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Discovering the Frontiers of Regionalism: Fostering Entrepreneurship, Innovation and Competitiveness in the European Union

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Introduction: The Triumph or Eclipse of the Rhine?

For much of the 1990s, the political economy of globalisation and regionalism has been focused on the governance of trade. For example, in the immediate aftermath of the collapse of communism, the early 1990s witnessed a series of analyses from North American political economists which questioned whether conflict could be avoid between major national and regional trading partners. Thurow envisaged a 'Head to Head' global contest between the European Community (E.C.) the United States (U.S.) and Japan, while Garten thought a 'cold peace' might yet be avoided if the 'Big Three' remembered the damaging consequences for international trade of a leadership vacuum during the interwar period (Thurow, 1992; Garten, 1992). For her part, Tyson advocated a defensive strategy of 'cautious activism' in U.S. trade policy which would see manipulated rather than free trade as the appropriate benchmark for action and aggressive unilateralism as a defensible 'interim response to foreign trading practices and structural barriers' (Tyson, 1992: 258). More recent and less polemical analyses of globalisation and regionalism have suggested that one of the most striking features of regional trading blocs has been their commitment to 'open regionalism', i.e. the progressive removal of internal trade barriers within regions, and the avoidance of action to aggravate protectionist sentiment externally (e.g. Anderson & Blackhurst, 1996; Gamble & Payne, 1996; Ohmae, 1995; Geiger & Kennedy, 1996; Higgott, 1998). However, the recent financial crises in Asia, Russia and Latin America have raised other important questions for the discipline of international political economy, particularly with regard to the governance of financial markets in particular. The Asian financial crisis, for example, has led some eminent commentators to question the cult of capital liberalisation and to advocate the reintroduction of capital controls (e.g. Soros, 1998; Radelet & Sachs 1998; Wade & Veneroso, 1998). Others, have used the crisis to plot the anticipated 'collision course' between the rival Asian and North American neoliberal models of capitalism (Stubbs, 1998: 77). Wade and Veneroso, for example, have portrayed the Asian crisis, and the terms and conditions of the International Monetary Fund I.M.F.)'s 'rescue' packages, as a battle between two competing models of capitalism, the Asian 'High Debt Model' and the neoclassical orthodoxy of 'the Wall Street-Treasury-I.M.F. Complex' (Wade and Veneroso, 1998). Krugman has gone furthest by suggesting that there are some inherent flaws in the East Asian model of capitalism which have made the financial crisis inevitable, and therefore 'the region's downfall was a punishment for its sins...a dark underside to "Asian values"', encapsulated by the term 'crony capitalism' (Krugman, 1998:28). **(1)**

The challenges posed to regionalism and competing forms of capitalism by the causes and consequences of recent financial crises have not been confined to Asia. Following the collapse of communism, Albert confidently predicted that in the forthcoming battle between the 'neo-American model' of capitalism (most characteristic of the U.S. and the U.K.) and the 'Rhine model' (characteristic most notably of Germany and Japan), the Rhine model would be triumphant because of its economic and social superiority, arising from an interpenetration rather than a separation (as in the U.S. and U.K.) of finance and industry (Albert, 1993). More recent analyses of West European political economy have been less triumphalist. Focusing upon the progressive undermining of national policy-making autonomy by globalisation, Rhodes, for example, has pointed to the impact of 'subversive liberalism' upon European welfare states, i.e. the erosion of the principles of universalism and solidarity in welfare provision and the subjugation of social progress to the exigencies of economic competition (Rhodes, 1998: 100). Furthermore, the triumph of the neo-American model over rival models of capitalism has been seemingly demonstrated by recent surveys of economic performance. The 1999 edition of <u>The World Competitiveness Yearbook</u> produced by the International Institute for Management Development (I.M.D.) has again ranked the U.S. at the top of its World Competitiveness Scoreboard, reflecting an almost uninterrupted expansion of the U.S. economy since November 1982. E.U. member states, by contrast, are variously ranked from third to thirty-first position (I.M.D., 1999). The June 1999 <u>O.E.C.D. Economic Outlook</u> has forecast U.S. real G.D.P. for 1999 at 3.6 per cent (following 3.9 per cent in 1998) compared with a predicted 1.9 per cent for the E.U. in 1999 (following 2.8 per cent in 1998) (O.E.C.D, 1999a: 20). Most significantly, for this paper, the two most recent reports on the competitiveness of European industry produced by the European Commission have highlighted the fact that 'Europe continues to lag 20% behind the United States in terms of both productivity levels and the employment rate (proportion of the working age population that is employed)', that the E.U. economy has generated only 10 million new jobs since 1960 ('less than one fifth of those in the U.S.') (European Commission 1997), and that 'Europe lags behind both the U.S.A. (33%) and Japan (13%) in its standard of living, as measured by G.D.P. per capita in purchasing power parities of 1997' (European Commission, 1998a: 1).

