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142, rue du Chevaleret
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*THE DEBT PROBLEM, EUROPEAN INTEGRATION,
AND
THE NEW PHASE OF WORLD CRISIS*

by Alain LIPIETZ,

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RESUME
LE PROBLEME DE LA DETTE. L'INTEGRATION EUROPEENNE.
ET LA NOUVELLE PHASE DE LA CRISE MONDIALE

Ce texte étudie les problèmes de l'économie mondiale après la krach d'octobre 1987 qui marqua la fin de la "troisième phase" de la crise du fordisme. Les réponses à la "crise de l'offre" (c'est-à-dire du rapport salarial fordien) fondées sur "l'implication négociée" des travailleurs semblent l'emporter sur les réponses fondées sur la "flexibilité libérale". Il en résulte de graves déséquilibres mondiaux, en particulier le déficit américain qui s'ajoute à la dette du Tiers-Monde. Un ajustement non récessif de la demande mondiale suppose une large annulation de la dette du Tiers Monde et une réforme du principal marché mondial, la Communauté Européenne.

MOTS-CLES: CRISE - DETTE - EUROPE

ABSTRACT
THE DEBT PROBLEM, EUROPEAN INTEGRATION,
AND
THE NEW PHASE OF WORLD CRISIS

This paper focuses on the problems of world economy after the crash of October 1987 which was the end of a third phase of the crisis of fordism. The solution to the supply-side of this crisis, based on "negotiated involvement" of the workers, seems to overcome the solution based on "liberal flexibility". As a result, heavy international unbalances appear. US deficits compound themselves to Third World Debt. A non-recessionist adjustment of world demand implies a large cancelation of this debt and a reform of the main world market: European Community.

KEY-WORDS: CRISIS, DEBT, EUROPE

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Just after the October 87 Crash, the community of economic experts and journalists had settled down in a cacophony regulated by the monthly fall of indices and by the Monday morning openings of the financial markets. "Isn't the nature of the catastrophe becoming clearer?" said then the new converts to a critique of Reaganomics, as they vilified the laxist policies of governments. "Isn't the American economy still growing?" Others -or the same ones- were quick to scold the Cassandras. By May 1988, every-thing seemed to be all right again (in the North). The crash was forgotten. "The Crisis is Over" was the new song, just as the Crash had led everyone to believe that it had just begun ! And as soon as Bush was elected, worries came again... But also new steps were made: propositions for the solution of the Debt Crisis, acceleration of unification of the European Community.

In fact, the crisis has lasted... for more than fifteen years. It is just entering in a new phase, with a lot of difficulties. The US election year has just postponed the problems.

According to a well-known gramscian dictum, a crisis means that the old is dying but the new is unable to be born. "The Old" is the economic order which, since the Korean War and under the aegis of Pax Americana, allowed the developed capitalist countries twenty years of unprecedented growth. This order has now cracked and the search for a new model of growth, for a new international order, proceeds gropingly ever since: by trial and error. The financial crash of 1987 has merely revealed the obstacles which made the previous attempted search (the third one) illusory. In other words, the crash signals the beginning of the fourth phase of the crisis, a phase whose contours are as yet uncertain.

THE DUAL ORIGINS OF THE CRISIS

The successes of the past rested on two pillars (1). The first pillar was a model of development which materialised more or less fully in the countries of the advanced capitalist world. Based on a particular kind of organization of labor, Taylorism, and on mechanization, this model made for

very rapid productivity gains. These gains were partly redistributed to the salaried population thanks to a tight network of collective agreements and to the institutions of the Welfare State. This model sometimes called "fordism" (2) was thus primed by the growth of domestic consumption. International trade also grew, but to a lesser extent. The ratio of exports to domestic production declined and hit an all-time low in the 1960's. Thanks to its unchallenged productive supremacy, the United States compelled all the other countries to recognize the dollar as the universal means of exchange.

Toward the end of the 60's this order fell apart from two sides. On the one hand, the taylorist organization of labor, in which the producers were not allowed any say in the organization and improvement of the processes of production, revealed itself to be increasingly irrational. As rank and file protests grew, engineers and technicians could no longer halt a declining productivity growth rate except through increasingly costly investments. The outcome was a decline in profit rates which, in turn, caused a decline in investment, growth of unemployment and a crisis of the welfare state. In sum, this was a "Supply-Side Crisis", in marxist terms an "Organic-Composition of Capital-Falling-Rate-of-Profit Crisis" (LIPIETZ [1982]), in MALINVAUD [1977] terms a "classical crisis".

