TERRITORIAL COMPETITIVENESS AND DEVELOPMENT POLICY

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ABSTRACT

There are fundamental links between academic treatments of 'economic development' and of the popular policy discourse of 'competitiveness'. Productivity-focused analyses of competitiveness are inherently related to market-centric analyses of development that have economic growth as their objective. However, a consensus is emerging on the need for broader conceptions of economic progress, built in particular on recognition of: (i) the inconsistency of short-term, unconditional growth with environmental sustainability; and (ii) the complexity of relationships between income, other socio-economic factors and actual well-being. This paper argues that moving 'beyond income' has implications for competitiveness discourse. Understanding the drivers of productivity will remain a key concern, as income will remain a core component of economic development. However, there is a danger that the dominance of a narrow, market-focused competitiveness discourse will continue to skew policy. The paper argues that the very popularity of the competitiveness concept among policy-makers in fact presents an opportunity: broader conceptualisations may facilitate the integration into policy of wider socio-economic concerns. Analysis of the contested competitiveness concept is combined with reflection on recent advances in the measurement of economic progress in proposing the necessary re-conceptualisation of competitiveness for today's economic development challenges.

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I. INTRODUCTION

The concept of competitiveness has become extremely influential in recent years, and today represents a dominant policy discourse among those concerned with the development of economies at the whole range of territorial scales (Oughton, 1997; Schoenberger, 1998; Lall, 2001a; Bristow, 2005). While often treated in separate literatures, there are in fact fundamental links between the relatively newly fashionable concept of territorial 'competitiveness' and the more traditionally analysed concept of 'economic development'. In particular, analyses of economic development have frequently centred on economic growth, implying an inherent relationship with the productivity-focused analyses of territorial competitiveness that are commonly employed today.[2] From a policy perspective there are thus strong parallels between 'competitiveness policies' and growth-centric 'economic development policies'.

In many respects this is an unremarkable observation: growth has long been the main yardstick for measuring and evaluating economic progress, and 'competitiveness' is simply a specific language for framing this analysis. However, debate on the meaning of economic progress is moving fast. A new consensus is emerging on the need for broader conceptions of economic development. This is built in particular around recognition of the inconsistency of short-term, unconditional economic growth with environmental sustainability (World Commission on Environment and Development, 1987; Ekins, 2000; Stern, 2006) alongside findings on the complexity of the relationship between income and reported well-being or 'happiness' (Easterlin, 1974, 2001; Oswald, 1997; Layard, 2006; Di Tella and MacCulloch, 2008). In November 2007, for example, the Club of Rome, European Commission, European Parliament, Organisation for Economic Co-operation and Development (OECD) and World Wide Fund (WWF) hosted a high-level international conference on *Beyond GDP: Measuring Progress, True Wealth and the Well-being of Nations*. The aim was to highlight precisely these issues and to advance ideas on

[2] Indeed, Lall (2001a, 4) goes as far to argue that "if 'national competitiveness' is interpreted in very broad terms (say, as the ability to produce income or productivity growth), it simply becomes development or growth strategy: there is no need to consider it separately."

measurements of economic progress capable of replacing GDP per capita as the dominant benchmark.[3]

This paper argues that emerging consensus on the need to move beyond income as the main criteria for measuring economic progress raises significant questions also for competitiveness discourse. The suggestion is not that currently predominant conceptualisations of competiveness become irrelevant; understanding the factors that drive productivity in a territory will clearly remain a key policy concern, just as income growth will remain a core component of what we understand by economic development. However, there is a danger that the dominance of a narrowly productivity-focused competitiveness discourse among local, regional and national policy-makers will continue to skew policy towards fostering unconditional income growth at a time when interesting alternatives are emerging. In this sense we suggest that the widespread use of the language of competitiveness presents an opportunity. It is argued that acceptance of broader conceptualisations of competitiveness can potentially facilitate the integration into policy of those wider concerns characterising much of the debate on economic development. Indeed, within the literature on competitiveness several recent contributions have stressed social, welfare and democratic dimensions in different regards (Aiginger, 2006; Branston *et al.*, 2006; Porter and Kramer, 2006). This paper builds on such contributions, combining analysis of what is a 'contested' competitiveness concept with reflection on recent advances in the measurement of economic progress. It proposes the necessary re-conceptualisation of competitiveness for today's economic development challenges.

The paper is structured as follows. In Section II the origins and growth of the competitiveness discourse are discussed, and some issues are raised regarding current use of the concept. Section III analyses these issues in greater detail, focusing on three specific problems with 'competitiveness' as an influential guideline for economic development policy: the appropriateness of framing territorial development in terms of direct win-lose

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[3] For more information, see http://www.beyond-gdp.eu/. This conference followed the OECD's *Istanbul World Forum on Measuring and Fostering the Progress of Societies* in June 2007, at which a declaration was signed by the OECD, European Commission, Organisation of the Islamic Conference, United Nations, UN Development Programme and World Bank affirming a commitment to measure and foster the progress of societies in all dimensions, so as to improve policy making and ultimately citizen's well-being (see http://www.oecd.org/dataoecd/23/54/39558011.pdf for the text of the declaration). Concerns with sustainable forms of development also formed the substantive theme of the 13th ASEAN Summit in Singapore (http://www.aseansec.org/21093.htm) during November 2007.

competition; the scope of the concept in reflecting different territorial development aims; and the related issue of how (and by whom) such aims are determined. This leads, in Section IV, to a consideration of alternatives that have been developed to move analysis of economic development beyond a narrow concern with the objective of income growth. A taxonomy of measures is elaborated, illustrating where current measures of competitiveness fit within these approaches. Finally, Section V concludes with a proposal for using the language of competitiveness to frame national and regional development policy more broadly, in terms of what might be termed 'social, sustainable competitiveness'.

II. ORIGINS AND GROWTH OF THE COMPETITIVENESS DISCOURSE

The competitiveness of territories has been debated on various terms at least since Adam Smith's *Wealth of Nations*, and arguably has antecedents significantly beyond this (Rienert, 1995). During the last 20 years, however, competitiveness has rapidly gained a dominant position in the policy discourse around economic development, becoming a pillar of economic policy debates around the world by the mid 1990s (Oughton, 1997).[4] Godin (2004, 1221-2) argues "the 1980s was a time when the US government became obsessed with international competitiveness", and, for example, the Council on Competitiveness was established in 1986 as a forum for promoting discussion, analysis and benchmarking of national competitiveness.[5] In Europe the obsession developed later. The UK government published an influential series of competitiveness white papers in the mid-1990s (Department of Trade and Industry, 1994, 1995, 1996, 1998), leading to an annual series of Competitiveness Indicators from 1999 (Department of Trade and Industry, 1999). Similarly, the European Commission started to use the term during the 1990s (Commission of the European Communities, 1994), and by 1999 an annual European Competitiveness Report had been established (Commission of the European Communities, 1999, 2007).