This paper seeks to explore the prospects for regionalism by focusing upon a case study of the development of industrial policy in the E.C./E.U. during the 1990s. This is a period, as the O.E.C.D. has stated, which has seen industrial policy take new directions as it has mutated into industrial competitiveness policy (O.E.C.D., 1997a). Building upon the framework provided by Sauter, who has identified four distinct phases in the development of supranational industrial policy in the period from the Treaty of Rome to the Single European Act (Sauter, 1997), this paper identifies two further phases in the development of policy during the 1990s. The first phase saw the first formal definition of E.U. industrial policy was marked by ambitions to cut E.U. unemployment through a coordinated programme of investment. The second phase has been marked by an increasing salience for the entrepreneurial spirit and innovation as the key drivers of employment growth in the E.U. The paper seeks to demonstrate how globalisation, and the E.U.'s perception of the implications of globalisation for industrial competitiveness in the E.U., has acted as a constraint on supranational policy by steadily pushing policy closer to the North American neoliberal orthodoxy. While much of the emphasis in industrial policy has been upon the development of active supply-side measures to foster innovation, e.g. through enhancing skills, availability of risk capital etc, the constant and increasingly salient exhortation to cut regulation has been less of a demand for a technocratic exercise in legislative and administrative redrafting and more of an assault upon the principles underlying postwar European welfare states.

Industrial Policy: A Legimitate Supranational Dimension?

Industrial policy has been chosen as a vehicle to explore the prospects for regionalism for a number of reasons.(2) First, as Sauter has noted, because the growth of international trade and the globalisation of certain sectors of production has led to the paradox of a renewed interest in industrial policy as states have sought to identify means of promoting the international competitiveness of the businesses operating within their territory (Sauter, 1997: 57). Second, there has been a recent and increasing emphasis on patterns of intervention more attuned to regionalism, at the sub-national level, rather than regionalism, at the supranational level. Detailed studies of best practice in policies to foster innovation and entrepreneurship have emphasised the importance of inter-firm and policy networks which enable clusters of small and medium-sized enterprises (S.M.Es.) to achieve collective external economies of scale in innovation (e.g. O.E.C.D., 1996; 1997b; 1999b; Porter, 1998).(3) The emphasis upon innovation and competitive advantage as a highly localised process dependent on networking capacity, i.e. 'the disposition to collaborate to achieve mutually beneficial ends' (Huggins, 1997: 102) has cast doubt on whether the supranational is the most appropriate level of intervention, and whether a common European industrial policy is either a necessary or an effective policy for enhancing competitiveness. Third, the collective resignation of the European Commission in March, coupled with the intention of Martin Bangemann, the Commissioner for Telecommunications and Industry, to quit his post to become a board member with Telefonica, the Spanish telecommunications company, have added to questions of democratic legitimacy surrounding E.U. institutions and policy. These questions have enjoyed a particular resonance in the predominantly Eurosceptic political culture of the U.K, where national and sub-national regional actors have identified the same catalytic role in industrial policy as that claimed by the E.U. (e.g. D.T.I., 1998: D.E.T.R, 1997) and the implications of the Commission's Agenda 2000 programme have served only to heighten increasing tensions surrounding the territorial distribution of public expenditure following devolution (Lee, 1999).

Given that, by its very nature, industrial policy has to contend with a multiplicity of innovation-related information flows, which take place through both market and non-market transactions, are able to take the form of tangible and intangible assets, and involve not only private businesses but also a variety of public institutions (Archibugi & Michie, 1997: 1-2), it might be thought that the multiplication of market uncertainty by locating policy at the supranational level could hinder effectiveness. However, Nicolaides has identified three principal arguments for a common industrial policy. First, policy coordination at the supranational level may yet improve policy effectiveness-one of the major reasons for regional economic integration. Second, national industrial policies may themselves become ineffective as member states integrate because trade protectionism and subsidies which discriminate in favour of particular national economies or companies will no longer be tolerated. Third, a supranational industrial policy may be more effective when exercised over a large single regional market than a policy operating in a smaller national or sub-national context (Nicolades, 1993: 11-12). Furthermore, Davies has pointed to the importance of the creation of the single European market as an instrument of industrial policy, not least because of its galvinising effect in reorganising industries and integrating markets (Davis, 1993: 42-3). At the supranational level, E.U. industrial policy has also been justified in terms of a variety of other broader political, economic and legal reasons relating to the process of economic integration. e.g. the need to develop an EU industrial policy as a positive demonstration of the progress towards political and economic union (Sauter, 1997: 69).

