

Chapter 11

Social Policy and Socio-economic Integration in Europe

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11.1 EU Regional Policy Objectives

Nowadays, economies all over the world are described taking part in a race seeking the most appropriate and effective ways that could provide them with the strengths and opportunities necessary to obtain and sustain a competitive advantage over their rivals. Due to this competitiveness race, productivity enhancement is of great importance for the economic development in the face of uncertainties generated by international competition (Acs et al. 2002; Aghion and Howitt 1992; Coe and Helpman 1995; Cohen and Levinthal 1989). That is the reason why countries are struggling to maintain and also accelerate their growth rates.

One of the focal points of the European Union cohesion policy is “to promote economic and social progress along with a high level of employment, as well as to achieve balanced and sustainable development ... through the strengthening of economic and social cohesion...” The framework of these policy objectives could be illustrated in Fig. 11.1.

The chart presents development as described by the interlinkages among the economic and social policies aiming to achieve and sustain positive results towards development and

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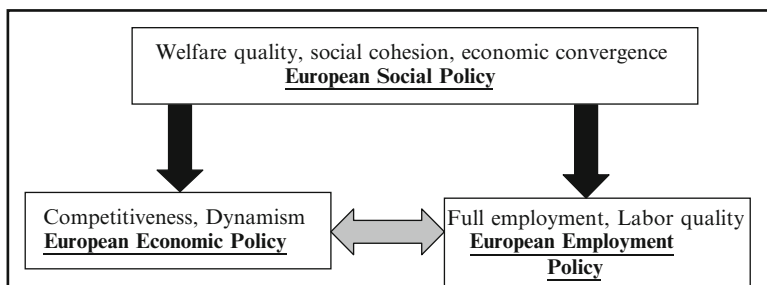


Fig. 11.1 Strategic policies, flows and socio-economic development

Table 11.1 Economic development priorities

Priority	Means and actions
<ul style="list-style-type: none"> • Give priority to innovation and entrepreneurship 	<ul style="list-style-type: none"> • Creating closer links between research institutes and industry, developing conditions favourable to R&D, improving access to finance and know-how and encouraging new business ventures
<ul style="list-style-type: none"> • Ensure full employment 	<ul style="list-style-type: none"> • By emphasising the need to open up employment opportunities, to increase productivity and quality at work and to promote lifelong learning
<ul style="list-style-type: none"> • Ensure an inclusive labour market 	<ul style="list-style-type: none"> • Unemployment is reduced, and social and regional disparities in access to employment are narrowed
<ul style="list-style-type: none"> • “Connect” Europe 	<ul style="list-style-type: none"> • Closer integration and by improving transport, telecommunications and energy networks
<ul style="list-style-type: none"> • Protect the environment 	<ul style="list-style-type: none"> • Stimulating innovation and introducing new technologies, for example, in energy and transport

Source: Adaptation from the European Union 2004a

growth. The combination of the three policies targets to the enhancement and convergence as far as productivity, competitiveness and development process are concerned (Table 11.1).

Within this framework, at the Lisbon Summit (2000), European Union set itself the goal of becoming the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth and closer regional as well as social cohesion. At the Lisbon European Council, the EU defined a comprehensive strategy aiming at long-term economic growth, full employment, social cohesion and sustainable development in a knowledge-based society. Into doing, it has identified a number of priorities. The above-mentioned priorities could be incorporated within an action framework, in which development and innovation consist two of the core subjects both in economic and political analyses. In the EU, there is an increasing interest in the contribution of knowledge in the sustainable long-term economic growth. Development process is supported henceforth in the strategic planning, which constitutes a process of long-term objectives and policies based on scientific analysis, international experience, participative processes and the special

