Institutional Competitiveness

How nations came to Compete

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Introduction

In recent years, the concept of international competitiveness has (re)emerged as a paradigm in public discourse. In this paper I introduce the *concept of institutional competitiveness* to show how the concept of international competition has been reformulated as part of a political project for initiating economic globalization. It is my intention to show how the concept of institutional competitiveness (CIC) has raised to become important in the last 25 years, moving from a simple conversation among academics into a political discussion with real-world effects. The purpose of the paper is to describe the rise and movement into the realm of practice. The purpose is also to show how the voyage has come to include institutional change as an important policy instrument and the use of institutional analysis as a key utensil for policy makers. It is my claim that discourses and institutions are used with the intention to enhance the competitiveness of nations and enterprises; why discourses and institutions have become a *political phenomenon* of interest and salience for policy makers and decision takers. It is also my claim that knowledge of institutions is applied to explain economic growth and to assess the potential relevance of institutional reforms; why interpretations of institutions has been become a *policy tool* for the implementation of globalisation. It is this dual role of discourses and institutions I describe in the following. The whole debate on the CIC will be looked upon as an example of how institutions (as a political phenomenon) and institutional analysis (as a policy tool) have become part of a policy approach. Two caveats are necessary. It is not my ambition to describe the conflicts of interests and the accidents of history involved in moving the process from dawn to mid-day. Neither is it my ambition to explain why the travel has happened in the first place. Even if the process is engulfed in conflicts – at several levels and including multiple interests – I will NOT identify these, nor describe them. The purpose of the paper is only to describe not to explain.

The paper will be organised as follows. First, I describe how the concept of national and institutional competitiveness is discussed. In order to describe how the concept of competitiveness has been redefined over the past 20-25 years I include literature from economic theory and business analysis (Aiginger 2006b; Siggel 2006). It is in this context that the concept of *Institutional Competitiveness* is introduced. Second, I trace the institutionalization of the discussion into expert systems. Two examples will be emphasized. One is the development of “The post-Washington consensus" another is The Open Method of Coordination within the EU. The presentation is based on a reading of policy papers, reports and other primary sources from international organizations and national governments. Third, I point to how the institutionalization has included a number of welfare reforms and ignited a process towards the transformation of national welfare states. I draw on primary and secondary literature in presenting the concept of *competition state* (Cerny 1990, 2007; Stopford et al 1991; Jessop 1994, 2003; Hirsch 1995; but also Rosecranze 1999; Bobbit 2002; Weiss 2003). Fourth, and finally, I emphasize how state-society relations have been changed. The concept of *competitive corporatism* (Rhodes 1998; Molina & Rhodes 2002) is employed.

1. The rising discourse on national and institutional competitiveness

The year 1993 was special for the new interest in international competitiveness. In February 1993, President Bill Clinton introduced his first economic programme and spoke of "(…) a global economy in which we must compete with people around the world". In June 1993, the President of the European Commission, Jacques Delors, spoke in Copenhagen about the competitive race between Europe and the USA[2]. This was eight years after Peter J. Katzenstein had published *Small States in World Markets* (1985)[3], one of the first to link institutions to the competitiveness of national economies, and almost three years after Michael E. Porter had published *The Competitive Advantage of Nations* (1990), one of the first to talk about the competition of nations. It was also just one year before Paul Krugman, an American economist, counterattacked by calling all the talk about the competiveness of nations "a dangerous obsession" (1994). Since then, the concept of competitiveness has been one of the most contested in both academic and political discourses (Aiginger 2006b). In its travel from academia to a policy approach the concept has changed definition several times. In the following I describe how the concept has not only changed but also developed to become a discourse. By discourse I mean a realm of meaning ordered to include a worldview in which the world (i.e. the relation between nations) is understood to be changed by circumstantial causes being linked to circumstantial effects by the working of circumstantial

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[2] At the meeting in Copenhagen the Commission was asked to submit a white paper on "Global Competitiveness" before the European Council's meeting on 11 December 1993, see "White Paper on Growth, competitiveness and employment", European Council, http://aei.pitt.edu/1139/.

[3] From the very early 1980s comparative political economy together with organizational theory "rediscovered" institutions and (re)introduced institutional analysis to social science disciplines. Among the most important contributors to bringing back in the institutions one can mention Philippe C. Schmitter (1979); Schmitter & Streeck, 1985; Aglietta 1976; also Marsh & Olsen (1984 and 1989); see for an overview of literature Campbell (2004).

mechanisms[4]. David Ricardo's famous trade model of comparative advantage, the *two* countries and *two* goods model, was an early attempt to understand how countries compete. It is still the basis for mainstream definitions of competition and competitiveness, now together with the extension to *n* countries and *n* goods made by Dornbusch, Fisher and Samuelson (1977). Like Ricardo and other classical economists they too evaluate the competitiveness of nations using statistics on the factors of production (land, capital, natural resources and labour). Thus in mainstream economics:

- International competition is understood to apply only to industries.
- The theory of competitive advantage (see review in Siggel 2006) is understood to pertain only to economic micro-foundations.
- The theory likewise is understood to be based on only a few indicators of competitiveness; and finally
- The theory is understood to perceive competitiveness statically or objectively, i.e., *ex post* or as revealed competitiveness (see Balassa 1965 and the index of "revealed comparative advantage").

This was also the definition used by Paul Krugman 1994 when he criticised the concept of "a competition of nations", and when he called Bill Clinton's belief that every nation is "(…) like a big corporation competing in the global marketplace" a dangerous obsession (Krugman 1994). Apart from this, it has become clear that Michael E. Porter have had a widespread and profound influence on changing the mainstream conception of international competition. Few people today would disagree that *The Competitive Advantage of Nations*[5], but especially Porter's country-based empirical studies, policy reports and general world-wide activities (Porter 1998 xvi-xx) have contributed to put the idea of national competitiveness on centre stage – and to make national governments as well as international organizations aware of the new conception. Still so Porter never developed the idea of institutional competitiveness. He even did not point towards institutions as an important factor in understanding comparative advantages before his publication 2000 (Porter 2000). Instead one has to look to comparative political economy to see how institutions before Porter was addressed as object of study and taken serious in explaining the comparative advantages of particular national or regional economies. Especially *Small States in World Markets* by Peter J.

[4] . As such a discourse is equivalent to a context for rationality - i.e. a worldview in which the world is believed to be rational, or understandable through its causal links and mechanisms; see John L. Campbell & Ove K. Pedersen, 2001, ??
[5] First published 1990, second edition 1998.

