

**FIAT**

Bilderberg Meeting

Torquay, 22-24 April 1977

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"BILDERBERG MEETING"

Bilderberg Conference, Torquay, 22-24/IV/1977

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January 1977

DEVELOPED COUNTRY REACTIONS TO CALLS FOR A

NEW INTERNATIONAL ECONOMIC ORDER\*

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In recent years numerous groups, some governmental, some private have put forward appeals or claims or demands for changes in the workings of the world economy and in the decision-making machinery regarding how it is to work. While the claims differ in detail from forum to forum, they share several common themes. The first is that there should be larger transfers of resources and of technology from the rich industrial countries to the poor countries of the world. A second theme is that the poor and non-industrialized countries should be subject to specially favorable treatment, and that in general they should be exempt from the prescriptions for government behavior with which the rich industrialized nations are (appropriately) charged. A third theme is that the decision-making machinery governing international economic questions should be revised to give greater participation and greater weight to the poor or non-industrialized nations.

The rationale for these claims rests in part on the contention that all peoples have a right to satisfaction of certain basic human needs and that those who are able to do so already have a corresponding responsibility to satisfy that right for others in the name of the solidarity of humanity. They rest in part also on the contention that, at best, the existing international economic order -- meaning the set of institutions, formal rules, and informal conventions that govern economic transactions among nations -- disregards the special problems and concerns of developing nations, and at worst has fostered the exploitation of poor countries, so that some restitution for past and present injustices is in order.

The particular proposals that have stemmed from these claims are numerous and vary from group to group, but they include such items as:

\*Prepared for a Bilderberg Conference at Torquay, England, April 22-24, 1977. This paper draws heavily on a longer paper prepared for Colloquium III of the Rothko Chapel of Houston, Texas. It represents the personal views of the author and does not reflect the position of the U.S. Government.

1) establishing international commodity agreements on those commodities produced by developing countries, to assure that they receive equitable and remunerative prices (a variation of this involves indexing commodity prices to prices of manufactured goods, to assure that commodity prices rise no less rapidly than other prices in an inflationary world);

2) increasing official development assistance from the rich countries up to the United Nations target of 7/10 of one percent of gross national product;

3) renegotiating the principles of allocation of Special Drawing Rights at the International Monetary Fund to give developing countries a larger share;

4) providing general debt relief in the form of forgiveness or postponement of the repayment obligations of developing countries on their external debt;

5) granting and enlarging preferential treatment for imports from developing countries into the developed countries;

6) increasing the flow of relevant technology to developing countries, at reduced cost to them;

7) asserting the right to all property within national boundaries, and hence, the right to take over foreign-owned property without regard to international legal conventions regarding compensation;

8) changing the decision-making procedures in such institutions as the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (hereafter, the World Bank) to give greater weight to developing countries.

It is noteworthy that these claims have been directed almost exclusively at what in United Nations terminology are called the developed market economies, i.e., western Europe, North America, and Japan, Australia and New Zealand. (These will be called the "western" countries hereafter.) In particular, they are not generally directed toward communist countries such as East Germany or the Soviet Union. The reasons for this are no doubt complex. The communist countries (Yugoslavia excepted) themselves do not participate in some of the important international forums, such as the World Bank, the IMF, and (with the further

exceptions of Poland and Romania) the General Agreement on Tariffs and Trade (GATT). This would not restrict their contributions in other contexts, however, such as granting development assistance, participating in commodity agreements, or granting trade preferences. In general, the communist countries have lower per capita incomes than do the western countries, and this might seem to absolve them from being called upon to meet the claims. But some of the claims (such as those for rectification) are not especially related to income, and in any case some communist countries have per capita incomes that exceed those of the poorer western countries such as Italy and Ireland. Indeed, by 1976 the per capita income of East Germany exceeded that of the United Kingdom.<sup>1</sup> What is probably more important is the perception of leaders in developing countries that they are unlikely to alter the policies of communist countries much by making appeals in international forums, in part because of the nature of communist governments, in part because the communist countries cannot so easily be held hostage to them in terms of needed materials or vulnerable foreign investment. Their success with the western countries is likely to be substantially greater, largely because with appropriate arguments they can enlist important segments of public opinion in their cause.

#### Public response to calls for a new economic order

The initial response of publics in western countries to the stance adopted by developing countries was one of shock and astonishment: first, at the Arab oil embargo imposed in October 1973 -- the event that brought publics into general awareness that important changes were taking place -- and then, by the four-fold increase in oil prices announced by the Organization for Petroleum Exporting Countries (OPEC) for January 1974. This assertion of market power emboldened the developing countries, under the leadership of Algeria, in 1974, to put forward a "Program of Action" in a special session of the United Nations for establishment of a new international economic

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<sup>1</sup>All international comparisons of per capita income must however be taken with extreme caution, since they are highly sensitive to the choice of exchange rate for conversion into common units, and they do not allow for substantial variation in the domestic purchasing power of a "dollar" or other standard unit of measurement. Standards of living among countries do not vary among countries as much as "per capita income" does.

order.<sup>1</sup> In November 1974, the UN General Assembly approved the "Charter of Economic Rights and Duties of States," which among other (on the whole straightforward and widely accepted) provisions asserted (Art.5) "the right to associate in organizations of primary commodity producers in order to develop their national economies..." and the corresponding duty of all states to refrain from applying economic and political measures to limit that right -- a provision that would legitimize OPEC's actions and those of other potential cartels among producing countries. The Charter also asserted (Art.2) the right of any state to expropriate foreign-owned property within its borders, paying "appropriate compensation...provided that all relevant circumstances call for it." Resolution of any controversy regarding expropriation and compensation is to be determined under the domestic law of the nationalizing state. The Charter also asserted (Art.28) the duty of all states to cooperate in adjusting the prices of their imports, i.e., to "index" the prices received by developing countries.

The Charter of Economic Rights and Duties of States had its origins long before the increase in oil prices, as did proposals for changing the international economic order. Many of the specific proposals that made up the content of the proposed new international economic order had been under consideration for some time. And the developing countries had increasingly used their majority in the UN General Assembly to push through resolutions over the objections of the western countries, as when, in 1969, they voted a moratorium on all attempts at mining the seabed until a new international regime for the seabed was worked out. But what astonished members of the western public was the new assertiveness with which these proposals were advanced, the extreme claims of some of the provisions, and the unwillingness of the majority of the General Assembly, made up of a cohesive group of developing countries, to compromise on many of the provisions. While many of the

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<sup>1</sup>Algeria is a member of OPEC. It has been suggested that calls for a new international economic order represented a tactic to divert the attention of those developing countries that do not produce oil away from the great hardships imposed on them by the sharp increase in oil prices. Responsibility for redressing the situation was thereby passed from the OPEC countries to the western countries. The OPEC price increases may have given greater impetus to the calls for action, but they were in train before the late-1973 price increases.

provisions of the Charter were unexceptionable to all countries, a theme of extreme state sovereignty runs through the Charter. The United States objected especially to the three provisions noted above.

The provision for settlement of disputes exclusively under domestic law, in particular, seemed to sweep aside a long (western) tradition regarding international settlement of disputes.

The initial reaction of astonishment was soon overtaken by a more differentiated reaction. Some westerners applauded the new assertiveness of the developing countries and in their own writings supported them and contributed further to the claims for redressing past wrongs and for a moral obligation to make transfers from rich countries to poor countries. Others reacted with a sense of guilt, implicitly acknowledging the merit of the positions taken by the developing countries, and urged negotiation and a willingness to compromise on both sides in the emerging debate. They wanted some kind of accommodation. Still others reacted with anger at the seeming exploitation of newly-found power -- in votes in the General Assembly and in monopoly in the provision of oil -- and urged stiff resolution against yielding to what was regarded as extortion. Numerous shadings, of course, exist within all of these groups, and to them must be added the diplomatic pragmatists, who are less concerned with the substantive merits of the particular proposals and the arguments for or against a new economic order than with the fact that a large number of countries are resolutely serious in their claims for a new order, and who urge diplomatic accommodation as necessary to restore a degree of harmony in relations among countries.

It must be observed that the idea of a new international economic order is, itself, a profoundly western idea. It has been advanced and rationalized by western-trained leaders in developing countries and even by a number of westerners. Philosophically, the notion that conscious human action can change the "order" of things, even human things, and moreover that mankind can attack world poverty in a systematic way with ultimate success are fundamentally western ideas, drawn from the idea of progress. They have no counterparts in the reflective philosophies of the East or in the doctrines of

Islam concerning the execution of God's will.

The varied reactions to calls for a new economic order can be found to some extent in all western countries, and to some extent they correspond to the political spectrum from left to right. The radical-liberal-conservative political debate within countries has now become global.

Governmental responses to calls for a new economic order

Governments of the western countries also differed in their responses to the new claims, but the variation was far less than it was among the literate public. The United States tended to be the most resistant to the various proposals to change, and the rhetoric that accompanied them. Europe and Japan, much more dependent on imported materials, hence more vulnerable to serious deterioration in relations with primary producing countries, were verbally more accommodating in their responses. These differences can be found, for instance, in the response to the oil embargo and the increase in oil prices. The United States sponsored the formation of the International Energy Agency among the western countries, designed to deal with future embargoes should they arise; whereas, France sponsored the Paris talks among oil-producing and oil-consuming countries, in order to establish a dialogue with the presumed objective of making future embargoes, or further large price increases, less probable. The United States initially resisted the idea of producer-consumer talks altogether, on the grounds that oil prices, in all likelihood, would be discussed and that such discussion would not be in the interests of the consuming countries. This resistance was based on the conviction that sooner or later the forces of competition would reduce oil prices.

Immediately after imposition of the oil embargo (which formally was directed only at the Netherlands and the United States, because of their support for Israel), Japan, in an open effort to curry favor with the Arab oil producers, called on Israel to yield the occupied territories.

Even earlier, the United States (openly supported by Germany, but only silently supported by a number of other European countries) opposed changing the formula for the allocation of Special Drawing Rights (SDRs) to favor economic development, on the grounds that monetary management and resource transfers for development should not be commingled. And



the United States had also opposed the extension of tariff preferences to less developed countries, whereas the European Community and Japan each made a symbolic nod toward developing countries by introducing a system of tariff preferences in mid-1971, although the systems then introduced were shamefully restrictive in the degree of preference actually provided. (The United States, bowing to international pressure, also introduced tariff preferences in 1975, with a scheme less restrictive than the European and Japanese ones, although it could hardly be called generous.) Resistance to price-raising commodity agreements has been more general among western countries, with the exceptions of Canada (which as a large exporter of primary products would stand to gain) and France.

The general picture, then, is one of western governments being skeptical of most of the proposals that have been put forward in the name of a new international economic order, but differing among themselves in their willingness to discuss the various proposals and even, if necessary, to implement them. The United States (often supported by West Germany) has tended to adopt a principled stand on the desirability of preserving relatively free markets, whereas other western countries have tended to adopt a more pragmatic approach aimed at mollifying the developing countries.

