

Knowledge-based Competition, Convergence in Labour Markets and Models of Capitalism in Europe

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1 Foreword

Nowadays, a short essay on the perspectives of European labour markets may easily turn into a very ambitious piece of political persuasion or into an obscure and trivial contribution to an endless debate. The present paper aims at showing how deficient the debate has been so far and how relevant it is to revise the analytical framework employed in designing the labour markets' evolution as well as in governing their actual performance. The implicit assumption is that a better interpretative framework can help both in managing the micro and macro-economic imbalances at four levels of global interaction: intra-European level; Euro-Atlantic level; Euro-Mediterranean level; Europe-Global South. The task of the author could be simplified, on the one hand, if the reader is willing to deepen the topic through some recommended reading whenever he or she will not find enough explanation of the suggested statements. On the other, some of the issues tackled in the present paper are included in the ongoing research project on inequality in the framework of the Global Study Programme outlined in some of the other essays of this special issue. Subsequent publications originating from it will shed more light on the topic.

2 The real issue

It was predictable, and in fact it has been to a large extent predicted, that many difficulties would be caused by the creation of the new common currency through the architecture agreed with the Treaty on the European Union signed in 1992. The real issue is, as it was, the imposition of a too rigid and asymmetric common monetary and fiscal discipline to a consortium of structurally heterogeneous economies facing globalization challenges. At that time, the integration process in Europe, conceived by the Founding Fathers as a very gradual one based on consensus, has been transformed in a big bang progression based on top-down government. In order to explain the imbalances deriving from the new European architecture the *mainstream* economic literature often goes back to the breach of the theory of optimal currency area, under reserve of looking soon after for gateways aiming at its preservation through ad hoc mechanisms.¹

The fact is that this line of thought is based, in a more or less acknowledged way, on the assumption that labour markets can adjust to create a single unique equilibrium which should sequentially follow the equilibrium under way in the other markets.²

¹E.g., looking for a mechanism helpful in coupling Euro with an insurance system against unemployment in the different European regions financed with European funds.

²The sequence goes from the money and financial markets to the markets for goods and services and then to the markets for factors of production. In this way, for example, the mechanism mentioned in note 1 requires the existence of (or the convergence towards) a unique labour market at the European level in order to be able to operate.

However, at least three types of obstacles can be caused in Europe by the imbalances in labour markets. First of all, it is intrinsically difficult to define the very notion of a unitary labour market. Sectoral, professional and territorial segmentations make it much more than multifaceted³ and complex even to categorize and measure them. Second, labour markets can fail in granting the existence, uniqueness and stability of equilibrium between labour demand and supply, and therefore its self-regulating capacity. Furthermore, "government failure" may overlap with "market failure" and the concurrent materialization of the two failures can lead to a "systemic failure".⁴ Third, the economic systems in which labour markets operate in Europe are structurally diverse and this reflects the variety of regional economic systems and the persistence of different models of capitalism.⁵

These obstacles taken together should suggest stimulate an exploration of alternative gateways and this essay, even if synthetically, tries to outline one of them. The approach followed makes use of the variety of models of capitalism for leveraging the integration process in Europe. However, in contrast to other studies in this line of thought, my proposal for interpreting imbalances is to take advantage of the evolution which takes place within each variety of capitalism model over time (diachronic differences)⁶, apart from taking into account cross-sectional differences (synchronic differences). This, apart from supporting the shaping a convergence process of each given configuration towards the objective model, can induce in the process itself new principles and symbolic values of a political and institutional nature which are coherent with the general objectives looked for even outside standard models.

3 Deep structural variety

When speaking about the great prospects of European integration, we cannot overrule the deep structural differences persisting among European economies. And alongside those characterizing the Eurozone regions, also those typical of the countries belonging to the EU, but not to the Eurozone, must be considered, because they are full of implications for the future strategies.

It is well known how that in the last twenty years a substantial differentiation took place in the trend of labour utilization and, especially, of labour productivity among the OECD countries.⁷ In particular, the trajectory followed by the United States is remarkable, since even if starting from high levels in the '90s, it kept increasing till to the present days causing a huge gap with European countries. This gap is evident also among European countries, and some of them, like Spain and Italy, turn out to be the most backward in this respect.

