



**European University Institute,
Florence Italy**

**XXth Jean Monnet Lecture
20th March 1998**

**On. Prof. Romano Prodi
"European Industry and Finance in
International Competition"**

Prime Minister

Mr Principal,
Professors,
Students,
Ladies and Gentlemen,

I am deeply grateful to the European University Institute for the great honour it has done me by inviting me to give this lecture, the twentieth in the series of Jean Monnet Lectures. It is a high honour first and foremost because it recalls the man who, as the Institute rightly reminds us, "devoted his life to making Europe a reality".

And it is a high honour because the lecture is being given here in the European University Institute, an institution to which we attach great importance for the cultural role that the new Europe will be called on to play. Finally, there is a third reason why I feel honoured: this year the first chair at the Institute fully funded from outside, by resources coming from Italian firms and agencies, will come into being: the "Mediterranean Chair". The Mediterranean is returning, particularly in the light of Asian developments, to the central position in world trade it once had in the past. And in the Mediterranean, it is Southern Italy that is the gateway to Europe. That a centre for studies and analyses of the opportunities opened to Europe by its projection into the Mediterranean is being created in Florence is a significant sign of the times.

1. With economic and monetary union, (EMU), our sovereign States are, of their own free will, abandoning their currencies in order to create a single currency.

The revolutionary scope of the project is enhanced by the importance of the economies making up the EMU area and by the potential effect on neighbouring countries.

This process is accordingly destined to be the most important factor in coming years in three different areas: Europe's position in the world; the nature of capitalism on the Old Continent; the patterns of the international monetary system.

2. In these years we are seeing the end of a great historical cycle that opened at the end of the eighteenth century with the industrial revolution; a cycle that essentially made the world economy coincide with the Western economy.

To give just one example: after experiencing a period of absolute pre-eminence lasting 250 years, the relative size of the European economy in proportion to the world economy is returning to the levels of 1750.

This process is in no way due to shortcomings in the European economy, which instead seems to be going through a second youth, but to a genuine process of globalization of the market that has favoured rapid growth by the emerging countries. This phenomenon was interrupted only temporarily by the recent "Asian crisis", and we may reasonably expect a decisive convergence in levels of development in the forthcoming decades.

EMU sets the seal on this transformation. For it takes note that the individual European economies are no longer a reference point the way they once were.

It is therefore necessary today to build an economic zone endowed with a "critical mass" adequate to the new international environment. Once, the terms of comparison for the bulk of European companies were their competitors in the other European countries. Today, comparisons increasingly have a world dimension, and European firms are finding very aggressive counterparts particularly among American and Japanese firms.

Competition within Europe thus no longer constitutes the exclusive motor for growth it was in the past. Today we have to move in a broader horizon: one in which competition takes on a truly global appearance.

This, then, is a great effort to rationalize and simplify the world economy, opening the way to fuller expansion of competitive capitalism.

The creation of a great currency area in Europe will in fact supply the European economies with those benefits of scale that can enable them to compete openly, with their heads high, on the international market.

I do not think, though, that this process will lead Europe to a new protectionist clash with the other great economic zones in North America and in East Asia. On the contrary, I believe it can put European firms in a position to draw full benefit from the reduction in customs barriers sanctioned by the conclusion of the Uruguay Round and continued by the World Trade Organization.

The "trading blocs" will then be "building blocks" rather than "stumbling blocks" on the road to global liberalization.

3. Moreover, the process of monetary union, even before completion, has already yielded considerable fruit in the fight against inflation and in action to strengthen the international monetary system, after the instability of the seventies and early eighties had weakened the Western economy.

As historical experience of the gold standard and the Bretton Woods period shows, monetary stability is a necessary prerequisite for lasting growth of the economy and of trade. When this stability has been lacking, as in the period of the two wars or the period of the oil shocks, the fragility of the international economy has tragically emerged.

This does not mean, however, that the European integration project should be confined to monetary questions.

The cultural and economic heritage of "European capitalism" - or to be more accurate, of the variety of capitalisms that coexist in Europe - ought in fact to be reviewed and updated.

The great thrust of Europe's progressive liberalization, which has brought the great benefits deriving from a substantial growth in exports, is in fact being completed through the achievement of the project for monetary union. To increase their exports, European firms must and can, therefore, increasingly look to a broader market.