Katzenstein was a breakthrough in so far as he – as the first – emphasized institutional differences in explaining national competitiveness; also *Bringing Back In the State* co-edited by Peter Evans, Dietrich Rueschemeyer & Theda Skocpol (1985) must be mentioned as it emphasized the changing capacities of states to achieve particular goals (see Theda Skocpol 2008)[6]. But even if Porter came late to understand the role of institutions, his contribution eventually proved decisive in the development of the concept that nations compete and to include institutions in the definition of this. First of all he lifted the concept from a micro-level to the study of companies embedded in nations or other geographic entities (Porter 1998 67f.). He also changed focus from an aggregate and static economy-wide approach to emphasising the dynamics of competition and the role of competitive strategies (Porter 1998 131-75). By shifting the attention from the micro-level to the meso- and macro-level Porter took two steps of critical importance for a redefinition of competitiveness. First, he emphasised the importance of the locality in which a company was embedded and that the social, political, macroeconomic and legal context had an influence on the competitiveness of firms (Porter 1998 73-80). He made the context – the national, regional and local – an important condition in understanding the comparative advantages of enterprises and also helped to point to public policies as important tools to promote advantages or remove disadvantages (Ketels 2006). Hereby Porter contributed to combine the mainstream micro-oriented study of *the comparative advantages of firms* with a more macro- or meso-oriented study of *the comparative advantages of nations* (Aiginger 2006a). Second, he emphasised the significance of companies' capacity or readiness to compete. He combined the static or mainstream understanding of competitiveness as a question of outcome or revealed performance with a dynamic approach in which the potential of firms to adjust to exogenous changes was emphasised. He therefore maintained that "The only meaningful concept of competitiveness at the national level is national productivity" (Porter 1998, 6) and thus combined a static (*ex post*) with a dynamic (*ex ante*) approach, and thereby also combined two questions: (1) How is *competitiveness created*, i.e. what are the main sources of competitiveness, including the function of human resources and managerial skills, with (2) How is *competitiveness explained*, i.e. what is the function of the abundance of natural resources, the cheapness of labour, the use of technologies, or the production of larger scale (Aiginger 2006b)?

This combination of micro and macro, static and dynamic was forcefully supported by the now famous diamond model of "The Determinants of National Advantage" (Porter 1998, 71-3, 173-75). In this model Porter emphasised the micro-foundations of competitiveness and retained the

[6] Also to be mentioned is Lindblom 1977; Hirschman 1981, 1992; and North 1990.

enterprise or the clusters of firms at the centre for the measuring and analysis of national competitiveness. Porter held that "The basic unit of analysis for understanding is the industry" (Porter 1998, 33), which in itself was decisive because it embedded the firm in a context of institutions and made the linkage (or complementarity) of company strategy and policy inputs important for enhancing, but also explaining, the competitiveness of firms (Grilo & Koopman 2006, 82; Kohler 2006, 104-13). By the same token he introduced the relationship between *business and politics* (Ketels 2006, 124); and by emphasising business as embedded in politics (or business-as-the-core-of-politics), he also assisted in changing the concept which John Maynard Keynes in particular had introduced. In contrast to Keynes, who sought to formulate the means by which governments could stabilise and fine-tune free markets (i.e. using policies to set *macroeconomic frameworks* for free markets), Porter emphasised the necessity of complementarity or linkages between politics and business (macro and micro). Doing so he pioneered a set of questions which subsequently gained an influence, the force of which can be compared with the life work of John Maynard Keynes (Skidelsky 1994, 2001)! Like Keynes, Porter has acted as a policy adviser to governments. And like Keynes he has been a fervent participant in the public and political debate. It is also this combination of academic application and policy involvement which has distinguished the subsequent development of Porter's book. I now describe this development in order to show how a perception of competitiveness, which will subsequently be defined as institutional competitiveness, has been created. For the purpose I use Eckhard Siggel's review of the current theoretical history of the two concepts of competition and comparative advantages (Siggel 2006, 137-59). Like Siggel and others (see special issue of *Journal of Industry, Competition and Trade*, 2006), I mix contributions from academia with contributions from international organisations as well as national policy markers, thereby emphasising three argumentative points: Firstly, that at the present there is no accepted or mainstream definition of competitiveness, but that a large number of definitions have been proposed (Spence & Hazard 1988); secondly, that debates on the understandings are actually occurring in a epistemic community (Haas 1992) in which there is participation from academics, consultants and policy makers (for a survey, see Cantwell 2005); and thirdly, that classical and neoclassical trade theory tends to use the concept of comparative advantage, while international organisations as well as the business literature more often is inclined to use the concept of competitiveness without it being evident whether this is of any significance for my description at all! Based on an extensive reading of both academic and policy sources it can be concluded that the definition of competitiveness has developed:

- From emphasising only micro-foundations for comparative advantages to mixing micro- and macro-foundations, as when monetary costs, and not only the costs of production factors, are included, and the real or the effective exchange rate is understood to be an important factor in measuring competitiveness (Lipschitz & McDonald 1991).
- From emphasising only one dimension, and then primarily the real cost of production factors, to include multi-dimensions, as when technology as a condition reflected, for example, by R&D expenditure is included (Fagerberg 1988), or when Porter in his diamond model includes production and demand conditions as well as company strategy and rivalry among firms and other determinants of comparative advantage.
- From a static understanding measured by the outcome of competition or market shares, for example, to a mix of static and dynamic indicators such as changes over time in GDP (gross domestic product) per capita, or in market shares, as when Krugman used market share over time as an indicator of U.S. competitiveness in manufacturing (Krugman & Hatsopoulos 1987).
- From a deterministic reading of competitiveness where the absolute level of productivity, the annual growth rate or the average income generated is taken as an objective indicator of (*ex post* or revealed) performance, to a more stochastic (*ex ante* or strategic) understanding, where the ability to create competitiveness through R&D investments, human resource developments, innovation, etc. is emphasised; and finally.
- From a positive (measured by objective indicators) towards a more normative (measured by including political or subjective goals) understanding of competitiveness framed, for example, in terms of "(…) a country's ability to generate sustained economic well-being for its citizens (…)" (Kohler 2006, 87), or the ability of a country to create "environmental quality", to "increase standards of living", or briefly "the ability to create welfare" (Aiginger 2006b, 163).

