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Institutional Choices Under Globalisation

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PART I

Introduction

1. Introduction

Silvia Sacchetti

For the purpose of economic science the process of cumulative change that is to be accounted for is the sequence of change in the methods of doing things, – the methods of dealing with the material means of life.

Veblen ([1898] 1998, p. 410)

1. UNEVEN DEVELOPMENT, COMPETITIVENESS-RELATED 'HABITS OF THOUGHT' AND ECONOMIC INSTITUTIONS

If we had to frame the context of this book, we could evoke concerns about economies, the loss of critical capacity within them and, more broadly with respect to society. The decay of critical thinking in society is, in a sense, the decline of democracy. What we mean is that if we do not exercise our critical thinking and we renounce imagining and possibly pursuing different ideas, different worlds, we lose our interest in participating in a process where objectives are already given. With these issues in mind, this book aims at providing a specific perspective on the role of knowledge for the analysis of economic development issues. In particular, we emphasise knowledge, creativity and critical thinking as forces in processes of change, including those transforming the rules governing economic systems. A treatment of the scope for change, in those terms, is rooted in a concern for economic governance and the enduring imbalances related to the economic system and its institutions.

An earlier analysis of uneven development within the global economic system was provided by Hymer (1972), pointing to the world economy dominated by transnational corporations as a system based on inequality of income, status and authority (see also Pitelis, 2002). The implications of Hymer's analysis have maintained remarkable relevance over the last decades. The majority of the world's economic activities are increasingly coordinated by transnational corporations (UNCTAD, 2008), whose governance is based on hierarchy. Their choices reflect the motivations and objectives of specific and restricted groups which, nonetheless, are

extremely influential on the evolution and development choices of localities across the world (Cowling and Sugden, 1998a). Transnationals are actors within a specific economic system, they are disciplined by its rules and beliefs and, yet, they have enough power to influence them. The 'violation of equality and opportunity' in the competitive game (Knight, 1923) reproduces itself not only because of the relative strength of these organisations, but also because of an institutional system which selects the values and behavioural rules that support and accept such imbalances.

The 'habits of thought', as Veblen ([1904] 1996) would say, which prevail in economic institutions (e.g. the business enterprise within the capitalist system) mould the point of view from which other human activities are understood and therefore shaped. Sugden (2004), for instance, emphasises problems related to strategic failure in universities, a specific circumstance where the exclusive definition of research programmes on the basis of, for example, firms' objectives, would deprive academic communities of their independence, subjugating critical analysis to externally defined goals and strategies. This could cause, as a consequence, a divergence between a society's need for advancements in science, and firms' needs to respond to short-term profit rationales.

The selective criterion in such approach is arguably profit-making through competition. In particular, competitiveness and its current understanding is the mechanism of market selection, the one which can mould habits or thought as well as patterns of behaviour and relationships across regions and nations.¹ Within what has been defined as the 'free market system' (see Cowling and Sugden, 1998b for a criticism) dominated by the 'Washington Consensus' (Stiglitz, 2002; Sugden and Wilson, 2002) change to reflect and recognise differences in people's motivations and values might find opposition and be slowed down by previous historical facts which shaped the economic life of regions and localities, including the conventionalities and capabilities which are reflected in and promoted by economic institutions (Veblen, 1898; Nelson, 1994), and which often mirror conflicting interests (Hirschman, 1970).

What, then, are the possibilities, in analytical terms, for turning away from uneven development? Has the Veblenian 'idle curiosity' enough space to possibly change the habits of thought and the rules governing the economic system? Dominated by transnational corporations and framed by Washington Consensus institutions, at present globalisation promotes performance criteria related to competitiveness based on productivity and hierarchical organisations. The market, nonetheless, includes a set of institutions which are potentially capable of hosting different entrepreneurial models, as the case of social cooperatives shows (see Ianes and Tortia in this volume, Chapter 8). For similar reasons, it has been argued that the

capitalist economic system should not be confused with the market system (Zamagni, 2005), although the two are often strictly associated because of the prevailing form of organisation acting on the market, i.e. the for-profit enterprise (Borzaga and Tortia, 2009). The market, therefore, although dominated by specific habits of thought, can give space to a plurality of motivations, objectives, behaviours.

