

The European Case – Proposals for a Success Strategy

By Dr. Anibal Cavaco Silva, 1995

President of the Swiss Confederation,
Distinguished Guests, Ladies and
Gentlemen.

On behalf of my distinguished co-recipients, Mr. Hernando de Soto and Professor Muhammad Yunus, and speaking for myself, I would like to say what an honor and privilege it is to be here today in this prestigious university to receive the Freedom Prize awarded by the Max Schmidheiny Foundation. I was also most pleased to accept the invitation extended to me by the St. Gallen Foundation for International Studies to speak at the 25th International Management Symposium.

My first words are addressed to the teachers and students of this university in the spirit of universalism and liberty, of rigor and responsibility, which are characteristic of the university world. These were also the fundamental values which determined one of the greatest Swiss businessmen to set up, in 1978, the Foundation bearing his name, in the firm conviction that it is only through the promotion of personal freedom and individual responsibility that societies can generate new ideas and open the way to development and social peace, in a word, guarantee men's dignity.

The Max Schmidheiny Foundation, which has carried out a highly merito-

rious work, has already earned international recognition. Through the enlightened action of its present chairman, Mr. Stephan Schmidheiny, the foundation has become one of the leading European institutions to encourage the creation of an ambient for study and reflection, where idealisms can be transformed into everyday activities, reinforcing the structures of a society based on liberal values, developing free initiative and encouraging competition. The creation of the Max Schmidheiny Foundation Freedom Prize is one of the ways in which this institution seeks to promote "individualists or organizations which, by their activities, have contributed to the preservation and development of free economic and social order".

This year Mr. Hernando de Soto, Director of the Institute "Libertad y Democracia" in Lima, Professor Muhammad Yunus, founder and director of the Grameen Bank in Dhaka, and I have been awarded the Freedom Prize by the board of the Foundation. It is a great honor for me to be awarded this distinction, which I feel is – more than anything – a tribute to all the Portuguese who have sought to construct a more developed Portugal, modern but faithful to the sacred principles of freedom and justice. But I am equally grateful for the privilege of replying on behalf of my two co-recipients, whose activities in pursuit of the economic and social development of their countries and the crea-

tion of a more just and free society, well deserve this distinction.

I am sure that this year's prize winners, hailing from three different continents, will continue, in their respective countries and specific areas, to justify this honor and most sincerely extend every good wish that the Max Schmidheiny Foundation will continue steadfastly in its campaign to awake consciousness towards the construction of a more free, more just and more solidary world. I shall now reply to the kind invitation to address the International Management Symposium by sharing with you a few thoughts in the lines of action, which I feel constitute a strategy for the success of Europe in the future.

When speaking of success strategies, the example which immediately springs into mind is the integration process, which has been developing in Europe over the last few decades.

In the first half of this century two devastating world conflicts took place on the continent of Europe, causing the death of many millions of its inhabitants and almost completely destroying its economy.

It is all the more remarkable, therefore, that in this second half of the century the European Community has attained the success which has made it one of the strongest poles for economic and social development in the world.

The process, which led to the present European Union, is at the foundation of the long period of peace, prosperity

and liberty, which this area has enjoyed.

The gradual and pragmatic method, which has characterized the process of European construction, has ensured harmonious integration, based on the free determination of the sovereign states. At the end of the eighties and the beginning of the nineties new steps were taken which have profoundly affected the European integration. I am referring to the creation of the Single European Market, the Treaty of the European Union and the accession of Austria, Finland and Sweden.

Unfortunately, the beginning of the nineties was also marked by the climate of recession, which affected the world economy involving Europe and cooling enthusiasm for the European project. A recession, which coincided with the earthquake effect on Europe, brought about by the breaking up to the geopolitical balance, which dated back to the last war. At the same time, movement towards the globalization of markets was intensified by the development of modern information and transport technologies, and to which the Uruguay Round Agreement added greater impetus.

The economic crisis and political and economic changes highlighted various characteristics, which tend to handicap the European productive system in relation to the economic areas, which directly compete with European production, namely North America and Japan. This is particularly the case regarding deficiencies

in the innovation and transformation of technology; market factors rigidity, inadequate training of human resources and the considerable weight of state intervention whether in the productive area or the social security system. There was clearly an urgent need to rethink the strategic lines of development for the European economy. A European Community with almost 18 million unemployed, that is to say, almost 11 per cent of its active workforce, cannot afford to be calm and confident about its future.