4. Monetary union further enhances the importance of social and structural reforms of our capitalism.

Once monetary policy is no longer in the control of the States, and fiscal policy too is confined to the need to adapt the national economies to a single currency, the European markets will be able to grow and gain competitiveness only through radical reform of the environment they operate in.

The States' role will then, as I have for some time been saying, be "lighter". That does not mean less important. It will have to ensure great investments in human and intellectual capital, guarantees of competition and for consumers, and a simple innovative normative structure to stimulate investments and promote the services essential to entrepreneurial growth.

Allow me now to take up one by one the themes I have raised in this introduction, starting with the beginning of EMU.

5. EMU is an act of faith in Europe, the culmination of the trajectory begun so many years ago with the construction first of the European Common Market, and then of the Single Market where there is complete freedom of movement of goods, services, people and capital. But EMU also represents a challenge in the broader context of the world economy.

Starting from the results obtained in the area of "convergence", it would seem that the hypothesis of an EMU made up of 11 countries is the most likely. And a EURO zone with that composition will indeed offer an adequate starting point to stand up to the United States, the country in relation to which the challenge on international markets will be most intense with the birth of the EURO.

In forecasts for 1999, the gross domestic product of the EURO zone will amount to some 80% of the US GDP, which will in turn be some nine thousand billion dollars. Accordingly, the GDP of the entire Europe of the fifteen countries would become bigger in size than even that of the United States themselves.

Moving from an aggregate analysis to a closer comparison, what are the differences that emerge between the EURO zone and the United States?

1) The first difference lies in the differing dimensions of domestic demand for consumption, investment and stocks in relation to GDP, that is, the different weight of foreign trade for the two areas: this is reflected in a positive current account payments balance of some 2% of GDP for the EURO zone, and a negative one of over 1% for the United States.

Trade in goods between the two areas, which has gone back to positive since 1996 for the EURO zone and is trending upward in later years, would have to be maintained particularly by the surpluses of Germany and Italy.

2) Trends in public deficits are another factor of diversity between the two areas.

Starting from 1998, the United States ought to have balanced public accounts, while the EURO zone will have a public deficit of less than 3% as a percentage of GDP, a figure due to fall further in coming years as a result of the convergence process imposed, after the Maastricht Treaty, by the Stability and Growth Pact. The weight of public debt in proportion to GDP will also be greater for the European area: some 74.5% of GDP, as against some 60% for the US. This phenomenon, though, has a double significance, while on the one hand it constitutes a constraint on budget policies in the European area, on the other the amount of European public bonds in circulation will tend to equal those of American public bonds, thus contributing to forming an extremely broad, liquid market, attractive to international investors.

3) The greatest difference will however in 1999 continue to be the figure for the unemployment rate, which for the EURO zone can hardly fall below 11%, while the American figure will remain around 5%.

6. The return of the European economy to a path of strong, prolonged economic growth thus becomes the fundamental objective.

In this connection, the heritage of these years - macroeconomic stabilization - is precious. The Maastricht Treaty was a great act of justice towards younger generations and towards the future.

Setting a limit to public indebtedness prevented national governments from continuing to offload debts onto coming generations. The fight against inflation and the great reduction in interest rates that resulted have recreated the conditions for a new cycle of investment. Exchange-rate stability has given economic operators certainty, and enhanced the value and effect of real competition among firms.

The experience of these years shows that there is no distinction in time between a "stage one" and "stage two" of economic policy.

The campaign to get the budgets right set the necessary conditions in all Europe for a recovery that would not be merely short-term. At the same time, and for a year now, action aimed at growth has been embarked on inside the individual countries.

In Italy's case, I have in mind the reform of the public administration, fiscal reform, labour market reform and the rearrangement of schooling, reform of corporate governance rules and so forth.

After the Maastricht Treaty, the Stability and Growth Pact - signed in Dublin in December 1996 - is also moving in the same direction. For it sets very stringent limits on the possibilities for individual Member States to have recourse to debt, and hence obliges all States to adopt virtuous structure policies.

There is, I believe, a general principle which by itself is inspiring the new Europe. It can be summed up as follows: let us *put Europe back to work*.

