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How to avoid a two-tier Europe*

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Any attempt to predict what will be the consequences for labour and employment in Europe of the final establishment of the single internal market raises formidable problems. There are, to begin with, difficulties inherent in the theoretical (and even empirical) analysis of the relationships between, on the one hand, the institutions which determine the international framework and, on the other, the labour economy. Apparently, not much progress has been made in this area since the time when the great classic authors—Adam Smith and David Ricardo—formulated their intuitive perceptions. According to Adam Smith, the internationalisation and expansion of markets encourage the manufacturing division of labour with a view to achieving economies of scale. According to Ricardo, where there are dissimilar techniques, free trade encourages each country to specialise in the techniques which make more intensive use of the factor with which it is relatively best endowed. However, these intuitive perceptions make little allowance for the qualitative changes now taking place both in the division of labour and in the very concept of internationalisation. What is more, in each of these respects, Europe is now at a crossroads and the choices are as yet far from clear-cut.

Like all advanced capitalist countries, the countries of the Community have been facing for more than 15 years the crisis of the model of work relations which became the standard general model in the early 1950s and which is known as "Fordism". There are several possible ways of dealing with this crisis.

At the same time, these countries have more determinedly opted for partial unification "via the markets". But whether this unification will be accompanied by fiscal and social harmonisation is a still unanswered question, though the outcome of the Paris Summit (December 1989) suggests a negative answer.

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Yet, in the light of practical experience the problem is no longer unfamiliar: the Common Market has existed since 1957 and has become more deeply entrenched since then, and work relations have been evolving radically (in different directions) since the 1970s. The first section of this article will discuss the lessons to be learnt from the recent past. The second will consider more closely the two ways of escaping from the crisis of the "Fordist" wage relationship and will show that the results of the 1980s already demonstrate the superiority of nations or regions that have chosen one strategy in preference to another. The third section will deal with the macroeconomics of a single market composed of subgroups (regions or nations) that have no common social or fiscal policy and that are seeking different ways of escape from the crisis of Fordism. From the undesirable effects brought to light as a result of this inquiry it will become clear, by a contrary reasoning, what reforms are needed in order to avoid a "two-tier" Europe.

A look at the history

The Treaty of Rome was signed in 1957. The implementation of the Treaty coincided with one of the most brilliant periods in the history of capitalism. However, the crisis which began in the late 1960s was to particularly affect the European Community.

The twofold origin of the crisis

The successes of earlier times were attributable to a particular model of development and a specific international configuration.[1] This involved a particular model of development—"Fordism"—which materialised in one country after another of the developed capitalist world. This model, which was based on a particular form of work organisation—Taylorism—and on mechanisation, gave rise to very rapid increases in productivity which were widely redistributed to the wage-earning population thanks to a close-knit network of collective agreements and institutions of the Welfare State. Hence, the model received its impetus from the growth of internal consumption. In addition, the global configuration was of a very special kind. International trade in manufactures was also growing, though at a slower pace. The ratio of exports of manufactures to domestic production in the industrial countries reached a minimum in the 1960s. Thanks to its unchallenged productive supremacy the United States was able to impose the dollar as the world currency. The South, for its part, remained to a large extent a mere exporter of primary commodities.

Towards the end of the 1960s, both sides of this equation began to crumble at the same time. As regards the organisation of work, the Taylorist principles, which segregated the majority of workers from any involvement in the conduct and improvement of the process of production, came to be perceived as increasingly irrational. The only way in which engineers and technicians were able to sustain a growth—even at a lower rate—of productivity was through increasingly costly investments. The consequential drop in profitability in turn led to a slowdown of investment, a rise in unemployment, and a crisis of the Welfare State—in other words a "supply-side" crisis.

This meant also, however, a crisis in the State's management of social demand (the "Keynesian policy"), which was curbed by the change in the global configuration. In order to regain growth in productivity by means of economies of scale, multinational corporations extended their productive system over entire continents. And in order to restore their profitability, these corporations forged subcontracting links with some countries of the Third World which, ten years later, were to become the "newly industrialising countries". World trade began to grow at a much faster pace than the internal markets of individual countries. Governments became less and less able to reconcile the growth of demand with the growth of supply. Three poles (the United States, Europe, and Japan) took shape as equivalent and competing powers. The oil shock of 1973, which forced every country to promote exports in order to pay for its oil imports, gave an additional momentum to the dangerous linkage of all national economies.

During a first phase, from 1973 to 1979, the old recipes of "demand management" prevailed. As the American Federal Reserve Board freely issued dollars, which then proliferated on the Eurodollar market, it was possible to postpone internal adjustments. These dollars were recycled towards the newly industrialising countries. The OECD and the Summits of the "Group of Seven" major developed market-economy countries left it to each of the three poles in turn to act as the "locomotive" of world demand. However, this rather co-operative management of world demand did not produce any miracle: the crisis on the supply side had been overlooked. Profitability continued to decline and industrial disputes about shares in value-added profits were drowned in inflation. The value of the dollar collapsed, and dollar holders switched to other currencies.

The first great turning-point for the experts and for governments came in 1979. Realising that it was impossible to "carry on as before" in maintaining expansion through demand, they soon became converted to the opposite course: tighten credit in order to get rid of "lame ducks" and give pride of place to firms with a future, introduce some "flexibility" into the wage relationship, and reduce the role of the Welfare State in order to restore profits and "hence" investment. This second, monetarist, phase lasted for only three years and came to an abrupt halt, on the brink of disaster, in the summer of 1982. The austerity imposed on the population of the United States admittedly re-established the hegemony of the dollar, but at the cost of a recession unlike any known since 1930. All the other capitalist countries had to follow suit, forced to redress their trade balance by means of competitive recessions and to maintain high interest rates in order to staunch the outflow of savings.

In the third phase an intermediate solution began to take shape. The Federal Reserve partly relaxed its grip on credit. The federal budget deficit boosted domestic demand. The United States entered a long expansionary phase and its trade deficits contributed to a rise in activity in the rest of the world. This phase, which is still continuing despite the swelling payments imbalances that were responsible for the 1987 crash, is, however, very different from the first phase.

