The EU and European Models' Competitiveness at Stake

Ana Bal
Octavian-Dragomir Jora
Dana Gârdu
Vladimir Topan

This paper aims to shed light on the following issues: country-specific/country cluster-specific approaches to competitiveness; alternative routes to competitiveness, relying either on national strategies or business endeavour or both; instrument types – institutions and policies – as well as orientation to improve national competitiveness; performance differences among EU country clusters/models. One essential issue is the competitiveness concept and the factors underpinning it in a competitiveness-driven economy, assessing the sustainability of M. Porter's national competitiveness advantage theory and trying to make sense of the competitive vs. comparative advantage controversy. The debate further leads to national economic models in the EU regarding the degree of state intervention in the economy and the way it impacts upon global competitiveness as defined by the World Economic Forum. Equally valuable is striking a balance between state involvement and aloofness as competitiveness boosters. This also implies revisiting the impact of EU-level regulations upon national competitiveness, ascertaining whether centralization of policies and competencies within the EU can increase competitiveness or inhibit it. Concerning the Lisbon Agenda, it is useful to consider whether to bet on pure knowledge or rather on capital accumulation as a sustainable growth recipe, discriminating between what really spurs competitiveness on and mere fallacies about development.

Key words: *competitiveness, social models, common policies, capital accumulation, knowledge*
JEL classification code: H1, H5, I3, J0

I. The competitiveness of nations: a controversial theoretical approach

The competitiveness concept is usually easily accepted where companies are concerned, but is rather controversial when it comes to nations. According to P. Krugman, this term is far too vague and only signifies "a poetic way of saying productivity"[1] or economic performance. However, P. Krugman himself acknowledges its relevance and even distinguishes it from productivity in ways we shall refer to in the ensuing paragraphs. Starting from this acceptation of the term (within very strict confines, though) put forth by one of its most cautious users, our approach can be deemed legitimate as applied to European economies or "models", rather, given their hallmarks.

This first section purports to answer three major questions: 1. What does competitiveness mean? 2. Is national competitiveness measurable, and if it is, how exactly can it be measured? 3. Can the state impact on competitiveness, is this path worth pursuing?

Answering these questions is no easy endeavour; this is tantamount to sifting through various opinions on this topic originating in various schools of thought (neoliberal vs. heterodox ones). Only several such tenets will be enlarged upon due to space constraints.

1. Prior to considering the most famous definitions of competitiveness, we should outline from the very beginning that they differ in terms of scope (more broad/ narrow in scope). Thus, competitiveness can refer either to: a) overall economic performance (IMF, OECD, WEF) or, in a more narrow sense, to b) where a certain economy stands in the international competition arena as opposed to other protagonists involved (attractiveness for foreign investors, international trade specialization). From the vantage point of theoretical approaches, especially competitiveness in international trade has brimmed over into endless controversy. This topic will focus on both levels of understanding.

[1] Krugman (1994).

a. For some international institutions national competitiveness is comparable to their capacity to sustain medium- and long term economic growth, and boost a population's real income accordingly.

b. In a narrower acceptation, competitiveness can be defined as an entity's ability (a company/region/country) to increase its market share both in its home market and in the international market when it enjoys a comparative advantage over similar entities enabling it to produce certain goods at lower opportunity costs.

Coming back to P. Krugman, to him national competitiveness is different from productivity "if and only if purchasing power (gauged by the terms of trade) grows significantly more slowly than output" (our note: meaning home output). Even in this case, Krugman believes using this term can be dangerous since national economies are not competing in international trade (which is not a zero-sum game, incidentally).

To some authors, talking about national competitiveness only makes sense in terms of their comparative advantages (indicating a country's international specialization criteria in terms of its opportunity costs and relative prices) and of competitive advantages, likewise indicating the key industries and sectors favourable to particular countries (national businesses specialize in certain products/sectors/industries) as suggested by M. Porter's key success factors.

Both approaches have been thoroughly critiqued, the most common counterarguments run as follows:

- This is a holistic approach overlooking the hard facts that it is economic agents, businesses and individuals that engage in international trade, not countries;

- This is an *ex ante* approach formulated by an economics-minded assessor, not by a genuine producer.

Next, both theories are being critiqued from other angles that are peculiar to them. Thus, Ricardo's comparative advantage theory is vulnerable on the one hand because of its unrealistic assumptions (perfect

competition, static approach, failure to determine the exact exchange value- M. Manoilescu, R. Prebish)[1]; on the other hand, it fails to describe the market process whereby labour division occurs on a voluntary basis (L. von Mises). The comparative advantage theory would be sustainable in a Misesian format, though, meaning that a dynamic advantage results from an optimal combination of inputs that can and do change over time: capital accumulation, technological change, changing consumer preferences, upgrading of entrepreneurial and management-driven skills[2].

