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CONNECTING THINK TANKS, CREATING IDEAS

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THE GREAT PARADOX OF FUTURE CAPITALISM

We have had our New Year's wishes and the fanfare of pundits gauging the potential for economic growth in a post-crisis world. Much attention has been paid to the bricks of economic recovery scattered around the world.

Very little attention has been paid to the foundational pillars of sustainable growth: open and competitive markets. In fact, the persistent delays in financial re-regulation and the return of the stock market bull are feeding the impression that the world is slowly returning to business as usual. "Is that all?", read the rhetorical headline of *Newsweek's* special 2010 edition. My answer is: far from it!

Let's take a step back in time. When the subprime calamity exposed itself to an unsuspecting world, political leaders and commentators were united in blaming Anglo-Saxon "free-market ideology" and "laissez-faire economics". The Washington Consensus of deregulated markets, which had cast a spell on economic policy-making for decades, was sent down in infamy. Fearing total meltdown, governments around the world scrambled to save favoured financial institutions. Keynes was brought back from the dead as governments took over from markets in channeling economic development.

This passing episode in itself will have an enormous legacy. The landscape of financial markets has changed profoundly, with less international competition and fewer big players than before. From the epicentre of Detroit, the bailout of the car industry has sent shockwaves around the world, among them Chinese takeovers and European downsizing. The tables have turned on governments' economic credentials. Government is no longer the problem – as Ronald Reagan once quipped – it has now become the solution. More importantly perhaps: it is seen as the solution.

Convictions and mindsets matter a great deal. Without a shared belief in the benefits of markets and trade, itself spurred by Western self-belief in the superiority of its economic model, the world after 1989 would not have embarked upon a process of trade liberalisation that enabled a veritable golden age of global growth. Capitalism's greatest crisis in 75 years

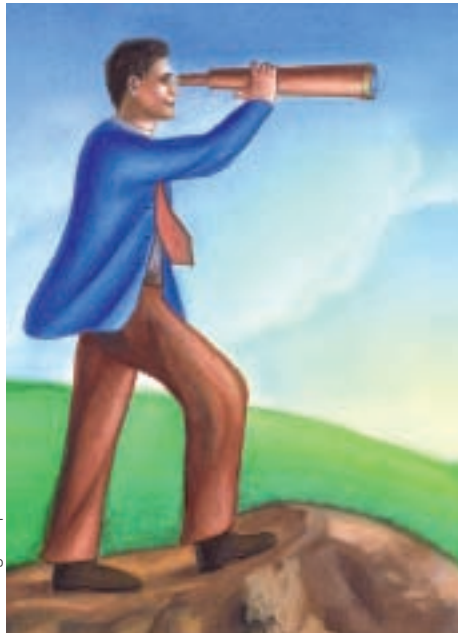


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may well have failed to deliver any sensible alternative model. But the scorn and the rhetoric of the darkest crisis days are morphing into politics and policy. The necessity of Keynesian depression economics is quickly turning into a political addiction.

In the slipstream of stimulus action, governments around the world are actively pursuing grand strategies to spur future growth. Industrial policies dominate economic agendas across the political divide: they were a shared ambition in both the recent Japanese and German elections. In France, a president who was elected on a program of market liberalisation has embarked on a national loan to subsidise massive public investment projects. The slippery slope from Keynesian crisis policy to post-crisis economic planning has thus been opened.

The green economy is its greatest ally. Green is a politician's wet dream: a magnet for subsidies and state support in pursuit of both lofty environmental goals and global commercial triumph. Prior to the crisis, the Green Dream meant mostly emission targets, clean-tech subsidies, or price incentives such as "cap and trade" emissions trading. In the wake of the crisis, clean energy has become a global arms race of state-driven investment; an affirmative and deliberate agenda for new economic

development, pushing and overtaking the market rather than enabling it.

The international backdrop to this evolution is the decline of the free trade agenda. In the heat of the crisis, all politics became national, with the inevitable nationalist fallout. The politics of globalisation are therefore in disarray. Trade liberalisation requires an intellectual understanding that it will serve the mutual interest, the possibility to convince national public opinion of its benefits, and an international leader to push countries into concessions. None of these conditions has survived the crisis without serious damage. The science of economics has failed, the electorate and the politicians alike eschew foreign competition while the national economy bleeds, and America has lost its aura.

The geopolitics of globalisation has shifted. America and its traditional economic model are in relative decline; an evolution which the Obama administration is not only recognising but actually accelerating through humility abroad and healthcare reform at home. China and its communist tradition of state-driven development are ascendant. Crisis reality has forced the West into its direction. American entrepreneurial capitalism has taken a step towards Chinese-style state-capitalism, instead of the other way around. This will have long-lasting consequences.

