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# Europe's route to growth

António Guterres's ambition during Portugal's presidency of the EU is to transform the Continent into the world's most competitive economy, write **Peter Norman** and **Peter Wise**

Cynics might regard a special summit entitled "For a Europe of innovation and knowledge with more employment and social cohesion" more as an invitation to scoff than the signal of a new European dawn. After all, the European Union had a special employment summit in the late 1990s, agreed an employment pact last year, produces national employment guidelines every year – and still has average unemployment of about 10 per cent.

António Guterres, Portugal's prime minister, is having none of it, however. His ambition is for Europe to be the most competitive economy in the world by 2010, based on knowledge and innovation.

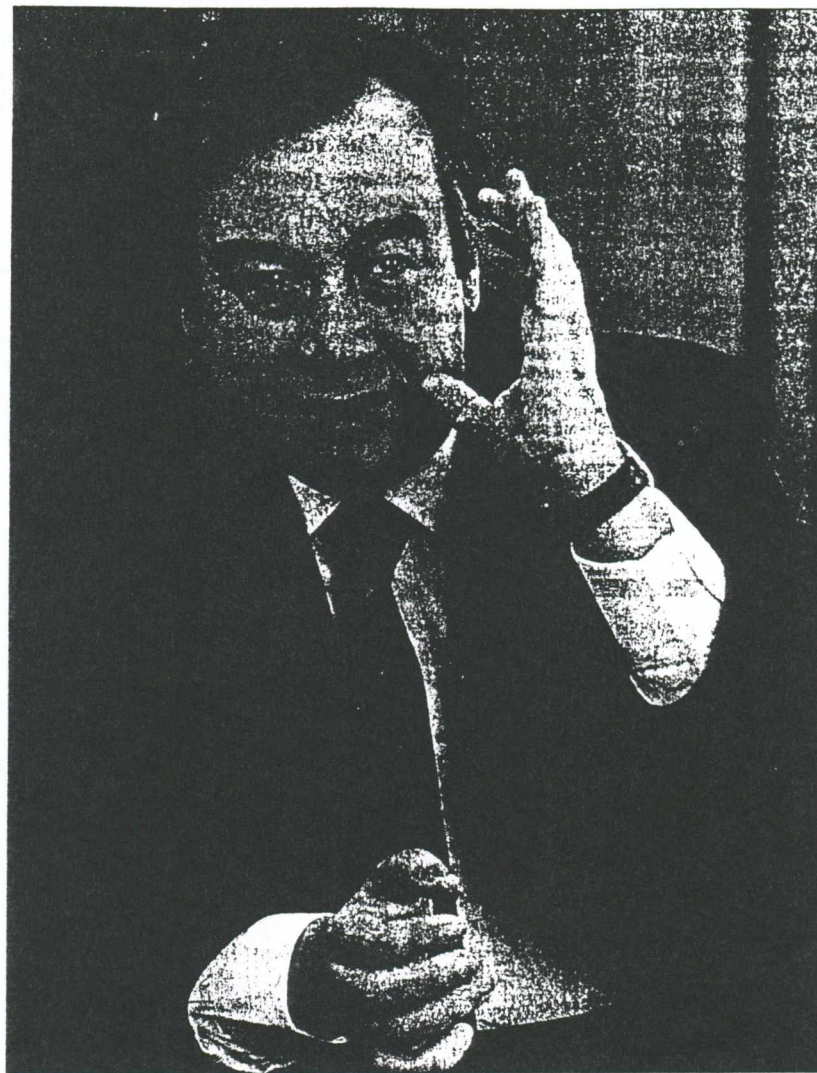
This may be more than political rhetoric. Although he is the leader of one of the EU's smaller countries, Mr Guterres has gained a reputation as an original thinker among centre-left politicians searching for a "third way". And as the holder of the EU's six-month rotating presidency since the beginning of this year, he will chair the summit in Lisbon in March aimed at starting the process of catching up and overtaking the US.

Quietly spoken and dapper, Mr Guterres marshals his arguments carefully as he explains why now is the right time to steer Europe towards faster growth and job creation while reforming – but not abandoning – member states' welfare systems. "We don't want to do it for the headlines," he says. "What we want is to put Europe to work."

Mr Guterres will "not be starting from zero". Europe's single currency has survived its first year without crisis. The Continent's growth prospects have improved, budget deficits are under control and inflation is low. Europe also has various initiatives under way, named after past summits in Luxembourg, Cardiff and Cologne, to combat unemployment, promote structural reform and encourage dialogue among governments and with employers and trade unions.