The Development of E.U. Industrial Policy

The history of industrial policy at the European Community level (and since 1993 E.U. level) has been extensively documented by Sauter. He has contended that the development of policy should be understood in terms of a number of distinct phases. The first phase in policy occurred between 1958 and the mid-1960s and was characterised by the establishment of the customs union and the prevalent belief that 'competition in the newly integrated market would be adequate to foster industrial restructuring'. The second phase, from the mid-1960s to the mid-1970s, saw the creation of European wide companies and the ineffective promotion of a single European market. The third phase, from the mid-1970s until the early 1980s, was characterised by defensive measures to restructure crisis industries. The fourth phase, culminating in the Single European Act, saw the promotion of high technology industries (Sauter, 1997: 71). However periodised, Sauter's contention is that from the early 1970s, the development of industrial policy saw economic and monetary union (E.M.U.) sketched as the context for industrial policy, an emphasis on the complementarity of supranational competition and industrial policies, and the rejection of central planning as the appropriate framework for the proactive or sectoral dimension of industrial policy (Sauter, 1997: 76). This rejection of dirigisme was reinforced in certain member states, most notably the U.K., where the trajectory of industrial policy was towards diminishing state intervention and expenditure and the restoration of an entrepreneur-driven enterprise culture. On the basis of an analysis of economic growth and national relative economic decline which had identified six principal obstacles to employment and prosperity in the U.K. (high state spending; high direct taxation; egalitarianism; nationalisation; a politicised and Luddite train union movement; and the presence of an anti-enterprise culture), the Thatcher Government had published its landmark 1988 White Paper, <u>D.T.I-the Department for Enterprise</u>. This document, which asserted that 'The keynote of future D.T.I policies is enterprise;its two foundations are open markets and individuals' (D.T.I., 1988: 2), indicated the U.K. government's reluctance to provide any further large scale assistance to civil manufacturing companies. In many respects, the White Paper provided a signpost to the direction of E.U. industrial policy during the 1990s.

Sauter has noted how Article 130f(1) E.E.C. of the Single European Act has frequently been regarded as the introduction of a common industrial policy because this Article stated that '"The Community's aim shall be to strengthen the scientific and technological bases of Community industry and to encourage it to become more competitive at international level"' (Sauter, 1997: 83). However, it was in 1990 with the production of <u>Industrial Policy in an Open and Competitive Environment: Guidelines for a Community Approach</u> that supranational industrial policy effectively entered a fifth phase when the Commission first furnished a definitive statement of the principles which should underpin its industrial policy. This statement, known as the Bangemann Communication (after Martin Bangemann, the Commissioner responsible for drawing it up), was not only based on the principle of subsidiarity, i.e. that the Community should only address those issues which could be done better at the supranational level (and therefore, 'the correct mix of Community, national and local responsibilities' must be identified), but also, and more importantly, on a clear rejection of the dirigiste industrial policies of the 1970s and 1980s which had 'shown that sectoral policies of an interventionist type are not an effective instrument to promote structural adaptation' because they had 'failed to make industry competitive by delaying the requirement to implement necessary adjustments, led to grave misallocation of resources and exacerbated problems of budgetary imbalances' (European Commission, 1990: 19). As an alternative, it was suggested that the experience of policies conducted in the E.C. during the past four to five years had largely forged a consensus that an industrial policy was necessary but that the role of public authorities should be 'above all as a catalyst and pathbreaker for innovation' (rather than as the prime mover of progress) with the main responsibility for industrial competitiveness in future residing 'with firms themselves, but they should be able to expect from public authorities clear and predictable conditions for their activities' (European Commission, 1990: 1).

On this basis, the Commission proposed an industrial policy built around 'an adequate balance' between the laying down of 'stable and long term conditions for an efficiently functioning market economy', the provision of 'the main catalysts for structural adjustment', i.e. the completion of the single market, and the development of 'instruments to accelerate structural adjustment and to enhance competitiveness'. From these elements would emerge a dynamic industrial policy 'to promote the most efficient functioning of markets' (European Commission, 1990: 5), in which structural adjustment would be driven by a combination of 'prerequisites' to initiate adjustment, i.e competition, economic context, educational attainment, economic and social cohesion, and environmental protection; 'catalysts' to act on the willingness of businesses to undertake adjustment in response to market pressures and opportunities, i.e. the internal market and 'accelerators' to further develop structural adjustment, i.e. R.&D., technology, innovation, training, S.M.Es, and business services (European Commission, 1990: 7-18). Industrial problems at a sectoral or regional level 'should increasingly be resolved by horizontal measures' to improve the open market environment rather than by vertical, dirigiste interventions (European Commission, 1990: 21). Although the Bangemann Communication was widely seen as marking the transition to a market oriented industrial policy, Sauter has suggested that the new policy constituted less of a break with the past interventionism than often assumed because, like its predecessors, it embraced 'both active and passive, general and sectoral policies'. Furthermore, the new policy had taken cooperation with a subsidiarity-oriented approach as a given, when in practice cooperation might not be forthcoming. It also failed to clearly identify when the Community should intervene or how its priorities should be established. However, following the omission of reference to industrial policy in both the 1990 Rome European Council and the draft Treaty on European Union, the Belgian delegation at the 1991 Intergovernmental Conference on political union put forward a proposal advocating the creation of a Community industrial strategy wedded to the common commercial policy. Although, as Sauter has further noted, this dirigiste proposal was subsequently diluted by the Luxembourg Presidency, and sectoral intervention replaced by horizontal measures, these actions ensured that the Treaty on European Union would require the E.U. to develop policies to strengthen the competitiveness of its industries (Sauter, 1997: 92-4).

