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The Debt Problem, European Integration and the New Phase of World Crisis

The market crash of October 1987 and the tremor of 1989 both prompted speculation that some replay of the 1929 crisis was in prospect. When the markets recovered, a cry of relief went up: 'The Crisis Is Over'. But in reality the crisis has persisted now for more than fifteen years. The US election year just postponed the problems, and we are currently entering a new phase, with many difficulties. According to a well-known Gramscian dictum, a crisis means that the old is dying but the new is unable to be born. 'The Old' is the economic order, which, since the Korean War and under the aegis of the Pax Americana, allowed the developed capitalist countries twenty years of unprecedented growth. This order has now broken down and the search for a new model of growth, for a new international order, has been proceeding by a process of trial and error. The financial crash of 1987 merely revealed the obstacles which made illusory the previously attempted solutions. In other words, it signalled the beginning of a fourth phase of the crisis, one whose contours are as yet uncertain.

The Dual Origins of the Crisis

The successes of the postwar period rested on two pillars.[1] On the one hand, a model of development based upon mechanization and a particular organization of labour, Taylorism, established itself more or less fully in the capitalist heartlands and made for very rapid productivity gains. Second, these gains were partly distributed to the wage-earning population through a tight network of collective agreements and 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, though at a considerably slower pace, so that the ratio of exports to domestic production declined to reach an all-time low in the 1960s. Thanks to its unchallenged productive supremacy, the United States compelled all the other countries to recognize the dollar as the universal means of exchange.

Towards the end of the sixties this order came apart as the Taylorist organization of labour, in which the producers were allowed no say in the organization and improvement of the processes of production, revealed itself to be increasingly irrational. Against a background of mounting rank-and-file protest, engineers and technicians could not halt a decline in the rate of productivity growth except through ever more costly investments. The result was a fall in profit rates which, in turn, caused a decline in investment, growth of unemployment and a crisis of the welfare state. In short, it was a 'supply-side crisis'—or, in Marxist terms, a 'classical' crisis brought on by the rising organic composition of capital and a falling rate of profit.[3]

At the same time, multinational companies deployed their productive apparatus across continents to boost productivity through economies of scale, and subcontracted production to a number of Third World countries in an effort to restore profitability. Over the next decade these would become the 'newly industrializing countries'. World trade began to grow much faster than each country's internal market, and the regulation of growth in both demand and supply increasingly eluded national governments. Three poles—the USA, Western Europe and Japan—became equivalent and competing powers. The oil shock of 1973 accelerated the dangerous coupling of national economies by compelling each one to export to pay for its oil—hence the appearance of a 'demand-side crisis'.

[1] For a detailed analysis of the post-war economic order and of the first three phases of the crisis, see A. Lipietz, *Mirages and Miracles: The Crisis of Global Fordism*, Verso, London 1987; A. Brender, *Un choc de nations*, Paris 1988; and Glyn/Hughes/Lipietz/Singh, 'The Rise and Fall of the Golden Age', in Marglin, ed., *The Golden Age of Capitalism*, Oxford forthcoming.

[2] According to the French 'Regulation School'. For a basic presentation, see for instance Lipietz, 'Reflexion autour d'une fable', *Couverture Orange* CEPREMAP no. 8530; in English in *Studies in Political Economy* 26, 1988.

[3] See Lipietz, 'Derrière la crise: la tendance à la baisse du taux de profit', *Revue Economique* no. 2, March 1982; in English in *Review of Radical Political Economics*, vol. 18 nos. 1–2, 1986.

The First Three Phases

In the *first period*, from 1973 to 1979, the old 'demand management' recipes prevailed as trade unions, governments and international experts sought to maintain the old order. Action by the US Federal Reserve to increase the Eurodollar money supply allowed internal adjustments to be postponed and OPEC surpluses to be paid. These dollars were recycled to the newly industrializing countries, which equipped themselves with credit in the hope of settling their debt through exports to the North where consumption was continuing to rise, albeit at a rate slowed by half. The Organization for Economic Cooperation and Development, the Trilateral Commission and the 'economic summits' of the seven major capitalist countries saw to it that each pole successively functioned as 'locomotive' of world demand.