Summing up, all these definitions narrow down competitiveness to productivity and high efficiency, maintaining high living standards, sustained economic growth, winning over high market shares in foreign markets and sticking to them, too.

This paper will use these aforementioned definitions as benchmarks in analyzing European economies.

2. a. International assessments of national competitiveness have become common since the 1990s when M. Porter launched his competitive advantage concept. Further, the World Economic Forum (WEF) in Davos has released a Global Competitiveness Report assessing individual economies via a set of interconnected indicators making up the Global Competitiveness Index (GCI). The latest report from 2006-2007[3] took stock of 9 such indicators: institutions, infrastructure, macroeconomy, primary education and health, market efficiency, technological readiness, business sophistication, technological innovation.

Some analysts believe the index is severely flawed, meaning that both the report and the countries top are apt to be misleading investors into the wrong country. For instance, D. Salvatore[4] enumerates the following main drawbacks:

[1] Sută & Sută (2003).
[2] Marinescu & Spiridon (2003).
[3] The Global Competitiveness Report 2006/2007.
[4] Salvatore (2001).

- Although a strong correlation occurs between productivity and per capita GDP, it looks like the correlation between competitiveness as computed through the GCI (for example, Finland is more competitive than the USA according to the 2006-2007 World Competitiveness Report, yet this is inconsistent with the GDP/capita ratio of the 2 countries according to IMF data from 2005) - and income is not equally powerful.

- Even if a certain country may have an overall low score, it may prove competitive in particular industries/sectors.

P. Krugman equally downgrades the GCI for not taking into account the internal savings rate, one of the alternative capital accumulation sources.

b. Market share assessments will not be covered here because they do not come under the scope of this approach.

3. As to the last question regarding a state's capacity to influence national competitiveness, most economists go for a positive verdict, but the particular ways it may choose to do so (in point of both adequacy and efficiency) are outlined differently by different schools of thought. If some analysts believe that one brand of intervention alone is felicitous, i.e. the kind of intervention aiming at consolidating market mechanisms leading up to capital accumulation, and innovation and entrepreneurship surge, for some others, state intervention can wield economic policy instruments to embrace a broader scope, and a pro-active and targeted one, too.

M. Porter espouses a mid-way position: "genuine competitiveness relies on productivity. The major challenge for economic development consists in creating the necessary conditions to ensure fast sustained productivity growth. Political and legal institutions going hand in hand with macroeconomic policies and strategies can create the overall context,

but for all that, prosperity depends upon improving an economy's performance on a microeconomic level"[1].

In his article about competitiveness, Krugman states that policy-makers can develop an obsession about national competitiveness precisely because this approach can induce excessive state intervention in an economy.

The classical description of economic growth or "development" (either of them is co-extensive with competitiveness: the competitive are growing or developing unlike the other "camp") - goes hand in hand with capital accumulation. Under free market and competition capital accumulation is *the* route to all economic "goodies": prosperity, efficiency, development, competitiveness. To the extent that human beings are unwilling to consume their resources on the spot, at all times there is a surplus/corpus of undeployed resources are out there, in the market. These resources are often said to be "saved": these are the *savings*. In modern economies they typically take a money shape and are mainly encountered in the banking, stock exchange and insurance industries[2].

Capital accumulation arises when entrepreneurs succeed in managing borrowed resources efficiently by investing them in capacities that yield ever bigger profits and productivity, a stepping stone to both loan (and the interest rate going along with it) repayments and brand new/extended project pursuits.

What would growth mean if *exclusively* technology-based? A productivity increase would entail by simply juggling along with the available production factors (capital goods). It would be only at that point that technologies ("ideas", "recipes", "knowledge") would be *the decisive* production factor. Although no one is claiming that such felicitous discoveries are impossible to come across, a question surfaces: can we rely on *systematic discoveries*? Is discovery or technological innovation possible in a programme-like fashion? This comes close to pure self-

[1] Suciu & Cimpoeaşu (2003).
[2] Spiridon (2005).

contradiction. Technology-based growth can be a felicitous event at best (a rare, terribly unpredictable event, at that). In so far as applying a new technology cannot occur without a minimal resource consumption (production factors, hence capital goods), then the overarching factor is actually capital. It is capital limitations (rather than technological ones) that induce growth limitations. This is precisely why countries, like African ones for example, are laggards, although the latest technological achievements of physics, chemistry, etc. are not entirely unknown to them. Although they have foreign-educated staff, they lack the resources to put into practice the ideas thay have managed to pick up.