For one thing, already by the end of the first phase there were two schools of thought about how to cope with the "supply crisis".[2] Among businessmen, some (mainly in the United States, the United Kingdom and France) staked everything on reducing the cost of labour: temporary employment, subcontracting, relocation towards the Third World and automation. Others, however, mainly in Japan, the Scandinavian countries, the Federal Republic of Germany and some regions of Italy preferred to rely on a new social pact, negotiated at enterprise, sectoral or national level, dealing with the actual organisation of work. The employees were invited to join in the fight for quality and productivity. In the same way partnership links were strengthened between corporations and universities at the national or even regional level (e.g. in Emilia-Romagna).

In the event, the success of the second of these two options became strikingly obvious in the course of the second phase of the crisis. In 1980, in the most globalised sectors (automobile, electronics), Japan's productivity overtook that of the United States; by now it is in some cases twice as high as that of the United States.

In the third phase, owing to the combination of this loss of competitiveness, of an expansionary budget and of an overvalued dollar the American deficit swelled to monstrous proportions. The deficit was filled only by the American Treasury's borrowings from the surplus countries (the Federal Republic of Germany, Japan). And while the recovery in the United States, stimulated by orders of armaments and tax cuts, admittedly created millions of jobs, instead of spreading throughout society through a dense network of collective agreements and social transfer payments, these jobs are underpaid, have no status and rely on the "trickle-down" effect of the spending of the middle classes. With its mass of low-paid services to households, the country came more and more to look like a Brazil of the 1980s: a "third worldised" United States, experiencing, it is true, an economic and industrial boom, but living on increasingly expensive credit. The newly industrialising countries, for their part, evolved in various ways during this third phase, which will not be discussed in this context. However, because they are labouring under the burden of indebtedness, all of them offer supplies at cut-throat prices—thanks to their low wage levels—and so exert heavy pressure on world markets.[3]

The European Community: A global pole of stagnation

Western Europe, the world's leading market by reason of its population and its wealth, has also been the world's major pole of stagnation since the beginning of the crisis, the only developed capitalist pole where unemployment remains high despite the sluggishness of its demographic growth. This paradox is not attributable to any lack of the capacity for technical and social innovation, as can be seen from the examples of the Scandinavian countries and those of the "Alpine arc": northern Italy, southern Germany, Switzerland and Austria. From a glance at the figures (see table 1) one can see clearly what is the root problem: the only countries untouched by stagnation and unemployment in the period between the monetarist shock of 1980 and the 1987 stock-market crash were Sweden and Norway (the same is true of Austria and Switzerland)—that is, countries not members of the European Community. It is precisely this phenomenon which this study attempts to explain: the specific stagnation of the European Community. First, however, one should take a good look at the changing integration of Western Europe as a whole in the world economy, i.e. of the European Community and the European Free Trade Association (EFTA), for these two subregional groupings form in effect a common market.

Table 1. Growth and unemployment: The EEC effect

Country	Rate of unemployment (summer, 1987) (%)	Industrial growth (summer, 1987) (1980 = 100)
Japan	2.8	125.8
United States	5.8	120.6[2]
Sweden	1.6	120
Norway	1.9	120
France	10.8	104
Fed. Rep. of Germany	7.0	111
United Kingdom	9.7	115.3[2]
Italy	10.5[1]	98.3

[1] Source OFCE. [2] The use of 1980 as the reference year exaggerates the performance of these two countries, which suffered the "monetarist shock" at the end of 1979 (output declined by 10 per cent between 1979 and 1980).
Source: OECD.

A first point to consider is the productive "weight" of Western Europe. The gross domestic products (GDP) can be compared and aggregated in two different ways: either in volume terms (calculated by reference to the purchasing power parity of the currencies), or in value terms (at current rates of exchange). In the period 1967 to 1986 Western Europe lost some of its importance in volume terms, but much less in value terms (see table 2). But the decline is obvious vis-à-vis Japan. The contrast is even more pronounced in comparison with Latin America: in volume terms Latin America grew at the same rate as Japan, and even faster, but in value terms its decline was relatively greater than Western Europe's. Thus, there are two different ways in which a region is integrated in the world setting: one which attaches increasing value to the region's production (through "quality", as it were), and a second which emphasises a growth in volume terms that is valued less and less in the world market. From this point of view, Western Europe is in an intermediate position between the Japanese and the Latin American evolutions.

Instances of this diversity can be seen within Western Europe itself. In global terms, all the countries are losing some of their "weight" in the world setting, except those of Southern Europe (the newly industrialising countries

Table 2. Shares of regions in world production (as percentage of world GDP[1])

	1967		1986	
United States	25.8	33.8	21.4	26.6
Western Europe	26.3	26.4	22.9	26.2
Fed. Rep. of Germany	5.0	5.1	4.2	5.7
France	3.8	4.9	3.4	4.6
Italy	3.9	3.6	3.5	3.8
British Isles	4.8	4.8	3.5	3.6
Southern Europe	3.8	2.8	4.2	2.9
Japan	5.8	5.2	7.7	12.4
Latin America	6.9	5.1	7.9	4.6

[1] First column: parity purchasing power 1980. Second column: current rates of exchange.
Source: CEPII (1989).

of the 1960s: Spain, Portugal and Greece).[4] But like Latin America, these countries of Southern Europe are losing in international value terms. The British Isles (Great Britain plus Ireland) are losing in both volume and value terms. France, Italy and the Federal Republic of Germany are losing in volume terms, but the latter two countries are gaining in value terms. A contrast is already discernible between a somewhat stagnant northern Europe and a southern Europe whose primary aim is to grow but which—apart from the case of Italy—can only do so by attaching a low value to the output of its workers. This is further evidence of a European disease that can only be understood if one takes account of the complexity of the reciprocal adjustments within Western Europe.