The term 'competitiveness' itself is derived from the word 'competition' and thus contains a strong connotation of comparative performance in a relationship of rivalry. The *Longman Dictionary of Contemporary English* gives two definitions of competitiveness: the ability of

[4] As an illustration of the recent growth of the concept, a search of the American Economic Association's 'Econlit' publications database reveals only 39 articles with the word 'competitiveness' in the abstract until 1980, and then 640 in the years 1981-1990, 2890 in the years 1991-2000, and 2568 in the years 2001-2007.
[5] See www.compete.org for more information on the Council of Competitiveness.

a company or a product to compete with others; and the desire to be more successful than other people. The first of these is directly in line with the predominant usage of the term in the economics and business literatures. Traditionally 'competitiveness' has been used to refer in general to 'capacity to compete in the market place'. Specifically, at a microeconomic level it has been applied to the market performance of firms and, assuming a collective of firms, to the performance of specific industries. Its extension to analyse the overall performance of geographical territories, however, has been far more controversial.

Prior to the 1990s the analysis of national competitiveness tended towards a macroeconomic trade perspective. Fagerberg (1988, 355) argued that it was "rather rare to see the concept of international competitiveness of a country defined", suggesting though a general recognition that it referred to the "ability of a country to realise central economic goals, especially growth in income and employment, without running into balance of payments difficulties". Early work focused on the significance of price/cost competitiveness for exports (for example, Kravis and Lipsey, 1971; Junz and Rhomberg, 1973; Kaldor, 1978; Kellman, 1983). However, Fagerberg's (1988) findings that technology and delivery/capacity were important determinants of country differences in market shares and GDP, costs playing a more limited role than commonly assumed, are illustrative of an emerging change in focus.[6] Such findings were in line with the development of a broader stream of work on technology and international trade (Dosi and Soete, 1988; Dosi, Pavitt and Soete, 1990; Hufbauer, 1966; Vernon, 1970), and paralleled emerging concerns among groups of researchers working on various OECD projects. Godin (2004, 1222), for example, notes that "as early as 1980, the OECD Committee for Scientific and Technological Policy (CSTP) set up an ad hoc group on science, technology and competitiveness to get a better understanding of international competitiveness and its relationships with technology". The subsequent *Technology/Economy Programme (TEP)* dealt explicitly with the relationship between technology and competitiveness, and the final report (OECD, 1992) provides a useful account of the development of national competitiveness analysis alongside what has become an influential definition: "the degree to which, under open market conditions, a country can produce goods and services which meet the test of foreign competition while simultaneously maintaining and expanding domestic real income" (237).

[6] This provided an explanation for Kaldor's (1978) findings that growing market shares of exports were positively related with relative unit costs/prices; the so-called 'Kaldor paradox'.

This much-cited OECD definition is similar to Fagerberg's in that it combines the dual elements of economic growth and trade success in a macroeconomic interpretation of competitiveness that is nevertheless open to analysis of a range of underlying determinants. Indeed, the key arguments arising from the OECD (1992) study point to the significance of microeconomic factors, in many respects a return to the origins of competitiveness in the ability of firms to compete.[7] The significance of 'structural competitiveness' and of Porter's (1990a; 1990b) 'competitive diamond' are stressed, and a holistic focus is urged on the relationships between firms and a range of factors in the national environment. As reflected in this early recognition, the publication of Porter's (1990b) *The Competitive Advantage of Nations* in fact proved to be a key turning point in analysis of competitiveness. Porter's primary novelty was the integration of firm-based theories of competitive advantage with the emerging economic analysis around determinants of national competitiveness. He established what has become a highly influential framework stressing the microeconomic foundations of territorial competitiveness within the already widely-accepted definition of success in terms of income growth.

Like Fagerberg (1988), Porter (1990a; 1990b) started by highlighting the lack of an accepted definition of national competitiveness, noting confusion with regards different views on the significance of macroeconomic variables, cheap labour, access to resources, government policy and management practices. In an approach aligned in many ways with the OECD,[8] he suggested that there was some truth in each of the different views and turned to explore the relationships between firms and their environment. Porter's framework is positioned firmly around the core argument that the "only meaningful concept of competitiveness at national level is *productivity*", specifically the capacity of "companies to achieve high levels of productivity – and to increase productivity over time" (1990a, 84). This provides a precisely-defined foundation for analysis of factors determining the productivity of a territory's firms, seen to underlie both firm profitability and territorial income.[9] Porterian

[7] See also Siggel (2006) for a review of different micro and macro approaches to competitiveness.
[8] Porter's (1990a) analysis is heavily cited in the OECD (1992) report. It is recognised that he begins from a similar starting point with regard the impact of the national environment on firms, taking a "holistic approach and a position on competitiveness that in many ways converges with the view taken in the TEP" (243).
[9] It should be noted that while productivity is frequently seen as the common basis for both firm and territorial competitiveness, their relationships with monetary outcomes differ to the extent that there is very little correlation between profitability of firms in a territory and per capita income in a territory (Navarro, 2006). Firm profitability is conditioned not only by the productivity of each input but also by the distribution between different factors, complicating a simple extension of concepts. Moreover, the distinction between firm and plant is important as rents from economic activity can be spread across territories within the same firm.

analysis has tended to focus on the microeconomic factors, which are grouped into four categories: factor conditions; demand conditions; context for firm strategy and rivalry; related and supporting industries. Their combination in a 'diamond' provides a neat analytical tool that has enabled a hugely successful branding and an export of Porter's approach to development agencies and governments worldwide (Bristow, 2005; Ketels, 2006).

Use of the concept of competitiveness in economic policy circles has subsequently seen an explosion, with Porter's framework developed with respect to smaller geographical units of analysis, including cities and regions (Porter, 1995, 2003). Moreover, given its origins, the popularity of the discourse of competitiveness has encouraged a stress on direct rivalry between territories in economic development processes (Malecki, 2004). Thus Fagerberg (1996, 48, emphasis added) suggests that "a consensus definition of international competitiveness might perhaps be that it reflects the ability of a country to secure a high standard of living for its citizens, *relative to the citizens of other countries*, now and in the future." Furthermore, Bristow (2005: 287) argues that "along with other prominent commentators such as Robert Reich and Lester Thurow, Porter has made a powerful contribution to the sedimentation of the idea that places are equivalent to corporations, competing for market share within an increasingly interconnected and fiercely competitive global economy". More generally such a perspective has strong links with aspects of the debate surrounding the changing role of the State as processes of globalisation have accelerated (Radice, 2000; Sugden and Wilson, 2005). Authors such as Ohmae (1995), Storper (1997) and Scott (1998), for example, have been influential in emphasising regions as basic economic units in an increasingly globalised world, and trends in globalisation have helped fuel a burgeoning literature in regional studies.[10] Within these debates the concept of territorial competitiveness continues to play a pivotal, though contested, role.