#### Ethical and Prudential Reasons for Resource Transfer

The calls for a new international order raise a host of questions some concerning the philosophical foundations of claims for resource transfers between nations -- or indeed between individuals --, some concerning the system of governance at the global level, and some concerning the desirability and the feasibility of the particular proposals that have been advanced. It is not possible, in a short paper, to deal with all these questions satisfactorily, since a fair assessment must deal sometimes with profound philosophical questions and at other times with technical economic evaluation of the consequences of certain policies. But a modest philosophical excursion on the rationale for resource transfers will be useful in putting the proposals into broad perspective, before turning to some constructive suggestions for the North-South dialogue.

Although many of us have come to take the desirability of foreign assistance for granted, it is not in fact self-evident that nations should voluntarily relinquish some part of their incomes to provide transfers to other nations. Incomes in industrial countries, while high both by historical standards and in comparison with incomes in many parts of the world today, have not yet reached the point of psychological satiation. We know from the perennial battle over wage claims and from the often agonizing decisions that have to be made over the size of government expenditures that industrial countries can quite comfortably absorb higher incomes than they now have.

The arguments for extracting some (usually tiny) fraction of this income for transfers to other poorer countries have rested partly on ethical or moral grounds, partly on grounds of prudence and political expediency. There has been a good deal of tension between the ethical arguments and the prudential arguments, for they often require both the character and the direction of foreign assistance to be quite different. Ethical arguments call for transfers from the rich to the poor, while prudential arguments call for transfers to those who can harm. There is a second tension which is likely to become even more pronounced in the years to come, between the ethical arguments for foreign assistance and the exaggerated sense of national sovereignty which all nations, but especially in this context developing nations, have acquired. I want to say something about each of these tensions, but particularly the second one.

The western industrial nations have a long tradition, both of religion and of rationalism, favoring a distributive justice that pushes toward greater equality. The Christian tradition of charity is deeply rooted. Economists have perhaps been more influenced by the rationalistic utilitarian tradition, which early attempted to show that a more equal distribution of income would lead to greater overall welfare. More recently, we have the attempt by the philosopher John Rawls to show, through original social contract reasoning, that society should organize itself to maximize the net income of

those of its members that are worst off. There are intellectual difficulties with all these various attempts to rationalize some measure of redistribution toward greater equality, from Bentham's sum-of-utilities to Rawls' maximin criterion. But it is significant that the effort persists; and there is little doubt that the sentiment for some form of distributive justice -- if not in circumstance, then at least in opportunity to better one's circumstance -- is very strong. And there is widespread recognition that adequate nutrition, health, and (in today's world) education are necessary conditions for creating and taking advantage of opportunities for individual betterment.

This is not the occasion to dissect the various ethical frameworks that have been put forward. But it is important to note that all of the main lines of ethical thought apply to individuals (or families), not to collectivities such as nations. Much recent discussion on transfer of resources falls uncritically into the practice of what I would call anthropomorphizing nations, of treating nations as though they are individuals and extrapolating to them on the basis of average per capita income the various ethical arguments that have been developed to apply to individuals. This is not legitimate. If ethical arguments are to be used as a rationale for transferring resources, either a new set of ethical principles applicable to nations must be developed, or the link between resource transfers must be made back to the individuals that are the ultimate subjects of standard ethical reasoning. We need therefore to ask explicitly about the connectives between any given proposed transfer of resources and the ultimate ethical objectives that are to be served.

Not to ask questions about these linkages would be morally obtuse. Yet to ask them involves peering inside the national shell, an activity which many developing countries view as a gross and unwarranted infringement of their national sovereignty. The current mood among developing countries resists strongly the notion that donor nations have a legitimate interest, much less (on the above argument) a moral obligation, to inquire closely into the use of resource transfers to be sure that their ethically-based objectives are being served.

A clear impasse thus results. Ethical arguments, based on the welfare of individuals, cannot be used to support resource transfers that do not serve

the ethical aims; but attempts to assure the service of ethical aims leads to rejection by recipient countries as an affront to national sovereignty.

If we are to justify resource transfers on ethical grounds, it must be on the basis of knowledge that the transferred resources will benefit those residents of the recipient countries that are clearly worse off than the worst-off "taxed" (including taxes levied implicitly through commodity prices) residents of the donor countries. That is, general transfers must be based on some kind of performance criterion satisfied by the recipient country, or else transfers should be made only in a form that benefits directly those who the ethical arguments suggest should be benefited. But this proposition has profound implications for the acceptability of a number of proposals outlined above, for it implies that no completely general transfer of resources from country to country can be supported on ethical grounds. This restriction would encompass the proposal for more SDRs to be allocated to poor countries, general debt relief, and actions to improve (not merely to stabilize) the terms of trade of developing countries. Ethically based transfers should discriminate among recipient countries on the basis of performance in improving, directly (to) indirectly, the well-being of their general population, and/or they should discriminate among uses of the transfers to maximize the flow of benefits to those who are the intended beneficiaries, which generally mean concentration on general nutrition, health care, and education in the recipient countries.

Pursuit of distributive justice is not the only reason for giving foreign assistance. There are "prudential" reasons as well; foreign assistance can play a role, occasionally even a decisive role, in maintaining good relations between donor and recipient countries and more generally in giving recipient countries enough of a stake in ongoing international arrangements to behave according to conventions acceptable to the donor nations. Here it is governments, not individuals, that are the relevant units for examination, and the appropriateness of assistance is not necessarily related to economic performance and is certainly not related to relative poverty. On the contrary, it will tend to be the better off developing nations

that could, if so minded, create the greatest difficulty for the developed nations, both in the short and in the long run, in terms of such issues as making nuclear weapons, supporting radical political activities in other countries, or withholding cooperation from issues of global concern that requires their cooperation. Therefore, these middle-range countries, not the poorest ones, are the most likely recipients of assistance. Moreover, prudential considerations often (though not always) dictate that assistance should flow bilaterally, from individual donor to individual recipient, rather than through multilateral channels. Thus, it is unlikely that completely general transfers of resources, such as the SDR-link or general debt relief, would be supportable by prudential considerations either; indeed, several of the most important developing countries have specifically rejected the suggestion of across-the-board debt relief, presumably on grounds they can do better without it.

Less developed countries are themselves ambivalent on the question of appropriated foreign assistance. On the one hand, they have expressed disappointment that the developed countries are not meeting the official development assistance target of 0.7 percent of gross national product in each donor country that was agreed in the United Nations General Assembly. On the other hand, they have a host of dissatisfactions with foreign assistance, both bilateral and multilateral, as it is actually administered. Too many conditions attach to such assistance -- stipulations regarding economic policy on program loans, requirements to buy in the donor country giving bilateral assistance, limitations on the types of goods and services that can be purchased with project loans, and so on. The reactions, of course, vary from country to country, and in many instances the restrictions are not onerous, or may even be welcome. But the donor-recipient relationship is an intrinsically difficult one, and is likely to leave both parties dissatisfied.

The ambivalence in developing countries is met by increasing questioning in donor countries about whether foreign aid is worthwhile to the recipients and justifiable to themselves. The United Nations target of one percent of donor-nation gross national product to be

transferred (through private as well as official channels, through official export credits as well as foreign aid grants) to developing countries was in fact achieved for the first time in 1975, for a total of \$39 billion. It is a comment on the times that there was no rejoicing, only assertions that the amounts were not high enough and the terms were not easy enough. There is an intrinsic difficulty with direct resource transfers between countries based on distributive considerations: more is never enough, so targets are arbitrary and their attainment merely provides the occasion for setting a higher target.

With respect to conditions attaching to foreign assistance, it is worth noting that while inter-governmental transfers within countries are common, they usually carry with them strong implicit or explicit conditions. Totally unconditional transfers, such as the developing countries are calling for, are rare. In most countries (e.g., Britain, France) local governments are the legal creatures of the national government, so the recipient is directly accountable to the government which is making the grant. In Federal countries such as the United States certain sub-national governments (the states) have a constitutional existence and are not subordinate to the national government. But US government grants to the separate States are all conditional. Either they are restricted to certain categories of expenditure, by program, such as highway construction, aid to families with dependent children, urban renewal, improvement of sewage systems, etc., with financial accountability to the federal government under each program. Or, in the case of "revenue sharing," they are not restricted as to program, but they are subject to general requirements on the behavior of the recipient State, notably on questions of civil rights and racial or sex discrimination, conditions of a type and stringency that would strongly offend developing countries if applied to them. Thus even within the United States, with its relatively high homogeneity of values and where governments are politically responsible to the same voting publics, transfers are used to influence the pattern of expenditure and governmental behavior. Totally unconditional

aid is not congenial.<sup>1</sup>

A clear impasse exists on the question of unrestricted transfers from developed to less developed countries. The less developed countries demand more in transfers, channeled in a variety of different ways: higher commodity prices, a larger share in the creation of international money, straight foreign aid, and so on. Given the current American suspicion of government in general, and of the governments of less developed countries in particular, these proposals are not likely to be well received.<sup>2</sup>

Proposals for a new international economic order involve a deep paradox: developing countries want maximum freedom of action and assert strongly their demands for sovereign equality, including lack of interference in their internal affairs. Yet many of the proposals they have put forward, if implemented, would require profound internal changes within the western countries, for example, with respect to the functioning of markets, the generation and dissemination of technical knowledge, the enforcement of contracts, and tax-expenditure programs. The inconsistency in position has not been missed.

In reality, the proposition that countries should not be subject to outside-generated influence and change -- developed and less developed countries alike -- is untenable in today's interdependent world. An extreme position of self-reliance, such as China and Burma each adopted, would be required. Collective self-reliance, now strongly supported by many leaders in developing countries, will not be sufficient to assure insulation from outside influence.

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<sup>1</sup>The same is true with respect to individuals, as the unsuccessful struggle over the "negative income tax" testifies. These proposals would have entitled individuals to grants that depended only on income and a few other factors, such as family size, and they would have replaced the current complicated system of welfare payments, which in principle involve a variety of conditions on the behavior of the welfare recipient, including periodic investigations by welfare workers. But American concern with "free riders" has so far proved too great to permit substitution of the simpler system for the more complex -- and demeaning -- system of welfare. Some western countries, however, impose fewer conditions on their recipients of welfare.

<sup>2</sup>Ironically, at the present time, the proposals that are most suspect in the Congress and with the American people are those that are made by certain less developed countries and are supported by the US Administration. But the legacy of Vietnam will presumably pass in the course of time.