The second feature characterising Europe is that it consists of keen exporters (accounting for seven of the world's top ten exporters) that are, however, mostly fighting each other. In the period 1967 to 1986 intra-European trade rose from 37.6 to 40.5 per cent of total world exports. However, if intra-regional trade is disregarded, Western Europe's share of world exports drops from 15.3 to 13.8 per cent (Japan's share being 9.9 per cent and that of the United States 9.7 per cent) and its share of world imports drops from 17 to 11.8 per cent (the United States share being 16.6 per cent and Japan's 5 per cent). Accordingly, Europe as such is in surplus globally (2 per cent of the world market) yet seemingly losing some weight in the world market. A further feature peculiar to Europe is that it is the only one of the world's regions to show a surplus in the services (non-factor) account. This situation is explained by the power of the British financial market and by the tourist trade in Southern Europe. Hence, Europe's balance of trade in goods and services is solidly positive. While in their common territory they are fiercely competitive, each of them prepared to suffer unemployment and stagnation in order to defend its current account against the others, the countries of Europe as a whole offer little or no outlet to third countries for the clearing of the world's imbalances. This self-centredness of Europe as a whole assumes spectacular dimensions at the sectoral level.

Table 3. Sectoral structure of European trade (percentage of international trade, all sectors)

	Exports		Imports	
	1967	1986	1967	1986
Energy	0.2	0.5	3.2	3.0
Agricultural foodstuffs	1.6	1.4	6.4	2.0
Textiles and leather	1.1	0.8	0.6	0.8
Timber, paper, miscellaneous	1.3	1.3	1.0	0.7
Chemicals	2.4	2.5	1.2	1.0
Iron and steel	1.1	0.6	0.4	0.2
Non-ferrous metals	0.5	0.3	1.6	0.4
Mechanical engineering (other than vehicles)	4.1	3.9	1.5	1.2
Land transport vehicles	1.4	0.7	0.2	0.6
Electrical material	0.6	0.6	0.2	0.2
Electronics	1.0	1.2	0.7	1.7
Total	15.3	13.8	17.0	11.8

Source: CEPII, 1989.

Table 3 gives data for Europe's imports and exports (net of intra-European flows), by sector, in respect of the years 1967 and 1986, calculated as percentages of *total* world trade, as provided in the report of the Centre d'études prospectives et d'information internationales (CEPII, 1989). A striking phenomenon is the decline in the figures for imports, including (very notably) those for imports of agricultural food products, of energy and of non-ferrous ores. The only sectors in which imports rose were textiles (where Europe achieved equilibrium), automobiles (in which Europe remained a net exporter) and electronics (where Europe became a net importer). A similar phenomenon is noticeable in the case of exports: the only sectors whose exports increased were the energy sector, the electronics sector (where Europe is a net importer) and the "core" chemical industry. The data show, accordingly, that the time is past when Europe was the workshop flooding the world with its manufactured products and when it used to import primary industrial commodities and food products from the less developed regions. Europe is heading towards a kind of *de facto* self-sufficiency. The mainspring of this trend is the intense pressure of internal competition. Each country in Europe is aiming to achieve equilibrium at all cost. One reason why Europe can adopt this self-centred stance is its internal diversity: the European region comprises countries with a strong manufacturing tradition, newly industrialising countries along the Mediterranean belt, large plains with a temperate climate that can, thanks to a common agricultural policy, offer incentives for high productivity, ensure food self-sufficiency (and even a surplus of certain farm products). It even possesses some reserves of fossil fuels.

Some countries (especially those in Southern Europe) are banking on the advantage of their relatively low wages, while hoping that later on they might emulate the example of Italy. Others, mainly the Scandinavian countries, are relying on their socially negotiated advantage in the new technologies. This is not enough to beat Japan's organisational superiority in the automobile and electronics sectors or the competition of Third World countries in the highly labour-intensive textile sector. This explains why Europe is also resorting to protectionism, erecting barriers against Japanese automobiles, against textiles from Asia, against meat from Argentina, etc. It would be a serious mistake, however, to equate Europe's self-centredness with protectionism. Europe's anti-dumping zeal reflects its concern to preserve what has been achieved by means of its internal social compromises and commitments. These, however, still vary from one region or country to another within Europe. And the greatest danger threatening them flows from Europe's internal structure. That is the subject which will be discussed next.

Two ways out of the "supply-side crisis"

What has been said in the foregoing section shows two things. First, the "supply-side crisis" (as regards the organisation of work) was approached in two different ways, one involving an upgrading of the products of human labour in the world market, the other a downgrading. On the whole, Western Europe (understood from this point on to refer exclusively to the EEC) is in an intermediate position: the first approach seems to prevail in the Federal Republic of Germany and in Italy, the second in the British Isles, Southern Europe and France. Secondly, the "demand-side crisis" (due to international competition) seems to affect more especially the EEC, despite Europe's self-centredness. This section deals with the first point.

"Post-Fordism": Negotiated involvement or flexibility?

The erosion of the technical efficiency of Taylorism which became evident in the late 1960s was actually a social erosion. The "Fordist" worker is, in theory, not involved in the conduct of the manufacturing process, which is the responsibility of the technicians, engineers and the planning office. This non-involvement gave rise to movements of resistance and revolt. According to the Fordist logic, these could only be overcome by more intensive automation. The "electronic revolution" seemed to offer the solution.

In the first place, electronics provide the means of making the operation of machines more complex. In that respect, electronics are merely following the secular trend of mechanisation: rising productivity, increasing volume of capital per person. The result in terms of profitability is indeterminate. But above all, electronics offer greater "flexibility" in the use of plants; that is, electronics make it theoretically possible to change the mode of operating standardised machinery, even automatically. The profitable operation of flexible plants would be possible for the production of several short runs of goods within a range of differentiated products intended for smaller and segmented markets. What is even more important is that the actual management of the workshop can be changed by the introduction of electronics.

Computer-assisted manufacturing greatly enlarges the scope for managing, in real time, the current stocks required for each operation, in keeping with the workshop's production needs, and output can be optimised according to the level of the intermediate and final demand. This "just-in-time" formula can be extended to the relationships between the workshops within the plant, between the plants of one and the same firm, and between firms and subcontractors.

However, there is a reverse side to these "advantages of the new technologies". The machines may be very expensive and their virtues may be offset by the fact that they may break down. As a consequence, a workshop's potential may be undercut, unless some manual operatives on the spot are able to make up for the interrupted operations—which raises the whole problem of the involvement and skill of the operatives. Limits to the "flexibility" of productive equipment are still stronger. Contrary to a common overestimation of the "new industrial divide" (Piore and Sabel, 1984), the flexibility due to electronics does not necessarily spell the end of the trend towards the technical and financial concentration of capital.