II. Towards a competitiveness-driven "social Europe": the European models

There is enough empirical evidence to suggest that socially-minded/welfare states are *outstanding performers* in point of competitiveness. According to the GCI Report 2006-2007, frontrunners include Switzerland, Finland, Sweden, Denmark, Singapore, the USA, Japan, Germany, the Netherlands, the United Kingdom, Norway, Taiwan, China, Iceland, and Israel.

European social models that "work" (the Nordic and Anglo-Saxon models as opposed to the Continental and Mediterranean ones, respectively) are much talked about, too. Accordingly, assessments on the *social concern-competitiveness* relationship range from postulating the *superiority of reconciling* equity and efficiency passing through a *non-adversarial* tenet between the two up to positing a *causality* relationship eventually[1].

The *welfare-competitiveness* paradox(es) can prove a typical interpretation issue, though. *Ergo*, I) what is at stake is that empirical arguments leave room for much theoretical indetermination, next, II) claiming that *only* underperforming models need reforming overlooks the erosion induced

[1] EFILWC (2006).

by the Welfare State institutions and policies – *necessarily, collaterally, in the long run* – which is inadequately captured empirically.

To phrase the issue fairly, two vistas are available: I. what exactly "is working" *from within* "the model" or II. taking the opposite view, what exactly "is working" *outside* "the model" (in a strict understanding, "the model" refers to a social institutions and policies set grounded in distributional and egalitarian leanings through excessive regulation and taxation) and *against* it, too in (relatively/comparatively) "successful" societies?

Table no. 1: European social models typology

Equity ↑		
	Continental countries (Austria, Belgium, France, Germany and Luxembourg): leaning extensively on insurance-based, non-employment benefits and old-age pensions; although their membership is on the decline, unions remain strong as regulations extend the coverage of collective bargaining to non-union situations.	*Nordic countries* (Denmark, Finland and Sweden, plus the Netherlands): highest levels of social protection expenditures and universal welfare provision; extensive fiscal intervention in the labour markets based on a variety of "active" policy instruments; strong labour unions ensuring highly compressed wage structures.
	Mediterranean countries (Greece, Italy, Portugal and Spain): social spending concentrated on old-age pensions, high segmentation of entitlements and status; social welfare systems typically drawn both on employment protection and early retirement provisions; wage structure, at least inside the formal sector, covered by collective bargaining and strongly compressed.	*Anglo-Saxon countries* (Ireland and the UK): relatively large social assistance of the last resort; cash transfers towards people in working age; activation measures, schemes conditioning access to benefits to regular employment; mixture of weak unions, comparatively wide and increasing wage dispersion and relatively high incidence of low-pay employment.
	Efficiency →	

Source: adaptation from Sapir (2005)[1]

[1] Sapir (2004).

i. Less social, yet more competitive

The 1990s **Irish model** – in a nutshell, "low inflation and low taxation doubled by trade unions wage moderation" [1] is frequently quoted *including* when broaching the topic of *competitiveness through corporate taxation* – an example of how to build fiscal revenue in order to fund a (minimal) welfare state without impairing upon internal capital accumulation and foreign investments. This tenet says pinpointing the most immobile tax base (read the more "inelastic" or "neutral" ones) is *the* thing (to do). Thus, alongside the overall *slim* aggregate tax burden, the Irish taxation mix takes a *heavier* toll on consumption rather than on corporate profits and labour, which is perceived as an incentive for the main competitiveness premises (however, a questionable view revolving around the *taxation principle* rather than its *level*).

On the other hand, having the Irish model recede into the background of late is not tantamount to exhausting the liberal vista, but rather as deviating from it. "Over the last 5 years, the country has been sliding into the abyss of rising government spending, indirect taxation increases and more regulation and state involvement in the economy."[2]

ii. Both social, and competitive

The Swedish model may be the most controversial one and critically misread. To quote the great Bastiat, w*hat is seen* is consistent yearly economic growth (5.6 % in the second quarter of 2006), an official unemployment rate of just 6 %, ranking among the world's most competitive economies, business strength in RDI, enviable health-care and educational systems, healthy budget and current-account surpluses.

What is not seen is putting a heavy burden upon the economy to yield a 6% unemployment rate. If we counted in those in government make-work programmes, those forced into early retirement and students who would prefer to be working but are at a loss of finding a job, workers

[1] Spiridon (2004).
[2] De Vlieghere et al. (2006).

on long-term sick leave (sickness benefits account for 16 % of public spending), then the real unemployment rate would soar to 15-20 %.

