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EUnomics and Competition Strategy

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EUnomics is a term I use to denote the art of devising Economic Strategies for European Cohesion. The practice of this art, as I envisage it, is based on three tenets:

1. ***Economic Policy is a struggle to find one's way through chaos to a desired objective.***

It was Schumpeter's view that any policy application has to allow for the unique historic situation in which it is to be applied. The economic situations pertaining in early XXIst century Europe are not only unique but are constantly taking on a new twist. We may well look on them as chaotic.

2. ***The desired objective is to achieve the cohesion of Europe's widely disparate economies*** – not through the diktat of uniform policies initiated and administered by a centralised bureaucracy. Rather it needs to be achieved through the ever renewedly voluntary development of coordinated approaches to dealing with specific situations as they emerge from the morass of previous mistakes.

Self-determining nation states, acting within the principle of subsidiarity, including the provision for proportionality[1], must not surrender themselves to the mercies of Europe-wide economic or political regimes or they will pay much too high a price. The idea that the nations can to a great extent govern themselves would be sacrificed and democratic control would be lost, as well as the hope of each nation to apply itself to the resolution of its particular problems in ways acceptable to its own voters.

[1] Article 5 of the Treaty of Europe states that "any action of the Community shall not go beyond **what is necessary to achieve the objectives of this treaty.**

3. ***The paramount justification for the development of economic strategies is raising the potential standard of living for the poorer eighty- percent of the population.***

If this is continuously borne in mind, the strategies will tend to produce an increasingly cohesive effect. Therefore, it is not strategies for economic growth that need to be envisaged. It is strategies for economic development. For economic development to take place the underlying rate of growth has to be self-inducted and self-sustaining, so that changes in the structures of the manufacturing, services and technological industries will yield higher productivity and higher real income per working person.[2]

When we agree with and maintain these tenets, it becomes evident that, whereas economic policy has to be concerned with the distribution of resources, in the final analysis economic strategy aims at the most effective use of resources for the welfare of the human beings in a given area.

Economic strategy is, after all and as so often tends to be forgotten, all about making human lives more viable. Riccardo Petrella puts the matter eloquently, when he points out how 30,000 people a day die for lack of reasonably sanitary water to drink. Human beings, he says, have a right to life.

I beg to go further and say this means that they have a right to struggle to live in dignity. This implies freedom from want. There can be no freedom from want without the chance to earn a competency for a life that is worth while. Ergo, our strategies have to be geared towards economic development. Without it there can be no freedom to develop our humanity, our culture and our spirit.

We are trying to construct the most suitable framework within which 25 (and more) countries can make strategic decisions efficiently as well as in relative harmony. Each nation will still have to make such decisions and enact measures to deal with its own particular problems. Structural and Cohesion Funds may help but they do not bring an economy to life with the wave of a wand. Such a result is only achieved through initiative, enterprise and innovation.[3]

Of the 18-24 million individual Europeans who are without reasonably remunerative jobs, probably 6 million may already be classified as long-term

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2 If economic progress is defined as an increase in the share of the nation's output available to each citizen, little or no economic progress may be made when growth occurs without development. (Firestone, O.J., 1969)

3 Decision-Making in a Polynational Europe, J E. Bigio, at an International Conference on *Europe and the Fifth Enlargement*, Warsaw, Nov. 2002.

unemployed. As they see things, there appears to be a total lack of measures to prevent their plight and many other similar situations from continuing to result from decisions to merge and/or restructure significant numbers of businesses. It is difficult for them to understand why Western-style Management has to be to all intents and purposes amoral whenever the maximisation of profits is in question.

It is my purpose to demonstrate that, in fact, it isn't necessary to create such havoc. I will seek to show how a responsible approach to economic development could furnish a viable substitute for the excessive competitiveness that can so damage the social infrastructure and cohesion of any community.

First of all, perhaps it is necessary to qualify what seems to be a dilemma that the EU needs to resolve. This is the *apparent* conflict of priorities between the appreciable reduction of the levels of unemployment and the Lisbon 2000 goal of the EU becoming the most globally competitive economy by around 2010, give or take the odd years of delay.

I suggest that the conflict is only apparent. The aim of considerably reducing levels of unemployment has to be the first priority. A globally competitive economy that fails to deal with such an ulcerated sore fails to address the goal of economic cohesion. By implication, therefore, the EU as a whole should now adjust its strategy regarding competition.

The ways in which this should be done lie at the crux of EU policy. As I mentioned, the ways to economic development lie mainly through initiative, enterprise and innovation. This by and large means through the setting up of new businesses, which start small and have the prospect of soon becoming medium sized entities. There have to be many such start-ups. There is no economic progress without diversity. Which of the businesses become self-sustaining is simply a matter of natural selection.

