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Where is Europe going in the world's third industrial revolution?

Investing in Europe's future

"Investing in Europe's future" ... the theme of a two-day conference organised by the European Investment Bank as a focal point for the formulation of ideas and policies to relaunch the European economy. Over 150 prominent people from the 10 EEC Countries came to Luxembourg to discuss priority action needed in the rest of the 80s and beyond if the Community is to achieve sustained economic growth through an increase in productive investment. The need is unanimously acknowledged, but betrayed by the facts. Europe devotes about 18% of its gross domestic product to investment and siphons off 82% to consumption. The level of investment has been falling off steadily over the past decade. In Japan, by contrast, investment corresponds to almost 30% of GDP. Unemployment is bound up with the trend: while the American economy has generated over 30 million extra jobs in 20 years, the EEC countries have lost 1 million, signally failing to provide for an expanding labour force.

Europe takes a high proportion of the Nobel prizes for scientific discovery, and the EEC Member Countries together spend more than twice as much as Japan on research. But industrial application falls behind. The EEC's share in world trade of high technology goods diminishes. Europe is a net importer of high technology from Japan and and the USA, and net exporter in the "brain drain".

A change of direction is required. The EIB believes the forum for expressing consensus views on how to achieve this needs to extend beyond the sounding boards which exist at national levels, or in sectoral groupings, or indeed amongst the Community institutions themselves.

For this reason, it decided to bring together the principal protagonists in the European economy and society – leaders from management and labour, politics and academics, public and private financial institutions, multinational companies and small firms' organisations, national and Community economic planning departments, stock exchanges, research establishments, energy authorities...

The conference gave rise to a wide exchange of views, many of which impinge directly on the EIB's activities. There was no question, of course, of drawing up new terms of reference for the EIB, or committing the Bank to specific policies, this being the sole preserve of the EIB's statutory authorities. However, the aim was to go beyond diagnosis of problems hindering investment and stemming from the present inadequacy, to arrive at concrete recommendations which could be of significance to the Bank and other Community institutions in framing their future action.

"What we want to achieve is discussion not in an ivory tower, but in a centre of action – a marriage of

theory and practice", said EIB Vice-President **Arie Pais,** who opened and presided over the proceedings.

"Words spoken here in this conference will not be gone with the wind in a few days. On the contrary, the exchange of views may be extremely helpful and useful in marking the road ahead, the road along which – with the assistance of the European Investment Bank – Europe's economy should evolve."

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The European Investment Bank organised the symposium at the European Centre in Luxembourg on November 17 and 18 to mark its 25th anniversary as the European Community's main investment financing body. In this quarter-century it channelled loans worth 22.5 billion ECUs into European industrial, energy and infrastructure investment. In 1983 alone they totalled 5.5 billion.

The theme "Investing in Europe's future" was drawn from the title of a book, sponsored by the EIB, with the same broad aim of stimulating public debate on the issues at stake. The book features contributions from outstanding economists on how the Community should react to the changing international economic circumstances (published in English, French, German and Italian, it is now available through main booksellers).

Parallel to this, the Bank also commissioned for its own purposes studies on potential future European investment strategies. The main elements of one study, "A new lease of economic life for Europe?" carried out by the Netherlands Economic Institute (NEI), were published in EIB-Information No. 37 (February 1984).

This special issue now reports on the symposium, with extracts from the main speeches, and a synthesis *of viewpoints which found a wide* acceptance amongst participants. These concern the needs to:

– improve the climate for business profits and cut the tax burden on enterprise;

– increase efficiency in research and development, and its downstream introduction into the production lines;

– remove barriers to trade which diminish the potential of the European "common market";

– nurture financial stability, reinforcing the European Monetary System;

– develop the Community's borrowing and lending activities;

– strive for a better understanding between management and labour on the introduction of new technology and its implications;

– fund the "missing links" in major European infrastructure;

– expand the opportunities for small and medium-scale ventures.

In particular, the conclusions are given of three specialised discussion groups at the symposium. These were set up to formulate policy blueprints for the key fields of investment to:

– develop Europe's backward regions (see pages 11-13);

– reduce oil imports and achieve greater security of energy supplies (pages l4-l5); and

– improve the competitiveness of European industry (pages l6-l9).

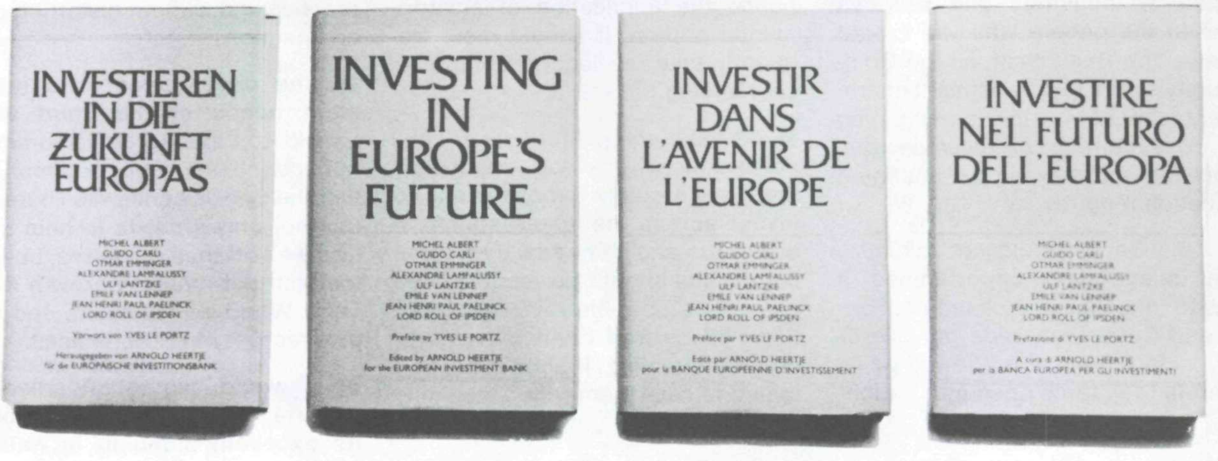
H. Onno Ruding, Netherlands Finance Minister and current Chairman of the EIB's Board of Governors (left) receives the first copy of the book "Investing in Europe's future" from EIB President Yves Le Portz (centre) and Vice-President Arie Pais (right).

European crisis of confidence

H. Onno Ruding, Netherlands Finance Minister and current Chairman of the Board of Governors of the European Investment Bank, made the keynote speech at the symposium, contrasting the "bold stroke of creativity" in setting up the European Community with the "gloom of the present day".

"There is a European crisis of confidence", he said. "Many of the unemployed have lost hope of ever finding work. A number of those trying to develop new products are losing confidence to match the progress of the enterprising Americans, Japanese and others. More generally, industrialists and businessmen have lost confidence that their markets will again expand. Thus they are reluctant to invest; or their investment decisions are defensive and short-term.

"There seems to be a reduced confidence in the ability to change that was so characteristic in the early days of the European Community. In our various countries some of the institutions, habits of thought and legislation, which were designed to protect us as individuals and to offer security, have become impediments to the type and magnitude of changes which are now required. There exists too much government regulation of private business activities.



The chapters and authors of **"Investing in Europe's future"** are as follows:

Preface
Yves Le Portz, President of the European Investment Bank;

The outlook for Europe's economic development
Emile van Lennep, Secretary-General of the Organisation for Economic Cooperation and Development – OECD, Paris;

Growth, investment and employment in Europe in the 1980s
Michel Albert, President, Assurances Générales de France, Paris;

Investment and the international monetary and financial environment
Alexandre Lamfalussy, Assistant General Manager, Bank for International Settlements, Basle;

Investment and government policy
Otmar Emminger, Former President of the Deutsche Bundesbank, Frankfurt;

Investment and technological competitiveness
Guido Carli, Former Governor of the Banca d'Italia, Rome;

Investment and energy
Ulf Lantzke, Executive Director, International Energy Agency, Paris;

Investment and the development of backward regions
Jean-Henri Paul Paelinck, Director, Netherlands Economic Institute, Rotterdam;

Financing investment
Lord Roll of Ipsden, Chairman, S.G. Warburg & Co., London.

Arnold Heertje, Professor of Economics at the University of Amsterdam, acted as coordinator and editor of the publication, in close cooperation with the EIB Management Committee, in particular Vice-President **Arie Pais.**

The publishers are:

Basil Blackwell
108, Cowley Road
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Economica
49, rue Héricat
F-75017 Paris
"Investir dans l'avenir de l'Europe";

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Tiergartenstraße 17
D-6900 Heidelberg
"Investieren in die Zukunft Europas", and

Guida Editori
Via Ventaglieri 83
I-80135 Napoli
"Investire nel futuro dell'Europa".

The book is now on sale at or can be ordered through the usual commercial outlets which handle books on economics and financial affairs.

In sponsoring this book, the EIB wanted to give the writers – all with internationally acknowledged authority in their fields – the opportunity to offer their own views on issues concerning investment in Europe. The opinions they express do not, therefore, necessarily reflect official EIB policy, beyond the Bank's wish to stimulate wider public debate.

"There are no easy solutions to these problems. If this symposium just clarifies the issues, it will have been worthwile."

Minister Ruding saw the need for an **increased EIB contribution to investment in the Community.**

"The EIB forms an integral and important part of the Community effort. It is first and foremost the Community's development bank, and the principal mechanism through which the Community as such invests. Its financial strength is impressive.

"I should like to put forward some suggestions for debate about the Bank and its future role, bearing in mind that useful efforts in these directions are already being made by a Working Party of its Board:

■ "it is clear that the investment that Europe now requires is not just in new roads, sewerage schemes, power stations – in other words: infrastructure – and in regional development projects, important though these things are, but also in

new industrial technologies, new types of industries and services and in the people who will create them. The Bank itself, as the Community's principal investment instrument, should consider participating in investments in all these sectors, both old and new, as the changing situation requires.

■ "the Bank should not minimize the **independent opportunities** it has to influence and change national and Community-wide policies or the lack of them. It is allowed by its Statute to enforce open international bidding procedures. It may enhance the application of environmental criteria. It should more frequently take the lead in setting up cofinancing consortia.

■ "if there are institutional or legal constraints of any sort which limit **the Bank's ability to borrow and to invest across the whole spectrum of Europe and its needs,** then these constraints should be reconsidered and where possible removed. If the Bank needs **new financial tools** to be fully effective, it should be permitted to have them within the limits imposed by financial prudence and practice and without distorting open competition.

■ "the **development and investment needs of the Third World** should continue to be listed among our countries', our Community's, and the Bank's concerns. There is to this not only a desire to help those less well off than ourselves, but also the fact that renewed growth in the Third World will stimulate and support recovery in Europe itself.

■ "I would like to underline the importance of the **EIB maintaining its excellent standing in national and international capital markets.** We should avoid diluting the Community's financial strength and creating confusion by further adding to the number of financial instruments. In my experience it is better to use only a few strong instruments than many smaller instruments in a less coordinated way. In the European Community, in other words, there is but one Community Bank."

"We must resist any temptation to think that Europe's difficulties can be overcome by isolationism or at the expense of other, less prosperous nations," says H. Onno Ruding, Netherlands Finance Minister and current Chairman of the EIB's Board of Governors. In his opening speech he points to the fact that the EIB operates in over 70 countries outside the Community — "most of which are in an economic plight far more painful than that of the Community itself" — and says: "Our policy for cooperation ought to be mutually beneficial, which will only happen if we keep our doors wide open, both in trade and in the financial field."

Investing in durable growth

The EIB's President, **Yves Le Portz,** set out the framework for the two days of debate, drawing on the main themes outlined already in the book.

"It was at the end of 1973, at the time of the first oil shock", said Mr. Le Portz, "that the world economy slipped into recession. What those ten years have shown is that, whether we are speaking of employment, public finances and social security, progress in or even maintaining the standard of living, none of the fundamental balances that shape the life of our society can be adequately struck unless or until we achieve once more an acceptable, lasting rate of growth.

"We are today beginning to see signs of an economic recovery, but in Europe the upturn seems to be limited, tenuous, of uncertain future. There is a distinct danger of this new trend being confined to just a few countries and failing to provide the Community as a whole with the revitalised capacity to invest, upon which any long-term improvement in our economy or steady return to fuller employment vitally depends.

"The overall figures are worrying. In ten years, the gross rate of investment has fallen, in our countries, and the fall in the net rate of investment that has resulted has been much greater, with many firms now disinvesting, in net terms, which implies that our industrial means of production are dwindling.

"In qualitative terms", argued Mr. Le Portz, "the situation is even worse.

"New industrial investment is especially meagre in the leading-edge industries, particularly in the advanced technology field, and the transfer of those technologies to other industries is slow. The consequences of this can already be gauged. During the past ten years, for instance, the Community's share of high-technology exports has fallen considerably; at the same time, the overall productivity of industry has been increasing at only just over two thirds of the rate achieved by Japanese industry."

The President urged those present to engage in "free and open debate", asking them each to contribute to "defining the various aspects of the concrete steps that have to be undertaken and the terms on which they could be achieved, so as to facilitate joint action" in the face of the investment crisis. He then enumerated the key factors that figure in the crisis, as studied in the book:

– How to set about **re-establishing the ability of European industry to compete internationally,** through its modernisation and continual adaptation to structural change, even during a period of weak demand that fails to stimulate the propensity to invest?

– What measures are required to **improve economic conditions generally,** and more specifically rekindle productive investment?

– Why is European industry being held back from breakthroughs by **imperfections in research and development?** Are research resources being wasted and the efficiency of work done being squandered through dissipation of effort?

– What is the **danger of a further oil shock,** if there is a genuine recovery in economic activity that swells imports? Does Europe not stand in need of appreciably **higher investment in energy** to make certain of its long-term supplies?

– What should be the guidelines for **attracting productive investment into the less-developed regions or those with heavy concentrations of aging industries?** "The hopes that the foundation of the European Community nurtured in those regions, of seeing their living standards close up on those of the more developed regions of Europe", said the President, "have been jeopardised".