Even if the new conception seems to have moved the understanding of international competition far away from the Ricardian trade model, the classical model seems untouched. Instead of being criticised the traditional trade model is being extended - by adding extra levels (meso- and macro-), new dimensions (technology, the advantages of large-scale operation) and further approaches (dynamic, stochastic, normative). This development from a simple to a more complex understanding is even more evident when we include the international organisations and their definition of competiveness. Reviews of international organizations show that competitiveness is defined in various ways and that definitions have changed over time (see review done by National Competitiveness Council 2004[7]). The most important development though is the acceptance that firms are embedded in a locality, and that economic, legal and institutional factors associated with the locality have an influence on the comparative advantages (or disadvantages) of companies. It has thus become possible not only to include additional and new dimensions and to open up for different approaches in measuring competitiveness. It has also become possible to see the importance of the institutional environment for firms. The context has changed from macro-economic regulation (i.e. national labour market policies or central wage agreements etc.) to the institutional (legal, economic and political) environment, to include not only policy regulation but all relevant institutional factors. At the same time, the number of relevant and used indicators has been increased[8]. If we compare the theoretical debate and the international organisations' definitions, it is clear then that the gradual redefining of international competitiveness has introduced institutions and institutional analysis in several ways. First, it has become accepted that institutions set the framework for the comparative advantages of firms (Porter 2000); why it is now possible to reflect on institutions (i.e. institutional analysis) and to use this reflection as a policy tool[9]. Second, the development from micro- to macro-foundations has extended the number of players, institutional levels and policy arenas of relevance to the study of comparative advantages; why the strategic interaction of economic and political players and the complementarity (or not) of institutions has become central to the explanation of comparative advantages (Crouch 2005, 46-73; Hall & Soskice 2001, 17; Amable 2003, 58-66, Kohler 2006). Third, this development has made the question of "institutional change" a phenomenon of interest to policy makers, and the capability to implement institutional reforms (or not) an important indicator of competitiveness. In all three ways, institutions have come to be central to the question of the competition of nations, and institutional analysis has been introduced to explain, but also to promote, comparative advantages.

2. The institutionalization of the discourse on institutional competitiveness into *expert systems*

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[7] http://www.forfas.ie/ncc/reports/ncc_annual_01/approach.htm

[8] For a more systematic review of scholarly contributions to the debate on competitiveness, see Siggel 2006, 144.

[9] And at the same time make concepts like "the comparative institutional advantage" fully meaningful (Hall & Soskice 2001, 36-44).

The development of the new conception is contested - of course. Even so Karl Aiginger asserts that a consensus on how competitiveness is to be defined and measured is now being created. He believes that the consensus will combine “process competitiveness” (“(…) analysing competitiveness as an ability or a capability to create welfare”) with “outcome competitiveness” (analysing competitiveness “(…) as the welfare of a nation”) (Aiginger 2006b, 162) and find arguments in the fact that classical and neo-classical trade theories are being combined and mixed to include normative, dynamic and stochastic approaches. He also find arguments in the fact that a “Washington Consensus” between the organisations IMF, World Bank (WB) and U.S. Treasury Department was developed in the 1980s leading to a process in which the concept that nations compete was institutionalized. How this institutionalisation proceeded will now become more apparent when two elements in the process are described. Hence my description of the history of a discourse is now changed from the level of discourse to the level of the institutionalization of the discourse. The first element covers how a number of expert systems are *established* to compare the competitiveness of nations. By establishment I mean the construction of expert systems with the purpose of comparing the competitiveness of nations. This kind of institutionalization can be politically decided, as when the *European Council* in 1994 (by resolution of 21 November) decided to strengthen the “competitiveness of Europe” and the Commission commenced to publish the *European Competitiveness Report* in 1995. It can also be privately decided as when *McKinsey Global Institute* was established in 1990 “(…) to assess the productivity performance and competitiveness of countries and sectors relative to global benchmarks”[10]. As of today there are numerous international organisations which systematically carry out international comparisons of national competitiveness[11]. Also a number of national, public and private organisations are contributing to the growing industry (for an overview see Bäcklund & Werr 2001). The US government was the first to take an initiative. It happened in 1985, when President Ronald Reagan established the *President’s Commission on Industrial Competitiveness*[12]. The *Competitiveness*

[10] http://www.mckinsey.com/mgi/rp/CSProductivity/

[11] The World Economic Forum (where Michael Porter played an important role) started in 1979 to publish the annual *Global Competitiveness Report*. The International Monetary Fund (IMF) did so with the *World Economic Outlook* in 1980 after having carried out multilateral monitoring since 1979. The Institute for Management Development (IMD) started 1989 to publish the *World Competitiveness Yearbook*. The European Commission in 1995 began to publish *The European Competitiveness Report*. In 1992 the Commission established *The Observatory of European Small and Medium Size Industries* to carry out a detailed screening of the competitiveness of individual sectors of manufacturing industry in the EU. The OECD’s *Global Forum on Competition* had its first meeting in 2001; since 2005 the Organisation has published *Going for Growth*. The OECD started to publish *OECD Economic Outlook* in 1966 and number 82 was published in 2007.

Policy Council was subsequently established in 1988, but abolished in 1997. Ten years later (in 1998), the Irish government established the *National Competitiveness Council* (NCC), which has since published the *Annual Competitiveness Report*. In 2000 the NCC introduced the report *Competitiveness Challenge* to convey policy recommendations to government and social partners[13]. After Ireland established the Competitiveness Council, several other governments followed suit - Greece in 2003, Croatia in 2004, Bahrain in 2005, the Philippines in 2006, and Guyana and the Dominican Republic in 2007. In all instances advisory bodies or special government agencies were established to tackle competitiveness issues through international comparisons. Also private think tanks were established; above all in the USA, where the *Council on Competitiveness* was established in 1986[14]; but also in France where the semi-public think tank *Coe-Rexecode* in 2006 started the publication of an annual report on *La compétitivité francaise*[15]. Private consultancies likewise became interested in the competitiveness of nations of which the *McKinsey Global Institute* (established 1990) is the most prominent example. Additional examples can be given, including from countries such as Germany, England, Sweden, Denmark, Singapore, Malaysia, and Sri Lanka. These examples are, however, plenty to illustrate the extent to which the concept has gained ground, and how far its institutionalisation has progressed.

How this institutionalisation proceeded will now become more apparent when the second element in the process of institutionalisation is included. This element covers how existing economic and political institutions are changed in order to *develop* and to *disseminate* the concept of the competition of nations. By development I mean when already existing expert systems come to include mechanisms which usually characterise knowledge systems, for example systematic data collection, forecasting based on model calculations, and a process of verification or falsification relative to demonstrated developments. By dissemination I define when expert systems are deliberately equipped to feature a geographic dispersal of the concept to make the concept applicable to even more international organisations, and to even more national governments,

[12] Which also gave Porter the inspiration to develop and extend the concept of competitiveness, and led him to write *The Comparative Advantage of Nations* (Porter 1998, xii).