We also have to remember that innovation is dependent on fresh finance. The money that is already employed in the existing circular flow of production, distribution and/or services is not available for new enterprise. As Schumpeter so ably demonstrated[4], the necessary capital has to be made available from some other source. This, basically, is either Venture Capital or credit furnished from national and/or international sources. And, since within a developing nation the availability of spare capital is scarce, it is here that the globalization of finance provides a principal benefit. Without its governing characteristics much Foreign Direct Investment would simply not take place.

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[4] Business Cycles

I submit that, for these reasons EU competition policy might well be adjusted, in order to encourage the emergence, survival and continuous independent existence of new ventures, protected as they should be from predatory acquisition by large companies that seek to take over successful enterprise.

The objective of such a modification of policy would be to avoid the various anti-competitive practices indulged in by large international corporations involved in the game of Mergers and Acquisitions (M & A)[5] and/or Market Dominance, when they can get away with them.

Meanwhile, the individual Nation States of the EU could, with great advantage to their local economies, adjust their internal economic strategy so as to encourage the envisaged emergence of new ventures, funded principally by Venture Capital, either from within the EU or coming in as FDI.

To ensure that the desired economic development can take place and will have the freedom to prosper, economic strategies could be adjusted either on an EU-wide scale, or at will by the individual nation states - within the principle of subsidiarity - by incorporating a specific code of 'cohesion' ethics. This code would enjoin all new enterprises (including those resulting from take-overs or privatisation) to be run in line with the aims of what I call Socially Responsible Capital.

I define this as being at one with the Judaeo-Christian good neighbour mindset, which I understand to be shared by most Moslems as well. The good neighbour element involves an approach where the central precept will be the optimisation of profit, as opposed to the maximisation of shareholder value. In essence, this implies that the level of profit must first be commensurate with the interests of all the people that contribute to the existence and productivity of the respective business. These, quite obviously, do not include those whom I call the overhead expense workers. The truly productive management, technical and sales personnel who have made and continue making useful contributions to the overall success of the enterprise are the ones that have to be motivated.

Best efforts are most likely to be forthcoming on a continuing basis, if individuals recognise they will not be tossed aside as soon as they are judged to no longer be of prime benefit to the short-term profitability picture.

The socially responsible use of capital means more than simply seeing to it that the enterprise will be a good corporate citizen, sponsor local projects and contribute

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5 For reasoning regarding this recommendation, please see *Socially Responsible Capital*, Joseph E. Bigio, July 2002, EDIUAL 2003.

to charities[6] as well as, particularly, take all measures to ensure that operations will not adversely affect the environment. Even though the last point[7] is extremely important to the health of the sources of natural energy underlying human initiative and endeavour, there is, nevertheless, a new and greater implication. It has to do with being part of a fresh approach to business enterprise that I first proposed in 'Taking the Sting out of Globalization for Europe'.[8]

The gist of that paper was to show how we may reap the benefits of globalized capitalism at the same time as mitigating the damage it can do to the societies it affects. It was aimed at representing a way of practising capitalism in harmony with the best interests of the communities where market principles play a leading role in the economy.

The tasks facing the EU demand this new approach. The requirements involved in providing a single market framework for so many widely varying national economies imply that capitalism that is not blended with humanity just will not serve.

APPENDIX

Practicalities and Practicability

Much attention is focussed on what we may call productivity imbalances. The executive summary from The European Commission[9] highlights an endemic factor in the subparagraph headed 'Strengthening competitiveness and employment creation'. It states "There are a number of areas in the EU in which structural problems deter investors and inhibit the growth of new economic activities despite reasonable levels of infrastructure and work force skills. These tend to be old industrial regions or those with permanent geographical and other characteristics that constrain development.

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6 Known as Corporate Social Responsibility (CSR).
7 Currently characterised as 'Sustainable Development'.
8 Within *The European Union in the World System Perspective*, Polish Institute of International Affairs, 2002
9 *A New Partnership for Cohesion: convergence, competitiveness, cooperation* from the Third Report on Economic and Social Cohesion. February 2004. See link at http://europa.eu.int/comm/regional_policy/index_en.htm

The challenge for cohesion policy in these cases is to provide effective support for economic restructuring and for the development of innovative capacity in order to arrest declining competitiveness, falling relative levels of income and employment and depopulation. A failure to do so now will mean the problems are even greater when action is eventually taken."

There can be no correction of the imbalances without increased opportunities for various kinds of productivity. Principally, these opportunities have to come from new 'niche' enterprises. These new businesses are founded by virtue of the initiative of a few of those more adventurous people that are to be seen in every segment of a nation's population. Their diverse initiatives are the very essence underlying the desired economic progress.

Nevertheless, just as there can be no economic progress without diversity, there can be little economic growth without the productivity efforts of the people who accept the risks of joining a new venture. And it is, to a large extent, upon the motivation of these people that the medium and long-term viability of business ventures depends.

I contend that there are literally hundreds of thousands of such people all over Europe, of all ages and degrees of experience and enthusiasm, who are ready and willing to throw themselves wholeheartedly into new venture. Indeed, in such situations it is often found that they contribute more than would normally be expected to the success of enterprises, at whatever level of qualification they can be used.