Nevertheless, the neglect of the crisis on the supply side meant that this fairly cooperative management of world demand failed to produce any dramatic breakthrough. The decline in profitablity continued and social conflicts were unable to prevent the inflationary dissolution of redistributive gains. As the supply of the dollar rose to finance ever more unbalanced activity, its value collapsed and its holders turned to the deutschemark and other currencies.

Nineteen seventy-nine was the year of the 180 degree turn for 'experts' and governments alike who, no longer feeling it possible to sustain growth through demand management, resolved to restore confidence among creditors whose capital was melting away. They tightened credit to get rid of 'lame ducks', thereby favouring firms with a competitive future. They dismantled collective agreements and the welfare state in an effort to restore profits and 'therefore' investment. With a reorganization of 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, 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 through competitive recessions and to prevent the flight of their savings through very high interest rates. The NICs, finding themselves without markets just as their debt was exploding, were seized by the throat.

The *third phase* saw the emergence of a kind of middle way. The Federal Reserve partially opened the sluice gates of credit, while the US budget deficit set off internal demand. The United States entered a long expansionary phase, pulling the rest of the world behind it. But for a number of reasons that it is important to understand, this was quite different from the expansion of the Carter years. As soon as the first phase ended, two schools had arisen with policies to tackle the 'supply-side crisis'. Among industrialists, especially in the USA, Britain and France, some sought radically to cut labour costs by

eliminating job security, by out-sourcing, by transferring production to the Third World, and by increasing the level of automation. This may be termed the 'flexible-liberal model'. Others, mainly in Japan, Scandinavia and certain areas of Germany and Italy, came out in favour of a new 'social contract' to be negotiated on the shopfloor itself, whether on a collective basis (as in Sweden) or with a more individual inflection (as in Japan). Wage-earners were called upon to join the battle for quality and productivity. Partnerships between enterprises and universities at national or regional level (as in Emiglia–Romagna) were strengthened in the same way. This may be termed the 'negotiated involvement model'.[4]

TABLE 1

The 'non-exit' from 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	8.0
Productivity	2.6	1.8	0.5	0.9
GNP	4.4	3.2	2.6	2.0
Real Wage	2.6	2.1	0.4	0.0

The first three lines are average cyclical rates (%).
The next three lines are average annual growth rates (%).
Source: J. Bowles, D. Gordon, T. Weiskopf, Paper read at the 1987 Chicago Conference of the American Economic Association

The relative success of the second policy became apparent right at the start of the second phase, as Table One charting America's decline sets out. By 1980 Japanese productivity had overtaken that of the United States in the most internationalized lines of production (automobiles, electronics). When the third phase came into operation, the conjunction of lost competitiveness, growing budget deficit and the overvalued dollar fuelled a massive rise in the US trade deficit. This deficit was financed not through the issue of more dollars—and here is the second difference with the Carter years—but through Treasury borrowing from countries with surpluses (West Germany, Japan).

The third difference was that the push to recovery given by arms spending and tax cuts created millions of jobs in the United States. But in the absence of a dense network of collective agreements and social transfers, these jobs were low-paid and without security, their holders subsisting off a trickle-down from middle-class consumption.[5] A huge number of 'collective servants', such as parking-lot attendants, golf-course caddies or fast-food employees, throw into

[4] On the divergence of models for a way out of the crisis, see P. Messine, *Les Saturniens*, Paris 1987, and D. Leborgne and A. Lipietz, 'New Technologies, New Modes of Regulation: Some Spatial Implications', *Society and Space*, vol. 6, 1988.
[5] 37 millions (or one third of wage-earners) in the US have no social insurance.

sharp relief the image of the US as the 'Brazil of the 1980s'. Undergoing third-worldization, the American economy—including its industry—has undoubtedly enjoyed a boom, but on the basis of credit that is becoming more and more expensive.