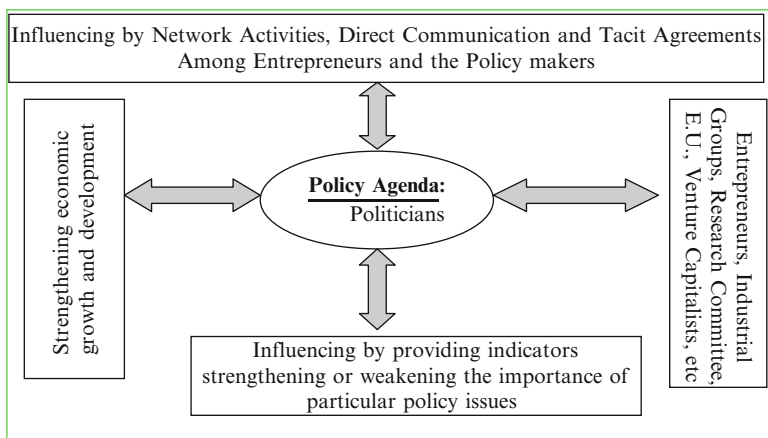


Fig. 11.2 Action framework of the EU regional policy

conditions that prevail in each economy (Fagerberg (1988a, b); Griliches 1980; Grossman and Helpman 1991, 1994; Jones and Manuelli 1990). In the frame of configuration of developmental priorities, the exploitation of comparative advantages should be mainly taken into account, combining the exploitation of developmental possibilities and the reduction of regional inequalities (Lucas 1988, 1990, 1993; Malecki 1991; Malecki and Varaia 1986; Martin and Ottaviano 1999; Solow 1957). The above-mentioned priorities could be incorporated within an action framework, described in Fig. 11.2.

Into this framework, the aid of growth and productivity constitutes main subject in the European economic and social policy. The EU is focused more not only in the problems of employment, unemployment, budget deficit, and public debt but also in the problems of national differences and achievement of convergence and cohesion on issues of technology and innovation (European Union 2004b).

The technological policy of European Union aims immediately in the aid of role of competitiveness of Europe, as well as in the aid of cohesion of community and in balancing of regional differences between the member states. The contribution of research and technology in the regional growth as well as in the cohesion of European community is considered particularly important, and the economic competitiveness of European Union depends, to a great degree, on research and innovation (Rebelo 1991; Romer 1986).

In this aspect, the SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) is used in order to diagnose the main characteristics of internal and external environment of European Innovation process, as analysed in Table 11.2.

The treaty of Rome had not given extensive competences in the European Community for the exercise of effective and dynamic technological policy, based only on fragmentary and on certain decisions by the Council of Ministers. However, the European Council of Lisbon in March 2000 placed the objective that Europe becomes the most competitive and dynamic knowledge economy in the world, capable of a sustainable

Table 11.2 SWOT analysis

<i>(a) Strategic goal and development pillar: competitiveness enhancement</i>	
Strengths	High-skilled human resources
Weaknesses	Large number of small and medium enterprises (SMEs), low productivity of public sector, imbalances in labour supply and demand
Opportunities	Modern administrative and law framework, technology and knowledge diffusion, clustering enhancement, education
Threats	Delays in market liberalisation, labour market rigidities
<i>(b) Strategic goal and development pillar: productivity enhancement</i>	
Strengths	Convergence under Lisbon strategy goals, modern European technological policies
Weaknesses	Bureaucracy, credit market rigidities, weaknesses of SMEs to support knowledge creation and accumulation, low value added
Opportunities	EU enlargement with countries with developing economies, low labour cost, high productivity and value added
Threats	Dualism in entrepreneurial activity and development
<i>(c) Strategic goal and development pillar: investment enhancement</i>	
Strengths	Mobility and diffusion of entrepreneurial and investment capital, credit market liberalisation
Weaknesses	Large number of SMEs, low degree of specialisation, limited productive network, low connection of education with market needs
Opportunities	EU enlargement with developing economies and markets, European development and innovation programmes
Threats	Trade and transport infrastructure weakness, limited business services
<i>(d) Strategic goal and development pillar: R&D infrastructure enhancement</i>	
Strengths	Increase of the technology-based firms, increase in the technology and innovation expenditure, connection of knowledge creation with economic results and economic products
Weaknesses	Low level of R&D expenditure, low technological infrastructure
Opportunities	International trade trends, tax regimes, European development funds
Threats	Regional disparities in technological expenditure and knowledge diffusion, imperfect competition in energy market
<i>(e) Strategic goal and development pillar: environment protection enhancement</i>	
Strengths	New energy resources, clean environment practices
Weaknesses	Insufficient administrative framework
Opportunities	Development funds, innovation policies
Threats	Global warming, polluting agents
<i>(f) Strategic goal and development pillar: human resources and employment enhancement</i>	
Strengths	High-skilled human capital, education enhancement, high education expenditures, higher education participation, international research activities
Weaknesses	Small percentage of skilled R&D personnel, limited lifelong learning, low human capital mobility
Opportunities	Education infrastructure, regional education and innovation activities
Threats	Brain drain towards USA, labour market rigidities

economic growth, accompanied by employment enhancement and social cohesion in the next 10 years. In the European Council of Lisbon, the EU determined a strategy that aimed in the long-term economic growth, employment, social cohesion and sustainable

Table 11.3 Regional convergence policy, financing of the programming period 2007–2013

