregate performances, what determines them? To what extent is this due to the institutional context of origin (or of location) of the firms? And, conversely, what is the extent of discretionality of strategic managerial decisions? Moreover, if indeed there appear to be systematic links between corporate characteristics, context-specific institutions and collective socio-economic outcomes, what are the forms of these relationships? For example, in what respect is it fruitful to enlarge the notion of competitiveness from individual firms to whole countries? How far can we safely go in explaining different aggregate performances in terms of degrees of "institutional inertia"? Are there diverse patterns of matching/mismatching between micro-economic traits and institutional set-ups yielding roughly similar macro-economic performances, or, conversely, can one unequivocally identify any one "best way" to which both institutions and corporate strategies should swiftly adapt? And, finally, lurking in the background of all these questions, there are even larger ones, concerning the relationships

between "competitiveness" (cf. Coriat 1997 in this issue), growth and employment; the role of firms' organizations and strategies in these issues; and, the ability of policy-making in shaping long-term patterns of industrial change.

Needless to say, in these short notes it is impossible to provide any fair account of what we know about the answers to this long list of questions (which admittedly, in my view, is not very much)¹. Rather, it might be useful to hint at some directions of investigation and, together, at the strategic-management and public-policy relevance of the answers one might come up with.

A Closer Look Inside Business Organizations ...

It is a step that a few of us have been urging and pursuing scientifically for quite a while: in analogy, and together, with "opening the technological blackbox" (Rosenberg, 1982; Freeman, 1982 and 1984; and Dosi, 1988), let us also try to better understand the ways organizations learn "how to do things and improve/modify these capabilities over time. Hence, the first point: since a fundamental dimension of business firms (as well as other organizations) is the coordination of distributed knowledge (including of course technological knowledge) in order to perform collective problem-solving tasks, one needs to look at the specificities of the European ways (almost certainly more than one) of doing that, and their revealed outcomes. Second, let us look in particular depth at the influence that the social embeddedness of corporate routines and strategies exert upon the directions and rates of accumulation of problem-solving knowledge (Nelson, 1994; Zysman, 1994; and Dosi and Kogut 1993). "Social embeddedness" is a shorthand for the ways corporate behaviours are shaped by socially specific factors such as the

nature of the local labour markets, work-force training institutions, financial institutions, mechanisms governing the birth and finance of new firms, etc.

Third, if knowledge -as we believe- is a fundamental determinant of competitiveness, it is important to achieve a better understanding of the ways replication and transferability of organizational capabilities is constrained by the idiosyncratic and tacit nature of knowledge underpinning problem solving and by the difficulty of separating highly inter-related tasks and pieces of knowledge. So, for example, part of the answer to the question as to why firm **a** is more "competitive" than firm **b** is likely to rest upon the differential knowledge firm **a** incorporates. But what does "organizational knowledge" exactly mean? Where does it reside? And how can firm **b** acquire it, too?

Fourth, and equally important (as was argued in more detail in Coriat and Dosi, 1994, expanding upon Nelson and Winter, 1982) the specific forms of corporate organization and routines involve equally specific modes of governance of potentially conflicting interests. By that, we mean that the "ways of doing things" of an organization go together with a specific incentive structure for the members of the organization itself, and with mechanisms for controlling, punishing, rewarding, etc. In turn, the latter influence how an organization learns over time and the effectiveness by which it exploits its competitive advantage.

Moreover, modes of learning and modes of governance co-evolve in ways that are likely to be specific to national and regional institutions. So, for example, the rules for corporate information-sharing, internal training, work-force mobility, etc. typically have to match the ways labour market and industrial relations are organized. Similarly,

strategic management orientations have to match the patterns of financing and corporate governance specific to a given financial system.

With respect to all the above points, Europe presents a rich variety of organizational and institutional arrangements. Just for the sake of illustration think of the differences between an 'archetypal' German firm with its bank-based mode of financial governance, its training system, its participating labour relations, etc. vs. the much more 'market based' British archetype vs. an Italian district ... The analysis of such variety, and the related performances, is not only interesting from a scientific point of view, but of course entails major policy issues. For example, to what extent can national systems learn from each other within the Union? Will they all remain viable within the emerging super-national institutional framework? How can one make a collective European asset out of such a diversity?

From Technology and Corporate Organizations to National/Regional Competitiveness and Employment

In an extreme synthesis, our general conjecture is that the nature of business organizations, their capabilities and strategic orientations -embedded as they are in specific national institutions- are a crucial, albeit often overlooked, ingredient of the competitiveness of nations and regions. Related to this, the organizational and institutional dimension might help in explaining what has been discussed in Andreassen et al. (1995) under the heading of the "European paradox". In essence, it is as follows: Most indicators of scientific and technological output (such as international scientific publications, patents, etc.) show European performance broadly in line with the other major international players, ie. the USA and Japan. Although, there is the remarkable exception of microelectronics/information technologies, where

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If knowledge determines competitiveness then understanding its nature and the limits to its transferability is important

The specific forms of corporate organization and mechanisms for controlling, punishing, rewarding, etc influence how an organization learns over time and the effectiveness with which it exploits its competitive advantages

Europe presents a rich variety of organizational and institutional arrangements How can it make a collective asset out of this diversity?

Although in most fields Europe keeps pace with its competitors in terms of research and innovation, it falls behind in its ability to transform its knowledge into growth, exports and employment opportunities

The view of competitiveness, growth and employment as being knowledge-centred challenges conventional wisdom that unemployment is a malfunction created by preventing costs from adjusting to the market

Europe appears to lag behind significantly. However, a general point of European weakness appears with regards to the "transformation capabilities" of scientific and technological knowledge into growth, export and employment opportunities (cf. Amable and Boyer, 1994, and Coriat, 1995). A plausible conjecture (as argued in Coriat, 1995) is that in fact good parts of the European systems of corporate organization display major weaknesses and lags in tapping novel avenues of search, inertia in adjustment, inefficient use of human resources and "strategic myopias" (cf. also Patel and Pavitt, 1994).

