



Competitiveness and Technologies

“Rebooting the Lisbon Strategy: a blueprint for the New Europe.

DRAFT

Brussels, July 2004

Europe is failing its most vital objective. Since the Lisbon strategy was established the idea of making Europe the most competitive economy in the world is in fact becoming even more distant than it used to be four years ago when the objective was established.

However, the paradox is that while Europe is becoming even less competitive, European Member States have, in fact, worked in terms of pushing forward what they used to call “reforms” and competitiveness policies. The contrast between the *actual results* that consumers, young workers and electorates can witness and the *institutional changes* which have taken place in labour market, privatization and liberalisation of a number of sectors, could not be bigger.

This does lead us to consider the possibility that the very strategy for competitiveness was flawed by the initial problem definition, that the very scope of what is meant by national competitiveness must be more precisely established and that, as a consequence, the policies aimed to increase Europe’s ability to compete must become both *deeper* (in terms of changes required in affected policy areas and sectors) and *broader* (in terms of number of economic and social actors and behaviours we need to consider).

Vision presents ten proposals which could, if put at work simultaneously, make Europe to achieve its ambitious target by transforming what has been wrongly perceived as an economic process into a much



more appealing social transformation aimed to introduce the idea of “innovation” as one of the basic values upon which to develop a new european model.

THE LISBON SCOREBOARD: A MID TERM ASSESSMENT	3
THE PARADOX OF THE COMPETITIVENESS POLICIES	6
A NEW PARADIGM OF COMPETITION	7
REBOOTING LISBON STRATEGY: TEN RECOMMENDATIONS	8
WIDENING THE SCOPE OF LIBERALISATION	8
USING TECHNOLOGIES TO MAKE GLOBAL SOME KEY “DOMESTIC” INDUSTRIES.....	8
AFFIRMATIVE ACTION FOR MAKING POSSIBLE COMPETITION OF NEW ENTRANTS AGAINST INCUMBENTS	8
FACILITATING COMPETITION AMONG SECTORS AND TRANSFORMING ANTITRUST PROBLEM DEFINITION.....	8
EMPOWERING THE CONSUMERS	8
MAKING COMPETITIVE THE COMPETITION AMONG POLITICAL OFFERING AND MEDIA	8
INCLUDING IN THE LABOR MARKET AS COMPETITIVE ACTORS THE FORGOTTEN CLASSES: YOUNG PEOPLE, ELDERLY, WOMEN, IMMIGRANTS	8
USING FDI AND IMPORTS AS A COMPETITIVE LEVERS	8
MAKING ACCOUNTABLE “PROTECTED” PROFESSIONS.....	8
FOCUSING R&D TARGETS AND MAKING COMPETITIVE FRAMEWORK PROGRAMMES	8



THE LISBON SCOREBOARD: A MID TERM ASSESSMENT

The usual ways to measure “competitiveness” or even more precisely “economic performance” of a system is to refer to its ability to increase Gross Domestic Product and to produce employment. This is in fact the indicator that European Union has established in order to measure its progress on the Lisbon Agenda¹.

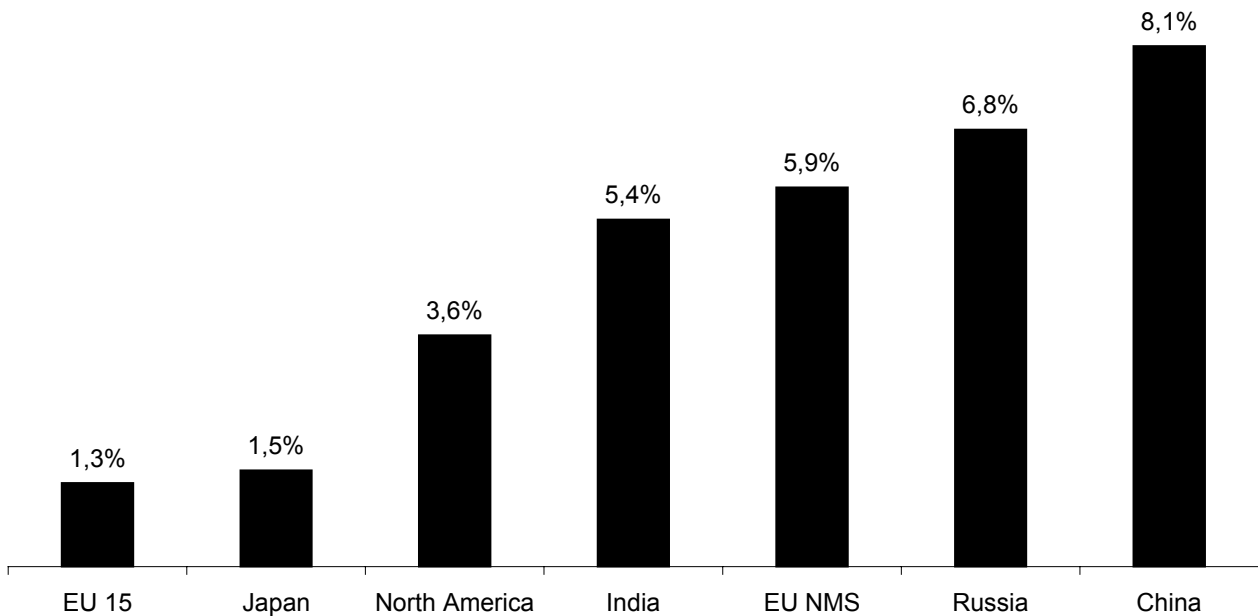
¹ Both measures of performance are highly questionable both from the point of view of evaluating “economic performance” and even more from the standing point of a broader perspective of “general welfare” (more on the limits of traditional economic measures in “The Paradox of GDP”, Vision, Vision – 2000 available in www.vision-forum.org).