In the context of resource transfers, donor countries will at least want enough influence to assure that the funds are used for their stated purposes, whether those be to foster economic development, to relieve poverty, or what have you. One way to provide some assurance that the transferred funds are in fact serving to satisfy basic human needs is to restrict their use, with appropriate auditing, to activities that in their nature will do that. Examples would be activities to increase the production of food, to improve water supplies and sanitation facilities, to extend local health care and family planning clinics, and so on. Developing countries could be told that funds are available for incremental activities in the areas indicated, subject to periodic audit for effectiveness. Beyond that, the recipient country would be on its own.

More generally, however, "transfer of resources" is an unfortunate choice for emphasis in discussions of the new international economic order, for it suggests taking from one group and giving to another, a process which is rarely harmonious and which is especially unlikely to be so when the developing countries insist that the transfers be made with minimum of scrutiny and guidance, for that undermines the one basis on which transfers are likely to be agreeable to those making them, namely, satisfying general sentiments in favor of distributive justice.

The implicit assumption underlying focus on resource transfers is that B's route to prosperity is by getting it from A. In game-theoretic terms, it involves a zero-sum game: B's gain is A's loss, and vice versa. This has been the dominant assumption throughout much of human history, and remains the dominant assumption within many developing countries today. A major contribution to material success in western countries was the ability to break out of that framework into "positive sum" thinking: the 18th century doctrine of progress shifted the "game" from one of man against man to one of man against a parsimonious nature. By cooperating with one another, or by establishing political-economic regimes whereby men's actions were mutually reinforcing rather than mutually destructive, men could improve their collective condition and at least lay the groundwork for improving the condition of each one of them.



### Possibilities for Mutual Gain

Human "solidarity" is not a sentiment in harmony with zero-sum thinking. If we want to achieve global solidarity rather than global discord, the emphasis must be shifted to the areas in which there are possibilities for mutual gain. Here is not the place to spell such areas out in detail, but five in the economic arena can be mentioned briefly.

First, the commercial policies of the developed countries should be geared more clearly toward accommodating the growth in exports of industrial products from developing countries. In particular, tariff structures that now distort the location of early-stage processing of raw materials in developed countries should be altered to permit economic location nearer to the raw materials. In the long run, all countries would gain by such a change. In addition, the developed countries should avoid the use of trade restrictions on competitive manufactures from developing countries; problems of dislocation to domestic industries can be handled with adjustment assistance to the factors that are injured. The developing countries would do well to concentrate their negotiating efforts on limiting the resort to "safeguards" by developed countries rather than on gaining further preferences on paper. They would also gain by reducing their own sometimes absurdly high protection against imports, which increasingly will deny other developing countries important markets and inhibit mutually productive specialization among developing countries.

Second, the western countries should manage their own economies much better than they have in the past; that alone would go a long way toward stabilizing the export earnings of developing countries. To the extent that they fail to manage demand smoothly, they can rightly be called upon to provide foreign exchange assistance to developing countries through generous compensatory financing arrangements. Beyond this, both developed and developing countries have an interest in reducing the wild commodity price fluctuations such as have been experienced in the past decade. Reducing price variability is a task distinct from raising average prices, and has much greater chance for realization. Wide price swings, quite

apart from their effects on earnings, are disturbing both to consumers and to producers, and commodity agreements based on buffer stocks could reduce the variation of prices.

Third, the high mobility of multinational corporations creates potential problems for all governments, home governments as well as host governments. At their best, multinational corporations can contribute greatly to the process of economic development (but those countries that do not accept this judgment, or for other reasons prefer not to rely on them, should not be pressured into doing so.) But by skillful manipulation, they can also evade taxes and exchange control regulations, exert undue influence on national policies, and diminish world competition. Governments have a collective interest in providing an environment in which the social benefits from the activities of these great corporations can be enjoyed while minimizing the costs. In particular, closer cooperation on global anti-trust policy and on disclosure of financial information should be undertaken.

Fourth, management of some of the global "commons" requires the joint efforts of many nations. This is especially true of the world's stocks of marine life and of the quality of the oceanic and atmospheric environments. Many of these are regional rather than global issues, and global solutions would often be inappropriate. But international cooperation on a regional basis is essential for effective management. Moreover, the revenue potential of proper management of the world's fish stocks is substantial, but cooperation in installing the right kind of management regime is essential not only if the stocks are to be utilized for maximum human benefit but also to realize those potential revenues.<sup>1</sup>

Fifth, in the long run the relationship between the earth's food supply and its population will govern whether it can evolve into a humane, pluralistic global society or whether large masses of people are condemned to starvation and the populations of the relatively rich countries must inure themselves to the continuing

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<sup>1</sup>Potential revenues are estimated at over \$2 billion a year at today's levels of harvest from the oceans.

presence of poverty, destitution, and starvation -- with undesirable consequences for their own system of values. Sound long-term policy calls for whatever efforts can effectively be made by the developed countries -- partly through financial assistance, partly through transfer of relevant technology -- to improve food supplies, nutrition, family planning information, and general health care in the developing countries.

These suggestions are not meant to exclude resource transfers from developed to developing nations -- indeed, proper management of the oceans would generate a useful source of revenue for such transfers -- but rather to shift the focus of discussion away from those areas that are in their nature conflictual and potentially acrimonious; to those areas where all participants to a negotiation among sovereignly equal nations may hope for some gain. Such a shift in focus would improve substantially the prospects for a new international economic order.

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Item A

(2)

The Mixed Economy:

Some comments on the European Experience

by

Wolfgang Hager

Bonn, February 1977

The chairman of a British state-owned (!) corporation recently delivered himself of a remarkable outburst. Government, he said, had been "playing God in the market place with disastrous consequences". It had become "a vast industrial conglomerate, piling one unhappy acquisition on top of another, without purpose or direction, devoid over large areas of any proper financial control". The preservation of democracy and even elementary efficiency required a retrenchment of the arrogant interventionist urges of politicians and civil servants.<sup>1</sup> Mr. Roy Jenkins recently asked whether democracy could survive when 60 % of GNP was distributed over the government budget.

THE GROWTH OF PUBLIC EXPENDITURE IN BRITAIN  
(As % of GNP)

	Total publ.exp.	public consump.	public investm.	transfers and loans
1955-59	41.1	18.9	7.6	14.7
1965-69	48.2	20.2	9.8	16.0
1974	57.3	22.9	10.1	24.3

Source: Economic Trends

<sup>1</sup> Sir Frank McFadzean, Chairman of British Airways, Financial Times, November 17, 1976.

The growth of public expenditure in all Western countries raises issues, not all of which shall concern us here. I intend to use the term "mixed economy" in the narrow sense of state interventions at the micro-economic level through a manipulation of the relative prices of the factors of production and of their allocation in the market. Although a clear dividing line towards two other forms of state intervention - regulation and the welfare state - can not always be made, I see both these instruments by the state to respond to public needs as essentially market-conform alternatives to the mixed economy. The line becomes blurred when regulation involves e.g. fiscal incentives, or when welfare state objectives are pursued via state-run services like education.

I hope to avoid these difficulties of definition by sticking largely to the industrial sector. This limitation of the subject also helps to avoid some of the very large questions familiar from the socialist-conservative debate about the essence of freedom (freedom to choose or freedom from want and security). Rather I intend to tell a rather tragic tale about a heroic attempt - to create wealth and to use it for public purposes - which almost came off.

My principal assignment, if I see it correctly, is to communicate some of the more exotic aspects of the contemporary European predicament by tempering criticism with sympathy. While ignorance and greed played their part in creating the problems of the contemporary European political economy, so did bad luck. "He never had a chance" is of course the starting point of many efforts, domestic and now also international, which lead to the manipulation of economic forces. Yet I for one would not wish to live in a society where this argument was considered irrelevant.

#### The post-war origins

The starting point of the story was the existence of serious deficiencies in the economic and social systems of 20th century Europe, and the emergence of a value system which refused to

take these deficiencies for granted. The latter fact, a cultural phenomenon, is all too often left out of account in abstract discussions on the economic behavior of nations. Two things follow from it: One is that politicians never had the option of benign neglect enjoyed by their American and Japanese colleagues; the second is that the amount of state efforts to cope with deficiencies is determined, to a considerable part, by the gravity of the deficiencies themselves. These vary among countries and over time.

Fascism and communism were, among other things, attempts to cope with these deficiencies. While post-war Western Europe opted for less drastic policies, a strong belief in the capacity of government persisted in most countries. In a sense, this is less puzzling than the re-assertion of anti-Elizabethan instincts in post-Roosevelt America. Had not fascist, communist, and Western war economies moved mountains?

Of course there were voices which warned against overtaxing democracy with tasks requiring a more robust form of governance. Yet the reverse also played a subtle role in shaping post-war behaviour: democracy had to prove its legitimacy through performing according to the high standards of expectation fostered by ideology and past experience with alternative systems.

What were the "deficiencies and rigidities" which governments had to overcome? The case of the pace-setters of the post-war mixed economy, Italy and France, can best be understood by seeing them, as they saw themselves, as developing countries. Not only were they, by European standards, agrarian societies, they also shared a non-entrepreneurial banking system which had deprived industry of risk capital for decades. In addition, industrialisation was very unevenly spread in the country. For Italy, the problems of the Mezzogiorno touched the very basis of its national existence (as did later Ireland and Scotland for Britain).

Since these deficiencies had persisted for a very long time, it seemed reasonable to assume that the spontaneous forces of the market would not relieve them in the future. Both countries started the post-war period with a large nationalised banking sector, as well as a number of nationalised companies. Italy, wisely, initially delegated most of the tasks of modernisation and regional development to such a company, IRI, with the nationalised banking sector playing a supportive role. France, with a different tradition and with bureaucratic resources second to none,<sup>1</sup> used the state's command over credit as a tool for manipulating the private sector. It is important to note that both models proved so successful in the 'fifties, that other countries copied features of them in the sixties.

In Northern Europe most people initially assumed that the task of post-war reconstruction, and the maintenance of a fair distribution of scarce resources among a disaffected citizenry would require very considerable state intervention for a long time. When the resiliency of the economies became apparent, and Marshall Plan aid promised to loosen the constraints of scarcity, a more or less conscious decision to return to a free enterprise system was made. At the same time, largely without impinging on the market economy itself, extensive welfare systems were developed. This alternative to the mixed economy, the separation between market and welfare, was nowhere as complete as in socialist Sweden and centrist-conservative Germany. In Germany, however, it was formulated into a theory, the "Soziale Marktwirtschaft", which has since hardened into a secular religion, almost as important to the basic political consensus as the

<sup>1</sup> It is interesting to note that Italy, unlike France, refrained from instituting a "Plan" until the early 'sixties (Comitato Interministeriale Programmazione Economica, CIPE, a quite ineffective body). While the Plan's technocratic features, notably indicative forecasting, can be transposed to foreign soil, its operative parts cannot. The close dialogue between officials and business leaders depends on a shared educational experience - the Grandes Ecoles - which finds its only counterpart in the club of graduates from the University of Tokyo who run contemporary Japan.

constitution itself.