Next, it looks like Sweden has created almost no net private-sector jobs since the 1950's, the starting point of "absolute welfare". The culprits: the huge "tax wedge" (i.e. the non-wage cost of employment) – and a heavily regulated labour market, restricting freedom in contracts terms. Although there is no formal minimum wage, unions tacitly enforce one in practice by setting contract terms that exclude alternative engagements like temporary or part-time work. A striking coincidence: no big business of IKEA or Ericsson's calibre has been founded since the 1950s also "thanks" to an excessive taxation regime (the aggregate burden touches around 63 %). On the other hand, the recovery and competitiveness position are due to *aloofness vis-à-vis the initially rigid social model and free-market solutions.*

Unsustainable as it was, the initial model called forth major reforms. The former, which occurred in the mid 1990s, is tax reform - the century's reform - marked by a decrease in marginal income tax as an incentive to work and entrepreneurship that had long gone sour in time. Some other outward-induced reforms have been unfolding since 2000. For instance, downsizing the public officials body and assessing them in accordance with private principles; flexibile labour contracts in terms of duration and payoffs; optimizing social policy, for example by instating joint payments for medication and health-care bills (a yearly lump sum of € 150-300) or investing shares of social security insurance in capital markets.

The political change of 2006 enabled prime minister Reinfeldt's *new* moderate coalition to start off other reforms without altering "the structural pattern" of Swedish society for all that: a € 4bn cut in social contributions, yet an explicit commitment to pursue public services expenditure, and the privatization plan to sell off € 22bn worth in state shares in Nordea Bank, TeliaSonera and SAS.

The Danish model also confirms the idea that a model's performance relies more on its liberal ingredients. According to *The Economist Intelligence Unit* (EIU), Denmark is deemed "the best place in the world to invest and do business during 2006-2010". According to the "taxation is the cost of civilisation" dogma, advocates of the Danish model rely on the tenet that the 58 % tax burden is made up for through "high-quality public goods, remarkable infrastructure and high-performing education"; to label just about everything as *competitivenes*s – as interpreted through its symptoms rather than through its determinants – is a deceptive vista to pinpointing the inspiration source for a *social Europe* (European Commission president Jose Manuel Durao Barroso is a fan of the Danish model).

Danish "flexicurity", the new paradigm proposed for social Europe, is simply a *less infelicitous attempt*. It should not be misinterpreted, though: this is about "security through flexibility", not "flexibility through security" – a flexible labour market makes both hiring and firing easier for employers, meaning that job filling is optimized. Indeed, unemployment benefits – 90 % of the previous salary – make "transition" more bearable for employees, yet they provide counter-incentives to work proper. Nevertheless, the new more responsibility-driven concept of *employment security* replaces the relatively flawed *workplace security*.

iii. Social, yet less competitive

The German model is proudly described as *a social market economy*. The German *Soziale Marktwirtschaft* has been built in time buttressed up by a popular consensus politically spelling out in the Social Democrat Party (SDP) and Christian Democrats (CD) duopoly that have lived together in a «grand coalition» ever since the 2005 elections.

Although Germany's economic CV sounds outstanding at a first glance: it is the world's third economy in terms of real GDP or the fifth one (at PPP), and the first in Europe, further, it wields an immense exports force – at a yearly € 733bn – many other details do not work to its advantage.

Germany's economic growth verging on stagnation has become glaring of late, the same holds true for its vulnerability to external shocks, overwhelming home structural problems and a lengthy reunification digestion, even 15 years afterwards: the € 1,250bn bill will have been paid by 2019.

For all the many adjustment changes to both integration and globalization, the pillars of the Rhenan model – *consensus* and *co-management* – have stayed unshaken. As for 2007, the first year after 4 infringements in a row of the Growth and Stability Pact (GSP), reforms are meant to improve the consolidated budget, the business corporate tax regime, the public health-care system and to streamline the labour market.

The most relevant elements (though glaringly unequal and even self-contradictory at times) for competitiveness run as follows: VAT rising by 3%; decreasing the corporate tax burden to 29% from 2008 (the tax base will be broadened, however); introducing an income return tax rate of 25% starting from 2009; cutting unemployment contributions from 6.5% to 4.5%. Increases creep into the picture, too: contributions to the pensions fund rise by 0.4 % up to 19.9% while health-care contributions rise by 0.8 % up to 15%. Next, public health reform may be the most controversial of all and is blamed for burdening taxpayers with red tape inherent to contribution and extra taxes collection (for the so-called health fund forecast from 2009); an increase in the employers' tax wedge is accompanied by a 0.9 % special contribution of the employees' monthly salary.