Comparing the periods 1995-2002 and 1990-95, the rate of growth of GDP per hour worked was even negative for Spain, and declining for Italy, Netherlands, Denmark, Germany, France, Belgium, United Kingdom, Portugal, Norway. The drop for Italy is particularly amazing. Also Japan and South Korea show a decline. While, Ireland, Greece, Finland and Sweden for different reasons were increasing their rate of growth of GDP per hour worked. The same was true for Australia, Iceland, United States, Canada, New Zealand, Mexico and Switzerland.

Looking to a more recent period, except for Spain, the situation has not apparently changed very much. For the period 2000-2012, Fig. 1 shows the different trajectories of constant price

³In the Italian debate it has been argued that the left parties should "grab Proteus", meaning that they should include in their conceptual framework the notion of market. But this appraisal can be very tricky as far as it refers to the labour domain.

⁴Further clarifications can be found in Antonelli (2011).

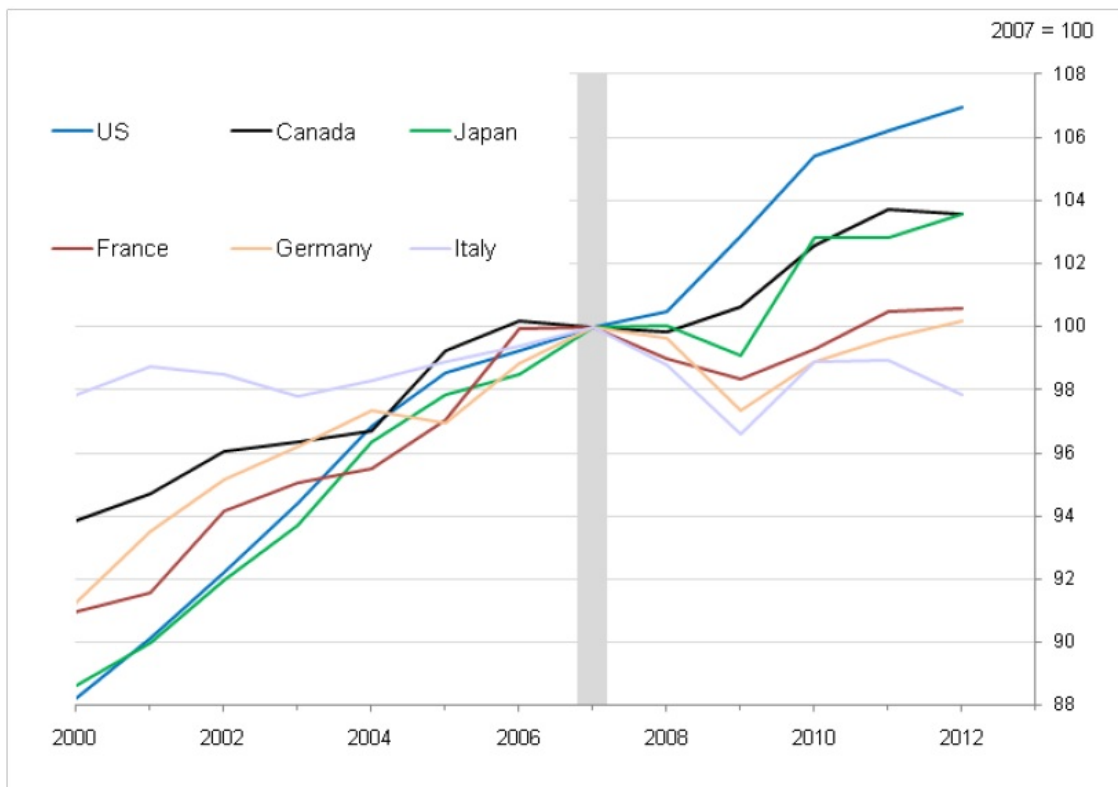
⁵For further clarifications, see Amable (2000, 2003) and Aoki (2001).

⁶For an investigation of this sort the reference goes to the Reich (1991) study of American industry.

⁷The published evidence is sizable and mention can be made to the following works: Ahmad et al. (2003), Oecd (2005), Bureau of Labor Statistics (2012), Office for National Statistics (2014).

GDP per hour worked of France, Germany and Italy, on the one side, and Canada, Japan and United States, on the other. Labour productivity in United States keeps up with its trend, in spite of the global crisis started in 2007, while Canada and Japan show a strong recovery after a short decline. On the contrary, the recovery in France and Germany is much more smooth, and in Italy the labour productivity shows even a decreasing trend after 2007.