While analysis of territorial competitiveness has proved extremely attractive for many policy analysts and practitioners, reflected for example in wide adoption of the terminology and core principles of Porter's approach, it has raised concerns in different parts of the academic literature. In general the variability in quality of analyses is noted: "serious

[10] See, for example, Pike (2007), opening a special issue of *Regional Studies* reflecting on current issues and debates in the field.

analyses as well as ideological tracts, low-level business school reports, banal data churning, applications of impressive but vacuous formulae, and straightforward 'bashing-the-foreigner'" (Lall, 2001a: 2). More specifically, criticism has been aimed directly at Porter's framework and its impacts on policy. Davies and Ellis (2000), for example, review various critiques in identifying a series of specific weaknesses and suggest that "policy-makers are left with a 'laundry list' on which to base simple SWOT-type analyses of their economies, but there is no reliable guide to policy". Reflective of the distance between the economics and business literatures, Lall (2001a: 5) makes a more general point on business school approaches that transpose corporate strategy to the national level: "they often describe what they regard as the (sensible) constituent elements of competitive success (innovation, skills, clusters) without grounding it in theories of markets, market failures and the ability of government to overcome these failures." Finally, the use of a concept of competitiveness itself has been attacked, criticisms ranging from it being 'ambiguous' due to lack of rigorous definition in the early economics literature (Siggel, 2006), to it being fundamentally 'misguided and damaging' (Krugman, 1994).

Krugman's (1994, 1996, 1998) damning dismissal has been particularly widely cited. However, his strongly-worded call to recognise that "the obsession with competitiveness is both wrong and dangerous" (1994: 44) has neither stemmed the flow of analysis nor put an end to the controversy over its meaning and use. Schoenberger (1998: 3) has since argued that competitiveness has "become truly hegemonic in the Gramscian sense." In line with some of Krugman's concerns over the misuse of the concept, she questions whether we can be "sure that the desired objectivity of our research is not subtly undermined by our reliance on a language and a discourse that is not entirely of our own choosing and, arguably, is a language and a discourse that represents the interests of particular social groups and not others?" (*ibid.*: 13). Such apprehension is echoed by Bristow (2005) in a consideration of regional competitiveness. In particular, she argues that "policy acceptance of the existence and importance of regional competitiveness and its measurement appears to have run ahead of a number of fundamental theoretical and empirical questions" (286). Thus, our theoretical understanding of what is meant by competitiveness at a regional scale lags behind its emergence as a "discrete and important policy goal" and the associated proliferation of "indicators by which policy-makers and practitioners can measure, analyse and compare relative competitive performance" (*ibid.*: 286).[11]

Much of the unease stems from a questioning of the validity of extending, or aggregating, a firm-based concept to the level of a territory. Krugman (1994: 31), for example, argues: "When we say that a corporation is uncompetitive, we mean that its market position is unsustainable - that unless it improves its performance, it will cease to exist. Countries, on the other hand, do not go out of business. They may be happy or unhappy with their economic performance, but they have no well-defined bottom line. As a result, the concept of national competitiveness is elusive." Thus the application of the language of the market is deemed inappropriate to analysing nations and regions in their whole. Nations and regions exist in a system of relations that includes markets, but in which market success alone does not determine their continued existence or extinction.

Aiginger (2006), however, maintains that neither is the situation so black and white with regards firms: while a firm constantly producing at a loss is clearly not competitive, there are firms that have low profits in industries where other firms are making high profits. Thus many of the issues are argued to be similar; even accepting that territories (unlike firms) do not cease to exist if they are uncompetitive, it is useful to analyse and compare how well different territories are able to create welfare (as opposed to profit) (Aiginger, 2006).[12] This is echoed in Fagerberg's (1996) conclusions on the validity of national competitiveness: "the basic idea behind it is sound and simple: people care about how well they do compared to others, individually as well as collectively".

The framing of Aiginger's (2006) analysis in terms of welfare highlights a further key issue: what measure of performance should notions of competitiveness seek to analyse? With regards the firm conceived as a profit maximising entity, profit is the obvious answer.

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[11] Such indicators, and composite indices, are produced by various governments and institutions (Commission of the European Communities, 1999; Department of Trade and Industry, 1999, 2006; EUROCHAMBRES, 2007; International Institute for Management Development, 2007; World Economic Forum, 2007).

[12] Another perspective on these arguments emerges considering that not all firms have sole profit objectives. How might the competitiveness of social enterprises or co-operatives, whose objectives are not defined only (or at all) in terms of market profitability, be measured? Following Krugman, it can be noted that these firms, like profit-driven firms, will cease to exist if they fall below their bottom line. In that sense they are different from territories. However, in line with Aiginger's view on territories it is useful to be able to analyse and compare how well they generate welfare in terms of the objectives around which they actually operate.

However, the issue becomes more complicated if we consider firms with other objectives, and more complicated still when looking at the different objectives that are likely to characterise a territory. The economics discipline has traditionally focused on economic growth as the objective of territorial development, which is in line with the income-based competitiveness definitions of the OECD (1992) and Fagerberg (1988, 1996). A stress on income, or prosperity, is also strongly evident in Porter's (1990a; 1990b) firm-centred framework; given the common economic understanding of productivity as output created per unit of input, it is clear that his definition of competitiveness is inextricably linked to income as an ultimate performance measure. There is an increasingly influential challenge to the framing of economic progress in pure income terms, however, and in the next section we examine these issues further in the context of the competitiveness policy discourse.

III. KEY ISSUES WITHIN THE COMPETITIVENESS DISCOURSE

Three central inter-related issues are evident in the dominant, yet contested, policy discourse on competitiveness. First of all, there is discomfort among many with the explicit notion of territories 'winning' or 'losing' associated with the language of competitiveness; secondly, there is a fundamental question regarding what objectives 'places' are actually trying to attain in their quest to be competitive; thirdly, there must follow a concern with how (and by who) these objectives are determined.

Schoenberger (1998) provides an interesting departure point for the first of these. She argues that the competitiveness discourse has two sources from which it takes its power. Firstly, it is rooted in orthodox economics, in which the market ultimately judges behaviour; thus "competitiveness simply describes the result of responding correctly to market signals" (3), and "becomes inescapably associated with ideas of fitness and unfitness ... 'deserving to live' and 'deserving to die'" (4). Secondly, it is rooted in the business community. Here the term competitiveness is "an essential value and an essential validation" (4), used as an explanation for any strategic action, without which the firm will lose out to competitors and ultimately die. Thus competitiveness is deeply rooted in a dialogue of success and failure, existence and extinction, and by implication *direct win-lose competition*.

