

**REPORT
OF THE WORKING GROUP**

**Economic and social concepts
in the Community**

This report has been prepared by a group of independent experts set up by the Commission in the context of its studies on Medium-Term Economic Assessments.

The opinions expressed in this report must not be considered to be or interpreted as the view of the Commission and its services.

Brussels, December 1979

WORKING GROUP
ECONOMIC AND SOCIAL CONCEPTS IN THE COMMUNITY
=====

Chairman :

Jacques DELORS

Professor, University of Paris-Dauphine,
Deputy at the European Assembly,
Chairman of the Economic and Monetary
Commission
France

Members :

Bernard STASI

Vice-President of the National Assembly,
France

Christian GOUX

Professor, University of Paris I,
Director of the "Laboratoire de conjonc-
ture et prospective"
France

Charles-Ferdinand NOTHOMB

Professor, Catholic University of Louvain,
President of the Chamber of Representatives,
Belgium

David E. LEA

Deputy Secretary General of the Trade
Union Congress,
United Kingdom

Adam RIDLEY

Special advisor to the Chancellor of the
Exchequer,
United Kingdom

Erhard KANTZENBACH

Professor, University of Hamburg,
Chairman of the Monopolies Commission,
Federal Republic of Germany

Helmut LEIPOLD

Professor, Forschungsstelle zum Vergleich
Wirtschaftlicher Lenkungssysteme of the
University of Marburg,
Federal Republic of Germany

Giorgio LA MALFA

Professor, University of Catania,
Member of the Chamber of Deputies, and
Chairman of the Industry Commission,
Italy

.../...

Other persons :

Luciano BARCA

Member of the Chamber of Deputies,
Director of the paper "Rinascita",
Italy

Willem DREES

Member of the Court of Auditors of the
European Communities, Former Minister,
Netherlands

Rudolf HENTSCHEL

Confederate Secretary of the D.G.B.,
Federal Republic of Germany

Claude GRUSON

Chairman of the Study group "European
Programmation",
Former Director General of the INSEE,
France

Secretariate :

Robert BISTOLFI

Commission, Directorate General for
Economic and Financial Affairs

René LERAY

Commission, Directorate General for
Economic and Financial Affairs

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INTRODUCTION

In 1977 the Commission of the European Communities called in a group of experts to investigate whether an explanation could be found in the dominant concepts of economic and social policy in the nine Member States for the difficulties encountered by those countries when it comes to harmonizing their approaches or achieving closer cooperation.

This was not a new subject of concern, but it seemed that the "crisis" had, as it were, polarized positions, while - paradoxically - at the same time the Member States felt the need to stand together and to regard joint action as an effective support to national efforts. Lack of understanding of the positions taken by other countries, on the one hand, and a desire for cooperation, on the other: this was how the Commission's departments saw the ambiance which surrounded the preparation of the fourth medium-term policy programme. The programme was a comprehensive exercise and therefore likely to highlight the disparities in economic and social structures, the different ways in which each society adapted to the changing currents of ideas, values and aspirations, and the eroding of the social consensus at the very points where in the past it had constituted a by no means negligible asset for the success of national projects.

For this reason, it had been suggested to the Group of Experts that its task was essentially to make a thorough analysis of the leading concepts, in order to identify more clearly the false issues which arise from lack of familiarity with the practices of another country or from questions of semantics. Once the mists of incomprehension have been cleared, then the real differences should stand forth, the reasons for which may be found in ideology or history or factors peculiar to individual nations: although in reality these three forces are closely inter-linked.

Consequently, the Group's approach was at the furthest remove from the purely short-term view, the day-to-day matters of Community debate. For its work to be of value, the Group had to address itself to a deeper structural analysis of the concepts of economic and social policy which inform the behaviour of those who determine the Community's political, economic and social destinies.

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The Group of Experts pursued its assignment over a period of two years, meeting every two months. The Commission had chosen the members in such a way as to reflect a wide diversity of convictions and commitments. Nevertheless, the Group considered it necessary also to hear a few representatives of national positions or sensitivities not reflected in the Group (1).

At the same time, with the assistance of the Commission's officials - to whom the Group wishes to express its gratitude and appreciation for their most helpful cooperation - the Group studied the programmes of the political parties and the analyses and proposals of the industrial associations and the trade unions.

The experts did not broach the substance of the matter until after the first few meetings. To start with, they were all deeply interested to hear their colleagues expound the economic and social history and essential features of their countries. Once this mutual understanding had been developed and the hearings had been completed, the next step was to identify what was essential in this multiple view of the nine nations of the Community.

(1) Messrs. Luciano BARCA, Willem DREES, Rudolf HENTSCHEL, Claude GRUSON

The experts made a banal discovery: false issues do not explain everything. It is true - to keep within our subject - that the nine States all have mixed-economy systems, where the play of market forces and state intervention operate side by side. This is why certain explanations of a lack of understanding between governments really do not merit consideration. Nonetheless, the argument between the proponents of laissez-faire and the supporters of intervention regularly breaks out anew: a recent example is the debate on the oil spot market in Rotterdam.

Could there be, then, several conceptions of the mixed economy? Without a doubt. Could there be differences of opinion about how to reform the mixed economy system, whose lack of flexibility is only too apparent? Again, yes. And this prompted the Group, at the risk of being accused of taking too academic an approach, to draw up a chart, intended to be both exhaustive and accurate, of the major currents of economic theory (Part II, Chapter B).

The Group took the view that the crisis had, in effect, exacerbated or thrown into relief the profound differences between the theories which seek to explain economic and social evolution. This often happens in times of major change and deep uncertainty. Everyone legitimately tries to find a theoretical framework which will both explain what has happened in the past and provide the key to the future.

The only hope which the Group can express is that this theoretical analysis will be the starting-point for a more intelligible and more universally useful comparative scrutiny of ideas.

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In other words, the Group deliberately stood back from the immediately topical scene, in two ways: in its study of theories, it sought to simplify, usefully, debates which are too esoteric

or overlaid with tactical considerations; and in its historical approach, it tried to discover, beneath the ebb and flow of current affairs, the deep shifts which have marked the societies of Europe since the end of the war.

We are convinced - like many others - that the two waves of oil price rises do not explain everything, far from it.

Already, in the phase of continuous growth which was the common feature of the period 1950 to 1973 (see Chapter A), disharmonies had emerged. When they were internal, the symptoms were social tensions which revealed dissatisfaction or discontent, and also the difficulties encountered by some countries in the smooth management of the economy. To put it a little bluntly, it could be said that, as regards the economy, the increase in inflationary pressures was the factor which most sharply showed up the problems facing each country. But there were also external disharmonies, caused by the profound changes which marked the world economy. Placed as it was before new responsibilities, the European Community, during those twenty-five years, never rose to the level of cooperation and responsibility which would have enabled it to avoid many mistakes and to help mitigate the growing confusion in the world economy. The Group rehearses the reasons, which are, of course, universally known.

So the canker was in the fruit. Perhaps it should be added, so that this should surprise nobody, that it is always so in every period of history. Even when a period is regarded as beneficial, it harbours at the same time both the bright side and the darker side, the benefits of today and the seeds of the difficulties of tomorrow. This is why the Group attaches such importance to its description of the evolution of our industrial societies (Chapter B). If this is not taken into account, it is impossible either to understand the full depth and manifold dimensions of the crisis or to adumbrate any responses. Economic and social structures have been transformed; this explains the emergence of an economy of groups, far removed from liberal economic theory, and the existence

of fixed patterns in the processes of adaptation. Behaviour and values have evolved, but the end-result is not yet clear: the old and new exist side by side. The primary battlegrounds of political and social contention have been three themes: equality, economic democracy and decentralization. They are not yet exhausted and the crisis has not eclipsed them. Finally, new voices of protest have been raised; first of all they were (or are still today) minority causes, but they have had a marked influence in the clash of ideas and on the behaviour of the main exponents of political and social forces. Criticism of institutions, concern for the environment, the emphasis on the quality of life, the attack on the primacy of production - all these, to a greater or lesser extent, have set their stamp on our time. The political response must take account of these young shoots of society, as well as of the permanent major debates on the three traditional themes referred to above.

It is against this background of far-reaching change that there occurred the events of the years 1973 and 1974, which were characterized by imbalances on a large scale (Chapter C). The Group devotes only a few pages to them because it wishes, not to reiterate analyses already carried out, but rather to bring into focus the profound logical progression from the growing confusions of the period of the "economic miracle" to their upshot in the crisis.

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It is precisely through the filter of this twofold investigation, factual and theoretical, that the essence of the quandary of European industrial societies can be distilled. This is the justification of the report - of whose inadequacies and superfluties, the offspring of generalization, we are aware. But how can one stimulate thoughtful debate (other than on individual points) without accepting the challenge of painting a diptych: a picture of the evolution of these societies with the gains and

achievements, the changes and the problems in gestation; and the picture of the great debates on economic theory, also the fruit of an evolution and diversification of the ideas which dominated the post-war period.

From this basis the Group believed it could identify (Chapter C in Part II) four essential themes for the debate within our societies and therefore also for the European debate: the return to full employment; the question of inequalities; a new distribution of powers; and fair and efficient management of the economy. This may seem to be a very traditional enumeration, as there is no overt reference to the problem of energy, the control of inflation, or the imbalance in foreign trade. Let it be understood - and the report makes this quite clear - that the Group does not underestimate the importance of these problems. But besides the fact that these questions have already been discussed in other papers (1), the Group considers that without a positive and all-encompassing response on these four themes, no European nation will be capable of taking up the manifold challenges facing it: the now worldwide interplay of economic forces which is changing power relationships at Europe's expense; the higher cost of energy; and the potentialities of science and technology.

In other words, every country is seeking not only technical solutions, but also a social dynamic which will be a powerful help in ensuring the success of the changes now taking place. Will this dynamic be the fruit of instability or of compromise or of both in succession? This is the nub of the question to which the Group has tried to find, not so much an answer as the elements of an answer, by evaluating the risks of imbalance and the chances of compromise.

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- (1) New characteristics of socio-economic development
Brussels, December 1977
Report of the Study Group "Economic and Monetary Union 1980"
Brussels, March 1975
Report of the Study Group "Problems of Inflation"
Brussels, March 1976
Report of the European Planning Study Group
Brussels, May 1978
In favour of an energy efficient society
Brussels, June 1979

Indeed the Group has employed the term "compromise" only after great hesitation, so heavily is this word loaded with pejorative overtones. Let us postulate that compromise is, objectively, the outcome of a period of political and social struggle ending in some provisional equilibrium, a consensus by default if some are merely resigned to it, a consensus by agreement if negotiations take place and end in an understanding or an armistice.

Which, then, could be these fields where compromise would spring from the realization that everybody would have of the advantages he would obtain in return for the concessions he would make? The Group proposes a few areas, in full awareness that it would be a package deal, or a multiple trade-off.

By closing with an enumeration of the stakes in the political and social debate, within each of our countries as well as at Community level, the Group brings together its two primary concerns. How do we get our mixed economies out of the atrophy which is slowly paralysing them? How do we answer the challenges thrown down to these age-old nations, which, if they do not ward off the danger, are threatened with relegation to a minor league in the world and consequently - since interdependence is the keyword today - to a concomitantly minor share in economic and social affairs?

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TITLE I

FROM GROWTH TO CRISIS

It is a widely-held view that the crisis with which the western industrialized economies are at present grappling began suddenly at the end of 1973 when energy prices increased sharply for the first time. However, many observers stress that the factors involved were extremely complex, and that no precise time can be identified as the turning-point in the trend. Nevertheless, the western world did tip very rapidly into recession; the very depth of the crisis was an unpleasant jolt to the people of Europe, after a quarter-century of growth with no major setbacks had convinced public opinion that the mechanisms of lasting growth had finally been mastered.

It is true that regulatory techniques, inspired in particular by the theoretical and practical revision of Keynes's ideas, had been substantially modified and improved. Moreover, after the collapse of international economic relations in the 30s, a new, more disciplined world-wide framework of economic, trade and monetary cooperation was set up immediately after the war.

But experience was to show that these factors alone could not guarantee rapid and balanced growth indefinitely.

Before embarking on the ways in which the crisis has changed the basis of political, economic and social discussion (the subject of Title II), we would like to look a little more closely at the period preceding the crisis, and at the crisis itself, in a tentative effort to pinpoint the changes which radically affected our economies and our societies, beyond the simple fact of unprecedented quantitative growth. These changes include the transformation of the world economy, the attempts to build a European Community, the reorganization of the economy and of society, the emergence of new sets of values and new types of behaviour, new protests and various pressures reflected in inflation even at that time. The political forces must reckon with all these factors, the

more so as the crisis (whose main features and effects will be summarized below), has meant that the restoration of adequate growth rates must be given absolute priority. Progress towards this objective is impeded not only by the constraints stemming from the new international environment, but also by some of the features and aspirations, often mutually exclusive, which are now emerging within the industrial societies of Europe.

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PAST TRENDS: A LONG PHASE OF STEADY GROWTH

PAST TRENDS: A LONG PHASE OF STEADY GROWTH

There is, of course, no unanimity among the various political parties, academics and other observers about the origins of the present crisis. But all agree that in a world which is itself changing rapidly, the Western industrialized countries will ignore at their peril the difficulties that have arisen.

It is true that the abrupt increase in oil prices at the end of 1973 meant far-reaching changes in the conditions in which our economies and societies operate, and that shock is often seen as the point of departure for the current situation. Other observers regard the oil price increase not so much as a basic cause, but more as an event which catalysed, exposed and magnified problems which had in fact been building up for many years, though of course in different ways in each country.

A brief review of the outlines and main features of economic and social development in the last thirty years is therefore relevant to our purpose, which is to illustrate the bases of these different analyses.

§ 1 - The foundations of growth

There is a great temptation - given present uncertainties - to idealize the conditions under which economic growth was achieved in the 50s and 60s, and indeed growth found a propitious context in a framework of international cooperation favourable to growth and in the conjunction of circumstances peculiar to the industrialized economies.

The international framework

The international economic and monetary organization built up in the immediate post-war period was first and foremost, and almost entirely, an organization designed by the industrialized nations of the West, among whom the United States was the unchallenged leader.

Whilst it was in line with the immediate and longer-term interests of the United States' economy - which had emerged from the war with a strengthened industrial and financial potential and with a long technological start on the other countries - the choice in favour of growth in a context of liberalized trade was also in the interests of the other industrialized nations, particularly the European ones. It opened up for them, once reconstruction was completed, the prospect of enlarged markets for their output. It also offered a guarantee against the costs and risks always involved in attempts to "go it alone". At a political level, the decision to pursue liberal economic policies also helped to underpin the democratic fabric in each country. Finally, it opened up new possibilities for some powers which were grappling with the difficult task of "decolonialization".

The United States was prepared to shoulder the responsibilities of economic leadership (witness the Marshall Plan), so it seemed that free trade could be based on a general agreement among nations to respect a set of basic ground rules.

Trade expansion would have been impossible in this framework without a reliable and acknowledged international currency and general respect for monetary discipline. The creation of a stable monetary system, and respect for the principles of reciprocity, and of non-discrimination with regard to movements of merchandise and capital were the pillars of the new order. The Bretton Woods agreement and the General Agreement on Tariffs and Trade (GATT) put these principles into practice and furnished the framework and institutions needed.

This new order provided large markets, loosened balance of payments constraints through a stable monetary system that provided facilities (the IMF) for helping countries in temporary difficulty, and removed many factors inhibiting international competition. The result was a boom in world trade.

Of course, this was not achieved overnight. Countries began first by dismantling tariffs and working towards the restoration of currency convertibility among the main industrialized nations. Thereafter the upward movement of trade gathered momentum: between 1958 and 1974, world exports increased at an average annual rate, in real terms, of between 9.2% and 9.8% (1) for manufactures alone.

Thriving trade was one of the key factors in the high growth rate of the world economy, and in particular of the high growth rates achieved in the industrialized economies. But thriving world trade generated rapid domestic growth only because the conditions necessary for sustained growth were fulfilled within each country as well.

The internal factors

The combination of a number of objective factors had lent some support to the belief, still discernible in OECD reports in the early 70's that the process of economic growth had finally been mastered.

There now seemed to be no doubt about the effectiveness of Keynesian demand policies, using techniques whose precision had been sharpened in comparison with those used before the war. Anxious to maintain high levels of employment and to utilize production capacity to the full, governments implemented income redistribution policies of various kinds because of the needs of the welfare state. This supported demand, which, apart from limited cyclical fluctuations, bore out the optimistic expectations of producers, and investment and innovation forged ahead. The process gained impetus at that time as the desire for higher living standards became more pressing and more general, stepping up mass consumption of goods and services.

(1) Whereas, since 1975, the average annual rate of growth, in real terms, of world exports has not exceeded 5,8 %.

On the supply side, producers found that they were able to respond to demand reasonably promptly and that such bottlenecks as occurred seldom lasted long. Generally speaking investment rose, helped by increased saving, and the growth and development of the financial sector and the international capital movements. The labour supply adapted fairly smoothly to production requirements, both in quantity and quality. The drift from the land, the increased number of women at work, heavy migration, higher levels of education, and diversification of vocational training schemes all helped, though in differing ways in the various countries.

There were more and more technological innovations, and more and more firms availed themselves of them; raw materials could be obtained in sufficient quantities and energy was cheap. Marked productivity improvements bore witness to the progress being made in strengthening the supply side of the equation.

These internal factors operated to the full because they were associated with a general acceptance of the change and the continuous adaptation without which high growth rates cannot be achieved. This was as true of technology as of industrial organization, the patterns of skills required, factor mobility, the starting up and liquidation of firms and even whole industries, and the promotion or the neglect of certain geographical areas. But this economic adaptability, which was even more necessary in view of growing international competition, was gradually undermined by the basic structural changes that have occurred since the end of the war.

§ 2 - Far-reaching changes in the world economy

With some exceptions, the progress of free trade has been spectacular since the war, in spite of the obstacles to be overcome. Fifteen years after the end of the war, convertibility had been definitively restored for the European currencies, the new order was consolidated, and these arrangements were in due course extended and deepened in a series of international negotiations, the Dillon Round, the Kennedy Round and so on.

Consequences of the internationalization of the economies

One of the direct effects of the internationalization of trade and production was that the structures and the methods of operation of the industrialized economies came closer into line with one another.

For one thing, the role of trade as a growth determinant increased in importance in all the industrialized countries.

Second, the increased degree of specialization which might have been expected failed to materialize, at least where the main sectors of the economy were concerned. No European country willingly and totally withdrew from the key industries - those vital to its industrial needs, its domestic consumption or its exports - to allow other countries, apparently better endowed in these areas, to take them over completely.

A third and last factor is a corollary of this tendency for economies to become more rather than less like each other: cyclical fluctuations in the industrialized countries, previously often quite out of phase, gradually came closer together in the early Seventies. The old disordered progress of the economies had allowed the governments much greater freedom in their economic policies, and developments in the different economies had tended to complement one another. The effect of the new simultaneous movement is to aggravate problems facing the authorities in their attempts to adapt or revive the economies and to restore equilibria.

The emergence of new political and economic forces

In the first fifteen post-war years, the main preoccupations of the third world countries were the restoration of their national sovereignty and the problem of alignment or non-alignment (1955 - Bandung Conference). In the Sixties, development questions came to the forefront. Because it was taking them so long to reach a "take-off" point and because the gap between them and the industrialized countries was growing ever wider, the developing

countries began to question the validity of the international economic order. Soon they were criticizing these arrangements on many grounds: they argued that the recovery of political sovereignty was not enough and that they should also have control over their natural resources; they felt that a "fair price" should be paid for their basic products; they believed that the purchasing power of their exports should be safeguarded, and that they had to make the most of their output by going beyond the traditional role assigned to them of suppliers of raw materials, etc. The list of attempts made by third world countries to eradicate the causes and offset the consequences of "unfair trade" is a long one. It ranges from nationalization of natural resources, which became very much the order of the day following Premier Mossadegh's actions in 1952, to the OPEC cartel, which has exerted direct control over prices and quantities exported. Here, then, was a crucial political development which called into question the very foundations of the international economy, and still has repercussions today.

Although the term "Third World" covers a wide diversity of situations - from "Lumpenproletariat" countries to tomorrow's economic powers, the differences tend to grow wider rather than narrower - the method of link-up with the international market is of key importance throughout the Third World; the bitter North-South confrontation is evidence of the important issues at stake.

Of course, the political dimension of international economic relations had been even more obvious, from the very outset, in relations between East and West. At the end of the war, the balance struck was a reflection of the power relationships forged by the conflict itself and its outcome: despite attempts made to establish genuinely world-wide cooperation arrangements, the "state-economy" group of countries quickly retreated behind the iron curtain. The ensuing "cold war" confirmed this withdrawal, and it was only in the Sixties, with the advent of peaceful co-existence and then actual détente, that a new type of economic

relations - owing little to the principle of free trade - slowly took shape between the East and the West. This is another aspect of the tendency for economic activity to assume a world-wide dimension, which was confirmed towards the beginning of the 70's when the multinational companies turned towards Eastern Europe. It is true that East-West trade remains modest, and the energy crisis has tended to increase difficulties in the area. Nonetheless, despite vicissitudes, the process of dismantling trade barriers between the two blocs does seem irreversible as long as the relaxation of strain between the two blocs continues. In this field too, political and economic processes are closely linked, even overriding differences between economic systems.