Figure 1: Constant price GDP per hour worked in Canada, France, Germany, Italy, Japan and United States



Source: Office for National Statistics (2014).

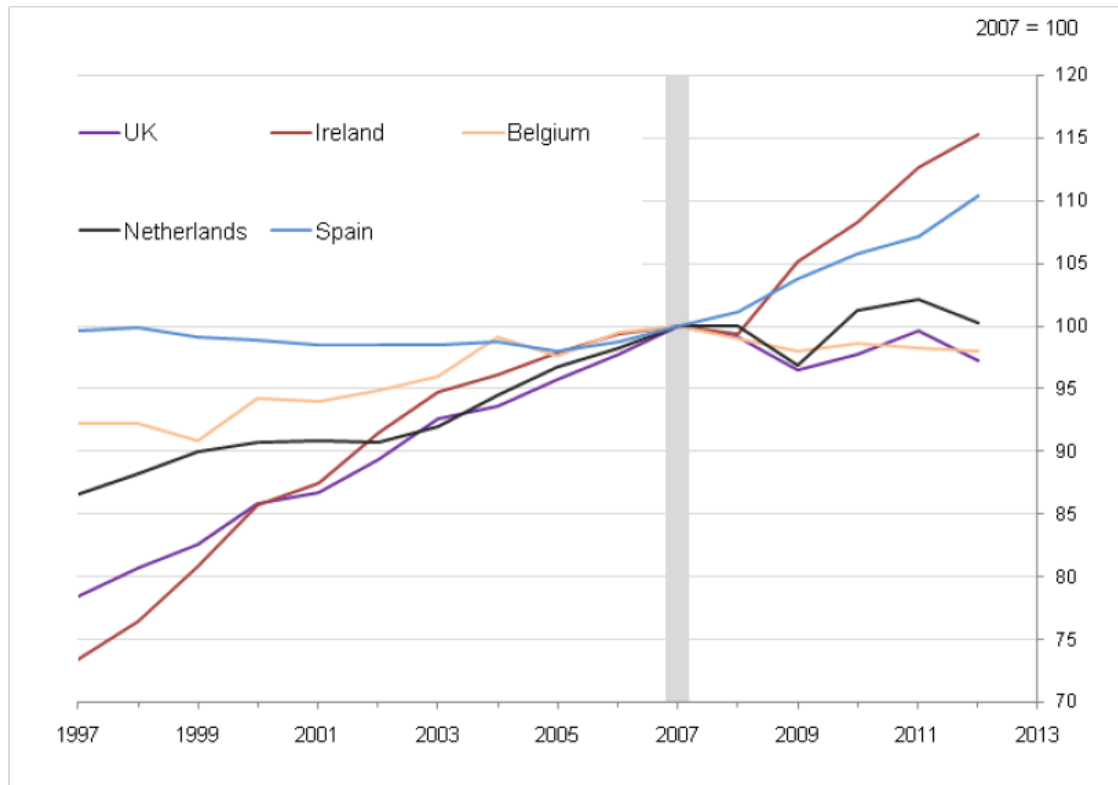
Fig. 2 shows the different trajectories of constant price GDP per hour worked, in the same period, for Belgium, Ireland, Netherlands, Spain and United Kingdom. After the start of the global crisis in 2007, only Ireland and Spain show a plain recovery, while Belgium, Netherlands and United Kingdom show a decreasing trend after a short recovery.

If we go further looking for data at the meso-economic level and analyse the Regional statistics of Eurostat (2014), the evidence confirms that a clear and strong territorial differentiation characterize the economic structure of EU in many respects.

In the period 2003-2001, the trend of GDP per inhabitant⁸ shows a sharp bifurcation in the capacity to generate added value in the different regions (Nuts 2) of the member countries belonging to the Eurozone and the EU. For Greece, Italy and Spain we observe a smaller dispersion among regions and, in particular, the fact that the leading regions outperform the others much

⁸Measured in terms of purchasing power standard (PPS).

Figure 2: Constant price GDP per hour worked in Belgium, Ireland, Netherlands, Spain, United Kingdom



Source: Office for National Statistics (2014).

less if compared with Austria, Belgium, Finland, France⁹, Germany, Ireland, Netherlands, Czech and Slovak Republic.