Hence, the "electronic revolution" actually accentuates rather than resolves the question underlying the crisis of the Fordist paradigm, the question of the involvement or non-involvement of the operative directly concerned. It is at this point that the "models of development of the future" begin to part company (see Leborgne and Lipietz, 1988).

Among the possible alternatives, one option might be eventually to strip the operative of all initiative; this would signify the triumph of the engineering department and of the planning office. This may be the dream of the majority of employers who faithfully follow the Taylorist philosophy. This would be a consolidation of the Fordist industrial paradigm, not an escape from the paradigm. This in fact is the option preferred by the majority of employers in France (Riboud, 1987), in the United Kingdom and in the United States. The alternative is, of course, to opt for less sophisticated technical systems which, however, mobilise the "real-time" involvement of the operatives. What is at stake is how to offer the workers collectively an incentive to become involved of their own free will not only in the constant adjustment of the installations and in their maintenance, but also in such a way that the improvements might be systematically incorporated into the hardware and in the software. Such a type of work relations would seem to be more efficient than the previous one (Aoki, 1986). However, involvement and skill strengthen the workers' autonomy, and this was the "hidden" logic of Taylorism. Hence, the management must offer something in return.

A first sub-option is based on individual commitment: in return for his/her involvement the worker would share in the firm's progress through bonuses, enhanced career prospects and the like. Another sub-option is that of collective bargaining. The trade union would offer its members' involvement in the fight for productivity and high-quality standards in return for a right to oversee the conditions of employment, dismissals and the sharing of the gains from improved productivity. This collectivised commitment, furthermore, may be entered into at enterprise or sectoral level or may be community-wide, and may be reflected in the shortening of hours of work, in the Welfare State's increased expenditure on well-being and education, or in other forms. In other words, one can visualise a hierarchy of counterparts in return for such involvement, by reference to which the degree of involvement itself could be measured, for the workers collectively would become increasingly mindful of the "exigencies" of the efficient operation of the workshop (or office), firm, sector, region or country.

However, this is not the line of thinking that has prevailed among the majority of the "élites" of the world, certainly not in the reports of the OECD or at the summit meetings of the Group of Seven in the 1980s. The prevailing talk was about "flexibility", not in the sense described above (*internal* adjustment of the workers' activity to the maximum efficiency of the technical facilities) but rather in the sense of "external flexibility", i.e. adjustment of the workforce (and, correspondingly, of wages) to the demands of competitiveness. This flexibility, by virtue of which employers claim the right to hire and fire at will, would be the answer to the "excessive rigidity" of the Fordist type of contract employment and would herald a new system of accumulation.

A word of caution is in order at this point. The "flexibility" of the new technologies is sometimes thought to have an implicit link with the "flexibility" of the contract of employment. Actually, there is no such link. The shape of tomorrow's wage agreements depends on today's industrial disputes, on national traditions (Mahon, 1987) and—as will be shown below—on the institutions of the EEC. To what extent are "flexibility" and rigidity compatible with whatever forms the reorganisation of work processes may take? There are various possible combinations.

The first combination (polarisation of skills, rigid contract) is the Fordist starting-point. This combination will presumably continue to prevail, with a "natural" evolution towards a second combination ("flexible" contracts, intended to economise on wages). This scenario—consolidation of Taylorist principles, more automation, fewer "Fordist" counterparts for the workers—may be described as the neo-Taylorist way for technology and for society. It leads to very unsatisfactory social structures, a polarisation of skills, and a dualism of the labour market and of society.

The combination "collective involvement/flexibility" on the other hand appears to be outright illogical, an employer's Utopia. The combination "collective involvement under a rigid contract" for its part may look like Utopia for labour. However, this dream of a "new deal" for the twenty-first century (Lipietz, 1989) is apparently shared by some leaders, not only in Sweden but also in Japan, the Federal Republic of Germany and northern Italy. This type of development model may offer the features of stability of Fordism: the employers benefit from the advantages of a less capital-intensive and more productive technological evolution, while the workers are guaranteed greater job security, higher wages, and/or shorter working weeks. As a tribute to the Volvo plant where this kind of compromise was inaugurated, the models of this type may be designated "Kalmarian" models.

There is, of course, a whole range of compatible combinations, e.g. individually negotiated involvement and flexible remuneration, etc. But experience has given a conclusive answer: the "Kalmarian" models are overwhelmingly superior, from the point of view of competitiveness, to the "neo-Taylorist" ones. In practice, we find again, in terms of the criteria "international upgrading/downgrading of labour", which were discussed above, the countries (or regions) that have, in their majority, opted for the one or other strategy for escaping from the crisis of Fordism.

Moreover, like the capital/labour relationship, the relationships between firms (or between production units) are at a cross-roads. The new technologies offer fresh scope for industrial organisation, mainly thanks to the computer-assisted management of flows of information and of products, to the flexibility of capital goods, to the standardisation made possible by automated high-precision manufacture, to the modular design of products, and to the automated assembly of components. The new emerging point of equilibrium is the *specialised firm* which produces a limited range of differentiated final or intermediate goods (Leborgne, 1987, 1990 a and b). The optimum management of quality, innovation and time-saving is achieved at this level. By means of computer-assisted management of external flows—i.e. inter-firm flows—and also thanks to the greater precision of manufacture the leading firms are thus able to co-ordinate just-in-time subcontracting operations: they form, in effect, a network of specialised firms. Apart from these technical considerations there are economic and financial constraints: the importance of spreading the risks regarding research and development, investment in high technology and, more generally, investment in fixed plants among a number of owners of the capital. The restructuring of hitherto vertically organised major firms into networks of specialised firms, or the regrouping of firms within such a network, may be one way of meeting this challenge; this is what has been described as "vertical quasi-integration" (Enrietti, 1983) or, more accurately, "oblique or sideways quasi-integration" (Laigle, 1989).

