

DEMOCRACY VS GREED, ARTIFICIAL INTELLIGENCE,
POLITICAL APATHY VS POPULISM, EUROPE THE DAY AFTER

OUR WORLD

Past, present, **future**

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Leading minds reflect on the state of our societies, and examine the challenges that lie ahead.
An edition dedicated to generating ideas that will help form a new vision for our world.



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A different EU Agenda for Innovation and Growth

By Donald Kalff

The present goldilocks economy will not last. It is debt driven whilst increase in productivity, the only true source of economic growth, is continuing its downward path. Also, the policies of central banks and the fiscal stimuli provided by many treasuries that ignited economic growth created a multitude of unknown risks of unknown proportions

The search should be on for policies that help real enterprises, operating in the real economy, to create economic value. Developing new products, increasing productivity and improving return on assets must take center stage. Real enterprises provide a counterweight to the financial economy and the destruction of economic value inherent in many of its business models

These policies can and should capitalize on the many competitive advantages EU27 enjoys vis-a-vis the other trade blocs. Many of these EU27 advantages have, so far, not been recognized as such. Obviously, programs to enforce what is already strong should to be preferred over programs that seek to remedy weaknesses.

Below are a few suggestions for a different EU Innovation and Economic Growth Agenda

Civil Law

Unlike England, Wales and Ireland contract formation in most of EU27 requires good faith. Moreover, reasonableness and fairness guide contract partners in handling all favorable and unfavorable developments. This contrasts sharply with the Anglo-Saxon world in which partners can take any action that is not excluded by law or by contract. This makes contract formation a lengthy and costly process, as all undesired behavior must be specified. It also means that negotiations become a permanent feature of a partnership.



Donald Kalff

Donald Kalff, MBA, PhD is a graduate of the Wharton School and a former member of the Executive Board of KLM. At present he publishes extensively about the positioning, governance and management of large enterprises. He is also the (co) founder of 6 companies in biotech, poverty related diseases and cybersecurity. He is a corporate executive, entrepreneur and writer.

This EU27 advantage is crucial at a time when enterprises are increasingly relying on a multitude of partnerships in many different fields.

Also, the use of civil law in EU27 in settling disputes is far more efficient than common law as it is rule based and judges take the original intentions of the contract partners as a point of departure.

Unfortunately, most EU27 commercial courts have been subjected to restructuring and cost cutting. As a result, proceedings have been delayed and the quality of the rulings has been compromised. This is destroying economic value in the form of lost sales, postponement of investments and distraction of management. A program to bring the courts up to strength is long overdue.