[13] In doing so the Council has changed the definition of competitiveness several times; for example in the last two years (2005–2007) alone, the well-known *Competitiveness Pyramid* developed by the Council has been redefined on important points.

[14] http://www.compete.org/about-us/

[15] See Coe-Rexecode, 2007, *La compétitivité francaise en 2007*, Document de travail no. 3. In this report data from the IMF, WB, the European Commission and Ernst and Young is put to use.

regional councils or bodies (Boli & Thomas 1999; Keck & Sikkink 1998; Meyer 2000) [16]. This type of institutionalization occur when for example the IMF, provide technical assistance and training of national officials, researchers and others in order to enable them to compile, manage, disseminate and improve national data. This as other examples will illustrate the extent to which the concept has gained further ground but also indicate that the institutionalisation has passed a threshold where it is no longer sensible to discuss whether the concept of competition of nations make any sense or not. But where it has become more sensible to discuss the indicators, the data and the models most appropriate to measure degrees of competitiveness. What follows is a description of how expert systems have come to include mechanisms for an on going development and dissemination of the concept of competition of nations. Two examples will be presented. The first is "The post-Washington Consensus", or how the IMF and the WB came to include an extended understanding of institutions as a production factor.[17] The second is the introduction of a radically new type of governance dubbed *The Open Method of Coordination* (OMC) by the European Union, which also came to include institutions as an explanatory factor, but more importantly came to introduce a stochastic method for institutional change. Both examples are directed towards the macro and micro levels and assume that institutions create comparative advantages (or disadvantages) for industries, and that institutions can be changed by willed and wanted action.

2.1. The International Monetary Fund (IMF)

From 2003, the IMF began to assume that institutions set the framework for comparative advantages. This renewed understanding of institutions was part of "The post-Washington Consensus" in which the IMF and the WB have come to agree that the first "Washington Consensus" was incomplete, and that countries need to move beyond "first generation" macroeconomic and trade reforms to a stronger focus on institutional reforms, including the elimination of red tape through administrative reforms, and the strengthening and building of "good institutions" (in areas like justice, education, training and innovation). "The post-Washington

[16] It is important to notice that by dissemination I DO NOT intend to claim that the concept that nations compete are actually diffused. I have no proof of such an effect, nor any need to claim it. The only point put forward is this: That a number of mechanisms for the development and the dissemination are established which I take as proof of the intention of WB and IMF to diffuse the concept and to develop it to become accepted and used by even more governments and international organizations.

[17] See the definition of the concept at http://www.who.int/trade/glossary/story074/en/index.html. See also the justification for and introduction of the concept in Joseph E. Stieglitz, "*More Instruments and Broader Goals: Toward a Post Washington Consensus*", The 1998 Wider Annual Lecture, Helsinki, Finland, January 7, http://www.globalpolicy.org/socecon/bwi-wto/stig.htm; and Narcis Serra & Joseph E. Stiglitz 2008.

Consensus" then was far more sensitive to institutional effects and the importance of institutional variations than the original[18]. In the September 2004 issue of the annual *World Economic Outlook*, the IMF examines the role of institutions by reviewing the established knowledge of institutions, the impact of institutions and the role of institutional change and of "good institutions" in establishing conditions for economic growth (WEO, chapter III). The review is based mainly on econometric studies of institutions and on institutions defined as preference structure. This in combination leads the IMF to asses the role of institutions in a number of economies, including emerging, transitional and developed economies. It also brings the organization to establish a new set of expert systems (databases, indicators) in the assessment of "the quality of institutions" (see chapter III, Appendix 3.1, "Sample Composition, Data Sources, and Methods", pp. 152-56). Together with the WB, the IMF thus integrates institutional analysis into their assessments and policy recommendations, and does so by posing questions which previously have only been central to neo-institutional theory in academia. For example: What are the main factors that drive these changes? How much the institutional context does explains of the differences in the competitiveness of particular economies (ibid 125)? The approach chosen by IMF and the WB is macro-and micro-oriented: Institutions are looked upon as a context for individual decision making in a situation of competition. It is also static as well as dynamic: The role of institutions is measured by revealed comparative advantages and the transition of institutions by change in several indicators of comparative advantages. Finally, it is positive (competitiveness is measured by objective indicators like GDP per capita) as well as normative - the IMF is advocating the establishment of "good institutions" or "good governance". Hence the IMF and WB is taking part in the development of the Concept of Institutional Competitiveness (CIC) by establishing new institutions and organisations, and by creating new indicators; new models and new organizations to formulate and implement new policy programmes. In 2006, for example, the IMF and the WB established a new institution called multilateral consultations "(…) designed to bring small groups of countries together to discuss a specific international economic or financial problem that directly involves them and to settle on a course of action to address it."[19] The IMF also began to expand the analytical apparatus on which the *World Economic Outlook* (World Economic Outlook, 2004, chapter III, appendix 3.1.) was based.

2.2. The Open Method of Coordination (OMC)

[18] Thanks to John L. Campbell for pointing to the difference between the two.
[19] *http://www.imf.org/external/pubs/ft/exrp/what.htm#do*

The same mix of dimensions, angles and indicators is applied in the Open Method of Coordination introduced by the EU in 2000. The two, the IMF and OMC, differ however on one important point. Where the OMC is designed to enable mutual learning[20], and to do so by initiating stochastic and iterative processes for institutional change, the IMF and the WB tend only to use traditional mechanisms of coercive, mimetic or normative diffusion to convince national governments on how to change institutions. Because the OMC is designed to facilitate semi-voluntary forms of coordination (Scott & Trubek 2002) and to further iterative processes of mutual learning it is the most important example of the two in demonstrating how the concept of nations compete have come to included institutions (as a political phenomenon) and institutional analysis (as a policy tool). The OMC can be traced back to the European Commission's White Paper on *Growth, Competitiveness and Employment* (1993), and represents a regulatory method for constructing what later became labelled *Social Europe*. The white paper was followed by the "European Employment Strategy" (EES) known as the "Luxembourg process" (1997), introduced in the *Treaty of Amsterdam* (1997). The OMC is based on the ambition of making the European Union into "… the most competitive and dynamic knowledge-based economy in the world, capable of sustained economic growth, with more and better jobs and greater social cohesion" (European Council 2000).
Apart from the fact that the European Employment Strategy mixes the classic understanding of international competitiveness[21] with normative, dynamic and stochastic aspects, it also opens for a wider use of institutional analysis as a tool for institutional change and for a more complex understanding of institutions as an explanatory factor (Radaelli 2003; Borrás & Jacobsson 2004; a). This happens in three ways:

(1) *Institutions are viewed as enabling, but also constraining, comparative advantages.* In the mid-1990s the EES emerged from a situation with high levels of unemployment and low levels of ability to restructure labour markets (Trubek & Mosher 2003, 34-36; Goetschy 2003, 62f.). Mass unemployment challenged national governments to coordinate a number of policies, to coordinate local, regional and national decision-making processes, and to cut across traditional boundaries between industrial relations and welfare policies. The EES in

[20] The OMC was defined by the Portuguese EU Presidency in its conclusions from the European Council 2000 as "mutual learning processes": http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ec/00100-r1.en0.htm.