The deterioration of the international monetary system

From the early Sixties onwards, the international monetary system established at Bretton Woods underwent changes which altered its nature and eventually compelled the participating countries to abandon it completely. One of the original flaws in the system was that it did nothing to relate the need for international liquidity generated by growing world trade to the money actually available. The monetary self-discipline of the United States was, from this angle, as vital a factor as the pursuit of sound policies by the major international organizations, especially the IMF.

The system worked well enough until the mid-60s, but then came the first warning signs, with the United States' growing inability to reconcile domestic requirements with the needs of the international economy in monetary policy. As the United States' economic and monetary policy authorities gradually switched their main attention to domestic pressures, the supply of international liquidity to the world economy was slowly but surely relegated to the role of a mere residual variable.

In addition, the Euro-dollar market, boosted by the United States' balance of payments deficits and further expanded through

the traditional bank multiplier mechanism, grew rapidly, contributing to the excessive expansion of world liquidity and thus to inflation.

It was for these reasons that the system was jeopardized by the suspension of the gold convertibility of the dollar and its devaluation in August 1971. For this decision, instead of recognizing and putting an end to past developments, encouraged waves of "hot money" and a further swelling of the dollar balances. There was no international agreement on a pattern of stable parities or sound operating rules, and the result was a second devaluation of the dollar in February 1973 and the floating of the currencies of the main trading partners of the United States.

Towards a world economy without frontiers?

The enlargement of markets had always been part of the logic of free trade. What was new, after the war, was not only the spreading of competitive markets throughout the world, but also the organization of an increasing proportion of production on a multinational, or even a global, scale.

The markets for a growing number of products are now organized on such a scale, both because of capital concentration and for economic and technical reasons (economies of scale).

As for the factors of production, the same tendency gathered momentum; witness the scale of direct international investment flows, the vigorous development of the international capital markets, the growing share of trade accounted for by transfers of know-how and management, and large-scale migrations of manpower.

The various Member States have widely different views about one of the aspects of the spread of a world-wide economy: the development of multinational enterprises.

In some countries, e.g. the FRG and the UK, this factor is not a major issue in the socio-political debate. It is seen

essentially as an economic fact, as a continuing tendency towards concentration, and it is considered from the point of view of its effects on competitive efficiency.

In other countries, e.g. France, the role of transnational enterprises is considered more important, however the effects of their activities may be judged. Transnationals are seen as a major element of a new stage of development of the means of production, underpinning, and organizing - directly or indirectly - the complex fabric of international trade. The implications of the expansion of transnational enterprises are regarded by the supporters of this analysis as social and political as well as economic. The approach generally adopted can be summarized as follows:

Firstly, content and meaning of free trade has been increasingly changed by the expansion of transnational firms: their strategy for the choice of investment and the organization of commercial trade patterns involves many factors, including taxes, social factors, and even political considerations, which go well beyond those usually adopted in the classical model for the allocation of the factors of production. This argument, moreover, contradicts the beliefs on which national policies are based. As long as the number of transnational enterprises and their dimensions remained limited, their actions had no major implications for the distribution of economic power and regulatory functions. But the moment they become important enough to be decisive in certain economies, or on the markets for certain goods or services, increasingly marked contradictions and pressures will inevitably appear.

The changes have certainly gained momentum over the past few years. Firstly by consolidating the internationalization of capital, transnational enterprises have played a crucial role in moving activities about. This role has become clearer and more important since the crisis. Furthermore, the extension of their field of action to services, and more specifically to financial

operations, has tended to move power into new sectors. Thus, their decisive interventions in the creation of international liquidity and in the financing of external balances of payments have meant that the role of private transnational financial structures has become increasingly powerful and independent.

All this means new problems for the nation-states, which were for many years the main forces directing national development. They must now endeavour to adapt the framework and the means of collective development. The European Community, a strategic group of nations, has had to face up to new requirements born of the changes in the world economy, and will have to face up to them increasingly in the future.

§ 3 - Mounting inflation - problems unmasked

There was inflation throughout the period. It is true that inflation rates varied from country to country and, until the end of the Sixties, with the phase of the trade cycle; but it became the major problem.

Through running at not more than 3% in the period 1955-60 in the Community as a whole, inflation gradually gathered momentum, particularly from the mid-Sixties onwards, culminating in a rate of about 15% in 1975, and a range from the lowest country figure of 6% to the highest of 25%.

Efforts to control inflation have led - and still lead - to complex discussions as to the causes and cures of price rises; and both inflation and the policies adopted in an attempt to control it have triggered off large-scale political or social conflicts.

Among the cyclical causes of inflation least open to debate are: that incomes (direct and indirect) were rising too fast; that since 1969 the stages of growth in all the industrialized countries have followed much the same pattern; that cyclical changes within the Community were getting closer and closer into

phase; that the international monetary system was breaking down; and that the prices of raw materials were climbing rapidly.

On the structural side, the picture is less clear. There is much controversy about the effects of new strategies and oligopolistic competition by large firms on markets for goods and factors. There are widely differing analyses of the links between inflation and the social process engendered by a long period of growth fuelling ever-increasing expectations, and of the effects of the far-reaching changes in the allocation of the national product and structure of incomes.

Lastly, observers also point to the weakness of the political authorities in their approach to the structural causes of inflation, as well as to mistaken policies to deal with short-term causes.

These factors taken together certainly account for most of the problem of inflation before the crisis - although, of course, the different points we have emphasized will have been of varying importance and have lasted for different periods of time in the various countries, because of differing historical backgrounds and varying economic structures. However, at present in circumstances quite different from those prevailing at the beginning of the Seventies, there remains a substantial hard core of inflation, despite several years of slack demand. With few exceptions (Federal Germany, Switzerland), this hard core is of the order of 5% p.a. and is probably to be attributed to persisting structural causes as much as to continuing inflationary expectations.

It is undeniable that the structural causes of inflation were grossly neglected. A recent report has highlighted the importance of a large number of factors in this field (1). It lists as

(1) Report of the Study Group on Problems of Inflation, chaired by Mr Maldague (Brussels, 3 March 1976) on behalf of the EEC.

sources of inflation:

- the emergence of a new dichotomy between "meso-" and "micro-economy"; (1)
- the relative degree of control over markets and prices enjoyed by big firms;
- the influence of lasting sectoral and regional rigidities in preventing productivity gains from yielding price reductions;
- the high level of mark-ups in the distribution sector;
- the limited scope of employment policy and the heterogeneity of the labour market;
- the fact that some companies have much easier access to the capital markets than others;
- inflationary consumption patterns;
- the deflection of demands for higher real incomes into mere money-income increases;
- the enormous difficulty of improving the structure of public expenditure;
- wide inequalities in incomes and wealth, which have aggravated social strains.
- Finally, in some countries there is growing taxpayer opposition to any expansion of the taxable base: at the same time, as the users of public services, citizens wish to see improvements in social services and amenities. This disturbing contradiction is a major problem for politicians of all persuasions.

These problems still lie today at the heart of economic thinking and remain key political and social issues.

§ 4 - Limits to the construction of Europe

Appearing in the aftermath of the Second World War in a context of crisis and cold war, the first tangible steps of

(1) The term "meso-economic" refers to the increase and growth of monopolistic multinational companies between the macro- and micro-economic levels. They have a significant macro-economic impact in a manner totally different from that of small-scale national firms in the micro-economic competitive model.

integration in Europe were the object of passionate debate; this explains why they have taken so long to achieve their final form.

The promoters of European integration began by recognizing that the unity of western Europe was essential in view of the existence of the two superpowers, the USA and the USSR, and that this unity could be achieved only by bringing together the countries of the old continent. As most proponents of a united Europe supported the new economic order of free trade, and, politically, were of Atlanticist leanings, efforts at the time came up against national sensibilities as well as opposition from many of the left-wing social and political forces in some countries.

The difficulties of achieving political and military co-operation were such that economic integration was preferred as a first step. The Treaty of Rome introduced a gradual process covering the trade, the economics and the social affairs of the potential Community, and eventually its political aspects.

This pragmatic strategy was intended to create, through wide-ranging economic integration, an irreversible process towards a political end that would become progressively clearer as each step was accomplished; institutional progress was to consolidate this complex progression at each stage.

The Treaty was based on faith in an enlarged and competitive market promoting growth and guaranteeing economic equilibria, and on certain specific common policies; but the initial stage was merely a preliminary to eventual economic and political union.

Twenty-five years later, European integration has fallen very far short of the various hopes it held out, hopes which did not always take fully into account the obstacles to be overcome or the time required. In addition it was sorely tested before it had even gained any solidity. After rapid progress towards the creation of a customs union, and the initiation of a common agricultural

policy, the "European motor" - the economic, legal and institutional machinery defined by the Treaty of Rome - ran out of steam. Certainly, the economies are now so closely involved with each other, particularly for trade, that it is difficult to imagine the present Community simply falling apart, as the events of recent years have clearly demonstrated; but the construction of Europe is not sufficiently dynamic to rally its members to a coherent and effective economic and political design.

All in all, divergent interests, situations and conceptions have prevented Europe from finding a new way forward to replace the pragmatic strategy, which is now evidently unable to meet the political, social and economic needs of the world and of each of our societies.

In analysing the principal elements of the socio-political debate in our countries over the next few years, this report is intended to contribute to the indispensable discussions about the construction of Europe. The direct election of the European Parliament by universal suffrage will be the opportunity to pursue the debate on concepts, the obstacles to be overcome, and the routes to be followed.

The lesson to be drawn, after a quarter of a century, is that, while the idea of closer west European unity in economic development, social progress and commercial integration has certainly gained ground (but not a unanimous response), Europe has not been able to prepare itself for the foreseeable changes at the end of the century. Thus, it is neither an effective tool to tackle the present difficulties, nor, by the same token, a real place of debate where future solutions can emerge. The debate and the search for solutions remain enclosed within national frontiers. This point has been illustrated very clearly by the crisis: the disequilibria it brought in its wake have been dealt with mainly by national economies and policies, rather than by a Community adequately organized to respond rapidly. One of the main issues at the moment is the question how and to what purpose the European Economic Council could eventually become a real forum for debate and a hub of cooperation.

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SOCIETY IN MOVEMENT

§ 1 - The main changes in economic and social structures

The growth of paid employment

Against the background of the drift from the land, the unprecedented growth of the large towns and cities and the rapid increase and growing varieties of employment in the services sector, a feature of the last thirty years - in most countries - has been the shift out of self-employment and into paid employment. With the addition of the growing numbers of women taking jobs, the paid workforce has become one of the key elements in our society. Between 1960 and 1973 the relative proportion of wage and salary earners in the employed labour force increased significantly in almost all the Community countries. By the end of the period, the lowest figure was 70.6% (Ireland), the highest 92.4% (United Kingdom).

This growth in the number of wage and salary earners has not as a rule, however, simplified political groupings - for example, by uniting the bodies representing wage and salary earners into a particular political formation. There are several reasons why their greater weight in society has not received homogeneous political expression. The industrial and sociological cast of the different categories of workers depends not only on the traditions of each country but also on its institutional structures, especially that of its trade union movement. In the United Kingdom, for example, there is only one central trade union federation, the TUC; all organizations, from those representing senior civil servants or local authority employees, to those of the miners or factory workers, belong to unions affiliated to this central body. In other European countries, there are cleavages which correspond to political or denominational differences, but in the last few years there have been several attempts, with some success, to achieve greater unity in the trade union movement. Recent developments in Italy and the Netherlands are important examples, for a number of reasons. The implications of this trend for relations with the political parties, especially those of the left, are very complex, but they generally mean that the trade unions, like the

political parties, have had to adopt a more flexible ideological position.

While there has, then, been no emergence of "workers' parties" with commanding majorities, the growth in the economic and social importance of employees has meant that all the major political groups must now take them very seriously and must take account of their aspirations in drawing up their policies. In addition, as a result of differences within the wage and salary earning population, the role of the political and trade union organizations claiming to represent workers directly has also become more precise and more varied, as will be seen later. Thus, over and above their social importance, wage and salary earners have now become one of the major political forces. In this context, it is not surprising that the 1960's saw the formation, in most of the member countries, of centre/left wing or "grand coalition" governments and increasingly complex links between the workers' political organizations and trade unions and the development of tripartite discussions (state, employers, unions), institutionalized to varying degrees.

The growing size of the dependent population

This is an important phenomenon, whose strictly political implications have not yet emerged fully. The relative proportion of the dependent population has increased in all the countries. The population of working age (15-65 years old) declined slightly in the Community from 1960 to 1973, decreasing from 64.6% to 63.2%. The employed working population, which accounted for almost 44% of the total population in the period 1955-1960, was only 40.8% by 1973.

Advances in medicine and rising living standards have changed the population structure and increased the proportion of the elderly. New social goals, including earlier retirement, have also tended to reduce the percentage of the working population. These are "heavy" changes which give rise both to economic and financial problems (not least the transfer payments which they

entail) and to social problems generally. Both types of problem call for comprehensive and consistent responses on which all the political parties must take a stand, the more so in that people have different sets of values at different ages.

Even if, because of changes in demographic structure, the population of working age now increases somewhat as a proportion of the total population, some of the problems mentioned here will continue to pose difficulties (1). However, other basic questions are raised by the changes taking place at present: in particular, how to strike a political, social and cultural balance in a society which combines and pits against one another values based on paid employment and values stemming from the absence of the obligation to work, encompassing different activities, leisure, rest, personal life - and indeed should they be in conflict?

The emergence of corporatist developments

As the structure of the economy has changed, thanks to the concentration, rationalization, and growing mobility of employees, the structure of economic power has also undergone far-reaching changes.

The system of production has been transformed and modernized. Concentration, admittedly no new development, has advanced further. It has linked up - although in ways and at rates differing from one country to another - with the process of internationalization of capital and of expansion of transnational firms. It has marked out a field occupied by the large or very large firms, between the level at which the authorities exert overall control and that at which the small and medium-sized enterprises operate. The large firms have tended more and more to build up long-range strategies. Their power and, consequently, their scope for influencing employment, investment and the location of economic activities have been

(1) See the report drawn up by a group of independent experts: "The economic implications of demographic change in the Community, 1975-1995" (Brussels, Commission of the European Communities, 1978).

strengthened (1). This has been particularly obvious in the case of transnational companies, whose corporate policies may be in conflict with the development requirements of the host country.

Partly by using advertising, the large or very large companies have also been able to influence patterns of consumption and collective behaviour. Their size, the funds available to them, the mass of production factors which they control, the extent to which they control markets, enable them to affect the socio-economic and thus political character of regions and even of whole countries.

As long as they were dealing with an "atomized" and widely dispersed economy of small units, the authorities were fairly free in their choice of economic policies. With the concentration of production, of distribution and of a financial system, and with the greater strength of wage and salary earners, the central authority has been more and more drawn into relationships of cooperation and conflict with the other protagonists on the economic and social stage. The development of a new corporatism and the growing influence of pressure groups are further aspects of this change in the relationships between the economic world and the political world at the level of central government and of Parliament, and, in various ways, at the level of the political parties and organizations. The central government's power of decision-making was correspondingly reduced, even though its interventions in the economy became more frequent and more diverse. This is not the least of the paradoxes in our mixed economies.

The growing political importance of "linchpin" groups

Rapid changes in the economic structure - in particular the decline of the primary sector and the build-up of industry and, above all, services - have led to changes in the working population which have had a wide range of complex social and political results.

(1) Hence the need to supplement the classical micro-economic and macro-economic analyses with a meso-economic factor (referred to on page 15 of this report).

This is not the place for a detailed analysis, but a number of new developments are of particular interest. The sharp reduction in the size of the farming community has, in a number of countries, altered the basis of political alliances between the farmers and certain parties or groups which had for long been stable. As a result of company concentration, part of the middle classes - the owners of small and medium-sized businesses, shop-keepers, dealers, etc. have lost their previous stability, have been reduced in number, or, at the same time, have been replaced. Although heterogeneous and motivated by incompatible and even conflicting ambitions, their political weight had consistently exceeded their importance expressed purely in numbers. The position they held a little to the right of centre on the political and social scene often gave them - in electoral matters and in the manoeuvring between the parties and groups, which was more or less a direct expression of the electorate's wishes - a "casting vote" between opposing coalitions, since they often held the small number of seats indispensable to the achievement of a majority in Parliament. They seem to see their influence liable to be reduced by changes in the production system: the decline of traditional small trading and the rise of chain stores and supermarkets, the development of specialized distributing and of luxury craft work, the contraction in the number of small businesses in certain industries, the expansion of sub-contracting. In some countries, their strategic importance at the centre of the political scene has not been affected by their declining number. In others, such as the UK, they have lost influence.

A parallel development has been the formation of a new middle class as a result of the emergence of very large economic organizations of growing complexity, the growth of the civil service, the expansion of the executive class, increasingly specialized occupations and so on. These social groups, made up mainly of the higher-paid wage and salary earners and of persons running small businesses linked to modern production and distribution structures, have acquired growing importance at social and political levels. Their members have endeavoured to assert

themselves through the traditional parties and unions or through bodies of their own, but the ways in which they have done this have varied very widely from country to country, and the impact they have made has been very uneven.

Much has been said about the possibility that the old and the new middle classes will converge politically in a sort of central social group. Nothing today suggests the emergence of such a definite trend.

The unions enlarge their role

The trade union organizations on their side have widened the scope of their action, both in their efforts to tackle the problems posed by changes in employment and the nature of work, and in their demands for the democratization of economic power or in their approach to matters involving society as a whole.

Whilst it is true that the level of unionization varies - from about 25% in France to more than 70% in Belgium - the influence of the unions is relatively great in all the countries and has tended to increase. Directly or indirectly, the unions have been moving ever closer to the centre of the decision-making process in matters of economic and social management.

A consideration of the nature of the questions tackled beyond pay claims is enough to give an indication of how much the role of the unions has changed: working conditions, pension schemes, participation in or even control over the running of firms, education, health, housing, transport, etc. Because it is their task to defend wage-earners' moral and material rights, the unions, whether they want to or not, have to shoulder all the responsibilities which their influence in the economy and society inevitably entails: during this period it became more and more obvious that they had entered into an involuntary partnership with the governments, and that it was upon them that the success of the overall policies implemented depended.

In practice, the strength of the unions will be used to differing ends, and in differing ways from one member country to another, from one union to another, and often even within a single union.

One approach is to seek, under the established system, to defend the interests of the workers in the strict sense. The unions then refuse to engage in any radical attack upon the prevailing economic and social system.

Alternatively, the unions not only defend the interests of workers but also tackle the problem of changing economic and social structures. They may advocate the gradualist approach, or they may call for a more radical break with the past.

The choice between these strategies will in practice depend on several factors, which vary from country to country; these include the traditions of the labour movement, the type of link with the parties of the left, the depth and forms of the class struggle. Hence the difficulty, to which we return later, in identifying common problems in order to focus on the main issues in Europe's evolution.

But the particular measures taken by a given union also depend on power relationships and the seriousness of current problems for labour: for example, the 1966-67 recession led the DGB* to accept, without immediate counterpart, an incomes policy curbing wage increases. Over the last three years, however, attitudes have changed: any participation by the DGB in "concerted action" today would be unthinkable without a quid pro quo: progress in co-determination, a higher priority for full employment, review of competition problems, regional development, control of investment. Many examples of this general principle can be seen in the actions of the TUC, the FNV (Netherlands) and organizations in other countries.

* DGB = Deutscher Gewerkschafts-Bund

But even when they are mainly or even solely concerned with defending the workers' interests in the traditional way, the unions have been driven into an increasingly political role. The use they make of their power undoubtedly influences, directly or indirectly, the rate of increase of wages and transfer payments, the behaviour of investors, the rate of growth and pattern of employment, the success or failure of official economic policy and so on. The political dimension of the unions is even more obvious when they seek, by spelling out objectives and ways of achieving these objectives in medium or long-term programmes, to achieve a change of structure and democratization of economic power, a different organization of society, a new cultural policy, or a new type of international economic relations. It is also quite clear when, referring to these programmes, the unions attempt to unify the wide range of the increasingly diversified aspirations of the working world, to assume responsibility for the defence of marginal social groups and/or social groups outside active life (old people, handicapped persons, immigrants) and to move beyond the national framework in the organization of the social struggle and the demand for negotiation at international level. This trend is now being encouraged by the European Trade Union Confederation (ETUC).

The mixed economy is changing

Government is playing an increasing role in our economies, and it must reckon with other power blocs - large firms, trade unions, employers' organizations - whose functions have become increasingly varied. This has given rise to the question of how free market economies and societies should be managed. In other words, what is the future of the mixed economies?

Behind the free-market ideologies and competition-based philosophies to be found in varying degrees in each country, the way in which the market economies have actually developed has prompted the public authorities and the major private sector groups to rethink their positions and to intervene in industry. In some cases, the desire to reshape radically, to alter or to support market-induced structural trends has been openly expressed.

In France, an industrial plan was established, at the same time as it was decided to open up the economy with entry into the Common Market. In implementing it the public authorities make use of the full range of State intervention: incentives for modernization of structures and for concentration, and aids for the setting up of major groups in the main growth industries and/or the main industries capable of improving the integration of the French economy in the international market. This industrial plan reached its full potential around the 1970's under President Pompidou.

In view of the interventionist traditions in France, this policy forms part of a continuous development. However, it was not unique: after the war, the Western European countries' choice of pursuing growth in an open economy meant that they all faced similar problems.