The French model is defined through ever strong state presence and intervention, although their particular shapes change over time, marking the transition from "a shareholder state to a regulating one". The official goal is "to defend French identity". Three examples will be supplied to illustrate detrimental leanings to competitiveness common sense: 11 strategic sectors are decreed where foreign takeovers of French multinational corporations are prohibited, so is shifting production of French businesses to prevent layoffs; president Chirac proposes to in-

state employee shareholding to address the same issue; in the wake of last spring's street riots, the "contrat de premiere embauche" failure is equally telling – this would have led to labour contracts flexibility for young people – who are said to be the most affected by unemployment (22% unemployment rate for young people under 25 as compared to the 10% average!).

According to the economic patriotism tenet (Dominique de Villepin), a proof for active state intervention in the economy is the competitiveness poles project, *"a comeback to active industrial policy"*: heavy funding is granted to accomplish this objective (€1.5bn from 2006 to 2008, in the guise of governmental loans, foregoing tax payments and social contributions etc.). All these elements do not stimulate, but rather distribute competitiveness premises inside an economy.

III. Two EU policies under the spotlight: making and breaking the Lisbon Strategy

This section looks at the impact of cohesion and trade policies upon member states' competitiveness. Interestingly enough, the revised Lisbon Strategy is the main driver behind the new directions envisioned by EU policy makers in these particular fields, as we conclude in the end of our paper.

i. Cohesion Policy

If the six founding members were fairly homogeneous from an economic standpoint (save for southern Italy), the next three enlargement waves called forth the adoption of a cohesion policy in order to address the ever bigger regional discrepancies between a wealthy hard-core and a poor periphery (Ireland and the three Southern European states, i.e. Spain, Portugal and Greece). Development gaps between member states needed to be bridged in order to felicitously set up the Single Market, and, later on, the Economic and Monetary Union (EMU). L. Tsoukalis argues that distributive policies were used as a financial

means to bribe poorer countries/regions into accepting ever deeper forms of economic integration[1]. The official rationale[2] behind extending regional aid was put forth by the mastermind of the Single Market, Commission President Jacques Delors, who was intent upon forging a new European identity via social solidarity between the "clashing" Northern and Southern civilizations.

Although all the aforementioned countries were net recipients of EEC/EU Structural and Cohesion Funds, Ireland emerged as the undisputed victor: its GDP/capita soared from around 62 % of the EEC average in 1972 to 139 % of the EU-25 average in 2004, second only to that of Luxemburg (229% of the EU-25 average)[3]. Speaking about the Mediterranean countries, accession helped them strengthen their democratic régimes and boost prosperity and living standards.

Previously dubbed the "sick man of Europe", pre-accession Ireland was buckling under an ill-assorted collection of statistics: huge public debt, rampant inflation, high unemployment and emigration, obsolete international specialization and quasi-autarky if trade with the UK was ruled out. Ireland's timing in joining the EEC (1973) was perfect because it could secure EU money to buttress up is frail economy when competition for European funding was scarce. As German chancellor Gerhardt Schröder put it, "As long as only one country was financing its infrastructure (i.e. Ireland) from our money, we could accept that". Actually, apart from EU aid under cohesion policy and the Common Agricultural Policy (CAP), and spillover effects stemming from the Single Market and EMU, Ireland's spectacular transformation was due to a liberally-minded programme going back to the late 80's (privatization and liberalization, cutting red tape and corporate taxes, attracting foreign investors, especially American ones, boosting external openness, high investments in education) underpinned by social partnership between the government, employers and trade unions. A number of inherent trump

[1] Tsoukalis (2003).
[2] Dragan (2005).
[3] Eurostat News Release (2005).

cards (demographic structure skewed to working-age bracket and an English-speaking population) that could hardly be replicated by any other country were also critical to its success.

To cut a long story short, Ireland's achievements could not possibly be narrowed down to EU membership and funding, however they partly helped shake off the inertia inherent to a sluggish economy and opened up opportunities that were aptly capitalized upon in due time. The point is that EU accession and aid alone cannot make a difference: coming back to the latest statistics for the other 3 net recipients of EU funds, one can see they rank below the EU-25 average to date: Spain (98 % of the EU average), Greece (82 %), Portugal (73 %).

To sum up, Structural Funds can and do improve some competitiveness ingredients (such as infrastructure in the Irish case), yet they are not key success factors in attaining the Lisbon Strategy's overarching goal.

ii. ***Trade Policy***

Overt protectionism has long been the hallmark of EEC/EU trade policy (renowned theoreticians such as Robert Gilpin[1] have refrained from such strict labeling, while some French scholars, such as Maurice Allais and Philippe Rollet have advocated strategic trade theory for European countries), a stalwart supporter of European producers, albeit inefficient ones. Indeed, this trait may prove valid especially for agricultural goods (s. the CAP resilience and the huge share it claims out of the meager EU budget) rather than for industrial products as the successive GATT/WTO multilateral rounds have brought down both tariff and non-tariff barriers in time.