In the Europe of the single currency, as we know, monetary policy will be unitary and be transferred to the supranational level. There will also be a limit on the possibility of recourse to expansive fiscal policies, given the restraints on public finance.

The outcome is a great strengthening overall of microeconomic policies to stimulate private economic initiative, in a framework of growing liberalization of the European economy, and in more general terms of the world economy.

7. The latter, as we mentioned at the outset, is going through a phase of extraordinary changes.

In fact the West is no longer the sole protagonist of the front rank on the world stage. Though the confrontation between the European Union and the United States of America retains all of its vigour, the picture must be extended first and foremost in the direction of Asia and Latin America.

A recent OECD⁽¹⁾ study portrays two possible growth scenarios for the world economy from now through 2020, called respectively the "high performance" (better) and "business as usual" (worse) scenarios.

Quite apart from all the quantitative hypotheses the two scenarios are built on, the main difference between them concerns their forecasts for greater or less advance in structural reforms the individual countries will be able to accomplish. This means, for instance, greater or lesser liberalization of trade and investment; it means fiscal adjustment and labour market reform.

In this light, among the many forecast indications, I have fixed my attention on the following ones.

1) Convergence is under way world-wide in income levels.⁽²⁾

In 1995 the US still accounted for 20% of world GDP (equal to 32 trillion dollars), Europe for 22% and Japan for 8%. In 2020, with a world wealth "pie" equal on the most favourable scenario to over 106 trillion dollars, the US share will go down to 11%, Europe's to 12% and Japan's to 5%, while the share of the big five non-OECD members (Russia, China including Hong Kong, Indonesia, India, Brazil) will amount to 35%. Note that in 1995 these last countries' share equalled 21% of world GDP.

2) Taking a closer look at the OECD countries, it is productivity growth that is seen, by comparison with capital accumulation and growth in the labour force, as the main determinant of GDP growth in the long term.

This finding is not surprising given the differing demographic dynamics between Europe and the other areas of the world and given the increasingly central role attaching to technological progress in determining the wealth of nations. Again according to the OECD, there are four main factors capable of strengthening productivity growth: reform in regulations and other laws to simulate competition, faster liberalization of trade, faster introduction of technological progress, and growing investment in human capital.

3) A radical change is under way in the composition of world output, as a consequence of growing international specialization.

The great distribution traced out by the OECD is between "Agriculture/Food processing" and "Consumer goods" on the one hand, and "Skill-intensive capital goods" on the other.

The share of non-OECD countries in world farm output will rise to over half by 2020, thus keeping in line with the rise in domestic demand. In the case of consumer goods, the share in world output of non-OECD countries will be associated with their growing exports, thus enabling the funding of their rising imports of investment goods.

In consequence, in the OECD countries it will be just this production of skill-intensive investment goods that will take on central importance, with a relative decline in the labour-intensive sectors: in 2020, the OECD countries will be responsible for using two-thirds of world output of investment goods.

These figures should be supplemented by taking account of the ever-growing importance attaching to "services" in the production of wealth: in 2020 their share will be over 70% in the OECD countries, and reach some 60% in the other countries.

8. Obviously, competition between the world's most industrialized countries and the developing countries is the first level to look at.

The second level comes from the competition under way among the OECD countries, chiefly among the European Union, the United States and Japan: the so-called "Triad". Let me now consider this.

A vast economic and social literature has, especially in the early nineties, looked at the competition among these three different areas of world economic growth, highlighting their different performances in terms of economic growth and social coherence.

For my part, in a recent inaugural lecture at the London School of Economics (26 January 1998), I gave wide space to the welfare model that the western European countries have built up over these decades.

On the one hand I stressed the role they have played - and will continue to play - in promoting ever-greater social cohesion which, in the last analysis, also means greater economic growth. On the other, I emphasized the reforms our model of welfare is in need of.

There is, in fact, a two-fold "compatibility" that has to be sought.

The first is the eminently macroeconomic one (the constraints set on the deficit and on government indebtedness make it necessary to bring the dynamics of social expenditure back on to a sustainable growth path). The second compatibility has instead to do with the new social dynamics, and the labour market in particular: the growing need for a highly-trained labour force and the growing mobility required on the part of the young, making it necessary to strengthen the collective institutions devoted to education.