[21] The European Commission in the annual *European Competiveness Reports* generally defines international competitiveness as: "… to mean high and rising standards of living of a nation (or a group of nations) with the lowest possible level of involuntary unemployment, on a sustainable basis."

these circumstances was developed as a way for the Union to deal with challenges which the member states were unable to face themselves (Kenner 1999).

(2) *In the search for solutions, a great number of different players, policy areas and institutional levels are declared relevant.* From the start, the EES was designed to establish semi-voluntary forms of coordination between supranational and national authorities and between political institutions and social partners. It was designed to "(…) potentially reinforce established practices of social concentration and negotiated governance in reform of work and welfare at EU, national, and sub-national levels, from the European social dialogue through national social pacts to territorial employment pacts and local or plant-level collective agreements" (Zeitlin 2003, 5f.). It included multiple levels of institutions, crossed boundaries between different policy arenas (labour market, social, education, training, and several other traditional policy fields), and pointed to economic, political and social players as relevant. Since the formulation of EES, the open method of coordination has been developed to cover EU policy-making in other policy areas such as pensions, health care, social inclusion, macro-economic management, education and lifelong training to "(…) become a virtual template for EU policy-making in other complex, politically-sensitive areas (…)" (Zeitlin 2003, 5)[22]. There has also been a comprehensive institutionalisation and organisation of procedures and processes for the development and extension of the EES (the European Employment Policy). These changes have taken place especially at the administrative level under the European Council and the Commission, where the *European Employment Committee* (EMCO) was established in 1997, and the *European Social Protection Committee* (SPC) and the *Advisory Committee on Vocational Training* (ACVT) was so in 2000. All three are comprised of officials from the national administrations, and in some cases even of representatives from social partners (Jacobsson & Vifell 2005). Administrative organisations and functions are also established nationally, and in some cases social partners are consulted in connection with the development of national reform programmes (e.g. in Finland, Ireland, the Netherlands, Austria, Denmark, and Luxembourg) (called National Action Plans until 2005, European Commission 2002; see also European Commission, White Paper on EU Governance 2001). New institutionalisations can also be found regionally and locally (see Regalia 2003 for

[22] See also *ibid*. for a description of the differences in use of the OMC within different policy areas.

summary) just like new databases based on new indicators are developed (Zeitlin 2005b)[23]. This was first done on the basis of the Lisbon process and then on an ongoing basis, but again to a greater extent when the Lisbon process was reformulated in 2005.

(3) *Institutional analysis is introduced as a tool for boosting institutional change.* Each year, the European Council adopts common European guidelines; member states report national employment policies to the council; and the Council evaluates and reviews these "National Reform Programmes" and gives recommendations back to member states. The iterative nature of the process and the use of benchmarking, evaluations, review processes and the absence of legal sanctions create significant room for national diversity[24]. This also means that reflections on institutions are turned into a tool for institutional change. The iterative process is deliberately used to promote common frames of reference, to disseminate good practice, to shape the interests of governments and social partners, and to promote mutual learning, i.e. to push member states to reflect upon the institutional conditions for institutional change (Ferrara, Hemerijck & Rhodes 2003).

In this manner, institutions are given a central position in the creation of comparative advantages. And an institutional approach is used to indicate relevant policy players and policy arenas. In the same manner institutional analysis is used to intervene in existing institutional landscapes with the purpose of changing institutions. Institutional analysis in short is used to change the incentives and motivations of governments and of social partners; as well as to alter incentives and motivations of employers and employees, of unemployed and employed, – i.e. all the social categories deemed relevant for creating comparative advantages. This two-level process of changing incentives and motivations is highlighting the role of reflection on institutions and of institutions as a productive factor. It is also on this background I have chosen "the post-Washington Consensus" and the OMC as two cases in which the use of the concept of CIC becomes meaningful. In both cases, institutions are introduced as an important aspect in explaining and featuring international competitiveness, making it appropriate to talk about the institutional competitiveness of nations, and to do so in step with the inclusion of institutions at three levels to explain and produce not only a discourse and institutions, but actual policy programmes and strategies: (1) A context for competition, i.e.

[23] See e.g. EMCO Indicators Group 2008.
[24] See description of OMC Trubek & Mosher 2003, 40; and reference to evaluation of the OMC, High Level Group, chaired by Wim Kok, *Facing the Challenge. The Lisbon strategy for growth and employment*, November 2004; see also literature review, Zeitlin 2003.

explanation of institutional comparative advantages, (2) Levels of agency and roles of players, i.e. number and character of competitors; and (3) Process of coordination, i.e. complementarity (or non-complementarity) of institutions. The really special point about this development is that conflicts about how to define competitiveness and competitive advantages have been institutionalised and is now turned into an iterative process for the formulation of policies. The very fact that the OMC recognises that both concepts are contested and have become politicised, makes conflicts about their definition and the interpretation an integrative part of the OMC.

3. The institutionalization of the discourse of institutional competitiveness into the *state*

The OMC is one of many transnational networks established between national authorities and international organisations. It is also one of many examples of how the concept that nations compete has diffused to become not only a discourse for and among international organizations but also a remedy for how national governments are reforming their welfare states and public sectors. In this section I discuss the rise of the so-called c*ompetition state,* by which I understand: When the national states – their policies, organisation, and governance arrangements – are stably and enduringly changed with the explicit goal of enhancing the competitiveness of the nation by the state establishing comparative advantages for national industries and services. The definition emphasises that the appearance of a competition state is the result of willed and wanted national reforms; but also that reforms are a result of the dissemination and the development of the concept that nations compete[25]. Once again, it is the Maastricht convergence criteria and the Stability and Growth Pact to which reference can be made. It is especially in the European Council, *White Paper on Growth, Competitiveness and Employment* from 1993 and the following year in the European Commission, *White Paper on an European Social Policy* that the EU Commission for the first time emphasises the necessity of reforming the welfare states. It is also here – for the first time – it explicitly is building its arguments on the concept of "global competitiveness". In any event it is in the year 2000, seven years later at the Lisbon meeting, that the European Council accepted to link the "global competition" and state reforms, and did so by declaring the ambition to "Build an

[25] The definition emphasises the fact that all "capitalist states" do not necessarily take the form of competition states, and that only empirical investigations can decide which states do so and to what extent. Only empirical studies can decide from where inspiration for reforms arises, and by which mechanisms the reforms are formulated an implemented (Campbell & Pedersen 2007b). In any event it is worth emphasising from a time perspective, that there is simultaneity in when the debate about reforming the European Social Model (and nation states) emerges in the EU, and when it occurs in some of the member states.