The latest developments in this field go back to last October: Trade Commissioner Peter Mandelson spearheaded a brand new policy to accommodate both the major role the EU-25 plays in international trade (a 15 % contribution to its GDP) as the world's biggest exporter to date

[1] Gilpin (2000).

and the revised Lisbon Strategy's goals. Hence, the main thrust of this novel orientation is boosting European industry competitiveness. To this end, Mandelson contemplates pursuing not only a multilateral track, but also a bilateral one. This approach is easy to understand in the wake of the Doha Round freeze in July 2006, all the more so since it is highly unlikely that a comeback should occur before 2009[1]. Further, keeping EU trade policy options open under the current circumstances is a must as the US itself is aggressively pushing for a bilateral trade agenda, meaning that the EU must follow suit if it does not want to lose out on foreign markets.

In a nutshell, the new trade policy is about securing better access to foreign markets and fair treatment for EU businesses while operating abroad. The offensive side of this policy includes seeking bilateral free trade agreements (especially with emerging economies such as South Korea, India as well as ASEAN and Mercosúr countries) and thus improving their regulatory environment (including opening up public procurement markets and raw materials markets). The defensive side concerns a "wiser" use of tariff and non-tariff barriers (anti-dumping charges included) and a better enforcement of intellectual property rights (to resist unfair competition from such low-cost producers as China and India, for example) and thus protect innovative European companies and encourage them to keep up the good work.

Although European multinational companies (MNC) gave this change a hearty welcome, the new trade policy has come under attack from various quarters: uncompetitive industries, small and medium enterprises (SME), trade unions, green NGO's and human rights advocates. All these groups are worried because even partly "opening up the EU market" as a payoff to emerging economies is bound to translate into layoffs and dwindling international market shares. To them, this "neoliberal" shift is just a façade, not a natural adjustment to globalization

[1] Kernohan & Edwards (2006).

and faltering EU competitiveness. Further, they believe that the European Commission is actually sold off to big (multi)national champions.

To recap, there is no shadow of a doubt that the new trade policy is intent on increasing European competitiveness. Nonetheless, the EU is using double standards to attain this goal since pressuring trade partners (especially emerging economies) into liberalizing their markets ranks higher than opening up the EU market.

IV. The EU and the stake of economic growth: striking a balance in-between the need for capital accumulation, technology mirage, the welfare state blind alley, and environmental constraints

The European public officials' broader outlook on the economic development model the EU should follow is summed up firstly in the *Growth and Stability Pact* (1997), and secondly in the Lisbon Agenda (2000). In point of effective commitments, the former has ranked higher (and still does) in major debates upon the future of European economic competitiveness, however the latter's reputation has outstripped its practical relevance by a long shot and seems destined to become the *mainstream* vision of EU's strategic decision-makers.

Officially speaking, the Lisbon Agenda stake and objectives have been revealed by the European Commission president in his *Annual Progress Report on Growth and Jobs* presentation *(Jan. 2006)*. In his words: "Our ambition is clear. We are aiming for top class universities, highly trained and educated workforces, strong social security and pension systems, the most competitive industries and the cleanest environment."[1]

Thus, a whole series of self-contradictory goals was launched: they can be pursued along four main dimensions: firstly, from an *economic* standpoint, the competitiveness and growth objective is acknowledged. We must say that on an economic theory level, for all the many attempts, the way to the "route to prosperity/competitiveness/healthy economic

[1] "Time to move up a gear" (2006)

growth" is *free market* profitability. Insofar as present-day economy is complex and uses money as means of exchange – ruling out some entrepreneurs' non-monetary attachment for some industries – we are talking about *profitability in monetary terms*.

Secondly, from a technological perspective, the Lisbon Strategy is aiming at economic growth geared by high-tech industries, catapulting the EU into an information knowledge-based economy revolving around R&D (alongside the corresponding educational pursuits). The technological criterion can yield different results as compared to the economic one when both are applied to an investment project. Economically optimal projects (meaning the *profitable* ones) can be precisely those that do not use the most sophisticated cutting-edge technologies available. In so far as technological research presupposes some costs, the following question becomes relevant: are new technologies *necessarily* more profitable? In other words, if they are more expensive, is the extra cost made up for in terms of an income surplus? We believe the answer is not necessarily yes. This is a case-by-case issue, and further it is not strictly determined theoretically. So, the Lisbon Agenda option for new technologies can easily conflict with the implicit option for economic efficiency.