The United States and Europe will increasingly have to tolerate and accommodate emerging countries' penchant towards state capitalism, while being

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WAYS OUT OF THE CRISIS ?
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unable or unwilling to inspire other regimes with an alternate model. State intervention, mixed with creeping neo-protectionism and state coordination, are the new tide. In developed Western economies, the state and state industrial policies are back. For emerging economies, the Beijing model may well become the New Normal.

A general rise of state-directed capitalism is thus becoming the hallmark of our era. In all countries this implies a heavy dose of state patronage, political interference and neo-protectionist entrenchment. In most countries it involves an increasing degree of state planning or coordination. In some countries it heralds a new model for post-crisis capitalism. The fabric of capitalism is changing in every instance. Economic growth overall becomes more dependent on government steering and public investment; less on consumerism or revolutionary entrepreneurial innovation – the two emblems of economic growth after the collapse of communism.

These changes are likely to impact the real economy more than the financial economy in the long run. Financial sector bailouts are gradually being returned or absorbed. Financial re-regulation will have the inevitable light touch of inadequate international governance. After more than two years of procrastination, the Obama administration has finally started barking for new bank rules. Without international coordination there is likely to be much more barking than biting, as the United States can hardly afford to debilitate its financial sector unilaterally. On the other hand, the very same lack of international governance lets individual states loose in the race of state capitalism and national growth strategies, with profound ramifications for the real economy.

The Subprime Crisis and the Great Recession were rooted in the financial market economy. The real market economy was not their cause, but their victim. As it turns out, however, the Age of the Twin Crises is likely to recalibrate the real economy much more than the financial economy. This is truly the great paradox of future capitalism.

Marc De Vos is professor at Ghent University and the general director of the Itinera Institute, a Brussels-based non-partisan policy institute. He is the author of "After the Meltdown: the future of capitalism and globalization in the Age of the Twin Crises", just published by shoehornbooks.com.



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Book Review:

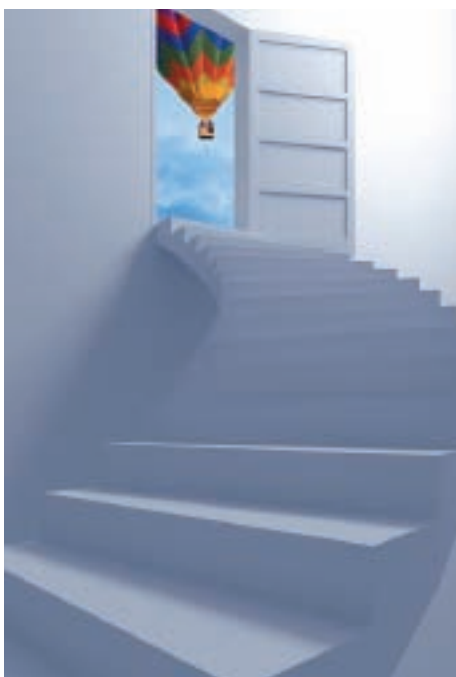
Freedom, Inc.

by Brian M. Carney
and Isaac Getz

(Crown Business, 2009)

Capitalism relies on the freedom of companies to conduct their businesses free from intervention and on the freedom of customers to choose products and services without interference. *Laissez-faire* literally means "leave-to-do", yet in *Freedom, Inc.* Brian Carney and Isaac Getz argue that businesses do not afford such freedoms internally to their own staff. Instead, so many businesses impose rigid and bureaucratic rules that stifle their employees and prevent them from achieving their fullest potential.

Carney is editorial page editor of the *Wall Street Journal Europe* and Getz is an international business professor at the ESCP Europe Business School. Both put forward a compelling case to any employer that the best way to success is to resist trying to get your staff to do what you want them to do and allow them to find out



themselves what needs to be done. Whilst the concept may sound somewhat anarchic, the book highlights a number of case studies where such techniques have been employed with astonishing results.

At Gore & Associates, a manufacturing company best known for its Gore-Tex products, employees are known as associates, managers are known as leaders and jobs are known as

commitments. Emphasis is on the leaders to treat their fellow associates as intrinsically equal, i.e. people who are paid to know how to do their job as well as the leaders know theirs. By seeing jobs as commitments, employees are encouraged to view their employment as a voluntary decision to work for the company, rather than having their job imposed upon them. When a commitment is honoured, a drop goes into the associate's theoretical "credibility bucket", but if they were to fail they would lose credibility. This philosophy seems to work for Gore, with annual sales of over \$2 billion, including a third of the market in the production of guitar strings - a move made on the basis of an initiative brought forward by one of its employees.

