Europe and the Issue of Competitiveness

Europe in International Economy

2015

Industrial and competitiveness policy

- **ICP**:
  - is designed to **improve** **country's economic** **performance**;
  - **not** to **specify** and enforce particular **outcomes** – rather to alter market processes by **attacking** the **rigidities** (which impede the market selection);
  - private sector **flexibility** is **encouraged** and **adjustment** to shocks is **facilitated**;
- **Formerly:**
  - attempt to lead the private sector through a **planning procedure** (picking the **winners**) – predicting emergence of **sunrise** (and subsidizing **sunset**) sectors;
- Modern ICP: also **providing** industry with appropriate **resources - educated** and trained **labor** force + an appropriate **research** base and **infrastructure**;

ICP in European Context

- **1940s–1960s orthodoxy:** government to **correct** **market failures** by **microeconomic** intervention in specific sectors;
- **1970s** ICP aimed to **create** **super-firms** to compete with the US giants (EoS);
- since **1980s**: increasing respect for **market forces** (neoliberal-monetarist turn);
- since **1990s** – EU **Commission´s** view:
  - governments should **promote** **adaptation** to industrial **change** in open and **competitive market**;
  - **firms** and **sector specific** **policies** are treated with **suspicion** Vs. approves horizontal/general policies to **support market** activity in general:
    - **specific** industrial policy (by states) **constrained** by **EU rules** on **state aid**;
    - (microeconomic) policy is often **contradictory** – **governments tend** to **simultaneously support sunrise** and **sunset** industries;

Instruments:

- **Traditional** industrial policy: **subsidies**, **tax breaks**, **protection** from competition;
- **Contemporary:** deregulation; reorientation of **public services** (education); subsidization of **infrastructure** and **research**;

Industrial agglomerations

- **Information**/ideas **circulate** informally within an **agglomeration**:
  - **speeding** up the process of **product development**;
  - **technology spillovers** are **concentrated** locally;
- **Pull factors** :
  - **reducing costs** for members of agglomeration = positive **externalities** based on production of **specialized inputs** (specialized **labor**, specialized **services**, shared **consumers**, shared **infrastructure** – e.g. universities, information flow);
- **Agglomeration**:
  - reduces cost by allowing **firms** to **contract out** all but their **core activities** – only efficient if the **specialized suppliers** can themselves operate on a large enough scale;
  - while agglomeration is large – most **firms** will be **small** (extremely **specialized** and operating on sufficient scale);
- **EoS** -> **oligopolistic** competition (non-price comp.), **rents** -> AGLO – **NI** (GOV role)!
  - Centripetal and centrifugal tendencies.

Research and development

- **Innovation** as a **good** – production proces driven by **profit** but unique characteristics;
  - **Firms invest** heavily in R&D only if they **can appropriate** the knowledge for themselves (vs. leak -> positive extern. - social value);
    - **Inovation by firm:**
      - **positive externalities** for **other firms** (better and cheaper products + new scientific/non-patented information);
      - as well as **ensuring** firm's own **survival** through the patented knowledge (**competitive** advantage);
  - **Innovations** are **non-rival** (easily to be **copied**) – **lower incentive** to innovate (than social optimum) (FR);
  - Suggested policy: **patent system** and **public funding** of **basic research**;

- **Government** indirectly **promote** innovative **industries** by **sponsoring R&D**:
  - **less** risky **than picking** the **winners**;
  - **spillovers** (loops, linkages, feedbacks) – helps to **translate** scientific **knowledge** into **commercially useful innovations**:

- **Countries** strong in **R&D:**
  - Acquire a **comparative advantage** in the form of **human capital** endowments that may **persist** for some time;

- **Rule** : the **further away from** the **marketplace** and the **more general** the type of research, the **more appropriate** it is for **public funding**…