Although the Federal Republic of Germany had opted for a free market economy, from 1950 onwards thought began to be given to the guidance of industrial development and the measures to be used (subsidies, public procurement, etc.). An industrial policy developed which, though not explicit, was nonetheless consistent. The banking sector played an important role in this: through its direct holdings and the management of securities deposited, it was able to intervene actively in the shaping of industrial development. This policy developed at a time when awareness began to grow of the technological lead of the United States. The policy was based on more or less formal consultation between public authorities, experts, banks, etc. One of its results was to focus the attention of government policies on such matters as education and scientific and technological development.

At the same time, several European countries began to make use of economic forecasting and planning. The aim in introducing planning was to provide a comprehensive and internally consistent reference framework to help improve the way the many problems involved in adapting and modernizing the economy were dealt with.

So as to underline this objective aspect of the need which was felt to introduce planning, it should be pointed out that, in a number of cases, planning institutions were set up irrespective of the political complexion of the government.

In Belgium, towards the end of the 1950's, when prosperity was continuing to increase, the economic and social debate paid growing attention to the obsolescence of industry and the growing regional unemployment in some areas of the country. Measures to promote economic growth and thus to deal with these problems were adopted in 1958 under a Christian Social Government, which also set up a Planning Bureau. The main purpose of the Planning Bureau was to provide a framework within which a socio-economic consensus on the priorities of the period could be developed.

In Italy, discussion of planning began in the early 1960's, i.e. at a time when policy-makers were trying to establish what forms of government intervention would help the economy to regain its previous growth rate while at the same time correcting the growing imbalances in regional development. Here too, it should be stressed that, irrespective of the differences of view which emerged on the crucial questions of the nature, content and instruments of planning, the principle of planning itself was accepted by a very broad spectrum of political and social forces.

In the United Kingdom, the development of the institutional framework and instruments for planning is too complex to summarize. However, it will be recalled that it was under a Conservative Government, between 1961 and 1964, that the National Economic Development Council was set up, on which both sides of industry are represented, though in a purely consultative role. Under the Council committees were set up for individual industries.

The early part of the Sixties was the period when the need for real socio-economic change was being felt and a number of problems of regional development were emerging. There was increasing awareness of the technological and scientific lead of

the United States. The first application to join the EEC pointed to awareness of many of the difficulties which lay ahead. Thus, it was no coincidence that the most important publication of the newly-created NEDC dealt with the conditions for achieving faster growth and looked at several structural problems such as tax reform, external payments, and the modernization of industry.

The results of these experiments in planning were all disappointing. There were many reasons, such as lack of political will, difficulties in achieving proper cooperation with the two sides of industry, and forecasting errors. However, planning and a planned economy remain themes of major concern in most of the countries, even though attitudes differ. This continuing concern shows that most of our mixed economies are looking for a more satisfactory method of economic and social management.

In parallel to the above trends, widely differing kinds of measures began to develop for supporting firms, particularly investment incentives. Interpretations differ on this point. Some Marxist and socialist schools of thought see this increase in "aids to industry" as an inevitable result of the capitalist system: aids of this type together with other measures, such as partial state subsidizing of labour costs, are intended to reverse the falling trend of ratio of profit on capital. The notion of monopolistic State capitalism falls in with this type of analysis.

Starting from a different theoretical standpoint, other observers regard these measures, to the extent that they include some degree of selectivity, as a pragmatic way of helping spontaneous structural changes to take place, and on some occasions of guiding them. They may also be justified by the existence of localized social or economic problems (industrial difficulties arising from sharp increases in international competition, local employment problems caused by the decline or bankruptcy of important regional industries, etc.). These various factors offered as explanations are, moreover, not incompatible.

However that may be, government intervention has increased considerably, thus contributing (with many other factors) to the explosion of public spending. It is not always possible to establish a precise link between such measures and industrial policy or national planning. This is understandable where such planning, as is generally the case in the Community, is aimed primarily at setting up a general macro-economic framework for growth, simply identifying the areas on which adjustment measures should concentrate. The general guidelines of a national plan are thus sometimes associated with the instruments for implementing them in a public spending plan.

It sometimes happens - witness developments in France and Italy - that a move away from planning, or indeed the abandonment of all planning, goes hand in hand with an increase in intervention measures.

The conclusions which can already be drawn from an examination of the pre-crisis period show first and foremost that government intervention was nowhere intended to reduce the role of the market as a regulator of the economy. Whether these interventions were designed to fix industrial policy objectives, or to introduce a system of planning and investment incentives, their general purpose in the economy was always to help bring about smoothly structural changes which were determined by the market.

Paradoxically, owing to the power of the groups active in the economy and the growing volume of the national budget, the more the State intervened in the operation of the economy, the more its power to shape developments was reduced.

Our mixed economies are seeking new economic and social ground rules, without which they will be increasingly unable to deal either with the problems of managing the economy or with the new demands of society: for the values and behaviour patterns of society have also changed.

§ 2 - Changes in values and behaviour patterns

These twenty-five years were above all a period in which wealth increased sharply, living standards rose and education and welfare benefits became available to all. This led to quicker technological innovation, and a tendency for lifestyles to become more uniform, a tendency which, however, did not wholly mask the persistence of marked inequality. Everyday life became both more complex and more uniform, provided more welfare and less security, and became both more open (particularly because of the fuller flow of information and the growth of the media) and more opaque as regards the organization of the real powers in society and how decisions are taken. These changes caused, magnified or at least accompanied rapid changes in certain values and behaviour patterns.

First, there was a radical change in personal relationships, with greater equality between men and women, and the growing role of young people in a technical society in which increasing importance was attached to adaptability rather than to experience. These trends were reflected in changes in the family, which was often reduced to its nucleus. Though it still transmitted social roles and formed a protective unit, albeit in reduced form, it became less and less the foundation of people's economic lives. Growing female employment stimulated women's claims to independence; with that and the more rapid "emancipation" of young people, the traditional family ceased to be the main target of the political parties. For a long time, the head of the family had been the main focus of their attention, since he was able to exercise a broad influence on his own family.

Since they were now less able to rely on patriarchal authority to get their views across, the political parties turned their attention more to the circumstances and interests of individuals - those of women, the elderly, young people, the unemployed, etc. To sum up, changing life-styles have affected the political debate: more attention is now given to the "right to be different".

Another major change in values and attitudes which took place during the period had to do with religion, with whose sociological

implications alone we are concerned here. A lengthy analysis would be needed to do justice to this complex matter. The fundamental political change was the way the churches as institutions distanced themselves from the established political powers. This disengagement from the power struggle and particular political choices was accompanied by other developments. There were fewer direct religious references by a number of movements - parties and trade unions - whose roots were explicitly denominational. There was a weakening of the link between conservative political movements and church-going voters; the growth of a specifically "christian" militancy both in social or political action (family, education, communal life, etc.) and - to an increasing degree - within left-wing parties that had traditionally been non-denominational and even anti-clerical.

§ 3 - Equality, economic democracy and decentralization

These three issues dominated discussions throughout the 1960's and 1970's, though, naturally, with differing degrees of intensity, points of emphasis and content from one country to another. Though people's demands were partially met, it is important to review them, for they have in no way been effaced by the crisis, even though they have had to yield ground to more immediate demands such as preserving living standards or employment.

The demand for equality

The rise in living standards in the period of rapid post-war growth was sufficiently general for the way in which inequalities were perceived to be socially and politically flawed: the feeling at the time was that the inequality would diminish of its own accord. This was expected to apply not only to incomes but also to inequalities stemming from level of education; the improvement in educational standards and skills in all levels of society, and the proliferation of mass information and culture media appeared to promise steady progress towards greater equality of opportunity.

In the course of time, however, it became clear that this favourable development was not as straightforward as it appeared to be. Growth generated its own social outcasts and brought with it new types of poverty. In towns and outlying regions, groups of individuals remained in or drifted into a marginal way of life. Immigrants - growing steadily in number - were not integrated into society and developed into a new proletariat.

On the cultural front, greater educational opportunities, the raising of the school-leaving age and easier access to universities were unable to eliminate the transmission of privilege from one generation to the next. Lastly, the ambivalent impact of technical progress on mass communication gradually made itself felt in some countries: the mass media can be as much tools of manipulation and alienation in the hands of the established order as instruments providing access to learning and culture.

However, awareness of these developments, the degree of which differed between groups and between countries, did become quite a widespread phenomenon in the 1960's. It is significant, for example, that the use of the term "establishment" to designate the small "élite" that was thought to exert effective control over all aspects of national life, first became a familiar notion in the United Kingdom in the early 1960's. Similarly, the criticisms levelled in France at the "Enarchie" (the "old boys" network made up of former students of the Ecole Nationale d'Administration) are part and parcel of the same confused belief that, behind a democratic façade of apparent progress towards equality, various hierarchies continue to monopolize effective power. The student revolts of the late 1960's showed, among other things, that this malaise is a feature of all "advanced" societies.

At the material level, progress has fallen well short of the expectations of the most disadvantaged social and vocational groups, particularly as the gaps between groups at both extremes of society have doubtless widened in absolute terms. Generally

speaking, the demand for greater equality swelled as changes in the distribution of incomes and wealth failed to make sufficient headway.

If, at this stage, we confine ourselves to the issue of inequality in income and wealth in the Community, we will see that, during the 1960's and the immediate pre-crisis years, there were three, often inter-related ways in which to narrow down these inequalities.

First, the "primary" distribution of incomes has significantly changed. With results that differed from one member country to another and over time, this change permitted a general and significant increase in the adjusted share of wages in GDP. In some countries, differentials were compressed at the same time.

Second, transfers were used to influence the distribution of final incomes. Even if other factors help to explain this development, it is significant that the share of public revenue and expenditure (including social welfare) in GDP grew steadily in all Member States between 1960 and 1973.

Third, the fight against inequality took the form of action to influence the structure of consumption with a view to boosting public investment, which was thought likely to achieve a fairer distribution of goods and services than the market and individual consumption patterns could. It was expected to attenuate some forms of inequality, while at the same time releasing the pressures caused by resource allocation in a system where individual consumption models are paramount. This turned out to be a vain hope.

It was not long before conflicts of objectives began to emerge. Because workers' wage demands were sustained, indeed increased, by a rapid expansion in public spending, the sharing-out of GDP involved greater and greater strains and increasingly difficult choices for the authorities. In most cases, the end result was a

contraction in both private and public investment, and spiralling inflation.

The demand for democracy

As early as the 1960's, new attitudes regarding the division of economic power were emerging. The aim was a fairer division between social groups of the responsibilities for steering and managing the economy and society. Here, too, the nature and forms of what was sought differ between countries, the unions having a crucial say in the putting of these new demands.

The ways in which multinational companies have been set up and operate has been a major source of controversy. Their growing power is sometimes seen to be fraught with danger in the sense that decisions are very often taken outside the country concerned. Workers' representatives were quick to react to this situation, demanding the establishment of procedures and mechanisms making for better control and monitoring of multinationals.

The movement did not, however, stop at multinationals. In all countries, though in markedly different ways, there have been demands and proposals for the democratization of the economy at national level as well as company or shop-floor level; and steps have been taken in this direction.

The demand for decentralization

The situations and national backgrounds are so diverse that there is no way of reducing to any sort of common denominator the fairly general resurgence of interest in the regions, associated in many cases with a reaffirmation of minority national cultures.

So there was growing criticism of traditional bureaucracies and the centralization which went with them, well fitted though they were to holding together countries with profound regional and ethnic disparities in periods of slow change. Political or administrative centralization is often denounced as an obstacle

to the smooth functioning of society because of the delays, bottlenecks and wrong decisions to which it leads. Mere devolution of powers, which has often been tried, is increasingly regarded as inadequate. Many observers feel that true devolution is what is now needed, including specific political powers.

Other factors are also at play, including, in the first place, the growing rejection (already referred to) of unlimited geographical mobility, reflected in certain Member States by the popularity of demands to live and work without being uprooted. There was also a widespread fear that minority languages and ethnic cultures and their rich heritage may die out, leaving the field open to cultural uniformity and impoverishment. Under the triple impact of the disruption of many regional economies, the attraction of external cultures and, in some cases, the existence of national policies concerned primarily with greater uniformity, many of these minority languages and cultures were rapidly losing ground.

§ 4 - The emergence of new challenges to the established order

In a context of profound change, new kinds of criticism or opposition affecting the whole of society became increasingly frequent during the period. The new critics questioned directly the traditional groups and organizations and compelled them to change their language and their behaviour. The causes were many, varied and frequently specific. They concerned such matters as opposition to the location of a nuclear power station, defence of a given site against a property development scheme, the organization of neighbourhood associations.

Among this abundance of initiatives, protests were made against a number of clearly defined targets: the institutions, the environment, quality of life, the organization and working of industry, physical planning, and mobility.

Criticism of institutions

What has happened has been not so much the emergence of anti-institutional behaviour, but rather the diffuse, gradual and uneven

discovery of the limitations of certain organizations and of the need, consequently, to reform them and even to replace them. One area of criticism has been the organization of representative democracy and that of the welfare state.

The internal criticism in western societies of representative democracy has grown precisely because of the growing realization that this democracy is irreplaceable: certain authoritarian experiments in our countries and the lack of political democracy in most countries of the world have served to strengthen in public opinion a desire to maintain and defend a democratic system. But if the public has grown to value more the benefits of democracy, it has also perceived more clearly, and denounced more strongly, its weaknesses, inflexibility and lacunae. A determination to curb the slippage of power from the legislative to the executive, and from the local authorities to the central authorities; criticism of the organization of parliamentary work, of the failure to replace the political élite quickly enough, of double or even triple office holders, of the infrequency of votes to control Members of Parliament - all these developments are symptomatic of a public feeling that democracy should go further than it does. The demand for proper regional policies, which has a complex motivation, is also part of the "anti-institutional" approach. Lastly, this kind of criticism does not omit the parties and unions whose bureaucratic influence and organization - some unions are, of course, much more bureaucratic than others - are regarded by many activists as all too effective curbs on real internal democracy.

Nor has the organization of individual and collective security within the welfare state escaped criticism. It is true that the principle of the welfare state is not formally challenged by any important party or group, but more and more questions are being asked about its working. The issues go beyond the economic problems raised by the size, complexity of transfers and financing problems of social security systems, to question the place and the degree of independence allowed to the individual in such systems.

The complement to the multitude of benefits on offer - against sickness, old age, unemployment, etc. - is a network of more and more complicated and anonymous financial and administrative restrictions. Collective security has become more effective and covers an increasingly comprehensive range of risks, but at the same time it has too often become inhuman and bureaucratized.

Both in respect of social security and of representative democracy, the criticism voiced is not so much of the progress made so far but of the lack of autonomy and flexibility. There is a feeling that the renewal of the various associations, unions and groupings is a means towards and a way of securing more local democracy and deeper selective solidarity. The feeling that this renewal is needed may be seen as the man in the street's protest against a rather rigid organizational umbrella. That said, there is all the sharper a contradiction within our societies between the security demanded by all and a vaguer desire for individuality and responsibility, between the collective coverage of risks and the striving for higher personal incomes.

The ecological approach

The very successes of economic growth have not been achieved without cost. Hence criticism, doubt, and warnings. In the first place, it was discovered that growth brought with it unforeseen costs for which there were, as it were, no allowance in the national accounts: destruction of natural beauty, dangers of pollution and poorly understood or dangerous techniques, the exhaustion of resources such as air, water, space, previously regarded as inexhaustible gifts of nature. Associated with the publication of reports - such as that of the Club of Rome - there was also a growing awareness of the limits on the supply of many industrial raw materials and the consequent need for some planning of their exploitation and for a search for alternative resources. Though starting from generally agreed facts - the finiteness of the world and of nature - on the fear of new scarcities, on the dangers attendant upon modern technology and the use of atomic

energy, the ecologists are not united in a single approach. Not only is it reflected in local action to defend the environment or protect nature, but also it has led to a more or less systematic ideology pleading the case for zero growth. At a more general level, it has helped to spread among the public, as yet insufficiently, the idea that we should assess our costs and benefits differently.

Emphasis on the quality of life

In this field again, it is the nature and scale of the quantitative economic growth itself which have generated new demands. As average living standards and cultural levels have risen, the feeling has gained ground that other types of consumption, that different uses of productivity gains, may be desirable. In particular, that a different share-out of the "dividends" of economic and social development between tangible factors (individual or collective consumptions) and intangibles (gains in leisure time, improved environment, better social and personal relationships, etc.) is conceivable and should be gradually introduced.

Several of these demands can be expressed directly through the market, by changes in the pattern of consumption: this is true of the expansion of tourism or some aspects of the growing demand for culture. Beyond this, however, there are some things which can only be achieved if the authorities are prepared to switch expenditure patterns, for example when demands for wider cultural opportunities require public support either because some social classes cannot possibly afford the costs involved, or because infrastructure investment is needed. The same is true of the adjustments to be made to the share-outs of productivity gains between material consumption and leisure time.

This means that changes in the pattern of consumption cannot be expected to happen naturally and must be seen also as a social process requiring choices and policies, and thus as a political phenomenon which the parties and the social partners cannot ignore.

Opposition to the dehumanization of work

Criticism is directed at many of the factors which made possible the growth at high rates achieved in past years; the concentration of firms and the increase in the average size of production units; the development of specialization and of shift work, and a high degree of geographical and occupational mobility.

This criticism takes a large number of forms, first of all in the work context: the rejection of the growing trend towards mass production, and its anonymity and dehumanization; the breaking down of work tasks into very small and boring units; the inability of the workers to see the operations as a whole and the feeling of being simply a cog in an enormous wheel. Similarly, the pressure on workers for occupational and especially geographical mobility are felt, in many cases, to have reached the limits of what is acceptable. And when both husband and wife work, if one is asked to move, the couple will probably refuse.

The rejection of the constraints of "productivism" has affinities, paradoxically, with the search for increased productivity: it has been noticed that the very large scale of companies or of production units has not always been justified by the demands of technology; and that it can indeed lead to less creative vigour (for example, in research and innovation) and can generate new costs (connected with the increased complexity of administrative management, absenteeism, etc.). As a result, research is being carried out to establish new ways of organizing production, in industry but in some services branches as well, deconcentration or even decentralization of management, re-composition of tasks, and the establishment of teams to carry out complex work programmes.

At a theoretical level, those studying these problems have tended to concentrate on the future of technology and on ways and means of controlling it. Most of the constraints which have now come under fire had long been defended, in practice and in

ideological terms, by two arguments. The first relied on the requirements of technical progress seen as the autonomous driving force behind change, to which not only the organization of production but also social life as a whole had to be adapted. The second argument derived from the progress of productivity and average living standards, which had to provide necessary and sufficient justification for the breaking down of work tasks into very small units and industrial concentration.

But attitudes now seem to be changing. Far from always being regarded as spontaneous, technological development is now seen to be a means and an opportunity one can exploit rather than a process over which we have no control. In other words, some schools of political thought no longer believe that technical development should be accepted with adaptation to the least costs, but that technical progress should be subordinated to the objectives of a planned society. This new approach does not merely reject the restrictions and costs which the old approach had entailed, but is based on the progress achieved by technology itself, and especially on the major improvement in the "information/energy" ratio which will be brought about by the further development of electronic data processing, including tele-processing.

Changing attitudes to work

The function and position of work in society are no longer, for a variety of reasons, taken completely for granted. The change does not, of course, affect the majority of people; work is still an economic necessity and a social value for almost everyone, but the range of attitudes and approaches has widened and become more heterogeneous. While work is still very highly regarded by many, while it supplies an identity to those who regard it as an essential contribution of their personal dignity and development, work is increasingly called into question - as regards its content more than the principle.

The reasons behind this divergence in attitudes to one of the essential values of collective and individual life are complex,

but some of their features may be distinguished. These features vary in importance from one period, country and social class to another, but they are always present. The first is disenchantment with scientific and technical progress; the positive effects of this progress on standards of living and on consumption have not been felt in the same way on the content and the quality of working life.

Work is still, for many people, insipid and uncreative.

The second, which reinforces the first, is a widening gulf between the aspirations of a better educated, more cultured population and the reality of boring, repetitive tasks involving only a small part of a highly ordered process. The reward for this alienation, increasing material comfort, is increasingly inadequate, or questioned, as the consumer society and economic growth are unfavourably compared with other values such as the quality of life, leisure, the right to live in one's home town, etc.

These factors of deep dissatisfaction, created because the human element in the organization of production lags far behind human aspirations, have given rise to various forms of protest, from the total rejection of society ("communities", self-sufficiency and so on) to mere "couldn't-care-less" attitudes manifested by absenteeism, instability among young workers, sloppy work and so on. The consequent reinforcement of inspection and supervision has in turn produced latent antagonism that occasionally rises to the surface in the form of wild-cat strikes or brief and unexplained work stoppages.

These attitudes are among the most worrying developments of our society. At a time when not only women and "elderly" workers but also young people are very hard hit by unemployment, they can only add to the harmful effects, both long- and short-term, of lack of employment. The cumulative effect of these two factors is to accentuate the contradictions of employment policies and aggravate discrimination on the labour market: there is discrimination in

incomes, obviously; discrimination in job security; discrimination in working conditions (risk of accident, hours of work, time-keeping and so on); and in the quality of work. Indeed, some observers consider that the labour market itself has split into two: what the experts call the "primary market", for the nucleus of privileged employees who are protected by law and collective bargains, and the "secondary market", where badly protected categories such as young people, women, handicapped workers, older workers, and immigrants pass through and are often exploited.