– Are national investment aid schemes well-founded and effective? Companies are being hampered by the dearth or the high cost of borrowed capital. **How can a better flow of financing be achieved?**

– How can we get investment financed in those countries that are running a balance-of-payments deficit without adding an immediate burden to their external commitments that will be too heavy for them to bear? There is a direct link between this question and **the role and volume of activity of the Community financing institutions,** and the EIB in particular, because of the external capital they bring in.

"In more general terms", he said, "is it even possible, for most of our countries, to break out of the vicious circle of inadequate growth without taking Community-wide action and perhaps moving on to even broader forms of cooperation?

"A number of contributors to the book emphasised the need for this kind of action on a broad front, including monetary cooperation. Key factors in such action are intervention by the Community's financial instruments and the coordination of research and development. How are we to set about such action, with all its complexities and difficulties and involving as it does not only our governments and the Community authorities but also, indeed especially, both sides of industry and the financial institutions?"

Yves Le Portz, President of the EIB, explains how the symposium came to be. "The European Investment Bank is celebrating its 25th Anniversary this year. The Bank, which was created under the Treaty of Rome to contribute to the balanced development of the Community by the financing of investment, felt it would be in keeping with its appointed task to mark this anniversary through the pooling of ideas on contemporary investment problems in our countries". He urged those present to engage in "free and open debate" designed to culminate in concrete action.

Adapting to change

How to improve Europe's response – in rapidity and flexibility – to major structural change, was at the root of virtually all discussion at the symposium.

According to **Emile van Lennep**, OECD Secretary-General, "Change tends to be painful principally to those who do not adapt to it". In the opening chapter of the book, he writes, "Through the 50s and 60s the very successes of the industrial world had built up popular resistance against change. There seems to have emerged, especially in Europe, a belief that the kinds of jobs and life-styles established during those decades had been bestowed as an immutable right, and that it was therefore appropriate to resist any challenge or modification to them."

Some of Mr. van Lennep's ideas were presented at the symposium by **Antonio Maria Costa,** Special Counsellor to the OECD Secretary-General, who centred on three themes: the stimulation of economic efficiency, aided by giving business a more predictable macroeconomic environment; the problem of investing in economic growth while still diverting sufficient resources to satisfy social concerns; the need for an intergovernmental policy approach, in a world of growing interdependence.

Sustaining a favourable investment climate, Mr. Costa said, is "primarily a matter of **increasing confidence, strengthening profitability, and ensuring adequate prospects for business growth".** The risk-premia required to support new investment have risen in the past decade as a result of greater instability and uncertainties in the overall economic environment. From this perspective, a key role for policy in promoting investment is to reverse the deterioration of business expectations. This suggests the need for pursuing stable macroeconomic policies in a medium-term framework, and making it clear that major structural imbalances in the current situation will be dealt with. It argues for stable growth of monetary aggregates at rates consistent with the gradual elimination of inflation and inflationary expectations.

"So long as perceptions of risk are high and profits low, business investment will remain depressed. To counteract this, not only will it be necessary for unit profits to rise, but expectations in Europe concerning total profits must improve. Profits could be boosted, without endangering price stability, either by a significant productivity improvement or by a further deceleration of real wage growth. Neither of these are likely to be achieved very rapidly, however. A related point concerns the scope for fiscal changes to alleviate the pressure on profits, reversing the tendency of the last decade for the tax burden to shift towards taxes on enterprise.

"In the longer run, technological innovation and appropriate competition and industrial development policies are additional important aspects of an overall effort to promote efficiency", Mr. Costa added. There are several provisos to this, however: socio-economic considerations must not inhibit the incorporation of technical advance into actual production methods; international obstacles to technology flows must be removed, and trans-frontier cooperation encouraged so that the rising costs of research and development are shared; industrial policies focussed on expanding research and development, reducing unemployment, and easing extreme structural crises must be transparent and non-discriminatory, taking advantage of the stimuli provided by international competition. This will ensure that "help for declining industries leads to positive remedies and does not merely prop them up".

Higher investment for European economies will have to be matched by a greater supply of savings, he said. Over the longer term, household saving rates will have to rise. "Policies to improve the attractiveness of private saving will have a major role. At the same time, policies have to generate higher rates of public saving, or less public dissaving."

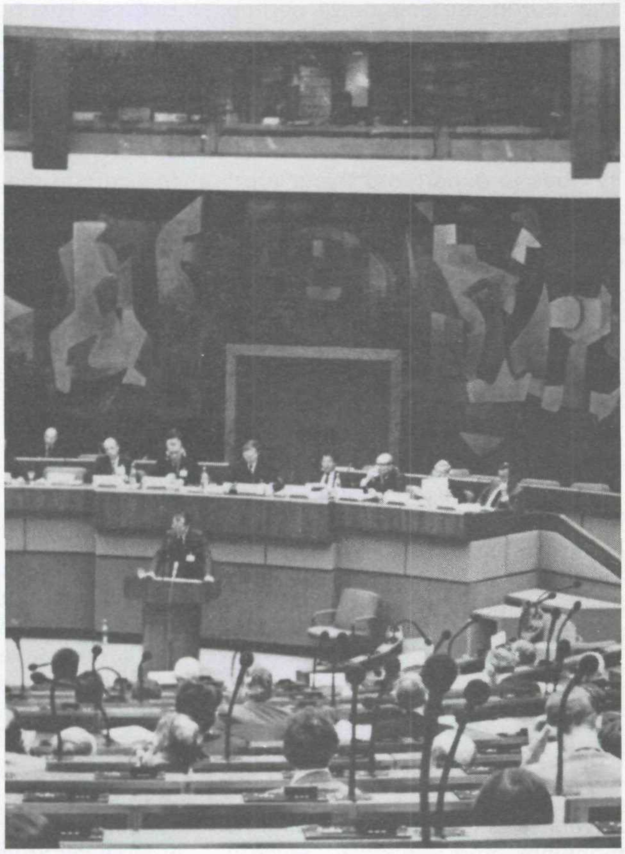
This review of the symposium, prepared by the Bank's Information/Public Relations Division, is intended to give an overview of the many topics discussed, not provide the reader with a verbatim report of all the proceedings. For this reason, only extracts from the various speeches – and sometimes abridged – are given here. The speakers express their own views and interpretations.

In the decade ahead, he said, the **combining of economic growth with the satisfaction of social concerns** "is likely to be a major problem for European societies, especially since unemployment has turned into a difficult structural problem. The satisfaction of future claims on welfare without a reduction in economic efficiency will be difficult in a period when more savings should be allocated to improve industrial structures. Unfortunately, slow growth and inflation increase the call as well as limit the scope for welfare, just when concern about the incidence on employers' costs and tax resistance are both rising. Existing social programmes have to be reviewed and made more efficient, while proper coordination of social and economic policies may require major changes in the machinery of governments. Although some tripartite institutional innovations may be useful in this process, it is only through parliaments that real consensus can be achieved".

Investment ratios, growth rates, productivity

	Investment ratios[1]			Growth rates[2]			Increase in productivity of the economy[3]		
	EEC	USA	Japan	EEC	USA	Japan	EEC	USA	Japan
1967–73	22.5	18.3	34.3	5.0	3.6	9.6	4.3	2.5	8.0
1973–80	21.1	18.3	32.0	2.3	2.3	3.7	2.0	1.3	2.7
1980	21.2	18.5	32.0	1.4	−0.4	4.8	1.0	0.9	3.6
1981	19.8	17.9	31.0	−0.6	1.9	3.8	0.9	0.8	2.1
1982	19.1	14.9	30.9	0.6	−1.7	3.0	1.4	−1.0	1.9
1983	18.5	16.9	28.8	0.8	3.4	3.3	0.8	2.3	1.3

[1] Gross fixed investment in per cent of gross domestic product (GDP)
[2] Annual percentage change in real GDP
[3] GDP per person in employment
(Sources: OECD, Commission of the European Communities, EIB, national statistics)



The European economy, perhaps more than any other, would also greatly benefit from an increased **inter-governmental approach to policies,** said Mr Costa. "About 30% of output of the European Community goes to export and this share is likely to increase over time. However, in the latter years of the century, Europe's share of world output may barely be 15%, compared with almost 20% in 1975. Europe could hardly prosper in a world which ignored the market efficiency stimulated by international trade. With the increasing sensitivity of national economies to events abroad, prosperity will depend heavily on Europe's ability to work with other countries, including those of the Third World which may account for half our export growth in the coming decade".

Monetary and financial environment

Adverse changes in the international monetary and financial environment, particularly movements in interest and exchange rates, impinge directly on investment decisions in Europe. This field was dealt with in the book by **Alexandre Lamfalussy,** Assistant General Manager at the Bank for International Settlements in Basle, who was represented at the symposium by **Warren McClam,** Manager at the BIS.

Discussing real high interest rates, an obvious brake on investment, Mr. McClam said one factor makes them a more severe problem in Europe than in other areas. "This is the development in profit shares and the profitability of investment. In virtually all European countries there has been a marked change in the distribution of income in favour of wage-earners. Indeed, it is not uncommon to talk about the **European disease, whereby rigid wage behaviour has reduced profit shares and competitiveness and generally weakened investment incentives.** Recently, we have seen clear signs of wage moderation in a number of countries. But it is crucially important that the resulting gains in profit shares should be maintained and consolidated. In this way an improved relationship between profitability and real interest rates can be expected to enhance the willingness to invest. Otherwise, we will not return to a better balance between real interest rates and economic growth."

European investment is also vulnerable to shocks from the international debt crisis. After some "cliff hanging months", said Mr. McClam, "the outlook, at least over the short term, has become somewhat calmer and more reassuring.

"But from the standpoint of investment decisions, it is the longer-term outlook that matters, and here uncertainties abound. **The days of abundant credit to finance rapid economic development over wide areas of the non-OECD world would seem to be over.**

"Once burned, twice shy. The banking community, however much it may cooperate in maintaining, and even increasing, its outstanding credits, is likely to remain cautious in its spontaneous new lending. Equally unlikely is any marked revival in direct investment, and it is too much to hope that official lending could compensate for more than a part of the contraction in net new capital flows. All this implies a heavy burden of adjustment on the part of the indebted countries, not only in

"It has often been said that Europe has been letting others make the running in international competition, that she has been living on her stored-up wealth", said Mr. François Ceyrac, President of the Economic and Social Committee. "It had to be said, because it was true. But above and beyond that observation, we have reasons for facing the future with confidence."

cutting back on imports but also in seeking out new export markets. For these reasons it is difficult to be optimistic concerning the buoyancy of markets in the LDCs, whether oil-producing or not, or in eastern Europe."

Hopefully, commercial banks will still differentiate in their lending and avoid tarring all potential borrowers with the same brush (the 'regionalisation' syndrome). But the outlook is sober. "Ideally, we should still like to think of a world in which, with the help of substantial private capital outflows, it is possible to transfer a continuing net flow of real resources to the developing countries. In such a world, domestic investment patterns would be affected accordingly. We should not lose sight of this ideal, but the events of the past decade may have pushed it beyond reach for some time."

Turning to exchange rates as another determining factor in long-term investment planning, he said that companies have been ingenious in coping with uncertainties, not least by international diversification. "But we have also seen waves of direct investment later reversed in part by changes in exchange rates and relative cost considerations." Disruptive exchange-rate movements lead to caution and risk-aversion in undertaking trade-related investments.

"Prof. Lamfalussy expressed doubt as to whether, in order to achieve greater exchange rate stability, any genuine coordination of policies — especially interest rate and exchange intervention policies — is attainable with non-Community countries. Even more unlikely is any grand design for the international monetary system to take the place of floating. In terms of investment incentives, therefore, he puts emphasis on the need for the **continuation and smooth functioning of the European Monetary System,** hopefully with a greater convergence of national policies."

Confidence in our future

Pessimism? Realism? "There are reasons too for us to have confidence in our future". Optimism? It was the turn of François Ceyrac, President of the EEC's Economic and Social Committee, to speak.

Taking his cue from what had been said on the economic and monetary environment, he put forward the ESC as a forum for bringing together representatives from the Community's various economic and social circles.

"It in fact offers a way of observing changing moods and attitudes towards the major problems with which we are having to cope: what we are witnessing is an increasingly clear perception of the true nature of those problems and routes to their solution.

"It is now universally recognised that **during the last ten years we have been sacrificing investment to consumption, and that that is a dangerous thing.** It has jeopardised the future of our economies. It is time for a change of course.

"This general acceptance of what now appears to be a self-evident truth should come progressively to influence the behaviour of all the many protagonists in economic and social life on such essential points as the rejection of protectionism, openness to new technologies, refusing to keep declining activities artificially alive and the practice of greater mobility. There is a chance for Europe here.

"The role of an agency like the EIB can be essential at a time like this, insofar as its effects are transmitted and amplified through private initiative, by large, medium and small companies and, in general, by all those actively engaged in economic and social life. What sort of climate does that kind of initiative require?

"First and foremost, what is needed is confidence in Europe. The point at issue", he said, "is our capacity for living together and creating the political and economic framework that best fits the needs of the age.

"Another condition: the creation of a **true single market, through the elimination of all those hurdles that still remain,** even after 25 years of the common market. Widening and opening up the markets, however, is not enough: what we have also to do is to organise them and launch the right sort of ventures."

In this connection, a welcome development for Mr. Ceyrac had been the **widening of the field of financing served by the European Investment Bank.**

"We must now publicise that wider scope: all too many firms, especially small and medium-sized ones, feel that the EIB, like the Community at large, is something distant and not very approachable. We should do our utmost to eliminate bureaucratic procedures and formalities, both at Community level and within the Member States.

"The Economic and Social Committee has frequently stressed the importance of the part an agency like the EIB can play in getting private enterprise to proliferate. The Committee has decided to continue with its efforts to publicise the Bank, support its operations and, where appropriate, offer it constructive criticism and suggestions based on the experience of those professional circles from which it draws its members."

Trade Union views: less cuts, more stimulus

The trade unions want a European way out of the crisis and are prepared to work for consensus, said **Jan van Greunsven,** International Secretary of the Netherlands Trade Union Confederation — FNV, speaking after François Ceyrac. **"If, however, unemployment is not attacked the weakening credibility of the Community will disappear altogether",** he said.

