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THE DEBT PROBLEM AND THE NEW PHASE OF WORLD CRISIS

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Just after the October Crash, the community of economic experts and journalists has 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 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- are quick to scold the Cassandras. By May 1988, every-thing seems to be all right (in the North). The crash is forgotten. "The Crisis is Over" is the new song, just as the Crash had led everyone to believe that it had just begun ! And as soon as Bush is elected, worries come again...

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

According to a well-known 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 last 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 incrasingly 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.

THE FIRST THREE PHASES

In the <u>first period</u>, 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 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 and the Trilateral Commission 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. 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 individually (as in Japan) or 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 (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 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 in 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: 12-13 billion dollars anually) 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 it 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.

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. Not surprisingly, the dollar falls back again to its crash level as soon as Bush is elected.

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, firms from Sweden to the USA and Japan have once more found a 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 the total sum of the annual American trade deficit, and it would have been neccessary 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 via-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 and of world peace, the logic of the macroeconomy implies, as in the thirties, the maximum devalorization of debt, in others 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, political and technical problems.

These problems lead to a political nexus. There is at present a majority of analysts and policy makers in the North who aknowledges 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. 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 willinguess to "pay for one's debt" of most right-wing or even center-left wing governments of indebted countries has to be socialy understood. There exist at present powerfull fractions of South elites wich 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 (9). 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, (10) 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.

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 has maintained growth and partially restored its competitiveness (7) but, above all, it has cancelled by half its dollar-denominated debts ! As to the different kinds of Third World countires, they have already cut back so much on their imports (with ever more dramatic social consequences) that their trade balance depends almost exclusively on what the developed world is importing from them. For these countries the preferred solution is the devalorization of debt, something which is already aknowledged between creditors via a number of technical artifices, but for which creditors have yet to ratify the consequences for debtors (8).

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 develorization 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 gray market rate is possible for Bolivia, not for Brazil and Mexico together.

long avoid this fate ? That is the problem arised 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 arrive 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 (11). An attempt at this re-equilibration was first sought by the US through negotiating the devaluation of the dollar with its partners since the end of 1985. But this very solution is creating in turn daunting political and economic problems, besides the fact that devaluation does nothing to reduce the U.S.'s deficits vis-a-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 devalorization of their dollar debts, are trying to convert them into tangible assets on American soil and are demanding higher rates of interest for the U.S. government securities they purchase. In the two first Treasury bond auctions of 1988, the Japanese, who usually buy half of the securities, bought less than a quarter. They hold these securities for no more than a few weeks before reselling them (12). The dollar has lost its capacity to act as a currency of reserve.

In sum, the loss of American economic hegemony and the dead-end 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 November crash, ones hears, as if an echo, British ministers cursing the "gnomes of Zürich" in the 1960's for being behing the latest palpitation of the pound sterling. A currency which melts away cannot remain a universal currency! But neither can the Americans autonomously restore their accounts without harsh austerity measures which, however, are impractical... in an electoral period. Incapable of imposing "recovery" on their partners, the United States will equivocate for at least another year, risking a renewed rise in inflation and in interest rates, and then a new and far more destructive financial crash, including a crash of the securities market which will itself have lost virtually all credibility, a crash of the Tokyo stock-market etc...

So the non-recessionary restablishment of the American trade balance, as it is currently being pursued, that is to say through fighting devaluations, is, as we have seen, 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.

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 inadaquate: 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.

EUROPE'S RESPONSABILITY

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 is increasing 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). A glance at the numbers (table 2) clearly reveals the basic problem: alone among the countries to escape stagation and unemployment are Switzerland, Austria, Sweden and Norway, that is to say, those countries which do not belong to the European Community (13).

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 manoeuver 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 neighbor": you didn't need to be a game theory specialist to understand what the end result of this strategy was (14). 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 (15).

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 growth at home or to accept its partners' devaluations, it condemns the latter to oscillate between stagnation... and a deficit via-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 products, 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 undirect protectionist measures to control their imports, Germany is confining Europe to an ever more passive role.

To break out of this trap, to make Europe prosper once more while allowing for a slight deficit to facilitate world-wide re-equilibriations, 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 (16).

- By really endowing Europe with common social policies, including structural transfers toward deficit zones. The agricultural common market was the prototype of this kind of 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 are 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. 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 the 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 ?

Alain LIPIETZ

NOTES

1) For a detailed analysis of the post-war economic order and of the three first phases of its crisis, see A. Lipietz [1985], A. Brender [1988], Glyn et al. [1988].

2) According to the "French Regulation School". For a basic presentation see for instance LIPIETZ [1986]

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 million (or 1/3 of wage-earners) in the U.S. have no social-insurance.

5) Not surprisingly, Taïwan 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 negociated a slight cut in budget deficit. One year later, it appears that the yearly deficit is increased to 155 billions.

7) In the first semester of 1987, the US GNP grew 1.6%, of which 0.6% came from exports. The rest came from a slight rise in household income and a new fall in the savings rate (3,8%, the lowest since 1947).

8) Banks are turning to the debt "gray market" that takes into account their devalorization. But even in transactions exchanging debt for shares or debentures, 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.

9) I agree on this point with the statment of Jeffrey Sachs (Folha de S. Paulo, Dec. 9th, 1988): <<Unfortunatly, 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>>.

10) For the relevance of Keynes' views on the problem of international liquidities, see the collective work edited by ZERBATO [1987].

11) For a similar position (as far as the USA an concerned), see S. Maris, 1987.

12) 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.

13) For an in-depth analysis of the different rates of unemployment, see G. Therborn, [1986].

14) On this perverse mechanism and its effects on "left wing keynesian" french policy of 1981-1983, see LIPIETZ [1984].

15) For a host of reasons, Great Britain and Spain have authorized themselves substantial deficits in 1987 (9.8 billion sterling 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.

16) The strengthening of the ECU is otherwise most desirable in order to shield European currencies from the speculative movements of floating capitals.

17) 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 Chcago Conference of the American Economic Association

TABLE 2

GROWTH AND UNEMPLOYMENT

"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 hese two countries which were affected by the "monetarist shock" right at the end of 1979 (-10% between 1979 and 1980).