It was not until December 1991 and Article 130 of the Treaty on European Union finalised at Maastricht that the European Community actually provided an institutional framework for industrial policy (Buigues & Sapir, 1993: 24). However, one of the central problems of Article 130(1) E.C. of the Treaty is that it attempted to reconcile two seemingly contradictory objectives, namely the promotion of competitiveness, through the modification of market conditions and or industrial structures, and the guaranteeing of respect for the system of free competition in open markets, which thereby limits public intervention. As a consequence, 'neither the legal limits to the specific industrial policy actions of the Member States and the Community, nor the degree to which the Community can take industrial policy objectives into account in its pursuit of other policies are self-evident' (Sauter, 1997: 96). Indeed, Buigues and Sapir suggested that the Treaty had created a 'no-man's land between the declining capacity of Member States to conduct national industrial policies and the growing competence of the Community in this field', thereby creating 'tensions among policy-makers and uncertainties for economic agents' (Buigues & Sapir, 1993: 33). In effect, the objective of a common industrial policy had further polarised two rival camps, namely, on the one hand, those in favour of an active industrial policy and the creation of pan-European champions (a vision associated with France and the Southern European member states) and, on the other hand, those in favour of limited sectoral intervention but a strong competition policy (a vision associated primarily with the U.K.).

Growth, Competitiveness and Employment

The principles underpinning Article 130 of the Maastricht Treaty were first expressed in the so-called 'Delors II package' which specified the objectives of promoting growth, competitiveness and employment during the five-year period following the completion of the internal market programme. Market liberalisation was to be accompanied by a supplementary programme of industrial policy measures to promote structural adjustment. These initiatives constituted the 'flanking measures' to E.M.U. Following the ratification of the Treaty of European Union in November 1993, the E.U.'s strategy was spelt out in the White Paper, Growth, Competitiveness, Employment: The Challenges and Ways forward into the 21st Century(European Commission, 1993) which began by stating that its sole raison d'etre was unemployment. To assist the 17 million unemployed in the E.U. member states, the principal aim of the White Paper was the creation of employment through the location of 'a new synthesis of the aims pursued by society (work as a factor of social integration, equality of opportunity) and the requirements of the economy (competitiveness and job creation)' (European Commission, 1993: 9). Thus, as Sauter has further suggested, supranational industrial policy was seeking to align macroeconomic and structural policies by remaining consistent with the convergence criteria for E.M.U. while also recommending structural actions to promote industrial competitiveness. The task of industrial policy was 'to create as favourable an environment as possible for company competitiveness', while the Commission's recommendation was that the Community set itself 'the objective of creating at least 15 million new jobs, thereby halving the present rate of unemployment by the year 2000'(European Commission, 1993: 9, 14, 43). It claimed that the E.U. economy was characterised by 'collective solidarity mechanisms', but that 'the new model of European society' arising from the attempts to cut the costs of the welfare state now called for 'less passive and more active solidarity'. First, solidarity between those in employment and the unemployed, through 'a sort of European social pact' adpated to the circumstances of each member state. Second, solidarity between generations to ensure that a sufficient number of those of working age were employed and paying towards the future costs of welfare. Third, solidarity between the rich and poor regions to confirm economic and social cohesion 'as an essential pillar of European construction'.Fourth, and most importantly, between all E.U. citizens to create 'neighbourly solidarity' against the social exclusion of the 40 million E.U. citizens living below the poverty line (European Commission, 1993: 15-16).

It was at this juncture that E.U. industrial policy was recast as 'competitiveness policy' (Sauter, 1997: 101-2). This was somewhat ironic, and perhaps a tacit recognition of the difficulties surrounding the development of a common agenda, in that only three years before, the Bangemann Communication had condemned the notion of 'global competitiveness, often put forward as the objective of industrial policy' for being 'vague and ambiguous' (European Commission, 1990: 1). More importantly, the White Paper contended that the European social model was fundamentally sound by proposing that market failures should be addressed through 'collective solidarity mechanisms' (European Commission, 1993: 15-16,). Indeed, the very rationale of promoting competitiveness was the preservation of the European social model because 'With a high living-standard to preserve and improve, E.C. industry is condemned to technological, commercial and financial excellence in order to enable the necessary social and environmental expenses to be incurred' (European Commission, 1993: 3). The White Paper steadfastly claimed that the Single European Act had helped 'to restore the balance in the development of the single market by way of joining flanking policies as part of economic and social cohesion' (European Commission, 1993: 15). However, in practice, by endorsing further deregulation, liberalisation and the transfer of the tax burden from the company and entrepreneur to the individual, the 'flanking policies' incorporated within the competitiveness agenda were threatening to undermine the drive for greater social cohesion by attacking the solidaristic principles of European welfare states in order to provide a more advantageous environment for businesses to operate.