"We need dynamic coordination and a policy mix which will lead to a decrease in the present mass unemployment, and build up a just and balanced socio-economic and industrial structure in Europe and internationally".

He rejected policies relying too much on keeping wages down, on cuts in essential government expenditure and basic social security entitlements and on the hope that the recovery in the United States and growth in Japan will pull Europe out of its difficulties.

"The price of reducing public deficits in this way is far too high. And what is worse, the medicine will not work. It will ask for more cuts in the future, because economic activities fail to increase.

"We urgently need a coordinated package of measures to fight unemployment positively. We cannot only rely on the upturn in world trade."

The European trade union movement wants an investment stimulus: an effort in the order of 1% of each country's GNP, if coordinated, would have an overall effect on production and employment much larger than if countries took action individually.

"A mutual implementation of the trade union movement's programmes, in all OECD countries together, would after 2-3 years raise overall economic activity by more than 4%, create more than 8 million jobs, reduce public budget deficits by more than 2% and it would not affect the balance of payments".

Mr. Van Greunsven put in a plea for redistribution of work. The introduction of labour-saving technology meant that economic growth alone would not restore full employment.

"Unemployment will continue to rise until the late eighties, if redistribution of work is not rapidly initiated. I believe that also in this field we should coordinate in order to avoid distortion of competition. The European Trade Union Confederation and its affiliates insist that a **significant reduction of working time must be an essential part of an overall strategy to fight unemployment".**

The EMS: an act of faith

The survival and smooth running of the European Monetary System are fundamental to the recovery of investment, in the view of Jean Godeaux, Governor of the National Bank of Belgium.

The EMS is an "act of faith" for him. "I should like, as Governor of the central bank of a country participating in the European Monetary System, to say that, even though from time time we may find it hard to abide by the rules, we believe wholeheartedly in the importance of developing the EMS and widening its scope. We are alas aware that this is not the time for nurturing hopes of seeing the EMS move on to an institutional basis." But great strides can nevertheless be made, he said, especially in **developing the private use of the ECU;** it is also vitally important to continue to pursue the real integration of the financial markets in Europe.

Mr. Godeaux added his word of warning to those already sounded about the consequences of any basic change of mood among the commercial banks as regards their willingness to help fund current-account imbalances within the developing countries.

"It behoves us all to remain very much alive to the importance of that role and the risks inherent in any departure from the current practice." He agreed completely with Prof. Lamfalussy who wrote that any basic change of course in the commercial banks' lending policy that proved permanent could work in various ways to the detriment of investment in Europe.

He went on to explore the dangers of a change in the mood of bankers, "a playing-safe attitude which, taken to extremes, could have a highly inhibiting effect on entrepreneurial activity.

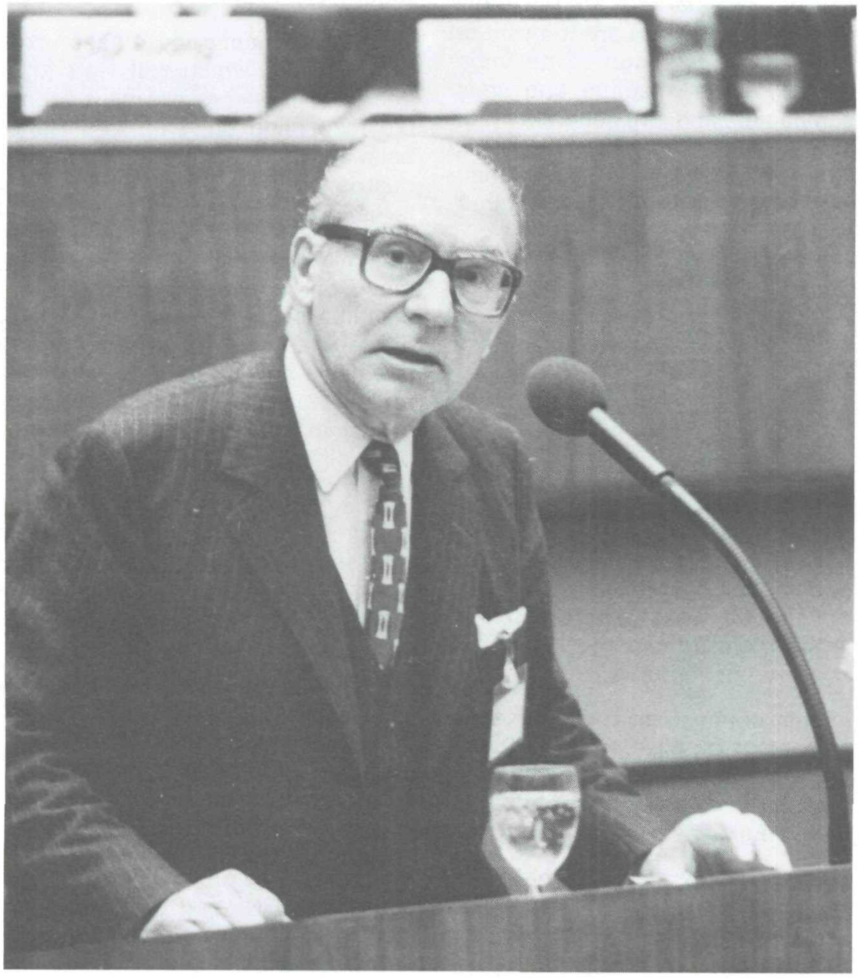
"Bankers", he suggested, **"have a long memory, and an especially long memory for things turned sour.** It was quite clear, when I was starting out in a commercial bank, that the tune was being called by those older colleagues who had lived through the great depression and who found it very difficult to shed those reflexes that they had assumed during the depression".

Five key themes

In a preliminary summing up of the first morning's session, EIB Vice-President **Arie Pais** said that five key themes "of great importance" were crystallising from the discussion:

— **higher levels of investment:** "I think everybody who has written in the book, and everybody who has spoken here, is in agreement with the necessity to attain higher net levels of investment in Europe, so as to keep up with the United States and East Asia, and ultimately to reduce unemployment in our countries. The role of the EIB as a catalyst, mentioned for instance by Mr Ceyrac, is clear: there can indeed be a multiplier effect from the actions of the European Investment Bank. Mr van Lennep and Mr Costa have underlined this, and Mr van Greunsven has drawn our attention especially to the social climate in which everything has to take place."

"I am not unmoved by the words of those American business leaders who claim that, in the case of the United States, the high level of real interest rates has not detracted from the strength of the recovery", said Mr. Jean Godeaux, Governor of the National Bank of Belgium, "but I still think that the level of real interest rates poses a serious risk of a slow-down in growth."



– **an improvement in the monetary and fiscal climate:** "The importance to investment has been stressed by Mr Lamfalussy and Mr McClam, and notably how the reduction of fluctuations in interest and exchange rates could be extremely helpful. Here the EIB can play only a supporting role, but not without importance as the Governor of the Belgian central bank, Mr Godeaux, pointed out in speaking of the European Monetary System and the role of the ECU. In both fields the EIB can and does play a supporting role, although it is clear, of course, that the main responsibility here lies with the national authorities."

— **a fresh commitment to working together:** "There needs to be a rebirth of the spirit of cooperation, which stood as the credo of the European Community – a spirit of cooperation with its concomitance of the necessity to break down barriers and avoid protectionism. In this area, the EIB, together with the Commission of the European Communities, certainly may have a role; the Chairman of our Board of Governors, Minister Ruding, and Mr Ceyrac, have spoken very interesting words about this aspect, and also Mr van Greunsven in emphasising the need for a spirit of solidarity and good social environment in our Member Countries."

— **identifying investment priorities:** "This theme concerns the sectors where new investment is most needed, the scope for the Bank's financing, and its eligibility criteria, with respect to both traditional and innovative investments."

— **relations with the developing countries:** "One of the major points brought out already is the vital interest that Europe has in relations between this part of the world and the so-called 'Third World'."

Mr Pais underlined the specific suggestions relating to the future development of the EIB's role which were made by Minister Ruding. "His invigorating speech contained numerous points that may become of great interest to the activities of the Bank in the years ahead."

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At this point the symposium split into the three specialised discussion groups — on **regional development, energy** and **industrial investment.**

Finding the threshold between decline and growth...

Regional development: policy recommendations

The springboard for the regional discussion group was Professor Paelinck's chapter on "Investment and the development of backward regions", which raises basic questions of defining the "optimum allocation of aid" to regions. Rather than sweeping measures, he suggests relating regional action much more precisely to the widely differing and specific characteristics of each area and the nature of its development problems. This would signify the adoption in each region of a tailored "ideal mix" of possible incentives to encourage establishment or expansion of productive activities, action to promote investment in infrastructure, train manpower and foster research and development. With different means and intensity, the "mix" would aim to modify the profile of each deprived region and lift it above a "critical threshold" from which growth would be self-sustaining. The study suggests how to define each region's needs.

The working party — under the chairmanship of EIB Vice-President Noel Whelan — embarked on a critical examination of the complex issues involved.

Discussion centred on three kinds of regional problems:

— **backward agricultural areas,** mainly on the periphery of Europe, which have not undergone the transition from old to modern farming methods, and have missed out on industrial development. Their living standards are below the EEC average and their underdevelopment is easily recognisable.

— **declining industrial areas,** formerly dynamic and prosperous but now suffering from serious structural problems. Regional difficulties of this nature are growing due to technological change and increased competition from outside the Community. They manifest a dramatic rise in unemployment.

— **urban decay and declining inner city areas.** The working party was not unanimous that these should be formally considered as "regional" problems; urban decay cuts across traditional regional conceptions and emerges even within relatively prosperous zones.

Perhaps the most important conclusion was to reject either of two extreme policy approaches: all-out interventionism making use of a wide range of subsidies, fiscal incentives and public expenditure in order to force the pace of regional development, or a complete market approach which would seek only to remove or reduce distortions in the economy, leaving lower labour costs to improve general competitiveness of the region and attract new activities.

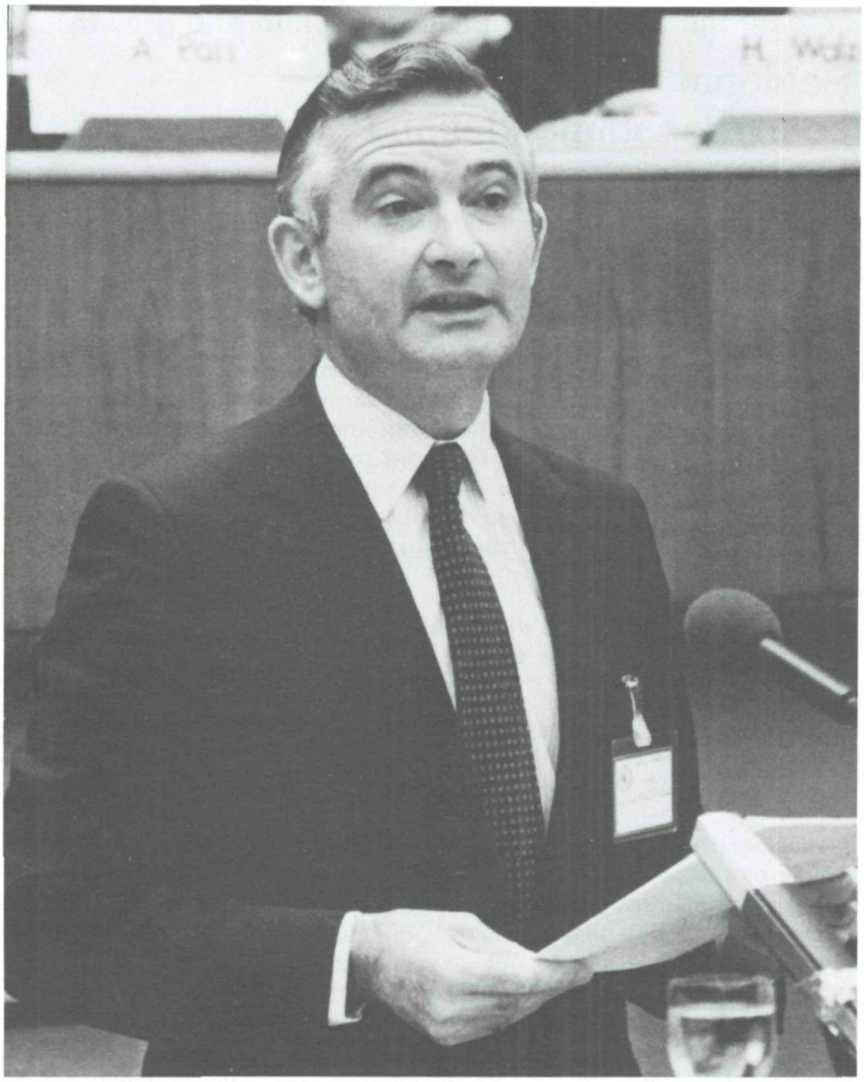
Full interventionism, said Vice-President Whelan, "would be costly and difficult to sustain in the face of budgetary problems and complaints from the developed regions. Also, there is a high risk that much of the industry induced to locate because of incentives offered would not be competitive in the long term. If an excessive price has to be paid to firms to outweigh regional disadvantages, the cost in terms of resources per new job becomes too high and the industry's possibility of existing without a continuing subsidy would probably be small".

General consensus was to go for an **intermediate approach,** trying to remove major distortions in the economy and ensure flexibility in the labour markets, but with some regional intervention still necessary in order to stimulate sound public and private productive investment with genuine long-term potential.