Much of the concept is founded on trust, rather than suspicion. Employers are encouraged to see that sometimes the bureaucratic costs of protecting the company from the dishonourable acts of a minority are more than the damage that those acts inflict on the company. To take an example from the book, at FAVI, another manufacturing company, the loss of productivity from staff who had to gain permission and approval to replace new supplies was calculated to be more than the likely losses due to theft if supply cupboards were simply left open.

Jean-François Zobrist, the director of FAVI, identified two types of companies: *comment* (how) and *pourquoi* (why). His argument was

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Photo: Bigstockphoto

 **BOOK REVIEW** *Freedom, Inc.*
CONTINUED

that *comment* companies told their employees how to do their job, whilst judging them on everything except what really counted to their business – whether the job got done and how happy the customer was. *Pourquoi* companies instead concentrate on why staff should perform their jobs, working on focusing their attention on keeping customers happy. Robert F. McDermott, the former chairman and CEO of the financial company United Services Automobile Association (USAA), argues that if you enrich the jobs, you enrich the people. Adding that everyone was good at something and if their job allows them to pursue that talent and that interest it would be fulfilling.

If it were not for the detailed case studies of a variety of successful worldwide companies, the *Freedom, Inc.* concept might seem too idealistic and not practical enough for the ruthless business world familiar to most. Yet, this book offers proof that business strategies based on liberating employees can succeed and, whilst there are many other reasons why these companies have thrived, the approach is likely to have provided them with a flexibility that will distinguish them from others. Although, if it were to become mainstream, would its unique selling point – the competitive advantage - be lost?

Paul Healy is policy analyst of the Stockholm Network

Book Review:

Far och Flyg! Hur Resor förändrar världen (How travels and travelling changed the world)

by Maria Rankka, Andres Ystedt and Fredrik Johansson
(Timbro, 2009)

In an age of Ryanair, high-speed trains and fibre-optic internet connections, movement – the physical and mental dissemination of individuals and ideas – is something that many of us have come to take for granted. Yet human mobility and all of its accompanying accoutrements – commerce, culture and so on – is not, and has not always been, a given right.

In this new publication – part manifesto, part mini-history of human movement – Maria Rankka, president of the Swedish think tank and public policy institute Timbro, and her colleagues offer a timely reminder of how essential physical and geographical mobility is to the building and maintaining of free and prosperous societies.

Covering the whole gamut of human movement, this book examines everything from tourism, free trade and migration, to the freedom of the motor vehicle and the liberalising effect of driving. Social commentary is mixed with historical anecdote. For example, on the very first page we learn how Indian would-be travelers pay for the pleasure of spending a few hours in a grounded jumbo jet; taking off and flying to an imaginary destination. Aside from exposing the wonders of travel, Rankka and her colleagues also seek to shine the spotlight on those individuals and structures which seek to hinder our movement. Elitists, environmentalists, and welfare states all receive their fair share of criticism. The comic is mixed with the serious. For example, readers will no doubt feel a tingle of alarm even when they are smiling at various doomsdays predictions and proposals for cutting cheap European flights and limiting intercontinental flying to every ten years.

Though never intended as a history – both the introduction and length of the text explicitly suggest this is more of an ideas piece than a research paper – *Far och Flyg!* at times loses itself in being too general and all-encompassing. The pros and cons of unrestricted migration are not the same as those for low-cost air travel. Not all governmental security or travel restrictions are inherently negative. In an age of international terrorism and al-Qaeda it is understandable, if still regrettable, that governments need to restrict



individuals' freedom of movement and their civil liberties. Similarly, in a world where large political and economic differences exist, restrictions on immigration (while no doubt often a blunt and ineffectively used instrument) are a policy most governments have to use to control what would otherwise be mass migration from the poor world to the rich. It is also a policy that populations, by and large, support.

Yet these are relatively minor points. The importance of *Far och Flyg!* lies not in its mastery of all the intricacies of various areas of policy, but in its central contention. Namely that: "The ability of individuals to move freely is a founding principle in all civilized societies, and is a prerequisite for democracy and freedom." This is something we should never lose sight of, neither as a thought nor as an ideal.

Dr David Torsternsson is senior researcher of the Stockholm Network

DIRECTOR'S REPORT



The arrival of 2010 sees a flurry of interesting new books on the market from some of Europe's leading thinkers.

In this issue of the *Eye on Europe* we review just three of them. These three books, however, collectively touch on some of the key themes likely to define the new decade – social mobility, business freedom and the long-term consequences of the economic crisis.

Maria Rankka, Director of Sweden's leading think tank, Timbro, and her co-authors, Anders Ystedt and Fredrik Johansson, look at the phenomenon of how traveling has changed the world. They discuss the impact of society's increased physical and geographical mobility in recent years and examine how such mobility is essential for building and maintaining free societies.