In the White Paper, the E.U.'s poor relative economic performance was accounted for primarily in terms of two deep-seated causes, namely 'suboptimal macroeconomic management of the economy and of an insufficient effort of adaptation to the changes which have taken place in the structure of the Community's economy and in its international environment' (European Commission, 1993: 39). The 'suboptimal macroeconomic management' was held to have arisen because of 'certain fundamental imbalances', notably 'The current levels of public expenditure, particularly in the social field' which had become 'unsustainable and have used up resources which could have been channelled into productive investment' (European Commission, 1993: 40). The structural problems were held to have arisen from a failure to innovate in the face of new technological and market opportunities. At the same time, the positive effects of structural policies to enhance innovation and competitiveness would only become apparent and feasible in a sound macroeconomic context (European Commission, 1993: 49). As a consequence, the principal task which macroeconomic policy-makers had to confront was the elimination of 'the conflicts among policy objectives which have plagued the Community over the last 20 years and, more acutely, over recent years' (European Commission, 1993: 50). This classic technocratic prescription appeared to imagine not only that these domestic 'conflicts' were relatively trivial, and thus could easily be surmounted by more rational concerted action at the supranational level, but also that the political and economic pressures exerted on policy-makers by vested interests beyond the economic-policy making community could also be discounted. Thus, for example, the White Paper advocated both changes in national budgetary policy to establish deficits of between zero and one per cent of G.D.P. but also a reallocation of public spending towards 'those items which most directly influence growth prospects: education, R.&D., infrastructure investments etc' (European Commission, 1993: 53). The immense political difficulties encountered by national governments in previously attempting such reallocation was overlooked.

The White Paper identified four overriding policy objectives to be jointly pursued by industry and public authorities if the E.U.'s industrial competitiveness was to generate the highest possible level of employment. First, 'Helping European firms to adapt to the new globalized and interdependent competitive situation' by, for example, capitalising on the Community's industrial strengths (it was not apparent why private companies would not already have done so); developing an active policy of industrial cooperation both with Easter Europe and the Pacific Rim; and establishing 'a coherent and concerted approach to strategic alliances' to ensure that there were European rivals to the alliances formed by U.S. and Japanese competitors (although what should be done where European companies had already formed alliances with their American and Japanese rivals was not apparent) (European Commission, 1993: 61-2). Second, 'Exploiting the competitive advantages associated with the gradual shift to a knowledge-based economy', for example, by adjusting the relative weight of taxation borne by 'the various factors of competitiveness' so as to reduce those taxes acting as disincentives to employment. This adjustment and the need to reallocate public expenditure from consumption to investment were presented by the White Paper as simple matters of administrative reform rather than as the almost intractable problems long confronted by national policy-makers. In a similar vein, the White Paper highlighted the E.U.'s relatively poor business investment in R.&D. as a percentage of G.D.P. and recommended that companies should bear a larger share of research spending 'In view of the current budgetary constraints in all European countries'. The policy instruments to change corporate investment patters were not identified other than the introduction of 'Appropriate regulatory and tax measures'(European Commission, 1993: 88). The possibility that businesses' investment patterns might not respond to even generous incentives, and the need for the state to recoup the lost taxation from other sources without damaging competitiveness, were again passed over.

The White Paper also placed greater emphasis upon training, as 'the catalyst of a changing society', recommending 'appropriate incentives (of a fiscal and legal nature)' and improved coordination between public and private training opportunities (European Commission, 1993: 121). However, when addressing the question of the reforms of the labour market necessary to create more employment, the White Paper denied that this would mean mere deregulation. Instead, it was asserted that 'a remodelled, rational and simplified system of regulation and incentives' would be promoted (European Commission, 1993: 123). The White Paper did acknowledge that many member states were now calling for 'an examination of social protection systems to ensure that they actually encourage people to work, for benefits to be more closely geared to the specific market situation, and for expenditure to be targeted more accurately to concentrate the effort on those in real need' (European Commission, 1993: 125). In other words, greater selectivity in welfare provision was unavoidable if past rigidities in the labour market were to be removed. Indeed, the White Paper suggested that 'Fundamental economic and social changes' would be required, including 'a general reform of the systems of incentives which affect employment in the labour market' (European Commission, 1993: 130). In this regard, the clearest indication of the challenge posed by competitiveness policy to European patterns of welfare provision was provided when the White Paper argued that 'A coordinated strategy for rekindling growth and overcoming a structural crisis cannot disregard the weight and structure of statutory charges, through which the equivalent of 40% of Community G.D.P. is channelled'. Statutory charges were defined as the sum of taxes and obligatory social security contributions. This E.U. figure (the E.U. average of 39.6 per cent disguised the variation between a high of 47.1 per cent in Denmark and Luxembourg and a low of 34.4 per cent in the U.K. and Spain) was portrayed as an excessive burden when the equivalent figure was 29.8 per cent of G.D.P. in the U.S.A. in 1990 and 30.9 per cent in Japan. Furthermore, in 1991 these tax and social security costs accounted for more 40 per cent of overall labour costs in the E.U. compared with 30 per cent in the U.S.A. and 20 per cent in Japan (European Commission, 1993: 137). By highlighting these cost disadvantages, the 'subversive liberalism' of the neoliberal model of capitalism had begun to intrude into supranational industrial policy.