However, current competitiveness-related habits of thought design patterns that reinforce a specific business culture, the same which has contributed to raise concerns around the unevenness of development. The question, radically, seems therefore to be how selection criteria can change over time, or why are some patterns preferred to others and how the balance across preferred patterns changes. While we agree with Hodgson (2003) when saying that Darwinism is a precondition of Lamarckian processes of change, not least because even human will is a biological function, we include in our analysis a focus on economic choices that involve individuals and their will (Penrose, 1952; Metcalfe, 1998). Strongly interacting with existing institutions and habitual way of thinking through cumulative causation (Veblen, [1898] 1998), human preferences and choices play a role in shaping economic change. As human will is an emerging property at the individual level, in the same fashion the purposeful creation of institutions can be an emergent property of the social realm. These emerging properties need to be compatible with lower ontological levels (the individual as well as his/her biology). Consistently:

We argue for the role of knowledge, learning and critical thinking in processes that guide change; in particular, we refer to change of rules and behavioural patterns as well as of underlying habits affecting in a circular flow both institutions and individuals acting within and across economies.²

In line with that, in the concluding chapter of the volume we address the complementarities between the private and the public spheres of deliberation, arguing for a need to focus on the 'percorsor' that individuals undertake both at the private and at the public level in order to discover their values, habits of thought, inner desires, objectives and preferences. We put forward a pragmatic notion of rationality based on humans' eagerness for understanding and discovering by means of experience (a synthesis between thought and practical action) as an attempt to recapture both the unrestrained evolution of human wants as well as the space of human interaction, which includes communication and deliberation.

Overall, chapters position knowledge in a number of debates. Part II addresses aspects of knowledge in the organisation of production, analysing the implications for the development of regions and localities. On

this basis, Part III deals with institutional and organisational forms that may favour participation of actors into knowledge creation, learning and strategy making. In Part IV, along the same line, knowledge creation and use are reconsidered by focusing upon the role of creativity and creative activities for the enhancement of knowledge, awareness and participation across people and economies.

2. KNOWLEDGE, PRODUCTION AND REGIONAL DEVELOPMENT

Starting the second part of this volume, in Chapter 2, Silvia Sacchetti addresses issues of uneven development by looking at differentials of skills and decision-making power across countries, as a consequence of the division of labour operated internationally by transnational corporations. The chapter offers a critical discussion of the role of knowledge in production activities. The author relates classical economists' ideas of division of labour and technological innovation with more recent perspectives on the theory of transnationalism. She looks at the extreme situation in which the division of labour across countries operated by transnational corporations divides regions according to specialisations and, therefore, reflects the same hierarchy of skills that is required to perform specific functions. Such a process potentially perpetrates a 'cumulative causation' process that reinforces uneven development.

Along a similar line, Shadlen (Chapter 3) argues that indeed developing countries' industrialisation is primarily based over learning and adaptation – often subsumed with the idea of technology transfer. Complementary, Sacchetti's discussion of the nature of knowledge and of the different abilities and skills involved with each production activity provides some insights for an understanding of why technology transfer to developing countries – often advocated as a panacea for industrial development – may not only be conditional on a restrictive regulation on the use of intellectual property rights, but may, as well, set up a wider institutional boundary in terms, for example, of government regulation, tax, education and innovation systems. It is argued that such a dynamic may plough an evolutionary trajectory defined by exclusive interests.

More specifically, in Chapter 3, Kenneth C. Shadlen analyses inequalities generated by the intellectual property rights system. He goes to the heart of those international institutions – GATT initially, WTO nowadays – that have progressively established common rules to enable harmonisation of intellectual property (IP) across economic systems. What happens when knowledge or, more precisely, codifiable knowledge

becomes privately owned? What the author contends is that recent trends in IP protection along the lines suggested by industrialised countries (i.e. the OECD, the EU, the US) did not contribute to diminish the impact of existing imbalances across countries but, rather, reinforced the unevenness of development. IP harmonisation by regulatory institutions is argued to impose restrictions on developing countries, specifically – for instance – with respect to industrialisation and health care. This outcome, the author contends, is further reinforced by regional and bilateral agreements (RBTAs), which tend to impose even more restrictive regulation than TRIPS (trade-related intellectual property rights). Facilitation of knowledge generation through TRIPS and RBTAs is currently pursued at a global level, and does not account for specific outcomes that endorse regional imbalances. Besides, the author argues that policies towards IP do not recognise the differences in the modality of knowledge acquisition existing between so-called developed and late-developing countries. In particular, Shadlen maintains that the latter tend to acquire knowledge through 'learning, imitation and adaptation', which are precisely the processes that are blocked by current trends in IP regulation.