When M. Albert, R. Dahrendorf, R. Dore and L.Thurow - to mention only a few of the best-known authors - set the debate on the "dynamics of models of capitalism" to the fore, they meant to refer to this broader vision of our

industrialized societies. It is a vision where each particular model of capitalism not only takes account of "productive" aspects but also compels coverage of the more specifically social features associated with living together in society.

9. The emphasis on this broad acceptance of models of capitalism must not, however, let us forget that the strength of one model by comparison with another is based primarily on its industrial system and its financial system.

What is most striking about the American model is its extraordinary capacity to create new enterprises and new jobs. What is most worrying about our Europe is, by contrast, its high unemployment, especially among youth.

This does not summarize the whole of the different performances of the US and the European Union, which of course abound in nuances. But the example does point the way to go, the objective to look at. I continue to believe that making best use of our young people's talents is the greatest one of all.

10. In the second half of the eighties, a group of authoritative MIT economists, co-ordinated by Professor Solow, conducted a research project published under the evocative title "Made in America - Regaining the Productive Edge" (MIT, 1989).

In the mid-eighties, America was in a period when the "paper economy" was triumphing. Industry - manufacturing, if you will - was losing its traditional centrality and its technological superiority.

In the same years Japan was being affirmed as an economic and industrial power of world importance, and the European Community was embarking on the Single Market programme that was to produce such good results. Ten years later, the picture of the world economy - even referring only to the "Triad" - looks very different: there is the United States' regained technological leadership; there is the crisis of Japan (and more generally of South-East Asia); and there are the lights and shades of the European economy.

It is no coincidence that today a report has been published under European Commission auspices entitled "Made in Europe"[\(3\)](#).

Robert Solow himself writes in his introduction to the report that: "(...) Europe in 1998 is not America in 1989", since many developments have taken place in productive systems throughout these 10 years, above all the growing interconnection between manufacturing and services to production, and the ever-growing recourse by firms to strategies of outsourcing beyond national frontiers in order to seize the advantages of manufacturing sites with low labour costs.

While it is true that this historical and economic parallel should be treated with some caution, Solow's opinion is equally undeniable when he writes that: "...firms in the advanced countries cannot compete with the poorest countries in aspects of production dominated by unskilled labour".

This is the reason why it is hard to escape the need for the industry of Europe - one of the world's three most advanced areas - to specialize in production with a high technological content, high added value, and high skill required of the whole labour force.

11. From this viewpoint, what, we may now ask, is the point that European industry is at today? In what output does it display technological excellence, and in what areas does it by contrast undergo American and Japanese supremacy?

In the analysis below I shall trace an outline picture of the structure of European industry, and then go on to some resulting policy indications in the broader context of a single-currency Europe (a strong factor for attracting international financial investment) and a stable macroeconomic framework (the "Maastricht dividend").

The most outstanding features of the structure of European industry emerge from analysis of the export specialization sectors, which reflect the extremely strong SME network that typifies all the European countries, and from analysis of the biggest firms.

Let us start by saying that SMEs form the backbone of the sixteen million firms existing in the EU (4): over 90% of them employ less than 10 people, and there are very many one-man enterprises. The truly distinctive feature is that they are very often organized in the famous "industrial districts", in which economies of scale are secured at the level of the system rather than of the individual firm.

SMEs operate in almost all sectors of activity, though industries belonging to the so-called "fashion system" (clothing, shoes etc.) on the one hand and industries associated with instrument making on the other are the spheres of activities par excellence. For it is in these industries that the production cycle can be broken down among several firms: the ones that give life to the district.

The attention devoted to this model of SMEs and "industrial districts" - a real social innovation - at the latest international summits, in both G7/G8 and European contexts, is without precedent. The Italy of the "industrial districts", we may say with pride, is an Italy where not only is industry efficient and the labour market one of full employment: it is an Italy where social cohesion is strong.

Coming back to the description of the structure of European industry, a second important aspect emerges from analysis of the biggest firms: the emphasis on SMEs, ought not to obscure how numerous and important they are, especially in particular industrial sectors.

Taking the chart of the 200 biggest industrial groups in the world as it was in the early nineties(5), 69 of them were European, 64 US, 53 Japanese, and 14 from other countries.