A fellow supporter of free societies, Brian Carney, editorial page editor of the *Wall Street Journal Europe*, has teamed up with French

academic, Isaac Getz, to write *Freedom Inc.* The book shows that whilst businesses are often left alone in western economies they do not afford such freedoms internally to their own staff.

Carney and Getz argue that if businesses were to remove the rigid and bureaucratic rules they impose on their employees, their enterprises will then be free to succeed.

And last but by no means least, on our cover, Marc De Vos, founder of the Itinera Institute think tank, examines the long-term consequences of the financial crisis in a summary of his new book. *After the Meltdown: The Future of Capitalism and Globalization in the Age of the Twin Crises* pays particular attention to the roles of the US, the EU, and China and contains some stark messages for EU policy.

Over in our members section this spring, we are pleased to announce that we have recently added several new member think tanks to our network, including the Institute for Lifestyle

Options and Longevity (ILOL) in the Czech Republic and Slobodna Misao (Free Thought) in Montenegro, which together with the European Ideas Network (EIN) are profiled in this issue.

As for our own activities, the Stockholm Network has been continuing its focus on patient safety with the launch in Brussels of a new paper on sub-standard medicines and the hosting of our very first webinar, allowing interested parties from all over the world to attend our events and quiz our speakers online – no travel tickets required. Welcome to the Stockholm Network's first foray into the "post-bureaucratic age".

And finally, if you have not done so already don't forget to visit our Facebook page and become a fan to receive regular updates on all our latest ideas and activities.

Helen Disney is founder and chief executive of the Stockholm Network



PROFILE: Slobodna Misao (Free Thought) Podgorica, Montenegro

www.slobodnamisao.net

Slobodna Misao is a think tank made up of regular panelists and specific theme-related contributors in the areas of economic policy, political theory, information media, public administration and policy, sociology, law, human rights, etc.

At Slobodna Misao, we present our ideas with the aim of both educating the public at large and influencing public policy. We hope to raise the bar for public debates in challenging accepted myths and prejudices in the Balkans, in both the fields of political and economic sciences. Also, we defend libertarian ideology using palpable day-to-day examples that hit home with the man on the street while trying to stamp out the elitist stereotype of libertarianism.

We believe in the postulates of classical liberalism (libertarianism) especially in the field of economics, but also in the political field, particularly when it comes to individual rights. As such, we oppose any human rights discrimination, particularly based on ethnicity, with which we are all too familiar. Therefore, we are committed to equality of opportunity, not equality in living standards. We stand for the advantage of private over public and social ownership, lower taxes, minimal state apparatus and little interference in the economy and lives of individuals. The conservative elements of our belief system comprise time-tested institutions such as family, religion (and Church) as well as national or any other identity based on the social-constructivist model or a group of self-organised, free-willed individuals.

Issues of interest for us include:

- Economic and political freedoms;
- Public policy and public administration;
- "Crony capitalism" in Balkan states;
- Social contract theory as well democratic legitimacy of power; and



"We stand for the advantage of private over public and social ownership, lower taxes, minimal state apparatus and little interference in the economy and lives of individuals"

- Internal legitimacy of Balkan nation states, particularly in the fields of minority rights and ethnic and other forms of post-totalitarianism.

At Slobodna Misao, we have a multidisciplinary approach in trying to develop a no-nonsense holistic explanation for much of the ills of the present society. This theoretical interest in turn develops practical solutions to be applied in order to remedy the problems; a kind of social diagnosis, prognosis and treatment.

Our achievements thus far include our daily updated website (www.slobodnamisao.net), which popularises our views with the public; meetings with like-minded individuals in Montenegro and Serbia; and our participation

at libertarian seminars and conferences in the region.

Yet, our most important achievements are difficult to measure: we have managed to influence the general public and some policy makers in Montenegro and Serbia with our libertarian and conservative ideas and, we have participated in the setting up of several grass-roots movements, such as the Serbian National Council.

We have always offered free advice to various stakeholders: (i) to the leader of the opposition in Montenegro in 2006-2007 on issues relating public policy, and (ii) to local businesses, with know-how assistance and consulting advice.

Our forthcoming plans include:

- Organising and taking part in conferences;
- Publishing a quarterly journal with theoretical and day-to-day policy articles;
- Closer cooperation with libertarian and conservative think tanks, such as Atlas Network and Foundation for Economic Education;
- Expanding the base of associates, primarily among young people; and
- Promoting the values of a free society, free and responsible individuals, and limited powers of state.

We also plan to organise workshops with interested youth and local community leaders in order to promote our ideas and assisting in the organisation of grass-roots movements.

Our long-term goal is to establish an institute, the first of its kind in the Balkan region, that would publish policy papers on a multitude of issues.

Radoslav Ralevic and Igor Jaramaz are respectively general secretary and executive director of Slobodna Misao.