This explains in part the concerns of authors such as Krugman, where critique of analysis of national competitiveness is founded on the argument that trade is not a zero-sum game.[13] In this context an obsession with 'winning' in a process of direct competition carries a risk of over-encouraging often ill-informed protectionist or strategic trade policies in a form of mercantilism. Alongside is a suggestion that the language is inappropriate because countries cannot go out of business; they don't suffer the ultimate sanction of extinction if they 'lose'. However, while the theoretical basis for these arguments may be sound in terms of a macroeconomic analysis of national trade, Camagni (2002) suggests that they cannot be extended to the regional level of analysis. He points to ongoing debate among regional scientists in response to Krugman's comments, and argues that a key difference is that cities and regions compete on the basis of absolute advantage rather than comparative advantage. The absence of effective automatic adjustment mechanisms in the form of price-wage flexibility and exchange rates, alongside the existence of the "more effective and punishing mechanism" of the inter-regional migration of capital and labour, implies that "a region can well be pushed 'out of business' if the efficiency of all its sectors are lower than those of other regions" (Camagni: 2401-2402).[14] While physically ceasing to exist is obviously not a possibility, these features of regional economic interaction mean that regions in effect risk long-term decline and exclusion if they cannot 'compete' directly with others.

The debate on the relevance of direct competition is indeed significantly more complex at regional than at national level. Malecki (2004) provides an interesting discussion which examines low and high roads to regional competitiveness and highlights both negative and positive elements of competition between regions. On the positive side he points to the strengthening of technology and boosting of absorptive capacity, the increased information generated by websites and other materials produced in the competition process, and the positive-sum possibilities arising from engagement of local actors and creation of synergies. The focus on regional competition facilitating a qualitative improvement of relationships *within* a region suggests that related reasoning could be applied to the competitive process *between* regions. If local synergies, networks and co-operation are important to balance competitive relationships among actors within regions, as literature on 'clusters' and

[13] This is also in line with Aiginger's (2006: 161) emphasis that "greater competitiveness of one country must not necessarily go hand in hand with lower competitiveness in other countries."
[14] Such arguments might also be seen to be increasingly relevant at national level within the EU, although there remain greater barriers (such as language) to migration between countries than between regions.

'districts' of firms also strongly implies (Becattini *et al.*, 2003; Pitelis *et al.*, 2006; Pyke *et al.*, 1990), then a network approach across regions may also bring benefits. In particular, competition between regions in certain aspects might be desirably balanced by co-operation in others (for example, to avoid unnecessary duplication of certain resources).[15] Indeed, among identified drawbacks of direct competition between regions Malecki (2004) includes the imitation and replication of ideas, the resources diverted into advertising and marketing, the tendency towards serving short-term demands of global capital, the concentration of benefits among a few 'rent-earning' actors, and the ignorance of dimensions of quality of life that lie outside market processes. It is likely that an appropriate balance of competition and co-operation may enable regions to find solutions to some of these important issues, in particular given the uneven starting point of different regions, which implies that in reality they compete in quite different ways.

Thus while it is increasingly apparent that regions are in direct competition with similarly placed regions in certain respects – the attraction of a specific firm, group of firms or event, the attraction of certain types of labour - it is dangerous to assume that a process of *win-lose competition* is the dominant characteristic of the relationship between regions. There are indeed significant risks in overuse of competitive benchmarking, including the tendency to copy and replicate. This may harm the capacity of territories to develop their own strategies and value propositions, which provide a basis for suitable co-operation. Used carefully, however, the language of competitiveness can potentially be targeted to stimulate positive processes of interaction, action and reflection among socio-economic agents. This becomes especially productive when the concept can be directly related to the objectives of those agents, an argument which brings us to the second and third issues identified above.

Productivity-centred approaches to competitiveness make an implicit assumption that the overriding economic development objective of a territory is to increase output, thus income. This assumption has come to dominate discourse on competitiveness, just as it dominates analysis of economic development (Sugden and Wilson, 2002), as epitomised by the approach of the World Bank. Their *World Development Report* presents a detailed array of statistics but makes it clear that "the main criterion used...to classify economies and broadly

[15] Witness, for example, currently ongoing debates in the Basque Country region of Spain regarding the desirability of each of the three Basque Country provinces having their own airports, and the development of both cargo and yachting ports in both of the 'competing' cities of San Sebastián and Bilbao.

distinguish stages of economic development is GNP per capita" (World Bank, 1999, p. 227).[16] Almost forty years ago, Seers (1969, 1972: 21-22) questioned such narrowness, arguing that given "that the complexity of development problems is becoming increasingly obvious, this continued addiction to the use of a single aggregative indicator ... begins to look like a preference for avoiding the real problems of development." However, the addiction has persisted, and there is a sense in which the 'territorial competitiveness' has simply reframed an old debate in new language. Indeed, there are strong parallels between the process for ranking 'development' in the *World Development Report* and those employed to rank 'competitiveness' by the World Economic Forum (2007) and the International Institute for Management Development (2007). Each incorporates a wide range of indicators, but maintains a fundamental focus on the objective of income growth in their methodologies for producing the headline ranking.

The economic development literature is characterised by considerable debate around the appropriateness of this assumption, as reflected in long-standing critique of the Washington policy consensus and structural adjustment programmes that have been premised on market-driven growth above all else (Cornea *et al*., 1987; Dasgupta, 1998; Collier and Gunning, 1999; Stiglitz, 2002; Sugden and Wilson, 2002). While income growth is often argued to be a logical, easily measurable outcome, there is a strong current of analysis that questions whether it is an appropriate proxy for the desired objectives of a society. This concern has heightened in recent years, in particular given increasing recognition of the significance of environmental sustainability (World Commission on Environment and Development, 1987; Ekins, 2000; Stern, 2006) and acknowledgement of the complexity of relationships between income and other dimensions of socio-economic progress (Easterlin, 1974, 2001; Oswald, 1997; Frey and Stutzer, 2002; Layard, 2006; Di Tella and MacCulloch, 2008). Unsurprisingly, therefore, similar concerns regarding the pitfalls of an income-driven, market analysis have also arisen in response to the growing use of the competitiveness concept in policy circles.