	Total (billion €)	Convergence (billion €)	Regional competitiveness and employment (billion €)	Territorial cooperation (million €)
Bulgaria	6.9	6.7		179
Estonia	3.45	3.4		52
Cyprus	0.64	0.213	0.399	28
Lithuania	6.9	6.78		109
Letonia	4.6	4.5		90
Poland	67.3	66.55		731
Spain	35.2	26.2	8.5	559
Sweden	1.9		1.6	265
Portugal	21.5	20.47	0.938	99
Ireland	0.901		0.751	151
France	14.3	3.2	10.2	872
Netherlands	1.9		1.6	247
Luxemburg	0.065		0.05	15
Denmark	0.613		0.51	103
Malta	0.855	0.84		15
Czech Rep.	26.7	25.9	0.419	389
Italy	28.8	21.6	6.3	846
Slovakia	11.6	10.9	0.449	227
United Kingdom	10.6	2.9	6.9	722
Belgium	2.3	0.638	1.4	194
Slovenia	4.2	4.1		104
Hungary	25.3	22.9	2	386
Germany	26.3	16.1	9.4	851
Romania	19.7	19.2		455
Austria	1.46	0.177	1.03	257
Finland	1.7	1.6		120
Greece	20.4	19.6	0.635	210

Source: Eurostat

development based on knowledge society, underlining a broad spectrum of priorities, as displayed in Table 11.3.

11.2 EU Economic and Social Development

Within this framework, development and innovation consist two of the core subjects both in economic and political analyses. In the EU, there is an increasing interest in the contribution of knowledge in the sustainable long-term economic growth, taking into consideration the need that competition forces technological innovations that increase productivity.

Developments in the theory of economic growth have renewed the interest for the role of innovation in the development process, underlining the interaction

between the investment in innovative activities, technological change and economic growth. Technology and innovation play an important role in economic growth, and technology has become one of the most important factors in the models of growth (Geroski et al. 1993; Barro and Sala-i-Martin 1995, 1997; Freeman and Soete 1997; Sternberg 2000).¹ The role of innovation is multiple: as motive force, it directs the enterprises to ambitious and long-term objectives, and it leads to the renewal of methods of production, as well as industrial structures and the appearance of new sectors of economic activity.

An important contribution of the endogenous growth theory (Romer 1987, 1990) has been to identify the central role that knowledge and knowledge spillovers play in creating and sustaining growth. Pavitt and Soete (1982) examined growth as a result of the development of new knowledge in a country and the diffusion of knowledge between countries. According to Fagerberg (1987), there is a close relation between a country's economic and technological level of development. The rate of economic growth of a country is positively influenced by technological level of the country and its ability to increase it through imitation and exploitation of the possibilities offered by technological achievements elsewhere. Krugman (1991) identified the major role that knowledge spillovers play in generating increasing returns and higher growth. Geroski et al. (1993) asserted that innovations positively affect the development of enterprises and economies. Moreover, according to Silverberg and Verspagen (1995), technological change and diffusion constitute important factors in long-run macroeconomic growth and development. Moreover, Barro and Sala-i-Martin (1995, 1997) asserted that growth rate may increase in correlation with technological growth. Furthermore, Freeman and Soete (1997) focused on the importance of technology and innovation claiming that lack of innovation leads to economic death. At the same point of view, Sternberg (2000) said that in industrialised economies, the rate of long-term macroeconomic growth depends on the ability of constant development of innovative products and processes.

In the modern knowledge economy, growth depends extensively on the presence or the formation of a network and environment favourable to innovation, which is based on the endogenous development capabilities. Even though the firm-specific factors are important determinants of innovation activity, technological opportunities and favourable entrepreneurial environment have a positive effect on innovation activity, as well. Technological change, innovation and technology creation and diffusion are an important factor to economic progress. While innovation may lead to divergence between firms or nations, imitation through diffusion and dissemination tends to erode differences in technological competencies, and hence lead to convergence (Fagerberg and Verspagen 2002).

¹ Arrow (1962) was the first to systematically appreciate the importance of innovation and technological change in the capital formation and economic growth. He observed that increases in income per capita could not be explained by increases in capital to labour ratio and concluded that the power behind the increase in productivity is the acquisition of knowledge and learning experience created and acquired during the production procedure.