Philip Cooke (Chapter 4) takes a wider view on the knowledge economy which encompasses potentially all sectors – in contrast with the OECD's notion, which focuses on science-based sectors (OECD, 1996). His suggested approach to uneven development lies in the presence, across regions, of clusters that differ in their ability to innovate by way of mutation and to absorb from the variety of competences emanating from related industries and clusters. In doing so, Cooke does not set aside the possibility for peripheries to develop knowledge-economy activities, provided that marginal regions can construct a network of relationships between so-called 'secondary cities' (in particular, knowledge-intensive business services) and 'primary cities', where high-tech manufacturing is more likely to be developed. The inability to network with high-tech manufacturing is identified as one of the possible determinants of Myrdal's cumulative causation problem (Myrdal, 1957). The specific case-studies on green innovation clusters (North Carolina, US; North Jutland, DK; Wales, UK) introduce, in this chapter, the idea of a transversal innovation superstructure that can serve the process of technological convergence across diverse industries and regions, contributing to clusters' mutation through sectors' cross-fertilisation.

A relevant role in regional and national innovation systems is played by higher education, although literature on the topic has been far more interested in looking at the outcomes of collaborations amongst universities, the public administration and firms, whilst disregarding the rules – implicit or explicit – that regulate academic output. James R. Wilson (Chapter 5)

addresses recent trends in the 'commercialisation' of universities – a short-term policy approach to regional and national innovation systems – and analyses its potential impact on development. The latter is understood from a specific angle that puts at the centre the dangers associated with the exclusion of local communities from the definition of strategic choices and argues for the desirability of inclusive decision-making processes (Sugden and Wilson, 2002). Wilson, in particular, discusses universities as organisations that are in a position to feed, promote and develop procedural habits and rules across societies based on critical thought and deliberation, thus enhancing democracy in strategic-choice processes. Current trends towards commercialisation, however, also exacerbate the idea of competitiveness in higher education and threaten their role, whilst favouring governance criteria that mimic those followed by large corporations (Sugden, 2004). The focus on the output rather than on the processes associated with competitiveness might then hold back universities from playing their advocated role, and favour instead exclusion from strategic choice-making. This occurs both within universities – where managerialism is putting academics under exceptional pressures in order to measure performance (see Grönblom and Willner, Chapter 6) – and across society – where universities' role is seen as serving regional competitiveness and productivity in the present rather than stimulating critical and creative capacities across people in the long run.

3. EMERGING INSTITUTIONAL SETTINGS, CRITICAL THINKING AND KNOWLEDGE

Is the evolution of economic institutions going to be determined by the habits of thought and rules defined by market competitiveness, as currently understood? One effect of exclusion is the loss of interest in economic action by most of the people, as Sacchetti and Sugden emphasise in Chapter 9. The third part of this volume discusses alternatives to the patterns and selection mechanism defined by an exclusion-based notion of competitiveness and addresses emerging organisational settings and governance structures that give greater emphasis to people's participation.

Theories of human motivation have further reinforced the limits beyond which the process of exclusion 'cannot be carried without arousing a spirit of rebellion which spoils the game for the leaders themselves, not to mention the effect on the output of products upon which people have become dependent' (Knight, 1923: 605). The effect on productivity of exclusive decision-making is the subject matter of what has been relatively recently called the economics of happiness, which focuses on the impact

on people's well-being of, for instance, income, employment and inflation but, mostly, of democratic political institutions (Frey and Stutzer, 2002) or participation and perceived fairness at work (Tortia, 2008).

Sonja Grönblom and Johan Willner, in Chapter 6, focus on institutional choices within universities. They consider the new public management approach and its impact on academics' intrinsic motivation. The authors recognise that motivational pluralism whose denial by the new public management menaces the motivation of academics, and which justifies the need for a real variety of choices across society and its different institutions. The real incentive to boost productivity within universities are to be found, according to the authors, in the degree of interest of activities (namely research, teaching, and administration) as well as in the perceived stability of the job. That view is opposed to topical approaches which focus exclusively on incentives, such as the threat of being punished or the promotion of fierce competition amongst colleagues.

If participation is a result of whether activities light up people's interests and passions, the reverse is arguably true as well: the more individuals can participate and, therefore, infuse their own ideas into the process which defines activities, the greater the motivation to act and achieve good results. Institutional solutions to increase inclusion are currently perfected in for-profit firms as well. Lorenzo Sacconi and Giacomo Degli Antoni (Chapter 7) analyse corporate social responsibility building their analysis on the firm's extended governance in the context of information asymmetries and incomplete contracts. Their approach – unlike Grönblom and Willner – looks at individual motivation and choices within the framework of contractarian theory but, rather than leaving the self-regarding individual in a vacuum, they put forward a specific notion of social capital, defined in terms of dispositions, beliefs and relationships that deepens the understanding of how behavioural rules, trust and reputation emerge in the context of a firm extended governance.

