

EUROPA

Sintra Lecture - February 2000



THE INSTITUTIONS OF THE NEW ECONOMY

Outline of a speech by **Manuel Castells**, Professor of Sociology, and Professor of Planning, University of California, Berkeley
at the Seminar "The European Identity in a Global Economy",
organised with the support of the European Commission and the Portuguese Presidency of the European Union,
Sintra, Portugal, February 18-19, 2000.

0. Introduction

1. The New Economy

It is not simply a knowledge economy. It is based on the articulation of 3 major features, whose performance is made possible by microelectronics-based information and communication technologies.

- *Knowledge* Informational Productivity (Knowledge/Information-based, powered by information technology) *surge in productivity (social cost in USA)*
- Globalization (the key role of financial globalization; transnational networks of production and management as the core of the new economy)
- Organizational Networking: the network enterprise.
- The new technological basis: Internet
- New rules in the new economy: beyond profit making valuation mechanisms for firms (expectations in performance, trust in the institutions)
- Expansion of the new economy, by sectors (from information technology industries to traditional industries, and from manufacturing to services and agriculture), and by countries (California, America, Europe, the World)



2. The social and institutional conditions of the new economy

- Labor flexibility and the individualization of work. The trends. The end of the norm of a stable, career-based, full time permanent job: from the organization man to the flexible woman.
- Geographic mobility of labor. The global search for talent. The Silicon Valley example of immigrant entrepreneurs.
- Self-programmable labor: education, adaptability, risk-taking
- Informed consumers (education, information, Internet literacy)
- Mobility and flexibility of capital: mobilizing savings worldwide; financing innovation through the market, via IPOs; the strategic role of venture capital in innovation and entrepreneurship.
- The right mix of expectations (culture) and trust (institutions)

3. Social and institutional challenges to the new economy.

- Systemic volatility of the economy. Increased volatility of global financial markets enhanced by electronic trading. Business cycles will continue to exist, and their impact during downturns may be amplified by the speed of transactions, and the flexibility of formulas of employment and pay (stock options, temporary work, subcontracting, consultancy and the like)
- Individualization of work means a bonus for winners, but leaves losers out. Problem is not inequality, but lack of protection. Individualization means also disruption of the system of social protection. Particularly with the new age dilemma: 25-55 as the core working years, but people living until 80, with individualized professional and financial trajectories, multiplying the probability of falling in one of the traps of the network society.
- Education: critical both for info-productivity and for equality of chances
- The digital divide, not just access to Internet, but ability to use it.
- Networking, because its flexible capacity to link up value-making nodes, and switch off devalued nodes, leads to social exclusion, locally, nationally, and globally for some territories and for some segments of the population – with cumulative effects on the excluded.



- Multi-ethnicity of societies has to be managed culturally and institutionally
- States as autonomous centers of policy making are challenged by global flows of capital, information, media, and even crime. The Vanishing Tax threat to fiscal balance.
- Social and environmental costs trigger anti-globalization reactions Potential backlash against globalization without representation (the Seattle syndrome)
- Crisis of political legitimacy through a combination of inefficient state institutions, and the politics of scandal. When political institutions are most needed (trust as the basis for investment of innovation; institutional reform to manage the transition to the new economy and the network society) they are widely suspected by their citizens. At this historical turning point, democracy is a necessary but not sufficient condition of legitimacy.

4. Institutional responses to the social challenges to new economy

- Reaffirming traditional values and institutions will just not work. More of the same, will trigger a spiral of de-legitimation, and will increase the danger of extreme social reactions in the coming economic downturns. Markets cannot substitute for societies.
- The welfare state is more needed than ever: for productivity based on human capital; as a safety net; and as a mechanism to temper inequality, and fight social exclusion. But it must be a new kind of welfare state, based on citizen rights (not worker rights), and with variable geometry and customized coverage. If properly designed, it could in fact be responsibly financed by the productivity dividend still to be collected from the new economy.
- New forms of global financial regulation, and international tax agreements.
- Literacy campaign in Europe: Internet access and computational literacy, particularly for the current adult population
- Global solidarity and the OECD-based "technological Marshall Plan" of the Information Age for the switched off areas of the world, working with the United Nations. A social stabilizer, a market amplifier, an ethical tamer.

- New institutions: the construction of Network State, including NGOs. The leading role of the European Union as a new form of state, with nation-states as key nodes, but articulated in a broader network.
- The European Model as a humane alternative to the Silicon Valley Model – incorporating the new economy into new institutions, so that societies are not dissolved by markets, and networks of individuals. Instead, new institutions may create a positive feedback loop between productivity, innovation, quality of life, and social/environmental responsibility.



Fundação Cuidar o Futuro