Rank	Country/Region	Exp.(bill. US$, PPP)	% of GDP	Exp. per capita
18	Israel	9.4	4.2%	1,153.90
5	South Korea	55.8	3.7%	1,111.12
3	Japan	**160.3**	3.7%	1,260.42
16	**Sweden**	11.9	3.3%	1,232.97
25	**Finland**	6.3	3.1%	1,155.37
1	United States	**405.3**	2.7%	1,275.64
19	**Austria**	8.3	2.5%	975.91
27	**Denmark**	5.1	2.4%	906.31
4	**Germany**	69.5	2.3%	861.04
20	**Switzerland**	7.5	2.3%	924.53
2	China	**296.8**	2.0%	217.69
6	**France**	42.2	1.9%	640.91
9	Canada	24.3	1.8%	688.47
7	**United Kingdom**	38.4	1.7%	602.78
15	Australia	15.9	1.7%	978.97
21	**Belgium**	6.9	1.7%	619.82
17	**Netherlands**	10.8	1.6%	641.23
28	**Norway**	4.2	1.6%	822.07
29	**Czech Republic**	3.8	1.4%	361.43
36	**Ireland**	2.6	1.4%	566.07
14	**Spain**	17.2	1.3%	369.02
32	**Portugal**	2.8	1.2%	266.99
12	**Italy**	19.0	1.1%	316.70
10	Russia	23.8	1.0%	165.62

General observations

- ICP **should not** target **specific firms** or **sectors**, but aim at **improving** the **general functioning** of **markets**;
  - difference between **offering incentives** to specific investor to invest into country and to make the country more likely to **attract investment**;
- It is **not enough** to demonstrate existence of **market failure:**
  - **government action** is **costly** and quickly **becomes politicized** and **selective**;
  - **once supported** by industrial policy (public) funds – **sector grows** beyond their market - determined size;
    - exercising **political influence** - enjoying political **support** (employment, GDP share);
    - industrial policies become **path-dependent** and self-perpetuating;

Oligopolistic Competition in High-tech

(150+ passengers airplane – example of natural monopoly)

Boeign having **head start**

	Airbus: producing	**Airbus**: not producing
Boeing: producing	B: -5 A: - 5	**B: 100 A: 0**
Boeing: not producing	B: 0 A: 100	B: 0 A: 0

Industrial policy of EU – **subsidy 25**

	Airbus: producing	**Airbus**: not producing
Boeing: producing	B: -5 A: 20	B: 100 A: 0
Boeing: not producing	**B: 0 A: 125**	B: 0 A: 0

Weaknesses of Europe (Eichengreen)

- **R&D spending** + limited cooperation between industry and academia;
- **Small**, new **firms** (tend to pioneer new niches, e.g. IT) – greater difficulties to cope with the complexity of European **regulation**;
- Europe: **immigration-unfriendly policies** (less attractive for H-T specialist form Asia);
- Lower **hiring and firing costs** make it easier for US entrepreneurs to **experiment** with unproven technologies (…of great promise but uncertain commercial potential);
- European **financial system** – well suited to mobilizing saving and deploying it for investment by **incumbent firms** - does not go to the start-ups and small firms (engines of output and productivity growth);
- **IT producing sector** is where US excels – but only 6% GDP – **cannot explain** differences in productivity trends:
  - **US productivity** advantage since 1990s centered in **retail trade**, wholesale trade, financial services – **ICT using activities**;
- Europe has faster productivity growth in **telecommunications** (**privatization** and uniform product standards);
- Higher **cost** etc. computer hardware in Europe (**localizing costs**) – itself a barrier;

Employment (%)

	1970	1980	1990	2003
EU 15				
Overall employment	59	60	62	64
Employment **male**	80	78	74	73
Employment **female**	39	43	49	56
Employment **15–24**	51	45	45	40
Employment **25–54**	65	70	73	77
Employment **55–64**	47	44	39	42
US				
Overall employment	64	67	72	71
Employment **male**	83	80	81	77
Employment **female**	46	55	64	66
Employment **15–24**	53	59	60	54
Employment **25–54**	70	74	80	79
Employment **55–64**	60	54	54	60

Strengths of Europe

- Europeans have vastly grater amounts of **leisure time** (Vs. **US**);
- Higher level of **earnings equality** - more people with **health insurance**, infant mortality rates are lower, **poverty rates** are **lower**, rates of **violent crime** are lower;
  - Number of prisoners is only 128/100k vs. 716 in US (2013, 22% of world total); homicide (per 100k) 2,7 vs. 5,9;
- Rigidities have not stood in the way of rapid **export growth**;
  - European **exporters** dominate in **quality** HVA, H-T; premium goods; **precision manufactures**;
- Moving into **H-T** and **premium** goods is potential source of **insulation** from high **competition** of **EM**:
- Europe has not been subject to the kind of great **financial scandals**;