This picture of the first decade of post-war normalcy would be even more grossly simplified than it is if mention were not made of the matter-of-fact attitude of all European countries towards the quasi-industrial service sectors: rail, electricity, post and telecommunications, as infra-structure which had to be supplied by the state (sometimes even coal and steel were seen in this light). Subsidisation of these sectors, in this initial phase, was often an act of deliberate policy: a way to subsidise industry in general and to keep inflation under control. Only later did these sectors develop into heavy burdens on all countries' budgets; not only because of inflexible management, but also because governments saddled these handy instruments with too many tasks of general economic policy (regional, manpower, procurement-industrial, anti-inflation policy). These sectors were thus the precursors of later failures of the mixed economy.

A number of generalisations can be made about the European experience of the fifties which should prevent us from making easy judgments on the merits of the mixed economy. The first point to make is that both the "liberal" and the more "managed" countries were successful in promoting high growth, consistently more successful than the United States. Andrew Shonfield sees a major explanation in the ability of the European welfare state at that time to generate high savings - in spite of the seemingly inherent tendencies of such states to over-consume. While in Latin Europe venturesome state banking contributed towards this success, in Northern Europe heavy corporate taxation which could be avoided by the re-investment of profits, and the establishment of obligatory social insurance systems, helped to mobilise investment capital.<sup>1</sup> A crucial feature of the success of the 'fifties was, of course, the then prevalent reconstruction mentality of the trade unions, which allowed these instruments of forced saving to work.

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<sup>1</sup> Andrew Shonfield, Modern Capitalism, The Changing Balance of Public and Private Power, issued under the auspices of the Royal Institute of International Affairs, Oxford University Press 1965, p. 6.



Free trade: Threat to free enterprise?

The comparatively modest involvement of the state in the economy of the 'fifties took place under conditions of limited and managed external trade. Tariffs, quotas, exchange controls, etc. were only dismantled to a limited (if crucially important) degree through the OEEC, and then on a regional basis only. The founding of the Common Market, and the restoration of currency convertibility in the late fifties which put into effect earlier, and rather theoretical tariff concessions, ushered in a new period of growth for state intervention into the economy.

To put this reaction into perspective, it is useful to remind ourselves that few nations anywhere in the world have embarked on an experiment of this magnitude and opened their economies to outsiders to this degree. Foreign trade now accounts for almost a quarter of GNP on average in these countries, and in the crucial sector of manufactures the proportion is about double this figure. The US and Japan, especially, if one considers the heavy raw material content of their imports, are not even in the same league. The proximity and basic similarity of the major trading partners (i.e. other Western Europeans) meant that trade could and did take place over the entire range of production. Being squeezed between the high-technology domination of the US and the low-technology challenge of the Third World added to the pressures.

Not surprisingly, therefore, most European governments swore their oath of allegiance to a liberal world economy with their fingers crossed behind their backs. Governments intervened, both in order to strengthen, prophylactically as it were, weak sectors, and in order to take part in the race for the establishment of advanced industries. In a sense, much of Western Europe "passed from tariff protectionism to financial protectionism",<sup>1</sup> and by the same token from what one could call "macro-economic", non-interventionist protectionism to micro-economic, interventionist protectionism.

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<sup>1</sup> Romano Prodi, "Italy", in: Big Business and the State, ed. by Raymond Vernon, Harvard University Press, Cambridge, Massachusetts 1974, S. 45.

A second element of international liberalisation pushed governments in the same direction: the freeing of capital movements, and hence the threat of foreign purchasers taking control over key economic sectors. Together these two forms of protectionism led to the policy of "national champions",<sup>1</sup> the creation of strong companies able to meet or thwart international competition. The instruments were various:

- expansion of nationalised industries into high technology sectors (IRI and especially ENI in Italy; nuclear industry in France and Britain) with the aid of financing through the public purse or state-owned banks, social insurance funds, etc.
- the induced merger of fragmented industries with the help of credit incentives, often under specially set up 'marriage bureaus' (e.g. the IRC in Britain). The French steel, aerospace, naval, and computer industries are examples.
- the encouragement of mergers through benevolent suspension of anti-trust laws (German steel).
- privileged procurement relations between state and favoured firms, which thereby could be forced to merge (e.g. the nuclear and aerospace sectors).
- very substantial R & D grants to favoured firms (in France 35 % of all private sectors R & D).

If the term "champion" suggests a race horse, a quite different animal came in time to profit from some of the same instruments: the lame duck. Increasingly, firms which failed to keep up with international competition had to be rescued. Often the creation of national champions and the bailing out of bankrupt firms occurred simultaneously, as in the case of French steel in the mid-sixties, and of the British motor industry in the early seventies. Sometimes the rearing of a technological leader changed into the support of a lame duck, without an intervening period of commercial viability. The Concorde is a case in point.

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<sup>1</sup> The best treatment of this period is found in Raymond Vernon, ed., Big Business and the State.

Even Germany engaged in an extensive "Strukturpolitik" to render weak sectors like textiles and shipbuilding "competitive", a term which falsely suggests an adherence to market principles.

Trade may have contributed to the growing weakness of European industry in ways more subtle than just by revealing losses of comparative advantage. One such effect may have been the introduction of genuine competition to such a degree that profit levels were depressed for all but the strongest. The various ways in which the market economy saves itself from its worst excesses, i.e. through restrictive business practises, informal oligopolies or formal cartels, did not disappear in this period, but were less effective as entrants to the market multiplied. Low rates of profit and hence investment led, of course, to a cumulative loss of technological advantage. While governments are usually accused of contributing to low profits through high taxes, in Italy and Britain they seem to have given almost as much as they have taken. The "principle of the squeaking wheel", e.g. short-term employment considerations, have consistently assured that money flowed to the weakest sectors, starving the more successful ones of capital.

A further consequence of the liberalisation of economic transactions which gave a boost to the mixed economy in Europe was the failure of macro-economic management which resulted from it.<sup>1</sup>

The need to maintain growth, full employment, a tolerable rate of job mobility, a reasonable income distribution between regions and classes is common to all European governments. To the extent these aims could be realised through macro-economic policies, the private sector remained free and the economy prospered. The exception is Britain, which received such violent doses of macro-economic management in the first two post-war decades (before giving up its liberal convictions and being

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<sup>1</sup> See also Wolfgang Hager, Europe's Economic Security, Non-energy issues in the international political economy, The Atlantic Papers 3/1975, Chapter 1 and 2.

forced into micro-economic management) that private industry suffered heavily.

With the exception of Italy, where belief in Keynesian macro-economic policy was always weak and where counter-cyclical investment programmes by the public sector are an established feature, the rest of Europe seemed, until the late sixties, to pursue a steady path away from the micro-economic conjunctural (as opposed to sectoral) intervention of the early post-war years. An example is France, where Keynesian theory only came into its own in the sixties.

There are signs that the shift which occurred in the post-war decades from reliance on micro- to macro-economic tools of management is now being reversed. The reason for this is, of course, the failure of macro-economic policy in the seventies. While there are many reasons for this failure, increased economic interdependence is doubtlessly one of them. The liberalisation of trade and capital movements has produced a genuine world economy which has taken on a life of its own. Fluctuations in total demand, both inflationary and recessionary (probably amplified rather than dampened by international coordination of policy) have taken on such a magnitude, that national countercyclical tools are simply overwhelmed.

This has two consequences for the growth of the mixed economy. One is that micro-economic intervention is brought in to supplement the blunt tools of macro-economic management. Attempts at wage and/or price control in Britain, France, Italy, and Sweden are one example of the suspension of market forces for demand management purposes. Other examples are the growing importance of countercyclical investment grants and policies for public and private enterprises in all European countries. During the slump of 1968 to 1971 public investment in Italy rose from one third to one half of gross fixed capital formation, a process which had a clearly countercyclical effect in the short-term but may have contributed to a (further) misallocation of resources in the medium term.

In Britain as in other European countries, the already heavy task of public enterprises and state-run incentive schemes to promote growth and full employment in general, and within unfavoured regions in particular, have merged imperceptibly with the manipulation of investment flows for countercyclical purposes, coupled with selective price controls familiar from the infra-structure sectors. Even, Germany, during the 1975 recession, adopted a sectoral investment incentive scheme (for building) in addition to across the board anti-cyclical alleviations of corporate tax burdens which are common to the Atlantic world as a whole.

At least as important as planned micro-economic countercyclical interventions, are ad hoc rescue operations which become necessary to help firms and sectors which are most seriously hit by the general failure of macro-economic policy. In the early seventies, state holding corporations were founded or strengthened in most European countries to help routinise the acquisition, financing, and managing of lame ducks. Even free-enterprise minded Sweden, which for decades had put its faith in a civilized form of labour mobility, founded its own lame-duck organisation, AB Statsföretag. In Italy Gestioni e Partecipazione Industriale (GEPI) was founded to take care of lame ducks, so as to relieve IRI of the constant pressure to nationalise them completely. In France, the Industrial Development Institute (IDI), also founded in 1970, similarly subscribes equity capital to ailing companies, on the model of the British IRC (abolished by the Tories in 1970, but reborn as the National Enterprise Board).

Space, or rather the knowledge that lengthy conference papers tend to remain unread, prevents me to argue in greater detail the thesis that trade leads to adjustment burdens and a failure of macro-economic policy which jointly push most European countries towards increased "mixing" of their economies. The great liberalisation experiments initiated in the late fifties were planned, more or less unconsciously, for a world economy serenely and effectively managed under the Pax Americana. They were also based on the assumption, almost uncritically adopted from continent-sized America, that adjustment capacity was both infinite and hence equal for all countries.

If nothing else, that powerful indicator of adjustment capacity, the rate of replacement for capital investment, seems to be determined by a host of factors which form something like a national-cultural characteristic: the rate of profit considered legitimate, the entrepreneurial spirit of managers, the willingness of labour to adapt to new machines, the amount of total national saving devoted to social infra-structure investments (claims by the state on the capital markets) etc. One has only to look at the extreme case of Japan to realise the socio-cultural determination of the rate of capital replacement.

Having said this and, perhaps for the love of a paradox, related the decline of domestic liberality to the increase in global liberalisation, it would be grossly inaccurate to leave out of account the domestically produced rigidities in European economic and social systems which have reduced the capacity to deal with fluctuations at the very time these were increasing.

Since we are here on very familiar ground they need only be stated briefly. One cause for rigidity is the increased struggle over distribution in all countries as the post-war reconstruction mentality faded and deferral of consumption in favour of investment became harder to justify. This not only applies to industrial wages but also to demands by groups such as civil servants or farmers, whose claims have to be met via taxation. High wages and taxes combine to weaken companies and make them ripe for state aid.

A high level of corporate taxation, moreover, has come to assume a symbolic aspect in Europe, as the quasi-logical counterpart of wage restraints. Recently, a tax cut considered necessary by the Dutch government to stimulate investment activity could not be pushed through against political opposition, so that direct grants to industries with employment problems were used instead. Similar tales can be told in most other Western European countries. This is one way to speed up the spread of the mixed economy.

