PUTTING ON THE NEW ECONOMY

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EUnomics

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 renewed 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[2], 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

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[2] 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".**

apply itself to the resolution of its particular problems in ways acceptable to its own voters.

3. *The paramount justification for the development of economic strategies is to raise 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.[3]

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 put the matter eloquently, when he pointed 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.

[3] 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)

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.[4]

Of the 21-27 million individual Europeans who are without reasonably remunerative jobs, probably 11 million may already be classified as long-term 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.

Surely it isn't necessary to create such havoc. I will seek to show here how a responsible approach to economic development can provide a viable substitute for the harmful competitiveness, which so excessively damages the social infrastructure and cohesion of any community.

Clearly, there is an *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 way in which this has to be done should lie at the crux of EU policy. As I mentioned, the route to economic development runs principally via the exercise of 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

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

have to be many such start-ups. There is no economic progress without diversity and the question of whether an enterprise will remain viable is a matter of natural selection.

As is well recognised, innovation is largely 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[5], 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.

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

This kind of protection need not involve putting up barriers to cross-border M & A. The cause of disastrous mergers or acquisitions resides not in M. & A. per se but in the acceptance of the fact that administrators, persuaded by investment bankers to take on massive leverage finance, are not held responsible for the inherent mistakes. Sometimes these are Horrendously Big Mistakes in judgement of the merits of the financial engineering, for which the exit routes for the bankers are always bound to involve 'restructuring, redundancies and reshuffling of managerial roles'. The more unpleasant aspects of globalization, such as massive dismissals of workers, often more for the sake of expediency than out of real necessity, develop at an alarming rate. Layoffs restrict opportunities in an appalling manner, particularly by virtue of continuing ill-advised management. The capacity of the mega-sized corporation to inflict damage is inflated out of all proportion. The mistakes of one or two administrators affect tens of thousands of people and even whole regional

[5] Business Cycles

economies. If the effect of such human errors were to have remained confined to the affairs of, say, medium-sized companies, the damage would have been less able to have such far-reaching consequences.

Naturally, those who pay for such changes are always the productive collaborators who, at first, were regarded as key personnel. It is never the financiers, nor the people who made the arrogant self-justified decisions that all those below the top of the hierarchy had often recognized as sure to come unstuck.

Moreover, the restructuring processes are all in the name, naturally, of increasing competitivity. When, in truth, the financial leveraging is all in the name of greater short term profits – to satisfy analysts and investment organisations. If, instead, the realities of the situation are faced down, the solution will lie with administrators being obliged to devise ways (by dint of their own hard sweat) how to produce what the customers require at attractive, and not necessarily cheaper, prices. This they do by co-opting the collaboration of their colleagues.

Surely, therefore, the aim of a modified Competition Strategy would be rather to avoid having to deal with the more predatory practices indulged in by the larger international corporations. The EU Nations could then, with great advantage to their local economies, adjust their internal economic strategies 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 individual nations or even trans-border regions - 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 overhead expense workers. It is the productive management, technical and sales personnel who have made and continue making useful contributions to the overall success of the enterprise that are the ones who have to be motivated.

It should go without saying that 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 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 showed how we may reap the benefits of globalised capitalism even as we mitigate the damage it can do. It presents a way of practising management in harmony with the best interests of mainly market economies. 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.

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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

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.

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

[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

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.

<u>Meanwhile</u>, 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.

Meanwhile, we have to face the fact that there is, naturally, not just a constant rate of change, but a constantly accelerating rate of change; not a rapid rate of change, but changes at near tidal wave velocity.

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.

Section Three

These truths make our lives very uncomfortable and deserve prolonged and serious study. Nevertheless, it is not the growth of the unemployment figures alone that has to give us such grounds for deep concern. It is a dimly perceived growth of understanding that *our attitudes towards the plight of hunger and deprivation of the poorer two thirds of humanity have to change*. Happily, there is, although we may not fully realize it, an immense development taking place. It represents a new stage in the progress of the human spirit. that perhaps may come to be called the *Dawning of True Fellowship*.

Perhaps we could interpret this visualisation to mean that we are seeing the beginnings of a Compassionate Society. Naturally, this will depend very much on our reactions to the sea change that events force us to face.

Confronting the gloom

It may well be surprising that, in spite of a plethora of pessimistic punditry each week, there is still an undeniable spirit of hope pervading many Europeans, perhaps especially so in the countries that threw off the yoke of communism. This spirit is the source of a constant energy that amazes not only those who use it but also those whom it confounds. Available to everyone who seeks fair dealings and justice in peaceful solidarity, it requires only the sense of a goal that goes beyond self-aggrandisement.

Thus the multifaceted challenge posed in 1989 - reinforced as it was by the Wahhabi-inspired challenge to the materialistic value system infecting Western society as a whole - now lies redoubled at the feet of all who find their beliefs and culture under threat.

This great challenge defies every Christian, Jewish or Islamic moderate in Europe to pick up the gauntlet. It does not imply violent reaction. Nor does it imply passionate leaps to opposing streams of contention. What it requires is *a readiness to change the nature of the business environment that has led to the active alienation of almost two thirds of humanity who have been excluded from a life of dignity.*

What the redoubled challenge demands is that we should each play a part in helping to modify the effects of globalization in those European countries that are seriously subject to the interplay of Foreign Direct Investment.

It is not a challenge to make dramatic changes to established ways of transacting business. Instead, it calls on inner strengths and courage. *Each one of us will need to take quiet decisions, one step at a time, often on a regular basis.* The aim will be to help produce a gradual transformation in the pattern of New Business Development. A transformation that can only occur like ripples from a pebble cast into a pool.