Output per head and hour of work (%)

	1913	1929	1938	1950	1973	2003
Product per worker as a % of US level						
France	66	68	73	55	79	73
Germany	69	59	82	41	72	64
Italy	48	45	54	37	64	66
Britain	93	80	102	73	72	72
EU15 (aver.)	57	55	66	47	65	72
Product per hour as a % of US level						
France	56	-	-	46	74	111
Germany	59	-	-	32	79	98
Italy	42	-	-	35	78	100
Britain	84	-	-	63	60	83
EU15 (aver.)	61	-	-	44	71	94

Worked hours per head

(hours/year)

	1950	1973	1998
Britain	871	753	682
France	905	728	580
Germany	974	811	670
Italy	800	669	637
Spain	921	805	648
US	756	704	791

Lisbon Agenda

- Lisbon European Council **2000**: new **strategic goal** till **2010** – to become the **most competitive** and dynamic **knowledge-based** economy in the world capable of **sustainable** economic **growth** with **more and better jobs** and greater **social cohesion**;
- Strategy **aimed to**:
  - transition to a knowledge-based economy by better **policies** for the **information society** and **R&D**;
  - **structural reform** for **competitiveness** and innovation and by completing the **internal market**;
  - **modernize** the European **social model**, **investing** in **people** and **combating social exclusion**;
- **All-embracing** - result of **bargaining process** + **disagreement** how economic performance should be improved;
- **Open method of coordination**:
  - **Council** agreeing **guidelines** that contain **targets** and **recommendations** which are adopted at the discretion of **member states** (**intergovernmental** process);
  - policy operates **via reports** – containing the policy, objectives and **progress**;
  - **„enforcement“** is **by recommendation**, peer pressure and **benchmarking**;
  - **no penalties** – government implement policies in line with their **own priorities**;

- EU is continuing to **lag behind** – also in **amount of inputs** used: slower population growth and **rigid labor markets** (*late from school, less hours, early retirement + higher benefits and less part-time jobs*);
- Lisbon is about everything and thus nothing (**Kok's Report 2004**);
  - ccommitmentss are **rhetorical** (agreed at the height of the Dotcom boom);
  - states are committed only to **parts of agenda**;
- **Mid-term review** (2005): **Barroso's** Commission's plans – three **priorities** for the policy concentrating on **growth** and **jobs** (Revised Lisbon Agenda) :
  - **more attractive** place to **invest and work** – completing the **Single Market** and **business-friendly** regulation;
  - **knowledge and innovation** for growth: raising **expenditure on R&D to 3%** of GDP;
  - creating **more and better jobs** – increase employment by making the labor force more **adaptable** through raising the level of **education and skills**;
- **Concerns** that slimmer agenda downgraded the **environmental** and **social aspects** of agenda;

Strategy Europe 2020

- **Global crisis** destroyed progress reached in last years (20 years of attempts for **fiscal consolidation** – in 2009 average fiscal deficit 7% and public debt 70%) + there have to be careful **management of exit** fiscal **stimulus's**;
- **Goals**:
  - **intelligent growth** –> economy based on knowledge and innovations;
  - **sustainable growth** –> support for more **competitive** and **ecological** economy less **energy** intensive;
  - growth supporting **social inclusion**;
- **Targets - 2020**:
  - **Higher employment** for 20-64 year old (from 69% to 75%);
  - **Increase investment** into **RD** up to 3% GDP EU (US 2,9% vs. EU 1,7%);
  - In **energetic policy** reach the goal **20-20-20** (less greenhouse gases, more renewable, more energy efficiency);
  - Share of **tertiary educated** from 31% to 40%;
  - 25% less people living in poverty (from 20 mil.);

Global Top 10

The Global Competitiveness Index 2014-2015	Global rank*
Switzerland	1
Singapore	2
United States	3
Finland	4
Germany	5
Japan	6
Hong Kong SAR	7
Netherlands	8
United Kingdom	9
Sweden	10

Source: The Global Competitiveness Report 2014-2015
Note: * 2014-2015 rank out of 144 economies