Thirdly, the systematic option inherent in the Agenda contains a social goal. The problem of charity is raised, although not explicitly and not under these terms. On a theoretical level, two main answers arise on the issue of underprivileged categories: either private charity or the welfare state. Private charity consists in a *voluntary* change in resource distribution – a distribution which is the natural outcome of the market (all allocated resources are at the same time expenses for some, and income for others) – under institutional contexts such as families, churches, charities, foundations, sponsorships etc. The welfare state implies *forced* resource *redistribution* from net payers to net beneficiaries. While the private charity solution is perfectly compatible (at incentives and monetary profit/loss calculation levels) with economic growth and efficiency, the welfare state alternative is strikingly at odds with it. To the extent that

an overbearing welfare state entails high taxes and/or strangling regulations (such as non-discrimination, excessive employees benefits etc.), entrepreneurship is deterred. Therefore, a *trade-off* occurs between the welfare state solution to social issues and competitiveness goals. Moreover, insofar as new cutting-edge technologies incorporating a great deal of knowledge and R&D, are more expensive (in the first stages, at least), social objectives can clash with technological ones as set forth in the Agenda.

Fourthly, for things to be even more complicated, the Lisbon Agenda (or rather the Gothenburg 2001 addenda) proposes *environmental* objectives. As before, courses of action ecologically optimal can (and often do) differ from those acceptable from an economic viewpoint. More forests mean (counterfactually, at least) less lumber, paper or furniture; cleaner air, fewer vehicles or traffic hours etc. Likewise, if technological advance presupposes things like non-biodegradable waste accumulation (such as plastics), environmental objectives can clash with the technological ones too. And, after all, if new nonpolluting technologies are expensive, they are available on a smaller scale, in stark contrast with social goals.

That is why the prospective European model suffers from what Daniel Tarschys calls *goal congestion*. And the problem is not so much the number of objectives, but rather their self-contradictory nature. It is by no means surprising that the initial version of the Agenda did not deliver on its expected outcomes. Briefly put, the 2000 objectives were: 3% average yearly economic growth and an extra 20 million jobs by 2010 (besides the environmental elements added at Gothenburg). Up to 2004 results were disappointing: yearly growth unmet; too many unprioritized policies; too many reports and wishful thinking and too little action. Hence, the need to restructure and streamline agenda goals. But besides some emphasis shifts (the same 3% growth target, but this time for R&D investments; a 70% employment rate; a Commission requirement for annual national reforms plans), the post 2005 version does not alter the underlying philosophy. So the question is still out there: what

will the EU go for in the end? And also – at least as important – what *should* it go for?

V. Conclusions

Turning the EU into the most competitive knowledge-intensive economy by 2010, in other words catching up with the US, has become an empty slogan by now. The hard facts are at odds with the EU policy-makers' fancy rhetoric: the transatlantic gap has widened over the past decade and the Asian avalanche of low-cost producers is looming large. Indeed, a cursory glance at some basic economic indicators proves that the EU-25 is lagging behind both the US and Japan in overall economic terms and in point of the knowledge economy. Roughly speaking, the economic growth rate in the EU-25 is half the world average (estimated at about 4 % in 2005), whereas the Americans are racing at that same average; as for the emerging Asian economies (China and India), they are well above twice the world average. A host of indicators pertaining to the knowledge economy[1] paint an even darker picture: the EU-25 are well behind the OECD average in terms of R&D intensity. Both Japan and the USA rank higher in terms of the overall share of ICT (information and communication technologies) in GDP, the GDP percentage dedicated to venture capital and the share of private investment in R&D. Additionally, the average number of students enrolled in tertiary education is smaller than in the US, the same holds true for the total average of researchers and scientists and the average number of patents per 1,000 inhabitants.

The attempt at "lisbonising" both the cohesion and trade policies is admirable *per se*: it points to an underlying philosophy at a EU level, for all the bickering it may entail at member states' levels. The former policy is subject to the nation states' choice in so far as they are free to devise their own national programmes under the Commission's Integrated

[1] Amable (2006).

Guidelines. A bigger percentage dedicated to Lisbon-geared projects (over 60% of the total € 308 bn cohesion budget) in between 2007-2013 is a major breakthrough as compared to the almost 45% that went down to infrastructure endeavours under the previous financial perspective (2000-2006). Naturally, new member states have by now become the biggest recipients under the revised objective 1, i.e. growth and jobs in regions whose GDP/capita is below 75 % of the EU average (81.7 % of the total cohesion budget, with Poland getting the lion's share). As for trade policy, making inroads into foreign markets entails scrapping part of the protectionist policies, which is bound to result in a huge outcry from socially vulnerable groups. To quote the Luxemburg prime minister, "we know exactly what to do, but we do not know how to win the next elections once we have done it".