Nevertheless our analysis of Europe competitiveness can start from such traditional indicators for two reasons

1. even if it is arguable that GDP is still a good indicator of the wealth created by a given country in a given timeframe, we can still more safely assume that GDP growth rates can be indicative of the “dynamism” that a certain country is experiencing; higher GDP growth rates do often mean higher *creation* of new companies, higher *redistribution* in terms of market shares and *mobility* within the rankings among different companies within a given sector; in other words, one could say that in fact “competitiveness” (at least the “internal” one) is a condition that normally only fast growing economies can afford;
2. it is the very European Union which made an explicit choice to take those numbers as numerical targets of the Lisbon Strategy and in fact the Lisbon document establishes as strategy’s target 3% per year for ten years (against a sound macroeconomic background which has in fact – by and large – continued to be present in terms of low inflation and low public deficit).



GDP Annual Average Growth Rate 2000-2003



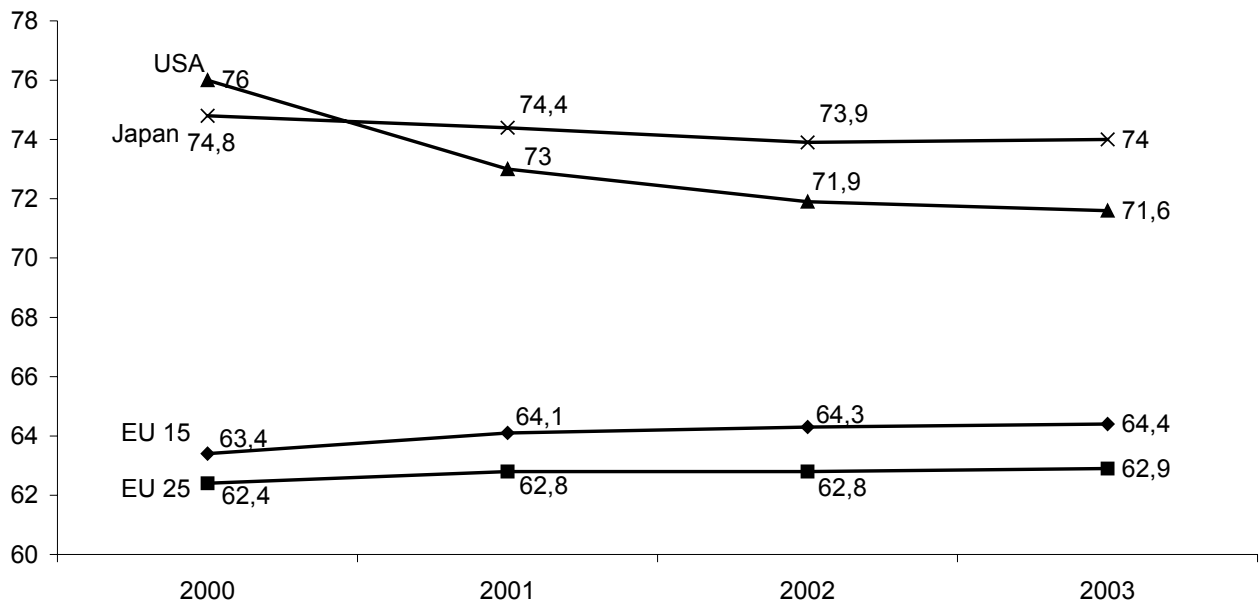
Source: Vision on UN data

The evidence is rather clear. It seems to say not only that Europe (or at least “old Europe”) is not able to reduce the distance among its main competitors (and other macroregions) but also that distance seems to grow.