But there was also a crisis around the State management of social demand (what the economists call "keynesian policies"). To restore productivity gains by way of economies of scale, multinational firms deployed their productive apparatus across continents. To restore profitability they subcontracted-out production to a number of third world countries. Ten years later, these would become the "Newly Industrialized Countries". World trade began to grow much faster than did markets internal to each country. The possibility of regulating the growth in demand and the growth in supply more and more escaped national governments. Three poles (The USA, Europe, Japan) became equivalent and competitive powers. The oil shock of 1973 accelerated the dangerous coupling of every national economy by compelling each country to export to pay for its oil: hence a "Demand-Side Crisis".

THE FIRST THREE PHASES

In the first period, from 1973 to 1979, the old "demand management" recipes prevailed. Trade unions, governments, and international experts sought willy-nilly to maintain the old order. The liberal increases in the money supply by the Federal Reserve Bank of America on the Eurodollar money market allowed internal adjustments to be postponed and OPEC surpluses to be paid. These dollars were recycled to the Newly Industrialized Countries. In turn, these, seeing that consumption continued to rise (albeit at a rate slowed by half) in the North, equipped themselves on credit in the hope of settling their debt through exports. The Organization for Economic Cooperation and Development, the Trilateral Commission, and the "Economic Summits" of the 7 greatest capitalist countries saw to it that each pole successively played the role of "locomotive" of world demand.

Nevertheless, this rather cooperative management of world demand produced no miracle, for the crisis on the supply side had been neglected. The fall in profitability continued and social conflicts around redistribution were dissolved into inflation. As the supply of the dollar unceasingly rose to finance an activity that was more and more unbalanced, its value collapsed and its owners turned to other currencies (the Mark mainly).

1979 was the great turning point for "experts" and governments. To restore confidence among creditors who saw their debts melt away and because they no longer felt it possible to "continue as before" to sustain growth via demand, they quickly came around to adopting opposite solutions. They tightened credit to get rid of "lame ducks", thereby favoring firms with a competitive future. They dismantled collective agreements and the Welfare State so as to restore profits and "therefore" investment: by reorganising the jungle, "natural selection" would take its course and the invisible hand of the market would find a solution to the crisis ! This second, monetarist phase of the crisis, led by the Federal Reserve Bank of the United States, lasted three years and came to a screeching halt, just short of the abyss, in the summer of 1982. The austerity imposed on the American people no doubt reestablished the hegemony of the dollar but at the cost of a recession

unprecedented since 1930. All the other capitalist countries had to toe the line, compelled to balance their trade accounts via competitive recessions and very high interest rates to prevent the flight of their savings. The Newly Industrialized Countries, finding themselves without markets just at the time when their debt was exploding, were seized by the throat.

The third phase saw a kind of median way. The Federal Reserve Bank partially opened the sluice gates of credit. The Federal budget deficit set off internal demand. The United States entered a long expansionary phase, pulling the rest of the world behind it. But this phase was quite different than the first phase, during the "Carter years". And it is critical today to understand in what way it was different.

First of all, as soon as the first phase ended, two schools arose to tackle the "supply-side crisis". Among industrialists, some (notably in the USA, Great Britain and France) sought radically to cut labor costs by eliminating job security, by out-sourcing, by transferring production to the third world and by automating (this can be labeled "flexible-liberal" model). Others, mainly in Japan, the Scandinavian countries and in certain areas of Germany and Italy, instead came out in favor of a new social contract negotiated more individually (as in Japan) or more collectively (as in Sweden) on the very premises of the shop floor. Wage earners were invited to join the battle for quality and productivity. Partnerships between enterprises and universities at the national and even regional level (as in Emilia-Romagna) were strengthened in the same way. This can be labeled "negociated implication" model (3).

The success of the second way is striking right at the start of the second phase which opens with American decline (see table 1). In 1980, Japanese productivity had overtaken that of the United States in the most internationalized lines of production (automobile, electronics). In the third phase, the conjunction of loss of competitiveness, of a growing budget deficit and of an overvalued dollar, fostered a monstrous increase in the American deficit. This deficit was not financed by issuing more dollars but (and here is the second difference with the Carter years) by the American Treasury borrowing from countries with surpluses (Germany, Japan).