As far as the NICs are concerned, they have all remained and will continue to remain tied to the currency zone of the dollar. But their evolution during the third phase has been sharply differentiated. Those which wagered their debt on the development of an export sector, striving for food self-sufficiency and promoting upward industrial import-substitution (South Korea, Taiwan), have been able to take full advantage of the growth in the American market and have been successfully servicing their debt.[6] But those which borrowed to finance domestic projects of dubious profitability and social usefulness have found themselves choking in the new atmosphere, even when they have a positive trade balance (Brazil: $12–14bn. a year) which translates into a net transfer of surplus to the industrialized countries.

The Nub of the Crisis

The world situation at the end of the third phase may be roughly described as follows. Washington places orders for sophisticated weaponry with West Coast firms. These firms purchase West German machine tools, their engineers buy Japanese cars or Korean microcomputers and tip their 'collective servants' who, in turn, buy Brazilian shoes. The Federal Government, unable to pay its bills with tax revenues, re-borrows the missing dollars by selling Treasury bonds to Japanese and German exporters.

In 1987 the US trade deficit was $160bn., while Japan had a surplus of $96bn. ($56bn. against the USA), West Germany $65bn., the OPEC countries $26bn., and the non-OPEC developing countries $36bn. The latter's current balance, however (that is, including debt service), is minus $12bn. Asia's 'Four Dragons' had a balance-of-payments surplus (including debt service) of $30bn. with the United States, and a deficit of $22bn. with Japan.

American banks had gradually to hike real interest-rates to make up for the non-reimbursement of the bulk of Third World debt. The Federal Reserve did the same to attract savings from areas with a surplus. However, the rise in interest-rates was stifling economic growth throughout the world. When Germans and Americans quarreled over interest-rates in the autumn of 1987, this was enough for investors, now aware of the imbalance, to rush to re-sell their shares. The result was the stock-market crash.

Contrary to certain dire forecasts, the crash had virtually nil impact on the 'real economy', for two reasons. First, the monetary authorities around world reacted by pouring new money onto the financial

[6] Not surprisingly, Taiwan and South Korea benefited from a real land reform after the Second World War, and have taken steps to control their birth-rate.

markets. Second, the budget deficit of the US administration was not curbed.[7] Thus, the macroeconomic configuration looked much the same in 1988 as it had done in 1978: budgetary *and* monetary laxity. Monetarism was dead, expansion was secured . . . but a comeback of inflation was the new threat. And of course the imbalance of world accounts has remained, with US deficits stuck raound $10bn. a month. Throughout 1988 solutions were simply postponed for electoral reasons, against a backdrop of rising interest-rates. The fact is that a 'good' solution to a fourth phase of the crisis is very difficult to achieve.

The myopic solution advanced by all 'orthodox' economists and involved politicians is to call for a quick redress in the balance of-accounts: 'The Third World and the USA must stop living beyond their means,' so goes the refrain; '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 utterly to misunderstand the state of the crisis. At the end of the third phase the broad outlines of a solution to the supply-side crisis are already in sight. In a more or less positive way—that is, more or less advantageous or disastrous for wage-earners, through German–Japanese 'involvement' or the US–British 'flexible liberal model'—firms have once more found some satisfactory profit-making potential. Now the bottleneck is to be found entirely on the demand side. The huge claims on future production accumulated by creditors will force most of the world (the Third World and the USA) to implement policies of austerity which, by slowing down the world economy, will make it impossible to pay off debts. Let me explain.

The problem is simply that 'to pay for one's debt' means to achieve a 'net payments surplus'—that is, a trade surplus on top of debt service. Jedlicki calculated in 1984 that for the Third World to settle its (then) debt of £600bn. in ten years, it would have to chalk up a positive annual trade balance of £124bn. net. The latter figure represents roughly the total sum of the annual US trade deficit, and it would have been necessary to set this aside for imports from the Third World. This did not happen—luckily for Western Europe and Japan! Today, Third World debt is over £1000bn. and the annual US deficit over £150bn., adn by the end of the decade the US external debt will have matched that of the Third World. This situation can no longer be tolerated by the world financial system. If payment of the two debts is demanded (at the price of draconian austerity policies), then Western Europe and Japan will have to accept a deficit on the order of several hundreds of billions of dollars per year vis-à-vis the rest of the world (the Comecon bloc being out of the game)! This would be disastrous for employment, with the most likely outcome being utter chaos.