The European groups showed excellent performances in such sectors as chemicals, pharmaceuticals, foodstuffs and oil refining. American and Japanese groups dominated in electronics and computing. Finally, a situation of co-leadership existed in the "industry of industries", the car industry: General Motors, Ford, Toyota and Daimler-Benz occupied the foremost positions on the scale.

Moving from specializations and strong points to analysing the weaknesses of our European industrial system, the basic consideration has to do with insufficient innovative capacity, especially compared to American industry. Of the present 25 biggest American firms, 19 did not exist or were very small before 1960 (to give two well-known examples, at that date neither Microsoft nor Intel existed). On the contrary, a look at the 25 biggest European firms shows that none of them is new and they have all existed for more than 30 years.

This brings us to the "European paradox", the note on which we shall conclude our consideration of industrial specialization.

Why does a European paradox exist? Perhaps just because Europe has no leadership position in the fundamental industries of microelectronics and information technologies, but continues to dominate the world scene in old industrial sectors like chemicals?

Certainly this is a weakness by comparison with the United States and the other great world economic power, Japan; but the paradox arises from a more general consideration.

The majority of indicators of scientific and technological "production" (numbers of patents, scientific publications of international importance and so on) show a European performance essentially in line with that of the United States and Japan (though the other fundamental indicator, the ratio between R&D investment and GDP, is lower). The real European weakness lies in insufficient capacity to convert Europe's technological and scientific knowledge, which is at a good level, to effective business opportunities.

Many factors have accordingly been called on in order to improve collaboration between the world of research and the world of industry so as to stimulate the birth of new enterprises and the consolidation of existing ones in innovative sectors with a high technology content (I have in mind electronics and computing, but also biotechnologies); those sectors, as we have already said, in which the advanced countries have a prospect of maintaining a competitive advantage over the developing countries.

12. Europe's small and medium-sized firms have to grow in numbers and in size. To date it is the first of these two lines of development that has received the greatest attention in Europe.

Growth and the creation of new enterprises is certainly very important, since they are the "nursery" of entrepreneurial capacities, make a fundamental contribution to the growth of employment and - particularly in the sectors with the highest innovation rates - are the natural channel for technological progress to unfold its effects with all its potency.

The creation of new enterprises is, however, only a part of the answer to the problem of production growth: to the many births correspond many deaths, and the net employment benefit has often been less than expected. There must in fact be a continuous process of birth and of growth.

The small firms - or at least part of them - have to become medium-sized and then large: this is the best guarantee over the long term for the European economy to stay competitive on global markets of enormous size. Probably not enough has been done for dimensional growth policies, even though the position is very different from one country to another: according to a recent study cited by "Business Week" on small European companies with the highest growth rates in the period 1991-6, 15 of the first 50 were located in Britain, 9 in Germany, 6 in France, 5 in Spain and only 4 in Italy.

These differences among countries reflect various factors, but two of them must be emphatically underlined: 1) the normative framework, with particular reference to its fiscal and labour aspects; 2) the efficiency of financial markets.

From the first viewpoint, many things are changing in our countries. The ideas we are pursuing in Italy are those of a simpler, fairer tax system to make it easier for firms to finance themselves with their own capital; and those of a labour market where various types of employment (dependent and independent) have equal dignity. For it is essential to ensure adequate protection to all types of work, but at the same time guarantee firms the necessary margins for flexibility in managing human resources.

To make growth easier, there will also have to be gradual introduction of industry policy instruments oriented more to promoting birth and growth processes through different taxation of capital gains.

Quite apart from these aspects, the efficiency of financial markets is the fundamental condition for promoting processes of dimensional growth.

We have to ask ourselves lucidly here in Europe whether the processes of accelerated growth that in the US have in a few years created companies of planetary size and importance could have come about on our continent.

The answer is negative, and I feel that poor competitiveness of financial markets, insufficient presence of intermediaries of adequate size, low growth orientation of the fiscal system and monetary and regulatory fragmentation of markets have to be pointed to in Europe as the fundamental causes.

To ensure the future of European industry, then, European finance has to be changed.

Some steps forward have been taken, with processes of international acquisitions and mergers that are by no means negligible, but the great cross-border operations that might significantly raise Europe's level of competitiveness have been few; and on top of them come resistances and asymmetries deriving from residual nationalisms.