Third Difference: the push to recovery given by weapon spending and by tax cuts undoubtedly created millions of jobs in USA. But, in the absence of a dense network of collective agreements and of social transfers, these jobs are low paying, without status, its holders subsisting off the crumbs of middle class spending trickling down to them (4). An enormous number of "collective servants" such as parking lot attendants, golf course caddies and fast food employees brings in sharp relief the image of the United States as the "Brazil of the 1980's": Undergoing Third- Worldization, its economy - including its industry - is undoubtedly booming but on credit, and on credit that is becoming more and more expensive.

As far as the Newly Industrialized Countries are concerned, they all have remained and will remain around the currency zone of the dollar. But their evolution during the Third phase is a sharply differentiated one. Those which had wagered their debt on developing an export sector while at the same time striving for food self-sufficiency and engaging in upward import-substitution by building up their industry (Korea, Taiwan), are taking full advantage of the growth of the American market and are servicing their debt (5). Those which, instead, borrowed to finance domestic projects with doubtful profitability and weak social utility are choking, even if they have a positive trade balance (Brazil: 12-14 billion dollars annually) which translates itself into a net transfer of surplus to the industrialized countries.

THE NUB OF THE CRISIS

One can roughly describe the world situation at the end of the third phase in the following manner: Washington places orders for sophisticated weaponry to West-Coast firms. These firms purchase German machine tools, their engineers buy Japanese cars, Korean microcomputers, tip their "collective servants" who, in turn, buy Brazilian shoes. The Federal Government, unable to pay its bills with tax revenues, re-borrows the missing dollars by selling Treasury Bonds to Japanese and German exporters.

In 1987 the U.S. trade deficit was 160 billion dollars, the Japanese surplus was 96 billion (out of which 56 billion on USA), the German surplus 65 billion, that of the OPEC countries 26 billion, that of the developing countries (outside OPEC) 36 billion. But the current balance (that is, including debt service) of the last is nevertheless minus 12 billion. Asia's "Four Little Dragons" had a balance of payments surplus (including debt service) in 1987 of 38 billion dollars vis-a-vis the United States. They had a deficit of 22 billion in relation to Japan.

American banks must gradually hike real interest rates to make up for the non-reimbursement of the bulk of the Third World debt. The Federal Reserve Bank does the same to attract savings from poles with a surplus. The rise in interest rates stifles economic growth throughout the world. Germans and Americans quarrel over this rise in interest rates in the fall of 1987. This is enough for investors, now aware of the imbalance, to quickly resell their shares. The result is the stock-market crash.

Contrary to dire forecasts, the effect of this crash on the "real economy" is nearly null, for two reasons. First, the Monetary Authorities all around the world react by pouring new money on financial markets. Second, the budget deficit of US Administration is not restricted (6). Thus, the macroeconomic configuration of 1988 looks much alike the 1978 one: budgetary and monetary laxity. Monetarism is dead, expansion is secured... but the come-back of inflation is the new threat. And of course the unbalance of world accounts remains: U.S. deficits stick around 10 billion a month. Solutions are only postponed, for electoral reasons all along year 1988, with rate of interest growing again.

The fact is that a "good" solution to a fourth phase of the crisis is very difficult to reach.

The myopic solution advanced by all "orthodox" economists and interested politicians consists in calling for a quick redress in the balance of accounts: <<The Third World and the USA must stop living above their means, they must pay back their debt. Once they do, interest rates will come down and economic recovery will be just around the corner>>. But this is to

misunderstand utterly the state of the crisis. At the end of phase III the broad outlines of a solution to the supply-side crisis are already in sight. In a more or less positive way, that is to say more or less advantageous or disastrous for wage-earners (through the German-Japanese "implication" model or through the US-British "flexible liberal" model), firms have once more found some satisfactory profit-making potential. Now the bottleneck is to be found entirely on the demand-side. The huge claims on future production accumulated by creditors will force most of the world (the Third World and the USA) to implement policies of austerity which, by slowing down the world economy, will make it impossible to pay off debts. Let me explain.

The problem is simply that "to pay for one's debt" equals "to get a net payment surplus", that is a trade surplus exceeding debt service. Jedlicki [1984] calculated that for the Third World to settle its (then) £600 billion debt in ten years, it would have to get a positive annual trade balance of £124 billion net. The latter figure represents around the total sum of the annual American trade deficit, and it would have been necessary to set it aside for imports from the Third World. This did not happen (luckily for Europe and Japan!). Today, Third World debt is over £1,000 billion, the annual American deficit is over £150 billion, and by the end of the decade the external debt of the USA will have matched that of the Third World. But the American debt can no longer be tolerated by the world financial system. If payment of the two debts (at the price of draconian austerity policies) is demanded, then Europe and Japan must accept a deficit on the order of several hundreds of billions of dollars per year vis-a-vis the rest of the world (the COMECON block being out of the game)! This would be disastrous for employment, with the most likely outcome being utter chaos.