A Europe with millions of its citizens suffering the effects of poverty and social exclusion still has along way to go. Unemployment, with its political and social implications, is the first priority of European leaders today. It is clear that the employment contents in European economic growth have been rather weak. The present situation would seem to indicate that the re-establishment of a climate of economic expansion will not be sufficient to create the number of jobs necessary for the progressive absorption of the millions of unemployed.

European leaders, faced by this situation, realized that a new strategy more adequate to the end of the century had to be found for European economic and social development, so that European integration might continue to be the same successful experience that it has been for the last 40 years. The question was discussed in various European councils and in Brussels, in 1992, the heads of government approved a plan of action

based on the "White Paper" on growth, competitiveness and employment, presented by the European Commission. The setting up of a stable macro-economic framework, which favors investment growth, is a fundamental guideline of the new strategy for European development, which has as its backcloth the Economic and Monetary Union planned for 1999.

If 15 million new jobs are to be created until the end of the century, the proportion of investment in GDP needs to increase by about four percentage points, and activities with a greater employment factor will need to be stimulated. The recovery of economic activity, namely in the investment area, necessarily depends on the stability and coherence of economic and monetary policies, exchange stability and budgetary consolidation. The core objective of this is to control inflation, which should lead to the progressive reduction of interest rates and to improved economic efficiency fostering sustainable economic growth.

This fully justifies the drawing up at the community level of guidelines for macroeconomic policy and supervision in relation to the policies of member states. Equally, the march towards full Monetary Union leading to a single currency must be maintained without hesitations.

There appears to be no point in changing convergence criteria, which are marks of reference favorable to the financial discipline required for

sustainable growth and stability in Union space. At the same time, respect for the principle of solidarity, the reinforcement of economic and social cohesion, which has underpinned European construction, must continue to be a basic guideline in Union activities and policies.

Improved competitiveness of European production in the world market is another guideline, which is crucial to the success of the European project. The economic growth of the Union depends on an open trading system, based on the principles and practices of multilateralism, in which the necessary mechanisms for the prevention of unfair trading practices are properly guaranteed.

The European Union, for this reason, has always rejected the protectionist temptation and firmly pledged itself to the Uruguay Round negotiations and to the setting up of the World Trade Organization and the reinforcement of the discipline of international trade. In this context, the improvement of competitiveness in the productive sectors is an essential condition not only for European Union development but I would go so far as to say, for its very survival.

Here I would like to underline the importance of the micro, small and medium enterprises to the European productive fabric. These companies account for the overwhelming majority of European business, generating more than 70 per cent of the total turnover and an equal percentage of community employment.

If it is true to say that their relatively small size, generally grants them greater adaptation capacity, it is equally true to say that their size may restrict their access to adequate financial resources, new technologies and markets.

It is essential, therefore, that policies are drawn up to reduce the administrative and fiscal burdens to which these companies are subject, to facilitate the access of small and medium enterprises to funding and support schemes and to improve management quality and cooperation between companies, so strengthening their competitive potential in both European and world markets. Hence, without the contribution of medium, small and even micro companies, it will not be possible to solve the dramatic problem of unemployment.

Last year, at the European Council in Corfu, I drew attention to the importance the small initiatives of local interest and proximity services may have as a source for the creation of jobs and value-added helping and at the same time, to fix populations, combat urban pressure and protect the environment. It can no longer be assumed that the unemployment problem can be solved only through economic growth.

Each member state has its own "national employment system" with its own labor legislation, systems of collective bargaining, social security systems and traditional business practices. An attempt to apply uniform standards at the community level

would not be easy, nor necessarily desirable. But what is desirable is that each member state carries out a revision of these systems and mechanism to eliminate rigidity and misadaptation factors in the current European framework.

The flexibility of the labor market, the quality improvement of the workforce and the reduction of the labor relative costs are essential to face the growing international competition. Teaching and vocational training systems need to be revised so that on-going training is easily available to all workers throughout their active life. It is becoming increasingly evident, however, that economic progress in general and competitiveness in particular, largely depend on the development of scientific and technological research and equal access to the results of this research.