Toward Devalorization of the Debt

As soon as the question is examined on a world scale—that is, from the point of view of global living standards, job security, world peace and ecological protection[8]—the logic of the macroeconomy implies, as it did in the thirties, the maximum devalorization of the debt. In other words, as a large part of the debt as possible should be cancelled. This process, which has already begun, poses a series of ethical, technical and political problems.

First, the ethical problems. To cancel debts 'officially' would create a credibility problem for future credits, quite apart from the fact that it might seem shocking to cancel debt that had been badly utilized. Human solidarity suggests that the debt of the poorest nations should be cancelled first. But should the debts of dictatorships be wiped out? Or, on the contrary, should the young democracies in Brazil or Argentina, for example, be appropriately rewarded? And what of the US debt—the thorniest problem of all? The most likely outcome is that a partial cancellation of the debt will have to be combined with a readjustment of export flows to benefit the US and Third World balances.

Let us note at once that in devaluing the dollar by half in relation to the mark and the yen, the United States maintained growth and partially restored its competitiveness, but above al it reduced by half its dollar-denominated debt! As to the various Third World countries, they have already cut back so much on their imports (often with dramatic social consequences) that their trade balance depends almost exclusively on what the developed world imports from them. For these countries the only solution is a devalorization of the debt—something which is already acknowledged among creditors, but whose implications they have yet to ratify for the debtors. In fact, when banks turn to the debt 'grey market', they take devalorization into account in exchanges of titles *between banks*. But even in transactions exchanging debt for equities or debentures *between banks and debtors*, it is rarely spelled out that the de jure debtor no longer needs to pay what is recognized by the creditor as a de facto loss.

As to the 'technical' problem arising out of debt cancellation, this of course has to do with the survival of the creditors. What will happen if devalorization becomes generalized through a new fall of the dollar, collapse of the Treasury bond market, and annulment of Third World debt? Insofar as these now-fictitious assets were used to sustain the world banking system, there would be a risk of bankruptcy for the big banks and a general breakdown of the financial system. A limited and

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[7] During the first two months after the Crash, the administration negotiated a slight cut in the budget deficit with Congress. A year later, however, it appeared that the yearly deficit had *increased* to $155bn.

[8] The ecological crisis will not be considered in this paper. In fact, it is a consequence of a common characteristic of Fordism, Stalinism and current attempts to solve the crisis: namely, productivism. In the early 1970s, at the end of the Fordist period, critiques were made of the early consequences of productivism, and social movements imposed some forms of regulation. But the deregulation movement of the second and third phases of the crisis accelerated the evolution toward a catastrophic deadlock: destruction of the ozone layer, the greenhouse effect, a growing statistical probability of major industrial disasters (Bhopal, Chernobyl, Basle, etc.). This new constraint, equivalent to the 'Great Plague crisis' in the last period of feudal Europe (mid-14th to 15th century), will be of overwhelming importance in the selection of a *definitive* way out of the present crisis. See Lipietz, *Choisir l'audace. Une alternative pour le XXIè siècle*, Paris 1989.

controlled devalorization of bad debts reassures customers—that is why banks the size of the Boston Bank are doing it. But the same phenomenon becomes dangerous if it is massive and general—hence it is forbidden to Citibank. To swap old debt for new debt or for debentures at the grey market discount-rate is possible in the case of Bolivia, but not in those of Brazil and Mexico together.

These problems issue into a political nexus. Since the end of 1988, a majority of analysts and policy-makers in the North have acknowledged that macroeconomic and human necessity of a large-scale cancellation of Third World debt. There is already a silent, creeping cancellation going on. But this majority must still remain hidden, because a simple 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 concerted pressure from debt-ridden Third World countries, supported by a coalition of non-governmental organizations and trade unions in the North. Only on this condition could the 'hidden majority' in the North come out into the open.