TOWARD THE DEVALORISATION OF DEBT

As soon as the problem is examined on a world scale, that is, in the interest of everyone's standard of living, of everyone's job, of world peace and of the ecological safeguard of our planet (7), the logic of the macroeconomy implies, as in the thirties, the maximum devalorization of debt, in other words, the cancelling of as large a part of the debt as possible.

But this cancellation, which has already begun, poses a series of ethical, technical and political problems.

First, the ethical problems. To "officially" cancel debts creates a credibility problem for future credits, let alone the fact that it might seem shocking to cancel debts which were badly utilized! Human solidarity suggests that the debt of the poorest nations should be canceled first. But must we cancel debts of dictatorships, or on the contrary give a reward to young democracies (in Brazil, Argentina...)? Must we-getting down to the thorniest question-cancel the US debt? The most likely outcome is that we will have to combine a partial cancellation of the debt with a readjustment of export flows to benefit the US and the Third World balances.

Let us note right away that in devaluing the dollar by half in relation to the mark and the yen, the United States have maintained growth and partially restored their competitiveness but, above all, they have cancelled by half their dollar-denominated debts ! As to the different kinds of Third World countries, they have already cut back so much on their imports (with very often dramatic social consequences) that their trade balance depends almost exclusively on what the developed world is importing from them. For these countries the only solution is the devalorization of debt, something which is already acknowledged between creditors, but for which creditors have yet to ratify the consequences for debtors. In fact, when banks are turning to the debt "gray market", they take into account their devalorization in exchanges of title between banks. But even in transactions exchanging debt for equities or debentures between banks and debtors, rarely is it spelled out that the debtor de jure no longer needs to pay what is recognized by the creditor as a loss de facto.

As for the "technical" problem which arises from the annulment of the debt, this of course has to do with the survival of the creditors. What will happen if devalorization becomes generalized (a new fall of the dollar, collapse of the Treasury Bond market, annulment of Third World debts)? To the extent that these assets, having become fictitious, were used to sustain the world banking system, one risks the bankruptcy of big banks and the general breakdown of the financial system. A limited and controlled devalorization of

bad debts reassures customers-that is why banks the size of the Boston Bank are doing it-but becomes dangerous if it is massive and general-that is why it is forbidden to Citibank. A swap of the old debt for new debt or debentures at the grey market discount rate is possible for Bolivia, not for Brazil and Mexico together.

These problems lead to a political nexus. Since the end of 1988, there is a majority of analysts and policy makers in the North who acknowledges the macroeconomic and human necessity of a large cancellation of Third World Debt. There is already a silent, creeping cancellation going on. But this majority has to remain hidden, because a simple and global cancellation would imply a financial crisis. Even the project of a general debt-securities swap at the discount rate could not be accepted by the world elites without a thrust of the coalition of indebted third world countries, supported by a coalition of Non-Governmental Organizations and Trade-Unions in the North. Only at this condition could be revealed the "hidden majority" in the North.

But this thrust does not exist, because of a lack of coordination among the South and, worse, because of a lack of conviction from the elites of South. The amazing willingness to "pay for one's debt" of most right-wing or even center-left wing governments of indebted countries has to be socially understood. There exist at present powerful fractions of South elites which have interests in the payment of debt: financial intermediaries, export sector, etc... Moreover, there is an interiorisation of the political difficulties of non-payment in the mind of many intellectuals (8). These difficulties are real, but they may be overcome once the South unites, takes advantage of the existence of the "hidden majority" in the North, and presents a concrete alternative.

The rapid and global devalorization of Third World debt is in fact only possible if a supranational financial institution, acting as "lender of last resort", compensates banks which write-off bad loans. This renders contemporary relevance to "Special Drawing Rights". Possessed of emancipatory powers (that is to say a real money) and emitted by an International Monetary Fund rethought according to the principles proposed by Keynes at Bretton-Woods (9) these rights would first be substituted for debts

neither paid nor payable and, later, distributed yearly according to the growing needs of the world population. A definitive blow to the hegemony of the dollar, as it would practically lose its status as the only world currency. But can the U.S. long avoid this fate ? That is the problem arising by the adjustment of US deficit.