PROFILE: Institute for Lifestyle Options and Longevity (ILOL) Prague, Czech Republic

www.ilol-think-tank.eu

The Institute for Lifestyle Options and Longevity (ILOL) is a unique non-profit research institute concerned with the identification, examination, and evaluation of social and technological developments, trends, and practices concerning future lifestyles and social growth in rapidly changing regional, national, and global environments; social conditions; and consumption patterns.

ILOL stimulates debate on the complexity of healthcare, social, and technological issues by publishing research and reports as well as expressing its views in articles in the media. It also organises conferences and seminars with high-level speakers from the spheres of healthcare and social matters. The ILOL will benefit the professional public particularly in providing information about trends in future development which will be the driving force for development in healthcare, the social sphere and associated fields.

ILOL was established in October 2008 and, from the very beginning, it has been guided by its founding principles:

1. Support a complex approach to healthcare and social affairs in order to optimize individual quality of life;
2. Support the right of all people to be engaged in decisions regarding their lives, health, etc;
3. Support the incorporation of ethical issues into all decisions regarding health and social consequences; and
4. Support a vision of a prosperous free-market society;

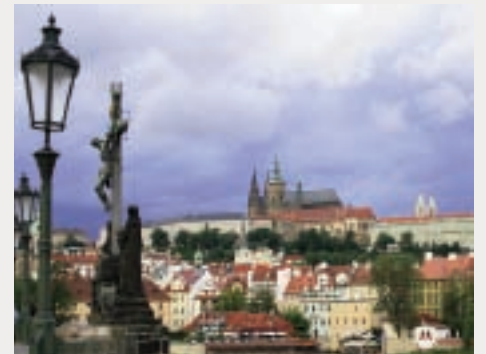
ILOL is located in Prague, Czech Republic, but its organisation and functions are virtual and global. It is an international institute specialising in two integrated areas (1) healthcare and (2) social marketing.

“Quality of life is coming to the fore in today's world as compensation for a career, business and wealth“

Recent environmental changes are leading to adjustments and modifications in social behaviour and, at different stages of life, have compelled individuals to change their personal behaviour. Many of the changes in individual behaviour have been generated by environmental pressures resulting from changes in economic conditions, technological innovations, spontaneously surfacing and changing social forces, or rapidly changing lifestyles. As a result of these environmental pressures, individuals are forced to make decisions that produce conflicts and discontinuities in their lives.

Depending on their inherent propensity to cope with many of these instabilities and discontinuities and the strength of these forces, some individuals can optimize their decisions within the context of bounded rationality. However, those individuals whose abilities to cope with environmental pressures are limited tend to approach their decision making irrationally. This irrationality in making personal decisions has a tendency to transform itself into social and personal behavioural deviancies. Rapid introduction of new technology produces similar behavioural adjustments.

New legislation prohibiting certain behaviour in public, such as smoking, frequently leads to irrational individual behaviour in attempts to comply, or not to comply, with an individual's own habitual behaviour rather than with legislated social norms. Those individuals faced with changing social norms are frequently confronted with elevated stress levels.



And, finally, as an example, accelerating changes in lifestyles, such as societal concerns over physical well-being, which become evident through public pressure for periodic exercise and dietary adjustments, may lead to extreme behavioural measures, or total rejection of social values, by individuals who cannot deal with such societal concerns.

One of the key factors in manifestation of collective societal behaviour is the general concern over the entire field of healthcare issues. In most countries, concerns over improvements in the quality of healthcare and the general well-being of all individuals are clearly broad societal concerns today. Societies are evaluating and assessing these concerns and, in a number of different ways, are attempting to reduce, or completely eliminate, public pressures on individuals and, thereby, improve the quality of life, extend the life expectancies of their citizens, and also reduce the number of difficult consumption decisions confronting individuals on a daily basis.

While ILOL has published a number of articles and concept papers, the complexity of its approach needs professional explanation and discussion. Regarding its research projects, a research paper on health literacy was published in 2009. In this paper we presented a new methodology and research outputs of the first wave of measurement of health literacy in the Czech Republic.

In 2009, a team of authors co-operating with ILOL published *Strategic Technology Management: Building Bridges Between Sciences, Engineering and Management* by George Tesar, Steven W. Anderson, Sibdas Ghosh, and Tom Bramorski, 2nd edition (London: Imperial College Press, 2008). Based on this book, in 2010 ILOL will organise a seminar for top managers from technologically advanced companies.

Marie Pribova is research director of ILOL



PROFILE: European Ideas Network (EIN) Brussels, Belgium

www.ein.eu

The European Ideas Network (EIN) is a network of think tanks and independent experts that get together with legislators to organise policy debates on mid-term issues of relevance for the Group of the European People's Party (EPP Group) in the European Parliament. Since its launch in the summer of 2002, more than 30 think tanks are associated with the EIN today.