At this point, even though we could easily assume that we already know the difference between Business Growth and

New Business Development, it is as well to remind ourselves of the specific factors involved in each.

Business Growth is relatively easy for us to define. For we see it as resulting from the creation of a greater output of particular goods and services, as and when the demand for them expands. Most corporations, however, are little satisfied by this type of growth. They aim also to achieve new markets through the use of entrepreneurial skills, changes in their corporate structures and the build-up of investment in, or the control of, other businesses.

This kind of achievement of new markets is often called *Business Development.* For it to occur and endure, it must do more than just induce widespread Business Growth. The growth must also be sustainable on a continuing basis. There is no point in initiating something that will only have a brief flare of profitable activity. The product life has to be long enough to allow for the generation of one or more replacement products.

Put another way, we can say that, if *New Business Development* is to take place, it should be because one of the prime contributory factors of business expansion is the frequent introduction of new ways to provide what markets require. At the same time, this expansion has to be supported by those changes in corporate structure that sustain higher productivity and higher average real income per person working. Such support is particularly important, because it affects every person who has agreed to play a part in the enterprise and contribute to its productivity. Moreover, entrepreneurs depend on each and every individual who generates added values, however high or lowly their position in the operation of the business.

That brings me to highlight a golden rule that should always be borne in mind by any entrepreneur when making decisions. He or she has to remember that *those who help to create extra wealth not only ought to, but have to, receive a commensurate share in it.* The practice makes good sense and is perhaps the primary way to ensure the continuance of loyal performance and productivity. Most important of all, it is a rule that fulfils the Judaeo-Christian injunction also mirrored in the Quran: "Love your neighbour as yourself."

As an aside, in case anyone is thinking that religious precepts should not enter into matters of business, I contend that for any believer the 'second commandment' – being as it is like the first, which should be followed with all our heart (emotion), with all our soul (spirit) and with all our might (mental will power) – necessarily has to affect all our attitudes, decisions and behaviour.

Returning to the principle of allotting a 'commensurate share', we can recognise that this implies an obligation to govern our conduct by a crucial maxim - one which shows us the way out of seeming dilemmas while remaining coherent in the way we live and behave.

The maxim is that *every problem can be better understood when we construct a new representation of it.* There are so few coherent choices available between alternate courses of action. Therefore we need to seek, habitually, the specific knowledge required to define the context for the choice before us.

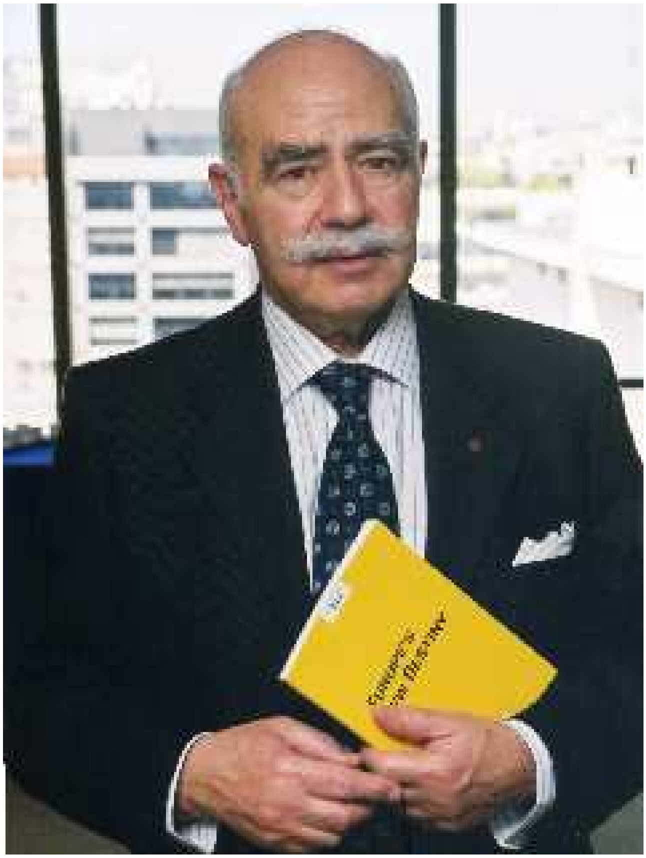
Defining this context is not as difficult as might seem to be the case. We only have to adhere firmly to our personal sense of the *primacy of the value of human individuals,* recognising that these are always more important than the generation of higher profits. If we determine to do this and make our decisions in the light of it, we will maintain humanity in the conduct of our affairs and, step by step, help to transform the environment in which we do business.

Naturally, if we always stick to our principles, our own advancement will now and then be at risk but the results are sure, in the long run, to make us happier to have stood up for our beliefs. As we proceed along our chosen path, we may well receive the kind of energy that so often infuses popular movements.

The quintessential question to consider is: *What kind of world we would prefer to live in?* Is it one of cut-throat, winner-take-all competition, dominated by global mega-corporations, whose only principle seems to be: 'To be competitive means you have to win market share and maximise profits.'

Or shall we opt for a world where self-development goes hand in hand with a strong sense of social responsibility; a world where the idea of loving our neighbours as ourselves leads to the satisfaction of watching them develop along parallel paths?

Cascais, 31 October, 2009



The author was the director of the Centre for Studies of Globalisation (CEG), author of both The Aim of Cognition *(2001) and* Socially Responsible Capital *(2002). This paper was built around remarks made in an address to the graduates of the VI MBA course of GSE & HSiFM, at the Marriott Hotel, Warsaw, 5 March, 2002. The earlier edition of the article was written just prior to the invasion of Iraq. (*Galileu*, Vol. VII, Nº1, 2002, pp.99-105.)*

ABSTRACT

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