Individual choices and institutional choices interact, supporting and reinforcing each other in the evolution of governance structures. More radically, Alberto Ianes and Ermanno Tortia (Chapter 8) look at the participatory model introduced in the 1970s by Italian social cooperatives to combine a specific awareness of community's interests and entrepreneurial activity. By challenging and totally changing the governance approach of traditional for-profit firms, this chapter offers an alternative view on how the 'business game' can evolve through institutional and organisational settings that may boost people's motivation and the achievement of desired objectives. Specifically, social cooperatives can increase workers' motivations even in the presence of lower wages. This has been achieved in the context of the supply of public benefit services,

which characterise non-profit organisations. These experiences contain, however, elements concerning participation which can also shed new light on other organisational contexts.

In Chapter 9, Silvia Sacchetti and Roger Sugden reflect on the role of some specific aspects of knowledge, critical thinking and creativity as part of individuals' characteristics and attitudes. To build the space (physical, institutional, mental) for their use, the authors argue, could stimulate people's interests and, therefore, inclusion in economic choice and action. Whether market selection criteria, as they are currently understood, can change over time is perhaps not just a matter of mutation in individuals' motivations, behaviours and objectives, but rather a matter of recognising variety in people and different publics which, in turn, reflects diversity in motivations, behaviours and objectives. Giving space or providing the institutional solutions to let different approaches and views of the world emerge would, at least, allow a more democratic approach encompassing diversity. Deliberation, in this context, would represent a selection mechanism where creative ideas and different perspectives are critically assessed on the basis of behavioural patterns based – amongst other characteristics discussed in this chapter – on the inclusion of interested publics, on the coherence of arguments, openness and mutual respect. Consistently with a phylogenetic process of change (Hodgson, 1993), under deliberation, knowledge creation and learning take the form of processes that have no predefined outcomes or obligations to favour an established view over what might emerge out of deliberation. Deliberation would free 'idle curiosity' to create new knowledge and stimulate change in the economic system.

Accordingly, creativity, which neo-Schumpeterian evolutionary theory has associated with innovation as the driving force of change in capitalism, assumes here a broader meaning. Creativity can drive change by way of innovation, but can also boost people's motivation once it is recognised as a constituent element of human activities, including economic activity. This notion has clear implications for the way the organisation of production could eventually change, allowing more people to play and enjoy the 'business game' or any other activity. In contrast, if we focus on creativity mediated by innovation, we endorse the view according to which the creativity that matters is the one that passes the market test of profitability. This perspective would perpetuate then the notion of a hierarchy of functions where the highest positions are occupied by those who can – in Schumpeter's terms – exert the entrepreneurial role (Schumpeter, 1912).

If the existing system – as Knight (1923) observed – generates its preferences besides satisfying them, then critical thinking rather than acceptance of system-generated preferences and wants would re-establish a perhaps

lost link between individuals' preference formation and patterns of behaviour.³ Knowledge, in this case, takes also the meaning of awareness. Individuals get to know what they prefer (for instance, through critical thinking and deliberation) and behave and chose accordingly. To do this, however, individuals must have suitable capabilities. Knowing what I prefer, or what I am entitled to by established rights, in other words, is not a sufficient condition to translate my preferences into action (Sen, 1984). Individuals can behave according to their preferences only if they can afford it, that is to say if they have both the capabilities and the freedom to do so. To give the knowledge, institutional space and freedom to people is consistent with pluralism in individual preferences. Moreover, the possibility for individuals to reflect on their preferences and act accordingly would activate a process of 'learning by doing' that would further contribute to the redefinition of individuals' preferences. The education system as well as the media and arts can play, under conditions which favour freedom of enquiry, a crucial role in presenting different, consistent alternatives and scenarios.

Borrowing from the processes based on deliberation and collegiality that originally created academia, processes of knowledge creation and learning across society can also affect change in the economic system. The deliberation mechanism, which contributes to mediating knowledge processes, can fertilise related actors and operate at various levels, within and across organisations, government institutions, and publics. As such, deliberation is not meant to replace the market, but to create space and allow for different perspectives to emerge, including on patterns and selection mechanisms, which do not have to be necessarily identified with the equation productivity/competitiveness.