Such an impetus does not exist, however, partly because of a lack of coordination in the South and, worse, because of a lack of conviction among its elites. The amazing willingness of right-wing or even centre-left governments to 'pay for one's debt' has to be understood in light of the fact that powerful elite fractions in the South—financial intermediaries, export sectors, etc.—actually have an interest in the payment of debt. Moreover, the political difficulties of non-payment are often internalized in the minds of intellectuals.[9] These difficulties are real enough, but they can be overcome if the South unites, takes advantage of the 'hidden majority' in the North and puts forward a concrete alternative.

Rapid and all-round devalorization of Third World debt is, in fact, possible only if a supranational financial institution, acting as 'lender of last resort', compensates the banks which write off bad loans. This gives contemporary relevance to the question of 'Special Drawing Rights'. For if they were possessed of emancipatory powers (i.e., if they were real money) and issued by an International Monetary Fund operating in accordance with the principles laid down by Keynes at Bretton Woods,[10] such rights could first be substituted for unpaid and unpayable debts and, later, be distributed yearly according to the growing needs of the world's population. This would be a definitive blow to the hegemony of the dollar, which would in effect lose its status as the only world currency. Can the United States anyway avoid this fate for long? That is the question raised by the adjustment of the US deficit.

[9] I agree on this point with the statement by Jeffrey Sachs (*Folha de São Paulo*, 9 December 1988): 'Unfortunately, a major part of the entrepreneurial elites of Brazil, Argentina and other countries consider that to brave the bankers would be so daring that in the end they adopt a position more conservative on debt issues than the creditors themselves.'

[10] For the relevance of Keynes' views on the problems of international liquidities, see the collective work edited by M. Zerbato, *Keynesianisme et sortie de crise*, Paris 1987.

The End of US Hegemony

However much it grates to see the US escape that austerity which the IMF has so cruelly imposed on the Third World, the fact remains that such an adjustment must at all costs prevent the onset of a recession in the United States—if only because women, blacks and Latinos, in short that entire 'Third World' inside the US itself, would have to bear the costs. Moreover, a recession in America would mean a drop in its imports, which would be bad for Europe and Japan, and worse for the newly indsutrializing countries of the Third World, for whom the United States is their best customer.

The twofold objective, then, would seem to be a cancellation of Third World debt and a non-recessionary establishment of equilibrium between the US and the two other poles of the world capitalist economy.[11] Washington first attempted to restore equilibrium by negotiating a dollar devaluation with its partners after September 1985 (Plaza Agreement). But this very solution created a series of daunting political and economic problems. Not only did it do nothing to reduce the US deficit vis-à-vis dollar-zone countries (hence Washington's protectionism towards Third World suppliers like Brazil); above all, German and Japanese creditors, seeing the devalorization of their dollar claims, insisted on converting them into tangible assets on American soil and demanded higher rates of interest for the US government securities that they purchased. They now typically hold these securities for no more than a few weeks before reselling them.[12] The dollar has lost its capacity to act as a reserve money.

In sum, the loss of American industrial hegemony, together with the deadlock resulting from the two Reagan phases, foreshadow an explicit loss of American financial hegemony. In Washington's quarrel with Bonn that set off the October crashes, one can almost hear, in echo, the British ministers of the 1960s cursing the 'gnomes of Zurich' for the latest palpitation of the pound sterling. A currency which melts away cannot remain a universal currency.

A non-recessionary re-establishment of America's trade balance, through the kind of fighting devaluation pursued in 1986–87, would thus be uncertain in its effects and fraught with danger for world economic stability. The preferred solution, in both social and economic terms, would naturally be an import recovery in Western Europe and Japan, and of course in the Third World. In fact, the US administration already conceived of the 'locomotive' role of Europe and Japan in the final retreat from Reaganomics in 1987, accepting that the salvation of the USA lay with a Keynesian policy on the part of its competitors. We shall return to the difficulties inherent in this strategy. But in 1988–89 the main steps were taken in the area of the

[11] For a similar position with regard to the USA, see S. Marris, *Deficits and the Dollar: the World Economy at Risk*, Washington 1985. Marris was the main economic adviser of the OECD during the first, Keynesian phase of the crisis.