In the same period the increasing trend of this indicator shows a contraction phase and a slowing down in the process of dispersion around the year 2008. Afterwards, the trend of dispersion comes back to the previous pace. The stronger is the dispersion and more the slowing down and recovery seem to be marked. Among the member countries belonging to the EU, but not to the Eurozone, Bulgaria, Croatia and Poland seem to follow the first trend, while Czech Republic, Denmark, Hungary, Rumania, Sweden and United Kingdom follow the second. Various factors tend to suggest that we should interpret the lower level of dispersion not much in terms of lower income inequality, but in terms of lower leadership capacity in innovation and growth processes at the territorial level by the most advanced regions and towns in each country.¹⁰

The dispersion in disposable income of private households can be better interpreted in terms of income inequality among the inhabitants of the different regions (Nuts 2) of the member countries

⁹In this country the presence of overseas territories contributes to generate higher dispersion.

¹⁰I am implying that, on the one side, we are considering the primary distribution of income, which is assessed before the redistribution process, and, on the other, the literature on smart development stresses the relevance of main towns, not only in terms of material and immaterial infrastructures supporting manufacturing, but also in terms of capacity of urban environments to generate variety: all to the benefit of the overall development of the region and the country in which they are located.

belonging to the EU and to the Eurozone.¹¹

In the period 2003-2011, the range value appraised through the disposable income of private households shows a bifurcation around the threshold 0.4. In the Eurozone (Tab. 1.) Austria, Belgium, Finland, France, Germany, Ireland, Netherlands, Slovenia are positioned under this threshold. Instead, Italy, Spain and Slovak Republic are positioned well under this threshold, while Greece and Portugal move along an intermediate level. Among the member countries of EU not belonging to the Eurozone (Tab. 2.), Denmark, Norway and Sweden are positioned well under the 0.4 threshold. Hungary, Poland, Romania and United Kingdom are, on the contrary, flatly over it, with Bulgaria and Czech Republic at an intermediate level.

Table 1: Range estimated on disposable income of private households living in the regions (Nuts 2) of Eurozone countries

Member countries	2003	2007	2011
Austria	0.139	0.099	0.090
Belgium	0.304	0.345	0.308
Finland	0.363	0.189	0.257
France	0.415	0.363	0.358
Germany	0.339	0.349	0.325
Greece	-	0.476	0.439
Ireland	0.160	0.152	0.110
Italy	0.599	0.574	0.587
Netherlands	0.209	0.222	0.305
Portugal	0.361	0.430	0.435
Slovak Republic	0.565	0.654	0.633
Slovenia	0.149	0.098	0.104
Spain	0.511	0.528	0.581

Source: Eurostat (2014),

http://epp.eurostat.ec.europa.eu/portal/page/portal/region_cities/introduction

Notes: (a) Available data allow us to calculate only the range, which is the simplest index of dispersion or variability. It is calculated as the ratio between the difference among the maximum value and the minimum value of the regional distribution of disposable income and its average value; (b) Cyprus, Estonia, Latvia, Luxemburg and Malta are not considered because they include only one region.

In the period 2003-2013 the rate of unemployment trend in the regions (Nuts 2) belonging to Eurozone can be distinguished into three slots. The least advanced regions of Greece, Italy and Spain, but also of France, overstep unemployment rates higher than 20%. For these countries we observe an higher dispersion in the rates of unemployment both in the contraction phase, which comes before the year 2007, and the consecutive phase of strong increase.¹² The least advanced regions of Belgium, Ireland, Portugal, Slovak Republic and Slovenia reach unemployment rates between 10% and 20%. In the least advanced regions of Austria, Finland, Germany and Netherlands¹³ the rate of unemployment remains steadily under 11%. For these countries

¹¹The disposable income of private households is defined by Eurostat (2014 b) as: "the balance of primary income (operating surplus/mixed income plus compensation of employees plus property income received minus property income paid) and the redistribution of income in cash. These transactions comprise social contributions paid, social benefits in cash received, current taxes on income and wealth paid, as well as other current transfers. Disposable income does not include social transfers in kind coming from public administrations or non-profit institutions serving households."

¹²The presence of overseas territories worsen the situation of Spain and, especially, of France.

¹³Cyprus, Estonia, Latvia, Luxemburg and Malta are not considered because they include only one region.