Active Welfare State" and to "Modernise the European Social Model". Hence from 2000 onwards there has been a politically accepted link established between the assertion that there is a competition of nations, and that because of this the national welfare states must be reformed (Sapir et al. 2003; Aiginger 2005). It is also on the basis of this that the European Council since has extended the OMC process to a great number of other policy areas, making the Lisbon strategy the most important in guiding and developing social reform processes in the member states (Zeitlin 2005b, Borrás & Jacobsson 2004). Among these, the use of *Broad Economic Guidelines* within the Economic and Monetary Union is of particularly importance. Since 2006, macroeconomic guidelines (EMU) have been synchronised with employment guidelines (EES), and both guidelines are now following the same triennial cycle making it possible for the national governments to coordinate their national employment reforms with macroeconomic issues[26].

Through transnational relations, thus, a "bridge" is established between how international organizations are institutionalising the CIC and how national governments are reacting to this. [27] But the most important point is the general understanding on which the bridge is established: That reforming the national welfare states is undertaken with the deliberate intention of producing comparative advantages in competition with (especially) the USA; and that the member states are left to use two institutional factors to produce comparative advantages: (1) To reform the institutional context for enterprises (*the external flexibility*); and (2) to change the incentives and interests of all relevant firms and employees (*the internal flexibility*) These two levels later became the issue of many national reforms. They took the concept that nations compete from discourse and institutionalization to become policies for the transformation of welfare states. They also led to changes in the existing policies by emphasizing the need to reform the institutional environment for firms (external flexibility) and to change the incentives and motivations of employees (the internal flexibility). Last but not least they put emphasize on flexibility and "flexibilization" and led to "flexicurity" to become the preferred European Employment Strategy. The available literature – especially the primary – is enormous. Thus the ambition is only to describe how institutions are becoming a political phenomenon and institutional analysis a policy tool in joint efforts of EU and member states from 2000 an onwards:

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[26] This has lead to intense discussions among academics of whether or not there a mutual learning based on OMC and whether this is leading to real changes in the organization of member states? Some give positive answers Zeitlin 2005b, Jacobsson 2004; Nedergaard 2006, 2007; European Commission 2002, 9-15, Zeitlin & Sabel 2007; others less so Scharpf 2002; Alesina & Perotti 2004; Casey & Gold 2005; Kaiser & Prange 2005.

[27] Transnational connections are here defined as stable and enduring contacts and forms of participation between national and international, private and public players where one or more of the participants are not subject to any political control from their own government (Jacobsson et al. 2004, 27-48).

(1) *External flexibility: To reform the institutional environment of firms.* From the 1980s *supply side management* became important and a new set of policy measures were created emphasising external institutional flexibility. A search for the optimal labour market institutions became a core objective[28]. Since the 1990s then, a great number of national reforms have been negotiated and decided on the basis of arguments concerning external flexibility[29].These reforms concern the strictness of employment protection, the generosity of social protection systems, and the spending on active labour market measures. But even if all countries have chosen to follow their own model for external flexibility and preferred to establish their own strategy for institutional reforms, it is characteristic that the *institutional context* for firms is at the centre of these reforms, and that the object is the removal of institutional rigidities and the creation of institutional flexibility. It is also typical that all countries (including the Anglo-liberal England, Canada and the USA) have chosen to combine external flexibility with social protection (see European Commission 2007 for description of country models, Annex II; also OECD 2006a). But it is equally characteristic that some have chosen more actively to combine flexibility and social security in an attempt to create "flexicurity"[30]. As early as 1997, the European Council was, however, emphasising the necessity of creating "Flexibility with Security", which was done in connection with adoption of the Luxembourg Process (Trubek & Mosher 2003, 42). The European Commission though did not designate flexicurity as a European strategy until 2007: *"Rather than job security, flexicurity focuses on 'employment security'. Employment security means staying in employment, within the same enterprise or in a new enterprise. The philosophy behind flexicurity is that workers are more prepared to make such moves if there is a good safety net"* (European Commission 2007, 7). During 20 years, flexicurity thus moved from being a national approach to external flexibility (mainly in the Netherlands, Sweden and Denmark) to become – as we will see – a European strategy for the combination of external and internal flexibility (Jørgensen & Madsen 2007, 9-32). In the same period, the European

[28] Especially for a number of European states among which the Netherlands, Austria, Sweden, Denmark and Ireland are important examples.
[29] Significant examples are labour market reforms in Hungary 2001, the Hartz reforms in Germany 2002, and the introduction of "*flexicurité à la française*" early 2008 in France.
[30] Formulated for the first time as the best strategy by the Dutch Minister of Social Affairs and Employment, Ad Melkert, in a memorandum, *Flexibility and security*, Second Chamber 1995-6, No. 24 543: see http://www.eurofound.europa.eu/eiro/1997/06/feature/nl9706116f.htm. This was done in some cases via special legislation (e.g. the Flexibility and Security Act in the Netherlands 1999; see Wilthagen & Tros 2004). In other cases it was done by a series of compromises between the government and social partners, which found expression in both legislation and general agreements (e.g. in Denmark from 1987 onwards; see Pedersen 2006a).

single market set a barrier to strong planning ties between state and firms, and the EMU put pressure on state-society relations by making competitive devaluation impossible. Instead, firms started to build collaborative ties with customers, local institutions and suppliers (Kristensen & Zeitlin 2005), and to establish collaborative ties to local labour markets, local welfare providers and local clusters of enterprises.