Europe Top 10

The Global Competitiveness Index 2014-2015	Global Rank*
Switzerland	1
Finland	4
Germany	5
Netherlands	8
United Kingdom	9
Sweden	10
Norway	11
Denmark	13
Belgium	18
Luxembourg	19

Source: The Global Competitiveness Report 2014-2015
Note: * 2014-2015 rank out of 144 economies

Higher Education & Training Top 10

The Global Competitiveness Index 2014-2015	Global rank*
Finland	1
Singapore	2
Netherlands	3
Switzerland	4
Belgium	5
United Arab Emirates	6
United States	7
Norway	8
New Zealand	9
Denmark	10

Source: The Global Competitiveness Report 2014-2015
Note: * 2014-2015 rank out of 144 economies

Infrastructure Top 10

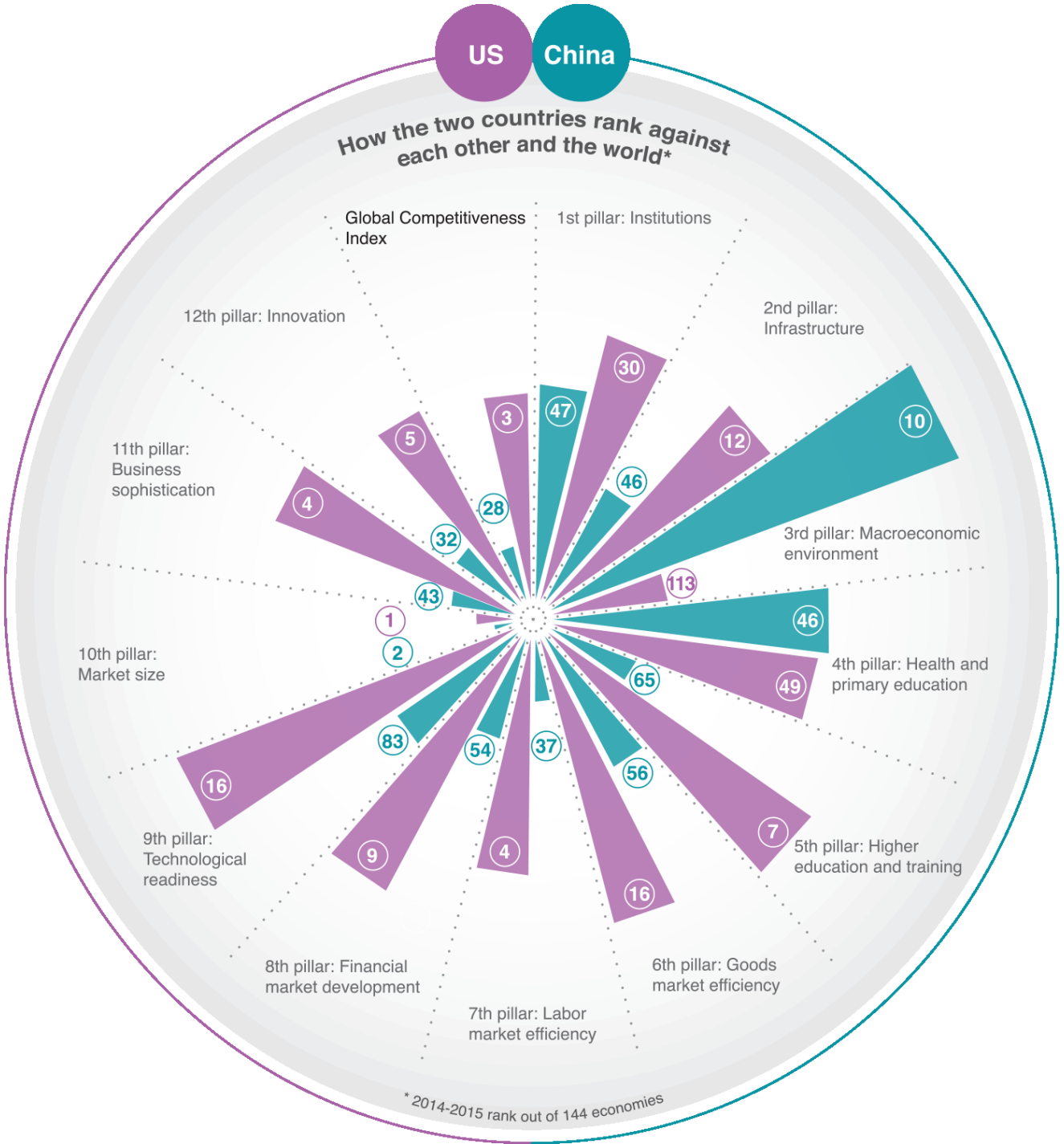
The Global Competitiveness Index 2014-2015	Global rank*
Hong Kong SAR	1
Singapore	2
United Arab Emirates	3
Netherlands	4
Switzerland	5
Japan	6
Germany	7
France	8
Spain	9
United Kingdom	10

