

Deborah Wince-Smith
Speech at the Old Greek Parliament
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New Challenges and Opportunities for
Global Competitiveness and National Prosperity in the 21st Century
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Welcome

Thank you very much Minister Soufias and Dr. Lavidas for inviting me to speak today about a topic that concerns all of us—New Challenges and Opportunities for Global Competitiveness and National Prosperity in the 21st Century. It is an honor for me to be here to address you in this historic and beautiful building. I feel as though I have come home. Greece holds a special place in my heart because I studied in Athens in 1970 and did field work here in 1974 excavating at Aghios Stephanos in Laconia as part of my degree in archeology from Kings College, Cambridge. My studies have made me very aware that Greece has been a key source of innovation and creativity throughout the centuries, and I believe it will continue to be in the future.

Introduction

I am here today to address you not as an archaeologist but as the President of the Council on Competitiveness, the only U.S. organization that brings together corporate CEOs, university presidents and labor leaders to raise the standard of living for all Americans through increased productivity and success in global markets. This past November we commemorated our twentieth anniversary with a creative and inspiring celebration in Washington D.C. I was pleased that a number of you could attend.

In the past few years, “competitiveness” has become a buzzword again for the first time really since the mid-1980s when the Council on Competitiveness was founded. In the United States, the Council played a role in forming President Bush’s American Competitiveness Initiative last year as well as bipartisan legislation proposed in Congress. We are currently working closely with the National Governors Association to implement a national initiative to help the governors of individual states enact their own competitiveness agendas.

The Council also collaborates globally with partner organizations around the world to promote the understanding of competitiveness and to help leaders from both the private sector and the public sector take actions to improve national and regional competitiveness. In recent years we have worked with competitiveness organizations in Ireland, Brazil, Mexico, Japan and the European Union.

All around the world, people are beginning to realize that the rules for global competitiveness are changing. They recognize that the bar is rising and that business as usual will no longer be sufficient to maintain – much less increase – their standard of living in the coming decades. And in the face of uncertainty, they want to know what to do.

Now there are many definitions of competitiveness and many different systems for measuring the competitiveness of a country or region. The technical details can be quite

complicated, but the basic premise is actually very simple. The ultimate goal of competitiveness is the prosperity of a nation's people, and the fundamental source of long-term prosperity is the productivity with which a nation can utilize its human, capital, and natural resources to produce goods and services.

Competitiveness is not about having a low cost labor force, the largest share of exports or even the largest or fastest growing economy. It is about creating the conditions under which companies can be the most productive. Competitiveness is not zero-sum. The success of one economy does not rely on the failure of another—a job created there does not mean a job lost here, a rise in their exports does not necessarily mean a decline in ours. As all nations improve their productivity, wages rise and markets expand, creating the potential for rising prosperity for all. There is no fixed pie of global demand to be divided, but almost unlimited human needs to be met.

But while global markets ultimately increase a nation's prosperity, they do so through a difficult process of adjustment and transition. Workers, companies, regions and national governments must all make difficult adjustments. By helping people understand how the world is changing and the tremendous benefits that lie at the end of this difficult journey, we can help people adapt to the new environment.

U.S. Competitiveness – Where America Stands

A few months ago, the Council released the latest edition of our *Competitiveness Index*, which we have been producing since our foundation twenty years ago. In honor of our 20th anniversary, this edition of the Index looks back over two decades to gauge America's long-term performance and to identify the most important emerging trends. I would like to quickly summarize some our findings on U.S. competitiveness and then talk a bit about the implications for Greek competitiveness.

The U.S. remains the world's largest economy, with GDP nearly doubling since 1986.

- The U.S. has \$11 trillion in real GDP, while China still has less than \$2 trillion.
- Between 1986 and 2005 U.S. GDP growth was the highest of any large developed nation. The United States averaged 3.1% growth over this period, compared to 2.4% for the EU and 2.1% for Japan.
- The U.S. was directly responsible for one third of total global growth over the past fifteen years.
- In addition, unemployment, interest rates and inflation have fallen to their lowest levels in a generation.

The ultimate metric of competitiveness is standard of living, and America's GDP per capita remains the highest among large nations. In fact, America's lead over other advanced economies has actually increased since the 1990s.

- Real GDP per capita has increased by 46% since the 1980s.
- Per capita disposable income is up 37%.
- And average household wealth is up 61%.

The key to America's success has been an astounding acceleration in productivity growth since the mid-1990s, driven by the deployment of information technology, a dynamic business environment, a flexible workforce and regulatory regime, and the commercialization of cutting-edge research.