While it is true that the recession brought calls for an equitable sharing of misery as between labour and capital, it also brought a slight rehabilitation of profits as a source, present, and future of job security. Of late, however, these gains of capitalist rationality are again being lost as the evidence shows that re-invested profits in a recession are used to rationalise production with a possible net loss in jobs.

The legitimacy of profits, and of the right of the owners of capital to allocate the surplus created jointly with labour has of course become a live issue, usually discussed under the heading of worker participation (in management and/or ownership). Although the state may get involved in legislating such a shift in power (Mitbestimmung, Bullock), this problem does not strictly fall within the definition of the mixed economy as used here. To do it justice would require another paper.

A further rigidity is reduced labour mobility. The traditional attachment of the European to his home community has been reinforced by increased home-ownership. The willingness to change skills, too, is reduced: by the rapidity of obsolescence in spite of re-training schemes, and by the tendency of technology to degrade the skill-level of many jobs. The revolt against the assembly line, whose clearest symptom is absenteeism, further reduces the adjustment options open to industry.

A great many rigidities, however, stem from the mixed economy itself, i.e. they are (again a paradox) the result of coping with earlier rigidities. There can be little question that active participation by the state in the running of enterprises tends to slow down their ability to respond to changed circumstances. Any multi-layered decision-making structure does, but especially one composed of men with quite different expertise and purposes i.e. industrialists, civil servants, and politicians. (State ownership as such is theoretically a neutral device, as the case of Renault or German Salzgitter show. But such ownership lowers the threshold for direct state intervention.)

Not surprisingly there is a lively debate, especially in those countries hardest hit by the pathologies of the mixed economy, on how to establish a measure of efficiency into an increasingly messy situation. In Britain, the nationalised industries have formed an association to achieve, among other things, a more arms-length relationship towards their tutelary ministries. On the other hand, the existence of whole sectors of private enterprise living on the public purse, e.g. ship-building, have led to demands for total nationalisation as a more honest alternative. In Italy, the communist party argues in favour of de-nationalisation of large parts of manufacturing industry. (However, private industry has had access to considerable state-aids, and in some cases bent the purposes of politicians to their own ends e.g. by building high-technology industries in the Mezzogiorno with aids destined to raise employment.)

Germany: on luck and virtue

The precarious situation of many other European economies serves to enhance Germany's successes. While it would be correct to attribute much of this success to the free-enterprise commitment of industrialists, civil servants and politicians alike, the reverse causation may also be true: Germany's successes have saved it from the necessity of applying second-best approaches to economic order. The example of Germany as much as that of Italy supports the proposition that the mixed economy is a function (and only later the cause of) systemic failures.

Germany's greatest asset is that, with Sweden, it has perhaps the most sophisticated trade-union movement in the world. This is due to luck (The British military government supported industry-wide over craft unions) and to virtue (the comparatively open-minded attitude of employers, the willingness to defer consumption for a long time after the war, the ability of union officials to read balance sheets and national accounts, etc.). This attitude of the trade unions practically solved two of the policy targets which are the despair of other governments:



price stability (wage increases in step with productivity increases) and balance-of-payments equilibrium (high regard for the competitiveness of exports).

A second asset, largely under the heading of luck, is the comparatively even distribution of high value-added industrial and service activities in the Federal Republic. This has not only meant that fewer resources had to be made available for regional policy, but also that they could be concentrated on a few localities and cases and hence achieve lasting successes.

Direct Regional Aid as % of GNP, 1974

B	DK	D	Berlin	F	IRL	I	NL	UK	EEC
0.24	0.04	0.14	0.45	0.06	2.15	0.96	0.05	0.57	0.31

Source: EEC Working Document

Another element of luck in the German starting position was the existence of very large firms (by then prevailing standards) which could tackle the huge technological development tasks of the post-war period without government help. Again, this freed resources for the few sectors where help was needed, like the nuclear industry, or allowed generous state support for irretrievable lame ducks, like the coal industry, without crippling the economy.

The small size of the problems confronting the economy also accounts for the success of the small, but efficient, public

<sup>1</sup> This statement has to be qualified by the curious story of Berlin, subsidised by the Federal Government by about the same amount as the German net contribution to the European Community. Berlin's economy, nevertheless, is in about as much trouble as the British economy, thus bearing out the conservative contention that subsidies are debilitating.

investment bank, the Kreditanstalt für Wiederaufbau which serves (on a modest scale) as a tool of public industrial strategy. Another German peculiarity, in striking contrast to France and Italy, is the special role of the three large private banks in serving as instruments of industrial planning and rationalisation which in other countries have to be taken care of by public bodies. The German practice of transferring to banks share-holders' votes (Despotstimmrecht) gives their representatives a powerful voice on the boards of directors, re-inforced through close creditor-debtor relationships. Being represented on the boards of all major firms in a given sector the banks gain a complete picture of the situation and can proffer advice accordingly. The high technical competence of these in-official planners contrasts favourably with all but their French public counterparts.<sup>1</sup>

The argument so far has been to say that Germany had less need to take recourse to elements of the mixed economy, either because its problems were smaller or informal alternatives were available. We seem to be observing two processes in Europe: a virtuous circle in Germany and a viscous one in some other European countries, forced by weakness to deprive themselves of the basis of future strength, i.e. by misallocating resources. The importance of misallocation rather than capital shortage is brought out in the following table:

Investment and output, 1953-1973

Manuf.investment % of value added manufacturing		increase in manuf.out- put per increment of capital expenditure	
Japan	24.2	Japan	100 (ref.point)
Italy	19.5	West Germany	80
Sweden	16.0	France	70
France	15.6	U.S.	70
West Germany	13.3	Italy	65
U.K.	13.1	Sweden	60
U.S.	11.9	U.K.	40

Source: OECD National Accounts - Deutsches Institut für Wirtschaftsforschung.

<sup>1</sup> On this as well as other points see Andrew Shonfield: Modern Capitalism, Chapter XI, "Organized Public Enterprise. Germany".

But the story does not quite end here. One of the most fundamental acts of public intervention in Germany has been to insure a consistently undervalued exchange rate. This not only contributed to a much steadier conjunctural path of the economy, (wasteful deflationary periods could be avoided through an assured access to a seemingly dependable world market), but is also frequently hampered the task of the weaker European countries to cope with their balance-of-payments problems. These countries were thus forced into sub-optimal growth paths (deflationary correction of their payments balances).

The high export specialisation achieved under this strategy continued for a while to facilitate economic policy making, even under floating exchange rates when cheating seemed no longer possible. When the whole OECD world was plunged into oil deficits, Germany's flexible industry could respond fastest to new opportunities when speed rather than price counted most. Nevertheless, Germany's successes, whether due to luck or virtue, contribute to the failure of its partners.

The German government is waking up, if slowly, to the dangers of this situation. In 1975, the recession of its European partners contributed to a fall in German exports and hence in GNP. Worse, voices were raised, especially in Britain, calling for a siege economy. The failure of some European countries to live with the world economy threatens to push them - after the failure of both Keynesianism and the mixed economy - towards more fundamental changes in regime.

In a sense, the German government is the prisoner of its past successes. The German economy cannot survive if 50 to 60 % of its export market (Western Europe) suffers a decline or shuts itself off. A stimulation of internal demand would help other countries, but cause inflationary uncertainties (it is hard to remain sympathetic to these anxieties in view of the stakes involved), and it would not necessarily raise domestic employment very much. The exchange rate won't function very well to redress the current account balance, and if it did, cause a recession in the export sector.

The method used so far, a kind of national deficit financing (of exports) on a huge scale, whether through central bank or private credits, is not sustainable even in the medium run as a means to keep up demand in pace with productivity increases.

It is hard to escape the conclusion that the government will need to take recourse to the tools of the mixed economy to carry out the long overdue shift away from export-oriented to domestically oriented demand, without which both German and European economic security are jeopardised. One straw in the wind is the \$ 5 billion public investment programme for infra-structure decided on in early 1977. But this scheme is purely employment motivated. The suggestion that the German consumer be allowed to enjoy the accumulated reserves (e.g. through a public "foreign" procurement programme, both civil and military) which would correct the payments balances of our trade partners with sufficient speed would be laughed out of court. So would the suggestion that the Bundesbank buy bonds in the European Investment Bank on a large scale, rather than in low yielding US Treasury bonds. Are German virtues an obstacle to a timely response to a changed world? Will its luck run out?

We started out with the proposition that the mixed economy is a response to systemic failures in a context of shaky political legitimacy and high expectations. In a sense, the growth of interdependence has destroyed the dividing line between the healthy German and the troubled partner economies. There are no easy choices left.

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Attitude des pays européens à l'égard des revendications du Tiers-Monde pour la restructuration de l'ordre mondial, et implications politiques de ces attitudes.

(3)

I. La remise en cause de l'ordre mondial.

Les revendications du Tiers-Monde pour la restructuration de l'ordre mondial s'inscrivent dans une remise en cause plus générale de cet ordre, qu'il importe d'abord de situer.

1. Il faut en premier lieu s'entendre sur le sens des mots. La notion d'ordre mondial (\*) implique un certain consensus sur les règles du jeu, explicites ou implicites, régissant les relations entre les unités politiques (\*\*) du "monde". D'une manière abstraite, on peut dire qu'il existe un ordre au sein d'un système d'unités politiques si chacune de ces unités est dissuadée par les autres de ne pas respecter les règles du jeu. Dans le système européen d'autrefois, les Traités de Westphalie et le Traité de Vienne (auquel on a voulu, d'une manière sans doute bien audacieuse, comparer l'acte final d'Helsinki), sont des exemples classiques d'ordre. Au lendemain de la seconde guerre mondiale, le système économique occidental fut soumis à l'ordre du FMI et du GATT.

(\*) Dans une analyse plus fine, il faudrait distinguer "ordre international" et "ordre interétatique". Les revendications du Tiers-Monde ne portent pas seulement sur les relations entre Etats. Il suffit d'évoquer le rôle des Banques ou des sociétés multinationales.

(\*\*) relations entre Etats, dans le cas des relations interétatiques, ou entre les ressortissants d'unités politiques différentes, dans une conception plus large.