Table 2: Range estimated on disposable income of private households living in the regions (Nuts 2) of EU member countries not belonging to the Eurozone

Member countries	2003	2007	2011
Bulgaria	0.310	0.504	0.490
Czech Republic	0.476	0.436	0.419
Denmark	0.101	0.056	0.080
Hungary	0.709	0.590	0.414
Norway	-	0.185	0.179
Poland	0.519	0.528	0.640
Rumania	0.826	1.045	1.064
Sweden	0.251	0.225	0.241
United Kingdom	0.509	0.719	0.668

Source: Eurostat (2014),

http://epp.eurostat.ec.europa.eu/portal/page/portal/region_cities/introduction

Notes: (a) See note (a) of Tab. 1. (b) Lithuania is not considered because it includes only one region.

and, particularly, for Germany, we can observe a reduction in regional dispersion and a persistent contraction of unemployment rates also after 2007. Among the countries belonging to the EU but not to the Eurozone, Bulgaria, Croatia, Hungary, Poland and United Kingdom are positioned in the second slot and Czech Republic, Denmark, Sweden and Romania in the third one.¹⁴

However, if we analyse the trend in long-term unemployment rate¹⁵ again in the regions (Nuts 2) of the Eurozone countries, we can observe that in several of them the situation is more difficult. Aside from Austria, Finland and Netherlands, and, among the countries non belonging to the Eurozone, Denmark and Sweden, in all other countries the most underdeveloped regions exceed the threshold of 50% and dispersions remain at a high level.¹⁶

This very concise analysis is not at all complete and it has only the task of stressing the main characters or "stylized facts" starting from which it is possible to distinguish the boundaries of different subsystems living together in the European economy. If, for example, we concentrate our attention on a particularly puzzling member country which is, at the same time, crucial for the unity of EU, like Italy, we can appreciate how the strong disparities in labour utilization and especially in productivity per hour worked lead to an high cost of labour per product unit (Clpu)¹⁷ which reduces its cost competitiveness. On the other hand, its low capacity in generating added value and its lower dispersion among regions in GDP per inhabitant seem relevant in signalling a lower leadership capacity in innovation processes at the territorial level. The greater dispersion in disposable income of private households seems to imply higher income inequality among the inhabitants of the different regions. Lower capacity in generating value added coupled with higher inequality in disposable income draw the lines of the vicious cycle of a country looking for a more coherent model of capitalism. Taking into account the appropriate differences, I could make similar remarks referring to Greece and Spain.

The structural differentiation in European economy cannot easily match with the rigid uniformity of the European central bank system and ECB. The joint action of these two drivers of

¹⁴Lithuania is not considered because it includes only one region.

¹⁵Long-term unemployment refers to the number of people who are out of work and have been actively seeking unemployment for at least a year.

¹⁶Also in this case, the presence of overseas territories worsen the situation of Spain and, especially, of France.

¹⁷Clpu is defined as the ratio between labour cost and labour productivity.

the economic conditions in Europe makes clear why the theory of plate tectonics¹⁸ can help us in understanding the real dynamics of European economies. In this way it can be better understood also the rationale of the sequence of proposals suggesting to implement "variables geometries" functional to a gradual reconciliation of variety and uniformity.

The ability of European regions and countries to face and solve in a cooperative way the various problems deriving from their structural imbalances is even more important than the historical tradition and the foundation philosophy of the European integration in motivating the interest of regions and countries of the global South for the European strategies aiming at implementing a real Union.

4 A new interpretative framework

In the period of deep economic uncertainty in which we are living in, also eminent institutional seats tend to substantiate the idea that in a global competition era the upswing in competitiveness of national and local economies could be picked out in sectors in which delocalization and outsourcing would not be intrinsically possible.¹⁹

This idea overrules the fact that in the global economy the crucial economic challenge is engaged in terms of capacity to form and employ human capital in a competitive way. After all, as Robert Reich (1991) was able to anticipate, the true entry barrier in the contemporary capitalism lies in the availability of specialized professional competences able to foster technological and organizational innovation for growth and to connect very specific technologies with very particular markets.²⁰ Labour markets are necessarily the centre of gravity of this system and, if the European integration allows for substantial actual and perspective advantages,²¹ we are confronted with a very crucial question: how realistic is the perspective of a unique labour market in a Europe which shows substantial disparities in labour productivity and labour costs?²²

The need is making its way for a discussion not constrained at the national level and aiming at bringing back at the centre of European strategic design the solution of particular local and national issues. It is an indisputable fact that, in the mid of the present deep crisis, the enlargement and opening of national labour markets in Europe represent for many young persons of the North and South Mediterranean shores an important employment opportunity.

