European Industry and Finance Face World Competition *

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1. With Economic and Monetary Union (EMU), our sovereign states opt to forego their own currencies in order to create a single currency.

What makes this plan even more revolutionary is the importance of the economies belonging to the EMU area and its potential effect on the neighbouring countries.

This process will therefore come to represent the major factor in three different areas over the coming years: the position of Europe in the world, the nature of capitalism in the old continent and the evolving pattern of the world monetary system.

2. We are now confronting the end of a great historical cycle that began in the late 18th century with the industrial revolution – a cycle that saw the world economy closely identified with the western economy. To give just one example: after a two-hundred-and-fifty-year period of absolute predominance, the relative role of the European economy on the world scene is now returning to somewhere around the level of 1750.

The process has nothing to do with any serious shortcomings of the European economy, which seems to be enjoying a second lease of life, but stems from an authentic globalization of the market that has favoured the emerging countries. The process has only temporarily been interrupted by the recent 'Asian crisis', and we may reasonably expect to see levels of development converging over the coming decades.

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* Paper presented as "Jean Monnet Lecture" at the European University Institute in Firenze on 20 March 1998. Translation not revised by the author.

The EMU may be seen as a seal on this process, acknowledging as it does that the single European economies are no longer the reference points they used to be.

It is therefore necessary to construct an economic area possessed of sufficient 'critical mass' to perform in the new world scenario.

Formerly, the terms of comparison for most European firms were their competitors in the other European countries. Today comparison is taking on increasingly global dimensions, and European firms are having to match up to extremely proficient counterparts, above all on the American and Japanese fronts. Thus competition within Europe no longer functions as the supreme driving force for development: today we have to widen our scope and approach competition on a truly worldwide scale.

This means a great effort to rationalize and simplify the world economy, opening the way for the fuller growth of competitive capitalism. In fact, the creation of one great monetary area in Europe provides the European economies with benefits of scale such that they can compete openly and creditably in the world market.

However, I do not believe that this will lead Europe to a protectionist clash with the other great economic areas of North America and Eastern Asia. On the contrary, I am confident that it can enable European firms to take full advantage of the lowering of customs barriers sanctioned with the conclusion of the Uruguay Round and carried through by the World Trade Organization. Thus the trading blocks will be building blocks, and not stumbling blocks in the path of global liberalization.

3. It is, moreover, a fact that the process of monetary unification – although yet to be completed – has already had its positive effects in the fight against inflation and action to strengthen the world monetary system after the blows instability had dealt the western economy in the Seventies and Eighties.

As history demonstrates with the Gold Standard and Bretton Woods periods, monetary stability is a prerequisite for lasting growth in the economy and trade. When stability is shaken up, as in the two world wars or when we were reeling under the oil shock, the world economy reveals all its tragic frailty.

This does not mean, however, that the process of European integration is to be a merely monetary matter. The cultural and economic heritage of 'European capitalism' or, to be more precise, of the varieties of capitalism coexisting in Europe, now needs revising and updating.

Indeed, the steady and far-reaching advance of liberalization in Europe, which has already brought great benefits with a substantial increase in exports, is moving along the lines of monetary union. Thus, to boost their exports European firms must continue to broaden their focus to take in a vaster market – and this they will be able to do.

4. Monetary union will also bring out the real importance of social and structural reform in our system of capitalism.

With monetary policy no longer in the hands of the states and fiscal policy conditioned by the need to adapt the national economies to a single currency, the European markets can grow and wax competitive only with far-reaching reform of the environment they work in.

The state will therefore have a 'lighter' role to play – lighter, but no less important. It will have to ensure large-scale investment in human and intellectual capital, guarantees for competition and consumers, and a simple, innovative system of regulations to incentivate investment and favour services essential for entrepreneurial development.

Let us now take a closer look at the points raised in this introduction, one by one.

5. The EMU is an act of faith in Europe, the culmination of a process that began many years ago, first with the creation of the European Common Market and subsequently of a Single Market within which goods, services, persons and capital can circulate freely. However, the EMU also represents a challenge in the broader context of the world economy.