The working group specified types of investment needing support:

- **infrastructure and communications:** in some cases this would help to reduce disadvantages of peripherality;

- **energy:** to make sure regions were not disadvantaged on this score, with the additional Community-wide benefit — where possible —



If technology-oriented firms are to be attracted to development regions, they will need medium and highly-skilled personnel. "This constitutes an argument for greater emphasis on investment in human capital and on improving cultural amenities and the environment", says EIB Vice-President Noel Whelan, summing up the deliberations of the regional development working group.

of developing resources which will help Europe cut down on energy imports;

■ **technological development:** investment here would foster the spread and take-up of strong market-oriented technology in the regions. Small and medium-scale ventures were considered particularly important in this respect;

■ **human capital:** application of new technology will require more medium and high-skilled personnel in regions not able to offer them at present. There is an argument, therefore, for greater emphasis on investment in human capital;

■ **environment:** areas wanting to host new technology development may need to improve their cultural amenities and the environment to attract the right kind of investment.

"Regional development is and will continue to be an important element in Europe's future development" said Vice-President Whelan. "It is and must continue to be one of the main components of a policy for investing in Europe's future. This is so for a number of reasons:

— population, unemployment and GNP statistics for the designated or deprived areas of the European Community are of important magnitude. **We cannot walk away from these magnitudes** — not if we see the Europe of the future as a balanced and reasonably integrated entity;

— to the extent that considerations of efficiency and productivity — and in some people's view also those of equity and welfare — will require continuing attention, then continuing attention will need to be paid to regional development;

— the Treaty of Rome and the Statute of the EIB attach considerable importance to regional development in the context of Europe's overall development; the vision of the Community's founders in this area has not yet been realised and shows no signs of being achieved despite the valuable groundwork undertaken over the past decades;

— for these broad reasons and others, such as possible enlargement of the European Community, regional development is an issue of undoubted economic, social and political weight in every Member Country at present, an issue which will underpin the future cohesion and competitiveness of the EEC as a whole".

There was general agreement at the working group on the diagnostic efficacy of the three key notions forming the theoretical base of the model in Professor Paelinck's study:

— **regional growth threshold** — a combination of the elements conducive to economic growth, at a level which enables this growth to be self-sustaining;

— **regional location profile** — the set of locational factors existing in a region, which encourages new industry to start up or existing industries to expand;

— **interdependence in space** — the impact of economic activity in one region having an effect on the development of the regions around it.

The emphasis placed on policy analysis in Professor Paelinck's model was also generally accepted as valid; various policy means, particularly infrastructure and spatial planning, can play an important role in changing regional profiles of backward areas beyond the critical threshold level and so secure the self-sustaining growth process.

The important question, however, was to what extent such a model is operational. The statistical base for examining regional phenomena is often unsatisfactory and out of date. The attempt to extrapolate from past data a regional development strategy valid for the future gave rise to wide-ranging debate.

George Chiotis, Professor, Athens School of Economics and Business Science, and **Bendt Hansen,** Managing Director of Kjøbenhavns Handelsbank, both noted that much of the model was based on information concerning the period 1950-1970, before considerable change in Europe's economic conditions.

Professor Chiotis raised three further questions relating to the policy implications of the model:

— how easy is it to determine, especially in dynamic terms, the critical growth thresholds for stagnant regions and the related cost of policies for surpassing them?

— how can the model take account of the institutional and politico-administrative factors that influence business and public behaviour and thus investment in less-developed Mediterranean regions?

— can the model be adapted to incorporate technological progress, a crucial factor for structural change and development opportunities in the next decade?

Brendan Cardiff, economist at the European Commission, Directorate for Economic and Financial Affairs, took up this last point, stressing that one of the major factors determining regional imbalance is the relative rate of diffusion of technological innovation between the regions and that differences in the quality of investment in human resources played a key role in this respect. "The vast range of new products and processes which the third major industrial revolution will spawn offers unrivalled opportunities for dynamic, innovative regional development. But Europe must first shake off its present inertia and indecisiveness...".

Gavin Dick, Under-Secretary, Department of Trade and Industry (UK), brought out another aspect of the regional development problem: that large urban agglomerations, instead of being regarded as essentially positive variables in a region's development, may actually be negative, as more 'deprived' people live in decaying city zones than in rural underdeveloped areas. The problem here was not lack of infrastructure, but that it was worn out. Mr Dick also made a point that was to be taken up by other speakers: regional planning involves the use of scarce resources and it is vital to consider their real cost.

The Director General of the Regional Policy Directorate of the European Commission, **Pierre Mathijsen,** came into the debate from another angle, by clarifying the distinction between convergence of economic policies, (possible to attain) and the issue of disparities between regions (to some degree inevitable). He also questioned the balance of objectives in regional development, between increased employment, and increased GNP; and whether working for productive investment would, in turn, necessarily reduce unemployment. Investment, in any case, was not the only issue. Mr Mathijsen emphasised that the political element – which is missing from the Paelinck model – is a decisive one, as macroeconomic policy has a major effect on regional development.

Michael Killeen, Chairman of the Industrial Development Authority (IDA), Ireland, agreed that policy questions were important, but had no doubts as to the value of sustained investment for regional development. A concentration on 'growth' centres, however, was not an effective method of promoting regional development: there has to be a real transfer of resources.

Salvatore Cafiero, Direttore Generale of SVIMEZ, returned to the point of urban difficulties. While the southern question of Italy thirty years ago was concerned with agriculture, urban problems are now to the fore: "technology and improved communications mean that locational factors change and development of industry depends on the development of the tertiary sectors i.e. on what urban services are available. This is becoming the most important part and most vital element in industrial expansion...".

The role of the tertiary sector was also underlined by **Nico Novacco,** Director, Istituto per l'Assistenza allo Sviluppo del Mezzogiorno, who added that a regional approach is necessary for the Community and that this requires consensus. Its objectives cannot simply be to reduce unemployment, partly because a revolution in technology tends to decrease the numbers employed. To avoid waste, regional policies for transfer of resources must reinforce productive investment.

The importance of agriculture in some countries (Ireland and Greece and also Spain and Portugal) and the role of the European Investment Bank were two of the points raised by **Michael Culligan,** Chief Executive of the Agricultural Credit Corporation (ACC), Ireland. He paid a tribute to EIB global loans, saying that they had been significant in Irish agricultural development, welcoming at the same time help to finance high-technology industries, especially in underdeveloped areas.

Paul Turpin, Secretary General of the National Economic and Social Council, Ireland, said that with technology becoming ever more important, investment was required not just in new industry, but also in developing human capital – aspects which were taken further by **Constantine Makropoulos,** Governor of the Greek Telecommunications Organisation; he pointed out that while less developed regions had been under discussion, one could equally speak of whole countries, such as Greece and Ireland: "... for development to take place, financing is required for the transfer of technology, for the tertiary sector and for training to activate the enormous scientific potential that is currently lying idle...".

Training and improving the urban environment were two of the points which **Professor Paelinck** emphasised.

"If we make a comparison with what the European Investment Bank has been doing over the past twenty-five years, it emerges that, measured against an ideal programme, the Bank has perhaps not always had its attention drawn sufficiently to **urban development** projects. Whatever direction future progress lies in, however (the high technology bias, for example), the element of support for regional development represented by an **adequate urban structure** will continue to be a constant in the range of attractive features the regions will have to offer. We are in particular convinced that support for activities closely linked with **upgrading the abilities of the workforce,** research and development and the geographical conditions for the exercise of future activities will continue to be one of the most effective spurs to the advancement of backward regions."

Half-way in restructuring Europe's supply situation?

Investment in the energy sector

The present easing of price and supply pressures in the world oil market has tended to divert international attention from energy to other more pressing issues. Discussion in the energy working group – presided over by Frau Hanna Walz, Chairman of the European Parliament's Committee on Energy, Research and Technology – revolved around the extent to which this could be leading Europe into a "false sense of security", and what priority new energy investment should receive.

There was unanimous agreement on several policy lines and concrete measures:

■ the European Community and national governments should henceforth **define** their **long-term plans and goals in more clear-cut terms** and lay down **minimum requirements** in areas where market forces do not necessarily provide pointers, for example with regard to security of supplies and environmental protection;

■ an **active information policy,** encouraging in particular small pilot and prototype projects (e.g. in the field of coal gasification), is of continuing importance;

■ there should be **more effective coordination between the European countries,** to help achieve a satisfactory mix of reliable and cheap energy supplies;

■ neighbouring countries should promote **exchanges of electricity across national boundaries;**

■ **joint development of energy resources outside the Community** should be vigorously pursued, with both prices and quantities being recognised as variables forming part of a Community energy policy;

■ **pricing policies** and **tariff structures should reflect the actual long-term costs,** so as to allow investment in alternative forms of energy and cover the related research and development costs;

■ the **final consumer should also contribute towards more efficient use of energy.** Incentives to this effect could be provided by means of an appropriate price policy and the active removal of constraints. Insulation of houses – offering opportunities for small and medium-sized undertakings – is one area for action.

Summing up the group's conclusions, Hanna Walz said:

"Europe's energy problems have not yet been solved and the future, to a far-reaching extent, will depend on how to cope with them. Even if no new tensions affect the world energy markets, above all the oil market, during the second half of this decade, investment decisions in the energy sector must take heed of the long-term outlook for energy supply and demand."

Europe must ensure greater diversification as regards both types of energy and the countries from which it imports, she said, and push ahead in developing its own competitive sources of energy. This does not exclude **research into forms of energy which are not currently cost-effective but serve national interests.** Arguments supporting such a policy include: security of supplies, effects on employment and regional considerations. Nonetheless, energy prices must not be beyond consumers' pockets.

"To achieve these goals", she said, "certain basic conditions must be established:

"– to the extent that market forces and the price mechanisms are not allowed the free play necessary to point up trends in energy supply, national governments must provide **clear guidelines to highlight their policies;**

'– the public must be satisfied that acceptable solutions have been found to the **problems of waste disposal and environmental protection** posed by nuclear and coal-fired power stations, so that both these sources of energy can be used to best effect and so that, with the use of electricity in particular, structural improvements can be attained;

"– the lengthy lead times of energy-sector investment, which imply long-term and variable risks, must be viewed as an important factor in the decision-making process. Signals should give **investors an awareness of more than just potential risks** (fluctuations in price or demand) when taking decisions. These signals can be provided through taxation policy, environmental protection regulations, codes of procedure and standards or measures regarding public safety;

"– the **creation of new market outlets** would stimulate the use of certain energy resources, **such as coal,** and increase the Community's independence;

"– the need to step up **international cooperation** was also discussed briefly, with particular emphasis on

"Europe should not wait for another oil price shock — with the well known repercussion for our economic growth — to be forced to strengthen the structure of its energy supplies", says Hanna Walz, winding up the energy working group discussions.

developing links with Japan and North America".

The starting point for discussion at the working group was **Ulf Lantze's** contribution to the book as Executive Director of the International Energy Agency. He expressed concern that the current slowdown in energy investment could leave Europe in difficulties, if the economy picks up substantially with a firm increase in energy demand.

"The only energy source which can be readily turned to is oil", he wrote. "Therefore, there is a real risk that economic revival will give rise to increasing demand for oil from the OPEC countries. This will already mitigate some of the reasons for the recent fall in oil prices. Later on, around the 1990s, oil demand may again become uncomfortably close to the level of production which the OPEC countries are able and willing to maintain. This would obviously increase Europe's vulnerability to supply disruptions and sudden oil price rises, as we have experienced before."

The recent downward revision of energy investment plans could be attributed, in part at least, to a healthy ability of economies to respond to changing market signals, perhaps avoiding wasteful use of resources on sub-optimal investment. "On the other hand, there remains a danger that an overreaction could set in. This could lead to economically justifiable energy investments being delayed or cancelled. Given the long lead times of energy supply projects and the relatively short time in which the energy market can change, it must be questioned whether such responses are helping to set the foundation for a more secure and stable energy future."

Hubert Grünewald, Member of the Management Board of Ruhrkohle AG, came in on the particular uncertainties surrounding energy investment. "Because of the long periods for which capital is tied up and the large fluctuations in prices and sales involved, investment in energy systems carries great and variable risks", he said. "The danger is that both in scale and structure, investments will lack the stability necessary to improve and modernise the energy sector. To achieve the level of investment necessary to cover essential demand for energy, there must above all be collaboration between enterprises and the public authorities. This is necessary also to prevent energy supplies offered to the consumer becoming too dear and too unreliable."

Thomas Kronberg, Division Head, Danish Energy Agency, suggested collaboration between neighbour-countries should be increased, where it will benefit all parties. As an example, increased exchange of electricity between hydropower-countries and those depending largely on thermal units would be of immense value, economically and with regard to supply security. Government grants and adequate financing facilities are crucial to encouraging more efficient use of energy and energy savings. Alternative energy has a huge potential but needs standardisation and committed official support, beyond the necessary technical expertise in development.

James Smith, Finance Director of the United Kingdom's Central Electricity Generating Board, followed up on a statement from Ulf Lantzke that electricity is expected to be a major medium for structural improvement over the 1980s, and stressed the opportunity which electricity provides for optimising the use of alternative primary energy sources as price relativities change. He asked whether it is reasonable to expect market forces on their own to adjust the energy mix quickly and correctly, or whether pricing mechanisms or taxation should be used to reinforce trends. Prices which recognise the prospective depletion of non-renewable energy resources could provide the funds for development of alternative sources of energy.

The public must have satisfactory assurances on the question of wastes from nuclear and coal-fired generation if full advantage is to be taken of these two options, he said.

Francesco Corbellini, President of ENEL-Ente Nazionale per l'Energia Elettrica, also raised the environment question, but from another angle: are controls sometimes too rigid? ENEL is currently engaged in a major construction programme to build 28 000 MW of new power stations (mainly coal-fired and nuclear, but also hydro and geothermal) to replace older, oil-fired equipment. This should cut sulphur emissions from 600 000 tonnes per year to 350 000, while raising production capacity by 80 billion Kwh.

"In other words, the construction of new plants, especially where these are to replace old or obsolete oil-fired power stations, is the swiftest and most effective way of reducing the figure for the sum total of sulphur emissions from all power stations, the key consideration when it comes to the problem of acid rain.

"Various solutions, of the type recently adopted in one Community country and which there is a movement to extend to all the others, i.e. to impose expensive, complex solutions on new power stations in the form of desulphuring installations, strike me as the wrong way of setting about an ecological problem that can be much better solved otherwise. What they do is reduce or in some cases completely negate any return on new generating facilities, largely through considerable wastage of energy, which precisely runs counter to one of the priority aims of the Community's energy policy, which is to save energy.