Source: The Global Competitiveness Report 2014-2015
Note: * 2014-2015 rank out of 144 economies

Innovation Top 10

The Global Competitiveness Index 2014-2015	Global rank*
Finland	1
Switzerland	2
Israel	3
Japan	4
United States	5
Germany	6
Sweden	7
Netherlands	8
Singapore	9
Taiwan, China	10

Source: The Global Competitiveness Report 2014-2015
Note: * 2014-2015 rank out of 144 economies


US
China
How the two countries rank against each other and the world*
Global Competitiveness Index
1st pillar: Institutions
2nd pillar: Infrastructure
3rd pillar: Macroeconomic environment
4th pillar: Health and primary education
5th pillar: Higher education and training
6th pillar: Goods market efficiency
7th pillar: Labor market efficiency
8th pillar: Financial market development
9th pillar: Technological readiness
10th pillar: Market size
11th pillar: Business sophistication
12th pillar: Innovation
47
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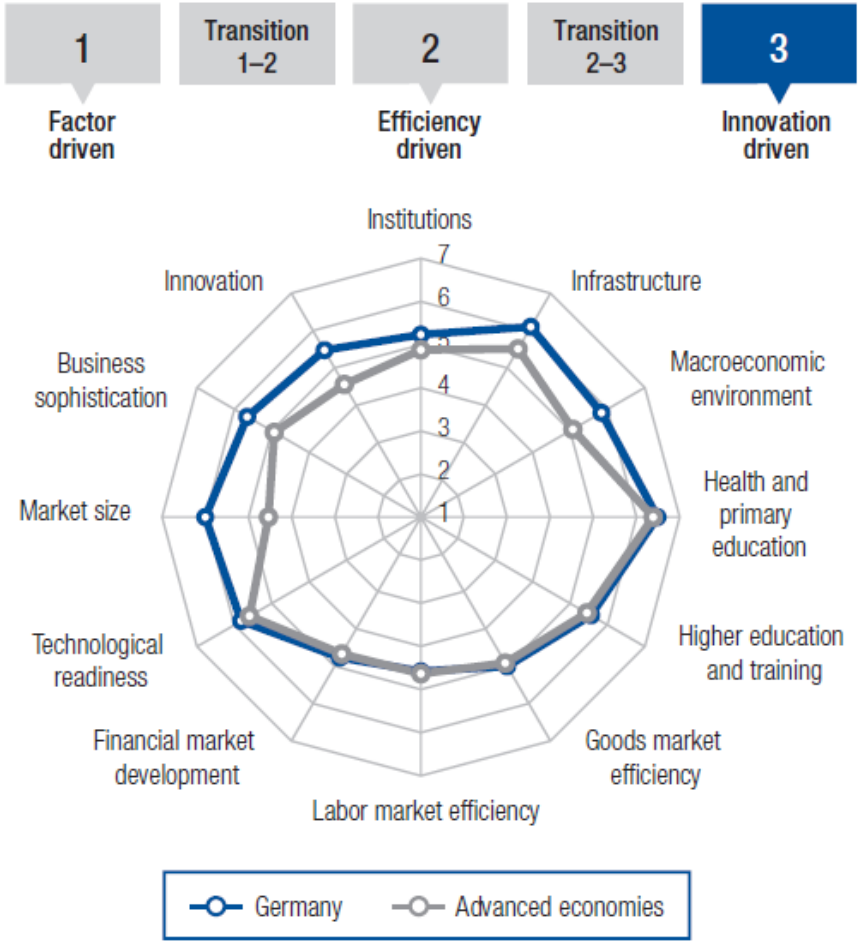
16
* 2014-2015 rank out of 144 economies