A LASTING AND FAR-REACHING CRISIS

From 1974 onwards, the unfolding crisis brought to the fore a number of questions that had already begun to demand attention, altered the economic, social and political scene, revealed new and lasting disequilibria, and modified the relative importance of problems outstanding.

The scale of the radical changes which took place between 1945 and 1973 precludes any attempt to pinpoint any one date as the beginning of "the crisis". But that there was a crisis is generally conceded even if there is disagreement about what it was.

The variety of national experience in the early seventies in the key areas of growth, price stability, employment and balance of payments is another factor hampering any effort to date the origin of the crisis.

There were many important differences in the social and political fields as well, both in the distribution of power (the public authorities, the unions, the financial system, industry) and the types of relations (developing a consensus, incomes policy, planning, etc.) that have grown up between these decision centres as a result of specific historical traditions.

§ 1 - The dynamics of disequilibrium

In view of this very complicated situation, it seemed right, in this report, to outline the chain of events which built up to the present crisis or crises, starting from the oil price increase at the end of 1973. For, however the various schools of thought diagnose "the crisis" in depth, they all admit that when the OPEC abruptly decided to quadruple oil prices this entailed a definite hiatus in the growth of the developed countries. Other things being equal, this shock implied an adjustment of the world economy which should, in theory, have been in three stages.

During the first stage, the oil-importing countries had to undergo both a "price effect", in the form of a direct increase in

import prices and increases in production costs, and an "income effect", in the form of a net income transfer to the oil-exporting countries, which could not (at least at first) absorb their rapidly increasing export proceeds by stepping up imports.

This stage was thus bound to change substantially the world pattern of current account surpluses and deficits.

The effects on the OECD countries during the first stage should have been approximately as follows:

- addition to the oil bill : + 1.8% of GNP
- direct deflationary effect : - 1.2% of GNP
- effect of general price level : + 2% or 3% for about two years.

During the second stage, several effects should have together led to a progressive restoration of balance in the flows between the areas. The oil-importing countries should have rationalized their energy consumption and increased their domestic production of energy. The OPEC countries' expenditure on imported goods should have increased. Thus, in the absence of a new "price effect", the second stage would have been characterized by a substantial reduction in transfer of income, as it was replaced by a transfer of real resources.

In the final stage, once the adjustment had been carried out, trade between oil-importing and exporting countries would once again be in equilibrium, with the importing countries devoting a larger part of their resources to internal energy production. During the whole period of adjustment, the non-oil-producing developing countries would have required increased support from the international community as a whole, since the fragility of their export sectors would have meant their suffering an accumulation of all the negative effects.

More than five years after this abrupt and important change, the world economy, and within it, the members of the European Community have experienced imbalances much more serious than the

consequences of the oil crisis should have been *ceteris paribus*. They are still suffering from the need to make adjustments because of the oil price increase; they cannot resume sufficiently rapid growth; unemployment is growing. A disordered attempt goes on, in this context, to find ways of establishing new division of tasks and a new definition of the "rules of the game" at international level.

These assessments of the nature, scale and length of the crisis are decisive to an understanding of the solutions each school of thought recommends. At this time of serious disturbances there is, perhaps, more than at other times, a continuous interplay between theory and practice. This process makes attitudes less stable, priorities less certain.

This dialectic between radically new circumstances and the dominant political approaches constitutes the core of the work of our study group. First of all, however, we should pinpoint some "landmarks" in the period from the oil crisis until the present day.

A few key indicators should help us to illustrate the economic aspects of the crisis, without going into explanations that must necessarily have a high interpretative content.

§ 2 - Wide disequilibria

The extent of the recession can be illustrated by looking at what happened to the four key objectives of economic policy:

- Economic activity as measured by the rate of GDP growth;
- Inflation as measured through the growth of consumers' prices;
- The imbalances in current account and trade surpluses and deficits;
- Unemployment rates as percentages of the labour force.

The juxtaposition of these factors demonstrates both the size of the problems and a tendency for the disturbance to concentrate in certain countries and certain areas.

Even though we came safely through 1974 and 1975, and returned to positive rates of growth, high in 1976, but much lower since, no-one believes that the economies of the western world have now emerged from the crisis. After a vigorous spurt at the end of 1975 and in early 1976, the traditional growth propellants failed, for various reasons, to function in the usual manner. Among the inhibiting factors, we should mention international disorder among the currencies, growing uncertainty among managements and consumers, the rigour of monetary and budgetary measures implemented in certain countries' stabilization policies, protectionist measures, intractable rates of growth of money incomes, and the size of the countries' fuel bills. Despite a slowdown in the rate at which the share of wage costs in overall costs has been growing, a definite check to the rate of increase of public expenditure and an unmistakable improvement in profit rates in some countries, private investment has remained extremely hesitant.

In short, firm obstacles at national and international level stand in the way of a steady resumption of growth, of a reduction in unemployment and of the restoration of the key economic equilibria. Thus, discussion of the crisis continues and increasingly monopolizes public debate.

In the international sector, the extremely uneven distribution of current deficits corresponding to the OPEC surpluses is of particular importance. The United States, Japan and the Community as a whole largely offset their oil deficits between 1974 and 1976 through trade surpluses with other regions of the world. The same pattern of uneven distribution can be seen within the Community itself, where Germany and the Benelux countries accumulated trade surpluses between 1974 and 1976 that were more than twice the size of their net oil bill. Although the current surplus of the OPEC countries has contracted considerably since 1978, the world pattern of surpluses and deficits has not come back into equilibrium. The United States deficit has increased, as have those of the developing countries. These imbalances will hardly be corrected over the next few years, and the problem of debt on the part of the

developing countries and the countries of the Communist bloc is still giving grave cause for concern. The machinery permitting the required financing is not yet assured, and if the burden of debt became unbearable, defensive reactions are more than likely, perhaps even recourse to protectionist measures on a broad front.

§ 3 - Underemployment, a lasting phenomenon

The rate of unemployment was about 2.8% of the labour force on average in the OECD area over the period 1962-1973; it is now 5.5% of the labour force - 17 million people - and it will probably increase.

These world-wide developments are shown to be even more tragic if we look behind the averages at the geographical distribution and distribution by categories, and remember that in some countries unemployment statistics cover only part of the phenomenon of under-employment.

In the European Community, 1.5% of the labour force was unemployed, on average, from 1961 to 1965; 5.5% of the labour force is now unemployed, with national rates of between 3.8% and 9.0%. Even if there is a return to higher levels of activity during the period of 1980-1985, these figures will probably continue to increase in most of the Member States.

UNEMPLOYMENT AS % OF CIVIL WORKING POPULATION

GROWTH RATE OF REAL GDP (1970 PRICES)

| | 1963/1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 ^{a)} | 1963/1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 ^{a)} |
|----------------|-----------|-------|-------|------|------|------|--------------------|-----------|------|------|------|------|------|--------------------|
| DENMARK | 4.8 | 0.6 | - 1.2 | 6.3 | 1.8 | 0.9 | 1.8 | 1.2 | 2.0 | 4.6 | 4.7 | 5.8 | 6.6 | 5.8 |
| DEUTSCHLAND | 4.6 | 0.5 | - 2.0 | 5.0 | 2.8 | 3.2 | 4.3 | 0.9 | 2.2 | 4.2 | 4.1 | 4.0 | 3.9 | 3.4 |
| FRANCE | 5.5 | 3.2 | 0.3 | 4.6 | 3.1 | 3.3 | 2.9 | 1.3 | 2.3 | 3.9 | 4.3 | 4.9 | 5.0 | 5.9 |
| IRELAND | 4.3 | 2.1 | 1.2 | 2.9 | 5.5 | 6.1 | 2.8 | 5.7 | 6.3 | 8.7 | 9.8 | 9.7 | 8.7 | 7.9 |
| ITALIA | 4.7 | 4.2 | 4.7 | 5.9 | 2.0 | 2.6 | 4.3 | 5.6 | 4.9 | 5.3 | 5.6 | 6.4 | 7.1 | 7.7 |
| NETHERLAND | 5.6 | 4.2 | - 1.1 | 4.7 | 2.2 | 2.4 | 2.6 | 1.4 | 2.9 | 4.1 | 4.4 | 4.3 | 4.2 | 4.3 |
| BELGIQUE | 5.1 | 4.7 | - 2.2 | 5.6 | 1.2 | 2.5 | 3.0 | 2.5 | 3.2 | 5.3 | 6.8 | 7.8 | 8.3 | 8.7 |
| LUXEMBOURG | 4.7 | 4.2 | - 9.5 | 2.2 | 1.4 | 3.2 | 2.5 | 0.1 | 0.0 | 0.2 | 0.3 | 0.6 | 0.8 | 0.8 |
| UNITED KINGDOM | 3.2 | - 1.8 | - 1.7 | 3.6 | 1.2 | 3.7 | 0.3 | 2.5 | 2.4 | 3.8 | 5.3 | 5.7 | 5.7 | 5.6 |
| EUR - 9 | 4.6 | 1.6 | - 0.3 | 4.8 | 2.3 | 3.1 | 3.1 | 2.4 | 2.9 | 4.4 | 4.9 | 5.3 | 5.5 | 5.6 |

a) 1978 prices

Source : SOEC

^{a)} Economic budgets of the Commission

CURRENT BALANCE IN MILLIONS OF ECU

GROWTH RATE OF GDP - Price

| | 1963/1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 * | 1963/1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 * |
|----------------|-----------|------|------|------|------|------|--------|-----------|--------|--------|--------|--------|--------|--------|
| DENMARK | 7.2 | 10.4 | 12.5 | 8.6 | 9.0 | 9.7 | 8.0 | - 278 | - 766 | - 414 | - 1711 | - 1440 | - 1181 | - 1800 |
| DEUTSCHLAND | 4.3 | 6.9 | 6.7 | 3.2 | 3.8 | 3.9 | 3.9 | 1198 | 8226 | 3213 | 3442 | 3241 | 7400 | - 900 |
| FRANCE | 4.9 | 11.1 | 13.1 | 10.0 | 8.7 | 9.9 | 9.6 | - 143 | - 5014 | - 54 | - 5453 | - 2917 | 2900 | 300 |
| IRELAND | 8.3 | 7.0 | 23.6 | 19.2 | 13.5 | 11.3 | 12.1 | 369 | - 573 | - 23 | - 269 | - 250 | - 237 | - 900 |
| ITALIA | 5.3 | 18.3 | 17.7 | 18.0 | 18.9 | 13.3 | 14.3 | 1237 | - 6719 | - 466 | - 2519 | 2001 | 4960 | 3500 |
| NETHERLAND | 6.5 | 8.6 | 11.4 | 8.4 | 7.3 | 5.3 | 4.3 | 223 | 1731 | 1343 | 2387 | 258 | - 700 | - 300 |
| BELGIQUE | 4.6 | 12.1 | 12.5 | 7.5 | 6.9 | 4.6 | 4.2 |) | 772 | 546 | - 284 | - 328 | - 700 | - 900 |
| LUXEMBOURG | 5.0 | 16.2 | 2.1 | 7.3 | 6.0 | 3.2 | 5.4 |) | | | | | | |
| UNITED KINGDOM | 5.7 | 15.3 | 27.4 | 15.0 | 13.3 | 10.2 | 13.8 | 162 | - 7191 | - 3312 | - 1829 | 621 | 1600 | - 2300 |
| EUR - 9 | 5.1 | 11.7 | 15.0 | 10.6 | 10.3 | 7.8 | 8.3 | 3142 | - 5635 | 834 | - 6236 | 1186 | 14000 | - 3300 |

Source : SOEC
* Economic budgets of the Commission

National medium-term projections which, before the recent oil price rises, predicted a return to lower rates of unemployment by 1983 turned out to be too optimistic when published (1). If the average GDP growth over the period is lower than was projected, an ever-growing proportion of the labour force will be unemployed. With an average annual growth rate of 3.5% in Community GDP, about eight million Community job-seekers would still be out of work in 1983.

With these prospects in view there can be no mistaking the gravity of the situation or the heightened urgency of the economic and social policy questions.

- How are the phenomena of concentration of economic power and internationalization of the economy going to develop?
- How will the existence of a large amount of unemployment affect the demands, both quantitative and qualitative, of the labour force? And, more fundamentally, the propensity to work?
- How far will trade union organizations be weakened? Will they be capable of expressing demands which reflect properly the particular interests of sectors, regions, etc.?
- What will be the social (and political) repercussions of the new, fundamental inequality between workers and unemployed?
- How will the struggle for redistribution of incomes develop in the context of slower growth?
- Will all these uncertainties tend to inhibit the qualitative aspirations being voiced more insistently and more frequently, or will the crisis itself be used to catalyse a change in the pattern of growth?

In all these matters, the crisis has tended both to accentuate the conflicts between various schools of thought and to strengthen their urge to seek pragmatic solutions. This is one - and not the least interesting - of the paradoxes to which the crisis has led.

(1) These projections predicted a decline in unemployment to 4.5% of the labour force of the Community in 1983, or more than five million people.

TITLE II

THE POLITICAL, ECONOMIC AND SOCIAL ISSUES

A

THE POLITICAL MOVEMENTS FACED WITH CHANGING IDEAS

AND CHANGES IN THE SOCIAL FORCES

The changes of the last few years, both in economic and social structures and in values and behaviour, have challenged the parties' view of politics.

The question is whether, in view of their traditions, their organization and their methods of operation, the political movements have been and will be up to the challenge thrown out by these changes, and whether they will be able to respond with comprehensive programmes and practical action, both in government and in opposition.

The parties are first and foremost derived from a social pattern that has been created by historical developments; this influences their declared purposes, their proposals, and the policies they are prepared to implement or support. Secondly, the emergence of new centres of economic, social and thus political power is a fact, and the parties must take it increasingly into account. Although they continue to direct their declarations towards the population as a whole, they are always influenced by the reactions they expect from these centres of power. In many ways, relations between the parties and public opinion pass through these centres. Thirdly, the proliferation of new social claims, which are sometimes confused or contradictory, leads the parties to make new concessions, to provide a balanced frame of reference, and, in short, to change the traditional idea of what politics should be.

However, situations differ too widely from one country to another and from one extreme to the other of the political spectrum for an exhaustive description of detailed positions on all these matters in the political parties of the Community. The general issues that must be borne in mind by the major movements when programmes are drawn up are summarized below.

The wide variety of national situations and of political and ideological attitudes should not be allowed to mask the fact that economic and social problems are often very similar over the

Community as a whole - as the second part of this report will attempt to show. The similarity is apparent in at least two areas. First, the depth and durability of the crisis has revived lively controversy in economic thought, which had settled down (if we ignore Marxist refutations) into a detailed argument about the variants on Keynesian theory; all the platforms were based on the same economic and social theory, either explicitly or implicitly, however this theory was ideologically presented.

Secondly, in spite of the wide variety of approaches, and the diversity of matters given priority, a few key problems - unemployment, inequality, economic democracy, ways and means to improve economic regulation - were always at the heart of the political and social debate. Political and social conflict and compromise has centred on these problems, in the framework of a process whose end point has become uncertain because of the lasting crisis.

Parties, a reflection of the diversity of society

Among the most important considerations in policy-making, especially in mass parties, is the complex social structure not only of the electorate but also of the rank and file of the party itself. It is for this reason that most party platforms draw on several distinct strands of doctrine, not only because of the theoretical uncertainties which the crisis and its unprecedented features have caused. Similarly, the wide range of criticisms and needs voiced in society, which must find their way into party policy, are already very directly reflected in the heterogeneous body of the party activists. When it comes to a study of new social aspirations, the parties find that their task begins at home within their own membership. Because of their very wide social span, in terms of membership as well as in terms of electoral support, they are in reality coalitions between classes and groups with a very wide range of interests, objectives and ideals.

The party will generally be kept together by an ideology which must usually be kept fairly vague if divergent goals are to be reconciled. In some cases, it will boil down to a statement of a very general character because there is not enough fundamental agreement within the movement to allow policy to be expressed in specific objectives. But the parties' doctrinal bearings, however attenuated, will always have an important function: they are the symbol of the commitment of its members - and of the parts of society supporting them - to thrash out a practical compromise for a programme and for action on the basis of certain shared ideas.

Mutatis mutandis, the factors mentioned above which are important for the parties have had the same effects on the big trade unions, and indeed the employers' organizations, within which the representatives of big companies and small and medium-sized firms often coexist although their interests and their outlook are quite different.

Relations between the parties and the new power centres

These relations often reach back many decades - between the left wing parties and the unions, for example. What is new is that the links have been extended and given a systematic form and that no political party can now neglect the policies of and probable reactions of the big employers' federations and the unions when working out its strategy. Generally, this has led big parties to forge or strengthen a variety of links with the bodies working in the same field; with the main unions in the case of the Social Democrat and Socialist parties; and with certain employers' organizations and with other unions in the case of the moderate parties. As they both complement and compete with each other, relations between the two types of organization are complicated, involving both solidarity and conflict.

The essential objective of each party is to broaden its support in the electorate on the basis of an explicit plan. This plan should not only not conflict with but should also encompass the objectives of the organizations, classes and groups from which

the party draws or hopes to draw its electoral support. Consequently, either through formal negotiations or by endorsing directly certain trade union or - according to case - employers' claims or policy goals, every party endeavours to find room for the wishes and policy goals of its allies in society. Hence, the objective is two-fold: in the immediate future, electoral gain, in the longer term support or at least benevolent abstention when political power is actually being exerted. In addition, the parties, whether left-wing or moderate, being anxious to broaden their political - and in the first instance electoral - bases, cannot confine the establishment of this dialogue to their "natural" socio-economic partners: cross-discussions - between left-wing parties and employers' organizations, and between moderate parties and the unions - will in fact often be held, on a formal or on an indirect basis, and the result of this will be that the final content of the political programmes will be trimmed or adjusted on particular points.

The parties' response to the new demands being made in society

The points made above have been mentioned only in order to emphasize the obligation common to all political movements to find the best compromise between tradition and the demands of the present, and to reconcile the often contradictory interests of their potential supporters at the polls. But it is mainly at the subsequent stage of political practice, in the efforts to achieve power and then wield it effectively, that the scale and nature of the compromises to be accepted must be appreciated. When the policies are being worked out, this requirement is mainly significant in that it reflects the importance of achieving a very broad social consensus for the purposes of the actual exercise of political power. In other words, the parties are understanding more and more clearly that, even if their policies have already been endorsed by the majority of the electorate, putting them into force will still depend on the existence and the maintenance of sufficient social approval, which can be effectively influenced by the unions and - from a given viewpoint - by the employers' organizations (agricultural, industrial and commercial).

This relatively new need for parties to find a consensus confirming and even broadening the initial approval given to their political proposals at the polls has become stronger with the growing criticism of the established political order, the institutions of centralized and uniform representative democracy, and of the channels through which the collective will was expressed and the citizen played his part. As we have seen, such a protest is itself part of a more general assertion of qualitative demands which various "convivial" analyses have tried to express. It is reflected to varying degrees in the different countries in an appreciable loss of interest in normal political action, especially among young people. When it leads to demands for the devolution of central government, for the most direct control possible of the powers devolved, for social self-organization, for an assertion of the "right to be different" and so on, it constitutes a direct challenge to the familiar framework of politics. The new social aspiration underlying criticism of the old order must be taken into account by the big parties, which must assess not only their merits in the light of the party's own doctrines but also their real impact on the electorate, as well as on other groups. But by no means all the parties do this to the same extent, although generally the practice is tending to spread.

Some of them do so only on a limited basis, to the extent that playing up to the latest developments can help them achieve the widest possible social approval, which they need if they are to carry through policies which may well be very different. But for other parties, an effective response to these aspirations is regarded as fundamental, since it is crucial to the novel plans for society which they claim to offer to the public. In other words, it is a condition for the social change desired.

In all cases, and whatever their motivation, the parties must thus assume responsibility in their programmes, although perhaps incompletely or even only superficially, for the social, cultural, and institutional demands reflecting new needs. Disorganized and not always mutually consistent, these demands reflect the diversity

of complex societies, within which new strands of thought are constantly emerging.

These remarks may seem banal, but they are no less topical for that: witness the emergence of small political groups, each carrying the banner for one or another new hope; or consider the risk to democracy of esoteric debate, of tactical battles which are incomprehensible to the people. If it is to prosper, the democratic process must be intelligible and accessible.

This is why, both from this point of view and as regards the mastering of the phenomena of the present time, the theoretical debate in economics and social affairs is of paramount importance.

Political forces and their references in economic theory

Very broadly speaking, the passage from economic theory to the policies recommended or supported by the political forces has long been marked by three main features, which have become clearer since the crisis.

The dominant current of thought since the second world war, Keynesianism, has been seriously shaken by the simultaneous presence of unemployment and inflation, and has split into two separate branches. One of these branches considers that, while the progress achieved thanks to Keynesian techniques must be protected, the economy must be made more flexible and its qualities of automatic adjustment must be given more scope to function.

The other branch believes that the system's new features, particularly the "meso-economy" have made it even less stable than before, and that deliberate intervention in the economy must go further than mere regulation of aggregate demand and actually control productive capacity and other supply factors. This is not to deny the existence or importance of market factors, but rather to lead to the adoption of objectives approved by social consensus through more broadly based consultations.