(2) *Internal flexibility: To change incentives and motivations.* From the mid-1990s, human resource management was emphasised, and the coordination of external and internal flexibility became an explicit goal. Both in some national policies and in the EU, the necessity of combining the external reforms with internal ones was emphasised. The individual citizen in particular became an object of policy measures. The goal was "(…) to ensure the continual adaptability and employability of workers" (European Commission 2007, 12) by making human beings more responsive to constantly changing requirements and conditions. This development followed two routes. One was in the direction of creating institutions. The other was in the direction of introducing a life span (or life course) perspective. The emergence of institutions (entitlements, rules and norms) for internal flexibility can be found in Sweden and Denmark from the 1980s and simultaneously or later in Norway, Finland, Austria and the Netherlands, where a number of new social rights were introduced[31]. Especially by using collective agreements, later on formalised by lawmaking or a combination of both. Also new rules were also established, in general established by collective agreements, or by company-specific agreements[32]. Finally, new norms were constructed, this time by specific company agreements or within specific sectors[33]. The development of the life course perspective, on the other hand, is more difficult to trace. Discussions on the role of transitional labour markets can be found both in Germany in the 1990s and in Canada even earlier[34]. This is worth emphasising because the European Commission in 2007 put the two together in an obvious attempt to combine the static (Sweden, Denmark, the Netherlands) understanding of flexicurity with the dynamic (Anglo-liberal) understanding of mobility. In the definition of the European Commission, "*Flexibility, on the one hand, is about successful moves ('transitions') during one's life*

[31] To transferable pension entitlements, (re)training, parental leave, various leaves for education, and health assessments etc.
[32] For phased retirement, transferable skills, "time banking accounts", employment assessment, flexible working time arrangements, and for part-time work.
[33] These concern norms for physical health training, individual coaching, and other sorts of fringe benefits.
[34] Klammer 2004; Bernard & Boucher 2007; on transitional labour markets see Gazier 2007.

course: from school to work, from one job to another, between unemployment and work, and from work to retirement. (…) On the other hand, it is more than just the security to maintain one's job: it is about equipping people with the skills that enable them to progress in their working lives, and helping them find new employment. It is also about adequate unemployment benefits to facilitate transitions. Finally, it encompasses training opportunities for all workers, especially the low skilled and older workers." (European Commission 2007, 10). [35]From the end of 2007, then, the search for optimum life span contribution to the GDP is the official goal of the European Employment Strategy (EES). And it is precisely in this context that the concept of "the active welfare state" has been introduced. The task of the welfare state is to "make transitions pay" or to facilitate transitions in the lifespan of the individual, and to do so by helping citizens to overcome transitions (e.g. from school to job, or from job to (re)education) by providing social services enabling families to work, or by making it possible for families and individuals to share the social risk of transitional labour markets with others[36].

From the year 2000 external and internal flexibility has become major targets for EU as well as for member states. In the process institutions has grown to be an important political phenomenon and institutional analysis key policy tools. The concept that nations compete has moved from simple conversations among academics into real political discussions with real-world effects – on policies and states.

4. The institutionalization of the discourse of institutional competitiveness into *state-society* relations

[35] The mix of an external and internal measures, and of a dynamic and static approach, makes it obvious to see flexicurity as an explicit attempt to manage the complementarities of three institutions – the labour law, the unemployment insurance regime and the labour market policies, and to coordinate the relation between three players – the firms, the employers and the state (Boyer 2006, 18). But it can also be looked upon as a way of transferring social risks from the welfare state (or the family) to individuals or social groups (Schmid 2006), and to do so by entitling workers to choose and to manage their own transitions during the whole life cycle, i.e. "to equip people for the markets" (Gazier 2007, 110); or in the words of the European Commission "(…) to ensure the continual adaptability and employability of workers." (European Commission 2007, 12).

[36] New studies are pointing to the Scandinavian countries for positive examples of how welfare provisions can facilitate transitions in terms of life course (OECD 2005). Also Ireland among other countries are debating how to establish a "developmental welfare state" (National Economic Council 2005, chapter 6 and 7) following these lines.

This it not all though! In the process of introducing flexibilization (external and internal) stat-society relations has been changed. The manufacturing of external and international flexibility is made possible through the establishment of managerial or process flexibility. While Post-war neo-corporatist wage and income policy-bargaining systems (Katzenstein 1985, Schmitter 1974, 1982, Therborn 1998) were adapted and developed from the 1950s, a shift away from legislated, rule-governed, and mostly centralised wage bargaining took place from the 1990s. Instead new forms of negotiated governance were introduced. Mostly they were based on the ambition to create *process flexibility*, i.e. to establish routines for how to deliberately manage relations between the state and social partners to establish comparative advantages by coordinating policies and institutions. In most cases it was national governments that took the first initiatives to change the original neo-corporatist arrangements. And then followed by years of harsh confrontations between governments and labour unions and trade organizations; like in England in the beginning of the 1980s, or in Denmark, Sweden and the Netherlands from the mid-1980s, or in Germany and France even later. But even though confrontations was not ignited by changes in the European Employment Strategy (EES) it was (probably?) the constraints imposed by EMU that emphasized the need for governments' and social partners alike to establish consensus-seeking arrangements as important mechanisms to produce comparative advantages. Anyway new forms of corporatism were established from the mid-1990s integrating social partners with governments in ways to coordinate multiple policies within the framework of EES. The basic ambition was a belief in process flexibility, or in governance as an important tool for creating comparative advantages in the on-going competition of nations. But even if governance has become a catch word for the EU and national governments alike, each country has followed its own historical path (see Rhodes 2003, for overview) in changing state-society relations. Countries with a tradition for neo-corporatist arrangements (Germany, Denmark, Belgium, Austria, and to some degree also the Netherlands) have adapted these to new conditions. In other cases like Sweden central negotiating institutions have been entirely abolished and bargaining been transferred to cross-sectoral bipartite agreement, while England has changed from sectoral to company bargaining. More important though is the cases in which countries with no previous traditions for institutionalised corporation have created new forms of consensus-seeking arrangements by linking incomes policies to broader social bargaining using national tripartite deals – e.g. Italy, Spain, Portugal and Greece (Rhodes 2003, 132f.). The full development thus is complex, but several general trends are visible. First, most countries operating under the constraints imposed by EMU have begun to see consensus-seeking arrangements as important mechanisms to produce comparative advantages. Second, in these countries attempts are made to create comparative advantages by the coordination of incomes policies with broader employment and social policy measures. Third, the coordination has come more than ever before to include multiple agents (political, social and economic), as well as manifold levels of agency (transnational, national, regional, local and company level) and numerous policy arenas (employment, welfare, growth, income, industry, innovation, entrepreneurship) (Treu 1992). New systems of governance accordingly are more complex, more multi-level and more interlocking, but also less static and more dynamic than traditional neo-corporatist or neo-pluralist arrangements. Still it is a general and important feature that new mechanisms for coordination have been developed for the creation of institutional complementarities. Examples can be found in the previous description of either internal or external flexibility where a number of different policies (employment, family, social, education, and others) are constantly being coordinated as a precondition for the flexibilization of working conditions. Also flexicurity is an example of how flexibility is coordinated with security in attempts to facilitate transitions at the labour market. The current consensus-seeking arrangements are thus characterised by something entirely different from the post-war neo-corporatist or neo-pluralist arrangement. Instead of being based on legislated, rule-governed, and mostly centralised wage bargaining, new forms are open for on going experimentation and learning. Attempts are made to facilitate transitions at the labour markets and to enhance the adaptability of labour markets by constant experimentations with institutional complementarities (Pedersen 2006a, 260-65). At the present no fixed or stabilised arrangements can be found. On the contrary the constant flux of arrangements seems to be the order of the day; new institutions are created and old ones abolished, in some cases even from negotiation to negotiation. In most cases though macro- and micro-policies are combined, and the policy stream can go bottom-up (decentralised) as well as top-down (centralised). Also social actors representing organized interests are mixed with representatives from single firms, from single groups of employees and from local authorities, municipalities and regions. All this has led to the creation of several types of agreements[37]. It is this constant renegotiation of the interplay between political, company and social partners that has been duped c*ompetitive corporatism* (Rhodes 1998). Thus the first point to exemplify competitive corporatism is that renegotiation or dynamic change has become a functional imperative (Rhodes 2003, 130; Pedersen 2006b). The second is that the object of these experiments is to create comparative advantages by establishing institutional