"I believe that the alternative we are putting forward merits consideration by the Community authorities: this would be to require any party wishing to build a new power station *to reduce over time*, by an agreed amount, the total volume of pollutant emissions from *all* their generating plants, the new one included."

Aldo Romoli, Chairman of the Energy and Nuclear Affairs Section of the Economic and Social Committee, took up the theme of Europe investing in energy supply sources outside, as well as inside, its own frontiers. The EEC should take a more coherent view of its foreign policy. At the moment energy plays a low role in relationships with Third World countries, he said. Foreign cooperation agreements could well include an energy aspect. European investment and an active Community policy towards third countries could have an important role in diversifying energy imports and in easing the trade imbalance of many developing countries.

Greater concentration on new sources of energy should be aimed for. There has been a call for more energy-saving demonstration projects, currently hampered by limited available finance. The Community could be mobilized further for such projects which could in time provide favourable results, and the Community should carry on with the incentives it provides to encourage more rational use of energy.

Taking the pulse of European industry...

Investment and competitiveness

"My distinguished fellow speakers were unanimous in sounding a note of despondency about the dwindling level of investment in industry since the early 70s and Europe's loss of competitiveness on world markets.

"Two points which kept coming to the fore were Europe's declining market share of high technology products and the falling-off in the number of patent applications lodged in almost every country in Europe."

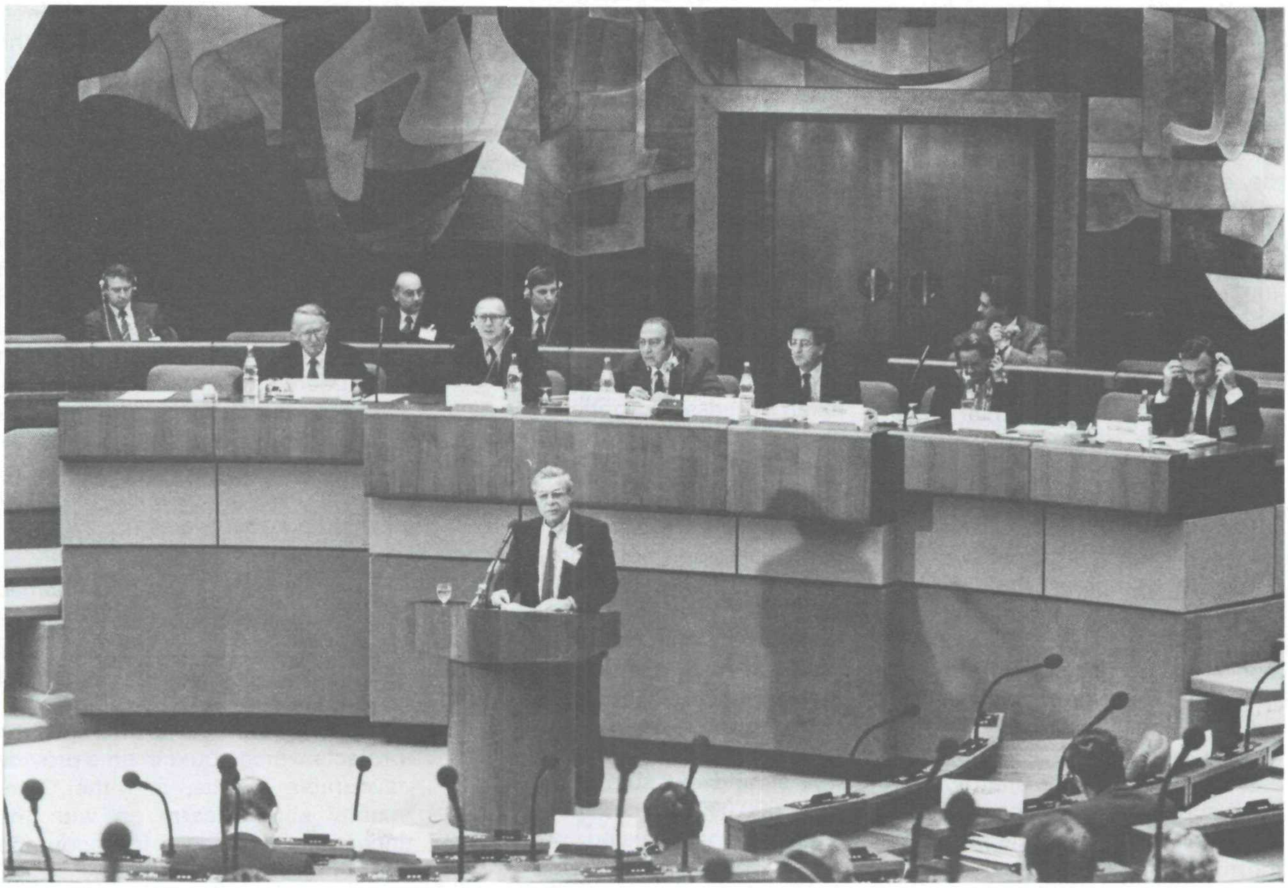
There is nothing fatalistic in this decline, however, said EIB Vice-President **Lucio Izzo,** summing up the discussions at the industry working group. Trends can be reversed, but only if first the issues are well understood, and second if there is sufficient breadth of vision to respond to the magnitude of the problems.

Remedial policy changes should embrace redefined priorities in national and Community policy-making, changes in corporate attitudes, and a more effective catalyst provided by the financial institutions, he said. The working group came up with the following lines for action:

National and Community policy-making: priorities

- the stimulation of a real awareness of the need for a strategy at Community level;
- concerted macroeconomic policies aimed at alleviating corporate uncertainty and helping to create a climate more conducive to investment;
- a "positive adjustment" approach to spur on activity in the "sunrise" industries;
- no assistance for "lame duck" enterprises in crisis sectors, but support for viable introduction of high technology designed to put firms back on a competitive footing internationally or to increase their existing international thrust;
- an intensive and comprehensive educational programme, monitoring, if not anticipating, the development of new technology;
- concertation and coordination in research and development programmes at a European level;
- progress in harmonising Community standards;
- a broader opening-up of public procurement;
- tax incentives for innovative projects;
- flexibility in Community competition rules to assist cooperation in research and to open the door to national aid measures for innovative schemes;
- adoption of a charter for a "European Company".

The ground lost by Europe in the high-technology products market was attributable, at least in part, to the non-completion of the common market. This point was raised by Lucio Izzo, Vice-President of the EIB, summing up the work of the discussion group on industrial investment. "A considered view, much-voiced at this symposium", he said, "is that the lack of harmonisation at European level has militated most severely against innovation, at a time when this is becoming a dominant factor in our economies. It is in fact impossible for the innovator to count only on a large home market, at the very time when new technologies are making it necessary to switch from historical depreciation to geographical depreciation."



Changes in corporate attitudes

- firms should become more amenable to innovation and willing to accept the associated risks;

- they should also be encouraged to cast a more favourable eye on cooperating with other European companies and on opening up markets;

- a further imperative: readiness to adopt less formal organisational structures in order to adapt more swiftly to the changing environment;

- an effort is necessary by both sides of industry to come to a greater understanding.

The catalyst provided by the financial institutions

- innovative firms must have access to appropriate sources of finance. Venture capital companies should be fostered more energetically, but they should exist not just to provide capital, but also to give business the benefit of their expertise, organisational ability and acumen in making the most of human resources;

- the Community's financial agencies should furnish their assistance in line with their statutory or other rules and regulations, while abiding by the objectives advocated by the Community, e.g. the need to work towards a more open market and to respect the environment.

Vice-President Izzo voiced a general concern that one of Europe's main weaknesses compared with its major competitors lies in the fact that the common market is still in the making. "The economies in the different Member Countries rarely keep on sufficiently convergent courses, and industrial policies, devised strictly with national goals in mind, tend far too frequently to follow very different paths. There is a crying need for a common strategy.

"In a nutshell, when it comes to industry, Europe is still a patchwork of economies, very open to the outside world but not an integrated structure. All of which brings added cause for uncertainty on the part of Europe's businessmen.

"This lack of a unified approach at European level has had an especially adverse effect on innovation at the very moment when it is assuming overriding importance for our economies and when the third industrial revolution leaves no sector untouched or free from upheaval."

Moreover, he said, industry needs to work from the European dimension upwards. "The advancing tide of innovation is sweeping forward over an ever wider front in both the industrialised and the developing nations. This is a sea change which makes for more truly international, less centralised markets enabling firms to take greater advantage of a complex of factors shaping their performance within the world arena."

It is useless, he said, for firms pioneering industrial technology simply to rely on their domestic markets at a time when the rapid advance of new technology dictates the need to think laterally, in terms of moving from the idea of amortizing costs in time to amortizing them over a vast international market.

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Much of the groundwork for the industry working group discussion was prepared in the chapter of the book written by **Guido Carli,** former Governor of the Banca d'Italia. He calls for better deployment of intellectual resources – research and development of new products and manufacturing techniques – if the Community is to derive full benefit from technological advance and improve its competitive position.

"It is generally acknowledged", he writes, "that until the European governments improve their methods of encouraging R & D nationally and their arrangements for cooperation at Community level with regard to the planning, execution and maximization of certain types of R & D effort, the Community will continue to be unable to improve its position."

There is also too narrow a spread in much of the research and development in Europe. "As far as state action to stimulate industrial development is concerned, it is striking to see the extent to which state support is concentrated on a small number of sectors. In some Community countries four branches of industry – electrical engineering, aerospace, computers and telecommunications – absorb 90% of total state aid for R & D. It is now being realised that this over-concentration has not only hampered innovation in sectors not favoured in this way, but has also made a large proportion of these sectors incapable of rapidly assimilating the technological advances developed in the top-flight sectors receiving state support."

Index of technological specialisation: 1963-1982

	1963	1970	1980	1982
EEC	1.02	0.94	0.88	0.87
USA	1.29	1.27	1.20	1.20
Japan	0.56	0.87	1.41	1.33

(Source: B. Cardiff, "Technological Innovation in European Industry", Commission of the European Communities, January 1982, updated February 1984)

He discusses the need for industry to generate more cross-frontier cooperation to tackle world markets. "One of the lessons of the last few years is that purely national strategies calculated to enable countries to hold on to an adequate share of the world markets for advanced technology do not constitute a sufficiently effective approach. In several sectors of European industry it has come to be recognized that more intensive cross-border cooperation between enterprises must be initiated as a matter of urgency in order to back up stimulatory action taken by the public authorities."

One of the key points to the Carli paper is that the poor performance (relative to the United States and Japan) of the scientific and technological system in Europe is not due to a fundamental lack of human or financial resources. At the world level, Europe accounts for 20% of total research and development effort.

"It would therefore seem", he says "that the problem is a lack of effectiveness in applying the resources at the Community's disposal. Hence, any thoughts on ways of improving Europe's technological competitiveness must be preceded by an examination of the effectiveness of the constituent parts of the European R & D system (university laboratories, public research programmes and institutes, company laboratories) and the quality of the links between the different elements."

Michel Carpentier, Director General of the Task Force for Information Technologies and Telecommunications and Director General DG XVII at the Commission of the European Communities, took the same line. "Europe's research potential is indeed satisfactory in relation to that of the United States and Japan", he said "but it is on the performance side that we fall well behind. This gives all the more cause for concern now that innovation has become a strategic necessity and such a very fast process. The countries of the Community must therefore draw on the advantage of a large market open to competition; in the process they must develop a logic of concerted action and cooperation in pre-competitive R & D and its financing, bearing in mind also that the costs – including human resources – can exceed national capacities". One obstacle he underlined was Europeans' reluctance to grasp the opportunities of information technologies early on, retarding the European market as well as impeding the development of leading industries, and restricting skill development amongst engineers and technicians.

Karl Heinrich Oppenländer, President, Ifo-Institut für Wirtschaftsforschung, Munich, said his own organisation's studies tended to bear out Carli's diagnosis. No leeway had been made up vis-à-vis the USA in the realm of high technology, while Japan had overtaken Europe in terms of technology-intensive exports. Basic research at universities and higher education establishments should continue to attract support and not be curtailed, he said. Budgetary measures taken by the authorities to cut public expenditure should not negatively influence researchers' motivation. More emphasis should be given to EEC cross-frontier technology programmes (transport, energy, telecommunications, armaments) in terms of joint direct public expenditure, and improvements to the general market environment (widening the home market, standardising policies on competition). He also raised the question of the costs to industry in meeting more stringent environmental standards. "Ecology should not be given priority over economy: we should talk in terms of ecology *and* economy."

Nicolò Luxardo de Franchi, Chairman, Committee of Small and Medium-sized Enterprises, Union of Industries of the European Community, Brussels, said SMEs should have wider access to Community aid for promoting research. Community financial instruments should be available to all potential beneficiaries – small just as well as large – by decentralising appraisal and decision-making procedures, with greater standardisation. Thought could be given to improving access to research aid through Community offices at national level.

François Gerard, Délégué aux relations internationales, Agence Nationale de Valorisation de la Recherche, France, pointed to his own organisation's support for technological development among smaller undertakings. ANVAR shares with firms the financial risk attaching to technological development, advancing up to 50% of project costs, repayable only if the investment proves successful. The scheme works through regional delegations, making for ease of contact and swift decision-making procedures. Between 1980 and 1982, 80% of 3 700 projects supported were put forward by SMEs.

Bruno Lamborghini, Head of Economic Research at Olivetti, and hence confronted with the technology/competitiveness problems of major industry, spoke of Europe suffering a net brain-drain, while importing of high-technology products and know-how.

It is not so much a question of stepping up the research effort overall, as of rationalising, steering and coordinating research activity more efficiently. It should be oriented more towards joint European projects that have industrial outlets, fostering technical worker mobility, developing European standards and continental-scale markets, and disseminating technology among SMEs. To brace itself against the technological competition of the 80s and 90s, European industry is also going to have to look beyond purely national (or even continental) attitudes of mind and build up interdependent relations and technological ties with industry in the United States and Japan.