EIN members believe in the importance of debate to prepare policy options for European legislators. Free and regular interaction between policy makers and members of civil society from various backgrounds is not only a democratic obligation but a key factor of success for policy planning, effective legislation and the building of political support. EIN members share the core values of the European centre right.

Think tank members, experts from the private sector and academic partners work together in 10 different working groups in three broad areas:

1. Economy and the Environment
 - Economic and Financial Recovery
 - Social Market Economy
 - Energy and Environment
2. Governance and Values
 - European Demographic Challenge: Immigration and family policies
 - Values and liberties
 - European Governance: implementing the Lisbon Treaty
 - Making Europe a safer place
3. Foreign Affairs
 - Neighbourhood Policies
 - Transatlantic Relations
 - Globalization and International Trade

Main Activities:

Every year the EIN organises the EPP Group Summer University, a gathering of more than 300 MEPs, MPs, intellectuals, think tankers, professors, experts from business and the media. In order to prepare the Summer University, seminars are held throughout the year to discuss new ideas or recent research. MEPs of the EPP Group take an active role in those seminars, as well as in the Summer University. Breakfast meetings with experts are also organised on a monthly basis in the premises of the European Parliament.

Since 2009, a summary of the most important seminars and Summer University proceedings have been published on the EIN website, together with papers of the different experts involved in the EIN Working Groups. Since 2009, the EIN also publishes a monthly Newsletter.

“EIN members believe in the importance of debate to prepare policy options for the European legislators”

Forthcoming publications:

EIN plans to publish the complete proceedings of the 2009 EPP/EIN Summer University that took place in Vienna. Under the title “Putting people at the heart of Europe, the basis for Economic and Social Recovery”, the Summer University attracted the participation of more than a hundred panellists from every background who analysed the way out of a crisis that is more than a financial and economic crisis.

EIN also plans to publish the proceedings of a meeting on energy and climate policy held after the shortcomings of the Copenhagen negotiations. The meeting featured panellists from Germany, France, Spain and the US who met to discuss the future of energy and climate policy.



Future Activities:

EIN has planned the following activities with its think tank members for the year 2010:

23 February BRUSSELS

Breakfast meeting "EU/China relations after the Lisbon Treaty"
EIN Review Meeting "Translating Research and Debate into Policy Making after the Lisbon Treaty"

24 March MADRID

EIN Seminar "Recovery: towards European resilience"
EIN Seminar "Food and Health Safety"

14 April BRUSSELS

Breakfast meeting "Youth expectations in Europe"

21 April ROME

EIN Seminar "Political values and expectations of the individuals: how to bridge the gap"

9 May PRAGUE

EIN Seminar "New dimensions in European security after the Lisbon Treaty"

12 May BRUSSELS

Breakfast meeting "New developments in the USA"
EIN Seminar: "Religion and social change in Europe"

9 June BRUSSELS

Breakfast meeting "Changes in NATO and consequences for EU"

30 June WASHINGTON

EIN Seminar: "Security of Europe and new horizons for transatlantic coordination after the Lisbon Treaty"

14 July BRUSSELS

Bilateral meeting to prepare Summer University

16-17-18 September BUDAPEST

EIN Summer University

6 October BRUSSELS

Breakfast meeting: "New poor people in Europe: policy challenges"

EIN Seminar "Towards a social Agenda focused on the individual"

27 October VIENNA

EIN Special Review Meeting and Seminar with Central and Eastern Europe Think Tanks

November LONDON

Think tanks and Foundations associated with the Conservative Party

17 November BRUSSELS

Breakfast meeting: "Is European research competitive enough?"

EIN Seminar "Digital Economy and recovery in Europe"

8 December BRUSSELS

Breakfast meeting: "EU and the Middle East peace process"

Guillermo Martinez Casañ and Franck Debié are respectively network director and policy director of the EIN.

INNOVATION – A CODENAME FOR DOING NOTHING?



Photo: Bigstockphoto

It is a known paradox of human behaviour that the more we agree about the importance of a certain subject the less we are likely to do something about it.

Unfortunately this kind of “logic of collective action” is now also apparent in the field of innovation.

It seems that innovation is being mentioned in every forum and by every politician. We need more innovation to combat the hazardous effects of climate change, to fight pollution, to develop new treatments for the sick, to better our financial and banking systems, to improve our communications, to revolutionise our transportation (land, sea and air). The list goes on and on.

We are all in agreement that innovation is important. But this is also the problem, since now every time we do not really know what to do about a major issue (take, for example, the conference on climate change in Copenhagen last December), we say that we need more innovation.