Starting from the results achieved in terms of 'convergence', an EMU of 11 countries is envisaged as the most probable. In fact, a euro area thus composed affords an adequate basis to begin matching up to the United States – the country which will be facing the greatest challenge on the world markets with the birth of the euro.

In projections arriving up to 1999 the gross domestic product of the euro area will amount to about 80% of the United States GDP, in turn standing at about 9,000 billion dollars. Moreover, the GDP of the entire 15-nation community should exceed that of the United States in magnitude.

Going on now from aggregate analysis to closer comparison, we may consider the differences emerging between the euro area and the United States.

1) The first difference lies in the different proportion between internal demand for consumption, investments and reserves stock in relation to the GDP for the two areas of foreign inter-exchange, giving a credit situation in the balance of payments on current account of 2% for the euro area and a deficit of over 1% for the United States.

Inter-exchange between the two areas saw the euro area back on the credit side in 1996 with steady increase over the following years, which should be sustained above all by the Italian and German surplus.

2) The trend in the public deficit is a further feature distinguishing the two areas.

As from 1998 the United States should be showing balanced public accounts while the euro area will have a public deficit of less than 3% of the GDP, decreasing further in the coming years as a result of the process of convergence imposed by the pact for stability and growth subsequent to the Maastricht Treaty. The burden of the public debt in terms of GDP will also be greater for the European area – about 74.5% of the GDP as against about 60% for the United States. However, this cuts both ways: while it represents a restraint for budget policies in the European area, the bulk of European government securities in circulation will come closer to that of US government securities helping create an extremely large, liquid market with great appeal to international investors.

3) The major difference for 1999 will, however, lie once again in the unemployment figures, unlikely to fall below 11% in the European area whereas the US rate will remain around 5%.

6. Thus a return to vigorous, prolonged economic growth becomes the basic objective.

In this connection, the last few years have yielded a valuable heritage with macroeconomic stabilization. The Maastricht Treaty

represents a significant act of justice towards the younger generations and the future.

With limits set to the public debt, governments can no longer go on unloading their debts onto future generations. The fight against inflation with the consequent sharp decrease in interest rates have recreated conditions for a new cycle of investments. Stability in exchange rates has afforded certainties for economic operators and enhanced the value and effects of real competition between firms.

Our experience in the last few years has shown that there is no temporal distinction between 'stage one' and 'stage two' in economic policy.

The effort to balance budgets has brought Europe to the right conditions for recovery of a more than merely conjunctural nature. At the same time, for a year now measures to boost development have been applied in the individual countries.

In the particular case of Italy we may mention reform of the public administration, fiscal reform, reform of the labour market, reorganization of the educational cycles and reform in the rules for corporate governance to name but a few.

After the Maastricht Treaty we now have the pact for stability and growth – signed in Dublin in December 1995 – taking us in the same direction. Actually, it sets fairly stringent limits to the chances countries have of making recourse to borrowing, thus driving them to adopt virtuous structural policies.

There is, I believe, a general principle that by its very nature shapes the New Europe, and it is a principle I might sum up as: *let's get Europe back to work.*

As we know, the single-currency Europe will have one monetary policy, raised to the supranational level. Resort to expansive fiscal policies will also be curbed given the restraints on public finance.

The result is powerful enhancement of the role played by microeconomic policies stimulating private economic initiative, at work in a scenario of increasing liberalization in the European economy and, more generally, in the world economy.

7. As we noted in our opening remarks, the world economy is going through a phase of exceptional change.

The fact is, the West is no longer the only major protagonist on the world scene. While comparison between the European Union and the United States remains valid, we must look further out, and especially in the direction of Asia and Latin America.

A recent OECD study[1] maps out two possible scenarios for world economic growth from now to the year 2020, described respectively as *high performance* (the better) and *business-as-usual* (the worse).