[12] According to the Mitsubishi Bank, the turnover rate of securities owned by Japanese investors rose from 1.3 in 1984 to 9.8 in the first eight months of 1987.

Third World debt crisis.[13] Gradually Japan and the United States embraced the French position that, for the human, ecological and macroeconomic reasons explained above, as much of this debt as possible had to be effectively cancelled. Mitterrand had already adopted a twin-pronged policy: cancellation of public claims on the poorest countries, together with a plan for a heavily discounted debt-securities swap, financed by Special Drawing Rights and affecting private credits to Mexico, Brazil and other 'intermediate countries'.[14] Obviously France acted as front-runner because its own external account depended on a 'lax' Keynesian policy at world level. Besides, the Socialists were under pressure from Green, Alternative and Communist activists.

In 1988 the Toronto Economic Summit endorsed the first prong of the French plan, notwithstanding the monetary orthodoxy of West Germany and Britain. But the second prong remained a major outstanding question. At the end of the same year, Japan accepted the idea of a securities swap and offered to help Third World countries of its own choice to finance this through its yen surpluses. It was a position rather similar to the Marshall Plan: a newly hegemonic industrial country would help its future customers with its own currency. However, the great turning-point came in 1989 with the Brady statement, when the US administration also accepted the first aspect of the French plan for intermediate countries. It was now acknowledged that debtors would not have to pay for private debt, since they were unable to do so without suffering dramatic consequences. But Brady did not embrace the second aspect of the French plan: namely, the financing of a global debt swap by the IMF through Special Drawing Rights. On the contrary, it proposed that the private banks should themselves finance swaps on a case-by-case basis, but with a warrant based on an international fund financed by First World currencies.

The reasons for the US position are already clear. First, the United States had itself partly joined the ranks of 'weak', indebted countries. Second, it was still trying to protect the privileges of the dollar against the threat of Special Drawing Rights, and so was reluctant to accept a new Bretton Woods type of global agreement on the international monetary system. Its middle position, between the German–British and the French, was finally adopted at the Paris Summit in July 1989. But it was a rather unsatisfactory and unrealistic option. On the one hand, for reasons already explained, the banks are not willing to accept a *global* swap at the current discount rate on the debt grey market: their losses would be too heavy. On the other hand, a *marginal* swap would be insufficient and would hardly improve the debtors' position, since the cancelled element would be drawn precisely from that part of the debt which they are already not paying. To be effective, the swap would have to cover the total debt, at a discount rate greater than the de facto one of the grey market. Moreover, the

[13] On the diplomatic aspects of this major shift, see the brilliant study by F. Came, 'Les dessous du Sommet de Paris', *Liberation*, 18 July 1989.
[14] A first and more ambitious version of this plan had been presented in Lipietz, *Mirages and Miracles*, the French edition of which was published in 1985.

grey-market discount rate is a measure of the *current* capacity of a country to pay for the service of its debts[15]—a variable which depends on the macroeconomic world situation and, above all, on the willingness of the North to import from the South more than it exports. And this brings us back to the heart of the North–North macroeconomic problem: the difficulty of achieving a non-recessionary balance of US deficits through a voluntary increase in European and Japanese imports.

Europe's Responsibility

Japan has recently made important efforts in this direction: revaluation, a rise in budget deficits for public works, an increase in wages and a fall in interest rates. But it is unlikely that Japan, an ageing medium-sized country over-equipped to satisfy internal demand, will ever become a major import pole. All eyes have therefore turned toward Europe.