Overall poor EU results as compared to the other world poles hide different performances on a country level. Faced with an ever sharper international competition, the European and EU economies were compelled to restructure major mechanisms and policies. Our paper suggests how difficult it is to strike upon the competitiveness-social security trade-off, but nevertheless that *sustainable* social concern is not so inspired as to be decoupled by the consistent enhancement of an economy's competitive attributes. Linking necessarily the idea of performance to the one of letting things evolve on their own, that is having states intervene less in an economy on such grounds as public social security or free (quite an absurd claim!) universal health-care are not only non-market, but anti-market, anti-competitiveness behaviours that risk bedevilling a state's capacity to act socially in a constant manner *in the long run*. The ultimate lesson for nowadays' ever-caring social Europe is that competitiveness can be fashioned out by private unhampered undertakings – helped along by the right state-designed institutions – not by pro-active intervention in the name of unsoundly manipulated *humane* goals.

References

Amable, B. (2006), *Innovation et compétitivité en Europe*, CEPREMAP (Centre pour la recherche économique et ses applications).

Drăgan, G. (2005), *Uniunea Europeană între federalism şi interguvernamentalism: Politici comune ale UE*, ASE Publishing House, Bucharest.

Gilpin, R. (2000), *The Challenge of Global Capitalism: The World Economy in the 21st Ce*ntury, Princeton University Press, Princeton & Oxford.

Kernohan, D.; Edwards Huw T. (2006), *The Fall of Doha and the Rise of Regionalism*, CEPS Policy Brief, September.

Krugman, P. (1994), Competitiveness – A Dangerous Obsession, in *Foreign Affairs*, vol. 73, no. 2, March/April, www.pkarchive.org/global/pop.html.

Marinescu C., Spiridon M. (2003), „Avantaj competitiv, avantaj comparativ şi relevanţa acestora în condiţiile liberalizării", in *Liberalizarea schimburilor comerciale externe*, Ed. Economică, pp. 95-133.

Salvatore, D. (2001), "The Globalization of the Economy and the International Competitiveness of Nations", www.fondazionefalcone.it/a_attivita/C_AT3.htm.

Sapir, A. (2004), "Globalisation and the Reform of European Social Model", Background document for ECOFIN Informal Meeting in Manchester, 9 September.

Spiridon, M. (2005), *Ciclul în teoria economică modernă*, teză de doctorat, Bucureşti, septembrie, punctul II.6.F.

Spiridon, M. (2004), „Uniunea Europeană şi ţările candidate din est: dezvoltare prin transformare sistemică", Colecţia de studii I.E.R, iulie.

Suciu, C.; Cimpoeaşu, Chilian N. (2003), „Evaluări asupra structurii producţiei şi exporturilor româneşti. Politici de asigurare a unei structuri

competitive a exporturilor româneşti", in *Liberalizarea schimburilor comerciale externe*, Ed. Economică, p. 202.

Sută, N.; Sută Selejan, S. (2003), *Comerţ internaţional şi politici comerciale internaţionale*, Ed. Economică.

Tsoukalis, L. (2003), *What Kind of Europe*, Oxford University Press, London & New York.

De Vlieghere, M. et al. (2006), "Beyond the European social model", Open Europe Institute, UK, March.

***, EFILWC (2006), "Competitive Europe – Social Europe Partners or rivals?", Foundation Forum 2006 *Background* paper 2006.

***, Eurostat News Release, 75/2005, 3 June 2005, http://epp.eurostat.ec.europa.eu/pls.

***, The Global Competitiveness Report 2006/2007, www.weforum.org/pdf/ Global_Competitiveness_Reports/Reports/ger_2006/chapter_1_1.pdf
.***, "Time to move up a gear" – Commission President Barroso presents annual Progress Report on Growth and Jobs, available at http://europa.eu.

Ana BAL, Professor, Ph.D., Departament of International Business and Economics, Bucharest University of Economics.

Octavian-Dragomir JORA, Assistant Professor, Ph.D. candidate, Departament of International Business and Economics, Bucharest University of Economics.

Dana GÂRDU, Assistant Lecturer, Ph.D. candidate, Departament of International Business and Economics, Bucharest University of Economics.

Vladimir TOPAN, Assistant Professor, Ph.D. candidate, Departament of International Business and Economics, Bucharest University of Economics.