The point is that, over and above all the quantitative hypotheses the two scenarios were constructed upon, the main difference between them lies in the forecasts of greater or lesser progress in the structural reforms the individual countries are able to carry out. We may, for example, consider major or minor liberalization of trade and investments, fiscal adjustments or labour market reform.

In the light of these observations, let us now go on to consider a few of the prospects they point to.

1) *Income levels are tending to converge throughout the world.*[2]

In 1995 the United States were still producing 20% of the world GDP (to the tune of 32 trillion dollars), Europe 22% and Japan 8%. In 2020, with a world wealth 'cake' that will amount to 106 trillion dollars if all goes for the best, the US share will be down to 11%, Europe's will be 12% and Japan's 5%, while the share of the Big Five (Russia, China including Hong Kong, Indonesia, India and Brazil) not belonging to the OECD will be a good 35%. Let us recall that in 1995 the quota of these latter countries stood at 21% of the world GDP.

2) *Taking a closer look at the OECD countries, it is growth in productivity – as compared with capital accumulation and increase in labour forces – that is seen as the major factor in long-term GDP growth.*

This is not surprising given the difference in demographic dynamics between Europe and other parts of the world, and given the increasingly central role technological progress is taking on in the creation of the wealth of nations. Again by the lights of the OECD, four major factors can enhance growth in productivity: reforms in regulation and a range of laws to stimulate competition, speedier liberalization of exchange, technological progress brought in at a brisker pace and growing investment in human capital.

[1] Cf. OECD, *The World in 2020. Towards a New Global Age*, Paris, 1997.

[2] For the sake of uniformity, calculations are based on GDP values in 1992 dollars applying exchange rates at equal purchasing power.

3) *Now under way is a deep-reaching change in the composition of world output, resulting from increasing international specialization.*

The major distinction 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.

By 2020 the share of the non-OECD countries in world agricultural production will have risen to over a half, in line with the growth in internal demand. In the case of consumption goods, the non-OECD countries' share in world production will be largely accounted for by their increasing exports, thus obtaining funds for their growing imports of investment goods.

Consequently, in the OECD countries the main stress will in fact go on the production of skill-intensive investment goods with a relative decline in the labour-intensive sectors: by the year 2020 the OECD countries will be accounting for two thirds of the world output of investment goods.

These data are then to be completed taking account of the growing importance of services in the production of wealth: by 2020 their share will exceed 70% in the OECD countries, reaching 60% in the other countries.

8. Naturally, the first level chosen to approach the subject of competition is between the world's most highly industrialized countries and the developing countries.

For the second level we may consider competition between the OECD countries themselves, and especially between the European Union, the United States and Japan – the so-called Triad. Let us now take a closer look at what is happening here.

Particularly in the early Nineties, a vast economic-social literature has grown around the subject of competition between these three different areas of world economic development, highlighting differences in performance at the level of economic growth and social cohesion.

For my part, in a recent inaugural speech at the London School of Economics (26 January 1998) I chose to focus on the welfare model the Western European countries have built over the past decades. On the one hand I stressed the role it played – and will continue to play –

in enhancing social cohesion which, in the final analysis, also means a boost to economic growth. At the same time, I brought the focus to bear on the reforms our welfare model calls for.

There is in fact a two-fold form of compatibility to be sought out, one aspect being essentially macroeconomic (restraints placed on countries' deficits and borrowing raise the need to bring the dynamics of social spending back on the road of sustainable growth), the other relating to the new social dynamics particularly of the labour market. In the light of the growing need for a well-trained labour force and the increasing mobility required of the young, it is essential to enhance the collective institutions involved in training.

When Albert, Dahrendorf, Dore and Thurow – to name but a few of the most authoritative authors – brought the focus on the dynamics of models of capitalism, they were looking to this broader view of our industrialized societies – a view where each particular model of capitalism takes in not only the 'productive' aspects but extends to the more specifically social area and matters of community concord.

9. However, while dwelling on these aspects of the capitalist model, we must not lose sight of the fact that the relative strength of a model will lie primarily in its industrial and financial systems.

The most striking thing about the US model is its extraordinary capacity to create new enterprises and jobs, while the most worrying thing about our European model is the level of unemployment, especially among the young.