THE END OF US HEGEMONY

However annoying it may be to see the US escape that austerity which the IMF has so cruelly imposed on the Third World, the fact remains that this adjustment must at all costs prevent the onset of a recession in the US if only because women, blacks and Latinos, in short this entire "Third World" inside the US itself, would have to bear the costs. And also because a recession in the US would mean a drop in their imports, which is bad for Europe and Japan, and worse for the Newly Industrialized Countries of the Third World, insofar as the United States is the latter's best customer.

We have arrived at the tentative conclusion: cancellation of the Third World debt and the non-recessionary reestablishment of equilibrium between the US and the two other poles (10). An attempt at this re-equilibration was first sought by the USA through negotiating the devaluation of the dollar with its partners since September 1985 (Plaza Agreement). But this very solution did create in turn daunting political and economic problems, besides the fact that devaluation does nothing to reduce the U.S.'s deficits vis-à-vis dollar-zone countries (hence the U.S.'s protectionist reactions toward its Third World suppliers such as Brazil). But, above all, German and Japanese creditors, seeing the devaluation of their dollar debts, insisted to convert them into tangible assets on American soil and demanded higher rates of interest for the U.S. government securities they purchase. They hold these securities for no more than a few weeks before reselling them (11). The dollar has lost its capacity to act as a reserve money.

In sum, the loss of American industrial hegemony and the deadlock into which the two Reagan phases have landed the country, foreshadow an explicit loss of American financial hegemony. In their quarrel with Bonn which set off

the 1987 crash, ones hear, as if an echo, British ministers cursing the "gnomes of Zürich" in the 1960's for being behind the latest palpitation of the pound sterling. A currency which melts away cannot remain a universal currency!

So the non-recessionary reestablishment of the American trade balance, as it has been pursued in 1986-1987, that is to say through fighting devaluations, appeared uncertain with respect to its consequence and very dangerous for world economic stability. The preferred social and economic solution would naturally be an import recovery on the part of the two other poles, and of course on the part of the Third World.

The first solution (use Europe and Japan as "locomotive" during a fourth phase of the crisis) was de facto adopted by the US administration as soon as 1987. That was the last step of the capitulation of reaganomics: it had to accept the idea that the salvation of USA was depending on a keynesian policy of its competitors ! We shall come back later to the difficulties of of this strategy.

But in 1988-1989, the main step was made on the Third World Debt Crisis side (12). Progressively, Japan and USA joined the French position that, for the humanistic, ecological, and macroeconomic reasons explained above, this debt had to be cancelled as far as possible. The french president François Mitterrand had already adopted a two wings policy: cancellation of public claims on poorest countries, and a plan for a debt-securities swap, at a large discount rate, concerning the private credits to "intermediate countries": Mexico, Brazil, and so on. This swap should be financed by Special Drawing Rights (12). Obviously, France was running in front because its own external accounts were depending on a "laxist" keynesian policy at the world level. Moreover, the socialists were under the pressure of Green, Alternative and Communist activists.

In 1988, the Economic Summit of Toronto bought the first wing of the French Plan, despite the monetary orthodoxy of Germany and Great Britain. But the big question was the second wing. At the end of the same year, Japan accepted the first part of the idea (the swap), and proposed to help Third

World countries of its own choice to finance the swap through its own surpluses in Yens. A position rather similar to the Marshall Plan: a new hegemonic industrial country was proposing to help its future customers with its own currency. But the great turning point was the Brady statement. The US administration accepted also the first aspect of the french plan for intermediate countries. A major step indeed: acknowledgement was made that debtor were not to pay for private debt since they were unable to do it without dramatic consequences. But the Brady plan did not accept the second part of the french plan: the financing of a global debt swap by the IMF through Special Drawing Rights. On the contrary, it proposed case by case swaps, financed by the private banks themselves, but with a warrant based on an international fund financed by First World currencies.

The reasons of US position are already clear. First, they had partly joined to position of "weak", indebted countries. Second, they were still trying to protect to privileges of the dollar against the threat of Special Drawing Rights. And so, they were reluctant against a new global agreement on the international monetary system (a "New Bretton Woods") and were still in favour of a decentralized, case-by-case agreement between debtors and private creditors. That "centrist position" (between the German-British one and the French one) was adopted at the Summit of Paris in July 1989.

