

Squaring the circle through cognitive protectionism

José Castro Caldas

Centro de Estudos Sociais  ces

Universidade de Coimbra

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The Union has today set itself a new strategic goal for the next decade: 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

Ten years after

- No victory over the supposed rivals: US and Japan (EU, US and Japan in deep recession)
- New global actors emerged and are perceived as a threat
- No assessment
- To what extent did the Lisbon Strategy participate (by action and omission) in the creation of conditions that generated the crisis?

The Topic

- No assessment meant here...
- Instead:
 - Understand the logic underlying the Lisbon Strategy...
 - ... and its intellectual underpinnings

The logic of the Lisbon Strategy

PREPARING THE TRANSITION TO A COMPETITIVE, DYNAMIC AND KNOWLEDGE-BASED ECONOMY

1. European Area of Research and Innovation
2. Developing innovative businesses
3. Completing the internal market
4. Efficient and integrated financial markets
5. Fiscal consolidation

MODERNISING THE EUROPEAN SOCIAL MODEL

1. Education and training
2. Active employment policy
3. Modernising social protection
4. Promoting social inclusion

The logic of the Lisbon Strategy

- The Lisbon Strategy is a compromise subject to different interpretations
- I recall the social-democratic interpretation:

Globalization	European Social Model
Technology driven and unstoppable process not be resisted but proactively faced	Constitutive value of the European civilization to be preserved and subject to adaptations (flexibility and ageing); advantage over de US
Opportunity for the high tech exporting sectors but threat to the European Social Model	Threatened by “eastern” competition; risk of “social dumping”

The logic of the Lisbon Strategy

- *Squaring the circle*: conciliating globalization and the European Social Model to ripe the best of both worlds
- With this representation of the problem the solution emerged spontaneously:
 - If Europe would specialize in knowledge intensive products in exchange for low tech imports, it would be able to protect the European Social Model from “social dumping” and further benefit from cheap imports

The intellectual foundations

- This representation of the problem, and the solution, presuppose a reconceptualization of two key economic terms: *competition* and *competitiveness*

	Classical	Lisbon Strategy
Competition	Process involving a large number producing an homogenous good leading to the elimination of monopoly rents and power	Process involving countries and regions oriented towards monopoly rents stemming from innovation
Competitiveness	Capacity to remunerate factors at the market rate	Capacity to sustain current account surpluses and the welfare of citizens

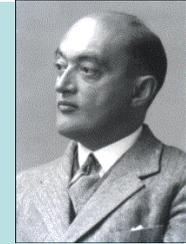
The intellectual foundations

- It also leads to a new representation of international economic relations

Classical	Lisbon Strategy
Positive sum game	Rivalry

- The US, Japan and Europe were rivals in race at achieving competitive advantage in the knowledge economy
- At the background: “newly industrialized” (not yet emergent) countries supplying routine products and services
- The winner’s payoff were monopoly rents to sustain the welfare of citizens

The intellectual foundations



- Tribute to Schumpeter: he shifted the economist representation of competition from “doux commerce” into “creative destruction”

“Doux commerce”	“creative destruction”
Dilutes power, and induces peaceful interchange	driven by the intent of acquiring power and profit (rents) through innovation, and induces rivalry
Prudent bourgeois	Entrepreneurs: “... <i>that stratum of capitalist society which exists by entrepreneurial achievement as the knights of the Middle Ages existed by virtue of a certain technique of warfare.</i> ”

The intellectual foundations

- The Lisbon Strategy transports “creative destruction” from the level of markets to the level of international economic relations
- The move is made with an insufficient awareness of the implications of that transformation

Conclusion

- The ground for criticism of the intellectual foundations of the Lisbon Strategy *is not* the Schumpeterian inspiration...
- *...but rather* the uncritical transposition of Schumpeter's *description* of market processes to the international arena...
- ... and also the attribution to it of a *normative* content [seeking and destroying “competitive advantage” through innovation becomes not only how things *are* in the international arena but how they *ought to be*]

Conclusion

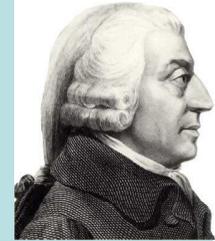
- The Lisbon Strategy may be described as a new form of protectionism: *cognitive protectionism; a replacement of borders and tariffs by frontiers of knowledge*
- It is an appropriate target of all usual criticism against protectionism, plus one: knowledge *ought to be* a public good
- *Normatively* the Lisbon Strategy is *untenable*: no country would choose it under the veil of ignorance

Conclusion

- *In practice it is futile:* in spite of intellectual property rights knowledge tends to disseminate and intelligence and creativity are not features of a part of humankind

[When my Brazilian students told me that the Lisbon Strategy was influencing industrial policies in Brazil I sensed there was a paradox: it cannot succeed everywhere at the same time; and if so it is not a *good* strategy, moreover it may *ineffective*]

Conclusion



The establishment of any new manufacture, of any new branch of commerce, or any new practice in agriculture, is always a speculation, from which the projector promises himself extraordinary profits. These profits sometimes are very great, and sometimes, more frequently, perhaps, they are quite otherwise; but in general they bear no regular proportion to those of other older trades in the neighbourhood. If the project succeeds, they are commonly at first very high. When the trade or practice becomes thoroughly established and well known, the competition reduces them to the level of other trades.

Adam Smith, *The Wealth of Nations*