The young have the enthusiasm, the middle-aged have the know-how, and those who are older and have been made redundant as the result of age-discrimination have vast amounts of experience to make available, especially to start-up companies that may well lack management capability.

In particular, it has to be worth recognising that, whenever the inevitable process of restructuring takes place, there is a way to bring about a virtuous result from the evils of making personnel redundant. Instead of just shucking off the burden of taking care of the erstwhile staff, or passing the task to outplacement consultants, the managers responsible for the restructuring can arrange that the existing enterprise set up new ventures, as separate small businesses.

These ventures it needs to encourage as either management buyouts or completely new initiatives aimed at exploiting a niche in the market. Moreover, although it may choose to back the new enterprises financially, it does not necessarily have to do so, so long as it is prepared to back up with financial guarantees the credit capital that the ventures require.

This kind of process is specially suited to instances of privatisation, as was demonstrated in South Wales some forty to fifty years ago, when both the coal and steel industries there had to be closed down. A community of new small businesses was created, located in areas that had previously belonged to the steel company. Financial control and management know-how was furnished and large numbers of people had new hopes for a continuance of contributing to society through their efforts. Of course, not all of them turned out to be successful, but at least they had a far better chance than if they had simply been left to the misery of unemployment.

'But where does the money come from?' is one of the prime questions we have to ask ourselves at every juncture of the processes of fostering cohesion. The recommendations make for good, practical, approaches but who will put up the money involved in each different type of business development?

If I may, I refer you mainly to what I wrote in my essay on *Socially Responsible Capital* for a number of the answers to questions about how we get the finance involved and how it is channelled. Here, therefore, I will just venture some further thoughts, even though the inherent ideas may not as yet be completely underpinned. The details, I maintain, will always have to be tailored to fit each specific case.

First of all, I fully appreciate the contention that the funds allocated the CAP were intended to help redistribution between regions in France and Germany. Nonetheless, I gathered quite conflicting impressions from some statistics I saw some four and a half months ago, probably in The Economist, but it might have been in the Financial Times. The article in which they were included stated that 72,1% of the CAP money goes to large farms – for the large farmers who constitute not more than 13% of the total of agricultural communities. These 13% have, of course, very large lobbying power in Paris, Brussels, and various other capitals. The only thing that's going to change this situation is if the European citizens, through the European Parliament, continue to make more and more, and more, fuss until the politicians realize the game is no longer politically viable.

Meanwhile, if just 10% were to be taken away from the allocations to the CAP and moved into cohesion or structural funds, a lot of the problems that are envisaged, where there may not be enough money to continue the level of regional support, would fade away. There would be sufficient money in the new scenario and there would be no need to raise the level of contribution to the Commission's budget.

If we bring our thinking down to the business level where people start new firms, naturally we have to look for other sources of funding to meet their needs for capital – credit capital in this type of case. In this context, I submit that one of the outfits a lot of people forget about is the European Investment Bank. The EIB had, I think, 20 billion euros allocated quite recently for a three-year programme into new enterprises. Not all for technology, but assuredly it is supposed to support research and development.

Also for this business level, I can confidently propose that venture capital can be regarded as a promising source of funding. There are a lot of venture capitalists around looking for enterprising new ideas. Venture capital can and does provide an enormous impulse, in partnership with imagination and initiative furnished by entrepreneurial citizens.

Other citizens - those who are risk-averse - are very often risk-shy because they recognise they would be unlikely to have sufficient management capacity to bring their idea/s and their company into viability. The South Wales Steel and Coal Community was able to help people like these. Entities similar to the British Institute of Management or a volunteer executive corps could be called on to provide much of the assistance necessary throughout all the various companies. Thus the people running them got the necessary education and were able to develop management abilities through training on the job.

Finally, it may be fair to say that nowadays, in Europe, FDI might well have two acronyms, the original one for Foreign Direct Investment from outside Europe and, perhaps, ICBI for Internal Cross- Border Investment for that which goes between European Nation-States.

For outsourcing we might also take a similar attitude. Outsourcing can mean that the rich countries take advantage of the cheap labour in the less developed countries in Europe. Problems may begin to arise, however, when they use one European country for the time being but eventually find that it will be cheaper to do the work in another - the Ukraine or Byelorussia, for example. Of course, the problem will be mitigated, if we start immediately to create technological industries, little ones, not hundreds of them, not thousands, but hundreds of thousands of new ones, because this re-employment necessity is a situation facing vast numbers of the people of a wider and wider Europe.

There is not just a constant rate of change, but a constantly accelerating rate of change; not a rapid rate of change, but an enormous velocity of change.

In conclusion, I submit that we have to engineer our way through chaos, we have to engineer our way through change, to engineer our way through an upsetting instability. But it is possible. It is always possible if the political will is there to back those who wish to put their energies into achievement.

Cascais, Portugal, 29 March, 2004