In a nutshell, the perspective that we suggest highlights the crucial importance of, jointly (a) technology -or more broadly knowledge generation and diffusion- and (b) organizational forms and strategies, in shaping long-term competitiveness (in the broader definition put forward in the companion article by B. Coriat).

This approach, while not "new" for a growing minority of economists, business strategists and policy makers, is certainly at odds with entrenched conventional wisdom focusing upon costs denominated in international currency as the sole determinant of "competitiveness" (narrow sense, cf. Coriat's article) and upon "market perfection" as primary condition for the attainment of the maximum achievable social welfare.

It also has remarkable implications in terms of the underlying determinants of employment rates. Pushing it to the point of caricature, there are two opposing views here. First, the conventional one says more or less, that unemployment appears only as a consequence of some market malfunction, including those rigidities which prevent input prices from fixing themselves at their market clearing levels. Conversely, in what


we could call a knowledge-centred view of competitiveness and growth, employment (and income) generation are seen as ultimately driven by the rates of accumulation and exploitation of knowledge in the society. Related claims are that (a) knowledge and physical capital accumulation go intrinsically hand-in-hand (more technically they are "dynamically coupled" through positive feedbacks) and,

(b) income distribution and market conditions, of course, do matter a lot, but they do so primarily through the influence they exert upon the patterns of collective learning, on the one hand, and on the "dynamic contextability" on any rent-earning position, on the other (in the latter we include the ease of entry of new competitors, the financial constraints on their possibility of growth, etc.). These reflections are developed further in Dosi (1996).

Let me be more concrete with reference to current diagnoses of competitiveness-growth-employment links. The bottom line of the conventional view is that society (or more likely some part of it) has to pay for all three with "blood, sweat and tears". So, for example, an almost exclusive emphasis is put upon downward adjustment in input prices as the solution to most problems of insufficient competitiveness and stagnating employment. And any failure of the cure is seen as just revealing this inadequacy of the doses of blood, etc. extracted. The other view is somewhat more sophisticated (and, possibly also for that reason, less appealing: after all it would be easier if all diseases could be cured with a single drug!!). It partly overlaps with the former in identifying market competition (and ease of initial entry conditions) as a highly desirable requirement for economic dynamism². So, for example, both views are likely to share the conclusion that quite a few institutional arrangements in Europe are major culprits for, together, monopolistic rent extraction, consumer

maltreatment and innovative inertia (the track-records of many of European PTTs, for example, are unfortunately of this kind). However, given reasonable conditions of competition, and incentive compatibility in both product and labour markets, the two views are likely to depart in terms of priority prescriptions to foster employment growth. The conventional one would be inclined to claim that, again, in an extreme caricature - "blood is what it takes ...". Conversely, in the conjecture put forward here, technological and organizational learning might be a major collective positive-sum game (Landau and Rosenberg, 1986), whereby under certain institutional and micro-organizational conditions, knowledge accumulation couples with investment opportunities which in turn couples with labour demand which in turn couples with market growth. In the contemporary case at hand, for example, a possible achievable scenario, albeit by no means the only predictable one, is precisely a renewed path of self-sustained income growth characterized, to a major extent, via increasingly

diffused access to information-processing competencies, "intangible investments", and rapid development of the related infrastructures.

The identification of the core building blocks of such a notional scenario, developing upon the discovery of their "seeds" already present in the current socio-economic environment, is precisely one of the major objectives of the Made in Europe project. As we see it, transition across discretely different regimes of knowledge accumulation and social governance present major "windows of opportunity" as Paul David (1988) puts it³, and equally major opportunities for disasters. These are the times where managerial and policy discretionality is highest and where also "sticking to old ways of doing things" may produce irreversible losses. If successful, the project may indeed provide some help in lowering the risk that -as in the old joke- the drunken man continues to look for his house keys under the streetlight since this is the only place where it is easy to see something, even though he knows that he lost his keys somewhere else 

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Under certain institutional and micro-organizational conditions, knowledge accumulation couples with investment opportunities, which in turn couples with labour demand, which in turn couples with market growth

Keywords

Organizational Learning and Routines, Growth, Institutional Governance, Knowledge Generation and Diffusion

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Notes

- 1- A few of the coordinators of the would-be "Made in Europe" project are currently involved in an exploratory study, assessing the state-of-the-art on a subject of the above issues, sponsored by the DGIII of the EU (cf. B. Coriat, G. Dosi and L. Soete, *Technological Innovation, Organizational Change and European Competitiveness*, on which the notes which follow are largely based).
- 2- Although not always attainable due to the rather widespread existence of so-called "market failures" in the economist' jargon, externalities, "natural monopolies, dynamic increasing returns fuzzy definition of property rights, etc.
- 3- More generally, on the interplay between 'historical lock-ins" and purposeful strategic discretionality.

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The Impact of Globalization on European Economic Integration

L. Soete

Issue: This paper examines the relationship between European integration policies and globalization. It looks at the role of new technologies in driving globalization forward. It also considers whether European attempts to harmonize markets in the pursuit of economies of scale are still appropriate, and suggests that the key to competitiveness may lie in diversity rather than standardization.

Relevance: European integration policies seeking to achieve cohesion in the European economic, social and innovation system across a single market of 350 million consumers, have been careful but slow. In an era of globalization, they are proving to be too slow. They may also be increasingly inappropriate in the 'global village' where economic success is increasingly built upon differentiated markets and local creativity.

Introduction

Parallel to the process of economic integration, as it has taken place over the last twenty years, and particularly within the framework of the creation of the large European "Single Market", European economies have been confronted by a dramatic increase in the degree of structural change at world level. This is effectively a process of global economic integration often described as "globalization"¹. The last ten years can indeed be described as a period of historic, major structural change at the world level: the collapse of the former socialist countries and their rapid opening-up to market-led economic incentives; the shift in world market growth from the North Atlantic OECD area to the Pacific basin area with an increasing number of Asian economies outperforming the developed countries' growth performance; the creation of new regional trading blocks in North and South America, in Asia, in the

Middle East and in Southern Africa, with more rapid growth in trade within than between such integrating trade areas; the surge in foreign direct investment in these trade blocks with large global firms aiming at presence in each of these markets; and last but not least the dramatic reduction in the costs of information and communication processing, opening up an increasing number of sectors to international trade and giving at least the impression of a dramatic reduction in physical distances -the world as a village.