Frans Andriessen, Member of the Commission of the European Communities responsible for competition policy, frankly admitted that a lack of political will amongst Member State governments had hindered the opening up of a full Community market for European industry. "The completion of the common market is a basic condition for progress", he said, "but I sometimes have the impression that we are more imaginative in finding obstacles than we are successful in harmonising norms."

On public funding of industrial development, he voiced the conviction that, as a rule, there should be only limited cofinancing by the national authorities to ensure that the private sector too judges the investments in question as sound, and to prevent distortion of competition. **"The fact that industry seeks financial assistance from the authorities itself demonstrates that something is fundamentally wrong with our economy",** he said. He warned against

Trade balances for high-technology goods: 1970 and 1982

(billion $)

	EEC		USA		Japan	
	1970	1982	1970	1982	1970	1982
EEC						
Imports from	–.–	–.–	−2.4	−13.9	−0.4	− 8.2
Exports to	–.–	–.–	+2.2	+10.5	+0.3	+ 1.7
Balance			−0.2	− 3.4	−0.1	−6.5
USA						
Imports from	−2.2	−10.5	–.–	–.–	−1.9	−20.8
Exports to	+2.4	+13.9	–.–	–.–	+0.9	+ 4.9
Balance	+0.2	+3.4			−1.0	−15.9
Japan						
Imports from	−0.3	−1.7	−0.9	− 4.9	–.–	–.–
Exports to	+0.4	+8.2	+1.9	+20.8	–.–	–.–
Balance	+0.1	+6.5	+1.0	+15.9		

(Source: B. Cardiff, Commission of the European Communities, February 1984 figures based on import data cif).

national aids to artificially prop up declining industries. "Assistance for lame ducks should only be given in conjunction with restructuring programmes for restoring firms to profitability."

The discussion had throughout a strongly practical character. Dr Oppenländer perhaps provided the keynote (cheered) when he said, "Analysis is behind us: we should now move to therapy and action."

Financing investment

Identification of investment priorities is one problem, financing them another. European needs for investment finance have to be seen increasingly in a world context and there is "severe, sometimes very severe competition" on the capital markets, said **Lord Roll,** opening the second day of the full symposium.

"In the area of finance, probably more than in any other, Europe cannot really think of itself in isolation. Money has very little national or indeed regional appeal and does not know frontiers. In financial markets, whether it be individual governments, European governments, whether it be individual industries and companies which, after all, are the basic sources of industrial development, innovation and investment, or whether it be through the institutions of the Community in matters of finance, whether again it be in national markets or international markets, the **Community and the European countries generally are up against competition from all over the world. This is one area where we simply cannot adopt any kind of isolationist attitude.**

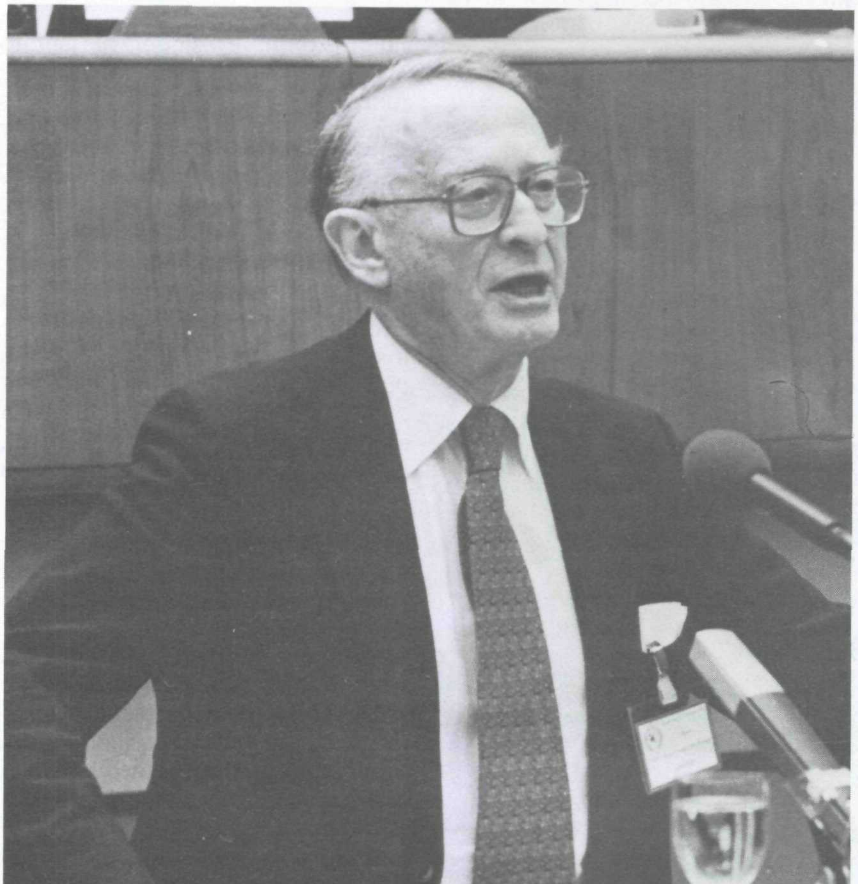
"The Community itself, true to its basic principles, has been foremost in urging the abolition of impediments to capital flows, and within the Community freedom of capital movements is virtually assured. It is certainly something which needs to be safeguarded, and what can be right within the Community, can certainly not be wrong in a wider context. Therefore I am sure that the Community will never wish to try to create some sort of discrimination in international as well as in national financial markets, and the criteria of success in raising external finance must continue to remain security and adequacy of return, whoever the borrower may be.

"Much has been said here about the inadequacy of investment in Europe, and I am certainly the last person not to agree with that wholeheartedly. Nevertheless, though investment may be inadequate for our needs, particularly looking ahead to innovation and improvement of productivity and competitiveness vis-à-vis our friends and competitors outside the Community, the work of the Community institutions, and particularly of the European Investment Bank, in raising adequate external finance has been outstandingly successful.

"I might perhaps in this connection refer to the remarks made by Minister Ruding, that it would be a great pity if the excellent standing now enjoyed by the European Investment Bank, and by Community institutions generally, were to be diluted in markets through the multiplicity of new instruments of borrowing. I think Mr. Ruding undoubtedly has a point, and I am sure that this will be borne in mind by the Community institutions."

Lord Roll struck a cautious note as to developments in borrowing techniques. "**Markets are changing,** new instruments are being devised every day, **some simply gimmicks designed to catch the customer, some as genuine improvements and innovations** in the way of types of paper that are made available to investors and that borrowers are encouraged to use. New structures are in fact developing everywhere." Some may result in a widening of markets to the benefit of both borrowers and lenders, he said. "Where I fear that gimmicks can sometimes do harm, is if they result in short-term successes in placing a piece of paper quickly and getting the borrower the money he wants, but eventually do harm to the readiness of lenders, long-term investors, the ultimate investors, to hold long-term obligations. This is particularly im-

Lord Roll also raises the Europe/Third World interdependence theme. "We have been used in the past to speak of Germany and Japan and the United States as 'locomotives', but the Third World countries could also be a very important locomotive for industrial development in the industrialised countries of the world; but they cannot do that unless they can raise new money."



portant where it is a question of raising money for long-term productive investment purposes.

"I am sure that I do not need to stress this particular point any further, except to say that, while the development in the last 10 years of the bank credit markets was not only highly desirable but indeed inevitable because the sort of funds that were needed in international transactions could not have been raised any other way, it is terribly important that the capital markets should also develop because that is where the ultimate investor is to be found, that is were you will find the safe holders of obligations for longer terms."

Europe's influence in the capital markets must embrace a concern for developing countries, said Lord Roll. Apart from questions of basic solidarity, the Third World's difficulties in servicing existing debt, let alone raising new money, compromise its potential as an important locomotive for economic growth in the industrialised countries.

"The Community and Europe, as a whole, should remain conscious of the importance to itself and to the rest of the world of the Third World. This problem of debt servicing, and of whatever final arrangement may be made about the existing overhang and of the provision of continued development capital to the Third World, is very much in the interest of Europe."

Finally, Lord Roll came out with firm support for the United Kingdom's full participation in the European Monetary System.

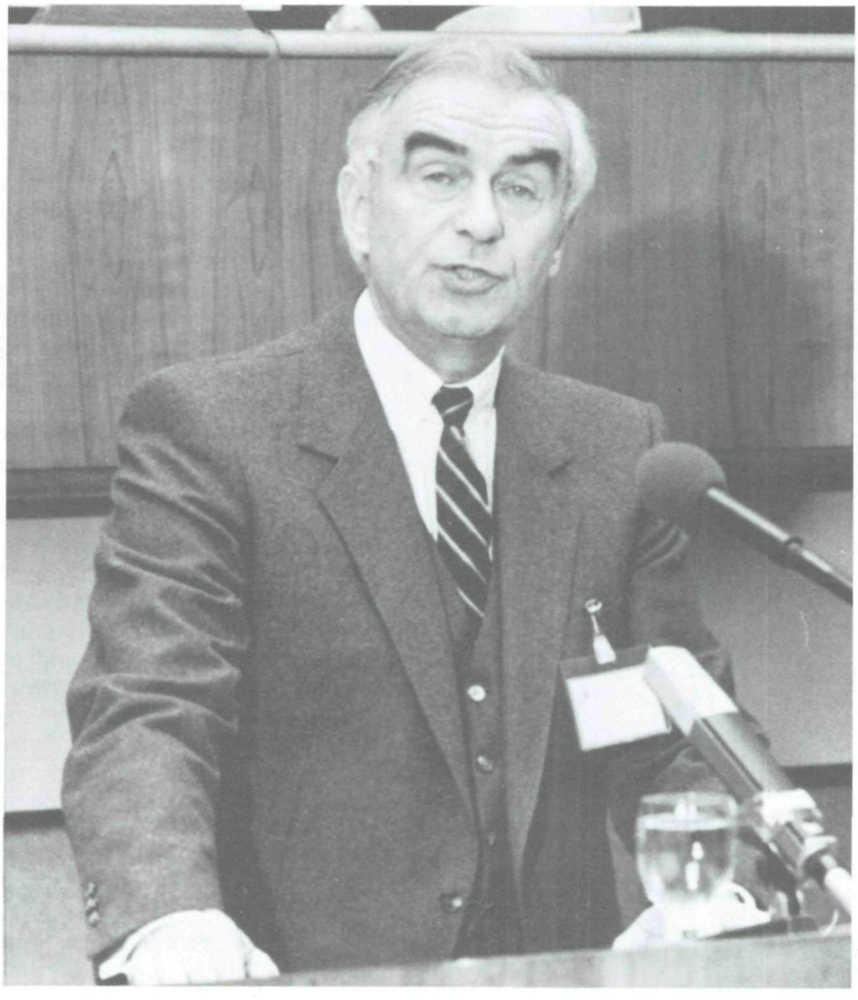
"The European Monetary System is something which exists, which is working, which has, despite some hiccups, developed extremely well. The next step must clearly be UK membership, and that is a concrete step forward which could not only in itself be beneficial to the Community, but could open up, I believe, the path to further development."

Two other speakers from major financial institutions replied to points raised by Lord Roll:

Ernst-Günther Bröder, Senior Member of the Management Board, Kreditanstalt für Wiederaufbau, saw that at present and in the foreseeable future the national and supranational development banks in the developed countries should increasingly direct their finance towards an active structural policy so as to speed up adjustment to rapidly changing worldwide economic conditions. And here he added the question of action on urgent environmental issues with economic consequences.

He also emphasised the growing economic interdependence of developed and developing countries. "Our responsibility for the peoples of the poorest countries requires us to press ahead more urgently with our own development. In practical terms this means: firstly, we must assure efficient industries in the Third World of better access to our markets; secondly, we must maintain and expand the scope of what we can offer the developing countries."

Europe's responsibility towards the poorest countries was a theme raised by Ernst-Günther Bröder, Senior Member of the Management Board, Kreditanstalt für Wiederaufbau. "We must maintain and expand the scope of what we can offer the developing countries".



Luigi Arcuti, President of Istituto Mobiliare Italiano, expanded on the functions of the Community's financing institutions, in particular the European Investment Bank. Their intervention over the years had been particularly advantageous, he said, to those Member Countries which, due to fundamental imbalances in external payments, to a strong rate of inflation or to the insufficient articulation of the domestic capital markets, have not been or are not able to mobilise sufficient resources for investment, or do not have direct recourse to foreign markets.

"The EIB and the Community's other financing institutions thus represent an important and comforting step in the building of Europe", he said. "They are a sure point of reference for those Member Countries which are striving to modernise their industries, their services, their infrastructure so as to meet the challenge of the dominant industrial powers." It is particularly important to strengthen the flow of funds to "speed up the growth of small and medium-scale companies beyond national boundaries." The challenge faced by SMEs is moving increasingly from the regional and national, to the international market.

"To transform savings into investments is not only a financial decision: it is a philosophy for new development", says Luigi Arcuti, President of IMI-Istituto Mobiliare Italiano. "The entry of newcomers into the Community, newcomers with notable regional development problems and relatively weak currencies, requires a greater effort of solidarity and of financial mediation between the international capital markets and investment demand."

burdens resting on enterprise, and in particular a measure of tax relief for profits ploughed back.

"There can be no doubt that in several countries the structure of the tax system has come to be a definite brake on investment and that the tax burden on industry is in most of the countries of Europe heavier than in either the USA or Japan.

"Improvement of the general conditions in which investments are made calls for a reduction both of the over-large share of the State in the national income and of the budget deficits", he writes. "This could ease the strain on the capital market and bring a larger part of the wealth created in the economy back to industry.

"The exaggerations found in the European fiscal and social system are a major problem for public policy; if the problem is not solved, Europe's economy will sink still more deeply into mediocrity."

Much of this is common ground for **Michel Albert,** Président, Assurances Générales de France, who in his own chapter writes of the "relentless path" of the increasing cost of social provision. Are Europeans paying for the Welfare State at a huge cost to investment and their future?