But innovation does not come out of thin air; it does not fall from the trees and it is certainly not going to appear just by talking about it.

No. Innovation is hard work. It is a frustrating, time consuming, Sisyphean endeavour – one that will most likely end up in failure. And if it is successful, it often takes a generation to recognise and use.

Yet, thankfully our knowledge of how innovation works and how it should be fostered and supported is quite good. The major problem is to convey such knowledge to those who are so accustomed to praising innovation without really thinking about the actions needed to support it.

In order to treat innovation more consistently and systematically – and to see concrete results – we need to consider the following elements, not least in the broader context of national innovation strategies.

Developing high-quality human capital (i.e. scientists, engineers, etc.) via science education and research is a fundamental factor of innovation. We need to develop a system that covers a range of disciplines, including natural sciences, engineering and technical studies, and exists at all levels, from primary education to post-graduate studies.

We need to encourage and foster interdisciplinary collaboration among different fields of science – such activity functions as a kind of cross-pollination of ideas. Sharing

information and identifying gaps in knowledge, such as via joint publications, helps improve the prospects for making novel and needed discoveries.

To bring new innovations to the market, we also need to enhance collaboration between industry and academia. This may involve joint research projects between firms and research institutes. We need to remember that the process of innovation is a two-way street – the flow of knowledge from the lab to the market must be matched by the flow of experience and evidence from industry back to the “drawing board” in academia. Taking the biomedical sector as an example, pharmaceutical firms can feed their knowledge of the demand for new therapies or the effectiveness of existing therapies back to scientists they are linked to, helping to target R&D efforts and uncover new lines of research.

A key driver of such collaboration seems to be the presence of geographic clusters of interconnected firms and research organisations. Such clusters may aggregate around a university or a concentration of established companies in the same or related field. They also tend to attract risk capital firms and supporting industries. We have seen that clusters can go a long way towards stimulating joint R&D and commercialisation efforts and facilitating the process.

Public investment is increasingly targeting early research – although these efforts are threatened by tight public purses – but a gap has emerged in follow-up capital for the development of products. Having a low corporate tax level as well as tax credits targeting SMEs and R&D efforts should help spur investment in various stages of R&D.

Finally, intellectual property rights (IPRs) are crucial to the innovation process. IPRs, such as the ability to patent and license inventions, are used as “insurance” during the different stages of R&D. The time, cost and risk involved in innovation drives companies to seek the protection of IPRs, as a means of protecting their massive R&D investment and getting ahead of the competition.

These elements are by no means comprehensive and need to be adapted to particular contexts. However, instead of merely paying lip service to the need for innovation, acting on these elements will serve as starting points for establishing a targeted, robust framework in which innovation will actually flourish.

Rachel Chu and Dr Meir Pugatch are respectively research officer and director of research of the Stockholm Network

WEATHERING THE STORM

Since the end of the Cold War, significant progress has been made by CEE countries to establish Bismarckian healthcare reforms which have brought with them notably improved health outcomes.

Undertaken in different ways and with different emphases, the reforms have succeeded in bringing about a new mindset, attitude and resolve among many CEE policymakers with regards to the design of modern, patient-centric and sustainable healthcare systems. The success of these reforms had encouraged policymakers to be bold and it was hoped that CEE systems could eventually seek to compete with, and perhaps even surpass, the healthcare systems of the more established European economies.

However, the financial crisis has hit CEE countries hard and there is a growing concern that this confidence is waning. The impact on healthcare systems threatens to expose patients to inferior or inadequate services. International Monetary Fund figures show a 4.3% retraction for the CEE economy in 2009 and projections are for only 2.0% growth in 2010. When matched with a variety of other discouraging economic factors, not least a drying up of foreign investment into CEE countries, this paints a picture of evermore unsustainable government budgets and highlights the necessity of bringing down public expenditure across the region.

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The financial crisis is raining down hard on the public purses of CEE countries, and governments are struggling to provide adequate protection for their citizens. However, much of this is because health systems in the CEE region are still exclusively connected, either directly or indirectly, to the government budget. If CEE countries are to weather this storm, there is now a need to consider a new way to providing healthcare:

- By allowing greater use of public-private partnerships, CEE governments could bring about an improvement in the quality of healthcare services, whilst lowering the cost burden on the public purse. Furthermore, by opening healthcare systems up to more private initiative, patients in the CEE region could benefit from a healthcare system that is designed around their needs and choices.
- By fostering more varied sources of healthcare

funding, through allowing private health insurance to work more closely alongside social insurance, CEE governments could bring about greater patient choice and empowerment. In doing so, patients in the CEE region would be given the power to choose a healthcare plan that suits their needs and circumstances, whilst maintaining a public social safety net for those unable to contribute.