This fast-paced global restructuring process raises some fundamental policy challenges at both the national and European levels. At the national level, it has made policy-makers much more aware of the increased international implications of their policy actions. Policies that might appear "sustainable" within a national or even European context, might increasingly appear less so in an international context. While the impact of opening

Opening up to global international restructuring has dramatically reduced the degrees of freedom of policy actions in a wide variety of fields

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Information and communication technologies have been the 'engine' driving the acceleration of the globalization process

up to global international restructuring might still be in its initial stages, it has rapidly brought to the forefront to what extent degrees of freedom of policy actions have been dramatically reduced in a wide variety of different fields. This does not only hold for traditional macro-economic policy, but also for social policy, tax policy, social security policy and other policies traditionally preserved at the national level.

At the same time, globalization is also raising fundamental questions with respect to Europe's own integration process. The latter is characterized by economic aims which appear increasingly to have been overtaken in their purpose and speed of implementation by the broader world-wide integration process (one may think of the recent WTO Singapore agreement on the liberalization of information technology trade). It brings to the forefront the question of whether the old process of economic integration whereby the central aim is the reaping of the scale advantages of the large European internal market, is not, at least in the area of manufactured goods², entering into its decreasing marginal return phase and is not currently in need of new policy reflection and possible policy action.

In the first section of the paper I briefly discuss some of the main features of globalization linked to new information and communication technologies (ICTs). Without wishing to minimize the importance of some of the other features of global structural change, these technologies appear to have been a central "engine" in the acceleration of the globalization process. In many ways, ICTs represent historically, the first ever set of "global" technologies that our societies have been confronted with.

In the second section I discuss some of the main characteristics of European economic integration. As this is a topic which is now a

discipline in itself, filling many bookshelves in libraries, I limit myself to a very personal, non-textbook account of what might have characterized European economic integration over the last two decades.

In the final section I turn to some of the new European economic integration policy challenges. These are admittedly somewhat short in practical content. At this stage the aim is really only to whet the policy-maker's appetite.

Globalization: mirage or reality?

As in many other areas of structural change, there is an ongoing debate about the factual evidence surrounding globalization. Most of the readily available evidence focuses on trade and foreign direct investment flows. This evidence tends to suggest that there has been little increase in "globalization". Imports into the EU from some of the new entrants (the newly industrialising countries (NICs), some of the other Asian economies, East-European economies in transition) have increased rapidly over the last twenty years but not to such an extent as to explain in any way a structural break from the past. Similarly, foreign direct investment flows still only represent a small fraction of total investment in most EU countries. Clearly, such measures of international flows in trade and foreign direct investment reflect only one limited feature of "globalization". Growth in the "globalization" of financial flows over the last two decades, for example, has been dramatic. Cross-border transactions in bonds and equities have increased in OECD countries over the last 15 years from 10% of GDP in 1980 to between 150 and 250% of GDP in 1995. At the same time, the world-wide volume of foreign exchange trading has increased to a turnover of more than \$1,200 bn a day (BIS, 1996). Growth in the exchange of information, which has become instantaneously and globally available, can on the other hand, only

be guessed. There is, I would maintain, little doubt that the world has indeed entered into something of a new era in which global access has become the major characteristic of both production and consumption.

At the centre of this process, one finds of course the cluster of new Information and Communication Technologies (ICTs) and the ability they provide to dramatically reduce communication and information handling and processing costs. While it might be something of a misnomer to talk about "global" access in a world in which half the population has no direct access to public telephony, the trend towards world-wide access is intrinsically linked with the ability of ICTs to codify information and knowledge over both distance and time. In some areas (such as finance), where this process has been accompanied by an institutional liberalisation and deregulation process, this globalization process has been most rapid and is nearly complete: financial capital has in essence become an internationally mobile production factor. In traditional manufacturing production, the decline in communication and information costs has further increased the international transparency of markets, reinforcing the scope for international location. In areas such as services, new ICTs are often for the first time allowing cheap "global" access to low-cost labour locations thus facilitating the relocation of various "routine" service functions and activities. Firms and organisations have come to discover the benefits of international differences in labour costs in areas hitherto limited in their international tradeability.

ICTs contribute in other words to global economic transparency and, in so far as they bring to the forefront the cost advantages of alternative locations, to international capital mobility and international "outsourcing" of particular activities. Furthermore, ICTs have also positively affected

international access to information and "codified" knowledge. "Codified" knowledge, including the economic knowledge of markets, becomes to some extent available on a world-wide basis. While the local capacities to use or have the competency to transform such "codified" knowledge will vary widely, the potential for access is there. ICTs, in other words, bring to the forefront the potential for catching-up, based upon the economic transparency of advantages, while stressing the crucial "tacit" and other competency elements required to access internationally codified knowledge.

Combined with the significant educational efforts in many East European and in some of the large Asian countries, ICTs represent a major global structural transformation challenge. It is important in this context to emphasize at the outset the undisputed benefits to the world as a whole of such a more transparent, borderless global economy. To some extent, the new ICTs correspond to the international economist's dream of allowing a more transparent global world, in which economic incentives are allowing countries to converge more rapidly and bring about a more equal level of development at the world-wide level.

However, the speed of this globalization process is, as argued above, likely to raise some fundamental policy challenges. This is particularly the case when compared to the slow, carefully planned European economic integration process which is, in its implementation, increasingly becoming overtaken by this world-wide integration process.