This quasi-integration may, however, take two very different forms. The cases in which the "subordination" of subcontractors prevails (i.e. where these have little initiative and carry out little applied research) are instances of what may be called "poor" vertical quasi-integration: these are examples of the old Fordist trend. The cases, however, in which the specialised firms are in charge of the development of their special know-how and build up partnership relations with those who give them orders are instances of what may be called "dense" oblique quasi-integration. The "poor" kind takes the form of relocation and of the employment of specialised firms outside the territory: relocation towards Japan (for highly skilled work or high technology) and towards Third World countries for unskilled or even semi-skilled work (Scott, 1987). This may be called the "exterritorialised" form of quasi-integration. It leads either to deindustrialisation or to the "peripheralisation" of industry, with the result, among others, that there is little or no diffusion of high-technology innovations within the home country's industry.

The territorially integrated quasi-integration on the other hand takes the form of creating a network inside the country or even the region in question.

The macroeconomic multiplier and accelerator effects are felt within the country, and the country retains control of the diffusion of the innovations from sector to sector through direct intraregional connections. This is typically what happens in Italy's Po Valley, in many of the Länder of the Federal Republic of Germany and elsewhere.

Discourse and practices of "defensive flexibility" and of "offensive flexibility"

As can be seen, there is very generally a congruence between work relations featuring "negotiated involvement" and "dense and integrated" oblique quasi-integration, and, conversely, between (external) "flexibility" of the wage relationship and "poor and exterritorialised" vertical quasi-integration.[5] This congruence characterises dissimilar types of regions, but it has to be conceded (though the explanation of the phenomenon is to be sought rather in the realm of sociology and political science) that territory-specific constellations of social forces determine whether the trend is in the one or in the other direction (Leborgne and Lipietz, 1989): an "offensive strategy" or a "defensive strategy" of the local society. This point is considered below.

The defensive option

This is a short-term view of "adjustment to the constraints of competition and to the new technologies". There is much talk of the "demands of modernisation", the defence of acquired social benefits is criticised as being "archaic", and the difference in interests between capital and labour is said to be non-existent ("we are all in the same boat vis-à-vis world competition"). The defensive option relies on the existing "flexibility" (of labour), in its negative aspects, or calls for the "elimination of rigidities", for the purpose of "defending threatened markets". Its object is to create or maintain a group of "employers/owners".

This implies, so far as labour is concerned, the destruction of social achievements anchored in the wage contract through the development of temporary contracts, the weakening of labour legislation (in France, for example, the Delebarre Act, having been stripped of its stringent provisions in June 1987, became the Seguin Act, and the Act of December 1987 authorised night work for women), and the ad hoc negotiation of agreements at enterprise level. These characteristics typify the neo-Taylorist model.

So far as capital is concerned, the general rule in France and in the United Kingdom is that financial capital of local origin is not involved in the territory's industrial capital. Opportunist (short-term) relationships between major enterprises that give the orders and small subcontracting firms are typical of a poor vertical quasi-integration. In these situations, the partnership can be understood primarily as a "sale of services" by the major enterprises to the small firms.

So far as the institutions are concerned, there is evidence of an unstable tension between a central State, which makes the major macroeconomic decisions and leaves it to the regions to cope with the social consequences, and

regions that constantly clamour for the central State's support. This support by the central State takes the form of plans settled on an ad hoc basis, which are called into question when the political majority changes, and of subsidies intended to attract foreign industrial capital.

These attitudes are rooted in the obsolescent Fordist traditions which emphasised the low cost of labour and unskilled work (young persons and women without skills, immigrants), and in the condition of the social forces characterised by the disarray of trade unionism due to a harderning of attitudes with respect to earlier compromises, or in which the management of "redeployment" is left to the employers, who relocate elsewhere and so avoid social commitments.

The effects of the defensive option are evident in the destruction of obsolescent industrial sites, in the loss of the existing technical knowledge and know-how, in the destruction of the former territorial agreements that prohibited "social dumping", in the sharpening of competition between workers, subcontractors and sites (inside or outside the territory), in the increasing dependence of the local production system on imports, in the loss of control of the domestic market, and in the polarisation of the production system around a few "niches" or "poles of competitiveness", while the other sectors are abandoned because they are "archaic". The myth of the "flexible small enterprise", the proliferation of schemes for the creation by the authorities of "technology centres", the proclamation of the year 1986 as the "year of industry" with the object (as it is said in the United Kingdom) of reconciling society and industry or—in France—the reaction of a modernist group of employers to the deregulation of the labour market (Riboud, 1987)—all these are symptomatic developments.

The offensive option

This is a medium-to-long-term view of the collective interests of a broad segment of the local community. Activities are modernised, and the problems raised by modernisation are discussed. Allowance is made for the difference in interests between capital and labour and mutually advantageous compromises are negotiated (sometimes after long disputes). Through the negotiating process the offensive option creates the capacity to develop the new technologies in the light of new markets to be opened up, and it aims to establish or to maintain the hegemony of a group of "employers/producers".

This implies, so far as labour is concerned, the development of training, multiple skills and initiative on the part of the workers, under stable wage agreements on which models of the Kalmar type are based. The rules of the game are settled at the broadest (regional or national) level through bipartite or tripartite agreements (the parties being employers/trade unions/the State). These may be embodied in framework legislation or in collective agreements, and they form the setting in which enterprise agreements or local agreements mobilise the existing human resources. Illustrative examples are the agreements concluded in the metalworking industry in the Federal Republic of Germany (under the pressure of IG Metall) and in the chemical industry, and the regional agreements concluded in, for example, Baden-Württemberg. As regards Italy, among the conflicting trends observable at present, reference should be made to the protocol of agreement signed in 1984 by the Istituto di Ristrutturazione Industriale (IRI, the principal agency responsible for administering state-controlled corporations) (Rinaldini, cited in Bachet, 1986) and those signed in 1986 by ENI and EFIM (two industrial groups also controlled or partly controlled by the State). These agreements offer fresh scope to the trade unions in that they give them the right, in the context of joint advisory committees, to take part in the early phase of the preparation of modernisation schemes. This is the type of agreement which the Italian trade unions would now like to see extended to the private sector.