In the consolidation of the European oligopoly, an important role naturally attaches to the big firms. If we look at the distribution of the biggest firms in the world by geographical macro areas, Europe's weight is, as earlier noted, considerable. But this analysis, if considered on a forward look, in fact conceals two problems of European big firms: their capacity for growth (which is lower than that of big American firms), and their sectoral specialization (which is more oriented to traditional rather than hi-tech sectors).

As we know, growing international competition implies many phenomena in the economic systems of the industrialized countries, but is fundamentally a great increase in the size of the market.

Secondly, information technologies are nourishing research and innovation on an unprecedented scale. In many cases, but certainly not in all, this is reflected in an increase in the minimum size that firms have to have in order to bear the corresponding costs.

Bigger markets and higher fixed costs lead to greater concentration, and as I have said European firms are too small. In many sectors they are indeed becoming smaller in relative terms, because in other areas world-size players are being created faster.

Moving in this direction is essential, however, if we want Europe to have firms able to compete on global markets in sectors with high research and development intensity and high intensity of economies of scale.

To this end, it is first of all necessary to make it easier for European firms to grow through processes of merger and acquisition.

Even if these processes have been strengthened, they are still very much lagging in Europe in comparison with the United States, from the viewpoints both of frequency and of the size of the operations.

For all the progress that Europe has made from the viewpoint of financial markets, they are still excessively nationalistic in approach, and, alongside the normative barriers we have already mentioned, make it hard for large-size acquisition and merger processes to come about across the borders between European Union countries.

Nonetheless, some recent European developments represent an important novelty. I have in mind particularly the European aerospace and defence electronics industries, where action is under way to promote restructuring and integration on a European scale. I believe this is the right way, since the age of "national champions" has passed. Today is the age of "integrated projects", with all their associated mergers and acquisitions to which each country has to devote the necessary resources.

It is particularly significant that this is happening in the defence industry, an area hitherto tied to the national tradition. From these phenomena that have to do with the area usually called the real economy, we may once again take a lesson: EMU, just by itself, is a strong factor for homogenizing the collective structures of a country.

The Euro is capable of exercising an attractive force which, starting from purely monetary and financial aspects, will end by involving productive aspects too. Earlier we turned our attention to the size of firms - small, medium or large as they may be; some thinking should also be done in relation to the great European networks.

There is a need to resume the initiative, abandoned after the phase following the "Bangemann Report", to create great infrastructure networks. From this viewpoint Europe is in fact accumulating significant, worrying delays by comparison with the other main areas of the world. The areas previously least developed are fully enjoying the "latecomer advantage", and setting up energy and telecommunications infrastructures based on the latest-generation technologies.

The United States too are developing powerful infrastructures, especially in the communications sphere, thanks to the competitive processes set going by liberalization processes.

Europe, by contrast, has come to a stop: certainly, some part in this lag has been played by the heavy budget constraints that national governments and the Community structures themselves have had to respect in order to converge towards the single currency.

On the other hand, once monetary union is achieved, the real adjustment processes can only be faster and more efficient from the viewpoint of production and employment if they are able to rely on adequate networks. Communications, transport, energy, are all fundamental systems for continuing with the productive integration of the European Union, and in this direction we have to go forward, overcoming in this respect too the nationalisms, often particularly enhanced by a past and present of public ownership, and advancing towards rapid integration of markets for public services at European level.

The creation of great network infrastructures should be seen in the broader context of the European Union's eastward enlargement, the other fundamental objective we have set ourselves alongside the single currency. This is no mystery: the main axes of communication have always been North-South; today, it is the East-West ones that are in need of development. We have, in fact, to reconstruct, physically too, those European links that have played such a great part in history.

The enlargement of Europe is a primary objective for us Italians in particular. Italy, along with Germany, is by its nature and its history projected towards the East, and it cannot draw back from this challenge. It is a challenge that will bring changes, and also problems: recall that the eleven countries that have presented requests to join the EU will add some 30% to its territory and 29% to its population, but less than 10% to income. That will entail adjustments to the agricultural policy, to the regional cohesion policies and so forth; but it is a challenge that along with other Europeans we must take up, in the awareness that this is the new Europe.

13. The valuable inheritance of macroeconomic stabilization that the EU has attained is the point from which any policy indications have to start.