Our business environment and unmatched consumer market have generated more inward foreign direct investment than any other nation (\$1.6 trillion-- twice as much on a cumulative basis as the next largest recipient and six times more than China).

And yet despite this phenomenal success, Americans today are more anxious about U.S. competitiveness than they have been at any time since the Council was founded 20 years ago. Americans recognize that the game has changed dramatically in recent years—and our future success is by no means guaranteed.

The major trends that are reshaping the landscape for competitiveness include:

- The rapid entry of emerging markets into the global economy
- The restructuring of global corporations to leverage those new opportunities
- The growing value of innovation, services and intangibles
- The increasing importance of “creative destruction”—the churn of jobs, firms and even entire industries
- Rising levels of income inequality driven by increasing returns to skills

Billions of people in emerging economies have entered the global trading system – opening consumer markets and labor pools of unprecedented size. By 2020, 80% of all middle income consumers will live outside the developed world. Clearly, in terms of absolute size and growth rates, emerging markets will grow increasingly important as consumer markets and markets for talent.

New opportunities to reach consumers and talented workers in the developing world are spurring rapid growth in multinational corporations – driving their evolution into truly global enterprises and enabling them to offshore a range of corporate activities, from software development to accounting to research.

New technologies, new business processes and new global strategies mean that every region is in competition with other regions around the world for jobs and new investment. While the world is not flat yet, barriers to trade and investment have fallen rapidly and, as a result, the level of competition has increased dramatically.

As the ability to manufacture even high technology goods has become widely diffused, innovation, services and intangibles have become the primary source of value for U.S. companies and American workers.

- Services dominate the U.S. economy representing 83% of private sector GDP.
- The U.S. is the world's largest exporter of services and also has the largest trade surplus in services.

- While there are no official measurements of intangible investment (investments in skills, brands, new ideas, etc.), researchers from the Federal Reserve have estimated it to be as high as \$1 trillion (bigger than tangible investment).

What we are witnessing is a fundamental transformation of the sources of value and growth. Access to global information and, increasingly, technology are commodities in today's world. We stand at the dawn of a conceptual economy in which insight, imagination and ingenuity determine competitive advantage and value creation. To succeed in this hyper-competitive, fast-paced global economy, we cannot, nor should we want to, compete on low wages, commodity products, standard services, and routine science and technology development. As other nations build sophisticated technical capabilities, excellence in science and technology alone will not ensure success. Lowering cost and improving quality will not answer the new competitive realities either. Today, competitive pricing and high quality are merely the baseline for entry into global markets.

This new system of wealth favors judgment, intuition, creativity, and insight. In the conceptual economy, our success will be measured by our ability to transform industries, reshape markets old and new, stay on the leading-edge of technology creation, and fuse diverse knowledge, information and technology. This new global economy will be much different than the industrial economy of the 20th century, or even the information economy of the past two decades. The conceptual economy will favor nations that reach globally for markets, and those who embrace different cultures and absorb their diversity of ideas into the innovation process. It will be fueled by the fusion of different technical and creative fields, and thrive on scholarship, creativity, artistry, and leading edge thinking.

The *Competitiveness Index* identifies a range of challenges to America's pre-eminent position. America's triple deficit, for example—the trade deficit, the federal government budget deficit and the personal savings deficit—clearly threatens U.S. economic performance. And the rapidly rising cost of healthcare is a growing burden on individuals, companies and the federal government.

But the fundamental challenges to future prosperity involve our ability to compete in the conceptual economy, in areas like education, innovation and entrepreneurship.

- The U.S. falls near the bottom of global rankings in terms of mathematics test scores for 15-year olds, even though the U.S. spends more money on education per student than just about any other country in the world.
- The U.S. is still the leader in innovation but that lead is shrinking as a growing number of countries are rapidly increasing their commitment in each of these areas, and America's share is falling. Key components of our innovation system are weakening even as other countries strengthen theirs.

- The good news is that the U.S continues to outpace industrial economies in entrepreneurship and small and medium sized business creation—both engines for future growth and job creation.

Looking over all of the data, our conclusion is that the United States has prospered over the past 20 years by engaging with global markets and leading the world in innovation. But if we do not address these challenges there is no guarantee that we will maintain our role as the world's strongest economy.