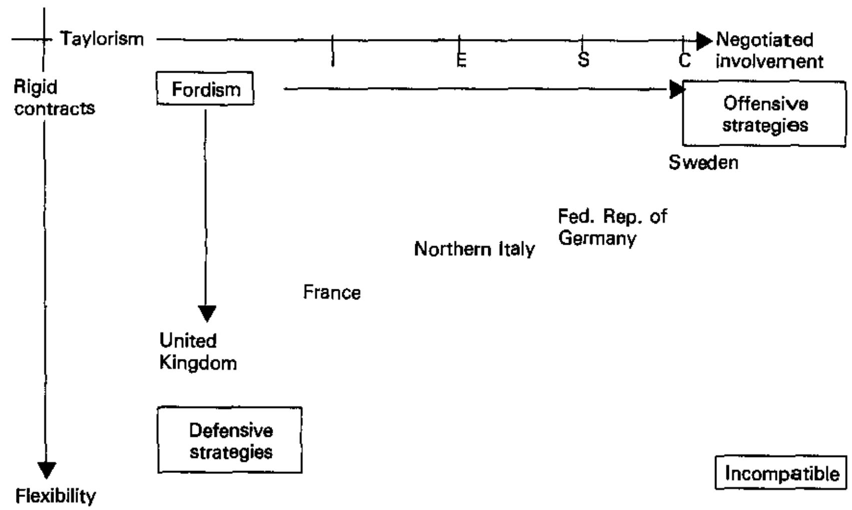
So far as capital is concerned, local savings are the source of heavy investment in the territory's productive capital. In the Federal Republic of Germany the close ties between financial capital and industrial capital are thought to explain why there have been few public take-over bids. The intimate relations between the banks and small and medium-size enterprises in the Länder are stressed in many studies. In the case of Italy, while the connections between industrial capital and financial capital are not so highly organised, the local savings banks are nevertheless close to the small and medium-size enterprises and are involved in the establishment of regional centres which perform the function of providing services (research, marketing, expert advice, etc.) to these enterprises (as happens, for example, in Emilia-Romagna). A partnership featuring business and non-business relationships between major corporations and specialised firms is a typical characteristic of oblique quasi-integration.

So far as the institutions are concerned, stabilised agreements are established (even though the administration of the agreements may give rise to some friction) at the appropriate territorial level for the setting up of networks of information and of an interface between the State, trade unions and enterprises, in the field of research, the determination and constant adjustment of the territorial scheme, etc.

In contrast with the defensive option, these attitudes are rooted in the obsolescent Fordist traditions which emphasised know-how in the field of engineering and skilled manufacture, and in the condition of the social forces characterised by a trade unionism that mobilises the pre-established power relationships in order to exert an influence on the new development model, vis-à-vis employers who seek to negotiate the workers' involvement as a trade-off against social commitments.

The effects of the offensive option are visible in negotiations anticipating the redeployment, mobilisation, adaptation and readaptation of existing know-how, the forging of tighter intersectoral and intrasectoral links within the territory, the control of the domestic market for certain industries, the intersectoral diffusion of know-how, of applied research, etc. Within the territory, this means a development of both industrial and tertiary "system areas" and a transition of the specialised productive areas towards local production systems.

The two strategies



I: Individual negotiation. E: Enterprise-level negotiation. S: Sectoral negotiation. C: Community-level negotiation.

In short, the offensive option is reflected in the formation of tighter networks of specialised firms around emerging or older multinational corporations, in the prominence given to the modernisation of the existing (and not necessarily new) enterprises, in the formation of "system areas" or of production systems whose location corresponds to closer partnership relationships between firms, universities and the local authorities, and in the ability of the wage agreement to withstand deregulation.

To sum up: if the Fordist wage relationship is characterised by "Taylorism" as regards the organisation of work and the rigidity of the wage agreement, the object of the offensive strategies is to promote the evolution of the organisation of work towards negotiated involvement (the negotiation taking place at various levels), while the object of the defensive strategies is rather to make the wage agreement "flexible". The discussion may be schematically summed up in the above diagram.

Macroeconomics of the single market

The fundamental problem of any "labour economy of the single market" is that, in addition to the inter-regional differences in ("defensive" or "offensive") strategies adopted in order to overcome the crisis of Fordism, there are the national frontiers inside Europe. Every country, whatever strategy it may have adopted in its regions, has to balance its external accounts. This state of affairs is illustrated below in stylised form; this study will consider the situation and foreseeable trends in the present stage of implementation of the Single Act, after which it will discuss the means of remedying the undesirable effects noted.

A stylised representation

The situation in the EEC may be schematically summed up—almost caricatured—in the following manner:

1. The EEC is potentially self-sufficient.
2. The markets for goods and capital are free, and the real exchange rates are fixed.
3. Each country has to adjust to its external constraints, without prior co-ordination with the others.
4. Each Member State of the EEC may be thought of as being composed of regions that adopt either the offensive strategy or the defensive strategy.
5. The offensive strategy is superior (in terms of competitiveness) to the defensive strategy in all sectors, but less so in labour-intensive industries where a sufficient difference in wages may give the advantage to the defensive strategy.

From the points 1 to 3 above it is possible, by means of the customary Keynesian-type reasoning ("beggar-thy-neighbour policies": Glyn et al., 1990; Lipietz, 1985), to infer immediately a trend towards stagnation, in that each country has to adjust in the short term to the constraints exerted upon it by all the others by means of a contraction of its internal income and by an effort to export through a lowering of unit wage costs. Such a trend in fact materialised in the 1970s and even in the 1980s (see table 1). It is thought likely, moreover, that in the medium term the countries where social welfare schemes are underdeveloped and where wages are low will gain a competitive advantage over the others, which will lead to a general erosion of social protection ("social dumping"). This is certainly what would happen if the modes of organisation of work were everywhere of the same kind and if competitiveness operated only through wages and through the "defensive strategy".

However, if one takes into account points 4 and 5 this diagnosis is somewhat mitigated. For if one applies the classic theorems concerning comparative advantage[6] it follows from these characteristics that each of the regions will tend to specialise in exporting products of the sectors that use more intensively the "factor" with which the region in question is best endowed, that is, either "flexible" and Taylorised labour or skilled labour whose involvement has been negotiated. Since the movement of capital is free and since the market is in fact a single one, the entire division of labour within the EEC tends to polarise between regions, by sector (or subsector), in accordance with this very special type of "comparative advantages".