European economic integration: from paradox to paradox

For our purposes, the characteristics of past European economic integration can be summarized along the following three lines.³

Whereas imports and foreign direct investment have changed relatively little, cross-border bond and equity transactions have increased spectacularly in recent years

ICTs have made economic knowledge available globally, and although local capacities to exploit it may vary greatly, it offers new potential for catching up

Since beginning of the Single Market creation process, extra-European pressures for restructuring have taken over and increased rapidly

Not enough attention has been paid to the trade diversion versus trade creation impact of Europe's integration process

First and foremost, economic integration has been inspired by the obvious desire to reap the scale advantages of a large, "harmonized" internal market. In manufacturing, this process of intra-European integration has more or less come to an end. Much of the European growth and employment boom of the late 1980's, as well as the wave of foreign direct investment (FDI) inflow into the EU, can be directly associated with the expected growth opportunities of the then forthcoming Single Market. Since then, and somewhat paradoxically in terms of the 1992 timing of the formal Single Market creation process, extra-European pressures for restructuring in manufacturing have taken over and increased rapidly, e.g. through the opening-up of Eastern Europe and the rapid export-led growth industrialisation pattern of many Asian economies.

In services by contrast, the intra-European economic integration process is still in its initial stages. The long-awaited forthcoming liberalization of the telecommunications sector across most member countries will be the first clear case of the opening-up of a major service facility. Most other service sectors (public utilities, transport) are still relatively closed economic sectors. The difficulties and slowness in opening-up such service sectors within the EU contrast sharply with the ease and speed of the international opening-up to international trade and competition in the WTO and in many of the new entrants. While the Commission as an institution is still playing a major role in such world-wide trade liberalization discussions, the extra-EU pressures for rapid liberalization and world-wide integration are in the process of taking over the carefully planned but slow intra-European liberalization and integration process.

An interesting question which, in my view at least, has not received enough attention in the economic literature is the trade diversion versus

trade creation impact of Europe's economic integration process as it has taken place over the last two decades. An interesting hypothesis, which I already suggested a couple of years ago when analysing the poor performance of the European electronics industry (Grupp and Soete, 1993), is that trade diversion has indeed dominated some of the most technology-intensive sectors. European firms as well as the subsidiaries of foreign firms have been "diverted" towards the easy European member country's' markets, and have foregone the -from a competitive and new product point of view- tougher US and Japanese markets. The result has been increasingly poor performance in non-EU markets in some of the most dynamic, growing sectors. The wave of foreign direct investment in the various EU-member countries, which had already started in the 60s and 70s, and accelerated in the 80s in view of the forthcoming "Single Market", has generally been of the "tariff-jumping" kind, aiming at presence in the world's largest consumer market and hoping to reap the benefits of such harmonized internal market, did in effect, amount to some kind of import substitution industrialization growth process. In doing so they (the US, Japan) could simply transfer to Europe the core competence and knowledge of producing for large standardized markets acquired at home.

From this perspective, the actual economic integration process as it proceeded in Europe could well be compared with a gradual, unwarranted import-substitution-industrialization-growth process whereby the overall extra-European competitiveness, particularly in high-tech sectors, was gradually undermined. It is what could be called the "fortress paradox" of European integration: as Europe thought it would become better able to defend itself through the creation of its own large internal market, it became weaker because it left the most dynamic external markets to its competitors (Soete, 1992).

Second, to offset the possible negative effects of increased specialization on trends towards uneven growth and regional divergence -something many so-called new trade economists have been pointing to-, the European economic integration process has been accompanied by a clear policy of financial transfer from rich to poor countries. Hence, "cohesion" became the major second policy aim and was expressed through the creation of European Structural and Social Funds that aimed at developing better infrastructural provisions in peripheral and less-favoured regions. In some of these countries/regions such funds became the most important source of public investment.

In prioritizing "cohesion", the European economic union became gradually characterized by an economically integrated zone with free movement of goods, consumers and financial flows, but not of labour. Rather the contrary, despite the desire to also achieve the free movement of labour, the extent of intra-European migration declined with each new enlargement of the union. While such limited intra-European labour migration fits the objectives of European cohesion, i.e. to transfer financial resources to less favoured regions and create employment opportunities rather than have employment migrate to richer regions, the lack of intra-European migration reduced in a significant way possible adjustments in the labour market at the European level, and in particular possible adjustments to shifts in structural change, such as globalization. Only in a limited number of high-skilled areas did mobility increase in any significant way, reinforcing rather than reducing intra-European growth divergence.

It is what could be called the "migration paradox" of European integration: as goods and capital flows became more mobile across Europe, labour became more immobile, further segmenting labour markets at the national level.

Third, the economic integration process was accompanied by a set of specific European industrial and technological policies, fostering intra-European co-operation in the field of pre-competitive R&D, university researchers, students, and various support programmes for particular technology fields: the so-called framework programmes and other related technological support programmes. Interestingly, these policies that aimed at strengthening European competitiveness in high-tech sectors have probably been most successful in some of the "big science" RTD areas, where essential scale economies could indeed be achieved. In most other areas though, when compared to national resources, the EU resources available were too limited to make any impact in shifting or redirecting countries' own national priorities, in supporting investment in knowledge accumulation (both education, training and research). At the same time, the international accessibility to codified knowledge increased dramatically through the use of ICTs.

While support for intra-European research collaboration might still be welcome in many cases, the essential research collaboration will often be of a much more global nature, going well beyond the European borders. Here too, there could be a case of knowledge acquisition "diversion", the intra-European exchange having taken place at the expense of extra-European exchange. In the more basic research areas where open international access has always existed, such "diversion" might have ultimately had little impact; in the more applied business research areas, it might well have been one of the factors behind the dramatic growth in so-called "strategic alliances" between large European, US and Japanese firms trying to source knowledge more globally while at the same time benefiting from various national or supra-national support programmes.

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As Europe thought it would become better able to defend itself through the creation of its own large internal market, it became weaker because it left the most dynamic external markets to its competitors

As goods and capital flows became more mobile across Europe, labour became more immobile, further segmenting labour markets at the national level



At the time when Europe invested in intra-European research, the advantages of such geographically 'bounded' collaboration were being undermined by the increased opportunities for rapid information exchange and co-operation globally

There has been an over-preoccupation in Europe with labour efficiency improvements and process-oriented technological change

It is what could be called the "European paradox": as Europe invested in intra-European research, in the collaboration and exchange of scientific knowledge among European scientists, or even in the technological strengthening of the competitive potential of European firms, the advantages of such geographically "bounded" collaboration have become marginal, given the dramatically increased opportunities for the fast exchange of information and co-operation.