For example, in critiquing the market- and income- focus of the UK Government (1994) in analysing competitiveness, Pitelis *et al*. (1996: 160) argue that the approach is "vague" and

[16] The United Nations Development Program (UNDP) has provided a popular alternative methodology, with the aim of evaluating 'human' development more broadly, but this nevertheless contains a strong income element and remains relatively narrow and inflexible, something acknowledged by the UNDP (1997: 44).

''unnecessarily restrictive". They question the need to focus exclusively on success under "free market conditions" and to narrowly specify "real incomes as the objective'' (*ibid.*: 160). Rather, Pitelis (1994, 2003) has consistently argued that competitiveness should be defined more broadly as the ability of a country to improve on a subjectively defined welfare index, relative to other countries. This is related to the approach taken by Aiginger (1998, 2006), who suggests that a defining of competitiveness as the "ability to create welfare" will accelerate the alleviation of current "misunderstandings and vagueness connected with the term" (2006: 174). More specifically, he suggests a need to assess both: 'outcome competitiveness', in terms of a welfare function taking in a variety of considerations that can be operationalised; and 'process competitiveness', in terms of place-specific analysis of qualitative factors inside the 'black box' of an economy (*ibid.*).[17]

Branston *et al.* (2006) go further in their analysis of health industry competitiveness. They argue that welfare-based analyses such as those proposed by Pitelis (1994, 2003) and Aiginger (1998, 2006), while an improvement on the narrowness of income-based analyses, remain fundamentally flawed in that they fall short of addressing how the chosen objectives of the welfare function are arrived at. It is suggested that "more focused is a perspective that sees competitiveness in terms of the democratically determined objectives for development in a specific locality. Then, to be competitive is to satisfy those objectives effectively as compared to other localities" (Branston *et al.*, 2006: 309). They acknowledge that this is considerably more difficult to operationalise, but also argue that to construct a concept of competitiveness without endogenising democratic processes for the determination of desired outcomes "would be to seek 'scientific' convenience at the expense of recognising what is most fundamental to people's economic development" (*ibid.*, 309).[18]

A related argument on scientific convenience has been made by Layard (2006) with regards the challenges posed to economics and public policy by increasingly influential research on psychological well-being. In discussing the policy implications of evidence that people in

[17] The notion of process competitiveness is thus related to Porter's diamond for analysing the factors driving outcomes, although in Porters analysis the outcomes are defined far less broadly, in terms of productivity.
[18] Important insights regarding the benefits of and mechanisms for democratic determination of societal objectives can be found in the democratic theory literature, and particularly interesting in relation to Branston *et al.*'s (2006) arguments are those contributions stressing deliberative forms of democracy (Bohman, 1998; Dryzek 2002; Elster, 1998; Habermas, 1989, 1996; Nino, 1996).

the US, Japan and Europe have not increased in their 'happiness' as incomes have risen over the last 50 years, he makes a point that is worth quoting at length:

> *Broadly, economics says that utility increases with the opportunities for voluntary exchange. This overlooks the huge importance of involuntary interactions between people – of how others affect our norms, our aspirations, our feelings of what is important, and our experience of whether the world is friendly or threatening. One might wish to say that these things are the province of other social sciences. It would be convenient if life worked that way, ... [b]ut it does not. ... [T]ake mobility policy ... More mobility certainly increases income but it also affects the quality of relationships in the community and in families. Economists should not advocate more mobility without considering these effects also. This requires collaboration between economists and other social scientists, especially psychologists. In my view the prime purpose of social science should be to discover what helps and hinders happiness. Economists could play a lead role in promoting this approach: there is so much that could readily be studied and has not been.*

A clear implication is that in economic policy-related fields the determination of people's well-being must be analysed in a broader context than economic analysis has traditionally enabled. At present this is particularly critical in the measurement and definition of competitiveness, given the influence that competitiveness discourse enjoys on public policy.

Moreover, among the growing related literature on the economic analysis of 'happiness' is a contribution by Stutzer and Frey (2000) finding that individual well-being is systematically raised by institutional factors in the form of direct democracy and local decision-making autonomy. Alongside the analysis of Branston *et al.* (2006), this provides further indication of the potential importance of endogenising democratic processes for determining preferred outcomes in competitiveness analysis. Cowling (2006) is also interesting in this regard. He offers an alternative interpretation of the fact that US output per capita is significantly higher than that in Europe, despite similar output per worker hour. Countering Prescott (2002, 2004) and Lucas (2003), who suggest that lower work hours in Europe are due to distortions in the work-leisure choice induced by taxation, Cowling (2006) argues that "we cannot so easily take household preferences to be exogenous within modern capitalism" (371). He suggests that European preferences are fundamentally different to those in the

US “for deep, historical, cultural reasons, but partly because the pressures to consume are different” (*ibid.*: 379). Thus “there can be no easy inference about relative prosperity: the market investment of modern capitalism, with American capitalism as its extreme form, can drive people away from their meta preferences, their underlying preferences, towards longer hours (and lower savings)” (*ibid.*: 379). If, as is implied, certain societies in certain circumstances might prefer to work less at the expense of an excess of consumption, then it is dangerous to assume that their preferences for competitiveness outcomes are reflected solely in income growth. Indeed, such an assumption may contribute to a distortion of preferences over the medium-long term.

These arguments could be generalised to suggest that it is inappropriate to set *any* rigid exogenous outcomes for territorial policies, without providing mechanisms through which the preferences of people living in a region can feed into the process of determining those outcomes. To take another example directly related to mainstream analysis of competitiveness, the innovation processes that are fundamental for increased productivity among firms in a territory can take different paths. Where there is an assumption that income growth is uniquely desirable, policy will be geared towards facilitating innovation processes that respond best to market opportunities. This is undoubtedly important for the long-term economic success of the firms within a territory, and thus a key component of economic progress. A unique focus on income, however, may imply that alternative directions which innovations could have taken are overlooked; directions that may have fulfilled objectives that are less well represented in (imperfect) market processes, but that are nevertheless significant for the objectives of a territory. There is a case for mechanisms that enable these objectives to feed into policy processes, particularly given the existence of imperfect markets in which there are pockets of power, often with interests outside of the territory.

In summary, we might return to Shoenberger’s (1998: 3) claim that competitiveness “is not merely an ‘objective’ description of a fact of economic life, but also part of a discursive strategy that constructs a particular understanding of reality and elicits actions and reactions appropriate to that understanding”. Indeed, Rist (1997) cites Poerksen (1995) in labelling 'development' a 'plastic' word,[19] a label that Sacchetti and Sugden (2007) argue is equally appropriate for 'competitiveness'. This would signal above all that when using the concept, care must be taken to be clear on the implied meaning and to develop a consistent, coherent approach that is appropriate to current economic challenges. Specifically, the above analysis suggests that meeting these challenges implies:

- Avoiding an overemphasis on *direct win-lose competition* between territories, stressing instead a balance between competition and co-operation;
- Recognising that productivity growth, and by extension income growth, is an important *component* of the likely development objectives of a territory, but is *unlikely to be appropriate for reflecting the socio-economic objectives of territories on the whole, and cannot be analysed entirely separately due to interactions between the whole set of determinants, policies and objectives in a territory*.
- Recognising that accurate pursuit of the socio-economic objectives of a territory requires *democratic mechanisms endogenous to the policy process*.