A rather unsatisfying and not realistic option. First, for the reasons already explained, the banks are not willing to accept a global swap at the current discount rate on the debt grey market: their losses would be too heavy. On the other hand, a marginal swap would be insufficient for the debtor: the cancelled part of the debt would be then a part of the debt that they precisely do not pay already. Their situation would not be improved. To be efficient, the swap should be global (that is on the totality of the debt) and at a discount rate greater than the de facto one of the gray market. Moreover, the discount rate on the grey market is a measure of the current capacity of a country to pay for the service of its debt (14). And this depend on the macroeconomic world situation, and above all on the willingness of the North to import from the South more than it exports. And this brings us back to our North-North macroeconomic problem: a non recessive balance of US deficits through a voluntary increase of European and Japanese imports.

EUROPE'S RESPONSABILITY

Japan has recently made important efforts in that direction: revaluation, rise in budget deficits for public works, rise in wages, fall in interest rates. But the fear is that this is inadequate: Japan, a medium-sized and aging country, overequipped to satisfy domestic demand, will probably never be a great pole of importation. All eyes then turn toward Europe.

The largest market in the world in terms of population and wealth, Western Europe is also the largest stagnant pole since the beginning of the crisis, the only developed capitalist region where unemployment remains very high despite demographic stagnation. This paradox is not at all due to an incapacity for technical and social innovation (as the examples of Germany and Italy show). Nor is it due to a special foreign trade constraint forbidding demand side policies, once we consider Western Europe as a whole. In fact, as shown in table 2, one of the main results of Western Europe economic integration (both within and outside EEC) was a growing self-sufficiency of the area, including for energy and food stuff. Europe is globally a surplus pole, with Germany gigantic surpluses being mainly a result of its intra-european trade (LIPIETZ [1989b]). A glance at the figures (table 3) clearly reveals the basic problem: alone among the countries to escape stagflation and unemployment are Switzerland, Austria, Sweden and Norway, that is to say, those countries which do not belong to the European Community (15). There is no European economic disease, there is a serious EEC problem.

A free trade zone without a common social policy, the Common Market has hardly hindered Fordism's entry into its "Golden Age" since all its countries were simultaneously pursuing a policy of developing domestic markets. Commercial imbalances were periodically purged by short-term policies designed to "cool" the economy, or by devaluations; at times "escape clauses" were invoked to reestablish certain protectionist measures. In the 70's these margins of manoeuvre were gradually abandoned just at a time when the internationalization of the economy was fostering commercial war between member countries. Denied the possibility of modifying their parity by the

rules of the European Monetary System, each country had no other option but to fall back on "competitive austerity" to balance its trade. "Each one must grow less quickly than its neighbour": you didn't need to be a game theory specialist to understand what the end result of this strategy was (16). Because Germany's partners must monitor their deficits vis-a-vis Germany, the whole of Europe is condemned to stagnate internally and cannot lead the rest of the world forward (17).

In reality, European growth is strictly limited by the growth of the most competitive economy and hence the one with a surplus: the economy of the Federal Republic of Germany. But, right at the beginning of the second phase and probably under the pressure of the pivotal Liberal party, German governments of the left and of the right have opted for fiscal, budgetary, and social "orthodoxy" despite an unemployment rate of nearly 10%. One can object that Germany's choice of "slow but sure" growth is its own business that can be justified by reference to the period of demographic implosion which it has just entered. All this is true. Nevertheless, by virtue of EMS and Common Market mechanisms, Germany's hegemonic role allows it to act as economics minister for the whole of Europe. Refusing either to stimulate internal growth, or to increase faster the free time of its workers, or to accept its partners' devaluations, it condemns the latter to oscillate between stagnation... and a deficit vis-a-vis Germany. In other words, it reserves for itself its partners' markets which are to be used as a vast outlet for its own productivism, but at the same time it prevents them from enlarging those very markets, and thereby comes into a deadlock in the medium-run. Moreover, by dictating a policy of free-trade which will take full effect in 1993 when individual countries will no longer even have recourse to indirect protectionist measures to control their imports, Germany is confining Europe to an ever more passive role.