In listing these, for the unwarned reader, somewhat peculiar characteristics of Europe's economic integration process, I realize of course that I have painted a rather one-sided picture of what I consider to have been some negative side-effects of the process of economic integration as it has taken place in Europe over the last ten to twenty years. My main point will hopefully be clear: the "diversion" effects accompanying intense integration processes such as the forming of the European Union, can take many forms. In the case of Europe, the simple fact that this integration process was accompanied by a much faster "external" world economic integration process might well have led to a systematic diversion away from some of the most significant new trade opportunities linked to globalization.

From the Single Market to Europe's Diversified Markets

The new challenges brought about by globalization imply to some extent the need for policies which focus more on the peculiar characteristics of the enormous variety in European development, and try to build upon these to develop new dynamic growth opportunities. It means, in the first instance, acknowledging that the reaping of industrial scale advantages and the need for regulatory harmonization which have characterized

European economic integration so far have to some extent reached their natural limits and can be further pursued within the broader world economic context. In a more general sense it also means recognizing that there has been an over-preoccupation in Europe with labour efficiency improvements and process-oriented technological change, reflected e.g. at the macro-level in a systematically lower capital-labour substitution elasticity than in the US or Japan (CEC, 1994). While there is little doubt that the achievement of scale advantages will continue to be one of the major challenges in many new sectors, such as new information services and products heavily dependent on scale economies, there is also little doubt that European competitiveness and extra-European growth opportunities will have to depend on something more, something specific to Europe.

Indeed, the economies of scale in many information goods are often even more dramatic and significant than in the case of manufactured goods. The lack of a harmonized European market in many basic services sectors is a major cost factor and undoubtedly has an overall negative impact on European competitiveness in many other sectors. In information services the fragmented European market is undoubtedly a major barrier not just for the rapid diffusion of information services but also for the emergence of a competitive European multi-media industry. But even in this case it will be obvious that policies which would simply aim at reaping the advantages of scale economies would in the end undermine some of the essence itself of European competitiveness based on its widespread cultural, educational and social diversity. The guiding policy principle can to some extent no longer be that the EU contains one of the world's largest consumer markets of 350 million, but that the EU contains one of the most culturally, educationally and socially

diverse markets with, as Sir David Puttnam put it, a potential of 350 million potential producers⁴. From this perspective, the current world economic integration process signals the need for Europe to develop a new, different economic integration process. This process no longer puts the sole emphasis on the need for the standardization and harmonisation of products and services, access to "open" infrastructure, and improved transparency of markets across Europe. Instead it recognizes and nurtures the many differences in tastes, cultures and talents.

The extent to which such new policies, reflecting in many ways the desire for decision making, both in business and government, that is

more decentralized and nearer to citizen, can indeed enhance this "productive" potential of Europe's enormous variety into competitive advantage is likely to become the central question that will have to be addressed in the coming years. It relates to the degree to which the large internal market advantage is not only translated into the satisfaction of common material and information needs at lower prices, but also into a productive creativity potential and communication and exchange needs of diversity and variety. It is in this sense that the slogan "Made in Europe" should be understood. It is also in this sense that location of production does indeed matter, even in a world which increasingly looks like a village. ●

Keywords

Globalization, Economic integration, European diversity, competitiveness

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Notes

1- No attempt is made here to refer to the voluminous literature which has been published over the last decades on "globalization". In writing this short paper I have been much inspired by ongoing research within the framework of the TSER project "Technology, Economic Integration and Social Cohesion" and in particular the contributions of Amable, et al. 1997; Archibugi and Michie, 1997; Chesnais, 1996; Fagerberg, 1996 and the numerous TSER mimeo papers.

2- In saying this I admit of course that the process of European economic integration in services and in particular utilities is still far from complete. In many of these sectors, individual member countries'

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The lack of a harmonized European market in many basic service sectors is a major cost factor and undoubtedly has an overall negative impact on competitiveness in other sectors

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markets are still very much closed. But as the case of telecommunications illustrates, here too global integration and opening-up seems to have taken over from European integration both in speed and implementation.

3- In contrast to most current debates on economic integration I do not address the issue here of monetary union.

4- In the words of Sir David Puttnam at the 'People First Conference in Dublin', "A leading businessman was enthusing that the true value of the single market lay in its having brought together 300 million customers. Surely, I asked him, isn't the real value of the single market that it offers us new ways of making Europe a more productive society? Our long-term future is not going to be decided by how much we consume but by what we produce, the way we produce it and the extent to which the process of production includes the eighteen million of our fellow citizens who presently find themselves unemployed and therefore excluded both as consumers and as producers".

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Made for Living? Sustainable Welfare and Competitiveness

K. Ducatel, G. Fahrenkrog and J. Gavigan

Issue: This paper argues that higher social standards are needed for international competition and growth. A high quality, well-motivated workforce is of course essential, and social spending represents an important area in which effective demand is created. Attempts to meet, rather than stifle, new social demands can be a seedbed for an innovative economy.

Relevance: The debate on European competitiveness tends either to disregard social issues or to see high social standards as a cost which will have to be minimized if Europe is to remain competitive. Too little of the debate has looked at the positive role which is played by social innovation, yet it is in the social economy that we have to look to find the critical challenges and possibilities for new policies which can help us to construct a new self-reinforcing system of growth between the economic and social realms.

Introduction

In this era of global competition it is often questioned whether Europe can still afford high levels of social welfare, and whether high standards of living might not act as a drag on our competitiveness by increasing the burden of taxation and cost of wages. However it could be that the reverse is in fact the case, that actually our future competitiveness crucially depends upon these high levels of well-being. The link between competitiveness and well-being, and whether it is possible to find positive sum policy frameworks which will support economic growth and socially sustainable development, needs to be explored.