This is not the sole difference between United States and European Union performance, which of course shows myriad facets. However, it does give an idea of the direction we are moving in, the aims we should be pursuing. I am still of the conviction that scope for the talents of our young is the most important aim of all.

10. In the latter Eighties a group of authoritative economists of the MIT co-ordinated by Solow carried out a research project published under the evocative title *Made in America – Regaining the Productive Edge* (MIT, Cambridge, Mass., 1989).

In the mid-Eighties the US was going through a period when the 'paper economy' triumphed. Industry – manufacturing, if you like – was losing its traditional central role and technological superiority. In the same period Japan was asserting itself as a world-class industrial-economic power while the European Community was launching into its 'Single Market' project, soon yielding manifold positive results.

Ten years later the world economy picture looks very different, as does that of the Triad: the United States has reconquered technological leadership, crisis has hit Japan (and South-East Asia in general) and the European economy is a mixture of light and shade. Significantly enough, a report recently published under the auspices of the European Commission is entitled *Made in Europe.*[3]

However, Robert Solow himself writes in the introduction to his report that: "[...] the Europe of 1998 is not the America of 1989", since many developments have taken place in productive systems over these last ten years, most notably the growing links between manufacturing and production services and the increasing recourse firms are now making to outsourcing strategies across the frontiers to take advantage of production areas with low labour costs.

While such historical-economic parallels should be approached somewhat gingerly, Solow is undeniably right when he says that: "[...] firms in the advanced countries cannot compete with the poorer countries in aspects of production dominated by unskilled labour". For this very reason it seems virtually inevitable that industry in Europe – one of the three most advanced areas in the world, in fact – must specialize in production high both in technological contents and added value, where high levels of skill are required of the entire labour force.

11. What place does European industry take in this scenario? In which areas of production does it show technological excellence, and where does it bow to American and Japanese supremacy?

In the following analysis I shall briefly outline the structure of European industry and then go on to the consequent policy indications in the broader European context with its single currency (a powerful factor in attracting international financial investment) and stable macroeconomic framework (the Maastricht 'dividend').

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

The primary features of the European industry structure emerge with analysis of the *export specialization sectors* – reflecting the powerful system of small- and medium-size firms characterizing all the countries of Europe – and analysis of the *major firms*.

The first point to make here is that the small- and medium-size firms form the groundwork for the 16 million firms at work in the UE:[4] over 90% employ fewer than 10 persons, and many are individual firms. A particularly distinctive feature is the way they are – very often – organized in the famous 'industrial districts', economies of scale being achieved at the system level rather than by the individual firms.

The small- and medium-size firms are active in practically every sector, although the fields they most perfectly fit in with are industries belonging to the so-called 'fashion system' (clothes, footwear, etc.) on the one hand and the mechanical and engineering industries on the other. It is, in fact, in these industries that production processes can be split up among various firms, which thus form a 'district'.

Never before had this exceptional social innovation – the small- and medium-size firm model and the industrial district model – received such close attention as it has during recent international summits at G7/G8 and European levels. The Italy of the industrial districts is – we may justifiably boast – an Italy where not only industry is efficient and the labour market set for full employment, but also where social cohesion is truly strong.

Returning, now, to the structure of European industry, a further significant point emerges from analysis of the major firms: great emphasis has been placed on the small- and medium-size firms, but we must not lose sight of their numerical and strategic importance, especially in certain sectors of industry.

If we take the classification of the world's 200 leading industrial groups as they stood in the mid-Nineties,[5] 69 were European, 64 of the USA, 53 Japanese and 14 of other countries. The European groups performed excellently in such sectors as chemicals, the pharmaceutical industry, foodstuffs and oil refining. The American and Japanese groups dominated in electronics and information technology. We find a situation of co-leadership in that 'industry of industries', the automobile industry, with General Motors, Ford, Toyota and Daimler-Benz heading the list.

[4] Cf. Eurostat, *Les entreprises en Europe, Quatrième Rapport*, Brussels, 1996.