Benchmarking: The Institutionalisation of 'Subversive Liberalism'

Rather than marking the start of a determined drive to remedy unemployment through concerted action at the supranational level, the 1993 White Paper actually constituted the final industrial policy action of the Commission under the stewardship of Jacques Delors. Consensus about the need for common action was accompanied by marked scepticism about the funding required by the Commission to implement such a programme, particularly in member states such as the U.K. (Sauter, 1997: 103). As a consequence, the publication of An Industrial Competitiveness Policy for the European Union(European Commission, 1994) marked the onset of the sixth and most recent phase of E.U. industrial policy which has been distinguished by the steady advance of Rhodes' 'subversive liberalism' into the prescriptions for enhancing competitiveness advanced by the Commission. An increasing emphasis has been placed on the role of the entrepreneur and innovation in high growth sectors as the means to generate employment and enhance competitiveness. Action Plans to foster innovation (European Commission, 1996a) and to promote entrepreneurship and competitiveness (European Commission, 1998b) have been launched. In effect, E.U. industrial policy has adopted the rhetoric developed by the Thatcher and Major Governments in the U.K. during the late 1980s and early 1990s. Although the E.U. has been far more selective in its adoption of U.K. policies, it has drawn upon two U.K. industrial policy innovations, notably the extensive use of benchmarking and the publication of an annual competitiveness report. This methodology has enabled studies to be carried out at sectoral level as well as with regard to particular aspects of innovation, notably finance, skills, and the adoption of information and communications technologies (D.G.III, 1999: 7). These studies have produced many unfavourable comparisons with U.S. economic performance and best practice in innovation policy, thereby providing the means to legitimise further movement away from a social democratic European model towards a neoliberal American model of capitalism.

One of the most contentious assertions in An Industrial Competitiveness Policy for the European Union was its statement that 'an increasingly direct correlation between economic and social cohesion and industrial and economic performance', and that the two could 'add strength to each other' (European Commission, 1994: 20) on the basis of the externalities generated by cohesion for infrastucture, especially in health, education and research (which would in turn optimise the general level of investment). In practice, the Commission's prescriptions for enhancing competitiveness have threatened to undermine economic and social cohesion. The combination of the impact of the E.M.U. convergence criteria upon member states' public expenditure programmes and the introduction of regular benchmarking exercises, which have audited the performance of the E.U. economy against its principal rivals, has acted to challenge rather than consolidate the viability of the European social model (as defined by the Commission), especially when set against the (perceived) superiority of the American, entrepreneur- and innovation-driven model of capitalism. In particular, the desire to increase public investment in 'productive' capital spending by an (implicit) reallocation away from 'unsustainable' social expenditure has meant that the frequent demand for regulatory reform in Commission industrial policy documentation has been less an arid technocratic exercise in the reordering of legislation and administration and more of a tacit and creeping political attack upon the principles underlying the welfare state in Europe.

In An Industrial Competitiveness Policy for the European Union, the Commission recognised that the E.U. was experiencing 'severe levels of unemployment which endanger cohesion', and that it must therefore encourage all measures aimed at improving overall economic productivity, including 'Greater privatisation, more effective regulatory methods and the new role of the public services'. Higher levels of employment would not be feasible unless based on 'an effective regulatory framework combined with a more labour-intensive development model'(European Commission, 1994: 11-13). After all, the U.S. had created just over 40 million new jobs in the past 20 years (90 per cent of which were in the private sector), while Europe had experienced a net decline in private sector employment, with its 6 million net new jobs having been created in the public sector (Llewellyn, 1996: 91). However, such statistics illustrated the importance of the public sector in Europe to employment creation and the potentially devastating impact that expenditure cuts (whether driven by E.M.U. or purely domestic factors) might have on attempts to foster greater cohesion. To bolster its attempts to improve productivity, the Commission began a benchmarking exercise, suggesting that benchmarking could provide 'an understanding of the processes that create superior performance' (European Commission, 1996b:16). Citing the earlier findings of its own Competitiveness Advisory Group, which had highlighted infrastructure quality as the single most important factor influencing multinational investment in the E.U. (European Commission Competitiveness Advisory Group, 1995: 11), the Commission also identified the level and structure of public expenditure as one of the key elements determining costs and ultimately competitiveness, concluding that 'public deficits remain too high and expenditure too concentrated on transfers and consumption with insufficient levels of public investment in both infrastructure and intangible investment' (European Commission, 1996c: 20). While the provision of a social safety net was necessary in the interests of equitable distribution and the avoidance of social exclusion, direct and indirect taxation (especially of labour) was nevertheless a cost to enterprises which had risen from 34 to 43 per cent of G.D.P. in the E.U. between 1970 and 1995. As a consequence, the Commission asserted that concept of security for workers would have to be 'reformulated, focusing more on security based on employability and the labour market rather than security based on the individual work place' (European Commission, 1996b: 2-11). At no point did the Commission specify how its member states were to accomplish the huge reallocation of public resources necessary to create the neo-Listian developmental state envisaged, other than its statement that the Maastricht convergence criteria should serve as 'a model for the application of benchmarking to other areas of importance for competitiveness' (European Commission, 1996b: 2).