The largest market in the world in terms of population and wealth, Western Europe has also been the largest stagnant pole since the onset of the crisis, the only developed capitalist region where unemployment has remained very high despite demographic stability. This paradox is not at all due to an incapacity for technological and social innovation, as the examples of West Germany and Italy show. Nor, within Western Europe as a whole, is it due to any special foreign-trade constraint forbidding the implementation of demand-side policies. In fact, as Table Two clearly shows, one of the main results of West European economic integration (both within and outside the EEC) has been a growing trend toward self-sufficiency, including in energy and foodstuffs. In world terms Western Europe is a surplus pole, West Germany's huge positive balance being chiefly a result of its intra-European trade.[16] A glance at any recent figures is enough to show that the only countries to have escaped stagnation and unemployment are those which do not belong to the Economic Community: Switzerland, Austria, Sweden and Norway.[17] There is no European economic disease, but there is a serious EEC problem.

A free trade zone without a common social policy, the Common Market hardly hindered Fordism's entry into its 'Golden Age' since all countries in the region were simultaneously pursuing a policy of developing domestic markets. Commercial imbalances were periodically purged by short-term policies to 'cool' the economy, or by devaluations, and 'escape clauses' were sometimes invoked to reestablish a measure of protectionism. In the 1970s, however, these margins of

[15] This statement should be accepted by liberal economists! One major consequence is that a debt-security swap at an insufficient discount rate would induce a fresh discount on the new securities grey market—hence the importance of an international fund warrant.
[16] See Lipietz, 'L'intégration du bloc européen: une solution pour la crise du modèle de développement d'Après-Guerre?', Eighth Brasilian Congress of Economists, Porto Alegre, 19–22 September 1989.
[17] For an in-depth analysis of the different rates of unemployment, see also G. Therborn, *Why Some Peoples Are More Unemployed Than Others*, Verso, London 1986.

TABLE 2

Growth and unemployment before '87 crash: 'the EEC effect'

Country	Unemployment Rate (Summer 1987)	Industrial Growth (Summer 1987, 1980 = 100)
Japan	2.8	125.8
US	5.8	120.6*
Sweden	1.6	120
Norway	1.9	120
France	10.8	104
Germany	7.0	111
Britain	9.7	115.3*
Italy	10.5	98.3

Sources: OECD, OFCE.

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

manoeuvre were gradually abandoned just as the internationalization of the economy was fostering commercial warfare between member countries. Denied the possibility of modifying its parity by the rules of the European Monetary System, each country had no other option but to fall back on 'competitive austerity' to balance its trade. 'Each one must grow less quickly than its neighbour': you didn't need to be a game theory specialist to understand what the end result of this strategy would be.[18] With its EEC partners forced to monitor their deficits with West Germany, the whole of Europe is condemned to stagnate internally and is in no position to play the role of world 'locomotive' expected of it elsewhere.[19]

In reality, Western Europe's growth is strictly limited by the growth of its most competitive and hence most surplus-productive economy: the Federal Republic of Germany. Yet ever since the beginning of the second phase, and probably under the pressure of the pivotal Free Democratic Party, West German governments of both left and right have opted for fiscal, budgetary and social 'orthodoxy' despite an unemployment rate of nearly ten per cent. It might be objected that Bonn's choice of 'slow but sure' growth is its own business, and that it can be justified by reference to the period of demographic implosion which the country has just entered. All this is true. Nevertheless, by virtue of the way in which EMS and Common Market mechanisms operate, West Germany's hegemonic role allows it to act as economics minister for the whole of Europe. Refusing either to stimulate internal growth, or to increase faster the free time of its workers, or to accept

[18] On this perverse 'beggar your neighbour' mechanism and its effects on 'left-wing Keynesian' policy in France in 1981–83, see Lipietz, *L'audace et l'enlisement; Sur les politiques économiques de la gauche*, Paris 1984. The 'grow less than your neighbour' rule was formulated by the minister of finance, Jacques Delors, in 1983.

[19] For a host of reasons, Britain and Spain accepted sizeable trade deficits between 1987 and 1989—one to three billion pounds a month in the case of oil-exporting Britain. But the German gendarme will soon force them to undergo the austerity treatment.

its partners' competitive devaluations, it condemns the latter to oscillate between stagnation and a deficit vis-à-vis Germany. In other words, it reserves for itself its partners' markets and seeks to use them as a vast outlet for its own productivism. Yet by preventing its partners from enlarging those same markets, it brings about a situation of medium-run deadlock. After 1992, when individual countries will no longer even have recourse to indirect protectionist measures to control their imports, the policies of the West German government will confine Europe to an ever more passive role.