At a deeper level, the problem does not arise only from the contingency of German policy, but from a coexistence within the same trade space but in different national units (fixing their own social policy and managing their own payment constraint separately) of regions having chosen different solutions to the "supply-side" of the crisis (LEBORGNE and LIPIETZ [1989]). On the one hand, Germany, Netherlands, Northern Italy are oriented

towards the "negociated implicaton" solution. Their competitiveness is based on the skill and implication of their workers. On the other hand, Great Britain, Spain, France, Southern Italy are playing the card of low wages and "flexibility" of labour contracts. In that conditions, the negociation of the counterparts of workers' implication in the first group countries (in terms of higher wages and/or shorter labour time) is limited by the competition of the second group. Hence the endless battle between regions for the lowest labour cost by unit of product, resulting into both global surpluses of EEC and inner unemployment.

To break out of this trap, to make Europe prosper once more (both in terms of welfare and free time) while allowing for a slight deficit to facilitate world-wide re-equilibrations, requires a profound restructuring of Europe's institutional mechanisms. It is not enough to rely on the unification of the market in 1993 or on the creation of a common currency, the ECU: this flight forward, which would eliminate the last defences of the rest of Europe against Germany's recessive policies, will only worsen the illness that must be cured. On the contrary, the horse must one again come before the cart: a common policy of social progress before the standardization of regulations, currencies and markets. This objective may be pursued in two complementary ways:

- By restoring to deficit countries a margin of manoeuver to speed up their growth and to fight against unemployment by shortening the workday. This requires greater autonomy in the management of national finances, and the possibility of invoking escape clauses when overly "generous" social policies pose too grave a threat to the balance of trade. Concretely, this means that any progress toward the creation of a common external currency, the ECU, is accompanied by a greater flexibility of exchange rates of national currencies vis-a-vis the ECU (18).

- By really endowing Europe with common social policies, including structural transfers toward deficit zones, and fostering the positive solution ("negociated implication") to the supply-side of the crisis. The agricultural common market was the prototype of this kind of transnational and structural social compromise policy. The mechanisms chosen (price supports for the

products and not income supports for farmers) revealed themselves to be perverse in the long run and their reform is urgent. But the very principle of a guaranteed socialized income on a European scale can only outrage the forces of conservatism in Europe, forces which will shamelessly manipulate urban prejudices against an "archaic and useless peasantry embezzling funds destined for industries of the future". Agricultural negotiations are thorny not because peasants are narrow-minded, but because they were the field for experimenting with transnational structural and social policies.

Nevertheless, to restore a capacity for European initiatives so as to secure prosperity and the full employment of its workers, to offer a pole of co-development with Third World countries, to participate in laying the foundations for a new international monetary system, and to contribute to the gradual adjustment of the American balance of trade, requires an additional step forward: to lay the foundations of an institutionalized trans-national compromise bearing on production and income norms. By this I mean a set of rules, regulations, public and collective agreements at the European level:

- Fixing in the middle term common thresholds for hourly wages, ceilings for labour time, ecological norms, and involving bosses and local administrations in the responsibilities of local employment, so as to induce management of every regions to select the most progressive variants of the "negotiated involvement" solution to the supply-side of the crisis.
- Setting up regular flows from the richest regions to the poorest, in order to finance welfare and structural adjustments, so as to solve the "demand-side" of the crisis.

Failing this, it will be best, for each European country as for the world economy, to return to autonomy within interdependence, where one country stands out by showing a way out of the crisis without really ever having entered it: Sweden. But will the social forces of Europe be in a position to reject, before 1992, this "Common Market against Europe" (17) whose completion is taken by liberal-conservatives and by unthinking columnists as a cure-all? The victory of Euroleft and of the Greens in the European elections of 1989 could have cast a light of hope.

NOTES

- 1) For a detailed analysis of the post-war economic order and of the three first phases of its crisis, see A. Lipietz [1985a], A. Brender [1988], Glyn et al. [1988].
- 2) According to the "French Regulation School". For a basic presentation see for instance LIPIETZ [1985b]
- 3) On this divergence of models of exiting the crisis, see P. Messine [1987], and D. Leborgne, A. Lipietz [1988]. On the loss of American hegemony, see B. Bellon and J. Niosi [1987].
- 4) 37 millions (or 1/3 of wage-earners) in the U.S. have no social-insurance.
- 5) Not surprisingly, Taiwan and Korea benefited a real land reform after World War II, and control their birth-rate.
- 6) During the first two months after the crash, Administration and Congressmen negotiated a slight cut in budget deficit. One year later, it appears that the yearly deficit is increased to 155 billions.
- 7) The ecological crisis will not be considered in this paper. In fact, it is a consequence of a common characteristic of fordism, stalinism, and current attempts to get out of crisis: productivism. At the end of the fordist period (early 70's), the first ecological consequences of productivism were criticized, and social movements imposed some regulation. But the deregulation movement of the second and third phases of the crisis accelerated the evolution towards a catastrophic deadlock: destruction of ionospheric ozone, greenhouse effect, increasing statistical probability of major industrial hazards (Bophal, Tchernobyl, Basle, and so on). This new constraint, equivalent to the "Great Plague