[37] See for extensive descriptions Molina & Rhodes 2002, Rhodes 2003; Traxler 2000; Traxler et al. 2001; Pedersen 2006a.

complementarities. The third is that the new state-society relations is binding and encumbering, i.e. that the parties enter into relationships with the object to bind each other to agreements which the parties themselves are then responsible for implementing making governance instead of government a system of authority. In this manner, competitive corporatism is an expression of the fact that *management of governance* or reflections on how to manage processes of coordination have become an important issue for all member states, and that member states have been pushed to rethink established approaches and to re-examine their governance systems. Hence what is characteristic for most countries is the present institutional experimentation and innovation, but also the fact that experimentation has established a general trend in the direction of institutional flexibility, i.e. the constant renegotiation of the agents to be included (or excluded), the policies to be interlocked (or unlocked), and the processes to be used for coordination. In several countries a step towards creating meta-institutions to manage such processes has been established. In Finland, Sweden and Denmark for example governments have created so-called *Globalisation Councils* (GCs) to negotiate national strategies for routine transformations in the organisation of relations between social partners and governments[38]. I others we see how governments are using models and templates from OECD and EU and others in managing reform processes. All as a precondition for establishing internal and external flexibility in accordance with constraints imposed by the EMU and experiences facilitated by the OMC.

5. Institutional Competitiveness Revisited

Hence the most important point made so far is this: That the concept that nations compete has become (almost or nearly?) dominant and that procedures (like those included in “The post-Washington Consensus”) and processes (like the OMC) by now is moving the process towards an even greater dissemination and an even deeper development of the discourse and the institutions. Whether nations really compete is of course still contested. My point is different! Even if nations do not compete, or even if the notion that nations compete is a “dangerous obsession”, there is by now an established set of institutions and of expert systems making it possible for policy makers and the like to act *as if* they do. Thus the notion is penetrating more deeply into the public discourse of

[38] These councils differ from the already mentioned *National Competitiveness Councils* (NCPs). Where NCPs deal with the overall competitiveness of the national economy, GCs are concerned with meta-governance, i.e. how to manage ongoing changes in systems of governance. However, there are also some common features. The leadership structure of NCPs and GCs relies on strong support from the highest level of political authority, but also from designated private sector managers (CEOs and chairmen of national interest organisations).

national policies, and reform plans which bear the stamp of this notion are being implemented by national governments. The same can be said with respect to negotiations within the EU, and with policy proposals formulated by the IMF, the WB, the OECD, and with proposals put forward by the great number of private think tanks, consultancies and expert groups now operating both internationally and in nations. Indeed if one digs a little deeper, one finds an almost universal restructuring of international economic relations and national models of regulation all going in the same direction of enhancing the ability of nations to compete and of international organisations to facilitate their competition. Two current examples to emphasize this point: A first example is reform of the national education systems in the OECD's member countries. Many European countries have implemented changes in their education- and welfare legislation with the object of strengthening the individual citizen's motivation to understand *work* – or the lifelong commitment to employability – as *the* most important aspect of being a citizen in a national (or local) community. The OECD's annual PISA survey plays an important role here, not simply by making it clear that nations compete and that they so do on the basis of the competences of their citizens, but also by making it obvious that it is the work-related skills which in themselves are a parameter of competition (OECD PISA 2006). Following the inspiration provided by the PISA, debates on new forms of education were ignited, and these have already led to the formulation of education reforms and to changes in national legislation in several countries (Finland, France, Germany, Denmark, Sweden, Norway and the Netherlands). A second example is OECD's latest initiative on "competitive cities" (OECD 2006b), where the big cities' physical, social, educational, environmental, cultural and intellectual infrastructure is emphasised to explain why some cities are better suited to attracting foreign investment and highly educated manpower than others. These examples must however, be enough to support the point that a routine has been established for the dissemination and development of the concept that nations compete; and that as a result, nations have turned their policies "(…) into yet another educational tool for instilling in the population and the culture at large a spirit of enthusiastic participation in paid work" (Streeck 2007). It is against this background that I have defined international competiveness by its institutional features. And on this background that I assert that over almost 25 years, there has been a gradual development in the definition and in the use of the concept which places institutions at the centre for business managers, policy makers and international organisations alike when they measure competitiveness and produce strategies to create comparative advantages. By "institutional competitiveness" (CIC) I formerly understood the capacity of a country to achieve socioeconomic success relative to comparable countries as a result of its political and economic institutions (Campbell & Pedersen 2007a, Pedersen 2006b). This definition can now be made more precise by emphasising two circumstances: (1) Nations compete by reforming the institutional (legal, political, economic and cultural) context for firms in an attempt to produce comparative advantages; e.g. by creating conditions for internal and external flexibility of working conditions. And (2) nations compete by deliberately creating institutional complementarities, e.g. by coordinating a number of policy areas, societal players and levels of government into governance systems equipped for mutual and on-going learning and experimentation. This extended definition shows that institutions have become a political phenomenon and that analyses of institutions have become a policy tool, and that reflections on how to promote comparative advantages and to do so by the management of institutional complementarities have become an everyday matter for national governments and international organisations alike. Knowledge of institutions has come to be understood as a tool – and even as a functional imperative – for governments in competing with other nations and for international organisations in facilitating this competition.

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