At a deeper level, the problem resides in the fact that regions which have chosen different solutions to the 'supply side' of the crisis coexist within the same trading space but within different national units, separately fixing their own social policy and managing their own payments constraints.[20] On the one hand, West Germany, the Netherlands and Northern Italy have adopted a strategy for increased competitiveness based upon the skills and 'negotiated involvement' of their workers. On the other hand, Britain, Spain, France and Southern Italy are playing the card of low wages and 'flexible' labour contracts. In these conditions, the negotiation of higher wages and/or shorter working time—the counterpart of workers' involvement in the first group of countries—is limited by the competition of the second group. Hence the endless battle between regions for the lowest labour cost by unit of product, resulting both in the EEC's global surpluses and in high internal unemployment.

To break out of this trap, to make Europe prosper in terms of welfare and free time while allowing for a slight deficit to facilitate a new world-wide equilibrium—this will require a profound restructuring of institutional mechanisms. It is not enough to rely upon the unified market of 1993 or the creation of a common currency, the Ecu: this *fuite en avant*, eliminating the last defences against Bonn's recessionary policies, will only worsen the illness that has to be cured. On the contrary, the horse must once again be put 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. (a) Deficit countries should be given back a margin for manoeuvre to speed up their growth and to combat unemployment through a shortening of the working day. 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. More concretely, any moves toward the creation of a common external currency, the ECU, should be accompanied by greater flexibility in the Ecu exchange-rate of national currencies.[21] (b) Europe should be really endowed with common social policies, including structural transfers to deficit zones and the fostering of positive solutions ('negotiated involvement') to the

[20] See D. Leborgne and A. Lipietz, 'Pour éviter l'Europe à deux vitesses', paper presented at the conference *European Integration in the '90s: the Chances for a New Deal* of the European Association of Labour Economists, Toronto, September 1989.

[21] The strengthening of the ECU is anyway highly desirable as a way of shielding European currencies from the speculative movement of floating capitals.

supply-side of the crisis. The agricultural common market was the prototype of this kind of transnational and structural social compromise. The mechanisms chosen for this policy (price support for products, not income support for farmers) proved in the long run to have adverse effects, and a reform in this area has become an urgent matter. But there is no reason to abandon the actual principle of a guaranteed social income on a European scale; it can outrage only the forces of conservatism in Europe, which shamelessly manipulate urban prejudices against an 'archaic and useless peasantry embezzling funds destined for the industries of the future'. If agriculture is an arena of thorny negotiation, this is not because peasants are congenitally narrow-minded but because they have been the subject of an experiment with transnational structural and social policies.

This being said, a further step is required if Europe is to recover the capacity for initiatives to secure prosperity and full employment, 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. This further step is to lay the foundations for an institutionalized transnational compromise bearing on production and income norms, a set of Europe-wide rules, regulations, public and collective agreements. These norms will have two purposes: (a) to fix common medium-term thresholds for hourly wages, working time and ecological protection, involving management and local government in responsibilities for employment and inducing management in every region to select the most progressive variant of 'negotiated involvement' as a solution to the supply-side of the crisis; and (b) to set up regular flows from the richest regions to the poorest, in order to finance welfare and structural adjustments and thereby solve the 'demand-side' of the crisis.

If such initiatives are not taken, it will be best for each European country, as for the world economy, to return to autonomy within interdependence. Here one country stands out in showing a way out of the crisis without ever having really entered it: namely, Sweden. But will the social forces of Europe be in a position, between now and 1992, to reject the 'Common Market against Europe',[22] whose completion is taken by liberal–conservatives and unthinking newspaper columnists as a cure for all our ills? The victory of the Euroleft and the Greens in the European elections of 1989 may prove to have cast a ray of hope.

[22] The title of a (long-forgotten) book by Michel Rocard, Paris 1973.