These activities have not been paid the same attention in the European Union as they are attributed in countries such as the United States and Japan. The rapid resolution of this deficiency situation is imperative for the drawing up of a successful strategy in the European Union.

A significant increase in funding is required for scientific and technological research activities, whether in the public or the private sector, and coordination and cooperation schemata need to be improved to increase efficiency in the utilization of resources. It is also necessary to ensure that the results of research are made avail-

able to European users in reasonable financial and temporal conditions.

In this area, special attention must again be given to small and medium enterprises so that they, too, will have access to new technologies. It is for this reason, and because of its externalities, that great importance should be given to the pluri-annual research and technological framework programs drawn up at the community level.

The improvement of transport, telecommunication and energy networks is also an essential condition for economic progress and the increase in European competitiveness. This is a guideline, which is also required for the reinforcement of economic and social cohesion and the full exploitation of the European Single Market.

In this framework, the European Union must pay particular attention to the development of information technologies, which underpin the majority of transformations taking place in world economy. In the model of society towards which we are moving, access to information is without any doubt-a prerequisite for progress.

The creation of information highways, where considerable number of data can promptly circulate, the setting up of services, which facilitate access to information, its transmission and exchange, are demands, which must be met if progress is to be made. It is a task which is not only the responsibility of member states, but also of the Union itself, for objectives can only be satisfactorily attained by joint efforts.

It is easy to see that the implementation of a successful strategy for Europe requires in-depth structural reform in economic, educational and training systems, access to information and business organization.

Besides the global strategy for growth, competitiveness and employment and the macro-economic guidelines, the European Council has determined that a series of measures, crucial to the carrying out of this strategy should be developed at the community level. This is applicable to trans-European networks, co-ordination programs for research and development activities, the increased promotion of vocational training and the support for small and medium enterprises.

But the primary role remains in the concern of the member states, which have to integrate their policies into this new strategy, and social partners and the citizens of Europe have, in the same way, to absorb the demands of a new model of competitiveness. The enhancing of economic and monetary integration must correspond to a strengthening of the European political dimension, so as to build up an effective defense of common interests on the international scene. A divided Europe will always be weaker in the confrontation with the emerging poles in the new organization of world economy.

Ladies and gentlemen, the policy which has been followed by Portugal over the last ten years is, to a large extent, already integrated in the new

development strategy for Europe. The economic policy is based on two fundamental orientations. On the one hand, the strengthening of conditions which will guarantee a stable and coherent macro-economic framework and favors sustainable, non inflationary, economic growth. On the other hand, the enhancing of structural policies to increase productivity and enterprise competitiveness.

It has been possible, due to the political stability which was established in Portugal as from 1986, to adapt a large number of structural reforms which have affected the most diverse areas of the Portuguese economy and society, and which were imperative, if the challenge of European integration was to be met.

An in-depth reform of the tax system was carried out and a pluri-annual strategy for the reduction of the budgetary deficit was adopted. A wide program for the privatization of government-controlled companies was carried out and significant advances have been made to rendering labor legislation more flexible.

The financial system was liberalized and the Escudo was integrated into the exchange rate mechanism of the European Monetary System. The last ten years have seen tremendous expansion and modernization of transport and telecommunication networks and a strong bet was made regarding the recuperation of delays affecting fields like education and vocational training, active employment policies

and scientific and technological research.

Overall, the results obtained have been very positive, for today the Portuguese economy is much better prepared to face the demands of market globalization and to produce economic growth and employment.

Ladies and gentlemen, the experience of European integration, up to now, has generated a growing area of peace and liberty, encouraged respect for human rights and ensured the progressive improvement in living conditions. It is our earnest hope that these conditions will be maintained and developed in the future.

We do, indeed, have an ambitious agenda ahead of us, from which I must stress the complex negotiations for the revision of the treaty of Maastricht to be tackled in 1996.

The work of private institutions such as the Max Schmidheiny Foundation greatly contribute to the success of Europe, for they are guided by the same values that lie at the foundation of the European idea, and which are recorded in the award I have been most honored to receive: The preservation and development of a free economic and social order.