"The Welfare State could continue to be financed", he writes, "as long as it remained possible to pay the cost of the crisis with credit, through an increase in debts: during this transitory period, which ended at the beginning of the 1980s, the preference given to consumption as opposed to investment, and the preference given to the present as opposed to the future, appeared to be a

Improving the chances for profitability

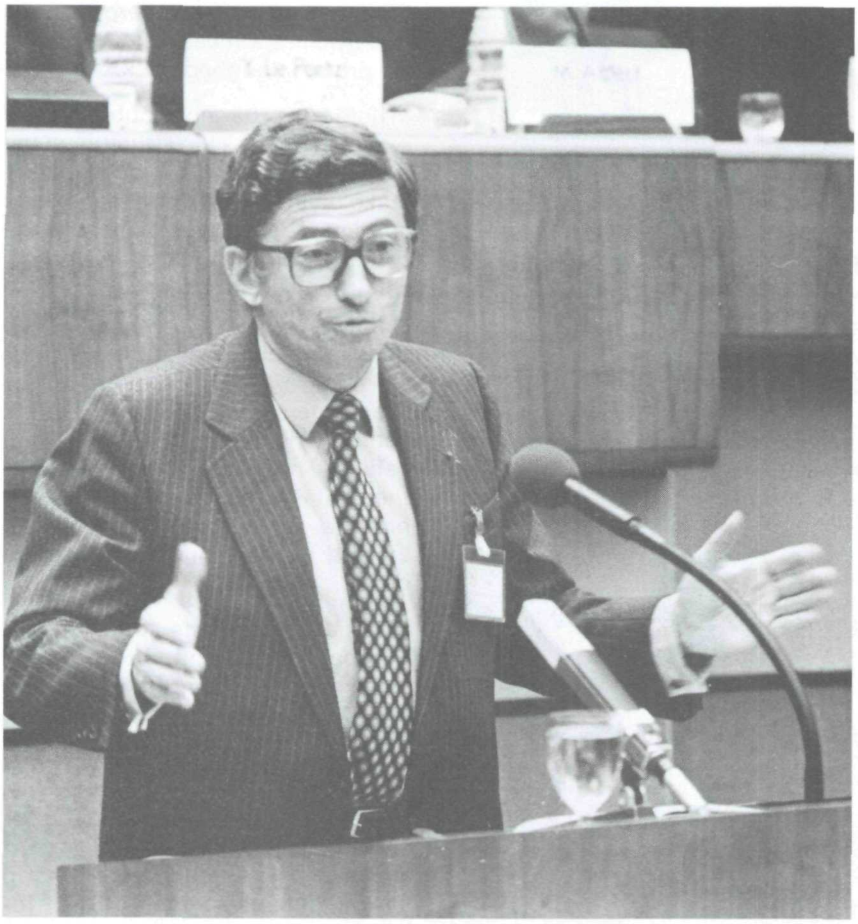
Investment, above all in the productive sector, is being cramped by heavy Government budget deficits, pressure of taxes and social charges, with a concomitant decline in firms' profitability.

These views – echoed by many speakers at the symposium – are central to the chapter written by **Otmar Emminger,** former President of the Deutsche Bundesbank. "A clear political decision in favour of improving the chances of profitability" is needed, he writes, and "a reduction in the fiscal and social

Gross domestic product of the EEC countries — components and determinants (variation of shares in GDP, in percentage points and cumulated over the periods)

	1960-1973	1973-1980	1980-1982
Public expenditure	+7.7	+7.3	+3.7
Taxes	+6.4	+4.5	+2.2
Real wage gap (excess over warranted level)[1]	−0.2	+3.3	−0.2
Consumption	−1.8	+3.5	+2.6
Investment	+2.2	−1.6	−2.3
Real GDP (volume growth, annual average)	+4.6	+2.2	−0.1

[1] "Warranted level" = a development in real wages that would leave the profit share of the enterprise sector unchanged.
(Source: Commission of the European Communities)



"In the United States, 20 years ago, there were 73 million people in employment. This year, the figure is 105 million. The United States have manufactured 32 million jobs . . . and do you know how many jobs we in Europe have manufactured, in that time?" asks Michel Albert, in a speech straight from the shoulder. "Very well . . . in 1963 we were at 105 million jobs, and this year we are at 104 million. We have manufactured minus one million jobs. Europe has for 20 years been a Sahara for jobs, and America is now a California for jobs!"

temporary solution. It has now become a problem, as shown by the level of public and private debt, and one which will have to be resolved urgently since it is automatically self-intensifying.

"This is the case as far as taxes and compulsory contributions are concerned, which continue to increase as if according to some sort of genetic code in the demography of Europe, an ageing society in which, as a result, the cost of unemployment, health and retirement as well as social consumption tend to increase at a particularly rapid rate.

"Over the last ten years or so **taxes and social security contributions have increased seven times faster** in terms of relative value in the EEC than in the USA.

"Under these conditions European countries can, today, no longer continue to finance, at the same rate as in the past, a system which follows an invisible but relentless path and results not only in an increasing burden of taxes on those in work (with, incidentally, the risk of discouraging them) but also contributes to the mechanical and psychological strangling of its very foundations – the productive force itself."

Nor, according to Mr. Albert, are the problems going to be magically solved by Europe benefitting from a rekindling of the US economy. As he remarked at the symposium: "it is a mistake to say that the crisis is over; that the American economy has been picking up for a year, that Europe always lags a little behind America; that recovery in Europe is therefore on the way, and that the crisis is at an end. Our memories often have such an in-built reflex, but they are wrong. I believe that, for the first time since the second world war, we in Europe are set firmly on a low line of growth . . . even if, as we should hope, America is moving away towards more sustained rates of growth.

"It is not always easy for us to take in the realities of the crisis", he added. "We in Europe have now reached the point where we can no longer continue to fund our social security systems, if we fail to do what is needed for restoring us to faster growth. We alone in the world enjoy the privilege of being able, when we are sick and regardless of class, to claim free treatment in a hospital that is clean and well equipped. This epitomises the Welfare State and the social progress being achieved on the social security front, which again we alone possess.

"There is one type of suffering that really hits the man in the street: it is when the hospital that was free starts charging fees, the hospital that was spotless begins to let its standards drop, the hospital that was well equipped lacks the cash to obtain the latest hardware.

"That I think is what is threatening us: the only way to avoid it is to face the suffering that lurks ahead full on, because, quite simply, we are going to have to dismantle our social security systems if we do not grasp the nettle".

The same blindness seems to exist over the problem of profit/wage ratios in industry. There is, Mr. Albert went on to point out, a stark contrast between the Japanese and the European models. Europe has "sacrificed" company profits by trying to preserve employees' purchasing power at all costs. In the major corporations at least, the Japanese have tried to defend both jobs *and* profits. "And how was the adjustment made? Through wages, through earnings and, especially, through reducing or even eliminating the bonus. This model goes a long way towards explaining why, in the face of the crisis, Japanese companies were able to sharpen their competitive edge on the basis of social consensus, with job security never far out of the picture.

"And, after that, what of the American model? To state the extreme case, I would say that the chief feature of the American model is defence of corporate profits and the manipulation of employment to that end. There is massive job instability in the United States, quite clearly, but there are also certain wage adjustments going on that have served productivity in better stead than in Europe".

Downward spiral to poverty

Cut wage costs, review social security benefits . . . and at the same time try to achieve a social climate more conducive to dealing flexibly with industrial change?

"What we shall eventually arrive at, if we generally go along with the proposals for the 'future' that are set out in the various reports", said **Georges Debunne,** Chairman of the European Trade Union Confederation, "is 'Korean' wage levels and old wives' remedies to save us from our ills.

"I do not think this was the slant that Mr. Albert wanted to put on it, but we must be careful. If we want to create a social climate in which investment can flourish, it is dangerous to talk in the terms we have just been hearing.

"Investing in Europe's future means something more than simply ploughing capital into private or even public undertakings. Europe first: at ETUC, we see the need quite clearly, and have gone so far as to say so to all governments. We can neither get out of the crisis nor retrieve the situation in this part of the world until, acting as one, we get on with the real business of building Europe.

"But Europe's future is also about all those 200 million or more men and women who need a decent income, that is a job, and social security arrangements to get on with living. I believe, if we want to strike a spark of enthusiasm, to stir hope in the hearts of our youth, that it is vital for us to get our act together. Private initiative and private investment will not in themselves provide all we need to meet the basic requirements of the people.

"Like it or not, restrictive policies lead us to the edge of the abyss. It is the **downward spiral to poverty, which is about as far removed from a climate of investment as you can get.** I am sorry to say this, but the more you chip away at wage costs, the more you unabashedly whittle down social security benefits, the greater the risk you run of vitiating the social climate we are all trying to achieve.

"The unions", continued Mr. Debunne, "are not in the least, as some parties claim, opposed to the principle of introducing technology, but we do say that the technology must be placed in competent hands. Social realities must also come into the reckoning, and what we are looking for is genuine dialogue and discussion on the introduction of technology, precisely to pave the way for future progress".

Cut working hours? This, according to Georges Debunne, Chairman of the European Trade Union Confederation, is one of the key solutions to unemployment. "It is not only a way of sharing the work between everyone", he said. "A sizeable reduction in working hours can change attitudes of mind, change society by bringing it closer to happiness and the quality of life".

European Parliament views

Georges Debunne evoked several times in his speech the question of democratic influence in choice of economic policies. The next two speakers were both from the European Parliament.

Jacques Moreau, Chairman of the Committee on Economic and Monetary Affairs and Chairman of the Special Committee on European Economic Recovery, stressed that Europe needed to mobilise public opinion. "Returning to an investment policy that works for the Community also calls for the existence of consensus", he maintained. "We are well aware that any fresh lease of economic life in our countries will be achieved through measures of various kinds – legislative, financial, monetary and budgetary – **but also through the actual mobilisation of the people through clearly-stated objectives.** In that respect, the Parliament obviously has a vital part to play."

One area where the Parliament is convinced progress should be made is in the strengthening of the European Monetary System. "Such has been the frequency of monetary readjustments in the last two years that we have come to fear the degeneration of the European Monetary System into little more than an office for recording monetary fluctuations rather than see its emergence as that instrument for stability and that focal point for a monetary identity that we are all seeking.

"This is why we are all hammering home the message that consolidation of the European Monetary System should be achieved quickly and that we move into the so-called non-institutional phase of consolidation which, without embarking on the creation of a European Monetary Fund with all manner of functions ascribed to it, would at least offer acknowledgement of the much-widened public and private role of the ECU and its status as both specie and reserve currency."

Mr. Moreau argued for closer integration of the European financial network. "We shall not manage to rekindle investment in the Community until we achieve a far greater degree of financial integration. At the present time, the Member States are conducting two thirds of their financial operations externally, outside the Community's own financial system, chiefly on the Eurocredit market. There are too many spurious obstacles to the free circulation of capital, notwithstanding the paramount need for investment. What the Member States have therefore to do is keep recourse to safeguard clauses and exchange controls to an absolute minimum and try to achieve progress towards devising a system for interconnecting the existing stock exchanges".

"We are not only concerned with highly expensive programmes," says Lady Elles, Vice-President of the European Parliament. "Parliament declared 1983 the year of Small and Medium Business Enterprises-businesses in which so many of the population are involved. And we have welcomed the EIB's policy of global loans for the financing of small businesses through national clearing banks."

Lady Elles, Vice-President of the European Parliament, deputising for Piet Dankert, President, said that stepping up investment was not sufficient as an objective. "Investment on its own can be like planting a rose in the desert. If investment is to bring the prosperity we desire for our people we must create a new climate, remove the rigidities which are strangling the efficiency of our economic efforts, above all create a climate of confidence and security in which people will be willing to risk their capital, their efforts."

A prime example of suffocating rigidities lies in non-tariff barriers, she said. "What has happened to the Common Market to which we are all said to belong? As the years go by, the non-tariff barriers do not disappear. They increase, for instance by varying national standards every time some new product or technological advance is made. We need a firm decision from the Court of Justice to be formally implemented by the Commission. **It is estimated that European companies, to send their products across the internal borders of the Community, spend an annual 12 billion ECUs, covering administrative costs, customs, lorries' waiting time** (this alone is about 1 billion ECUs)."

Small firms wanting to link up with similar businesses in another Member State need a positive framework in which to operate. "The restrictions placed on businesses, on services, on credit institutions, on the professions are all by their rigidity impeding the natural development of the European economy – and if States refuse to open their doors then other means must be found, such as a European Company Statute to step over these thresholds."

While supporting stronger emphasis on research and development, mass public investment in this field and removal of duplication would not on their own close the Europe-Japan gap.

"Some duplication is no bad thing, in any case, as it creates competition, and it is essential for private investment to be involved; for the selection of the area of research, there is nothing to replace individual judgement when there is risk of loss. A further essential element I believe for a successful research and development programme is to have an objective other than 'catching up' on the Japanese. Among the reasons for the success of American companies has been the procurement policy for NASA and the Pentagon, so creating the competitive stimulus to creative and innovative effort. Parliament has only recently adopted a resolution for a Community arms procurement policy – to implement such a policy would create some of the necessary stimulus."

Roll back the limits to growth

Twenty-five main speakers. Dozens of other participants. An 80 000-word book on investment as the basis for discussion... **François-Xavier Ortoli,** Vice-President of the Commission of the European Communities and Member responsible for Economic and Financial Affairs, and Credit and Investments, was asked to draw together the contributions into an overview of the whole symposium.

"We have a structural transformation to carry out", he said, "and we have to finance it; we have to put money into boosting our ability to compete with our partners on equal terms; we have to finance our economic environment, by which I mean all those commodities that industry requires; **we have, quite simply, to roll back the limits to growth in our countries".**

To do this, continued Mr. Ortoli, requires motivation springing from a sense of the urgency of achieving **consensus on the need to invest.** "One of the things that a symposium like this can help to highlight is this collective need. What we fail to underscore sufficiently is that without the sort of changes we have to pursue, through restructuring and the pursuit of sharper competitiveness and modernisation, there can be no solution to the problems of employment.