In this article we lay out some initial ideas on the relationship between competitiveness and social well-being. We begin by arguing that too

much attention in the debate on competitiveness is placed upon the economic side of the issue and not enough on the complementary social contribution. This is like an athlete who exercises only one leg, hardly a winning formula!

We then go on to try to sketch out a notion of competitiveness which is more holistic, which seeks a balance between economic performance and social efficiency. We investigate some of the forms this might take by looking at some recent social innovations in the areas of ageing, health and education, where social challenges are being met in ways which raise both the quality of life and economic efficiency.

Our purpose in this paper is to help to define an agenda for inquiry and policy experimentation, and thereby to launch a debate. In particular we ask if it is possible to define forms of

We begin by arguing that too much attention in the debate on competitiveness is placed upon the economic side of the issue and not enough on the complementary social contribution

competitiveness for the European context so that they are Made for Living? We do not know if it is possible, only that it is necessary!

Competitiveness and well-being

Our question is not whether we can afford high levels of well-being but how we can go about affording it in an age of global competition. Our policy perspective is that, economic development has little meaning if it does not deliver higher standards of living. For this reason,

we would agree with Coriat (1997, in this issue) that competitiveness policy should incorporate well-being as a fundamental principle. But this does not mean that we can have a blank chequebook on social spending. As Soete (1997, also in this issue) argues, if globalization means anything, it means that the degrees of freedom of policy action are reduced in many areas which were previously national level issues, including social expenditure. So how can we balance the economic demands of globalization with the need to improve levels of welfare?

Box 1: Health and the Information Society

The organization of health services in the EU varies substantially from one member state to another because of differences in financing, legislation and health care practices. However, all countries face major challenges. Demand is both increasing and changing on account of demographic ageing (life expectancy rose from 72 to 76.5 in the EU from 1970 to 1990), which leads to greater demand for treatments for chronic conditions; changes in the types of diseases such as environment-related allergies and cancer in some areas or wealth-related diseases such as obesity and heart disease. People who are living longer and are wealthier also have rising expectations of health. Also, there are many innovations in treatments and medical technology, many of which come at a higher cost. At the same time there are pressures to contain demand for health expenditure, especially those parts of it which draw on public budgets.

Many innovations have, therefore, been attempted in the health sector in order to increase control over costs without compromising the quality of care. These include a mixture of organizational and technological innovations such as:

- 1- The move towards 'evidence-based medicine' which tracks down and critically appraises the efficacy and effectiveness of clinical practices, with the aim of increasing the accountability of health services and the planning of health systems.
- 2- The development of patient data networks which allow rapid transfer of medical records from general practitioners to specialists and hospitals. This also requires cooperation and standardization between these different health organizations.
- 3- A shift from institutionalized curative health care to prevention and promotion orientated community-based services, so that the notion of health becomes a concern of wider sectors of society: employers, educators, social services, the media, communities and people themselves.
- 4- 'Seamless-care systems' which are client-orientated with a system-wide network of health institutions including administrative functions, care delivery, follow-up and evaluation.

Source: Rantanen and Lehtinen (1997)

In the first place, we need to develop models of welfare which are compatible with the 'new norms of competitiveness', which Coriat argues are the dynamic nucleus of the economy of the future. These 'norms' are derived from the series of 'Made in...' studies which have accumulated evidence that there is a shift away from pure cost-competition. Successful firms today are increasingly competing on non-cost factors such as quality, timeliness, adaptability, innovativeness and so on. All these factors require changes in the micro-behaviour of the firm. Competitive performance now is built on the capacity of the organization to learn and to adapt (see Dosi 1997, in this issue). Organizational learning depends crucially upon the routines of knowledge acquisition and application in the firm, which in turn rely upon the modes of governance which are operative in the firm's social and institutional milieu and the competences of the individuals who make up the firm's management and workforce.

Setting out from the 'new norms of competitiveness', therefore, very quickly leads us to the conclusion that competitiveness depends upon the way we work and the workers we are. In other words, the new competitiveness is built upon the knowledge which is embedded in individuals, groups of individuals and in our institutions and practices. What are these if not social relations which mirror both organizational practices and the wider social patterns of institutional and cultural practices within which the firm operates? Thus we feel justified to argue that social practices should not be construed as a barrier to competitiveness, but rather as its bedrock. More specifically, in the context of the new norms of competitiveness, a successful Europe depends upon the productivity of its people. Thus one leg of our model of sustainable welfare is that new norms of competitiveness requires a workforce which is knowledgeable, articulate, fit and active, as well as motivated and

participative. By contrast, an over concentration on lowering costs would lead to a lowest-common-denominator society which would have to cope with an increasing drag on competitiveness caused by rising numbers of poorly educated, demotivated, marginalized and sick people. Social development is not just 'nice to do', we have to do it.

We can see then that there is an instrumental argument for high standards of social well-being. We need it because it is the basis of a productive workforce. If we leave the argument at that point, however, we would be committing the error of concentrating only on the economic rationale. Social well-being is not just 'necessary' or 'nice', surely it is the point of economic development. Thus, we would argue that the other leg of competitiveness policy is the idea that social well-being should drive our search for competitiveness, even whilst we accept the constraints on social development which are imposed by the need to remain competitive.

Sustainable welfare and social well-being

Sceptical readers may by now be questioning the credibility of our arguments: surely the reality is that welfare systems are under pressure because of shrinking budgets and increasing demands? Our response is quite simple: how we can maintain our existing systems in the face of their self-evident failings is the wrong question to ask. The point is that these systems are not sustainable in their present form, we have to build them anew.

Thus, the policy question is not whether we can find a positive sum between competitiveness and well-being but how we can do it. This is one of the largest and most important issues of public policy which Europe faces today. It is, then, hardly

We need to develop models of welfare which are compatible with the 'new norms of competitiveness'

Competitiveness depends upon the way we work and the workers we are, it is built upon the knowledge which is embedded in individuals, groups of individuals and in our institutions and practices

Competitiveness requires a workforce which is knowledgeable, articulate, fit and active, as well as motivated and participative. By contrast, an over-concentration on lowering costs would lead to a lowest-common-denominator society

The period from the 1940s to the 1970s was not a Golden Age of Welfare to which we would want to return, even if we could

Box 2: Life-long learning for life-long earning

There is a widespread recognition that the current 'once and for all' education system is ill-suited to a technologically dynamic economy. Most of the working population of the year 2020 is already in the labour force, yet most of the technology they will be working with is not yet even on the drawing board (or CAD screen!). Also, work increasingly demands cognitive, problem-solving skills and communication and 'working-together' skills in addition to the traditional 'know-what' and 'know-how' delivered by the education and training systems.