Finance

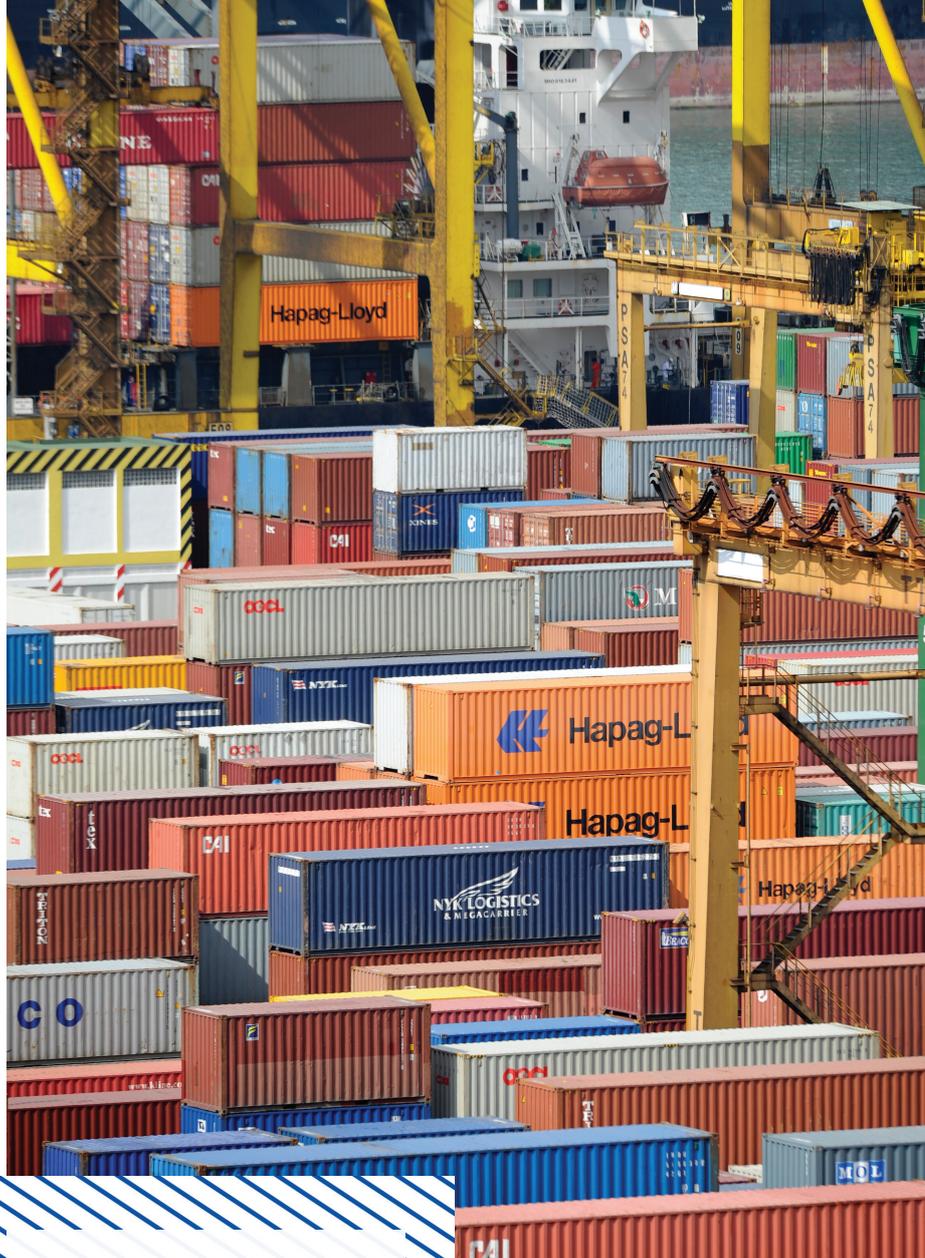
In EU27 banks provide most of the capital for private enterprises. Family businesses and cooperatives tend to rely on their cash flows. Stock markets play a modest role in corporate finance. As a result, most EU 27 enterprises can escape the web of expectations financial markets spin around listed enterprises. They are spared the focus on shareholder return on investment. The incorrect assumption that an increase in profit per share leads to a higher stock price can be neglected. Pressure to cut costs, to acquire and to buy back shares, all steps to improve profit per share can be resisted. The perverse effects of management remuneration, linked to shareholder return on investment, can be avoided.

EU27 should help enterprises to reduce dependence on stock markets by stimulating competition amongst suppliers of capital and by facilitating new platforms.

Innovation

Progress in business increasingly depends on cooperation and EU27 can point to many examples where government, knowledge institutions and business came together to achieve breakthroughs This is in stark contrast to the US which continues to rely heavily on competition.

It should now cut a bewildering range of subsidies to stimulate innovation. Application



Container blocks at the port of Singapore. EPA/WALLACE WOON



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procedure are cumbersome and a burden for small and medium sized companies. Resources should be reallocated from programs with unproven effectiveness, to programs that have demonstrated that they work. These are: building an advanced ICT infrastructure, providing R&D infrastructure to start ups, compelling government agencies to act as the first customers of truly innovative products, increasing government sponsored fundamental research and setting environmental and other standards.

Patents

Friend and foe agree that EU27 has created the best patent system in the world. The Unitary Patent has been a

major step forward and programs are being implemented to speed up the process of granting patents. However, filing, servicing and defending of patents is still costly and the appeal process is lengthy and non-transparent. These are all barriers that hit small companies hardest.

Several improvements have been suggested. A “use it or lose it” provision would reduce the size of the pool of large companies’ patents in which small companies can become ensnared.

Raising the level of inventiveness would prevent large companies from continually making small improvements to extend patent life. The lifetime of a patent could vary from industry to industry depending on the time to market.

Increased funding for the European Patent Office is required to bring the service to applicants to a structurally higher level.

Competition

European Competition Law and DG Competition are the envy of the world. However, there is a strong case to be made for complementing the present focus on consumer protection with the protection of small companies in their roles as suppliers, customers and partners of large companies. Abuse of power by large enterprise takes the form of predatory agreements, renegeing on contractual obligations without impunity and extracting intellectual property from small partners without proper remuneration. This abuse should be countered at a time that cooperation between large and small companies is one of the keys to innovation and economic growth.

In conclusion

EU27 has many distinctive and valuable competitive advantages vis-a vis the other trade blocks and is well advised to nurture and strengthen what is already strong.