But, at this point, one of the most serious mistakes made in the process of EU formation arises in an evident way. Indeed, in the sequence of adjustments characterizing the overall convergence of the European system toward the new economic conditions, the labour markets play a residual role.²³ When the focus reaches growth and employment variables, a strong if not exclusive emphasis is made on flexibility and labour mobility, apart from institutional innovations which

¹⁸The theory of plate tectonics identifies three types of dynamics: (a) diverging margins, which separate the plates moving away one from another while shaping new earth crust in correspondence to oceanic ridges - in this case the plate boundaries are defined ridges; (b) converging margins, along which two plates are moving toward each other and their match originates the immersion of a plate under the other or the collision between the two plates - in this case the plate boundaries are defined trenches; (c) transforms or conservative margins, along which the two plates slide horizontally one with respect to the other. Trenches are destructive plate margins, while ridges are constructive plate margins. Further clarifications can be found in Garzanti (2007).

¹⁹For instance, in this vision, tourism, both in its naturalistic and artistic versions that are strongly associated with the agro-food *filière*, would constitute the only business prospect in which it is worthwhile to invest in Italy.

²⁰For further clarifications, see De Liso et al. (2014).

²¹And this, at least from an economic point of view, is out of discussion, in spite of the many dysfunctions and mistakes of institutional architecture made in the recent past.

²²This question is made even more harsh due to the persuasion recently shared by many economists that equilibrium in labour markets can be a within reach result. This persuasion is in strong contrast with that of many economists of different schools of thought who have stressed the institutional and social complexity of this result.

²³Further clarifications can be found in Antonelli and Nosvelli (2005).

are able to foster them. This leads to suggest recurrent comparisons which, according to the circumstances, pinpoint ever changing European benchmarks, but which, especially before the start of the global crisis, where highlighting the Anglo-Saxon model of capitalism as the optimal configuration. However, a solution of the conundrum searched for in an at all costs flexibility entails a second serious mistake: the "passive" flexibility²⁴ in labour markets sharply hinders the accumulation and employment strategy based on high qualified human capital.

At the same time, EU carried out, at least in words, a forward-looking resolution. In effect, in the European Council of 25 and 26 March 2010, at the end of the first decade of the Bologna Process, and in the mid of a global crisis bringing about an extraordinary threat, the need has been asserted of increasing the population ratio with higher qualifications. Beyond any doubt this is a mark of true leadership we need to understand in the middle of several signals of fragility. However, we need a reference framework capable to match up with the challenge.

The theory of plate tectonics, which in my view could be applied to the European integration and European economies, recommend us to look for the most relevant geological effects of the dynamics in the planet surface next to the margins of the plates themselves. In the EU, due to the lack of an appropriate institutional architecture and more ambitious strategies, the structural change induced in each single economy from markets globalization processes and shocks of different nature is accumulating damaging effects on the sections less regulated or dealt with as residuals.

Starting from very differentiated economic conditions, the member countries of Eurozone are simultaneously pursuing growth strategies based on export-led drive and fiscal austerity with balanced budget. Gain in terms of competitiveness is, therefore, the ruling must.

However, the sharing a common fixed exchange system has made unfeasible to regain *price competitiveness* through "competitive devaluation".²⁵ The match is, therefore, played on *cost competitiveness*, through the s.c. "internal devaluation", whose principal drivers are deflation in prices and wages, as well as labour productivity rise. This tool allows to achieve increases in competitiveness, and, in this way it is deemed possible to strengthen the more advanced firms and generate new jobs.

If labour markets represent core crossroads in the construction of EU and Eurozone which have not been enough appreciated and enhanced, the metaphor of *converging margins* in the theory of plate tectonics helps in better understanding the effects on them of the changes which are taking place and the feedback effects that their tensions generate on the European economy.

However, it is better to gradually clarify the effects generated by the overall dynamics and, afterwards, ask ourselves what can be done in order to correct the distortions and improve the conditions of the incoming Europe. Also due to the propensity of the European monetary authorities for a strong exchange rate of Euro with respect to American dollar and yen²⁶, the tensions shaking the structural linkages among the European economies did find their way out at different layers.