Innovation, Entrepreneurship and 'Jobless Growth'

The importance of entrepreneurship and innovation to the future development of supranational industrial policy was confirmed at the November 1997 European Employment Summit when the E.U. adopted a coordinated strategy for national employment policies. Developing entrepreneurship and encouraging adaptability in business and their employees were to be two of the four central elements of this strategy (the other two being the improvement of employability and the strengthening of policies for equal opportunities) (D.G.III, 1998:7). In September 1998, the Commission published its Action Plan to Promote Entrepreneurship and Competitiveness, as part of its response to the B.E.S.T. Task Force of entrepreneurs, academics and administrators which had been established a year earlier to consider 'the existing and new legal and administrative regulations in order to improve the quality of Community legislation and reduce its administrative burden on European business, particularly S.M.Es.' (European Commission, 1998b: 2). Among the Task Force's recommendations were that the simplification and reform of regulation should be made central to public policy at all levels in the E.U., in order to achieve the necessary 'change of culture', and that member states should be encouraged 'to consider the impact of the way they finance and administer social security schemes, and other ways of making social protection more employment friendly' (European Commission, 1998b: 4, 10). However, in its Action Plan, the Commission narrowed its consideration of regulatory reform to those regulations specifically affecting business rather than contemplating the much wider assault suggested by the Task Force.

Despite the Commission (especially D.G.III)'s attempts to foster an enterprise culture for entrepreneurship and innovation, the most recent benchmarking report, The Competitiveness of European Industry, has confirmed that the E.U.'s labour productivity (G.D.P. per person employed) remains almost one fifth lower than that in the U.S. Furthermore, the phenomenon of 'jobless growth' in the E.U. has continued as a consequence of the E.U.'s 'inability to move quickly into new, promising sectors'. This failure to innovate, especially to create S.M.Es. in new growth areas such as electronic commerce and business services, has been particularly damaging because such firms, which account for only 3 per cent of firms in the U.S., are held to have created around 80 per cent of job growth between 1991 and 1995. The report has attributed the E.U.'s poor start-up rate to the 'lack of adequate risk capital' which has meant that start-ups accounted for only 15 per cent of new investments in the E.U. in 1997 compared with 29 per cent in the U.S. The E.U. is deemed to have been further disadvantaged by its 'poor performance in creating lead-time in the fast moving markets, where competitive advantage is based on intangible investment in research and marketing'. Therefore, the report has identified four implications for supranational policy. First, the importance of 'the elimination of institutional and regulatory barriers to the creative and flexible management of change'. This is shorthand for further liberalisation and deregulation of the labour, financial and product markets (because delayed privatisation and liberalisation are deemed to have caused higher prices). Second, the need to continuously upgrade European industry, through 'innovation, adaptability and the upgrading of human capital'. Third, the need to pursue horizontal policies to improve the general environment for innovation and entrepreneurship, rather than to pursue vertical 'picking winners' strategies, which are held only to create expensive 'opportunity costs relative to private market-based solutions'. Fourth, the importance of the diffusion of best practice because of the great diversity in labour productivity within the E.U. (European Commission, 1998a: 1-6, 14). This last point has alluded to the difficulty of framing supranational policy beyond gentle exhortation given the diversity in European national systems of innovation (O.E.C.D, 1997b).

The Commission has recently suggested that globalisation is a source of opportunity for employment creation rather than a threat of further unemployment provided that the E.U. is able to capitalise on it by reinforcing 'the capacity to stimulate innovation and the spirit of enterprise in Europe'. Portraying globalisation as a phenomenon characterised by the internationalisation of trade, the transnationalisation of capital flows and the globalisation of information flows, the Commission has identified globalisation's driving elements as 'technological, entrepreneurial, financial and institutional'. As a consequence of their impact, it has further been asserted that accelerating globalisation and new forms of competition, especially from S.M.Es. in dynamic sectors like electronic commerce, are transforming the very concept of competitiveness itself. Thus, the 'true yardstick for competitiveness should not be sectors, but, rather, activities and markets'; the measurement of national and regional competitiveness is becoming more difficult because of the diffusion of the boundaries of companies' geographical identity; and competitive advantage can now be based on technologies and intellectual property capable of generating high value, but of a more volatile nature. To combat the E.U.'s competitive disadvantage, especially in the many fields where it has 'failed to develop a services mentality', the Commission has advocated a new industrial policy which will 'spread the enterprise culture and encourage risk-taking'(European Commission 1998c: 1-21).