The next Section considers some developments in the measurement of economic progress that are in line with the last two of these arguments in particular. There are clear implications for the competitiveness debate. A re-conceptualisation of territorial competitiveness capable of integrating similar concerns is of critical importance precisely because of the hegemony of the competitiveness discourse among policy-makers.

IV. DEVELOPMENTS IN THE MEASUREMENT OF ECONOMIC PROGRESS

There are today a large number of competing approaches for measuring the economic progress or performance of a territory. The oldest and most established is *per capita* Gross Domestic Product (GDP), growth in which is usually interpreted as a sign of progress, particularly when accompanied by falling rates of unemployment. The origins of GDP can be traced to the 15th Century, when Thomas Petty set out to evaluate the taxable capacity of England. A formal measure was developed by Simon Kuznets in the 1930s, at the US Department of Commerce's request to establish a system of national accounts. Kuznets was clear, however, that GDP had its limits as a measure of economic progress, warning in a

[19] While "it first had a clear and precise meaning", it "has now been so widely adopted in technocrat parlance that it no longer means anything - except what the individual speaker wishes it to mean" (Rist, 1997: 11).

report to the US Congress that "the welfare of a nation can scarcely be inferred from a measurement of national income" (Kuznets, 1934). Indeed, GDP is widely recognised as deficient in this regard. For example it fails to account for the large amount of welfare-enhancing non-market activity that characterises all economies and counts market production positively even when it implies negative impacts on welfare. While GDP has remained the benchmark measure of economic progress, due to its simplicity, ease of calculability and comparability, there is strong movement towards the development of measures that provide a more meaningful and robust basis for the analysis of economic performance. Increasingly significant have been arguments that GDP does not reflect true well-being or welfare, determined as it is by other socio-economic factors in addition to income, and that it cannot capture the interdependence between economic activity and the environmental resources on which it depends.

The measurement and analysis of economic progress are themselves fundamentally inter-dependent. Measures provide a foundation for analysis of the factors that determine the measured performance, and in turn the hypothesised determinants influence the selection and specification of the measures. Indeed, differences in *what* is being analysed and *how* it is being analysed make it difficult to accurately classify the wide array of different approaches that have emerged to challenge or complement measures of income. It is nevertheless useful to attempt such a classification so as to enhance our understanding of which are likely to be suitable for different purposes. There are two clear axes in which to make a distinction: the broad methodology that underlies the specific approach; and the dimension(s) of progress/performance that the approach aims to measure. In terms of methodology, three groups can be distinguished.

Accounting frameworks or measures are most closely related to GDP. These explicitly account for different aspects of performance. They often involve making adjustments to GDP for various factors and/or alternative 'satellite' accounting systems that operate alongside national income accounts. However, some frameworks seek to account for more radically different outcomes such as measured 'well-being' or 'happiness'. All can be considered accounting frameworks because, like GDP, they are 'outcome' variables, focusing on measurement of progress towards an 'end result'. They thus open the prospect of calculating discrete values for what they are accounting for over time (e.g. sustainable income, natural resource stocks, subjective well-being).

Composite Indices combine a variety of indicators that are considered determinants of economic progress. They range from indices measuring very specific dimensions of performance (e.g. learning, corruption) to those attempting a holistic measurement of progress. Like accounting frameworks, their strength is that they provide a single 'headline' figure to ease communication of results, facilitating temporal and territorial comparisons. However, a further advantage is that they enable a range of different dimensions (often subject to different measurement techniques and scales) to be reflected in that single figure.

Sets of Core Indicators overcome the key disadvantage of composite indicators: the loss of much potentially useful information in the consolidation into a headline figure. Providing a core set of key indicators that are presented together facilitates instead a broader analysis of the different dimensions that are considered important for economic progress. A corresponding disadvantage is that sets of indicators are less easy to present in an accessible way, although new techniques are making their presentation friendlier.[20]

Within each of these methodologies various specific approaches have been (or are being) developed. These can be further distinguished in terms of the dimension(s) of progress being measured. Moreover, when making this distinction it is possible to ascertain the specific indicators hypothesised to determine that dimension. This is illustrated in Table 1, using examples of three well-known approaches.

[20] See, for example, the 'dashboard' approach to presenting progress towards the UN Millennium Development Goals (http://esl.jrc.it/dc), a presentation device that is currently being adapted by the European Commission's Joint Research Centre for a range of Eurostat's development indicators.

Table 1. Progress Measures: Dimensions and Determinants

Approach	Broad Methodology	Dimension of Progress	Hypothesised Determinants
Adjusted Net Savings	Accounting Framework	Sustainable Growth in Wealth of an Economy	Net Savings, Education Expenditure, Energy Depletion, Mineral Depletion, Forest Depletion, Particulate Matter & Carbon Dioxide Damage
Human Development Index	Composite Index	Human Development	Income, Life Expectancy, Literacy, School Enrolment
Calvert-Henderson Quality of Life Indicators	Set of Core Indicators	Quality of Life	Education, Employment, Energy, Environment, Health, Human Rights, Income, Infrastructure, National Security, Public Safety, Recreation, Shelter

Sources: Adjusted Net Savings - World Bank (2007); Human Development Index - UNDP (2007); Calvert-Henderson Quality of Life Indicators - www.calvert-henderson.com.

This classification framework highlights the parallels between approaches usually attributed to measuring economic development in some sense, and those that are designed to measure competitiveness. Measures of economic development aim to provide a basis: to monitor and compare achievement in certain specified dimensions of an economies' performance; to understand the determinants of achievement in these dimensions; and therefore to design appropriate policy towards these determinants. Competitiveness measures are in essence a subset of measures of economic progress. They aim to provide a basis to: monitor and compare achievement in a specific dimension of an economies' performance (its 'competitiveness', however defined); to understand the determinants of achievement in this dimension; and therefore to design appropriate policy towards these determinants.