Une telle conception de l'ordre est éthiquement neutre. Une unité politique peut être obligée d'accepter l'ordre existant, sans pour autant y adhérer en profondeur. Par exemple, on peut penser qu'aujourd'hui le système que forment les pays de l'Europe de l'Est constitue un ordre imposé. Inversement, il ne suffit pas qu'un ordre soit avantageux pour toutes les unités d'un système pour que celles-ci s'y soumettent. Une unité isolée, en l'absence de sanctions, peut trouver intérêt à "tricher" (c'est ce qu'en théorie des jeux on appelle le "free rider problem"). Dans la situation la plus simple, il existe une unité dominante qui fait elle-même la police du système. On peut estimer que tel fut le cas, pendant une vingtaine d'années, pour le système économique occidental de l'après-guerre (ceci étant dit, en laissant ouverte la question des bénéfices du libre-échange pour chacune des unités). Le cas de l'ordre européen après les Traités de Westphalie (1648) et de Vienne (1815) est plus complexe, car il n'y avait pas d'unité dominante (en fait, la montée de la Prusse a au contraire été la cause de la rupture du système de Vienne). L'obéissance aux règles du jeu était dans ce cas le résultat d'un long processus d'apprentissage.

Un ordre international est menacé lorsqu'une ou plusieurs unités cessent de respecter les règles du jeu antérieurement admises, sans que les autres (l'unité dominante, lorsqu'elle existe) veuillent (par exemple, la victoire de la Prusse à Sadowa contre l'Autriche, sous les applaudissements du pays français) ou puissent (par exemple, le premier doublement du prix du pétrole en 1973) la ou les contraindre à revenir au respect

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 (\*) En fait, la distinction entre "vouloir" et "pouvoir" peut être ambiguë. Les crises surgissent rarement sans signes prémoniteurs. Si on ne veut pas réagir à un moment, on risque de ne plus pouvoir le faire plus tard.

de ces règles. Sauf en situation de guerre, il n'est jamais facile de dater, autrement que symboliquement, la rupture d'un ordre dans un système politique.

2. L'ordre international établi au lendemain de la seconde guerre mondiale peut être caractérisé, dans ses très grandes lignes de la façon suivante :

- bipolarisation autour des Etats-Unis et de l'URSS, les rapports entre ces deux puissances étant régis par les règles de la dissuasion nucléaire ;
- définition des relations économiques entre les pays industrialisés à économie de marché autour du FMI et du GATT, conformément à la vision libérale des Etats-Unis, qui de plus garantissaient de facto le fonctionnement du système ;
- relations des pays industrialisés avec les pays sous-développés régies dans le cadre de la décolonisation.

Cet ordre s'est modifié progressivement, et depuis le début des années 70 on peut dire qu'il est rompu. Les principales causes de cette évolution sont :

- la détente, succédant à la coexistence pacifique, qui a eu pour effet d'introduire une certaine "débipolarisation", c'est-à-dire, dans le camp occidental, un certain affranchissement par rapport aux Etats-Unis.
- le déclin de la suprématie économique américaine par rapport à l'Europe Occidentale et au Japon, et la multiplication des déviations non sanctionnées par rapport aux règles du jeu de Bretton-Woods et du GATT.

La rupture du système monétaire international entre 1971 et 1973, et la crise du pétrole à l'automne de 1973, peuvent être considérées comme marquant la fin de l'ordre économique ancien. Le point capital, ici encore, est la disparition des Etats-Unis comme leader du système.

.../...

- la décolonisation, (qui n'est d'ailleurs toujours pas achevée, notamment en Afrique) avec l'émergence de nouvelles nations indépendantes qui acquièrent, du fait de leur souveraineté territoriale, une certaine capacité d'action sur le système international. Par leur nombre, les nouvelles nations ont complètement changé la physionomie de l'ONU. A l'égard de cette institution, l'entrée de la Chine populaire au Conseil de Sécurité marque également la fin de l'ordre ancien.

3. Nous nous trouvons actuellement dans une phase intermédiaire entre un ordre ancien qui a disparu et un ordre nouveau qui n'est pas encore conçu, mais qui fait l'objet de débats d'idées et de discussions diplomatiques. Un jour viendra, où, dans une situation favorable, les idées se cristalliseront pour permettre effectivement l'instauration d'un "nouvel ordre mondial". Ainsi, en France, la Révolution et l'Empire ont-ils pu réaliser des projets formulés sous l'Ancien Régime.

Au lendemain de la seconde guerre mondiale, les Etats-Unis ont été en mesure d'instaurer un ordre dans leur camp correspondant à leur vision (ce mot paraît plus adéquat que celui d'intérêt) du monde. La supériorité de ce pays était telle que sa volonté ne pouvait que s'imposer, et d'ailleurs les appuis ne lui manquaient pas dans d'autres pays occidentaux.

Aujourd'hui, la situation est radicalement différente : les Etats-Unis et l'Union Soviétique sont sensiblement à parité de puissance ; d'autres centres de pouvoir ont émergé ou réémergé, durablement ou temporairement, aussi divers que l'Allemagne, le Japon, la Chine ou l'Arabie Saoudite. Les nouvelles nations du Tiers-Monde, parce qu'elles ont acquis leur souveraineté, et donc la possibilité de contrôler l'usage de leur territoire, parce qu'elles disposent d'une



faculté de chantage dans le jeu Est-Ouest tout en tirant parti de la notion de non-alignement, parce que leurs revendications économiques s'inscrivent dans le cadre de l'échec de l'ancien système libéral, parce qu'aussi, elles ont su transformer les Nations-Unies en caisse de résonance à leur profit et qu'elles ne manquent pas de soutien au sein des démocraties libérales ont désormais une réelle aptitude à perturber la scène mondiale. L'évènement essentiel, à cet égard, a été l'embargo et le premier doublement des prix du pétrole en octobre 1973, suivi d'un second doublement à la fin de la même année. Les espoirs du Tiers-Monde, et donc son unité, restent encore largement fondés sur cet exploit singulier.

Finalement, la diffusion du pouvoir dans le monde est aujourd'hui telle qu'aucune puissance n'est en mesure d'imposer un ordre qui serait le sien. Cela est évidemment inconcevable au niveau du système mondial. Ce ne l'est même pas au niveau d'un système plus restreint. Par exemple, aujourd'hui, on ne peut plus vraiment parler d'un bloc occidental, puisque des pays comme la RFA et la France, s'appuyant soit sur leur puissance économique, soit sur l'autonomie relative de leurs capacités de défense, ont retrouvé une large marge de manoeuvre à l'égard tant des Etats-Unis que du bloc soviétique. Quant aux pays du Tiers-Monde, ils ont échappé au giron occidental, et cherchent à compenser leur dépendance économique à l'égard des pays industrialisés à économie de marché par un appui politique des pays socialistes, sans que ceux-ci n'arrivent d'ailleurs à les contrôler.

Le système international ne fait plus, aujourd'hui, l'objet d'aucune régulation et les diverses forces du protectionnisme qui commencent à apparaître ne font

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que traduire, par une réaction naturelle d'autodéfense, ce fait fondamental. Par quel processus d'apprentissage arrivera t-on à de nouvelles règles du jeu communément admises au sein d'un système sans "leader", combien faudra t-il de temps pour aboutir, quelles épreuves faudra t-il traverser pour que l'établissement d'une situation stable redevienne possible ? Le nouvel ordre international se définira par tâtonnement, et les accidents de l'histoire laisseront certainement leurs marques sur le schéma final.

Voilà quelques questions que, sur un plan très général, on peut se poser. On voit bien que des affaires concrètes aussi diverses que la mise en place d'une politique de l'énergie, la coordination des politiques macro-économiques, la limitation des armement nucléaires, la limitation des ventes d'armes dans le monde, la non-prolifération, posent des problèmes méthodologiques très voisins. En d'autres termes, comment gérer l'interdépendance dans un monde sans leader ?

Tel est le cadre, évidemment très vaste, dans lequel il fallait nécessairement se placer avant d'aborder la question particulière des revendications du Tiers-Monde et de l'attitude des européens.

## II. Les revendications du Tiers-Monde et l'attitude des européens.

1. Il est toujours délicat de parler du Tiers-Monde comme s'il s'agissait d'un ensemble unifié, aux objectifs bien définis et cohérents. Aujourd'hui, il faudrait distinguer au moins les pays de l'OPEP (encore ceux-ci appellent-ils des distinctions), les pays "semi-industrialisés", tels le Brésil, Taïwan ou la Corée du Sud,

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et les "vrais" pays sous-développés comme les pays africains sans littoral. Il est toutefois commode, s'agissant de revendications à caractère général, de raisonner comme si le Tiers-Monde formait un bloc.

Sur le plan politique, le Tiers-Monde veut désormais avoir droit au chapitre, c'est-à-dire qu'il entend avoir des sièges qui ne soient pas seulement des strapontins dans les organisations internationales, notamment les organisations monétaires et financières (FMI et Banque Mondiale). Aux Nations-Unies, ils remettent en question le principe des membres permanents du Conseil de Sécurité et du droit de veto dont ceux-ci disposent au sein de l'Organisation. Le Tiers-Monde entend également aller jusqu'au bout du processus de la décolonisation, en obtenant l'indépendance ou l'application de la règle de la majorité à un certain nombre de territoires en Afrique : la Rhodésie, la Namibie, le TFAI, l'Union Sud-Africaine.

Sur le plan économique, la vision du Tiers-Monde est largement inspirée par la théorie léniniste de l'impérialisme. Les pays industrialisés à économie de marché sont accusés d'avoir construit leur prospérité sur le pillage du Tiers-Monde. Sur un plan plus concret, les revendications économiques du Tiers-Monde sont détaillées dans plusieurs documents successifs, textes des VI<sup>ème</sup> et VII<sup>ème</sup> sessions spéciales de l'Assemblée Générale des Nations-Unies, Charte des Droits et devoirs économiques des Etats, la Charte de Manille, les documents de la CNUCED (et notamment de la Conférence de Nairobi de Mai 1976), ainsi que dans les positions exprimées lors de la Conférence sur la Coopération Economique internationale (CCEI).

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Ces revendications peuvent être regroupées en cinq chapitres principaux, dont les titres seront cités avec le minimum de commentaires :

a) Le commerce des produits de base : le Tiers-Monde soutient, avec quelques nuances, le programme intégré de la CNUCED.

b) Produits manufacturés, semi-manufacturés et le commerce international : il s'agit aussi bien de l'amélioration de l'accès aux marchés des pays développés, du contrôle de l'activité des sociétés multinationales, de l'aide financière aux exportations des pays en voie de développement, de la coopération internationale pour la restructuration industrielle.

c) Questions financières et monétaires : il s'agit du réaménagement, voire de la remise des dettes des PVD, de l'accroissement des flux de capitaux en leur faveur, des aménagements à apporter au système monétaire international.

d) Mesures spéciales en faveur des pays les moins avancés, insulaires et sans littoral.

e) Transferts de technologie : il s'agit essentiellement de faciliter l'accès au Tiers-Monde de la "technologie" des pays occidentaux.

2. Face à ces revendications, quelle est l'attitude des pays européens ?

Sur le plan strictement politique, l'attitude des grands pays européens reste purement défensive : opposition formelle (dans le cas de la Grande-Bretagne et de la France), non dépourvue d'arrière pensées (dans le cas de la RFA) face aux revendications tendant à une refonte de la charte de l'ONU et des droits des membres du Conseil de Sécurité.