Hence, the total volume of the "single market" is determined by the relatively high wages of the countries in which the offensive strategy prevails and the relatively low wages of the countries applying a defensive strategy. The weaker the redistributional options in the countries in the former group, the

stronger is the pressure exerted on the low wages (and on flexibility and unemployment) in the countries in the latter group. In the absence of a policy of "concerted recovery" (item 3) the macroeconomic options of the countries in the first group are thus imposed upon all the others and so determine an equilibrium of underemployment at the European level.

At this point it should be noted that in the regions applying an offensive strategy the productivity gains are redistributed (via the "collectively negotiated involvement") within the strict limit of the quasi-rent which they derive from competitiveness thanks to the productive advantage of the involvement of their workers. Since this quasi-rent is itself limited by the difference in competitiveness between the two groups of regions, its preservation implies structurally an "excessive redistributional prudence" in the regions of the first type, for it risks at all times being reversed by a widening of the gap in wage costs vis-à-vis the regions of the second type. In other words, whereas Fordist macroeconomics were based on a nationwide, foreseeable and general redistributional agreement, "offensive" social agreements at the regional level within a Europe that lacks a common legislation are tenable only in so far as they do not jeopardise the difference in competitiveness between the region concerned and the others, and hence are not likely to promote the growth of the other regions by a "demand-pull" effect.

Compared with an analysis taking account only of the first three characteristics, the result is less disastrous. Instead of a reciprocal erosion of the national social commitments, in consequence of intra-Community competition, there would be a "two-tier" Europe whose map would look like a leopard skin. However, the regional "spots" of networks of enterprises with an offensive social commitment would in many cases include subcontracting sectors and sectors providing services to the firms and to households—such sectors being characterised by poor social coverage and high "flexibility". These intra-regional differences may reflect differences based on sex or ethnicity.

In the absence of a more general Community-wide political agreement covering the whole of society, "offensive flexibility" may thus lead to a "yeoman democracy", a wage democracy of skilled workers of the kind advocated by Piore and Sabel (1984), which would, however, leave in limbo, for example, a "women's slavery". Already now there is discernible in Japan a tendency—typical of trade unionism in hegemonic countries (formerly the United Kingdom, later the United States)—to adopt the behaviour of a workers' aristocracy: this is the "dilemma of industrial democracy" criticised by Aoki (1990).

In any case, this Europe with a two-tier society would, through the operation of the mechanisms analysed above, be a Europe proceeding at a single—and rather low—economic pace.

What is the position now?

The foregoing discussion throws some light on the data cited in the first section: relative stagnation in Europe, high rates of unemployment (even in countries with a trade surplus), despite a global surplus of the European

Table 4. Trade balance of the Federal Republic of Germany (1988) (billions of US$)

	In relations with						
	EEC	EFTA[1]	USA	CMEA[2]	Japan	OPEC	Third World
Exports	176	54	26	11	7	9	32
Imports	130	34	17	9	16	6	32
Balance of FRG	46	20	9	2	−9	3	0

[1] European Free Trade Associations (non-EEC). [2] Council for Mutual Economic Assistance (grouping of Eastern European countries).
Source: OECD.

region. It also throws some light on the contrast between countries that are growing by upgrading their labour in the international market (the Federal Republic of Germany, but also Italy thanks to its northern and central regions) and those that are growing by downgrading their labour (mainly the Iberian Peninsula, and to some extent the British Isles) as though there were two possible poles of attraction with regard to work relations—neo-Taylorist flexibility or negotiated involvement.

The institutions of the EEC have moved progressively closer to our stylised characteristics. As a free-trade area without a common social policy the European Community had certainly not hampered growth in the "golden age" of Fordism, for all its member countries were simultaneously implementing a policy of growth of the domestic market. The trade imbalances were cleared periodically by devaluations or by policies designed to "cool" the economy, or even by the operation of the "safeguard clauses" that made it possible to restore some protectionist tariffs. In the 1970s these discretionary measures gradually fell into disuse, at the very time when the internationalisation of the economy was stoking the fires of the trade war among the member countries. Because the rules of the European Monetary System (EMS) discourage changes in currency parities, each country had no choice but to apply a policy of "competitive austerity" in order to redress its balance: "Each had to grow less fast than its neighbour."

Actually, growth in Europe is strictly limited by the growth of the most competitive—and hence surplus—economy, that of the Federal Republic of Germany. This country is of course the "tail light" of the train heading for flexibility in Europe (Zachert, 1988), and it has opted for the strategy of negotiated involvement. However, ever since the second phase of the crisis, the country's governments—whether left-wing or right-wing—have been emphasising monetary and budgetary orthodoxy, despite a high rate of unemployment in its northern and central regions. Yet, owing to the operation of the mechanisms of the EMS and the Single Act, the country's hegemonic weight is so great that it can virtually act as the Minister of Economic Affairs of the whole of Europe. In particular, it determines the rate of currency adjustments within the EMS, and its own restrictive monetary policy forces all its partners to practice excessively high interest rates. Being resolutely opposed both to giving an extra boost to its domestic economy and to competitive devaluation among its partners, the Federal Republic of Germany condemns its partners to swing back and forth between stagnation and a deficit vis-à-vis itself.[7] Accordingly, the commercial power of the EEC is in effect synonymous with the Federal Republic of Germany's power, mainly in relation to the rest of Europe. A glance at the figures in table 4 shows that that country earns the bulk of its surplus from trade with the other countries of Europe, which means that these must—by earning a surplus in their trade with the rest of the world—obtain the means of paying for their imports from the Federal Republic, that is, by importing little and exporting to the utmost.

Whither the Single Act?

Before answering this question, one must be clear about the way in which the Single Act is to be translated into reality in 1993. As these lines are being written (on the morrow of the Paris Summit meeting) it seems that:

- the free movement of goods will be fully achieved through the elimination of indirect protectionist measures;
- the free movement of capital will be achieved under conditions that will rule out taxation of any consequence and that will encourage trans-frontier investments;
- there will be no common monetary policy, that is, no jointly agreed monetary policy, and each country will be responsible, by itself, for coping with its external constraints, subject to observance of a rule against any real devaluation of the rate of exchange;
- according to the statement by Jacques Delors, President of the European Commission, on the eve of the Madrid Summit meeting, the common social policy is to be outlined in a "solemn declaration highlighting the values of our society and of our democracy. A solemn declaration, nothing else".