As a reaction against dominant Keynesianism, now split, the so-called monetary "counter-revolution" has gained increasing influence and importance. Monetarist ideas, in simplified form, have gained wide support among those responsible for economic policy, convinced that inflation is the root cause of all our troubles, and that a main source of disorder lies in the lack of control over the money supply.

Thirdly, the Marxist challenge has remained very strong; its field of application is the world economy, and the various currents into which it is divided are based on ideological rather than economic variants. Although the Marxists do not consider the present crisis to be the last throes of capitalism, they regard it as a symptom of the logic of the system, a further proof of the internal contradictions that will eventually bring about its collapse.

The split in Keynesianism, the triumphant return of classical theory in a monetarist guise and the durable Marxist challenge were the basis for clear rifts in the theoretical references of the social and political forces well before the crisis. However, these rifts are now taking on a new importance in view of the difficulty - some would say the impossibility - of getting our economies to work satisfactorily.

The political forces and the key issues of the period

If the situation is analysed at a fairly general level, of course, the important economic, social and organizational problems our countries will have to face in the next few years are strikingly similar. Practical policies, the weight of necessity, a certain community of interest, the links forged by twenty-five or thirty years of European experience - all this could justify (or at least suggest) effective compromises to be sought and defined beyond ideologies, differing economic attitudes and national sensitivities and interests. The legacy of the past is so complex in all our

countries, because of different economic and social developments, and the far-reaching and durable imbalances born of the crisis, that we cannot say what the outcome of the present situation will be, whether it will lead to more divergence between countries.

There are, indeed, many reasons to fear that the outcome will be confrontation and rupture. The first reason - one the members of the Group consider paramount - is that, in spite of the crisis and the pressing economic problems that accompany it, social aspirations are still important and the purposes and workings of our societies are still being radically questioned.

The lasting crisis, which has produced conflict situations and which seems to justify many of the protests about our production systems, our way of life and our institutions, may well accentuate divergencies that should have responded to need by growing less marked.

In spite of the persistence of the harmful effects of the crisis, the social aspirations that made their appearance in the previous period of high growth have not disappeared; their continued existence in an unsuitable context has given rise to a new and dangerous climate that has upset the balance between the supporters of compromise and the adepts of confrontation.

The complex interplay of the different forces, pressures, conflicts and compromises will gravitate in all our countries around a small number of basic issues, considered essential by all social and political movements. They are:

- the return to full employment;
- the reduction of material and immaterial inequality, or, to put it another way, the growth of genuine solidarity and its practical expression;
- a new distribution of power, particularly economic power;
- the introduction of efficient and fair methods of economic regulation.

Attitudes to all these major questions are clearly defined. It is important to bear this in mind to understand fully the scope and the limits of the solutions suggested in view of present social dynamics and the basic ideologies that underlie the day-to-day declarations of the various movements and organizations.

THE MAIN SCHOOLS OF ECONOMIC THOUGHT AT THE CENTRE OF

THE POLITICAL AND SOCIAL DEBATE

§ 1 - The dominant school of thought - a common Keynesian basis

This is not the proper place for a full account of Keynes' theories and the developments to which they have given rise in economics. It will suffice to point out how, from the Second World War until recent years, the main ideas of Keynes and his successors have had a decisive influence on economic policy decision-making. For Keynes - and this cannot be dissociated from the historical context in which he worked - the main aim of economics is to pinpoint the elements which determine the employment of the factors of production, and in particular the employment of labour. The most pressing contemporary economic policy problem facing Keynes was that of a world in deep recession, the most distressing aspect of which - particularly in his own country - was persistent unemployment.

It was the inability of traditional economic theory to explain this situation (it offered no theory of unemployment, but merely agreed that wage flexibility would safeguard jobs) which led Keynes to challenge traditional thinking concerning equilibrium.

He thus pointed out that the traditional theory offered a valid explanation of equilibrium only where there was full employment of the factors of production and that, by failing to recognize the true nature of money, it did not take account of the part played by time in establishing equilibrium.

The interpretation given by Keynes in his "General Theory" (by which he meant a theory that would be valid at points below full employment as well as for full employment, incorporating the part played by money and time) was that the combination of inadequate consumer demand and deficient investment demand created inadequate aggregate demand. The former is attributed to the impact of the uneven distribution of incomes on saving and the latter stems not only from wrong or pessimistic expectations as regards future consumption but also from unduly high nominal interest rates. This situation could not be remedied without an incomes redistribution policy and a cheap money policy backed by public investment.

The priority which Keynes gives to the pursuit of full employment thus leads him to establish a theoretical basis for government intervention, which he regards as a lesser evil and as a fundamental fact of modern society.

His rejection of deflationary built-in stabilizers is also found in his plan, put forward at Bretton Woods, for organizing the international payments system. The main aim of his proposed International Clearing Union was to maintain full employment in the various countries through the administration of a volume of international money adapted to world trade requirements and able to expand or contract in line with changes in actual world demand.

Keynes's work prompted a major reassessment of economic thinking and there have been many extensions (including dynamic versions in growth models), revisions and refutations. It also had a considerable influence on economic policy in the industrialized countries, although the immense popularity of Keynes's ideas also entailed exaggerations and distortions which Keynes himself would certainly have rejected. Opponents - who, for this reason, should be more rigorous and more cautious in their criticism - all acknowledge that the regularization of cycles was one of the decisive factors leading to the establishment of buoyant and prosperous economies in the post-war period. But they also point out that the countries which were the first to assimilate - and to assimilate most fully - the Keynesian message were not always those which achieved the greatest economic success. This fact, apparently paradoxical, lends support to the argument - which is surely at least in part well founded - that other factors were involved and that these factors must also be taken into account in explaining twenty-five years of economic prosperity.

It is clear that the general application of the economic policy recommendations arising from Keynes's ideas took place in a period during which the achievement of fast growth and full employment was facilitated by other factors: rapid technical progress, application of this same progress to popular consumer goods and rapid expansion of international trade.

Subsequently, increasingly widespread and rapid inflation, the disruption of the international monetary system and the failure of "recovery" policies in economies with outdated structures gradually dislodged Keynes from his position of unquestioned authority, more than any manifest errors in his actual thinking. This was the context in which the monetarist ideas advocated since the 1950's by Milton Friedman and his disciples exerted increasing influence with their two main themes:

- inflation is entirely and exclusively monetary;
- inflation cannot be countered without general exchange rate flexibility.

§ 2 - The challenge based on the Marxist analysis

The crisis is inherent in the system

The school (or rather schools) of thought offering a Marxist or Marxist-oriented analysis give a complex content to the concept of "crisis". Although present disequilibria, they argue, have all the usual features of the cyclical crises, present recession, which is deeper than any since 1929, is, in fact, only a symptom of a deeper and more general crisis of the capitalist system. Its component factors were building up throughout the preceding period, both at national level - where the crisis is affecting each industrialized society differently, depending on the socio-economic history of the country - and at international level, where the increasingly rapid internationalization of capital (which itself involves various contradictions) is considered the essential phenomenon. This is a general crisis, concerning the economy, society and culture; however, it will not necessarily lead to the collapse of the system. It has simply occurred at an historic

time when the accumulation of contradictions has reached a stage requiring reorganization, restructuring and the application of a new method of regulation. The transition stage may lead to a general reorganization, with the system achieving a new more efficient level, adjusted to the requirements of the productive forces that are now available in the world, or with the crisis resolving itself in a radical modification of the balance of power

among the social forces, leading to another type of development. It all depends on how far those involved realize what is at stake, and on the dynamics of social and political strife, both national and international.

Without going into a detailed description of the theoretical foundations of the Marxist approach, we should simply recall one of the basic contradictions it sees in the capitalist system.

The exploitation of the labour force is the only source of surplus value, and thus of profit; however, economic expansion leads, in a context of acute competition, to excessive accumulation of capital, i.e. an increase in capital intensiveness, which is the root cause of a downward trend in the rate of profit, and the history of capitalism is mainly the history of the efforts to stem this trend.

Since the last war, the response to this basic problem was mainly the successful attempt to achieve a high rate of growth through active, Keynesian-type regulation, and through the harnessing of new productive forces (technology, energy sources, etc.) and new dynamic industries. In a context of broader-based free trade the competitive field changed as firms were quicker to apply plans and strategies intended to limit the risk of excess accumulation; this was made possible by rapid concentration of industrial and financial capital, and the resulting growth of transnational firms. The same means were used in all countries to prevent profits falling, although at different times, different rates and with different degree of effectiveness. They included: exploiting "peripheral" labour within the framework of unjust terms of trade, increased exploitation of domestic and immigrant labour (action to change the number of hours actually worked, more shift-work, attempts to weaken trade unions and reduce wages, etc.). During the same period, public intervention in many forms has proliferated. The ultimate effect of these interventions being to transfer a larger proportion of the production costs of private enterprises to the community, thus curbing the downward trend in

the rate of profit, the growing importance of the State's role as "manager" of the long-term collective interests of capitalists led to this stage in the system's development being described as collusion between private capital and the State.

The crisis is bound up with the fact that capitalism is moving out of the national framework into a world framework

These strategies and policies, designed to provide a response to the main problem of the declining profitability of capital, have been hampered by constraints and inconsistencies that explain the depth of the present crisis. Firstly, the process whereby capitalism has graduated to a world setting, with the type of international relations and international division of labour this has entailed, has to some extent been endangered at the periphery by the demands of the raw-material-producing countries and by the application, in some cases, of inward-looking development policies. Furthermore, in the process of internationalization of capital, American companies, supported by the political, military, monetary and financial might of the United States, have ridden rough-shod over their European and Japanese rivals. International competition between giant companies, supported, sometimes directly, sometimes indirectly, by their State of origin, has further boosted the excessive accumulation of capital, with all its accompanying effects on the rate of profit. The efforts of the trade unions in many industrialized countries at the end of the Sixties and the beginning of the seventies were vigorous enough to ensure that the share of wages increased and that that of profits declined. This confirmed the falling trend of profits. In this situation, the system is moving towards more rapid internationalization of capital, the organization of a new pattern of unfair or unequal trade and the transfer of industries away from the centre, and the reinforcement of private monetary and financial networks.

At national level, the role of the State has become even more important. Wedded to the bourgeoisie, it is the tool of vested interests, and its different functions may thus tend to conflict with one another. It must aid the internationalization of capital

by supporting the expansion and redeployment strategy of national firms, but it must also achieve political and social acceptability for the repercussions of sectoral and regional reorganization linked to these strategies. The attempt to find some social consensus explains why Keynesian demand management techniques are still used, since they are techniques which make it possible to reconcile the conflicting requirements of capital (expansion of production and projects) and of labour (full employment, rising incomes) in a condition of unstable equilibrium. But the limits now encountered by these techniques have usually led the state to change its policy, leaving even less doubt as to its class allegiance: the restrictive policies implemented in the industrialized countries demonstrate clearly the determination of capitalism to redistribute resources between wages and profits at the expense of the former. In the same way, the State has come to play a growing role in the rationalization and the concentration of firms and industries, intended to restore the profitability of capital; beyond its measures to aid investment and to "socialize" production costs, we may be moving towards genuine programming of structural renewal under the authority of private groups using state services and resources.

Various general approaches - albeit all Marxist inspired - have been formulated on the basis of this common analytical denominator. We may mention in passing two lines of argument that are not generally adopted without adjustment by the main Marxist forces - political and trade union - in the industrialized countries. The first asserts that transnational capitalism has now become autonomous in relation to the nation states and considers the quest for a national, or even regional, breach with capitalism to be pointless; it advocates a world-wide confrontation, based mainly on the international organization of the struggles being waged by the trade unions. The second asserts that the emphasis of the exploitation of labour has moved from the industrialized centre to outlying positions, and it considers the collapse of the system most probable in the outlying countries, where the main effort should be concentrated.

The main currents of Marxist thought in the industrialized countries, particularly in Europe, discuss these two theories, reject them in many cases and, above all, refuse to recognize their strategic implications. In connection with the first, while conceding that capitalism has moved to a world setting, they do not agree that transnational capitalism has already achieved autonomy: transnational firms always look for support to their state of origin in the web of collusion and confrontation they weave over the world economy. Capitalism must be challenged and overthrown at national level. Concerning the second theory, they say that the results obtained by the outlying countries in their efforts to redress unequal trade conditions weaken the system as a whole and thus increase the objective possibility of overthrowing capitalism at the centre.

The need for a global response

The policy recommended for overcoming the crisis is a global policy entailing, for its implementation, a distinct change in power relationships in the economy and in society. This change must eventually lead to an extension or a revival of the public sector and to the introduction of democratic planning. The logic and the constraints of private accumulation of capital can be avoided if the strategic centres of economic power are brought under the control of society as a whole and if regulation by the plan replaces regulation by the market. This will also provide the context for a new type of growth, more concerned with fulfilling real social needs, reducing dependence on the world market and approaching the international division of labour in a new way.

Changed power relationships and new instruments of economic and social regulation

The type of planning envisaged will not be modelled on the centralized, bureaucratic and authoritarian model widely applied to the economies of Eastern Europe. Planning will be built up from proposals put forward by trade unions, large firms, industrial organizations, local authorities, etc.

Parliament will accomplish the political act of adopting the plan following a wide-ranging democratic debate throughout the country. The execution of the plan will not depend on bureaucratic injunctions but, with the help of a broader-based public sector, will rely on dialogue and contracts with private operators and will use selective credit so as to give priority to the main structural targets set. Public finance will play an important role: after the management of public finance has been reformed, made more flexible and radically decentralized, it should be possible to control what is produced and where in such a way as to meet the targets of the plan, thereby consolidating progressively and pragmatically the foundations of a new production and consumption model.

Nationalized firms will not be obliged to adopt a bureaucratic form of management. Through the composition and the method of appointing boards of directors, the autonomy of management and the financial responsibility which they would be allowed, and the fact that they will still, as a rule, be part of the market economy, it should be easy enough to avoid any absorption into the State apparatus.

The external constraint

The introduction of these reforms will be hampered by the problems of pre-existing mutual dependence on the outside world, how to reduce it and how long this will take. The foreign policy usually recommended involves some control of the location of operations of multinational firms, attempts to reduce the rate of increase of external trade in the national economy, the introduction of exchange controls and - to the extent that this is compatible with the international commitments of the country concerned - selective import control.

However, there is no single, homogeneous approach. The differences concern the weight to be given to several factors such as the practical relationship between the plan and the markets, the relative size of the public sector, the opening-up of domestic markets, the dovetailing and diversity of trade flows - principally

at European level, the cumbersome nature of any structural re-organization of these flows, and the problems involved - both from the sectoral and the geographical viewpoint, the actual economic situation and its constraints at the outset. These latter factors are important enough to lead some Marxist thinkers to consider that the national framework is no longer suitable where small and medium-sized economies are concerned, for implementing this type of policy and that the right level at which a proper setting can be found and the targets achieved is the "regional" level. Hence the interest taken by supporters of this approach in the future of the EEC.

§ 3 - The return of the classical school: monetarism

The advocates of this approach are reluctant to acknowledge a present crisis since, as a general rule, they take the view that, despite being the most severe in the post-war period, the present recession "bottomed out" in 1975 and that the process of a return to more balanced growth is already under way. Although serious, they argue, the recession is essentially cyclical in nature and does not necessitate a revision of the postulates of classical economic analysis.

Involuntary unemployment - they believe - has not become a structural and durable feature of our economies, but is simply a temporary phenomenon which can be explained by the fact that the monetary authorities in the different countries have waited too long before fighting inflation and have continued to print money to excess.

The durable nature of the present phase of inflation has led those involved in the economic process, particularly wage and salary earners, to assume that it will continue, and the squeeze on enterprises caught between official decisions to restrict the money supply and excessive wage claims has therefore entailed inevitable redundancies.

The supporters of this approach feel that the oil crisis has nothing to do with the acceleration of inflation and the lengthy

interruption in growth. Temporary difficulties were to be expected owing to the suddenness of the decision to raise the price of oil, but the readjustment needed should not have been an obstacle, but rather a stimulus, to world growth through the improved allocation of resources which this would bring about.

Strictly speaking, it is contended, there has been no crisis of the international monetary system either. Since fixed exchange rates were abandoned, the system has ceased to act as an international transmission system for inflation. Instead, it has played the role of shock absorber well and has generally ensured that petrodollars were satisfactorily recycled.

Although problems, in particular unemployment and inflation, undoubtedly exist, it is argued that, providing there is a determination to restore the free interplay of market forces and to apply a strict monetary policy, the economy should itself revert to the natural equilibrium for which it has been temporarily forced by excessive "interventionism".

The fight against involuntary unemployment

The word unemployment covers a variety of situations. Steps must be taken to counter involuntary unemployment rather than voluntary unemployment. The former does not arise - as the Keynesians claim - where there is inadequate aggregate demand, but where money wages and salaries increase more rapidly than the sum of the rate of inflation and the rate of productivity growth. Thus, there is not - except in the very short term - an inverse relationship between the rate of inflation and the rate of unemployment. In short, it is impossible to achieve, in the long term, through inflation a rate of unemployment lower than the "natural" (or "voluntary") rate.

As cyclical unemployment depends on the relative growth of money wages and salaries on the one hand and labour productivity on the other, the same rate of unemployment may co-exist with extremely different rates of growth.

What is required is rationalization of the economies, with the pattern of remuneration of the factors of production being made to correspond to that of their marginal productivity, thus breaking the vicious circle of inflationary expectations currently governing the attitudes of those involved in the economic process.

Inflation as a monetary phenomenon

Inflation is always and under all circumstances of a monetary phenomenon and therefore cannot be fought without a restrictive monetary policy.

This does not mean that money is the only factor in inflation, but that the inflationary pressures of widely differing origins which emerge in an economy can develop only if the monetary authorities "ratify" these factors causing prices to rise through a corresponding increase in the money supply.

It is therefore governments which are responsible for inflation. Initially subjected to continual pressures to spend more, the solution they have found is to create more money. The "inflation tax" levied by the United States Government has been put at some \$25 000 million for 1975 alone.

Secondly, the undertaking given by governments to safeguard full employment means that any minor and temporary slowdown in economic activity triggers off an increase in public expenditure and in money creation.

Finally, central banks almost everywhere have sought to control interest rates rather than the money supply. In so doing, they have created inflation and so caused interest rates to rise much higher than would have been the case if they had pursued quantity-theory-type monetary policies.

In addition to the mistaken policies adopted by governments, expectations play a fundamental role in the inflationary process.

Furthermore, under a fixed exchange rate system, the creation of money in each country being influenced by money creation in the rest of the world, inflation is very much an infectious disease.

These deep-seated causes of inflation determine the remedies which must be applied, i.e. a restrictive monetary policy designed to modify expectations and - at international level - the adoption of a system of floating exchange rates.

Need for strict, "automated" management of monetary and budgetary affairs

Insofar as the money illusion has gradually lost its hold and inflation can no longer be regarded as one of the acceptable corollaries of moves to achieve and maintain full employment, any overall policy of demand management with an expansionist bias should be shunned as much as possible. In any case, a number of other arguments could be advanced in support of this assertion: excessive time-lags before the effects of economic and monetary policy stimuli work through; uncertainty as to the scale of their direct and secondary repercussions; danger of irrational measures justified solely on the grounds of the demands voiced by pressure groups. The prime responsibility of the monetary and the public authorities respectively must be to adopt and publish targets for money supply growth in the medium term and to fix rates of growth in public spending, again in the medium term. And so, assuming such rigorous policies, the return to full employment is going to depend on how the two sides of industry - above all, the unions - interpret the different wage behaviour that a return to full employment necessitates. It is essential that the unions understand that, by their influence on profits, competitiveness, and the labour-capital ratio, money wage increases now determine both the rate of growth in real wages and the number of competitive jobs.

Priority to be accorded to the fight against inflation and to the free interplay of the market forces

In all respects, those favouring this analysis have complete confidence in the overall mechanisms of the market economy. They

emphasize the need to restrict government intervention in respect of the functioning of the economy. The aim is once again to give the freest rein possible to spontaneous economic forces and to accept the outcome at all levels: establishment and closures of firms, sectoral developments, relations between capital and labour, factor mobility.

In this way, a strict counter-inflation policy is bound to make it possible to rationalize and adapt production structures while, at the same time, restoring a satisfactory degree of fluidity to the labour market. In other words, the aim should be to modify, by way of an accepted level of unemployment, the relative costs of labour and capital and hence to restore the profit margins without which a fresh surge in productive investment is impossible. In turn, this expansion in investment should pave the way for a satisfactory level of employment. The return to full employment is not regarded here as a prime objective but as the outcome of the freest possible dovetailing of the demands for capital and labour. The likelihood of a rapid return to high employment depends on two sets of circumstances, these being the repercussions of unemployment, first, on workers' bargaining strength and, second, on labour costs. In this connection, a number of "pure monetarists" advocate restrictions on unemployment benefits so as to encourage persons out of work to become more mobile, both between industries and geographically, to accept employment in what may be a less skilled job, and to devote greater effort to vocational retraining, etc. The second set of circumstances is complementary, concerning the unions' ability to accept that restraint shown in current wage claims constitutes a guarantee of an increase in employment in the long term.