In addition, speeding up Europe's transition to a knowledge-based economy is not a new project for the 50-year-old Portuguese premier. A year ago, he was asked by fellow leaders in the Party of European Socialists to investigate the scope for boosting employment. Within two months he had produced a comprehensive economic policy statement that stressed the need for greater policy co-ordination and a combined awareness of the need for enterprise with a commitment to a modernised social model.

Since late last year, he has been visiting other EU leaders for ideas and support ahead of the Lisbon meeting. Mr Guterres is highly regarded by his peers and was the first choice last year of Tony Blair, the British prime minister, for the position of European Commission president now held by Romano Prodi. A wid-



António Guterres: 'What we want is to put Europe to work'

Picture: José Manuel Ribeiro

ower, he turned down the suggestion partly for the sake of his children and to lead the Portuguese Socialist party into last year's general election.

The contacts he has established with other European leaders give grounds to hope that the Lisbon summit will not degenerate into a squabble between those EU leaders, such as Mr Blair, who want to stress structural reform, and others, such as Lionel Jospin, the French prime minister, for whom social protection is a greater priority.

Mr Guterres's recipe is "to add and not subtract" and so reach a consensus by trying "to combine and make compatible those different approaches". He believes his task is made easier by the emerging consensus that "innovation is today probably the most relevant element in the creation of riches".

His favoured methods for securing progress are through setting targets, where feasible; benchmarking; and demonstrat-

ing best practice. Policymakers need "light instruments" that are "compatible and coherent", he says. They need to avoid ritual responses. Without targeting and benchmarking, the drive for reform will be supplanted by rhetoric and bureaucracy.

**'Innovation is today probably the most relevant element in the creation of riches'**

"The idea of a benchmarking system is to simplify the co-ordination of policies and you can base that co-ordination on a very limited set of relevant indicators," Mr Guterres says. "You can make things transparent. If we have clear strategies, quantified and verifiable objectives, I

think the markets will respond in a much more coherent way."

Markets, he argues, react acutely and positively to leads given by government. He recalls how during last year's Portuguese general election he called for the creation of 1m e-mail addresses; two companies offered to provide them at no cost in order to take advantage of the traffic generated.

Helping Europe's markets by what Mr Guterres calls an "open co-ordination method" is all the more necessary "because the US works as a single economy with one single policy while in Europe in many of these fields you have one economy but 15 different policies. That of course is a handicap."

Like Mr Blair, Mr Guterres believes the "Cardiff process" for promoting structural reform in the EU needs strengthening. One practical step – which the European Commission is working on – would be to give small high-technology companies better

access to venture capital. Another idea is to have a charter cutting red tape for "micro-businesses". This could encourage employment in what are often low-tech trades.

Education is another sphere where best practice could come to the fore. Mr Guterres cites Portugal's policy of giving school classes above a certain grade access to the internet as one example. At the European level, Portugal will suggest the member states should consider a charter fixing basic levels of competence for school-leavers in subjects such as maths, information technology and foreign languages, to promote labour mobility within the EU and to act against social exclusion. Another idea to encourage labour mobility is an information technology "passport" which would prove the holder possesses specified IT skills.

The social aspect of the March 23-24 Lisbon summit will be just as important. A high-level group is being created to help develop clear perspectives of social policies in Europe in 2010 and 2020, when ageing populations will threaten the financial viability of many national pension systems. Mr Guterres' idea is that the group's report should foster an exchange of information and demonstrate best practice to avert future crises.

The summit will also tackle issues of social exclusion. One proposal, supported by Mr Guterres, is that Lisbon should set an objective to eradicate child poverty by 2010.

"I don't think we should emulate the US in a negative way," he says. "We want to be a competitive society and I think social cohesion is an element of competitiveness. A society that faces problems of social disruption will not be competitive. Sooner or later, it will have terrible competitiveness problems."

His rejection of the US social model "does not mean we should not learn from the fact that a lot of markets work much better than in Europe. In the US, a lot of capacities have been developed to make the knowledge-based society much more efficient than in Europe. But you don't have to create large pockets of poverty to achieve that".

But can any European political summit cope with a world where change is happening with giddy speed and on a scale that dwarfs many countries' economies? Vodafone AirTouch's hostile bid for Mannesmann values the German company at about €130bn (\$133.90bn) – more than Portugal's annual gross domestic product. Time Warner's agreed takeover by America Online to create a media giant worth about \$335bn is far bigger still.

Mr Guterres's response is that such trends underline the need for a strategy in Europe. "You can face change with a strategy or bureaucracy," he says. Strategy is better because "it allows you to do exactly what you want".