"When we call for all manner of sacrifices and when we expound our austerity measures with all the changes they involve, including changes of attitude, the most potent argument we can produce in our favour is that this is our only route to the restoration of growth, genuine growth creating real jobs".

One change of fundamental importance is the taming of the budget, the weighting of which, social security payments included, has risen from 30-33% to 50-51% in 20 years, and by 15% in the last 10 years alone.

"The scope for surmounting our difficulties, that is to do business and create wealth, which is the crux of the problem, has been squeezed by the swelling mass of non-productive public expenditure".

Such are the budget deficits in some countries that, "we are no longer talking abstract economic theory. Once a deficit has plunged beyond a certain level, it is control of the budget, pure and simple, that becomes the issue", said Mr. Ortoli. This is turn raises a question of credibility.

"If, in a world where attitudes and behaviour play such a role, you fail to put across the message that you buck trends where they look too dangerous, you are depriving yourself of a valuable weapon. Then again there is the question of competition on the financial markets between the needs of the authorities and those of entrepreneurs, and the effects this has in pushing up interest rates".

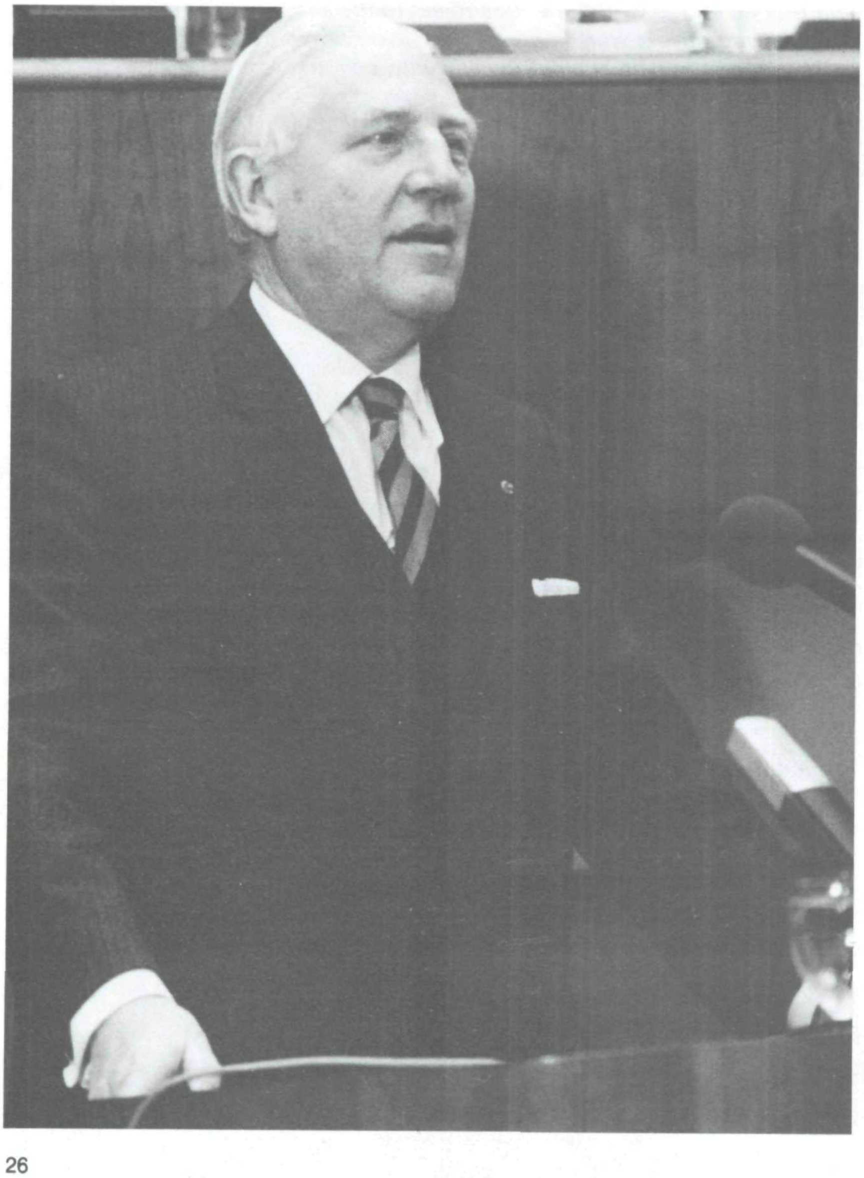
European inertia on the investment front? Mr. François-Xavier Ortoli, Vice-President of the Commission of the European Communities, took the floor. "Europe has perhaps advanced less, reacted less, because she has been more divided: I myself am firmly convinced of that. But I am sure also it has been because she has been more immobile, because the system is ossified, and because also she is dependent on a factor that none of us could forget: nobody in any of our countries could allow themselves the luxury of the balance of payments deficit that the United States is currently running. We would be obliged to change our policy. This is something that underlines the fact that all in this world are not subject to the same constraints: it depends whether you have a world currency or if you are in a dependent position in monetary matters, as is still the case with us."

At the same time, observed Mr. Ortoli, the structure of budgets has to be changed. "That change must in particular make for a return to developmental investment, i.e. the sort of investment that accords with a policy of creating wealth. These investments do not, in some cases, strictly merit being so described, in the legal sense of the word. They involve the channelling of funds into an improved fiscal framework, making for an improved economy as such. Also, there is development-linked investment, much of which is aimed at easing the lot of industry and services. This is something that needs to be expanded, yet in fact it has been declining at the very time when, in both absolute and relative terms, the proportional role of budgets has been increasing."

Reiterating a point made by several of the symposium speakers, Mr. Ortoli stressed that one of the major ways open to Europe for moving towards durable recovery is to foster the achievement of a zone of greater stability as a means of pursuing the convergence of economies in the EEC.

"In that connection, we should have it clear in our minds that the **European Monetary System has been far more of a success than we might imagine,** because of the sheer weight it has put behind convergence at policy level. In our countries, with varying degrees of success, we have now developed something of a common framework, the same approach to interpretation and diagnosis and we have contained protectionism within our market: all this we owe to our imperfect European Monetary System, even though, to my way of thinking, it has too many parity adjustments. I would therefore say that we should not underrate what the System has achieved or the **importance of strengthening it,** not least through the **accession of the United Kingdom."**

Pierre Werner, Luxembourg's Prime Minister and Governor of the EIB for a total 22 years, was a guest of honour, whose depth of experience and authority on European financial affairs has been of great benefit to the EIB. Winding up the symposium, he spoke of the need for stronger European cooperation and the need to "invest politically" in the Community, as well as financially.



Another European avenue: **bringing the common market into full being.** "This is to exploit our continental dimension. It is basically a question of providing ourselves with an instrument for industry that best fits the purpose, the better to compete and so to win. That is what completion of the market means. **It is not a matter of rules and regulations, or some sort of economic magic: it is a hard fact, to be taken into account in both the management of companies and their development.** It is economies of scale, with all that they entail, and it is a matter of getting the authorities in Europe, in their handling of the domestic market, to work as European authorities, and not as national ones. We tend, when talking of the market, to slip all-too-easily into forgetting that a whole chunk of the organisational side is left basically in the hands of States as administrators or as clients. To transpose our regulations, standards, clientèle, new technology, promotional activity, research and training to the European level, to such an extent as might be necessary, is to give ourselves an extra something. To put it another way, there is more to Europe than its stern face and all those virtuous qualities from which wider development should spring: what there is also is that element of physical stimulus that will work through what is being proposed, viz. the completion of the market".

Mr. Ortoli made much in his speech of the **Community's borrowing policy,** that is the raising of resources on the market in the name of the EIB, the EEC, the ECSC and Euratom, as a means of sustaining investment. This policy, he said, had been developed rapidly, "but we did not want to move too quickly, because our signature is worth a great deal and must continue that way".

As regards the wisdom of going to the market under a number of banners, he was circumspect: "I believe we should not go any further although diversification has been useful, because it has enabled Europe as a financial entity, to cover a wider field.

"We have, strictly and systematically, organised cooperation between the Bank, the strongest agency, whose role in this area is central, and the Community in the broader sense, as regards both borrowing (coordination of timing and policies) and lending, where most operations are managed by the Bank. We have thus avoided the folly of setting up a second bank. The way to future development lies open, and the pattern looks like being threefold: –

"The first bias should be more and more towards development, adapting our instruments more and more towards the needs of economic renewal we are hoping to stimulate. The entire object of the exercise is to make what gains we can on the side of **competitiveness and modernisation.** This must be a Community priority.

"Secondly, we must cater for demand that is not wholly satisfied. Needs in many quarters are met: the money is there, and the companies have no need of us. But this is not the story everywhere: **small and medium-sized enterprises** are often the last in line and find themselves hard put to raise financing. Hence the importance that attaches to developing the global loans that the Bank and we ourselves have instituted and the very important – and increasing – part that this sort of financing operation is playing. Then again, we have the question of **greater-risk areas, especially innovation,** and all the problems attaching to them, **where again a response from us would be appropriate.**

"Lastly, we must **complete Europe's major infrastructure.** In our countries, when we speak of infrastructure, we look at our own territory. This is an area in which we have yet to learn to look at the map of **Europe** – Europe, indeed, in the world context. I am quite sure that we have in reserve economic development projects that have yet to be implemented: projects that will cement Europe's unity and create more work, the benefits of which will be felt both by companies and in economic life generally. I am quite sure that what we have to have is an agreed programme for European infrastructure of common interest. The case for including any one project for economic reasons will of course always be open to debate – the Channel Tunnel springs to mind – but what I think we have here is a whole field of action we have neglected".

"We should avoid blaming those outside the Community for our difficulties. Rather we should look to ourselves for solutions. If the world has become more interdependent, if other nations have become more competitive, that should be welcomed, for it is part of progress. The European nations have a history of being more internationalist in outlook than any other part of the world. Building on our traditions, we ought to be able to take advantage of the opportunities that national and international economic change provides."

H. Onno Ruding

"Investing in Europe's future is precisely the opposite to what the Community has been doing for the past ten years. Instead of investing in Europe's future, we have largely been squandering her birthright.We have been throwing away company profits, digging into capital funds. In the face of the crisis, Europe has been behaving like an old lady who has been used to living well and who suddenly finds herself in distress, hard up, and has to sell her jewels. Why have we done it? To keep what we have, to maintain the purchasing power of those who are 'in', those who have their place in the system, those who have a job, and leave those who do not have a job on the outside."

Michel Albert

"The Treaty of Rome was drafted in a different period and was aimed at promoting competition within Europe, whereas now we need to promote our competitiveness *outside* Europe."

Guido Carli

"We cannot and we will not live with the cancer of unemployment because, in the end, it kills what we hold dearest: democracy".

Georges Debunne

"We are faced with what I believe to be psychological defects, due possibly to the failure of politicians and other leaders of our Community to give encouragement rather than sympathy, to give stimulus rather than repression."

Lady Elles

"Europe could miss out on the third industrial revolution, even though the first two came into being on our soil."

Jacques Moreau

"It is difficult to escape the conclusion that the path of future world economic growth has been fundamentally altered. One must ask whether Europe will any longer be able – at least to the same extent as earlier – to look to foreign markets and exports as the mainspring of expansion and investment. Whether by force or by design, it may be necessary to change tack somewhat, so that European markets themselves come to provide for a larger proportion of growth and employment."

Warren McClam

"If Europe entered the Seventies as the world's second industrial power, she came out of them in third position. The challenge of the coming decade is to keep up with the leaders."

Luigi Arcuti

"The completion of the 'common market' is a basic consideration for progress. But I sometimes have the impression that we are more imaginative in finding obstacles than we are successful in harmonising 'norms'."

Frans Andriessen

"Change is not just technological; it is legislative, financial; it resides in behaviour and attitudes. There is no longer any secrecy about policy. Europe knows what it must do, and the greatest thing it has going for it is perhaps this awareness. It is a question of getting off the mark and striking the right pace. We must achieve sufficient change, achieve it everywhere, and achieve it swiftly. That is the root problem, no longer diagnosis."

François-Xavier Ortoli

Invest politically in Europe

The closing words to the symposium were spoken by **Pierre Werner,** Prime Minister of Luxembourg, Governor of the EIB for a total 22 years, who was on the Board in 1958, at the beginning of the European Economic Community and the Bank.

He contrasted the hopes of the Community's "founding fathers" with the "anxiety for Europe's present position in the world" and "the serious worries for the Community's future".

It was a question, he said, of Governments mustering political will to overcome difficulties, of "investing politically" in Europe, not just financially, and of facing up to realities.

"This facing up to the realities of investment in Europe is a broad enough concept to take in a whole spectrum of things. It does not only mean capital equipment for industry and agriculture, the development of modern processes and innovation. Investing in Europe also means **investing intellectually in Europe.**

"What we must realise is that, for some years past – as much, I would say, as a decade – this intellectual investment in Europe has been on the wane. Not the least part of facing facts is taking stock of the opportunities that may be offered by a market opened out to its ten/twelve countries. I well remember, during the first ten or fifteen years of the Community, how all industrialists would plan with an eye to that extended market, assuming it to be as good as achieved, with all subsisting barriers between our economies removed.

"Alas, since the economic crisis set in, we have to admit that this, what I call sense of the European dimension, has been lost by our industrialists, economists and agriculturalists. What we are seeing more and more is a kind of recompartmentalisation of markets and production.

"Set against these unfulfilled hopes, this symposium is a promising step, both as an act of faith in the future and in terms of the way it originated.

"It originated in the commemoration of the 25th Anniversary of the European Investment Bank, and I should just like here to acknowledge the prescience of of the Community's founding fathers who, at the very outset, **instituted the European Investment Bank and set its aims.** These we can still stress, still see to be valid, still accept as a **programme for the future.**

"Over the years, this institution has developed admirably and is now in a position to do great things, not only extending and strengthening the alignment of policies within the Community but also taking its action beyond the Community, having now earned its place as one of the foremost institutions on the world scene. We salute the Bank for its impressive performance over the last 25 years.

"A jubilee is a time for looking back, but not only that: the Bank continues as well to look ahead".

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