crisis" at the end of feudal Europe (mid XIVth Century-XVth century), will be of overwhelming importance in the selection of a definitive way out of the present crisis (see LIPIETZ [1989a]). Nowadays, the consciousness that the ecological crisis is bound to the debt crisis is popularized though the emblematic exemple of Amazonia, "the lung of the Planet which is burning because Brazil has to pay for its debt". An oversimplified analysis, but a politically useful myth !

- 8) I agree on this point with the statment of Jeffrey Sachs (Folha de S. Paulo, Dec. 9th, 1988): <<Unfortunately, a major part of the entrepreneureial elites of Brazil, Argentina, and other countries considere that to brave the bankers would be so daring that at the end they adopt a position more conservative on debt issues than the creditors themselves>>.
- 9) For the relevance of Keynes' views on the problem of international liquidities, see the collective work edited by ZERBATO [1987].
- 10) For a similar position (as far as the USA an concerned), see MARRIS [1987]. Stephen MARRIS was the main economic adviser of O.E.C.D. during the first (keynesian) phasis of the crisis.
- 11) According to the Mitsubishi Bank the turn-over rate of securites owned by Japanese investors rose from 1.3 times in 1984 to 9.8 times in the first 8 months of 1987.
- 12) On the diplomatic aspects of this major shift, see the brilliant inquiry by F. CAME [1989]. Of great importance in the attitude of USA were Caracas riots.
- 13) A first and more ambitions version of this plan had been presented by LIPIETZ [1985a].

- 14) A statement which should be accepted by liberal economists ! A major consequence of it is that a debt-security swap at insufficient discount rate would induce a new discount on the grey market of new securities: hence the importance of the international fund presenting a warrant.
- 15) For an in-depth analysis of the different rates of unemployment, see also G.Therborn, [1986].
- 16) On this perverse "beggar-my-neighbour" mechanism and its effects on "left wing keynesian" french policy of 1981-1983, see LIPIETZ [1984]. The rule "grow less than the neighbour" was formulated by the minister of finance Jacques Delors in 1983.
- 17) For a host of reasons, Great Britain and Spain have authorized themselves substantial deficits from 1987 to 1989 (one to three billions sterling a month for the former: that's not bad for an oil exporter country led by an "Iron Lady" !) But the German policeman will soon force them to undergo the austerity treatment.
- 18) The strengthening of the ECU is otherwise most desirable in order to shield European currencies from the speculative movements of floating capitals.
- 19) The title of a book (long forgotten !) by Michel Rocard, the current french prime minister (Seuil, Paris, 1973).

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TABLE 1

THE "NON-EXIT" OF THE CRISIS IN THE UNITED STATES

Cycles	1948-66	1966-73	1973-79	1979-86
Profit Rates	8,9	7	5,5	5,9
Investment Rates	3,6	4,4	3,5	2,9
Unemployment	5,2	4,6	6,8	8
Productivity	2,6	1,8	0,5	0,9
GNP	4,4	3,2	2,6	2,0
Real Wage	2,6	2,1	0,4	0,0

The first three lines are average cyclical rates (%)

The next three lines are average annual growth rates (%)

Source: J. BOWLES, D. GORDON, T. WEISKOPF, Paper read at the 1987
Chicago Conference of the American Economic Association

TABLE 2

GROWTH AND UNEMPLOYMENT BEFORE 87 CRASH:**"THE EEC EFFECT"**

Country	Unemployment Rate Summer 1987	Industrial Growth (Summer 1987, 1980 = 100)
Japan	2,8	125,8
U.S.	5,8	120,6**
Sweden	1,6	120
Norway	1,9	120
France	10,8	104
Germany	7,0	111
Great Britain	9,7	115,3**
Italy	10,5*	98,3

Source: OECD

* Source OFCE

** The 1980 benchmark warps the performance estimates of these two countries which were affected by the "monetarist shock" right at the end of 1979 (-10% between 1979 and 1980).