Table 11.4 Framework of productivity and competitiveness

Phases	Inputs/outputs	Policy directions
First phase	Inputs (productivity enhancement)	<ul style="list-style-type: none"> • Macroeconomic entrepreneurial and work environment • Economic and technological infrastructure • Education and skills • Entrepreneurship and business development • Innovativeness and creativity
Second phase	Intermediate output (productivity enhancement)	<ul style="list-style-type: none"> • Productivity • Production factors cost • Prices and wages
Third phase	Final output (competitiveness enhancement)	<ul style="list-style-type: none"> • Development • Employment • Living standards • Quality of life • Competitiveness

Social disparities cannot be ignored, since they affect the overall competitiveness of the EU economy. Covering costs of congestion or treating the social consequences of disparities implies a suboptimal allocation of resources, as well as a lower level of efficiency and economic competitiveness than could potentially be attained in the regions affected. To combat territorial disparities and achieve a more spatially balanced pattern of economic development requires some coordination of development policies if they are to be coherent and consistent with each other.² Under these circumstances, growth rate is one of the main points in the EU political and economic agenda.

European cohesion policy makes a major contribution to these objectives, especially in those regions where there is unused economic and employment potential which can be realised through targeted cohesion policy measures, so adding to the growth of the EU economy's a whole. From a policy perspective, for regional development to be sustained requires favourable conditions being established at the national level, in particular a macroeconomic environment conducive to growth, employment and stability and a tax and regulatory system which encourages business and job creation (Table 11.4).

At the regional level, two complimentary sets of conditions need to be satisfied.³ The first is the existence of suitable endowment of both basic infrastructure (in the form of efficient transport, telecommunications and energy networks, good water supplies and environmental facilities and so on) and a labour force with appropriate levels of skills and training, strengthening of both physical and human capital, together with improvements in institutional support facilities and the administrative framework in place. The second set of conditions, which directly relates to the factors of regional competitiveness which are important in the knowledge-based econ-

²Third Cohesion Report, 2004.

³Third Cohesion Report, 2004.

omy, is that innovation should be accorded high priority, that information and communication technologies (ICT) should be widely accessible and used effectively and that development should be sustainable in environmental terms; a business culture which encourages entrepreneurship; and the existence of cooperation networks and clusters of particular activities.

11.3 Conclusions and Prospects

In the past decades, important changes in the pattern of economic growth in countries worldwide have taken place. Recent improvements in productivity and employment have been interpreted as a movement towards a knowledge-based economy. Currently, output and employment are expanding fast in high-technology industries such as computers and electronics, as well as in knowledge-based services such as financial and other business services. More resources are spent on the production and development of new technologies, in particular on information and communication technology. Computers and related equipment are now the fastest growing component of tangible investments. At the same time, major shifts are taking place in the labour market in particular the increased demand for skilled labour whereas demand for low-skilled workers is falling across the OECD.

As it has been asserted in this chapter, globalisation and worldwide competition has shifted the comparative advantage of economies towards the factor of knowledge and innovation, where productivity based on the endogenous development capabilities plays a rather important role, as far as growth and competitiveness enhancement are concerned. In order to promote innovation activities and technological opportunities, productivity enhancement seems to have a significance to the long-run performance of the economy as a whole.

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information and communication technologies (ICT) should be widely accessible and used effectively and that development should be sustainable in environmental terms; a business culture which encourages entrepreneurship; and the existence of cooperation networks and clusters of particular activities.

Under this perspective, growth policies should focus on creating favourable environment for the cooperation between firms and institutions that support the development and exploitation of knowledge and innovation. Furthermore, policies should promote the entrepreneurial relations between firms and institutions, fostering the development and dissemination of the expertise, the mobility of human and physical capital and the enhancement of the relationships between business and research entities. Specifically, they should encourage actions such as promoting innovation, technology transfer and interactions between firms and higher education and research institutes, networking and industrial cooperation and support for research and technology supply infrastructure.

Innovation and technology is an important source of regional competitiveness through facilitating cooperation between the various parties involved in both the public and private sectors. In particular, they can improve collective processes of learning and the creation, transfer and diffusion of knowledge and transfer, which are critical for innovation. Such cooperation and the networks that are formed help to translate knowledge into economic opportunity, while at the same time building the relationships between people and organisations which can act as a catalyst for innovation. Such actions should extend to all the policy areas relevant for economic, scientific and social development and should ideally establish a long-term policy horizon.

This, however, needs to happen not just in central parts where productivity and employment are highest and innovative capacity most developed but throughout the Union. Countries and regions need assistance in overcoming their structural deficiencies and in developing their comparative advantages. This means, among others, encouraging the development of knowledge-based economic activities and innovation and includes, among others, the capacity of a regional economy to generate, diffuse and utilise knowledge and so maintain an effective regional innovation system. In policy terms, the objective is to help to achieve a balanced sustainable development by reducing disparities, avoiding regional imbalances, making policies more coherent, improving integration and encouraging cooperation between states and regions.

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