The general attention has been focused especially on the booming in the spread between the percentage rate of return on investment in 10-year Italian Btp and German Bund. How it has been confirmed by the effective therapy practiced by Mario Draghi, this differential reveals a foreign exchange risk in markets perception.

Likewise, the increase in unemployment rate did shock the public opinion, even if not always the appropriate stress has been put on its differentiation among the European regions and on its true nature revealing the failure of labour and goods markets.

Less emphasis has been devoted to signal the increase in multidimensional inequality²⁷, which

²⁴For further clarifications, see Killick (1995, p. 8).

²⁵This was an easy device to fall back upon by governments and social parties in the pre-Euro phase.

²⁶This attitude has encouraged in years a policy of competitive devaluation by United States and Japan.

²⁷I am referring particularly to the attention of both policy makers and economists, with the exception of authors

indicates another phenomenon revealing the strong inner tensions in the Eurozone and the EU, this time in terms of failure of social cohesion within and between member countries.

In the presence of this macroeconomic context, an adjustment process prevalently based on the correction of the debt position of the weakest countries, on export growth and on "internal devaluation" risks of transferring the core of a wild and, at least partly, obsolete competition within the Eurozone and EU. This, by the way, weakens its role as a relevant partner in the race taking place with emerging powers and United States. All the more that the global competition, already since decades, it is not anymore based on planning and implementing large volumes of standardized goods and services, but above all on the extraction of the highest possible value from the markets for goods and services (Reich, 1991). In other terms, we could say that in the contemporary context a *knowledge-based competition* prevails.

If we consider that labour productivity together with the monetary wage determines the level of Clpu, one could suggest that, equalizing labour productivity, we may favour the convergence among the different local labour markets in Europe toward a unique labour market. But this is not realistic for different reasons specified in §2.

A cut in the tax (fiscal and contributive) wedge could be a complementary push, but, on the one side, it requires the capability to find a huge amount of resources in order to be economically effective and capable of reconciling competitiveness with social assistance for poor groups, on the other, in order not to be confined to only temporary effects, it has to be coupled with increments in labour productivity to make the Clpu reduction sustainable over time.

5 Feasible gateways

It is not possible and realistic to achieve, at least in a reasonable time interval, a unique labour market in Europe. Even in a more homogeneous institutional context different labour markets would continue to operate and this would generate several interactions among the diverse segments belonging to different countries. Moreover, the structural heterogeneity of European regions does not assist solutions devised mainly to take into account average behaviours of representative agents. In this respect, the adoption of a different approach, capable in allowing for the actual differences among diverse models of capitalism can help. This is true, also because in the European context it is long time that more models of capitalism are confronting themselves in a not much transparent way.

This new approach allows for the recognition of the various relationships of action and reaction (feedback effects) which explain the linkages between labour markets, markets for goods and services and markets for production factors, innovation systems and institutions that discipline, both at the macro and micro-economic level, the different models. The diversity in the procedures which regulate these relationships bring about the variety among the economic systems which coexist within Eurozone and EU. Moreover, the way in which these subsystems are reciprocally related shape the different capability to react to the vicious dynamics of under-investment in human capital, stressed by Reich (1991).

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like Piketty (2014) and few others.

related shape the different capability to react to the vicious dynamics of under-investment in human capital, stressed by Reich (1991).

On the other side, the inclusion of diverse labour markets in different models of capitalism helps to diminish their residual character and strengthen their governance without ignoring their variety. In addition, it assists in exploring differentiated solutions, some of them transitory and other permanent, but all conceived in an evolutionary perspective. Furthermore, the possibility to compare different models of capitalism²⁸ and let them compete with each other synchronically and evolve diachronically does not exclude further convergence processes and new solutions not yet predictable.

An important institutional feature distinguishing different models of capitalism can be found in the contractual condition and lay-off rules which are distinctive of the case law considered. When open-ended contracts prevail in labour markets these are related to totally different production organizations and financial institutions with respect to when fixed term contract prevail. Of course innovations bridging the gap between the two models can occur, but it is evident that the second setting requires perfect or quasi-perfect equilibria and passive flexibility in labour markets.