There are a variety of initiatives that specifically analyse competitiveness. For example, the *European Competitiveness Report* seeks to "contribute to a solid analytical underpinning of the microeconomic pillar of the Lisbon strategy" with a yearly productivity-focused analysis (Commission of the European Communities, 2007:7), while the UK Government produces annual *UK Productivity and Competitiveness Indicators* (Department of Trade and Industry, 2006). The greater policy autonomy of regions in certain parts of the world has also stimulated increasing concern with measuring regional competitiveness. The UK Government, for example, produces a report on *Regional Competitiveness and the State of the Regions* (Department of Trade and Industry, 2007), and the Association of European Chambers of Commerce and Industry have compiled a *Regional Competitiveness Atlas*

(EUROCHAMBRES, 2007).[21] In terms of explicit measurement of territorial competitiveness for purposes of comparison, however, the two most recognised analyses are the *Global Competitiveness Index*, produced by the World Economic Forum (WEF), and the *World Competitiveness Yearbook*, produced by the International Institute of Management Development (IMD). Table 2 extends the classification methodology outlined above to summarise these two approaches.

Table 2. Competitiveness Measures: Dimensions and Determinants

Approach	Type of Approach	Dimension of Progress	Determinants
Global Competitiveness Index	Composite Index	Competitiveness, defined in terms of the level of productivity of an economy	Institutions, Infrastructure, Macroeconomic Stability, Health and Primary Education, Higher Education and Training, Goods Market Efficiency, Labour Market Efficiency, Financial Market Sophistication, Technological Readiness, Market Size, Business Sophistication, Innovation (*each one measured by a range of more specific indicators*)
World Competitiveness Yearbook	Composite Index	Competitiveness, defined in terms of an environment that sustains the competitiveness of enterprise	Economic Performance, Government Efficiency, Business Efficiency, Infrastructure (*each one measured by a range of more specific indicators*)

Sources: Global Competitiveness Index – World Economic Forum (2007); World Competitiveness Yearbook – International Institute of Management Development (2007);

Both of the 'leading' reports, like most policy understandings of the concept of competitiveness, are based on the analysis of productivity, and in particular the productivity of the firms within a nation. In line with Porter (1990; 1991) and OECD (1992) they adopt a holistic focus on the relationships between the performance of firms and a range of factors in the national environment. The *World Competitiveness Yearbook* has been published annually by the IMD since 1989 and in 2007 it ranked 55 countries by their ability "to create and maintain an environment that sustains the competitiveness of enterprise", integrating 323 distinct indicators (IMD, 2007: 19). The *Global Competitiveness Index* is an element of the WEF's *Global Competitiveness Report*, and was introduced in 2004. In 2007 it covered 131 countries, its methodology using over 100 individual indicators to rank countries in

[21] The IMD's *World Competitiveness Yearbook* has also experimented with including a group of regions alongside national economies.

terms of competitiveness defined as "the set of institutions, policies and factors that determine the level of productivity" (WEF, 2007: 3). In both cases the indices are structured into sub-groupings of indicators (see table 2); 'pillars of competitiveness'. Also in both cases, the indicators themselves are compiled from a combination of secondary data sources and primary data from an 'Executive Opinion Survey'.

The methodologies of these reports, and in particular the calculation of indices that aggregate such diverse data in explicitly ranking countries, are undoubtedly open to strong critique.[22] However, both reports are well-established and their publication each year is a source of considerable policy-related debate. What both seek to measure is the capacity of a territory to facilitate competitiveness *among its firms*: "nations need to provide an environment that has the most efficient structure, institutions and policies that encourage the competitiveness of enterprises" (IMD, 2007: 19). The reports clearly go beyond narrow accounting measures of income in their attempt provide a basis for analysis of a broad range of determinants of productivity and hence income. Nevertheless their methodologies are *designed* to equate progress with improvements in productivity, and thus they do not go beyond income in the way that various other new approaches to measuring economic progress attempt to. This leads us to a further distinction between measures of progress:

- Approaches concerned above all with economic performance in terms of productivity/income, but which may attempt to facilitate analysis of a range of wider determinants of this performance.
- Approaches that attempt to go more fundamentally beyond a narrow conception of economic performance by incorporating environmental and/or social dimensions of progress alongside (or instead of) income-related performance.
- Approaches that take a more radical departure, for example by attempting to measure quite different outcomes such as subjective well-being or by incorporating a concern with democracy and engagement as components of economic progress.

Surveying around 30 distinct approaches reveals 5 core elements of progress within this that are the subject of measurement:

- *Economic Progress:* Capturing income, employment, productivity, *etc.*.
- *Ecological Progress:* Capturing environment, natural resources, bio-diversity, *etc.*.
- *Social Progress:* Capturing education, health, corruption, justice, culture *etc.*.

[22] See, for example, Lall (2001a; 2001b).

- *Progress in Subjective Wellbeing:* Capturing direct measurement of perceptions of well-being.
- *Progress in Democratic Engagement:* Capturing a concern with the importance of democratic engagement for the progress of society towards its objectives.

Table 3 presents a taxonomy of measures along these lines, built from an analysis of the aims, scope and methodology of each approach.

As an example, the Canadian Index of Wellbeing appears to be potentially one of the most complete approaches in terms of the aspects of progress it will attempt to measure. This index is currently being developed by a network of Canadian national leaders, organisations and grass-roots agents, in collaboration with international experts. It aims to become the key reference point in charting how the lives of Canadians are getting better or worse. It is structured around measuring eight distinct domains, which we have interpreted as follows:

- the domain of 'living standards' fits within our category of *economic progress*;
- the domain 'ecosystem health' fits within our category of *ecological progress*;
- the domains of 'healthy populations', 'community vitality', 'time use', 'educated populace' and 'arts and culture' fit within our category of *social progress*;
- the domain of 'living standards' potentially fits also within our category of *progress in subjective well-being*, depending on how it is configured;
- the domain of 'civic engagement' fits within our category of *progress in democratic engagement*.

Crucially, the Canadian Index of Wellbeing will also seek to highlight how these different areas are inter-connected. In this holistic treatment, widely considered to be at the forefront of measuring progress,[23] and in other approaches included in the taxonomy, there are potential lessons for how we measure and analyse the competitiveness of territories.

[23] For example, Roy J. Romanow, founding chair of the Canadian Index of Well-being Board, presented the closing keynote session at the OECD's *Istanbul World Forum on Measuring and Fostering the Progress of Societies* in June 2007.