Not very different the situation is if we consider employment rates, the other indicator that the strategy establishes as its target:



Employment Rates from 2000 to 2003



Source: Vision on OECD data

In this case, in the first three years of the strategy period, we have in fact witnessed a reduction of the distance between Europe and its main competitor. However such a result is due more to a bad performance of the USA (where the indicator shrank of four and half points), than top a good evolution of EU 25 (where the improvement was of less than a point in the three years).

The issues will be further elaborated referring to

- 1. the “quality of jobs created and*
- 2. the “productivity paradox” (see Sapir report for instance) whereas Europe seems to be trapped into a a situation where more jobs can only be created at the expense of economic growth..*



THE PARADOX OF THE COMPETITIVENESS POLICIES

The paragraph is going to briefly describe the reforms undertaken in member states and mostly in Germany, France, Spain, Italy.

Reforms will be analysed grouping them into four major headings: labor market regulation, liberalisation, privatisation, redesign of welfare and of social protection,

The message is going to be that the effort on the reform has been considerable, even if not always straight and without contradictions.



A NEW PARADIGM OF COMPETITION

Let's then try to recap the situation.

The European Union has given to itself the objective to become the most competitive, knowledge based economy. Such a strategy was to be achieved through a number of policies that Member States have to enact and that the Lisbon manifesto described. Such policies by and large refers to the liberalisation of a number of sectors, the privatisation of State owned concerns, the reform of the labor market regulation and the redesign of welfare.

The contradictory outcome that we have shown is that the final results of the strategy indicate a failure whereas Member States have in fact been implementing the recommended policies.

We then believe that beyond and alongside the difficulties in implementation there is a problem of strategy and, in fact, to be more precise a fundamental issue in problem definition.

What do we mean by "competitiveness" of a certain economic system? And secondly what does Lisbon mean by knowledge based economy?

It is generally true that vague definition normally lead to vague strategies, to action plans which are not focused enough and to therefore waste of political energy.

We will also advance a specific definition of competition which is *broader* (in terms of sectors whose "competitiveness" has to be increased) and *deeper* (in terms of scope of choices to be made). Such a redefinition will lead us to identify ten policy options which are in our opinion to complete the strategy and transform Lisbon into a change of entire european economy and of its social model.

National (or regional or european) competitiveness can be in fact broadly defined either as:

- 1. higher capacity of a given system to achieve higher economic performance vis a vis other systems (measured in terms of exports or..); or**
- 2. higher level of dynamism within that system with the possibility of incumbent positions in the suystem to be challenged; or**
- 3. more openness of that system vis a vis competition from outside (either in terms of lower barriers to import or growing foreign direct investments).**

The three definitions are in fact very different, we will see that european policy makers tend to assign higher priority to the first of the above and that this results in half hearted competitiveness strategy.
..to be developed...



REBOOTING LISBON STRATEGY: TEN RECOMMENDATIONS

WIDENING THE SCOPE OF LIBERALISATION

Here we will make the case of the many smaller economic segments where liberalisation has not taken place. The argument is that the efforts have only been on some major, most visible sectors where sizeable companies operate but that they have failed to ignite a process able to reach the rest of economy.

USING TECHNOLOGIES TO MAKE GLOBAL SOME KEY “DOMESTIC” INDUSTRIES

AFFIRMATIVE ACTION FOR MAKING POSSIBLE COMPETITION OF NEW ENTRANTS AGAINST INCUMBENTS

FACILITATING COMPETITION AMONG SECTORS AND TRANSFORMING ANTITRUST PROBLEM DEFINITION

EMPOWERING THE CONSUMERS

MAKING COMPETITIVE THE COMPETITION AMONG POLITICAL OFFERING AND MEDIA

INCLUDING IN THE LABOR MARKET AS COMPETITIVE ACTORS THE FORGOTTEN CLASSES: YOUNG PEOPLE, ELDERLY, WOMEN, IMMIGRANTS

USING FDI AND IMPORTS AS A COMPETITIVE LEVERS

MAKING ACCOUNTABLE “PROTECTED” PROFESSIONS

FOCUSING R&D TARGETS AND MAKING COMPETITIVE FRAMEWORK PROGRAMMES