In addition to rectifying the unduly lax systems of unemployment benefits, intervention by the public authorities might well facilitate attainment of these targets. Wage differentials - as between different levels of skills, different trades, and different regions - have been artificially narrowed down by trade union pressure, and, the monetarists argue, these must be readjusted to

make them consistent with the structure and relative productivity of jobs available.

The law of the market as the international economic and monetary order

The fundamental confidence that this school of thought places in the overall mechanisms of the market economy is not confined to domestic economies but includes international economic activity as well. As a result, it minimises the role played by international factors as causes of the difficulties with which our economies now have to contend. Accordingly, this school of thought accords priority to spontaneous moves to adjust to the process whereby markets and production structures are becoming increasingly international in character. In the monetary sphere, any return to a system of fixed exchange rates is regarded as undesirable, were it only because a stable exchange rate structure cannot be devised a priori. The system of floating rates, with occasional market intervention to smooth out hiccups, is the system most closely geared to the requirements of the world economy since it reflects overall changes in relative prices and costs and also the respective situations on the different monetary and financial markets.

International capital markets should be allowed to operate without restriction. The changes as a result of which private transnational financial institutions are stepping up their role as providers of liquidity should be accepted.

With regard to the merchandise markets, this school of thought urges sustained efforts aimed at removing tariff and non-tariff obstacles to trade in manufactures, primarily imports from developing countries. Expansion in international investments, mainly by transnational firms, is justified if undertaken in developing countries, irrespective of whether the investment in question is made in industry or in sectors producing raw materials. The latter type of investment is to be regarded as the most effective way of countering the dangers of a breakdown in supply or

of upsurges in prices linked to sharp increases in demand. The establishment of buffer stocks should, however, be contemplated only in exceptional cases.

§ 4 - A more classical variation on Keynes, or "Keynes minus"

The followers of this approach take the general view that the crisis we are experiencing is due to the combined effects of a set of errors in national demand management policies responding to the escalation in oil prices. They also take the view that, at least as far as supply factors are concerned, the potential for sustained and lasting growth still exists.

Their ideas essentially boil down to improving the use of instruments for demand management, within the framework of a more rigorous monetary policy, restoring an economic climate encouraging investment, improving the working of markets by achieving greater flexibility, and, giving full play to market forces freed in this way, but within a system regulating itself by built-up stabilizing mechanisms.

A mainly cyclical crisis aggravated by various structural obstacles

The explanatory factors include, first of all, the inflationary methods used for financing the war in Vietnam and a number of social measures in the United States and also the wage explosions and "labour market upheavals" in Europe in the early 1970's. After 1973, which saw the abandonment - regarded in some quarters as coming too late in any case - of the system of fixed exchange rates, an unduly expansionist monetary policy was pursued in the deficit countries. Together with the upsurge in inflation which, in 1972-73, was due primarily to developments on commodity markets, both national and international, this policy helped greatly to boost demand and to instil in those active in economic life inflationary expectations that proved particularly stubborn. The workers were now no longer misled by the money illusion, and the limitations, in terms of stimulation of growth and employment,

inherent in what had become the usual demand management policies were cruelly exposed. Growing pessimism has been discernible since 1972-73: it stems inter alia from a feeling that profits are being squeezed excessively and from the accompanying deterioration in the propensity to invest. Under the circumstances, the oil crisis, in addition to its direct inflationary repercussions, has reduced the share of productivity gains available for distribution; the refusal by workers to accept their proper share of the oil "tax" has undermined profits further, thereby further inhibiting investment.

As regards structural obstacles, some are peculiar to each national situation, for example a protracted undervaluation of the currency which, when it comes to an end, forces firms to make unduly abrupt and painful adjustments. The others have become generally apparent in all the industrialized economies and are reflected in an overall decline in their capacity to absorb change and to adapt. The propensity to invest had been flagging in some countries even before the crisis, as wages steadily encroached on profits and - a separate development - as innovation with regard to products and technique lost momentum. The period before the crisis also saw the emergence of a structural unemployment problem, aggravated by the breakthrough of low-wage countries on to the international market. These factors helped to deepen the recession.

They also explain why demand reflation by itself is proving less and less adequate as a solution, especially if it lacks the backing of close international coordination of economic policies.

At domestic level: controlled demand management within a disciplined monetary and budgetary framework

The supporters of this analysis thus tend to part company with Keynes as regards short-term demand management techniques and to advocate on this point a policy nearer to that of the monetarists. Their approach can be summarized in terms of a relatively small number of guiding principles.

Firstly, although the return to full employment is a priority, it would be wrong to mortgage the future in order to achieve it. Thus, the creation of jobs in the tertiary sector will be justified only insofar as they correspond to definite, effective demand. If they were artificially created in the public sector, when public finance already consumes an excessive proportion of resources to the detriment of the private sector - they would - by their inflationary effects - in fact generate greater unemployment in the long run. What matters, therefore, is that the jobs to be promoted are in industries with a future and which are competitive in a world market in the throes of change.

Secondly, with this in mind, a new impetus must be given to productive investment: this assumes the restoration of profit margins so that funds can be ploughed back, and acceptance of the altered wages/profits ratio, with wages yielding some ground to profits. This alteration has been induced by the recession and by the implementation of restrictive policies. It would, however, be a good thing if this effort were maintained, and even intensified for certain countries. First of all, very great caution should continue to inform efforts to influence demand: in this connection, this school of thought often lends its support to the idea of fixing medium-term targets for the growth in money supply and for public finance. Next, greater attention must be paid to the problems of supply: although until the crisis no appreciable bottleneck had operated on that side, the same is no longer true today when supply sometimes seems insufficient. It would also be a good thing if, in addition to the release of sufficient resources for investment, businessmen were given enough encouragement to take risks. Government intervention is advocated here at several levels, but solely to smooth through the adjustments induced by the market. The first task must be to give guidance to managements and others involved in the economic process - by analytical studies and forecasts - as to the broad trends to which the adaptation of structures will have to conform.

The next task of the Government must be to reduce various structural obstacles. This approach regards as obstacles those

factors which stand in the way of the adaptation of firms and sectors to the indications of the market or which may generate market disequilibria. Taking responsibility for certain long-term aspects of growth, intervention measures of support and guidance - aids to technological development, for regional development, to improve the environment, etc. - will in this respect strengthen, supplement or correct market-induced change.

Furthermore, a more satisfactory functioning of the markets is indispensable - hence the emphasis on an active competition policy. Lastly, efforts must be made to match the supply and demand of jobs more closely to each other: this will be attempted by specific training schemes, measures to improve the status of manual work, measures to encourage mobility from industry to industry and area to area, the reorganizing of unemployment benefits and aids to redevelopment.

The purpose of all these intervention measures is to re-establish a climate and conditions which favour a revival of investment. But the essential element in this revival can only be investors' new-found confidence, which, alone, will produce the new investment in extra capacity needed to reduce structural unemployment. A systematic policy of State aid to innovation is bound to provide at least some of the encouragement needed. However, the required confidence will still be lacking unless investors can feel reasonably assured as to the development of demand and of the markets.

In this context, the reduction of inequalities and the democratization of economic power may - quite apart from their intrinsic objectives - help to restore a certain consensus as to the general conditions needed for the economy to function properly. But these are not processes that can be taken to indefinite lengths. Present economic conditions and the experience gained in a number of countries which have made more rapid and far-reaching progress than others in reducing inequalities suggest that steps taken in these areas must be pursued with great caution so as not to create new rigidities.

At international level: improved coordination of demand management policies and avoidance of excessive fluctuations in exchange rates

Whether or not synchronized business cycles are a lasting phenomenon, improved assessments of the effects of economic policy measures would make a major contribution to helping the world economy back onto the path of full employment and price stability.

Such coordination should involve some share-out of tasks between western countries. This would be based on the situation of each country measured in terms of criteria such as the inflation rate, the current account balance, the public finance situation, the degree of capacity utilization and the unemployment rate.

Economic coordination of this type obviously poses the problem of exchange-rate relationships. In this context, economic policy makers who, for domestic purposes, adhere to a theory which, while retaining the Keynesian contribution, aims to restore greater flexibility to the economy, do not hold a very clearly defined position. Though the system of floating exchange rates is far from meeting with their whole-hearted approval, hardly any of them are in favour of a return to fixed exchange rates, as operated under the Bretton Woods agreements.

While a fixed official exchange rate acts as a reference point in commercial and financial relations, the inertia of such a system combined with the ample degree of mobility of capital is an open invitation to speculate on parity adjustments. Perhaps some machinery for intervention could be set up with the aim of correcting excessive fluctuations. This presupposes that a group of countries could agree on a sufficient degree of parallelism in their economic policies, and on authorized margins of fluctuations, and that they could make a sufficient volume of funds available.

It would at any rate be a two-fold error to try to prevent exchange rate movements induced by changes in the relative costs and prices and to ignore the fact that the main factor influencing exchange rates is not government intervention but national macro-economic policies.

§ 5 - A more structural variation on Keynes, or "Keynes plus" (1)

Unlike the school of thought which has just been examined, this one gives pride of place to structural factors in explaining the crisis. While not disputing that "accidents" or additional errors of economic policy have played a part in causing and aggravating the crisis, this school bases itself primarily on the fundamental transformations of the economy which occurred during the preceding period.

The gathering momentum of the concentration process, the rise of the "meso-economic" sector and of the network of transnational firms, the simultaneous emergence of employers' and trade union "power blocks" are so many irreversible changes which have had the result of limiting the effectiveness of the old instruments of economic management. In addition to the traditional causes of inflation this school also points to the strategy of "meso-economic" firms, usually transnational firms, which, by a variety of practices - restricting price competition, using the technique of "umbrella" pricing, advance integration of increases into their own price structures - play a large part in boosting and maintaining inflation. The growing importance of the same firms in the tertiary sector, mainly in banking, and the vital role which they will now play as operators on the international money and stock markets and as the creators or providers of liquidity, has further extended the field in which they can be the source of a variety of imbalances, since their actions are not effectively controlled by weakened public authorities and their policies are dictated purely by self-interest.

To ignore this fundamental problem, as the OECD countries have generally done, could only, in the view of the supporters of this analysis, lead to misconceived stabilization policies, and then to ineffective growth policies and policies for restoring full employment.

(1) The term "Keynes +" comes from a report published in June 1979 by the European Trade Union Institute (ETUI) entitled "Keynes +: A participatory economy".

The drawbacks of rigid monetary objectives

These traditional stabilization policies presuppose implicitly the fulfilment of a combination of conditions which are in fact not met at all: price competition - but this has been sharply limited and distorted by the rise of the meso-economic sector; a fairly high and fairly general elasticity of demand which we know to be far from the case. In such a situation, a blanket restrictive policy and especially rigid monetary and budgetary targets are bound to miss their objective, because the consequence of the way the industries vary (1) will usually be to penalize the industries, firms and workers in the weakest area, allowing those more directly responsible for disequilibria to escape the effects of restrictive policies. Those who subscribe to this school of thought see the proof that such an approach is misconceived in the fact that inflation has often gained momentum - or remains high even today - in a situation of depressed demand which is not strong enough even to ensure the full use of existing capacities. Consequently they criticize stabilization policies which, under the pretext of reducing inflation and without taking the real powers to achieve this, would be mainly concerned with curbing wages and restoring flexibility to the labour market.

Although they are of course also in favour of strong investment incentives, they disagree with the sequence of developments put forward by the monetarists and those covered by the term "Keynes minus", i.e. a different breakdown of the "cake" between wages and profits, followed by a revival of investment, hence creation of new jobs. For in an open economy, there is nothing to prevent the increased profits being invested either abroad or in rationalization and modernization - or from being used to redeem debt or to buy securities. Unless there is acceptance of a reduction in real wages (which would be socially and politically undesirable), such a policy is unlikely, they feel, to lead to full employment, even in the fairly long run.

(1) A degree of concentration, whether or not there are price-leaders, the strength and organization of the unions, and the magnitude and elasticity of demand.

The supporters of a "Keynes plus" approach give absolute priority to restoring full employment. This is why, faced with the failure of the recovery policies pursued hitherto, they place increasing stress on other policies which are designed:

- to reduce and share out fairly the available working time among those at work and those seeking employment, hence solidarity between those in employment and those out of work;
- to increase the number of jobs in the market and non-market services sector.

These policies are being pressed for more and more by the unions. They consider that the case for assigning priority to full employment is all the stronger in that demand in this area is generally under-estimated. This should mean that far more rapid growth is required than is usually considered feasible, for example in the growth scenario proposed by the OECD in 1976. But the rate of growth will depend to a large extent on the changes that can be brought about in its content. Emphasis is placed on the development of services: schemes for the direct creation of jobs by the authorities should make it possible not only to help solve the unemployment problem immediately, although only partially, but also to help to change consumption structures by widening the scope of collective response to a number of needs (health, education, culture, daily environment, etc.) and to stimulate demand.

Influencing supply

Influencing supply is the main method by which the two connected objectives of restoring full employment and reducing inflation may be achieved. Given that the share of investment in GDP must be boosted, the main problem to be faced is that of satisfying two conflicting requirements: to develop consumer demand, as a stimulus to growth, and to modulate this demand so as to prevent a renewal of inflation and to make resources available for investment.

The intervention of the authorities and their direct role in job creation will be the main means of satisfying the first of

these requirements. A better price-control policy will also be necessary: such a policy should not reject statutory price regulation, but should rely mainly (as proposed by the preceding school of thought) on indirect structural action such as active competition policy in all fields, merger control, sanctions against the abuse of dominant positions, penalization of "rent" situations, and a consumer defence and information policy. Where investments are concerned adequate resources will have to be made available; both sides of industry will have to agree to this, and here again the reduction of inequality and increased democracy in economic life are the basic conditions for a satisfactory incomes-policy-type agreement.

At the same time, however, a selective investment policy should also be implemented. This policy would enhance the efficiency of invested resources and would reduce the amounts needed. Among the justifications for such a policy is the fact that rigidity and the time necessary to carry out investments have meant that market mechanisms are no longer certain to ensure industrial reconstruction or detect potential bottlenecks in good time without much waste and various disequilibria. Those in favour of the "Keynes plus" approach argue that the market is apt to take too short a view (and to neglect the medium-term and long-term view); sometimes it fails to sound the usual warnings. Not all go as far as to advocate actual planning, but there is a unanimous call for structural intervention based on medium-term and long-term forecasts and on concerted agreements between unions and managements.

Thus they recommend at least a few sectoral programmes to fix the basic lines, the organization and the timing of the main changes taking place with reference to the development of the world economy and to social need. Since the economy must remain decentralized, private operators will be persuaded to make investments that conform with the structural master plan through the methodical application of several instruments: preferential financing terms (subsidies, guarantees, etc.) indirect financial incentives or disincentives (adaptation of taxation, public

service charges, etc.), direct action to influence investments (through regulations concerning location, environment, employment conditions, etc.); the development of a "directing" dialogue between the authorities and private operators (information supplied by the public sector concerning the planning of its investments, consultation between the authorities and leading industrialists, etc.); the development of public industrial enterprise in various forms (nationalization, participating interests, setting up of ad hoc bodies, etc.).

Most of these instruments already exist in all industrialized countries. But they must be used more often, more vigorously, and above all within a more coherent framework, at present conspicuous by its absence. And of course the general principles of this new policy for structures must be established: which sectors should be encouraged? Which should be run down under orderly arrangements? What should be given priority in town and country and regional planning? All these questions are considered in the light of the axiom that the background will always be that of an open economy with all the constraints imposed by the need to compete. However, it is conceded that governments may be compelled, in the national interest, to keep certain activities "artificially alive", even if they are not competitive, or to time their redevelopment over a fairly long period. It need hardly be added, for a participatory economy, that all these decisions are part of a "package deal" to be discussed with the unions and employers' organizations, the workers' representatives agreeing to involvement in such a process to varying degrees according to their principles or ideology, to the varying situations in the different countries, and to the scale of the rewards offered. The broad lines of this approach are described in the European Trade Union Institute paper already referred to, "Keynes plus: A Participatory Economy". The effort to establish "a consensus society" which will respect and foster the pluralist nature of our societies is advocated as the best way to return to full employment, growth and stability.

An approach through adaptation and reform concerted at international level within the framework of a "regional" model

The analysis of the international economy is carried out according to the same principles. Underlining the importance of the international economic and monetary changes that have taken place and the ways in which these changes hinder domestic demand management and growth policies, those advocating the "Keynes plus" analysis believe - with regard to markets - that a worldwide approach designed to introduce organized liberalism is not the right one to deal properly with the problems raised by the internationalization of economies, given their nature and scale. Without questioning the policy decision to seek growth in an open economy, they believe it may be necessary to qualify "openness" in some areas, so as to safeguard the conditions of autonomous domestic socio-economic development. They allow for the uneven and changing distribution of power at international level, and they think there is little point in trying to restore a viable economic and monetary order without first, or at the same time, achieving a balance of power between the partners. They base this assessment partly on the evaluation of the role and importance of the United States, which, they say, has changed its attitude from one of reasonable leadership to one of hegemony; and partly on the dwindling scope for action available to national authorities. These premises lead them to recommend the constitution of regional units, of which the European Economic Community, with its associated countries could be a good example.

Objectives are more ambitious in a "regionalist" model like the EEC: market forces are to be controlled in a coordinated way both in the monetary areas and as they affect production structures, entailing achievement of the objectives, if not an immediate return to fixed rates, at least an urgent effort to stabilize internal exchange rate relations in Europe. This should be backed up by close coordination of overall regulating policies, joint elaboration of medium-term norms for effective exchange rates, the availability of a sufficient volume of intervention funds to prevent erratic variations in exchange rates in the short-term, the

search for a joint solution to external payments disequilibria, and specific structural policies designed to remedy the most harmful deficiencies and distortions. In relation to the outside world, the corollary would be a concerted float against the dollar, which would require that short-term capital movements be controlled, a refusal to rely on the international money market to supply member countries with liquidity and credit, and agreement that common monetary institutions should act as internal and external regulators.

Inside the Community, trade both in products and in factors of production should become freer, although the policies necessary to improve the desirable effects of free trade and to reduce resulting social and regional disturbances should not be neglected. In relation to the rest of the world, policies should be differentiated. The way in which freedom of trade with other industrialized countries is being deepened should be more cautiously timed, although a return to protectionism should be avoided; stronger pressures than isolated states could manage should be brought to bear on transnational firms, both in determining rules and in monitoring their application. The Community's policies in its relations with the Third World should be devised with a view to organizing a new, more balanced, international division of labour, that would be more consistent with the interests of those concerned. The essential condition to be fulfilled would be that these policies should be better adapted to the special situations of each group of developing country, having due regard to their natural resources, their state of development, the pattern of their trade, etc.

The development of this type of regional organization in Europe involves the tricky problem of sharing out responsibilities between member nations and the regional unit. Agreement on this point between the groups supporting the "Keynes plus" approach is still a long way off, for their positions vary according to country.

THE IMPORTANT SOCIAL AND ECONOMIC ISSUES

§ 1 - The main questions at issue

A. The return to full employment

All the political movements affirm that, in their view, the most pressing problem at the moment is that of unemployment; widespread and lasting unemployment has serious social, economic and human implications.

All agree that a return to regular and sustained growth is a necessary but not sufficient condition for the gradual restoration of a level of employment near to full employment.

But, beyond agreement that the situation exists, and agreement on the diagnosis in very general terms, points of view diverge on everything else - the causes and the nature of unemployment, the policies that should be adopted, the adjustments or changes required in the workings of our economies.

The opposing attitudes are a direct result of the different theories to which the political and social forces refer.

For the monetarists, the main factor to be considered is cyclical unemployment, which is the end result of a chain reaction. Excessively lax monetary policy has led to the anticipation of inflation, resulting in real wages growing faster than marginal labour productivity.

Since the monetary illusion no longer exists, and since therefore there is no longer any dependence between unemployment and inflation, the solution is to bring the remuneration of labour down to the level of marginal productivity, while restoring competitiveness in the economy.

So-called structural unemployment is usually the result of a number of varied factors, from better statistical assessment (particularly of the female labour force) to unemployment benefits that are so high as to constitute a disincentive to work.

Specific measures to adjust supply and demand on the labour market may be of some use, as long as they do not result in increased rigidity. Such measures, for example, could include retraining for certain categories of workers, increased mobility, both geographical and professional, and the adjustment of unemployment benefits to make them more efficient.

There is another school of thought that has much the same ideas about the causes of unemployment and the conditions for restoring equilibrium to the labour market, although there are several important differences. This group is made up of those who would like to see a better balance between confidence in market mechanisms and the short-term regulation of activity, in the light of coexisting underemployment and inflation and the unsuitability of conventional Keynesian policies. We have defined their ideas as the more classical variant of Keynes's theories; their explanation of the origins of unemployment is more complex than that of the monetarists: they point not only to lax monetary policy, but also to a whole series of disturbances that have affected international economic relations and the workings of the labour market. In particular, they diverge from the monetarists when they add that there is still a relationship between inflation and unemployment.

However, they think that behaviour conditioned by past achievements - high levels of employment, guaranteed incomes, regular improvements in the standard of living - has moved the curve of the relationship upwards and outwards. To reduce inflation, a much more drastic and longer-lasting reduction in activity is now needed (1).

This is the basic condition for a return to healthy growth, without which lasting full employment is impossible.