Table 3. Taxonomy of Measures of Economic Progress

	Designed to Measure/Analyse Aspects of:				
	Economic Progress	Ecological Progress	Social Progress	Progress in Subjective Wellbeing	Progress in Democratic Engagement
ACCOUNTING FRAMEWORKS/MEASURES					
Adjusted Net Savings	X	X			
Environmentally Sustainable National Income	X	X			
Ecological Footprint		X			
Genuine Progress Indicator	X	X	X		
Gross Domestic Product	X				
Happy Life Years			X	X	
Index of Sustainable Economic Welfare	X	X	X		
Natural Capital Indicator Framework		X			
System of Environmental Economic Accounting	X	X			
COMPOSITE INDICES					
Canadian Index of Wellbeing	X	X	X	?	X
Capability Index	X	X	X		X
Composite Learning Index			X		
Corruption Perceptions Index			X		
Environmental Performance Index		X			
Global Competitiveness Index	X				
Happy Planet Index		X	X	X	
Human Development Index	X	X			
Index of Individual Living Conditions	X		X		
Japan for Sustainability Indicators and Vision	X	X	X		
Sustainable Society Index		X	X		
World Competitiveness Yearbook	X				
World Happiness Index	X	X	X		
SETS OF CORE INDICATORS					
Calvert-Henderson Quality of Life Indicators	X	X	X		
European Benchmark Indicators	X	X	X		
European Environmental Agency Core Indicators		X			
EU Sustainable Development Indicators	X	X	X		X
MDG Dashboard of Sustainability	X	X	X		
Regional Competitiveness Atlas	X		X		

Sources: Adjusted Net Savings - World Bank (2007); Environmentally Sustainable National Income - www.sni-hueting.info; Ecological Footprint - www.footprintnetwork.org/; Genuine Progress Indicator - www.rprogress.org; Happy Life Years - www.worlddatabaseofhappiness.eur.nl; Index of Sustainable Economic Welfare – Daly *et al.* (1989); Natural Capital Indicator Framework - ten Brink (2007); System of Environmental Economic Accounting - www.un.org; Canadian Index of Wellbeing - www.atkinsonfoundation.ca/ciw; Capability Index - Robeyns (2006), Robeyns and van der Veen (2007); Composite Learning Index - www.ccl-cca.ca; Corruption Perceptions Index - transparency.org; Environmental Performance Index - www.epi.yale.edu; World Competitiveness Index - WEF (2007); Happy Planet Index - www.happyplanetindex.org; Human Development Index - UNDP (2007); Index of Individual Living Conditions - www.gesis.org; Japan for Sustainability Indictors and Vision - www.japanfs.org; Sustainable Society Index - www.sustainablesocietyindex.com; World Competitiveness Yearbook - IMD (2007); World Happiness Index - www.globeco.fr; Calvert-Henderson Quality of Life Indicators - www.calvert-henderson.com; European Benchmark Indicators - www.mnp.nl; European Environmental Agency Set of Core Indicators - www.eea.europa.eu; EU Lisbon Strategy Structural Indicators - www.ec.europa.eu/eurostat; MGD Dashboard of Sustainability - http://esl.jrc.it/dc/; Regional Competitiveness Atlas - (EUROCHAMBRES, 2007).

V. CONCLUSION: TOWARDS 'SOCIAL, SUSTAINABLE COMPETITIVENESS'

Viewing competitiveness measures as a subset of the broad range of measures of economic progress enables a useful comparison. In particular, as with all measures of progress, the suitability of any given approach will be dependent on exactly what we are interested in analysing from a policy perspective. As Ketels (2006:116) argues, "the definition of a conceptual term such as competitiveness is never true or false in an absolute sense, but its appropriateness can be judged for a specific research or policy question."

It is clear that the analysis of economic progress is advancing new methods, founded on recognition that it is flawed to assume growth as the objective of economic development policy. Income growth, and thus approaches to competitiveness that emphasise firm-level productivity, will undoubtedly remain a key element needing in-depth analysis. However, following Layard (2006) the inter-relations between different aspects of progress require that policy analysis moves beyond a separate treatment of each element. Indeed, firm-level analysis also suggests increasing recognition of the co-dependence between various aspects of firm and societal progress. Recent work by Porter and Kramer (2006), for example, highlights the inter-relationships between firm and society with regards corporate social responsibility (CSR). They argue that "leaders in both business and civil society have focused too much on the friction between them and not enough on the points of intersection" (84). An analysis of 'inside-out' and 'outside in' linkages between firm and society suggests the importance of holistic analyses of firm-level competitiveness, in this case through integrating CSR into firm strategy so as to uncover opportunities for benefits that are shared by both firm and society.

The challenge of integrating different aspects of progress into a coherent analysis of territorial competitiveness is more difficult because of the variety of different actors involved and the corresponding complexity of synergies and trade-offs. However, work such as that of Porter and Kramer (2006) at the level of the firm provides a basis from which we might build. At the very least, narrowly-conceived territorial competitiveness and related policy should be approached explicitly alongside other elements that are important for a territory's development, taking care to understand the interactions between them. There is a danger, however, that the dominance of a narrowly productivity-focussed competitiveness discourse among policy-makers will continue to skew policy towards fostering unconditional income growth at a time when interesting alternatives are emerging elsewhere. In this sense the popularity of the language of competitiveness provides an opportunity to positively influence policy debates. A broadening of the concept of territorial competitiveness, in line with the broadening of concepts of economic progress that we see more generally, could provide an effective channel through which concern with other aspects of socio-economic development can permeate development policy.

One suggestion is a re-conceptualisation of competitiveness to capture a process of increased firm-level productivity that is both environmentally and socially sustainable at the territorial level. Such a concept might build on the strengths of productivity-centred analysis of the microeconomic fundamentals of firm-level competitiveness to recognise that firms (alongside and in co-operation with other socio-economic institutions) contribute to other elements of socio-economic progress in addition to generating income. The firm (or government) is where most people spend most of their waking hours. In terms of well-being, it therefore plays a key role in society with relation to important issues such as work-life balance, security, health, intellectual and personal fulfilment, and expression of intrinsic creativity. Likewise, the firm (or government) represents much of our socio-economic relationship with the natural environment. In terms of the environmental sustainability of our human activities, therefore, the activities of the firm are critical. Building on these two points, a new conceptualisation of *social, sustainable competitiveness* should be capable of integrating analysis (and measurement) of performance in terms of productivity and income with analysis of performance in these other dimensions. More ambitious still would be to build on Branston *et al* (2006) in seeking to endogenise within the concept of competitiveness the process of democratically determining the desired objectives of people within a territory.

There are significant challenges in integrating these aspects into the measurement and comparative analysis of competitiveness, so as to provide a suitable guide for territorial development policy. However, progress is clearly being made in analysis that uses the language of economic progress rather than of competitiveness, and this is something that can be built upon to ensure that competitiveness analysis leads the way in addressing today's most significant economic policy challenges. Indeed, as environmental, social and democratic aspects are increasingly recognised as inseparable from the economic aspects of development, it is imperative that competitiveness analysis moves forward. If not, it will at best become an outdated concept, or at worst obstruct new developments that seek an understanding of economic progress more appropriate for today and tomorrow's territorial development policy challenges.

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