Implications for Greece

Greece and other parts of Europe are facing many of the same competitiveness issues as the United States. In 2005 the Council on Competitiveness organized a U.S.-EU Dialogue on Innovation which was hosted by the Prime Minister of the Netherlands Balkenende.

At that meeting we discussed a broad range of shared challenges, including--

- Boosting innovation
- Improving the business environment
- Fostering entrepreneurship, and
- Enhancing trade

I know from my visit to Greece after that summit and from meetings with several of your ministers in the United States, that Greece is taking the competitiveness challenge seriously. I was very pleased to learn that every single year between 2005 and 2010 has been declared a Year of Competitiveness.

Your annual competitiveness report is very impressive and provides an excellent assessment as well as concrete recommendations. My congratulations to both Minister Sioufas and Spyros Efstathiopoulos, the Special Secretary for Competitiveness, for overseeing this effort which had contributions from industry, academia and government.

Your competitiveness report raises an interesting paradox – Greece has high rates of GDP growth but ranks relatively low on competitiveness as measured by the World Economic Forum and IMD. The key question, then, is – are these growth rates sustainable? And what can you do to improve your fundamental competitiveness?

Let me offer a few observations based on the lessons that we have learned from studying U.S. competitiveness.

First of all, value is increasingly created through global networks. Over the next two decades most of the growth in supply and demand will come from outside the developed world. Particularly, for a small country like Greece, trade and foreign investment will play an essential role in future growth and innovation. Removing barriers to trade and investment, therefore, is critical. Ultimately, your goal should be to build world class businesses in Greece that can compete and collaborate globally. Ultimately it does not matter whether they are foreign or domestically-owned – what matters is whether they are globally competitive. Because if they are not, investment and jobs will move somewhere else.

Secondly, competing in a rapidly changing global environment requires flexibility and adaptability. Regulations that make it more difficult for entrepreneurs to turn new ideas into viable businesses or that limit the flexibility of the workforce are ultimately counterproductive. They protect established interests and incumbent workers at the expense of the new ideas and the new workers who will drive innovation and productivity growth.

Thirdly, competitiveness and innovation depend strongly on regions. Value chains have become global, but they are also becoming highly localized as they consist of increasingly specialized companies co-located in regional clusters. Knowledge creation itself is getting more global, but the creation of new knowledge in specific fields is increasingly concentrated geographically. So while national policies still matter, each region within a country must have a strategy as well. And, of course, supranational regions like the European Union or NAFTA are also becoming increasingly important. The new Central Europe Free Trade Agreement—signed by all Balkan countries—is a positive step towards realizing the advantages of your region.

Finally, you need to start competing in the conceptual economy. This does not mean that you should abandon agriculture or manufacturing, but it does mean that in every field of endeavor you must focus on those aspects where value comes from new, innovative ideas rather than low production costs – unique new agricultural products for which customers are willing to pay a premium or manufacturing products wrapped up with high-value services such as customization or supply chain management. And of course sectors like tourism, IT and financial services clearly fall in this domain.

Competing in the conceptual economy requires a focus on talent, investment in intellectual assets, and an infrastructure that promotes and protects the production of intellectual property. Developing a high performance workforce must be one your highest priorities because ultimately this will be your greatest asset. But this is an area in which I know Greece has struggled. The large numbers of students and academics who leave Greece (as many as 60,000 Greek students and about 5,000 scientists and professors of Hellenic origin) indicate that many of your most talented do not see opportunity in Greece. It is my personal belief that introducing competition and innovation into higher education is a necessary first step to reversing this trend. And I think the example of Ireland demonstrates what a valuable asset the diaspora can be for economic development as long as the proper conditions are created domestically.

Investing in education and in research are the foundation for the conceptual economy. The Lisbon Agenda is a start – and clearly much more progress needs to be made to reach the Lisbon targets – but even the Lisbon Agenda is only a beginning. Ultimately, you need to build a creative, entrepreneurial economy.

Hotspots in History

As a Bronze Age Aegean archeologist, I believe that it is important to look to the past to understand the present and even the future. The great ancient civilizations that had lasting influence—for example, the Bronze-Age Mycenaeans, the 5th and 4th century Greeks, and the Renaissance Italians—were prototypes of flourishing conceptual, innovation-based economies of the type that we need to build today. They were developers of leading edge science and technology. They opened and traveled new trade routes, and became crossroads to the known world. But, in my view, the most important factor in dominating their times was that they were centers of knowledge creation, scholarship, art, literature, and science. These civilizations were multidisciplinary idea generators, creating enduring value and transformational impact.