[5] Cf. European Commission, *Panorama of EU Industry '97*, Brussels, 1997 (see, in particular, "The world's largest industrial groups").

Turning our attention now from specialization and strong points to analysis of the weaker sides of the European industrial system, the fundamental issue here is a shortage of innovative capacity, especially when compared with the USA. Of the 25 biggest firms in the USA at present, 19 did not exist or were virtually negligible before 1960 (when, just to take two examples, neither Microsoft nor Intel had come into being), while none of the 25 major European firms are new, all having been on the scene for over 30 years.

So it is that we come to the 'European paradox' – the final point we shall be making in our overview of industrial specialization.

What is the reason for this European paradox? Is it, perhaps, simply that Europe can boast no leadership in the fundamental industries of microelectronics and information technology, still dominating the world scene in the old industrial sectors such as chemicals?

This is undoubtedly a weak point in relation to the United States and that other great world economic power, Japan. However, the paradox derives from a more general aspect. Most of the scientific and technological production indicators (for example, the number of patents issued, scientific publications of international standing, etc.) show European performance coming broadly in line with the USA and Japan (although the other fundamental indicator, given by the ratio between R&D and GDP, is somewhat lower). The real weakness of Europe lies in an inadequate capacity to transform Europe's technological and scientific patrimony – which is substantial – into effective entrepreneurial opportunities.

Thus many factors are to be reckoned with if we are to enhance collaboration between the world of research and the world of industry, prompting the birth of new firms and consolidation of those existing in innovative, high-tech sectors (electronics and information technology, for example, but also biotechnologies). As we have seen, it is in these sectors that the advanced countries can retain their competitive advantage over the developing countries in the long term.

12. Europe's small- and medium-size firms must grow *in number* and *dimensions.* So far in Europe the stress has remained on development at the numerical level.

It is, of course, very important to encourage the creation of new firms: they are the soil for entrepreneurial skills to take root, while also making a fundamental contribution to developing employment and – above all in the most highly innovative sectors – providing technological progress with the right channels to take effect with all its potential.

However, creating new firms is only part of the answer to the problem of developing production: the many births are matched by many deaths, net benefit in terms of employment often coming short of expectations. What is actually needed is a continuous process of birth and growth. The small firms, or at least some of them, must become medium-size, and then large: this is the best guarantee for the European economy to remain competitive on huge global markets over the long period.

At the level of policies to stimulate growth in size, probably not enough has been done, although the picture changes very much from country to country. According to a recent study, cited by *Business Week,* on the small European firms with the highest growth rates in the 1991-96 period, 15 of the top 50 are in Great Britain, 9 in Germany, 6 in France, 5 in Spain and only 4 in Italy.

These differences between the countries reflect various factors, but two call for special emphasis: 1) the *system of regulations*, particularly on fiscal and labour matters; 2) *the efficiency of the financial markets.*

In terms of regulations, our countries are seeing big changes. The ideas we are working on in Italy are a simpler, fairer fiscal system encouraging firm-financing with own capital, and a labour market where the various forms of employment (subordinate or non-subordinate) are treated with equal respect. Adequate protection must be guaranteed to all forms of work, but firms must also be guaranteed the margins of flexibility necessary to their management of human resources.

If we are to improve conditions for growth we must – gradually, perhaps – forge tools for industrial policy better suited to foster birth and growth by adjusting the system of capital gains taxation.

Over and above all this, however, efficient financial markets are a fundamental prerequisite to encourage growth in size.

What we must ask ourselves in Europe is whether the rapid growth processes that have brought about the creation of firms of planetary dimensions and importance in the USA in relatively few years could have got under way in our continent. The answer is negative, and I see scant competition on the financial markets, lack of intermediaries of the right stature, reluctance to develop the fiscal system and the currency and regulatory fragmentation of the markets as the basic factors here.

In order to guarantee the future for European industry we must therefore work on European finance. Some steps have been taken in this direction, with international acquisitions and mergers of a certain import, but the great cross-border operations that could raise the level of European competitiveness significantly remain few. Against them are resistance and inconsistency deriving from residual nationalism.