4. CREATIVE ACTIVITIES: ART, MEDIA, TECHNOLOGY, SCIENCE . . .

The third part of the volume addresses activities which are traditionally recognised as creative, such as media and related technologies, art, as well as academic research. Creative activities are analysed here for their role in stimulating critical thinking and deliberative processes across people. Roger Sugden, Robin Te Velde and James R. Wilson, in Chapter 10, suggest a focus on communication processes that enhance participation of local communities in the definition of development objectives. In particular, communication is suggested as a foundational element of any processes of learning. The latter takes the particular focus of learning to engage with others in decision-making processes, thus reinforcing a

specific development need: learning how to govern democratically. This specific 'know-how' – the authors argue – would impact on the governance of economic systems worldwide, thus changing people's expectations with respect to participation in strategic economic choices. The recaptured capability to exert voice would reflect and be reflected in a parallel freedom and ability in communication media, including visual art and information and communication technologies. Similarly to what has been happening across universities, visual arts have – over the 1980s and 1990s – undergone a process of 'commercialisation', which may hinder their role in stimulating critical thinking. In parallel with what Wilson has argued in Chapter 5 about university's governance, this chapter analyses trends in those organisations and industries that manage the diffusion of art (such as museums), film production and distribution, as well as in communication technologies.

Media are treated specifically in Chapter 11, where J. Robert Branston and James R. Wilson analyse the industry from a strategic decision-making perspective. They contrast their approach with the market-failure perspective, arguing for a focus on media because of its relevance for the economy as a whole. In particular, the authors reason about the uniqueness of such a sector, emphasising its impact on the way people perceive and understand reality and choice. By emphasising the publics and their interests, the authors go beyond the classic industrial policy arguments for privatisation and regulation and suggest, instead, looking at the institutional forms by which the industry is governed, stressing the importance of Hirschman's notion of 'voice' as central for deliberation processes (Hirschman, 1970). The cases of BSKyB and NewsCorp provide an illustration of the issues related to an excessive concentration of strategic decision-making power in the media sector, as well as the impact of exclusive governance on people's understanding and critical thinking.

In contrast with exclusive forms of governance of the likes illustrated by Branston and Wilson about media, the context defined by academia, because of its primary nature, could provide examples of how deliberation can occur through collegiality. A common ground provided by academic knowledge, as well as the ability to critically combine different sources are, across universities, both an input and an output of the deliberation process which is supposed to constantly occur amongst academics. The role of deliberation, in this context, is broader than what a strict focus on economic productivity would entail, because the objective in academia is different: to pursue academic freedom so as to embrace 'the right to search for the truth and to publish and teach what one holds to be true. This right also implies a duty; one must not conceal any part of what one has recognized to be true' (Einstein, 1954, quoted in Child, 2007: 3).

For academia to be deliberative does not mean ceasing to be scientific or that anyone is a scientist. But, as a place where coherent and rigorous thought is allowed, critical thinking capacity, intuition and some degree of imagination (Pascal, 1975 [1660]) should be allowed and even promoted. The reason for this is double. First, only if we recognise differential thinking can we have real discussions (Hodgson, 1993) and encouragement of humans' 'idle curiosity'. Second, people's understanding of new situations is higher if they are given the space to exercise their critical capacity and creativity, as the perspective on research methodologies presented by Francesco Sacchetti (Chapter 12) suggests.

Francesco Sacchetti's chapter addresses creativity in the social sciences, comparing quantitative and qualitative methods. In discussing creativity, he goes back to Chomsky (1964) and his distinction between rule-governed and rule-changing creativity. The idea of performance in research – in contrast to what happens with the managerial approach in universities discussed by Grönblom and Willner in Chapter 6 – is analysed on a substantial basis, revealing the implications of distinct creative processes under different methodological choices. This chapter goes to the heart of the research process, which is what the new public management is trying to govern, paradoxically, through the standardisation of motivations and objectives across researchers: a creative process whose peculiarities should be not only recognised but encouraged to reflect diversity of approaches to the study of reality and the acquisition of novel knowledge.

NOTES

1. A prominent and dominant perspective on competitiveness in a globalised economy is the ability for firms and regions to enter global supply chains. These approaches often fail to take into account the nature of production governance within global supply chains and its implications. From a US perspective, for example, Friedman (2005) depicts the world as a huge supply chain, which functions thanks to a political (the end of communism) and technological (information and telecommunication technologies) convergence since the 1980s. In this 'global, web-enabled playing field' geographical constraints are removed by political and technological diffusion and, therefore, competition between US workers/ firms with the 'rest of the world' is suggested to mirror the selection of the fittest and therefore to be increasingly fierce, if not very conflictual. Such a perspective is rather telling, as it reflects a common approach to competitiveness that has been embraced worldwide by policy-makers when investing in people's training and education.
2. See also Hodgson (1999) on the role of learning as being able to reconstruct the individual's capacities and preferences.
3. See, in particular, Cowling (2006) for an analysis of the impact of corporate advertising on individuals' preferences with respect to the time people spend at work. The author argues that these preferences are induced by corporations' high advertising investments and can be in contrast with people's meta-preferences.

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