However, an overload of flexibility in labour markets, especially for the young persons, can discourage the family, the worker and the firm to invest in general and specific education and training activities. This, in turn, may discourage innovation activities and investments.²⁹ In very critical circumstances and in the long run passive flexibility and labour income uncertainty fostered by it can even determine human capital destruction, contradicting in this way the strategy of escaping the vicious dynamics of under-investment in human capital.

The capability to conceive the different subsystems as diverse models of capitalism may entail some advantages; even more so if the perspective of analysis includes both the synchronic and the diachronic dimensions. The diachronic dimension can be crucial both in finding new convergent paths and in assessing that old paths are not anymore sustainable for the future. For instance, on these grounds we could scrutinize if in our time the s.c. "Mediterranean model of capitalism" can be relevant in solving the integration issues while preserving the original characters of the Mediterranean regions or, rather, some of these characters could be better preserved through a transition to another model of capitalism which is more sustainable.

To give credit to the idea that the economic structure of the European regions is too diversified to be able to hold out at the same time the Euro system and a single and exclusive model of capitalism, and that, at least in certain cases, labour markets can fail in generating a stable equilibrium, means to live room to a diverse regulation of labour markets able to reduce the overall entropy and facilitate the identification of more sustainable intermediate trajectories.

This helps in clarifying once for all that the comparison among different regions, when implementing and evaluating EU policies, is to be made paying attention not much to the average values but to the variances of the key variables. In this way, comparisons at a regional scale are privileged and functional aggregations in terms of "macro-areas" or "Euro-regions" are eligible. Moreover, since greater realism in the perception of economic policies at a supra-national level is allowed, the risk of systemic failure can be diminished and the wiggling competition among models carried out in the last two decades dismissed.

Further advantages of the approach can be derived from its conceptual and analytical rigour. As a result, the definition of models of capitalism can help even in better categorizing and measuring labour markets. Moreover, it can help in screening the impact of different types of flexibility on development perspective of different sectors: for instance in the manufacturing industry recovery. It could also help in devising how to protect the choice of developing production activities from conflicting interests and appetites of the financial hubs that are taking off in EU coun-

²⁸For example, through an formal exercise of open method of coordination (OMC).

²⁹With reference to the Italian labour market see Bugamelli et al. (2012).

tries, investing in different models of capitalism and exploiting at a full range the advantages of financialization of the global economy.

The phenomenon of ³⁰ in plate tectonics suggests that, when plates are converging, their contact can determine the immersion of one plate under another one or the collision between the two plates, that is an earthquake.³¹ When we use this analogy in the sphere of the European integration process these two consequences can be paralleled to two possible negative outcomes of this process. In the first case the process can lead to a demise of one of the converging parties, which is swallowed up by the other. In the second one it can lead to a breakdown of both parties and possibly to a systemic failure, and at least to a systemic risk. The third possible outcome, the only positive one, is not predicted in plate tectonics, but could be carried out in a political and institutional setting, being aware that the other two negative outcomes are not impossible and under some circumstances even more likely than the positive one.

As already said, the ability of European regions and countries to face and solve in a cooperative way the problems deriving from their inner structural imbalances is crucial in motivating the interest of regions and countries of the global South for the European strategies of integration.

At the same time, this ability should be coupled with the capacity to solve internal problems with an outward oriented approach. With reference to labour markets convergence, there are two main implications. First, complementarities in demographic growth and labour force participation with the South Mediterranean regions and other regions of the global South should be explored, especially as far as future professional needs are concerned, in order to make the most of positive externalities. Second, educational and training initiatives at the various stages of the life cycle³² should be started on both sides of the Mediterranean shores in order to improve design and regulation of international flows of migration. The participation of business organizations would be a key component of these initiatives aiming at bridging the gap between the two shores. Third, regional cooperation plans concerned with the implementation of a new geography of jobs could be tested. Regional networks, involving not only neighbouring partners, could be engaged both in an offshore and inland creation of new job opportunities in the relevant sectors.

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³⁰converging margins

³¹When the stress typology is considered, which is due to the different actions happening along the plates, three types of rupture mechanisms can be detected for earthquakes: direct or relaxed faults; reverse or compressive faults; translation faults. All possible combinations of these faults can occur.

³²Higher education can play a crucial role in these strategies both in the education of the forthcoming local teachers and in the development of a qualified manpower.

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