Conclusion

Attempts to push the frontiers of supranational industrial policy further in the direction of entrepreneurship may prove problematic for, as the O.E.C.D. has recently concluded, 'the globalisation of R.&D. has not markedly diminished the differences in innovation systems between countries'. Each nation state continues to provide a unique environment for innovation for which few policy recommendations are equally applicable (O.E.C.D., 1999a: 45). Furthermore, it is not yet apparent that the importance attached in recent analyses of policy and best practice to clustering and inter-firm networking for competitive advantage (e.g. O.E.C.D., 1997b; 1997c; 1997d) necessarily warrants a supranational rather than a national or (sub-national) regional response. More importantly, the increasingly prominent exhortations in Commission documentation for further reductions in the administrative and taxation burden on business, especially S.M.Es. in new, dynamic sectors of the economy, in order to increase employment creation are little more than disguised demands for member states to fundamentally reassess how their welfare states are financed and whether selectivity should displace universality as the bedrock principle of service provision. Although, business groups may continue to lobby for further cuts in government spending and the tax burden to promote entrepreneurship (e.g. U.N.I..C.E., 1999), the U.K. should serve as a salutary reminder to other E.U. member states of the damaging effects which the pursuit of privatisation, liberalisation and deregulation as the basis of industrial policy can have upon economic performance and social cohesion (Lee, 1997).

In 1996, the Major Government branded the U.K. as 'the unrivalled Enterprise Centre of Europe' on account of its possession of the second lowest tax burden on business in any major industrialised economy and one of the lowest ratios of public spending to G.D.P. in Europe. These competitive 'advantages' had allowed non-wage costs per employee in the U.K. to be cut to œ18 (per œ100 spent by employers on wages) caompred with œ32 in Germany, œ34 in Spain, œ41 in France and œ44 in Italy (H.M.S.O., 1996: 3-16). What the Major Government neglected to mention was that its reforms of the labour market had not only failed to raise the long-term growth rate of the U.K. economy above its postwar average of 2.25 per cent but also dramatically reduced economic and social cohesion by increasing the proportion of the population on less than half the average national income (after allowing for housing costs) from 9 per cent when the first Thatcher Government had taken office in 1979/80 to 25 per cent (or 14.1 million people) in 1992/3 (Child Poverty Action Group, 1996). Furthermore, while only Portugal in the E.U. was now spending a lower share of its G.D.P. on social welfare than the U.K., the attempt to restore an entrepreneur-driven enterprise culture by attacking welfare dependency had not prevented total real government expenditure on welfare growing by nearly 60 per cent between 1978/9 and 1994/5, outstripping the growth of G.D.P. (Hills, 1995: 30). In other words, the net effect of creating 'the Enterprise Centre of Europe' had been to increase the share of public spending taken by 'unproductive' current welfare spending while simultaneously cutting the share invested in 'productive' capital investment-a reversal of the priorities sought be successive Commission industrial policy documents. Given that the O.E.C.D. has suggested that there is only weak evidence that employment protection laws have a negative effect on unemployment, and indeed that tight regulation ensures greater stability and lower labour turnover (O.E.C.D., 1999b), the time might be ripe for a wholesale review of the likely benefits of further deregulation on both competitiveness and cohesion in the E.U.

Notes

(1) The debate about the appropriate roles for the state and market has not been assisted by the fact that the World Bank's analysis of the political economy of the high performing Asian economies, The East Asian Miracle: Economic Growth and Public Policy, fudged the key issue of the role of the state. It suggested, on the one hand, that the Asian economies' strong growth performance was due to a 'a market-friendly approach' and 'getting the basics right' but, on the other hand, simultaneously acknowledged that 'In most of these economies, in one form or another, the government intervened-systematically and through multiple channels-to foster development, and in some cases the development of specific industries' (World Bank, 1993: 5). The Bank discounted the developmental state's challenge to its neoclassical orthodoxy by concluding that 'industrial policies were largely ineffective' and 'generally not successful', despite the fact that it had previously conceded that just such a definitive conclusion about the state's role would be difficult 'Because we cannot know what would have happened in the absence of a specific policy' (World Bank, 1993: 312, 354). The problem with this analysis is that 'a sharper focus on the fundamentals'did not prevent the Asian financial crisis spreading among a group of previously high performing Asian economies which the World Bank itself had previously acknowledged to have got the fundamentals right (World Bank, 1993: 5).

More recently, the World Bank has sought to redefine its conception of the state by asserting 'the state is central to economic and social development, not as a direct provider of growth but as a partner, catalyst, and facilitator'. For the state to play an effective role in a country's development, the Bank has advocated that the state's capability, i.e. its ability to undertake and promote collective actions efficiently'(World Bank, 1997: 3), must be increased. The problem with this analysis is that it has defined a more limited politics in which the state's role is confined to addressing the needs of entrepreneurs and firms and increasing their returns from private investment. The needs of other groups in society, not least the poor or socially excluded, have been marginalised-an unfortunate tendency given the devastating economic and social consequences of the Asian crisis for many people.

(2) For the purposes of this paper, industrial policy is defined as 'an attempt by a government to shift the allocation of resources to promote economic growth' (Krugman & Obstfeld, 1991: 281). Although there a wide number of supranational policies which directly affect industrial competitiveness, not least technology policy and competition policy, this paper will confine its

analysis of industrial policy to those documents and policy initiatives identified by the European Commission as official statements of 'industrial policy'.

(3) For an explanation of collective external economies of scale , see Oughton & Whittam, 1997. For a concise overview of clustering, see Schmitz & Navdi, 1999.

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