The supporters of this thesis, who now include the governments of all our countries, think that inflation can be controlled, and

(1) This is one of the central ideas in the Report of the Group of experts appointed by the OECD and led by Mr MacCracken.

thus full employment gradually restored, only after several years of high unemployment; for rates of unemployment were already high to start with, because of the oil crisis at the end of 1973 and the beginning of 1974; moreover, population trends as well as cultural factors have also contributed to pressure on the labour markets.

Whenever specific measures in favour of employment or guaranteed resources for the unemployed are taken, the urgent necessity to restore the main macro-economic equilibria must be kept in mind, in view of the gravity of the situation.

These measures should include the creation of new jobs (particularly for young people) and lead to greater mobility and better training for the labour force and to reduced employers' contributions or to the introduction of temporary employment subsidies, which would reduce the cost of the labour factor to companies.

All these accompanying measures must be reversible; they must make the labour factor more adaptable to the industrial changes that are happening at present.

These two lines of thought, which regard as an illusion any hope of a rapid return to full employment, are directly contradicted by those who believe that unemployment is a basic ill of our decentralized market economies. Unemployment is caused by perverse structural developments in our economic system rather than by short-term factors.

In this group's opinion, the deflationary policies being implemented at the moment have no prospects of success. They can only aggravate the problem, by rationalizing techniques, uprooting activities and setting off a cumulative process characterized by a faster drop in demand than in productivity. This cannot but lead our economies to a stable underemployment situation that is unacceptable from the economic, social and human points of view.

The refusal to accept present policies is common to two schools of thought, distinguished by their fundamental views of the market economy as such: for the first, it is a system where market signals are an important cue for the allocation of resources; once the right steps have been taken to correct perverse trends, it is an efficient system. The second school of thought holds that the system itself should be changed; for employment can come into equilibrium only if the foundations of power and the instruments of economic decision are basically modified.

For the first of these schools of thought - whose theoretical references are those of the current we have called "Keynes +" - the restoration of full employment will require a set of determined policies designed to regulate and adapt both the offer of factors of production and the demand for them.

Inflation must be combated by eliminating its structural causes, i.e. by implementing a genuine antitrust policy with price controls and the control of oligopolies, and by introducing an incomes and prices policy.

In present circumstances, demand must be actively supported, i.e. in particular sufficiently vast public programmes must be implemented, and the lower incomes must be increased, so that private consumption may recover and the content and direction of growth may be influenced.

These policies can be effective in an open economy only if they are coordinated at international level, or if they involve active cooperation, for example within the European Economic Community.

Beyond these main lines of action, boldness and imagination are required in the face of pressing need. Work must be better shared out, hours of work must be reduced, the retirement age lowered, training and further training made systematic and the activities of the "third sector" (activities in association with others and activities of local interest) developed. Perhaps a new

growth should be aimed at eventually, to allow not only of full employment, but also of better employment. Proposals such as the thirty-five hour week, the adjustment of shift work or the enrichment of job satisfaction are based on these ideas, which are vigorously defended by all the European trade unions and by many left-wing parties. They were put forward (to no avail) at the last tripartite conference organized by the European Economic Community.

The range of attitudes to the unemployment question would not be complete without the ideas of certain socialist movements, which are still important in several Community countries. For these movements, the heated discussion between the movements mentioned above does not get to the heart of the matter. If full employment is to be restored, the logic of growth must be changed, and directed not only at satisfying individual effective demand, but also needs in general. To make such a change, the nation must procure the means to restructure the productive apparatus for market and non-market goods so as to satisfy social demand. This implies democratic planning, the transfer to the State of the ownership and control of the main means of production, and effective participation by workers in economic decisions, from workshop to national level.

B. The reduction of inequality

Although this theme is not always in the headlines these days, it is still one of the main problems connected with the legacy of the past and, because of the crisis, one of the main bones of contention in the debate about economic policy.

The legacy of the past itself is varied. In the countries where inequality was reduced fastest and most, increasingly strong reactions have appeared to denounce the damage being done to economic efficiency. In the countries where inequality remained pronounced, it became more noticeable and less tolerable, and the reduction of inequality emerged increasingly clearly as an essential condition of a social consensus.

The crisis has accentuated this contrast. The attitudes described have been adopted by different social and political

movements; reduced inequality is either blamed for having contributed to causing the crisis, or put forward as a condition of acceptance for policies for ending the crisis.

There are thus two very different attitudes to inequality.

The movements which believe firmly in the market economy, i.e. a mixed economy deeply rooted in the market, regard the rapid process of reduction of inequality as an explanatory factor in the crisis; for it made people forget that, unless the remuneration of factors is properly distributed, any redistribution is bound to be irrational and anti-economic. Potential well-being, measured by gross domestic product and its growth rate, can be maximized only if the remuneration of factors is properly distributed; proper distribution means that the rates of wages to profits can increase only to the extent that the propensity to invest is not endangered.

This is the attitude - very briefly described - that guides the action of all the member country governments at the moment. It is more or less accepted, depending on the economic and social context and the extent of inequality in each country. However, even where it is accepted it is still regarded as part of a kind of compromise between the forces involved.

Wealth policy, which substitutes capital assets for a part of the increased purchasing power of wages, should be seen in this light. It is an example of an attempt to reconcile essential economic efficiency and the pressing claims for reduced inequality. Wealth policy, of course, takes many different forms, some of which are condemned by liberal or centre-of-the-road movements: for example, the policy of distributing a share of profits to wage-earners, thus giving them a growing proportion of company capital. The debates on this issue when such ideas were put forward in Germany and Sweden have not been forgotten. To promote more widespread ownership of wealth, others recommend a system of progressive taxation of consumption, with exoneration for savings; the purpose of such a system would be to reconcile equalitarian taxes with incentives to work and save.

All the movements in this category, even those most devoted to economic liberalism, are obliged in practice to support the redistribution of income and wealth to some extent; not only because of the widespread demand for equality, but also because competing demands for a share in the resources available must be reconciled. However, beyond what is considered absolutely necessary to attenuate the most obvious poverty, they approach redistribution with extreme caution, which they consider is required by the economic situation. This attitude has led to criticism from taxpayers, who find the amount of direct and indirect taxes, social security contributions, etc. excessive. The response to this criticism by some governments has been to reduce taxes and widen the incomes range, as a reaction to what they regard as earlier excesses.

Another point of view is put forward by those who consider that excessively direct dependence on market forces can have dangerous consequences if one or several organized groups are sufficiently powerful to increase their shares in national income in the short term. For if most or all of the groups try to do so, applying the principle of individual interest dear to Adam Smith in a completely unsuitable context, the result will be inflation and reduced growth in an unstable society.

This current of thought believes that governments must cooperate with unions and other representative bodies to tackle the problem.

The first step towards a consensus would be to overthrow the dominant ideology of market forces, and to adopt a more balanced approach with emphasis on a general immediate attempt to work out a rational, widely-accepted process for determining incomes. The second step requires more general recognition for the fact that the redistribution of incomes and wealth can be changed from a "zero-sum game" to a "positive-sum game" only if policies are adopted in the fields of capital and worker participation.

Even in countries where action has been taken, the left-wing movements and most trade union organizations still consider that the present distribution of incomes and wealth is generally still

far too unequal. For them, economic activity is meaningful only because of the social results.

Consequently, these movements recommend that action to reduce inequality should be vigorously and adamantly pursued; for they are convinced that economic and social policy needs wide popular support, especially nowadays.

Some even go so far as to assert that the reduction of inequality is one of the surest ways to offer new and wider horizons for economic growth, and thus to revive activity. Further to conventional measures for the reduction of inequality, they recommend that public services should be developed and the system of individual transfer payments and guaranteed incomes reinforced. Moreover, action to correct the distribution of incomes and wealth should be increased.

The objective is a new social equilibrium, achieved by combining various instruments: taxation, transfer payments, ownership of wealth by workers, and collectively negotiated wages.

Some movements, which see the problem of inequality and its development as basically the result of the class struggle, go further, and place the main emphasis on a change in the share-out between wages and profits. Attempts to correct inequality through taxation and conciliation, although steps in the right direction, are inadequate. In fact, our advanced industrial societies are already capable of increasing workers' incomes and collective consumption considerably. The real problem is that available wealth and means of production are used for other ends by the social and political alliances in power.

Some assert that the existing means can be mobilized only if the key sectors of industry, banking and finance are nationalized. Only then can waste be eliminated, and the distribution of product between consumption and investment adjusted without provoking an upsurge of inflation and an external payments crisis. Obviously

this brief picture does not take into account all the problems arising in our societies in connection with the fight against inequality. Some matters which do not give rise to such dramatic conflict are just as important to our future: for example, unequal opportunities in education, professional life and culture.

C. A new distribution of power, particularly economic power

This is a subject of continuing debate in our societies. The debate grew more heated during the Sixties, with the emergence of an economy of large groups, the widening field of action of trade union organizations, technical progress and the resulting reorganization of work, and critical assessment of institutions. The close of the sixties was marked by an upsurge of support for industrial democracy. At the grass roots, in workshops and offices, various experiments were made to improve working conditions or to offer workers some form of participation. Tendencies and achievements at the level of the firm vary from country to country, from the extension of participation and consultation in Germany and Holland to the unsatisfied claims for worker control in Italy or self-management in France. A commission of enquiry was set up in the United Kingdom, and their draft was followed by a Labour Government White Paper. The process was not smooth or easy. Experiments in shop-floor democracy were restricted by the crisis, by barriers of all kinds, including the hesitations of many business managers.

The crisis has accentuated many conflicts that were already present, but less noticeably, by bringing the conditions for renewed growth and the constraints due to the global nature of supply and trade into the limelight. For example, German employers appealed against the latest co-management law on constitutional grounds, British employers are against the conclusions of the Labour Government's White Paper, and the French Government has not implemented the main recommendations of the Commission it had asked to draw up a report on business reforms.

The main divergencies are the same as those we saw in connection with inequality. There are on the one hand those who think that economic imbalances can be cured by more liberalism, more competitiveness and thus more responsibility and scope for initiative for entrepreneurs. There are, on the other hand, those who believe that the ideal of democracy must extend into economic life, and thus support and stimulate renewed legitimacy of power and responsibility.

For the first group, the need for competitive, efficiently-managed firms, more pressing now than ever before, means that industrial democracy must take second place. It is far from urgent. It should not lead to any dilution of responsibility, nor compromise the unity of management, so necessary for firms to function properly. It has two fields of application: some participation by workers in company life, and the improvement of working conditions on the shop-floor towards less rigidly hierarchical relationships, experiments to increase job satisfaction, the exchange of ideas. At the same time, some of the supporters of these ideas criticise what they regard as excessive power in the hands of the unions. This leads them to question the law on sacking, closed-shop practices and the right of veto workers' representatives sometimes enjoy.

The second group are aware that the individual is in danger of being crushed by the constraints of productivity and competition, by the vast inequality in the distribution of power, wealth, social influence and guaranteed resources, by the uncertainty that weighs down on the weaker classes. They consider the debate on industrial democracy, and more generally on the distribution of powers, of paramount importance. They also believe in the possibility of progress at European level. It is now nearly ten years ago that the Commission first expounded its ideas for greater worker participation in international European companies, but progress along these lines seems to have come to a halt. Since workers should have greater reason to believe that the Community is a community not only for international companies but also for workers,

this school of thought emphasizes the need for greater responsibility on the part of the companies and the need for the Community to give to the workers' representatives - in the countries where the multinationals operate - the right to meet, within the company, in information and consultation bodies set up throughout Europe.

At the centre of present economic problems, they assert that this question involves a far wider range of matters than simply the reform of the firm. It affects the management of the entire economy, which should in their opinion result from wide conciliation on macro-economic and sectoral objectives, involving the trade unions very closely. The central theme is that power should be shared out more evenly between partners at all levels of economic activity.

Some of the left-wing movements fighting for increased economic democracy assert that social ownership of the main means of production, and the introduction of planning are essential to such democracy. This attitude explains their rejection of participation arrangements in favour of workers' control and eventual self-management.

Two different paths towards a socialist economy are recommended by these movements: social ownership of the means of production is either the end-point of a series of decisive steps towards economic democracy (workers' control - workers' self-management - social ownership), or the starting point for introducing genuine democracy in economic life.

D. The introduction of fair and efficient regulation of the economy

Beyond the conventional debate, which is carried out only through statements of principle, surrounding the Plan versus the Market, this is a deeper discussion of the future of the mixed economy. The idea of a plan, indeed, is ambiguous: it means different things to the different European schools of thought, and it is unknown in parts of the trade union and social-democrat

movements. Nevertheless, all the member countries plan all or part of public expenditure, or some sectors of activity. Although general planning may seem to be a declining practice in Europe, State intervention is increasing and is the subject of heated debate much more than the abstract concepts of the "market" and the "plan".

The supporters of a return to a market economy that is as pure as possible assert that economic imbalances are mainly caused by mistaken decisions on the part of governments, central banks and parliaments. Indeed, some items of public expenditure are entirely unjustified, for they cause a loss of wealth through poor resource allocation and, in some countries, are financed from levies considered excessive. This group believes that public intervention can be rationalized only if it is questioned, reduced and held back to restore private enterprise to its important role.

Many other movements, while they do not agree with the view briefly described above, invoke the more classical branch of Keynesianism to demand that the state should reduce its commitments, select its interventions more severely on rational criteria and give private enterprise more scope. They still believe that the mixed economy is a feasible support for market mechanisms; for it can temper their anti-social effects, control economic concentration, combat nuisance, make productive structures more flexible and adaptable, and influence the regional implantation of activity. However, they think that the general regulation of economic activity is better entrusted to the workings of wider market mechanisms.

These two approaches diverge from that of the more structural branch of Keynesianism (Keynes +). This branch includes mainly the unions and the left-wing parties, which demand more regulation to correct cyclical fluctuations and perverse structural developments. Intervention should affect supply - in particular, production capacity (the regulation of investment should help to correct structural regional and sectoral imbalances), and reinforce the rules of competition, the protection of consumers and the development of non-market services.

The left-wing movements and trade union organizations, especially in France and Italy, do not confine the debate to state intervention; they also take a stand on economic planning. All agree that the plan should guide the economy as a whole, although markets have a major role to play when they work properly. However, since there is no question of closing national frontiers, some relationship must be worked out between socialist planning in certain countries and the international planning of the large industrial and financial groups. This is where the various movements in favour of planning differ. Some think that socialist planning in individual countries is possible, others believe that the weight of an international capitalist environment must be counterbalanced, and that the change to socialist planning must take place in a group of countries, such as the EEC.

§ 2 - The crisis and social dynamics

The policies implemented today, beyond the differences due to different national contexts, structures and political orientations, share three common features.

1. Slower price rises, better balanced foreign trade and the reduction of relative labour costs are seen as essential conditions of the recovery of private investment, which in turn should create new jobs and thus, eventually, reduce unemployment.
2. An attempt to establish concertation between the countries of the western world is patiently continued, although with few results up to now, so that all the national economies may contribute what they can to the acceleration of general economic growth.
3. The continuing internationalization of the world economy is considered indispensable to allow of further expansion of world trade, the more so as enormous needs still remain to be satisfied in all the poor countries.

These are the noteworthy similarities between the policies implemented in most European countries. The main question is

whether these policies will be lasting, and, if not, how they will change. For they are based on an attitude which, although it is still predominant, is being increasingly questioned and put in doubt, as we have seen. This attitude holds that the restoration of full employment will take a long time, since the economy must first be stabilized, the reduction of inequality halted so that the distribution of income may become more efficient, and industrial democracy confined to specific areas where the efficiency of firms and their capacity of adapting themselves to the new international division of labour are not endangered. This attitude, whose theoretical reference is the more classical branch of Keynesianism (Keynes -), is further characterized by the desire to restore vigour to market mechanisms wherever possible and, against this background, to render state intervention as rational as possible. This desire is to be seen more in the word than in the deed.

In the face of these similar economic policies, the crisis is still going on, unemployment is not falling (1); entire regions are suffering greatly from the effects of industrial restructuring which is still only in its early stages. These imbalances are in danger of growing more marked over the next few years. Although inflation has fallen, it is still high in many countries. The gap between inflation rates within the Community has hardly narrowed. Productive investment is not really getting off the ground. The growth rate is still much too low to absorb a labour supply which population trends suggest will go on growing for almost another ten years. All politicians now know - and say - that our societies are only beginning to pay the social price of stabilization and adjustment. The end of the crisis is still a long way off, and many obstacles are still to be overcome. The radical changes that are taking place at the moment are as much social as economic.

Here we find all the divergences of view concerning the main problems; all the social and political forces, each with its own strategy, ideology and economic and social logic.

(1) Although recently divergent trends have been observed: in the FR of Germany, the number of unemployed has fallen by 100 000 since 1978.

How will it end, this confrontation between developing economic and social factors and the interplay of political forces? There are many largely unpredictable factors that could transform compromise into strife.

The economic, social and political background against which governments must seek solutions, and endeavour to cooperate is more than ever before marked by instability and uncertainty. This makes it practically impossible to assess future developments.

Nevertheless, relationships now emerging may further compromise or strife. Divergent effects may result, depending on whether they are dealt with at national or at Community level. The main example, in this group's opinion, is the employment problem.

(a) Dynamics of imbalance and instability

The first factor of imbalance and instability identified by our analysis is the refusal by the main economic and social forces in certain European countries to consider any type of compromise unless the political majority in power is replaced. The political situation is completely blocked.

The second factor, which combines with the first, is the continuing crisis with all the conflict it entails and exacerbates between differing aims and aspirations, and with the increasingly wide and complex protests it engenders. Unemployment will be at the centre of this set of problems.

It has been estimated that, if the present growth rate of about 3% a year continues, average unemployment in the Community could rise to almost 10% by 1985, compared with 5.6% today.

The breakdown by region of this Community average shows that by 1985, 15% to 20% of the working population would be unemployed in a fairly large number of regions. Although these figures should be considered with some caution, they do throw light on the

demand for decentralization and regionalism (the demand for the right to work in one's native region), and on the need to insert our productive economy in the new international division of labour.

The present situation carries the germ of acute conflict that could well change many of the basic features of political life. Will the parties and unions consent to imposing acceptance of such imbalances on the rank and file? Will they be attended to if they do? Will not the arguments in favour of some form of protectionism become too strong to ignore?

Unemployment, the reduction in the share of wages, the persistence and reinforcement of inequality (between those with and those without work, those who may stay and those who must leave their native region, those whose academic qualifications are useful and those whose certificates are no longer worth anything) - all these will not long be meekly accepted. The conflicts that are beginning to take on some importance in all our countries show that the required effort must be better shared and better coordinated. Some way must be found to resolve these factors into more job security, more solidarity, and perhaps less importance for competitiveness at all costs.

How could economic powers be adjusted, what privileges must be abolished, how must investment and investors be controlled, what kind of international cooperation is necessary if the present situation, which will soon not be tolerated, is to change?

The present conflict situations will reinforce the protests that appeared before the crisis concerning our institutions of parliament and democracy, our way of life, our lack of respect for the environment, our production system and the value of labour.

They will probably also constitute a strong argument in favour of the increasingly widespread support in our countries for choosing a new development model.

All these protests and proposals, although still marginal today, could become a very important current of public opinion as the crisis persists and the apparently sterile political game continues to be played in high places. Minority protests might well be transformed into widespread rejection of the present situation on the part of whole categories of the population, particularly young people.

What positive prospects will our societies offer them? Are we definitively trapped in a development model that has gone out of our control?

(b) The field of possible compromise

1. Favourable factors

Although the forces of imbalance and instability are legion, powerful and likely to grow stronger over the next few years, the group feels that many forms of compromise - temporary or permanent - are possible and even probable in all our countries. These compromises, which do not imply a denial of doctrinal beliefs, could take various forms: from a series of agreements and pacts resulting from generalized negotiation between opposing political forces to explicit or tacit agreements on specific points designed to solve particular problems.

The practical arrangements for passing from compromise to compromise do not imply any permanent process of negotiation. Each separate compromise is regarded by many political forces as simply an individual point of strategy. We believe this is particularly true at present.

However, the search for consensus is in the very nature of our democratic societies, with their power structures and balances, the reciprocal influence of decisions and the interdependence of economic, social and organizational problems. All governments try to obtain the widest possible support, in both number and composition, covering much more than the electoral majority, which is usually fairly small.

We have now reached a stage in economic and democratic development where any important measure must be implicitly or explicitly negotiated between representative forces.

The main divergences and the main differences between the ideas represented are not by any means immutable. They change with political, economic and social changes. The same is true of the most pressing problems.

This constant mutation in the problems faced, strongly influenced by the forces of protest and rejection, may well make formerly irreconcilable attitudes a little more flexible. The lasting crisis has upset many attitudes and practices. Even if it is still believed by many that some of the forces in power can manage very well with a high rate of unemployment (which keeps wage claims down), there are others in power who now say that shorter working hours (the thirty-five hour week) should be considered if they can be introduced in a coordinated way at European level.

At the same time, the trade union movements and the left-wing parties refer more and more explicitly to another aspect of the problem; the emergence of new competitors on the international market, who are threatening European industry and therefore employment.

Another remarkable change in attitudes is that concerning the benefits of "laissez faire, laissez passer" in furthering, in due course and in the right conditions, the necessary adjustments to the productive system. Many of the supporters of a return to a more flexible economy think that interventions to help investment should be stepped up. They never considered a change in the wages-profits distribution to be adequate. The authorities are more than ever concerned with furthering industrial redeployment through indirect measures, with helping the sectors in difficulty, with stabilizing or strengthening branches and individual firms and with supporting exports.