This outlook corresponds very closely to the assumptions sketched out in stylised form above. There will be no general disintegration of the Fordist compromises, or of the social legislation, or of internal demand. Instead, there will be polarisation as between regions in which "negotiated involvement" is the rule and "neo-Taylorist flexible" regions, in a setting of slow growth where the former will pay for their domestic commitments out of the quasi-rents derived from the latter. All the intermediate regions (and whole countries, e.g. France) will be tempted to choose the easy way out: flexibility of the wage relationship, freezing of hourly rates of pay, etc. Some regions (including some in the Iberian Peninsula) will be able, however, to rise in the scale by virtue of their strategy of regional co-operation.

Is there an alternative?

The foregoing considerations give rise to two hopeful notes. First, the EEC is more than self-sufficient in most sectors, and the programmes of technological co-operation would probably enable it to catch up with Japan in those specific areas where it is lagging behind. Secondly, in keeping with their Fordist traditions, a number of regions have opted for an offensive strategy for overcoming the crisis, and the result is positive for both capital and labour. In the final analysis, the problem is how to apply this strategy generally, obviating the defensive flexibility strategies which—as has been shown—produce undesirable direct and indirect macroeconomic effects. This can be done in two ways, which are mutually complementary.

(1) By reducing the external constraints affecting the deficit countries. First, by applying a policy that would quickly reduce working hours in the surplus countries. Secondly, by giving the deficit countries some latitude in order to speed up their growth and to conclude better agreements and arrangements in industrial relations. This presupposes greater autonomy of monetary management at the national level and the ability to apply safeguard clauses if an excessively "liberal" social policy jeopardises the trade balance too severely. This implies that any progress towards the introduction of a common external currency—the European currency unit, or ECU—must be accompanied by a greater flexibility of the rate of exchange of national currencies vis-à-vis the ECU. And this implies a growth of the net transfers towards the deficit regions.

(2) By giving Europe a genuine common social policy, with provision for structural transfers to deficit areas. The common agricultural market served as an experiment (not always a happy one) for this kind of policy. While its mechanisms are open to criticism and its effects inadequately monitored, the principle of an incomes policy, with provision for Europe-wide equalisation, remains valid. This principle might be applied generally to the financing of social protection: the geographical solidarity of today's family welfare policy compensating the geographical solidarity of the financing of tomorrow's retirements. Lastly, and most important, the existence of European "floors" for wages, leisure and job guarantees would, by precluding "defensive flexibility" strategies, make it possible to equalise, at a higher level, the conditions governing competition. These "floors" would have to be realistically differentiated as between countries in order to allow for existing inequalities in productive efficiency, but these differences (comparable to the "area rebates" of the guaranteed minimum industrial wage in France in the 1950s and 1960s) ought to be phased out in the course of time according to a pre-established schedule.

Conclusion

Faced with a complex crisis, the regions of Europe split two ways. Some dealt with the supply-side crisis by reducing the level at which wage compromises were reached, others by improving these processes (negotiated involvement) and intensifying the partnership relationships between firms and the authorities. The global result of increased competition, under the pressure of free internal trade, of the balancing of accounts country by country, and of the lack of common "rules of the game" as regards social policy, has been a relative stagnation, despite a surplus or near equilibrium achieved in Europe's overall trade balance in nearly all the sectors. At the present stage of the implementation of the Single Act, there is a risk that this polarisation ("two-tier Europe") will be intensified.

Nevertheless, in the absence of any external constraint affecting Europe as a whole, Western Europe, by virtue of the quality of its labour force and of its traditions of social compromise, possesses some key assets enabling it to follow a different course. For this purpose a common social space, with provision for net interregional transfers and for social "floors" (varying by region but tending to be equalised over time), is urgently needed. In opting for this course the Community would be simply complying with the provisions of Article 2 of the Treaty of Rome:

> "The Community shall have as its task ... to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion ... an accelerated raising of the standard of living ...".

Henceforth, more than was the case in 1957, the criteria which will be applied in order to judge how far the standard of living has been raised will be the increase in leisure time and the enhancement of the quality of the environment.

Notes

[1] See Brender (1988), Glyn et al. (1990), Lipietz (1985).

[2] On this difference in the models of crisis resolution see Leborgne and Lipietz (1988), Messine (1987). On the loss of American hegemony see Bellon and Niosi (1987).

[3] For a more searching study of the world's macroeconomic dilemmas see Marris (1985) and Lipietz (1989).

[4] See CEPII (1989), Lipietz (1985). Freire de Souza (1983) has shown that the same contrast exists between Portugal (growth in volume terms) and Spain (growth in international value terms).

[5] These are more in the nature of evolutions. Some regions may begin their upswing with flexible wage relationships but with the groundwork for a dense oblique quasi-integration, and later evolve towards better social compromises. See the examples of the Prato Valley (Italy), the Ave Valley (Portugal) and the Cholet region in France.

[6] Ricardo's theorem and the Hecksher-Ohlin-Samuelson theorem, both as revised by Leontief. In stylised terms, the cost function of sector i can be expressed as depending on a composite factor wage-flexibility and on a factor skill-involvement.

[7] For different reasons but essentially in pursuance of a fiscal policy favouring the most affluent economic agents (hence importers) the United Kingdom and Spain have allowed themselves to run considerable deficits since 1987. However, the German "policeman" forced them in 1989 to undergo another austerity treatment. So far as the democratic revolution of 1989 in Eastern Europe is concerned, it is as yet premature to consider what its effect may be (see Lipietz, 1990). In the immediate future, the accelerating effect of the redevelopment of the countries of Eastern Europe and the multiplier effect of the credits which will be granted to them will surely give an impetus to the economy of the Federal Republic of Germany (and of Europe as a whole)

which will offset the austerity regime imposed on Spain, the United Kingdom and, probably, the United States. In the long run, everything will depend on the nature of the industrial relations to be adopted in the East (neo-Taylorism in Hungary, Poland and Romania? Kalmar-type compromises in the German Democratic Republic and Czechoslovakia?) and on the conditions for these countries' integration in the EEC.

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