Of course, the big firms play their part in consolidating the European oligopoly. If we look at the distribution of the world's major firms by macro geographical areas, Europe – as we have seen – has its own considerable weight. In the broader perspective, however, this fact may blind us to two problems facing Europe's big firms: growth capacity (below that of the major US firms) and sector specialization (more oriented towards the traditional sectors than to high tech).

As we know, increasing international competition holds many implications for the economic systems of our industrialized countries, but essentially it means a huge increase in market dimensions.

Secondly, information technologies are feeding research and innovation on an unprecedented scale. In many cases, although certainly not all, this in turn means an increase in the minimum dimensions necessary for firms to meet the corresponding costs.

Larger markets and higher fixed costs lead to greater concentration and, as we have seen, Europe's firms are too small. Indeed, in many sectors they are actually shrinking in relative terms, global players emerging at a faster rate in other areas.

It is, however, essential to move in this direction if Europe is to have firms that can compete on the global markets in sectors both R&D-intense and characterized by intense economies of scale.

To this end we must in the first place make it easier for European firms to grow in size through acquisitions and mergers. We have seen some enhancement in this area but Europe is still far behind the United States in terms of both the frequency and scale of these operations.

For all the progress Europe has made in the field of financial markets, they are still too nationalistic in approach and, together with the regulation barriers previously mentioned, make it difficult for acquisition and merger processes to work across the frontiers of the European Union.

Nevertheless, certain recent developments in Europe represent significant departures. Here I am above all thinking of the aerospace and defence electronics industries, where efforts are now going ahead in favour of restructure and integration on the Europe-wide scale. This, I believe, is a move in the right direction – the age of the 'national champions' is over. Now it is time for 'integrated projects' and all the acquisitions and mergers that come in their wake, individual countries earmarking the resources needed. That this is happening precisely in military industry is particularly significant, in a field so closely bound up with national traditions.

Such phenomena, relating as they do to the sphere we customarily describe as the 'real economy', once again have a lesson for us: EMU is in itself a powerful factor in homogenizing the collective structures of countries; the euro is able to exert a driving force working firstly at the monetary and financial levels, and subsequently at that of production.

We have already given some consideration to the size of firms, small, medium and large; in conclusion we can extend our gaze to take in *the great European systems*.

It is time to return to the initiative abandoned after the phase following on the *Bangemann Report* and create a great network of infrastructures. Here Europe is in fact falling significantly, and worryingly, behind the other major areas of the world. Areas once among the least developed are now enjoying all the advantages of late arrival, creating energy and telecommunication infrastructures based on the latest generations of technology.

Powerful infrastructures are also being created in the United States, especially in the field of communications, thanks to the competitive processes triggered off with liberalization.

Europe, on the other hand, has come to a standstill, although a significant factor in this lag undoubtedly lies in the budget restraints

the individual states and the community structures themselves have had to respect for convergence on the single currency.

At the same time, with monetary union achieved, the processes of real adjustment can only become faster and more effective in terms of production and employment, provided they can count on adequate networks. Communications, transport and energy are fundamental networks to take the European Union in the direction of productive integration, and this is indeed the direction we must be moving in, overcoming nationalism – often reinforced through old and present forms of public property – to approach the rapid integration of markets and public services on the European scale.

The creation of a great network of infrastructures is to be seen within the broader context of the *eastward extension* of the European Union – the other fundamental objective that we have set ourselves together with the single currency. It is no mystery: in the past the major lines of communication have run in the north-south direction; now it is the east-west lines that call for development. We must forge anew those European links that have played such a large part in our history, and give them physical reality.

The extension of Europe is a primary aim, especially for us Italians. Like Germany, Italy is by its very nature and in virtue of its history an eastward-looking country, and must face up to this challenge. It is a challenge that will bring about changes, and problems too: suffice it to recall that the 11 countries that have applied for membership of the EU will add 30% to its territory and 29% to its population, but less than 10% to its revenues. It will mean adjusting agricultural policy, regional policies for cohesion, and so on; but it is a challenge that we must face with our European partners, recognizing that this is the new Europe.