Germany

	Rank (out of 144)	Score (1–7)
GCI 2014–2015	**5**	**5.5**
GCI 2013–2014 (out of 148)	4	5.5
GCI 2012–2013 (out of 144)	6	5.5
GCI 2011–2012 (out of 142)	6	5.4
Basic requirements (20.0%)	**11**	**5.9**
Institutions	17	5.2
Infrastructure	7	6.1
Macroeconomic environment	24	5.8
Health and primary education	14	6.5
Efficiency enhancers (50.0%)	**9**	**5.3**
Higher education and training	16	5.6
Goods market efficiency	19	5.0
Labor market efficiency	35	4.6
Financial market development	25	4.8
Technological readiness	13	5.8
Market size	5	6.0
Innovation and sophistication factors (30.0%)	**4**	**5.6**
Business sophistication	3	5.6
Innovation	6	5.5

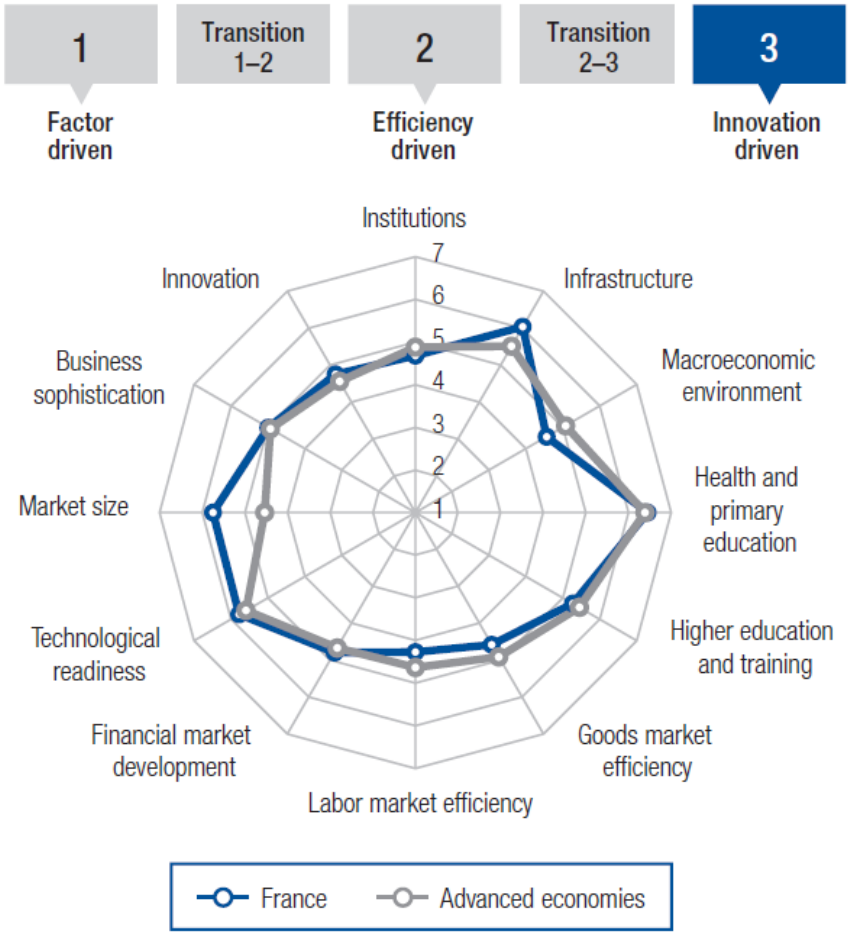
Stage of development



France

	Rank (out of 144)	Score (1–7)
GCI 2014–2015	**23**	**5.1**
GCI 2013–2014 (out of 148)	23	5.1
GCI 2012–2013 (out of 144)	21	5.1
GCI 2011–2012 (out of 142)	18	5.1
Basic requirements (20.0%)	**26**	**5.4**
Institutions	32	4.7
Infrastructure	8	6.0
Macroeconomic environment	82	4.6
Health and primary education	18	6.4
Efficiency enhancers (50.0%)	**19**	**5.1**
Higher education and training	28	5.3
Goods market efficiency	46	4.6
Labor market efficiency	61	4.3
Financial market development	23	4.8
Technological readiness	17	5.8
Market size	8	5.7
Innovation and sophistication factors (30.0%)	**19**	**4.9**
Business sophistication	22	5.0
Innovation	19	4.7