Sur le plan économique, il convient d'abord de rappeler la Convention de Lomé qui lie 46 pays d'Afrique, des Caraïbes et du Pacifique à la Communauté européenne, qui a été signée à la fin de février 1975 et se trouve en vigueur depuis le 1er avril 1976. Cette convention couvre tous les aspects de la coopération : échanges commerciaux, coopération industrielle, aide financière et technique, stabilisation des recettes d'exportation. Elle va clairement dans le sens des aspirations du Tiers-Monde, et a d'ailleurs commencé à fonctionner d'une manière qui, pour l'essentiel, donne satisfaction à l'ensemble des partenaires.

En dehors de cela, les pays européens sont relativement divisés. La France et la Grande-Bretagne, anciennes puissances coloniales, adoptent des attitudes ouvertes à l'égard des revendications du Tiers-Monde. Chacun de ces pays a comme premier souci de protéger les intérêts de sa clientèle, pour l'essentiel les pays africains d'expression française et les pays du Maghreb, dans le premier cas, l'Inde et le Pakistan dans le second. Mais alors que la France, qui s'était efforcée dans le passé de mettre sur pied une organisation économique centralisée de ses intérêts coloniaux et qui, à l'intérieur, a introduit le concept de "planification indicative" qui a pour ambition de corriger les erreurs du marché, accepte de jouer avec l'idée d'une certaine organisation dans les relations économiques internationales (par ex. ce pays défend depuis 15 ans le principe des accords de produits), la Grande-Bretagne, dont l'empire avait été fondé

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sur les bénéfices commerciaux et bancaires des échanges internationaux et sur l'approvisionnement de sa métropole au moindre coût, reste attachée à une vision libre-échangiste encore que le déclin de ses positions traditionnelles lui fasse maintenant considérer le problème avec un autre regard. L'Allemagne, dépourvue de traditions coloniales fortes, et assurée de sa force économique, s'en tient à une vision libre-échangiste qui n'est pas dépourvue de dogmatisme. L'attitude de la Hollande est particulièrement intéressante. En décembre 1974, les Ministres de l'Economie et de la Coopération de ce pays ont mis sur pied un programme de restructuration industrielle intégré dans la politique nationale de coopération au développement. Ce fonds a été doté de 35 millions de florins pour chaque année 1976 et 1977, soit environ 16 millions de dollars. L'idée est d'aider financièrement les industriels qui acceptent d'abandonner une production traditionnelle aux Pays-Bas quand il s'avère que la même production importée d'un pays en développement est compétitive. Bien que la mise en oeuvre de ce programme se soit heurtée à des difficultés d'ordre pratique, son inspiration est très intéressante : il s'agit de la première tentative concrète d'application de l'idée d'une nouvelle division internationale du travail, plus conforme aux intérêts du Tiers-Monde, et cependant compatible avec l'idéal / libre-échangiste auquel la Hollande reste également attachée.

Sur le plan diplomatique, la France a sans doute été le pays le plus actif face aux revendications du Tiers-Monde. Sur le plan bilatéral, elle a cherché à développer ses liens avec le monde arabe et s'efforce de donner une réponse satisfaisante aux demandes et aux inquiétudes formulées par ses amis africains (resserrement des liens diplomatiques; embargo sur les exportations d'armes à destination de l'Afrique du Sud; proposition d'un fonds africain de développement...). Elle a pris l'initiative d'une concertation multilatérale entre pays industrialisés et pays du Tiers-Monde qui devait aboutir à la CCEI. Ses efforts marquent cependant le pas.

(en voie de règlement)  
Elle a été directement impliquée dans les affaires de Djibouti et de Mayotte. Soumise à la pression de ses difficultés économiques, elle n'a pas jusqu'ici été en mesure d'aller plus loin que les autres dans le cadre de la CCEI.

3. Dans le court terme, le problème de l'attitude à l'égard du Tiers-Monde revêt deux aspects :

- un aspect politique : comment l'exercice de la CCEI doit-il aboutir ?

- un aspect économique : le monde n'est pas sorti de la crise économique, et le rétablissement des équilibres extérieurs des pays industrialisés s'est fait au prix de l'endettement croissant des PVD non pétroliers, ou si l'on préfère, la contrepartie de l'excédent financier des pays pétroliers se trouve en quasi totalité dans les pays du Tiers-Monde. Il y a donc un problème d'urgence : comment éviter la banqueroute de certains pays du Tiers-Monde, qui ne manquerait pas d'avoir des conséquences sur l'ensemble des pays industrialisés ?

Sur ces deux points, les attitudes des pays européens semblent assez homogènes, et d'ailleurs comparables avec celle des Etats-Unis.

La CCEI doit déboucher sur des résultats suffisamment concrets pour que l'ensemble des parties en cause puisse parler de succès, ou tout au moins de non-échec. Personne ne souhaite l'intensification des revendications du Tiers-Monde qui pourrait notamment ressouder le front commun des extrémistes de l'OPEP et des pays les plus démunis du Tiers-Monde et contraindre ce faisant l'Arabie Saoudite et les PVD modérés à durcir à nouveau leurs positions.

Sur le plan économique, une réduction de la demande des pays du Tiers-Monde aurait des effets négatifs sur l'activité économique des pays industrialisés. C'est ainsi que 20 % des exportations de la Communauté européenne vont à des pays en développement non pétroliers. Contrairement

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à des affirmations trop fréquentes, cet argument n'a de valeur que pour le court terme (à long terme, en effet, le problème des débouchés ne se pose pas, du fait de l'adaptation de l'offre), ce qui n'infirme pas son importance. En outre, une crise des paiements pourrait avoir des répercussions sérieuses et difficilement maîtrisables sur le fonctionnement d'un système financier international dont il ne faut pas oublier qu'il est resté depuis le début de la crise le pourvoyeur de fonds du Tiers-Monde. (Le triplement du volume de la dette des pays en voie de développement de 1969 à 1976 a été couvert pour les 2/3 par des emprunts privés, ceux-ci passant de 40 % du total en 1970 à 65 % en 1976).

Naturellement, les deux aspects, le politique et l'économique, sont liés ; par exemple, la question de l'endettement est l'une des pierres d'achoppement de la CCEI. Les divergences apparaissent au niveau des modalités d'action. Quelles concessions faire en matière d'endettement ? Sur quels pays faut-il concentrer d'éventuels efforts de relance ? Sur ce dernier point, l'approche néo-libérale, bien reflétée par les Allemands ou les Américains, consiste à mettre l'accent sur les pays "semi-industrialisés" tels le Brésil, Taïwan ou la Corée du Sud, tandis qu'une approche plus "sociale" insisterait sur le cas des pays les plus démunis. L'avantage, dans le premier cas, est que les capitaux injectés sont plus capables d'engendrer des revenus ultérieurs, et contribuent donc plus sûrement à la relance de l'activité mondiale. Naturellement, une combinaison des deux approches est possible. Des conflits ne manqueront pas d'apparaître entre les pays d'Europe et les Etats-Unis au niveau de l'établissement des critères applicables pour le choix des pays à favoriser, puisque leurs intérêts économiques et politiques dans les différents pays du Tiers-Monde ne coïncident pas et que chacun s'efforcera de privilégier les pays se trouvant normalement dans l'orbite de ses intérêts commerciaux à l'exportation.

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Une autre source de conflit apparaîtra bien entendu sur la question de la répartition du financement des charges correspondant aux nouvelles injections de capitaux dans le Tiers-Monde. Les pays à balance de paiements déficitaires ne manqueront pas de renvoyer la balle dans le camp des pays excédentaires, qui chercheront, au moins en partie, à se dérober. Ils chercheront, en particulier, à faire payer les pays pétroliers structurellement excédentaires (Arabie Saoudite; Emirats) qui seront sans aucun doute fort réticents.

Les solutions à ces deux types de conflit sont évidemment interdépendantes, les pays qui financeront les transferts étant mieux placés pour faire valoir leurs vues sur les critères applicables aux pays destinataires. L'Europe, et particulièrement en son sein la France, ont de fortes chances d'y être perdants.

4. En ce qui concerne le long terme, il est beaucoup plus difficile de raisonner en terme d'intérêt autrement que d'une manière très générale, c'est plutôt à une "conception" du rôle du Tiers-Monde dans le système international qu'il faut se référer.

Les pays européens ont, à des titres divers, conscience de leur dépendance à l'égard des matières premières. De plus, la proximité géographique de certaines nations du Tiers-Monde leur font porter une attention en termes de sécurité (Bassin Méditerranéen comme zone de sécurité de l'Europe; Afrique). L'argument keynesien de l'interdépendance économique, c'est-à-dire la conception du Tiers-Monde comme marché potentiel, est également important.

Sur le plan politique, et pour parler comme les Chinois, beaucoup d'Européens pensent que le "second monde" ne pourra conserver une certaine indépendance à l'égard du "premier monde", c'est-à-dire des Superpuissances, que s'il est capable de s'allier avec le Tiers-Monde. Naturellement,

cet argument peut être interprété de façon plus ou moins extrême. Il est souvent défendu en France par les partisans d'une alliance privilégiée avec le monde arabe, fondement selon eux d'une indépendance accrue de l'Europe vis-à-vis des Etats-Unis. On peut penser aussi que, par son capital de relations, l'Europe peut jouer un rôle pour orienter l'évolution de certains pays du Tiers-Monde, particulièrement en Afrique. Ces pays sont-ils condamnés à tomber sous la férule de régimes totalitaires d'inspiration/marxiste, (ou tout au moins de rhétorique) ou peut-on penser que des expériences de développement sur un modèle libéral, comme en Côte d'Ivoire ou au Sénégal peuvent réussir durablement ? La coopération de la France avec ces deux pays, par exemple, n'est-elle pas hautement significative dans une perspective à très long terme de l'évolution du continent africain ?

Cet ensemble de considérations n'a encore nulle part débouché sur la formulation précise d'une politique (sauf peut-être celle qu'incarnent le dialogue euro-arabe, l'association avec les pays ACP\* et les préférences généralisées consenties par la Communauté aux PVD), mais le sentiment existe d'une manière diffuse en Europe que le vieux continent a un rôle spécifique à jouer à l'égard du Tiers-Monde. Les relations avec le Tiers-Monde peuvent en outre être un thème fédérateur pour la Communauté européenne.

### III - Implications politiques :

1. Tout se passe finalement comme si les pays européens étaient divisés en deux camps, mais avec un clivage différent selon qu'on se place du point de vue de ce qu'ils disent ou de ce qu'ils font, alors que leurs intérêts semblent assez homogènes vis-à-vis des Etats-Unis. Si l'on se place du point de vue de ce qu'ils disent, on trouve d'un côté des tenants d'un libre échange plus ou moins orthodoxe (Grande-Bretagne, RFA), de l'autre les tenants d'un libre échange contrôlé et corrigé (Pays-Bas, France). Si l'on se place du point de vue de ce qu'ils font ou veulent faire, on trouve d'un côté les pays peu pressés

\* Afrique-Caraïbes-Pacifique

(Grande-Bretagne, RFA), de l'autre ceux qui cherchent dès maintenant à prendre en compte les changements intervenus dans le Tiers-Monde (surtout les Pays-Bas).