13. The precious heritage of macroeconomic stabilization achieved by the EU also constitutes the basis for any policy indications.

Investment decisions will find adequate support thanks to: 1) a sharp reduction of interest rates, made possible in virtue of the balanced public accounts member countries have been working towards over the last few years; 2) further reductions expected in several countries; 3) a massive inflow of funds to the 'risk capital' thanks to adoption of these virtuous policies.

Growth processes will be showing a recovery, also gaining new vigour with the end of macroeconomic uncertainty. But this is not all: a strong European economy will also be a factor in attracting capital the world over and an implicit prompt to the economies in transition of Eastern Europe to use them as an international reserve tool.

On the strength of this macroeconomic state of health, Europe will have the opportunity to carry out those microeconomic reforms that can liberalize the economy (in particular in the sectors still protected) and stimulate true competition.

The road mapped out some years ago with the Single Market plan (which we all remember as the '1992' plan) has proved viable. What it actually amounts to is an organic and, indeed, ambitious project in supply-side economics, aiming at removing rigidities from the various markets and bringing down barriers standing in the way of mobility.

It led to a period of economic growth in Europe and enhanced expectations for economic operators, summed up by the Commission thus:[6] an increase in competition between firms in manufacturing and services alike; a speeding up in the process of industrial restructuring, characterized by a burst of mergers and acquisitions; reduced prices, especially in public utility services where liberalization was under way (transport, for example, financial services and telecommunications); a rise in EU revenues, ranging from 1.1% to 1.5% in the 1987-93 period; and growing cohesion between the various regions of Europe.

This is the road we must now continue along, taking reform processes yet further in the directions we have seen, towards a 'light' state, a compatible welfare-state and a labour market offering equal opportunities to all citizens; towards a market where competition can take full effect with the completion of privatization processes (so important to bring new economic protagonists onto the scene) and the end of any residual monopolistic positions.

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As we launch into the adventure of the single currency let us not forget the lesson of our founding fathers. The Europe that has

[6] S. Huntington, *The Clash of Civilizations and the Remaking of World Order*, Simon & Schuster, New York, 1996.

found its role as protagonist on the world scene was born of a political project. The economic successes we can justly boast (reviewed in the essential stages above) are to be seen in terms of a grand design that has always had the ultimate aim of political integration. This great inspiration still retains all its vitality, and it is to this that we shall be looking in our day-to-day political activity.

Moreover, what would be the sense of pooling all our currencies if there were no broader scheme to consolidate common policies in all sectors? This commitment becomes all the more relevant with the two-fold challenge of extension and the 'demand' for Europe coming from diverse parts, ranging from the Mediterranean to the Balkans, from Asia to Latin America, not to mention Africa.

To all our partners we owe response in terms of capacity to take action and make our presence felt. A European Union capable of creating a currency to be used for reserves and foreign payments by sovereign states but incapable of coming up with a common foreign policy would be incomprehensible to the rest of the world.

All too often, even in the recent past, international tension and regional crises – some breaking out on our very doorsteps – have shown up our difficulties in acquiring a political image as bringer of democracy and well-being. Our humanitarian commitments, which we justly take a pride in, are not often supported with capacity to play the active political role required of us.

It is also a fact that the new Europe has been conceived as a project open to the world, alien to any ideas of confinement or great walls separating us from the outside world or fuelling the clash of civilizations Samuel Huntington writes of. Our history is itself the product of encounters between cultures and civilizations able to assimilate the most diverse influences and communicate with neighbouring areas. Our view of international competition – the subject of this lecture – is based on a spirit of collaboration and harmonization of interests, and certainly not of conflict.

For these reasons the demand for Europe cannot be evaded. This is something we owe our citizens, who would never understand the value of a Europe reduced to a mere image on a coin, and to all those waiting at our door, looking to our project with hope and confidence.