Stage of development

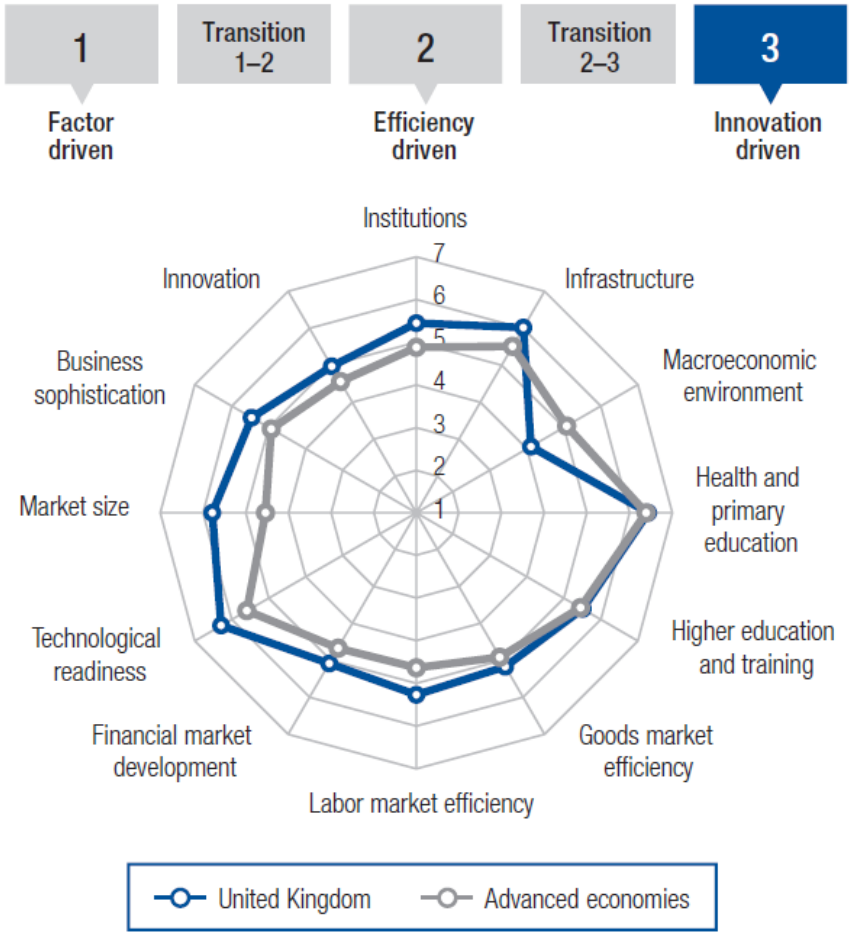


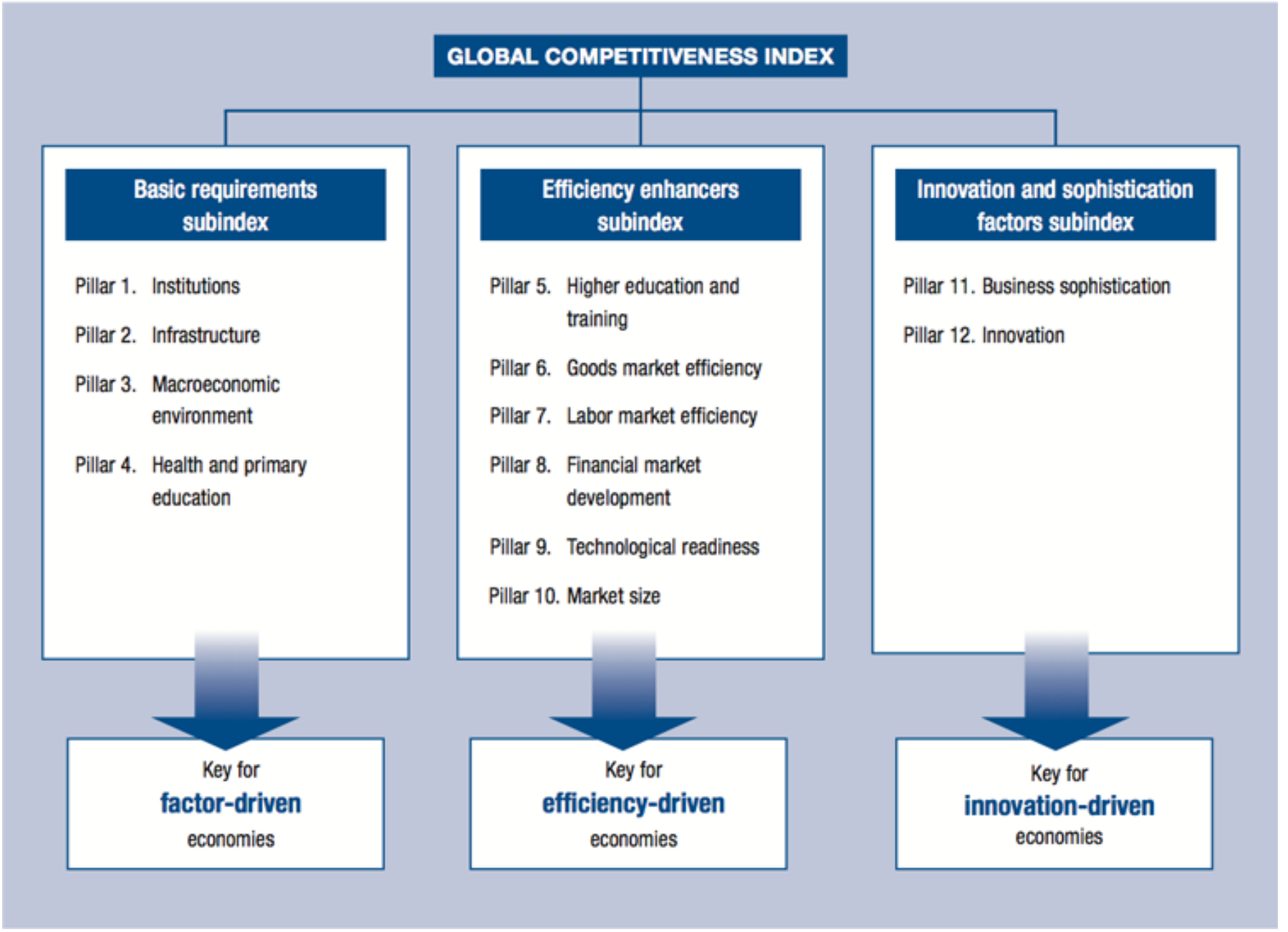
United Kingdom

Global Competitiveness Index

	Rank (out of 144)	Score (1–7)
GCI 2014–2015	**9**	**5.4**
GCI 2013–2014 (out of 148)	10	5.4
GCI 2012–2013 (out of 144)	8	5.4
GCI 2011–2012 (out of 142)	10	5.4
Basic requirements (20.0%)	**24**	**5.5**
Institutions	12	5.4
Infrastructure	10	6.0
Macroeconomic environment	107	4.1
Health and primary education	21	6.4
Efficiency enhancers (50.0%)	**4**	**5.5**
Higher education and training	19	5.5
Goods market efficiency	13	5.2
Labor market efficiency	5	5.3
Financial market development	15	5.1
Technological readiness	2	6.3
Market size	6	5.8
Innovation and sophistication factors (30.0%)	**8**	**5.2**
Business sophistication	6	5.5
Innovation	12	5.0

Stage of development




GLOBAL COMPETITIVENESS INDEX
Basic requirements subindex
Pillar 1. Institutions
Pillar 2. Infrastructure
Pillar 3. Macroeconomic environment
Pillar 4. Health and primary education
Efficiency enhancers subindex
Pillar 5. Higher education and training
Pillar 6. Goods market efficiency
Pillar 7. Labor market efficiency
Pillar 8. Financial market development
Pillar 9. Technological readiness
Pillar 10. Market size
Innovation and sophistication factors subindex
Pillar 11. Business sophistication
Pillar 12. Innovation
Key for factor-driven economies
Key for efficiency-driven economies
Key for innovation-driven economies