Investment decisions can be adequately sustained thanks to: 1) the sharp reduction in interest rates made possible by the action to put the public accounts in order that Member States have been pursuing in recent years; 2) the further reductions we can still expect in many countries; 3) the massive inflow of funds to "venture capital" that should come following adoption of these virtuous policies.

The growth process will resume and be sustained by the end of macroeconomic uncertainty too. There is more: a strong European economy will also constitute a factor of attraction for world capital, and an implicit encouragement for the transition economies of Eastern Europe to make it into an international reserve instrument.

On the strength of this macroeconomic context, Europe has before it the possibility of advancing the set of microeconomic reforms capable of liberalizing the economy (especially the sectors still protected) and fully stimulating competition.

The path traced out a few years ago by the Single Market programme (the one we all remember as the "1992" programme) has proved a useful one. Properly considered, it was an organic, ambitious supply-side economics project aimed at removing rigidities in the various markets and removing barriers to mobility.

It gave rise to a stage of growth in the European economy and improvement in the expectations of economic operators that the Commission summarized as follows: growing competition among firms in both manufacturing and services; acceleration in the process of industrial restructuring characterized by the explosion of a wave of mergers and acquisitions; reduction of prices especially in public utility services being liberalized (I have in mind transport, financial services and telecommunications); an increase in EU income of between 1.1% and 1.5% in the 1987-93 period; steadily growing cohesion among the various European regions.

This is the path it is now necessary to pursue, pushing still further forward the process of reform in the directions already mentioned of building a lighter State, a compatible Welfare State, and a labour market where there is equality of opportunity for all citizens. And a market where competition can truly develop its effects, by completing

the process of privatization (important for creating new economic actors), and abandoning any residual monopoly positions.

While we are on the point of launching the adventure of the single currency, let us not forget the lesson left us by the Founding Fathers.

The Europe, which has managed to become a protagonist of the world economy was born of a political project. The economic successes of which we may justly be proud, the most significant stages in which we have reviewed above, should be seen as part of a design that has always had as its ultimate objective political integration.

That extraordinary intuition retains its vitality today, and it is what we intend to take as an inspiration for daily political action. What sense would it have, anyway, to put our currencies together if not as part of a project aimed at strengthening common policies in all sectors? This commitment is made still more topical by the double challenge of enlargement and the "demand" for Europe coming from several quarters: from the Mediterranean to the Balkans, from Asia to Latin America, not to mention Africa.

We owe all these partners answers in terms of capacity for action and of visibility. It can no longer be understood abroad how a European Union able to bring into being a currency that binds us together and can act as a reserve currency for sovereign States and an international means of payment is unable at the same time to display a common foreign policy.

All too often, even in the recent past, international tensions and regional crises, some of them taking shape on our very doorstep, have highlighted our difficulties in showing a political face of a Europe whose flag is seen as a bearer of democracy and prosperity. The humanitarian commitment we are rightly proud of is not often enough accompanied by the ability to play the active political part expected of us.

Europe was, moreover, born as a project open to the world, and concepts of fences or great walls dividing us from the outside world, or nourishing those "clashes of civilizations" Sam Huntington speaks of, are foreign to it. Our very history has been forged through the encounter of cultures and civilizations capable of assimilating the most diverse contributions and of holding dialogue with the areas bordering on ours. Our vision of international competition, to which this lecture has been devoted, is inspired by collaboration and the harmonization of interests, certainly not by a vision of conflict.

For these reasons, the demand for Europe can no longer be neglected. We owe it to our citizens, who would not understand the value of a Europe reduced to a mere effigy on a coin, and to all those on our doorstep looking at our project with hope and trust. Thank you.

(1) Cfr. OECD, *The World in 2020. Toward a New Global Age*, Paris, 1997

(2) For reasons of homogeneity, the calculations have been made using the value of GDP in 1992 dollars, and a "Purchasing Power Parity" exchange rate.

(3) Cfr. The Institute for Prospective Technological Studies (IPTS) Report, Special Issue: *Made in Europe*, June 1997, Seville.

(4) Cfr. Eurostat, *Les Entreprises en Europe. Quatrième Rapport*, 1996.

(5) Cfr. European Commission, *Panorama of EU Industry '97*, Bruxelles, 1997 (si veda in paritolicare "The world's largest industrial groups")