Greece was the foundation platform of Western Civilization, and the Bronze-Age Mycenaeans were one of its first great innovators, dominating the Aegean for three centuries with advances in culture and trade that were greater than other European cultures of that period. For example, from 1600-1150 BC the Mycenaeans transformed Greece into the dominant economic and military power by applying their advanced knowledge of metallurgy to forge stronger, more durable tools, weapons, and armor. They were global seafaring traders, establishing a network of trading posts across Syria, Egypt, Sumer and Britain, leveraging the best premium for olive oil and wine. Significantly, Mycenaean artisans and potters created a new demand for luxury goods. They created a “brand.”

The Mycenaeans developed an early form of writing, Linear B, a prototype of the Greek language, which they used to control production and distribution. Their control of “know-how” and supply chains brought them power, and their products prestige. Their technology and commercial engagement generated enormous wealth, power, and influence throughout most of the Mediterranean.

Starting about 700 BC, Greece again became a center of learning and leading-edge ideas. The Greeks of this period were the first to make the transition from belief in myths in favor of understanding the world around them through inquiry and observation—a seminal moment in science. By the 5th and 4th centuries BC, the Greeks were breaking new ground with advances emanating from an innovation “hot spot”—a place of ideas, and thinkers from a wide range of disciplines. Their ports were crossroads where the Greeks absorbed new ideas and technologies from the Scythians, Celtic Tribes, Phoenicians, Assyrian merchants, Egyptians, and Babylonians that passed through them.

Pericles, the leader of Athens, declared that “Athens is the school of Greece” and he encouraged arts, science, and philosophy, gathering the best architects, sculptors, and craftsman of the era. There, Socrates, Plato, and Aristotle searched for the building blocks of life and the principles that guided nature, significantly advancing mathematics, physics, and engineering. Thought leadership flourished from the philosophers Socrates and Plato, to the playwrights Sophocles and Euripides.

The Greeks of this period developed, perhaps, the most important innovations in governance—citizen participation in government, laying the foundations for democracy. In addition, in 4th century BC, Athenians established jury courts overseen by lay judges, and equality before the law. Cities in Greece prospered from extensive trade, the expanding use of coins, and the spread of Greek cultural ideas generated by their resident innovators.

In another innovation “hot spot,” 15th century Italy was focused on humankind and its potential, inspiring artists, philosophers, inventors, humanist writer and scholars, and other innovators. The city of Florence was the conceptual epicenter of the Renaissance, bustling with artistic, humanistic, technological, and scientific activity. Innovations were developed in many fields—mathematics, medicine, engineering, architecture, and art.

Work was supported through the patronage and oversight of the wealthy Medici banking family, who secured the services of artists and architects to design, build, and decorate the city’s churches, palaces, and public buildings and spaces. Many of the Florentine works are considered important today, even masterpieces, including master works of the writer Machiavelli, the quintessential Renaissance man Da Vinci, and great painters and sculptors—Donatello, Botticelli, and Michelangelo—who studied and worked in Florence. Artistic advances included carving in shallow relief to produce an illusion of spatial depth, systems of linear perspective and proportion, the ribbed dome, scientific perspective in painting, depiction of realistic human anatomy, new approaches to light and shadow in painting, as well as the illusion of three dimensionality.

These three civilizations all had things in common that made them dominant in their eras, and incubators of new ideas and inventions:

- They reached out across geographic expanses for markets and trade.
- They were crossroads to different cultures and ideas that they absorbed.
- They were centers of multidisciplinary creative fusion.
- They valued, encouraged, and patronized scholarship, creativity, artistry, and leading edge thinking.

How do we translate these practices from great ancient centers of thought, invention, and creativity to build and fuel our own modern conceptual economy?

Building a high-performance conceptual economy requires government policies, R&D, and educational practices that support:

- conceptual work and creativity,
- rapid exploitation of leading edge technology,
- fusion of scientific and technology disciplines,
- innovation in service delivery, and business and production models,
- national accumulation of intellectual and creative assets, and
- rapid adaptation to change.

Throughout history, Greece has been a “hotspot” of innovation and culture. I believe it should take a leadership role again in developing a regional approach to competitiveness in the Aegean and the Balkans. The Council on Competitiveness would be delighted to support such an endeavor.

Conclusion

Thank you again Minister Souflias and Dr. Lavidas for your leadership and your invitation. I look forward to collaborating with all of you to shape a more prosperous and innovative future here in Greece, the Aegean region, and throughout the globe.