- By encouraging greater competition in healthcare, CEE governments will be able to develop a healthcare environment that is more receptive to patients and which obligates providers and insurers to offer high-quality services that will look favourable in comparison to other alternatives,

The CEE region does have an opportunity for healthcare reforms to develop and the financial crisis, however unwelcome, could provide an incentive for these changes to begin. The problem, however, will be finding the political will to do so, as it is likely that the moves needed to further modernise CEE healthcare will be strongly resisted by voters whose suspicions of the private sector have only been heightened by the scale of the financial crisis. However, reform still presents their best chance of having health systems which are fit to help and cure them in the difficult years to come.

Paul Healy is policy analyst of the Stockholm Network

ABOUT THE NETWORK

The Stockholm Network is a pan-European think tank and market-oriented network. It is a one-stop shop for organisations seeking to work with Europe's leading policymakers and thinkers. Today, the Stockholm Network brings together over 120 market-oriented think tanks from across Europe,

Combined, the think tanks in our network publish thousands of op-eds in the high quality European press, produce many hundreds of publications, and hold a wide range of conferences, seminars and meetings. As such, the Stockholm Network and its member organisations influence many millions of Europeans every year.

POLICY ISSUES

The Network is a forum for sharing, exchanging and developing pan-European

research and best practice. Interested in ideas which stimulate economic growth and help people to help themselves, we promote and raise awareness of policies which create the social and economic conditions for a free society. These include:

- Reforming European welfare states and creating a more flexible labour market;
- Updating European pension systems to empower individuals;
- Ensuring more consumer-driven healthcare, through reform of European health systems and markets;
- Encouraging an informed debate on intellectual property rights as an incentive to innovate and develop new knowledge in the future, whilst ensuring wide public access to such products in the present;
- Reforming European energy markets to ensure the most beneficial balance between economic growth and environmental quality; and
- Emphasising the benefits of globalisation, trade and competition and creating an understanding of free market ideas and institutions.

WHAT DO WE DO

We conduct pan-European research on, and create a wider audience for, market-oriented policy ideas in Europe. Our website contains a comprehensive directory of European free market think tanks and thinkers. We advertise forthcoming events (our own and those of partner organisations) and facilitate publication exchange and translation between think tanks. We also post regular news flashes and updates on European think tanks and their activities.

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The Stockholm Network is the leading pan-European think tank and market-oriented network. Spanning almost 40 countries and 120+ think tanks, our unique organisation has the capacity to deliver local messages and locally-tailored global messages across the EU and beyond.

Through our publications, weekly newsletter, and special events, members are able to exchange ideas and make an impact on a wide range of public policy topics and ideas.

If you know of a new organisation you think would benefit from Stockholm Network membership, please contact our office at info@stockholm-network.org and let us know.

“Old or new, great ideas can only be put to use if they are made relevant to their times. The Stockholm Network’s work consistently lives up to this.” *Dr Ján Čarnogurský, former prime minister of Slovakia (1991–1992)*

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FEATURE PUBLICATION

ECIPE Working Paper No. 1/2010: "The Treaty of Lisbon and the European Union as an actor in international trade" by Stephen Woolcock

The Treaty of Lisbon will introduce a number of changes to European Union (EU) external trade policy decision making. These involve the scope of exclusive competence of the EU, the role of the European Parliament and the inclusion of trade in the common external action of the EU. This article discusses these changes but also provides an initial assessment of how the Treaty of Lisbon (ToL) might affect the role of the EU as an actor in international trade. After an introduction to the attributes of "an actor" in international trade the article then summarises the main changes the ToL will bring about before discussing their likely ramifications. It argues that the ToL can be expected to strengthen the EU as a trade actor in a number of respects and that these should, to some degree, compensate for the relative decline in EU market power due to systemic changes in the international trading system.



To download this publication, please visit: <http://www.ecipe.org/the-treaty-of-lisbon-and-the-european-union-as-an-actor-in-international-trade/PDF>

NEW RESEARCH CLUSTER: PATIENT SAFETY

As medical care and treatments become more complex it is often difficult for patients and policymakers to see clearly where potential dangers lie. Questions about pharmacovigilance become more important as do issues such as parallel trade or re-importation of medicines, counterfeiting and the wider regulation of new drugs such as biosimilars.

It is in this light that the Stockholm Network has established a dedicated research cluster on patient safety. In support of this effort we have launched a new section of our website bringing together our past work as well as new papers dealing with many of the above questions. Recent

publications include the research papers *Biogenerics or Biosimilars? Discussing the Present, Considering the Future* and *Keeping Medicines Safe – A Study of the Regulations Guiding the Approval of Medicines in Emerging Markets*, both available on our website: <http://www.stockholm-network.org/Conferences-and-Programmes/Health-and-Welfare/Patient-Safety>



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