To meet this challenge social innovations in our understanding of education and training are leading to a transition towards the more holistic idea of learning. This includes:

- 1- New models of schooling, especially in the early years of schooling, which stress the development of a high level of cognitive and social development, to develop reasoning abilities, the capacity to work in teams, and communication, negotiation and judgmental skills.
- 2- A closer integration of work and learning, so that training for specific tasks (which is crucial to getting into work) takes place in the context of learning underlying general principles (crucial to being able to keep a job in the longer term).
- 3- A new economics of education; somehow we have to find the means to pay for life-long learning, which include new financing arrangements and incentives, the use of technologies to deliver education in a more flexible and cost-effective manner, and so on.

(Source: Ducatel, et al 1997)

surprising that we cannot do the issue justice in this short article. Moreover, the answers do not yet exist. Indeed, the purpose of this component of the Made in Europe project is to contribute to this policy agenda.

But, we can begin by raising a central point which has to be addressed before we can move forward in the debate: what do we understand by the terms social well-being and sustainable welfare? Clearly, 'well-being' is a relative concept. For instance, if we look back to the institutionalization of welfare in European society, which we associate with the establishment of the various national welfare states from the 1940s onwards, the social problems which they were set up to tackle were quite different to the social challenges we face today. Not least, our expectations of

'improvements in well-being' are based upon our experience, and partial rejection, of existing models of welfare provision.

In approaching the issue of welfare, therefore, we should be open about the definitions we are playing with. In particular, we should remember that the period from the 1940s to the 1970s was not a Golden Age of Welfare to which we would want to return, even if we could. The critique of the centralized welfare state was as much associated with its social failures as its economic ones (see for instance, Moran, 1990). For example, one clear area of failure of the old model was in its institutionalization of many areas of inequality. There were widespread gender biases in entitlements to rights based on assumptions about the role of women, the structure of families and so on. Empirical studies

in the areas of education, health and housing all tended to show that many public services are regressive in the sense that the middle classes get more from the welfare state than poorer people (and especially the very poor).

As a result, during the 1980s there was a questioning of the notion of centralized welfare systems. There has been widespread experimentation with institutional reforms such as privatization, deregulation and liberalization. In many areas we have seen a growth of self-help and voluntary action, especially in the growth of the third sector, along with the realization that the State does not have a monopoly on welfare and well-being. Welfare also depends upon the creativity and efforts of individuals, social groups and communities and well-being means more than just a definable level of social services.

Much of this experimentation was justified by its proponents on the grounds not only of its potential to deliver more cost-effective services, but because it raises the transparency, flexibility and responsiveness of services. It is argued that people are liberated from repressive bureaucratic agencies by shifting the role of the state away from being the direct provider of services to being the regulator of the services. This in principle allows the state to become solely the guarantor of equitable access rather than being compromised by also being the service provider.

Such trends have of course also been propelled by the need to find savings in the burgeoning budgets of the public sector. The institutional reforms of the 1980s and 1990s were at least as much concerned with increasing efficiency as meeting growing social needs. For instance, an important aspect of the criticism of the bureaucratic welfare state was that it had become too large and complex. As a result it suffered from the 'dinosaur effect' (or X-

inefficiency) where it was unable to allocate its internal resources efficiently, or even to identify what areas of need should be met and how. Such institutional innovations are surely part of the challenge of sustainable welfare, where costs are under control, and are allocated in a transparent way so that we can see whose needs are being met and how.

New norms of social provision and well-being?

But what would policies for sustainable welfare look like? We can surely get part of the answer from these experiments, which have aimed to loosen up traditional public services so that they become more cost-effective and responsive? We can see some of the possible lines of innovation in the attached boxes which briefly summarize a few recent innovations in the areas of health and education (Boxes 1 and 2). Here we can begin to discern some clear lines of action such as greater transparency, targeting, cost-effectiveness and a responsiveness to the demands of citizens.

But, surely sustainable welfare means something more than just a more efficient, transparent and flexible version of the old systems? As these boxes show, we face new challenges not least in relation to the demographic ageing of Europe (see Box 3). The central challenge revealed in these boxes is the need to find models of social development which are based on building on, rather than squandering, the human capital of our people (Again, this kind of message is in line with the message of the 'Made in...' studies, which suggest that competitiveness depends on not wasting the talents and energies of people). It is also possible that such social development can build in a localized and decentralized way to create employment (CEC, 1996).

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The bureaucratic welfare state was increasingly criticized for its inability to allocate its internal resources efficiently, or identify what areas of need should be met and how

Sustainable welfare means something more than just a more efficient, transparent and flexible version of the old systems

The development of well-being is a prime motor of growth, as by promoting social development we can create new markets and in turn aid, rather than hinder our development

But, there are glimpses of further lessons in these examples. First, that social innovation is needed not just to control costs but to meet new demands. These demands create the basis for further innovation and growth. The development of well-being is a prime motor of growth. We ignore it at our peril, for by promoting social development we can create new markets and in turn aid rather than hinder our development. The question is how to stimulate these demands in ways which promote a virtuous circle of supply and demand which feeds growth and meets needs. The search for such self-reinforcing (and, in the longer term, sustainable) cycles of

development is more of an appropriate objective for social innovation, than an argument for rationing services.