In this way the doctrinal attitudes that support free trade are putting up with practices whose effects are restrictive or protectionist. This does not help to make the debate on the organization of the economy any clearer.

Some of the social and political forces whose economic policy at national level is based on classical theories, while they do not refuse certain forms of public intervention, would be prepared to apply the concepts of the more interventionist theories (Keynes +) to certain problems, provided this could be done at European level - although here again it may be that "Europe" is an excuse for inactivity.

Finally, although those who support an entirely new growth model are few, many have suggested adjustments that could eventually change our type of development. New ground is explored cautiously, and without any comprehensive plan, by various movements: the reduction of working hours, one of the main themes of the European Trade Union Confederation (ETUC); direct job creation in the non-market sector, which gives rise to new needs; new ideas about housing and human groups; renewed interest in the countryside and the exploitation of agricultural potential; the implementation of scientific progress in communicating and processing information; the increasing attention accorded the consumer movement, and so on.

2. Possible types of compromise

At first sight, these new ideas should, if they took hold and spread, make compromise, if not consensus, easier in some fields. It is difficult to know exactly what will happen, because other parameters, such as ideological differences, the constraints of politics and the extent of the social struggle, are so important.

With these reservations, the members of the working party have agreed on three possibilities for a trade-off, or a compromise.

First, new progress towards social justice might be accepted if workers were prepared to reciprocate by respecting certain rules

about the development of wages and transfer payments, i.e. an incomes and wealth policy. Social justice would involve a fight against inequality, through wages, taxes, transfer payments and the spread of collective goods such as education, culture, better living and working conditions. Measures would also be needed to enable wage-earners to build up various forms of wealth; for example, they could receive part of the profits of their firms. Acceptance of common rules would keep nominal wages within reasonable limits, and decrease the excessive rigidity of the labour market. Such compromises have already been made in the past, but they have usually covered fairly short periods and been limited in scope. Once the situation begins to improve, the compromise is abandoned. The problem is thus that of widening the basis of the compromise. Among the main obstacles to this are not only the usual hesitations, but also the desire of the unions and the left-wing parties for direct action on the production structures and for concerted control of the phenomena affecting the adjustment of supply.

This is the link with the second field of possible compromise, which has led one member of the group to recommend a "multiple trade-off" approach as being the only practical combination. For the demand for concerted action on supply is directly related to the demands - mainly from the unions - for economic democracy. Will those who have heretofore refused any economic power-sharing, or who have done all they can to keep it within certain limits, now accept? The discussions and consultations of our working party show that some progress could be made if the unions, for their part, would accept a return to a more flexible economy and more mobile factors of production. Of course, the necessary adjustments would have to be negotiated in the framework of collective bargains and contract agreements between the employers and the unions; they could be governed by laws or statutes only after long conciliation between the authorities and both sides of industry concerning the labour market, aids to mobility and conversion, the creation of new activities to take the place of those that are to disappear, and a more efficient regional development policy.

There is a third field for compromise, but it will raise problems, and many feel that it should be the basis of compromise at European rather than national level. It concerns compromise, not on the aim of a return to full employment (upon which all political and social forces agree, even if their motives are sometimes questioned, which makes dialogue more difficult) but on the range and use of the instruments needed to return to an acceptable level of employment under tolerable conditions. Beyond the question of the relationships between inflation and unemployment, some compromise might be found between different means of accelerating growth and reducing structural unemployment without threatening the fight against inflation and the balance of foreign trade. This would mean reconciling the gradual reduction of hours of work with an increase in productivity higher than the increase in real wages. It would require a more active competition policy, more rigorous price controls and the acceptance of a broadly negotiated incomes and wealth policy.

This third compromise, rich in consequences, is bound up with the first two, since an incomes and wealth policy would be accepted by the workers in exchange for a reduction in inequality; while more rigorous price controls and a more active competition policy would be accepted by employers in exchange for moderation in wage demands and greater flexibility on the labour market, which itself would make more easily acceptable an advance in the field of economic democracy.

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BY WAY OF CONCLUSION

After studying a very wide range of political currents in all the Member States, the working party has found that, while all agree what the main problems are, the solutions suggested or applied vary widely from one country to another and from one political group to another. What is more, as the crisis deepened, agreements between social and political forces broke down, and positions became entrenched. This has made for a mixture of confrontation and compromise against a background of unstable equilibrium.

It is worth defining exactly what the working party means by "compromise". Some political observers would say that compromise is a logical consequence of political processes in a democracy. To politicians themselves it may be tainted with class collaboration, if they are left wing, or consist in making dangerous concessions if they are right wing. The working party's idea was not to recommend some kind of middle-of-the-road solution, but rather to show how the concrete results of dialogue, debate, pressures and confrontation in our societies hang together in a social and political process undergoing changes resulting from the continuing crisis.

However, as we have said, the situations in the different countries coincide in many important ways, even though each country must face its own set of problems because of its specific traditions and culture, because the political and economic balance of power is different, and because of the effects of past mistakes. Indeed, the challenges thrown out to all the nations by the radical transformations now taking place in the world economy are astonishingly similar. In brief, Europe is in danger of losing its present enviable position in the economic league, and no doubt in the political balance of power as well; although the EEC member countries have never managed to agree on a clear and efficient policy of independence and autonomous action.

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The European nations might have been expected to rise to the occasion when the need to survive as a unit capable of playing an active role in the world became urgent; they might have been expected to overcome their difficulties and differences, and to reach a stage of closer cooperation and common action. But they did not. They had already had opportunities in the past when they were subject to strong constraints, for example with American inflation and the fall of the dollar from 1970, or with the large rise in oil prices in 1973. In both cases the Community's reaction was negligible when compared with the importance of the stakes.

Will history repeat itself?

The optimists would say (and they might be partly right) that time was required to learn to think out, and later to act upon them, together; to be really aware of the issues involved. They would go on to add that the European monetary system is the result of this long learning process, and American mistakes. They would point to the growing awareness of the European aspect in the thought and decisions of politicians and of the leaders of trade unions and employers' organizations.

The sceptics would reply that Commission policies are non-existent or extremely restricted in many areas, and those the most important areas for the future. They would point to the total failure of the plans for economic and monetary union - although it is true that circumstances were very different when those plans were made.

What is the reason for these failures, while real progress has been made in some areas? Are they due to some inherent incapacity of the European countries to get on together, to insistence on purely national responses to events, or to basically mistaken choices of a type of cooperation and of institutional processes for decision-making?

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An initial clarification could be supplied by clearer awareness of the deep differences in Europe, not only between nations but also between the main currents of thought and between social forces. If these differences were accepted it would be easier to find more realistic ways of acting jointly.

This report was not intended to analyse conflicting national interests and ways of resolving the conflicts. Indeed, these conflicts are hardly ever resolved; and even when they are, only after laborious compromise that is the abiding lot of Community life.

The progress made since the European Council was set up has hardly been spectacular. This institution has led to increasing confusion in Community decision-making processes, even though the European Council does sometimes overcome difficulties and reach an important decision. But the institutional pattern will have to be reconsidered, made more open, more straightforward, more democratic and more efficient.

Our Group concentrated on the other two aspects of these differences.

First, differences in economic and political thought. The common fund of ideas that had inspired economic and social policy since the end of the war began to disintegrate when Europe's economic miracle suffered setbacks and was damaged even more seriously by the crisis. As we saw in Part II, the working party - at the risk of appearing too academic - used the term "Keynesian" to describe the common fund of ideas: a vague term covering notions about economic regulation of growth, extension of welfare policies, and mass-production techniques which permitted an expansion based on growing demand for consumer durables. This doctrine was discredited by inflation; attacked from the right in the name of an increasingly influential neo-liberalism; the left always criticising it in the name of rather more structural analyses.

Secondly, social conflict has become increasingly affected by doctrinal disagreements. By analysing them we can understand better

the respective attitudes of employers, unions and other trade and industrial associations to future growth and the unemployment problem. The inability to solve this problem is one of the major reasons why attitudes on both sides have become so much more rigid. Here again it would be worse than useless to conceal differences and difficulties, even when they do not take the same form in Italy as in Germany, in France as in Great Britain, in Belgium as in Sweden or in the Netherlands as in Austria.

The last Tripartite conference (November 1978) is a significant illustration of this point; for it did not in fact lead to anything. The attitudes of employers and unions were irreconcilably opposed, and the Community authorities were unable to achieve an acceptable compromise on the basis of their proposals.

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Awareness of the protests that have arisen in our societies constitutes a second factor of clarification. For the crisis has not neutralized the aspirations of the 60s and 70s. It is wrong to consider these aspirations, as many do, simply a luxury during a period of prosperity. They reflect sensitivity to the damage done by progress, and disillusionment with all-out growth. But the excessive rigidity of our economies and our societies clashes with their realisation.

If progress is to be made, now and in the future, towards finding lasting solutions to the crisis, and drawing up new frontiers to development, these aspirations must be taken into account. That is why our working party analysed them in the first part of this report (Title I, Chapter II).

Our remarks provide a starting point for thought in an area that is still vital for the future of the Community countries. These countries must attack the underlying problems of our societies with determination. The repercussions of the labour crisis may well

be such as to endanger the capacity of the Community countries to produce, to innovate and to react to the challenges of the 80s. The crisis of values is threatening consensus and giving rise to violence and to attitudes of refusal that shake social life to its foundations. Neither mass consumption and higher material living standards in the past, nor the ideology of necessity engendered by the present crisis can supply a valid response to the questions posed by the meaning of the collective undertaking and by the need to identify and to belong.

The crisis of the mixed economies, which was already becoming apparent in the middle of the 60s, has not yet been resolved. All the European economies are affected in one way or another by rigidity, the problems of a complex bureaucracy, unequal distribution of power, bitter struggles over the distribution of national income - all factors explaining the persistence of inflation, the bitterness of social conflicts and the dissatisfaction of the population.

As we saw in the second part of the report (Title II, Chapter II) dealing with the essential issues of the economic and social debate, compromises are sought or impose themselves within each country.

Confrontations take place between national social and political forces on specific issues. But conflict does not emerge at the European level. This is probably one of the signs that the Community construction lacks dynamism: the EEC is not - although it may once have been - the place where the most important issues for the future are dealt with.

However, it may be hoped that the discussions and conflicts running through our societies will be fully studied and discussed by the new European Assembly, directly elected by the citizens.

European nations, whether or not they are part of the European Economic Community, are going through a period of radical changes, which they are not, for the moment, managing to control. We think

this is because it is proving difficult to apprehend the wide variety of problems with the extremely complex links that exist between them, all at the same time - not simply, important though it is, the problem of the energy crisis and rising energy costs.

The authorities are patching up as quickly as possible the urgent problems caused by the crisis and the new international division of labour, thus concealing all or part of the set of political and social problems. But coherent responses are absolutely necessary because of the multiplicity of anxieties and aspirations in our countries, and because of the sheer size of the challenges facing us all. What is at stake is the affirmation in Western Europe of societies capable of facing the future.

To progress in this direction, the debate will have to be more aware of all kinds of changes, associated with the development of society, covering cultural and social areas as well as political and economic ones.

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Of course, desirable confrontations should develop first and foremost within each individual country. This is the level at which most of the decisions affecting the present and future of all of us are taken, and will be taken for some time to come. To ignore this reality is once again to build Europe on illusion and very soon, on disillusion.

If our analysis is generally correct, then none of the European nations is relatively prosperous and solid, or protected from instability and the risk of social breakdown. Too many problems are still being temporarily stifled, there are too many worries and anxieties for industrial societies not to be undermined; rising living standards have not neutralized conflict between social groups, nor has the formation of new middle classes, although some may think that these classes could not only play a stabilizing role, but also constitute the nucleus of post-industrial societies.

Massive and lasting underemployment is an invisible disease gnawing away at basic values - in particular, work as a social virtue - on which economic development and social progress have been based. Moreover, the smooth working of the system of democratic representation has been affected by the personalization of power and the impact of the mass media, all of which adds to the factors of instability and versatility.

The majority in power, whatever its political colour, must take these factors into account, and refuse the easy way out offered by the division of social groups, the resignation mixed with resentment created by unemployment, the manipulation of public opinion and surveys. The widest possible positive consensus is still the best basis on which each country can face danger and uncertainty. That is why our working party studied possible ways of widening consensus, or of recreating it where it has broken down.

Obviously the details differ from one European country to another; obviously some countries are more apt than others for consensus or shared responsibilities; obviously, as we have already said, the dynamics of confrontation can take priority over the search for a compromise at certain stages in history.

But with all these reservations and conditions, it is still true that compromises will have to be found, if they do not inevitably impose themselves as the result of a determined confrontation. The alternation of two phases - confrontation and compromise - is very apparent in the two countries hardest hit by the crisis, the United Kingdom and Italy.

If the analysis had to revolve around a central point, the working party would probably suggest the idea of shared responsibility between groups and between individuals. If the rigidity that is so unfavourable to the mixed economies is to be eliminated, and if democracy is to become more vigorous, then democratic aims and practices must be extended to economic life, and life within every organization, both public and private, must

once again be given more flexibility, more participation and more decentralization. We think that irresponsibility will otherwise spread, encouraged by the practices of the technocrats and the bureaucrats who have a free rein because policies are powerless. Workers will ignore the economic reasoning of their superiors to the extent that they are denied the opportunity to express themselves in a valid way and influence their own individual future and the collective destiny.

All is not lost: the atmosphere of apathy and resignation created by the crisis will not last. Even now the trade union movement within the EEC and within the OECD is affirming its own analyses and solutions.

If the European countries adopted with determination the lines recommended in this report, there would be some hope of restoring to our mixed economies the flexibility and efficiency they increasingly lack. Our economies have reached the culmination of a thirty-year development that unquestionably improved quantitative results, but that has also given rise to new contradictions. There is no point in complaining, for history always associates progress with disadvantages. Europe cannot invent a new type of economy, and certainly not a new type of society, by resorting to the doctrines that preach a return to former systems or the myth of the "golden age of liberalism".

For a new model is necessary, a development in which economic and social aspects are closely associated and mutually dependent. This new type of growth will be more respectful of man's bio-rhythms and equilibrium, more careful of the environment and its natural equilibria. It will not, of course, neglect external constraints; for the European nations must not only ensure their own economic independence, but also contribute to creating a fairer and more efficient world economic order.

These considerations about a new type of growth are certainly not due to the desire to escape forwards from the hard realities

of the present. No indeed! They could well lead, both in theory and in gradual practice, to lasting solutions to the problems of underemployment, the energy crisis and the challenges of science. The purpose is to assess unsatisfied needs, with a view to the future, whether these needs are unsatisfied because the demand they create is not effective owing to lack of means, or because the collective conscience has not realised their importance. How can these needs be satisfied in view of the problems posed by the distribution of income and wealth, and by the size of compulsory levies in some countries? Here again, we must work out ways of life that will enable Europeans to find a more satisfactory balance between work, private life and the social activities they hope to carry out. Thus research is needed into improving the urban and the rural situation, the policy of timing, and social relations.

These considerations cannot be based solely on political and economic factors; the technical aspect is also important in that science and technology have great and untapped potential. Too many specialists, when they analyse these prospects today, come to neo-Malthusian conclusions. The future is in fact much more open, and the long-term possibilities for development are vast. Obviously, it is vital that workers should participate in the changes in this area, and that their interests should be given fair consideration.

The discussion of these complex matters is well worth beginning.

Each European nation will be continuing research into the sharing of economic responsibility, the democratization of society or the establishment of a new kind of development, sometimes in the face of terrifying difficulties and conflicts. None of these attempts should be ignored by the other European countries, because all will be rich in information and all will have widespread effects. This is another way, too often underestimated, of

illustrating real solidarity between the European nations, whether or not they are members of the EEC, and whether they are northern, central or southern European countries.

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The studies carried out by our working party have confirmed, if confirmation were needed, the extreme complexity of the economic and social picture. Within each main political movement there is substantial diversity, but the basic differences between the main movements remain intact. A much richer and more sustained political dialogue will without doubt be sparked off in the Community by the election of the European Assembly. In the new Assembly, attitudes to the concrete problems of political, economic and social life will be compared within each political group. This will be a decisive test for the future of cooperation between European countries; for it will show how far solutions can be found to the problems facing all our nations. There will be no escaping dialogue and confrontation. In this sense, the early Eighties might be a new starting-point, or perhaps an opportunity to resuscitate joint thinking on the future of our societies and of Europe.

The debate will be revived at a point in Community history where traditional quarrels seem to have lost their point and their impact.

For a rigorous analysis of the past twenty years shows the limits of the traditional schemas of federalism or confederalism, which can no longer hold the key to future forms of cooperation. The creators of the EEC were too often led down blind alleys by speculations on the specific dynamism of observable facts; national reality and ideological diversity were not assessed at their true value.

More realistic and more diversified solutions could, in our opinion, be found in four important directions.

First, any step forward comes up against the patent disequilibrium in the Community between the liberalization of trade and the creation of a vast common market on the one hand, and common policies on the other. The European Economic Community should reconcile to some extent the workings of the market with the action of public institutions intended to protect the general interest, to regulate economic functions and to compensate for the shortcomings of the market. As present changes involve us in the basic process by which the world economy is becoming increasingly preponderant, this imbalance is growing increasingly intolerable. Obviously, each country is determined to guide, control and regulate its own economy; it has a perfect right to do so. But we should not forget this very obvious point: no individual nation is powerful enough to influence international phenomena. That is why the Community must now, more than ever before, find means to restore the balance in ways that are yet to be discovered and in areas as diverse as the regulation of markets and of large transnational firms, regional policy and the coherence of certain social projects. Priorities here are the reduction in hours of work, the fight against inequality, especially between regions, economic democracy and worker participation in consultations and decision processes in the Community. The paucity of Community achievements in these fields, which are of primordial interest to workers, has given rise to criticism and led to impatience in the trade union movement.

Secondly, cooperation between European countries can progress only if pluralism is accepted. This is the conclusion we have drawn from observing the past obsession with unification which has led to mistakes and dead ends. A more realistic approach would be to recognise the differences and, instead of trying to eliminate them, to use them to work out parallel and multiple paths towards the same results. For example, aims such as the democratization of the economy, the fight against inequality, the role of the State in short-term and medium-term economic guidance could be pursued in ways in keeping with the personality and the traditions of each

nation, and with the ideas of the political majority in power, without compromising profitable cooperation between European countries.

Thirdly, this may enable cooperation between the European States to take on new forms, better adapted to actual situations. National structures and interests are so different, the areas in which joint action seems unsuitable to all member countries are likely to increase so much, that difficulties are increasingly likely to arise, as past experience has shown on many occasions.

It is obviously crucial in view of these factors to avoid any releasing of the collective effort. The temptation to fall back on partial cooperation must be resisted. The existing mechanism, set up by the treaties and subsequently developed, must always be the privileged framework for working out improved cooperation. However, a serious study should not ignore the possibility that some areas for common action might be approved by some member countries and not by others, but also be approved by non-member countries.

The important thing is for the European countries, reassured of their power, to take up together the challenges thrown out by the third industrial revolution, for example, control of science and technology, optimum use of energy resources, the pooling of national resources in the service of projects too vast for the means of each individual country, or the creation of productive areas of collaboration with the developing countries, so as to escape from competition increasingly marked by chaotic interventionism.

In this case, as in the case of the traditional approach set out in the Treaty of Rome, the practice of the trade-off - which as we have seen is one of the main factors of each individual country's social and political process - could well be transposed to the European level. Thus the relative advantages of certain

countries in a specific area could lead them to accept a common policy subject to the adjustment of policies already in force in other areas, of which they consider the methods and results unsatisfactory. Several examples might be given; one of them is the common energy policy, which has been so difficult to set up; the reconsideration of the common agricultural policy (and thus of the distribution of farm expenditure and receipts under the Community Budget) is sometimes demanded in exchange for progress on energy policy. As a second example, some countries would like to impose explicit links between progress towards free trade, the adoption of rules for monetary and trade policies, and the improvement of relations with the developing countries; a third example is the relation demanded by some between improved monetary cooperation and deliberate measures to improve industrial structures and regional disparities.

Fourthly, if this development is accepted with lucidity and with a view to the future, it could help to improve the assessment of problems posed by the workings of the Community institutions and contribute to the necessary adjustments. The adequacy of the present institutional pattern has often been discussed. Many find it unsuitable and cumbersome. With the prospect of enlargement to include Spain, Greece and Portugal, it is even more urgent to give the matter thought. This is outside the scope of the working party's task. However, throughout its work, it was aware of the importance of this point and of all the contradictions involved. For, as we have said, the Community must be made more balanced through the adoption and the reinforcement of common policies; moreover, it is equally vital to find new areas for cooperation, and new participants.

This is probably the crux of the problem, beyond the normal obstacles inherent in the search for a compromise between different national interests or political attitudes. This central point deserves specific consideration along the lines of greater institutional flexibility which would improve the capacity for

joint discussions between the authorities in all the member countries. But solutions will be tested twice: once in political debate, stimulated by the direct election of the Assembly, and once by the facts themselves. Consequently, on the basis that pluralism is accepted and that the need for cooperation is more widely recognised following a precise appreciation of the limits of purely national action, it is important that no form of real cooperation should be ignored even if it is not rigorously consistent with the pattern initially laid down for the development of the European Economic Community.