Also, we see in these examples a trend towards the breakdown of barriers between existing actors, institutions and organizations. Old, clearly demarcated roles are blurring, to be replaced by more flexible relationships: partnerships for learning between employers and educators; or seamless care in health services. Clearly, we are dealing here with a new, more open, set of actors who are involved in welfare provision. This could also be part of the process of 'building in' sustainability, where the

Box 3: The Social Challenge of an Ageing Europe

This is one the most frequently cited components of major changes in demography throughout the EU and elsewhere, which have been long predicted, and which have important consequences for virtually all aspects of society and the economy. The various components include a fall in overall population, a decline in the number of children and young people, a significant drop in the people of working age, and an explosion in the number of people approaching retirement and old age.

The issues include how to meet the needs, welfare requirements and expectations of a dependent population made up primarily of pensioners. How will the productive population absorb the pressures that this places on them, without compromising overall societal well-being and quality-of-life expectations?

Social responses are needed to meet the challenge of an ageing Europe. Will there have to be a rise in retirement age to keep older people economically active longer? In the context of fast technological change, how do we confront the ageism we see in the labour market, where youth seems necessary to get a job? What scope is there to rethink the traditional sharp boundaries between work and retirement, with more incremental withdrawal from the labour force. Perhaps, as in Japan, we could develop the idea of moving into a new phase of working life with a different employer on a lower income, but supported by a partial pension?

What will the effect of ageing be on technological innovation as the growing numbers of older people exercise their choices in the market place? For instance, major new markets will open up in re-engineering goods and services for the house and home, transport and mobility, food, clothing and leisure, etc.

Sources: Gavigan (1996) and Saranummi (1996)

state is neither dominant nor expected to pick up the tab, but is just one of stakeholders in social development. Surely, well-being is too important to be left to government to provide!

However, it is exactly here that there are major unresolved questions over our conception of sustainable welfare and well-being. In the first place, many of the insights we have are based on models of social development which are arguably more driven by the need to restrain costs than to meet the objective of social development: once again the economic issues drive the social ones.

It is disappointing to report, also, that many of these social innovations are not without practical implementation problems. For instance, the marketization of health services may raise transparency but this usually involves an even higher level of transaction costs. In order to guarantee that social aims are being met the tendency is to require the services to meet performance targets. In turn, this requires a large scale accounting exercise which ties up resources. In addition, achieving performance indicators can itself set up a system of perverse incentives, where the aim of the organization is to meet its targets rather than to deliver the welfare that is its underlying purpose.

More fundamentally, the process of defining targets is not politically neutral. It tends to reflect particular vested interests and/or to be open to exploitation by well-informed groups who can use the system to their advantage -thus leading once again to the risk of the institutionalization of exclusion.

Also, whilst our new models may be more reflective of individual aspirations and choice they raise the question of the future of citizenship and social solidarity. Arguably, what we are seeing is a consumerization of society, in which people are regarded as customers rather than citizens. Many of

the institutional pillars of social life (health, education, care for the elderly, urban environment) are not just services, but part of the fabric of civil society. For this reason, the consequences of social innovation are even more far reaching and sensitive than the complementary changes taking place in private sector innovation.

Towards a new social settlement?

Can we identify some key elements emerging from our discussion of the relationship between competitiveness and well-being which might point us towards a more sustainable notion of welfare? We stress again that social development should not be seen as a cost, but the foundation of competitiveness. The new norms of competitiveness rest upon social investments in education, particularly, but also health care and other public goods. By the same token, the evolution of social demands should not be seen solely as a problem, but as a source of new markets and therefore a motor of growth.

We have tried to show this perspective in which well-being as the companion of competitiveness casts recent social innovations in areas such as health, education and so on in a new light. It will allow us to set different priorities when we look at new ideas about the economics of public services. We can certainly look to the new norms of competitiveness for inspiration, with its concepts such as flexibility, responsiveness, customization and transparency. But perhaps we need to look beyond that, towards a much more flexible institutional structure opening up, with a wider range of social actors getting involved and a greater emphasis on locally-defined solutions.

However, we can also identify some major challenges which have to be discerned better before we can really claim to have even a broad-brush portrait of sustainable welfare. First, we have to accept the fact that public services are in some respects inherently distinct from private

Some recent social innovations suffer from practical implementation problems, sometimes increasing costs and creating perverse incentives

The management lessons of the new micro-economics of competitiveness cannot simply be transferred en bloc into the public domain, public services often perform roles which do not go readily with private enterprise

The diversity of European traditions means that any attempt to straitjacket existing practices into a single (global) best practice will be sub-optimal

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services. This means that the management lessons of the new micro-economics of competitiveness cannot simply be transferred en bloc into the public domain. Public services have traditionally provided an important part of the transmission of culture. The clearest place where we can see this is in the role of education as a conduit for the transmission of culture and for the socialization of young people. It is not easy to see what the consequences are of devolving education to quasi-private enterprise. More generally, public services have an important role in reinforcing social solidarity which again, does not sit easily with customization and flexibilization concepts which underlie the new management thinking.

But the articulation between social development and competitiveness is surely worth closer investigation, not least because it has important implications for policy. Let us take the example of Europe's rich cultural and social diversity, which means that the way we work reflects culture and social norms and values as much as economic discipline. Such norms are traditions, attempting rapid change can only result in dislocation and failure. In their different ways, Coriat, Dosi and Soete all argue that the diversity of such European

traditions means that any attempt to straitjacket existing practices into a single (global) best practice will be sub-optimal. Moreover, surely, one of the lessons we learn from the 'Made in...' studies is that the concept of the 'One Best Way' is on the way out, not least because of the diversity and constant modification of consumer tastes. From this perspective, the challenge becomes not how to homogenize Europe but how to make diversity into a competitive advantage.

There is, then, likely to be no simple or single such model for sustainable welfare: no 'one best way'. Instead we have to build up and build upon the capacities of our people and our social institutions. We also believe that the answers to the questions we raise here will come not from fundamental positions of philosophy but from social experimentation and then evaluation and discussion of the results. In this paper we have attempted to outline some areas of social innovation which might provide the basis for a policy agenda on social sustainability. Our intention has been merely to kick off a debate, we claim nothing more, but we think that if the European economy is to be competitive, it will need to run on both its legs: the social as well as the economic. 

Keywords

Competitiveness, Social innovation, Sustainable Welfare, Growth

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