Si l'on se place maintenant du point de vue des véritables intérêts des pays occidentaux, le clivage est cette fois-ci entre l'Europe occidentale (le Japon est entièrement laissé de côté dans cette étude) et les Etats-Unis; l'Europe occidentale étant, comme on l'a déjà vu, à la fois plus proche du Tiers-Monde, au sens historique et géographique, et plus dépendante de lui pour ses approvisionnements en énergie et matières premières.

2. Tant que les pays d'Europe n'auront pas suffisamment pris conscience de leur solidarité en la matière, et que la pression des nécessités ne sera pas suffisante, ils chercheront à louvoyer pour sauvegarder leurs intérêts à court terme, tout en s'efforçant de maintenir ouvert l'éventail des possibilités à long terme. L'Europe fera donc probablement le minimum des concessions à court terme compatibles avec les intérêts politiques de ses membres et la préservation de ses courants commerciaux. Elle tentera de s'opposer à toute évolution qui tendrait à subordonner les rapports Nord-Sud, en fait Ouest-Sud, aux rapports Est-Ouest. Elle cherchera à développer des relations spécifiques avec les pays associés à la Communauté. Elle sera vraisemblablement amenée à accentuer ses efforts vers le bassin méditerranéen (que préfigurent l'élargissement du Marché commun vers la Grèce et le Dialogue euro-arabe et vers l'Afrique. Elle sera conduite à accepter progressivement une vision moins libre-échangiste, donc plus organisée, des rapports économiques internationaux. Dans le cours de cette évolution des difficultés ne manqueront pas d'apparaître avec les Etats-Unis, dont les intérêts à court et à long terme sont différents, et dont la conception à long terme du système international mettra du temps à s'adapter au fait de sa disparition comme centre unique de puissance dans le monde non communiste.

QUESTIONS A DISCUTER :

1. Dans quelle mesure les revendications du Tiers-Monde sont-elles fondées et durables ?
2. Les pays européens divergent-ils entre eux, et avec les Etats-Unis, sur l'attitude à avoir vis-à-vis de ces revendications ? Est-ce pour des raisons profondes ?

La distinction entre les intérêts à court terme et la conception à long terme, retenue dans cette note, est-elle pertinente ?

3. L'attitude européenne à l'égard du Tiers-Monde peut-elle devenir un thème fédérateur de la Communauté ? Des tensions entre l'Europe et les Etats-Unis sont-elles prévisibles à propos du Tiers-Monde ?
4. La politisation des relations économiques internationales que manifestent notamment les revendications du Tiers-Monde, restera-t-elle une caractéristique durable du système international ?

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Février 1977

Prepared for:  
Bilderberg Conference  
April 1977

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March, 1977

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### PROBLEMS IN THE MIXED ECONOMY

While there are undoubtedly similarities among the problems faced by the U.S. and the rest of the industrialized world, this paper is not an attempt to find or analyze common problems. It focuses exclusively on the problems of the mixed economy found in the United States. Some of these are common—the desire to control inflation and unemployment—and some are peculiar to the U.S.—the low relative incomes of large minority groups.

#### I. An Inability to Impose Economic Losses *(per the sacrifice)*

The lament is often heard that the U.S. economy and political system have lost their ability to get things done. Meaningful compromises cannot be made and the politics of confrontation are upon us like the plague. Programs that would serve the general welfare cannot be started because strong minorities oppose them. No one has the ability to impose solutions and no solutions command universal assent.

The problem is real but it has not been properly diagnosed. One cannot lose an ability that one never had. What is perceived as a lost ability to compromise is in fact (1) a shift from international cold war problems to domestic problems and (2) a lost ability to impose economic losses.

As domestic problems rise in importance relative to international problems, action becomes increasingly difficult. International confrontations can always be portrayed<sup>as</sup>, and to some extent are, situations where everyone is fairly sharing sacrifices to hold the foreign enemy in check. Since everyone benefits, an overwhelming consensus and bipartisan approach can be achieved.

Domestic problems cannot be portrayed in this simple manner. They may not be zero-sum games where every winner is matched with a loser, but there are inherently winners and losers. Everyone cannot perceive themselves as benefiting. A program to raise the occupational position of women and minorities, for example, automatically lowers the relative occupational position of adult white men. Every black or female appointed to President Carter's cabinet is one less white male who can be appointed.

People often ask why President Kennedy was so easily able to get the "Man on the Moon" project underway while both Presidents Nixon and Ford found it impossible to get their "Project Independence" underway. There is a very simple answer. Metaphorically, some American has to have his or her house torn down to achieve energy independence, but no American lives between the earth and the moon. Everyone is in favor of energy independence in general, but there are vigorous objectors to every particular path to energy independence. In contrast, once a consensus had been reached on going to the moon, the particular path could be left to the technicians. In domestic problems the means are usually as contentious as the ends themselves.

The problem of domestic economic losers has been magnified by a change in the political structure. In the past, political and economic power was distributed in such a way that substantial economic losses could be imposed on parts of the population if the "establishment" decided that it was in the general interest. These parts of the population are no longer willing to accept losses or are able to substantially raise the costs for those who wish to impose losses upon them.

There are a number of reasons for this change. Viet Nam and the subsequent political scandals clearly lessened the population's willingness to accept their

nominal leaders' judgements that some project was in their general interest. With the civil rights, poverty, black power, and women's liberation movements, many of the groups that have in the past absorbed economic losses have become militant. They are no longer willing to accept losses without a political fight. The success of their militancy and civil disobedience set an example that spread to other groups such as environmentalists, neighborhoods, and regions.

All minority groups have gone through a learning process. They have discovered that it is relatively easy with our legal system and a little militancy to delay anything for a very long period of time. To be able to delay a program is often to be able to kill it. Legal and administrative costs rise, but the time delay and uncertainty costs are even more important. When substantial time delays and uncertainties are added into the conventional program or investment analysis, both government and private industry find that it pays to cancel projects that would otherwise be profitable.

In one major environmental group, delays are such a major part of their strategy that they have a name for it--analysis paralysis. Laws are to be passed so that every project--public and private--must have environmental impact statements, economic impact statements, sociological impact statements, etc. The idea is not to learn more about the costs and benefits of projects, but to kill the projects. To be useful in deciding whether projects should be done, impact statements would have to be inexpensive and simple. Instead, they are to be expensive and complex so that they are a deterrent to undertaking any project and so that they can be legally challenged however they come out.

Consider the Interstate Highway System. Whatever one believes about the merits of completing the remaining intracity portion of the system, it is clear that it gives the country an intercity transportation system that would be sorely missed if it had not been built. Even those who argue against it

do so on the grounds that if it had not been built some better (non-auto) system would have been built. Yet most observers would agree that the Interstate Highway System could not have been built if it had been proposed in the mid-1970s rather than in the mid-1950s.

Exactly the same factors which would prevent the initiation of an Interstate Highway System would also prevent the initiation of any alternative transportation system. A few years ago when a high speed rail system was being considered for the Boston-Washington corridor, a former governor of Connecticut announced that he would veto any relocation of the Boston to New York line on the grounds that it would be of prime benefit to those at either end of the line, but would tear up Connecticut homes. The groups opposing an intercity rail network would be slightly different than the groups opposing an intercity highway network, but they would be no less effective in stopping the project. Any transportation system demands that land be taken and homes torn down. At one time this was possible--at the moment it is impossible.

The Balkanization of nations is a world-wide phenomenon that the U.S. has not escaped. Regions and localities are less and less willing to incur costs that will primarily help people in other parts of the same country. Consider the development of the coal fields of Wyoming and Montana. There is no question that most of the benefits will accrue to those living in urban areas in the rest of the country while most of the costs will be imposed on those living in that region. As a result the local population objects. More coal mining might be good for the U.S., but it will be bad for them. Therefore they will impose as many time delays and uncertainties as it is possible to do.

The same problem is visible in the siting of nuclear power plants.

Whatever one believes about the benefits of nuclear power, it is clear that lengthy siting delays serve no purpose other than as a strategy for killing the projects. If the projects are undertaken anyway, the consumer will



have to suffer the same risks and pay the higher costs associated with the delays. What is wanted is a quick yes or no answer, but this is just what we find impossible to do. Siting also raises the Balkanization issue. Whatever the probabilities of accidents, the consequence of such failures are much less if the plants are sited in remote areas. But those who live in remote areas do not want the plants since they suffer all of the potential hazards and do not get the benefits of the project. Everyone wants power, but no one wants power plants next to their own home.

Basically we have created the world described in the (Robert Ardrey's) Territorial Imperative. To beat an animal of the same species on his home turf, the invader must be twice as strong as the defender. But no majority is twice as strong as the minority opposing it. Therefore we each veto the other's initiatives, but none of us has the ability to create successful initiatives ourselves.

Given this stalemate, where do we go? One of the peculiarities of our mixed economy is that we have poor to non-existent systems for compensating those who legitimately lose when projects are undertaken in the general interest. There are a number of reasons for this. (1) Sometimes compensation would have to be paid to those who are already rich relative to the rest of the population. This seems to fly in the face of our other general income distribution goals since there will be cases where compensation is not paid to the poor. (2) To pay compensation is to raise the cost or lower the profits of any project. Project developers (government or private) are used to getting what they want without having to pay compensation. (3) To pay compensation is to admit that the government or private firms have income distribution responsibilities. Incomes do not go up and down because of the impersonal forces of the market. (4) Since many factors cause incomes to go up and down in a large economy, it is a difficult problem to decide when compensation should or should not be paid. Not all losses can or should be compensated.

Existing compensation systems are living examples of the problem. Instead of being run as if they were intended to be a generous compensation for losses actually suffered, they are run as if the aim is to deprive the citizen of his income or capital. Parsimony rather than generosity is the rule. In Urban Renewal, compensation is paid for property and moving expenses, but a very narrow interpretation is taken of what constituted a loss. No compensation is paid for disrupting lives or for the loss of neighborhoods--friends, comfortable habits, etc. These losses are undoubtedly difficult to quantify, but they are nonetheless real. Not being willing or able to quantify them precisely, we act as if they are not losses at all. Administratively the programs are often even less generous than they seem on paper. In Massachusetts, for example, if the state and the owner cannot agree on a price in eminent domain proceedings the state takes the property for \$1 and then both parties go into court to find a fair price. For however long this takes, the owner is deprived of his or her property.

The same approach is followed in the Trade Assistance Adjustment Act. Since the benefits of free trade are general while the costs are usually localized, it would seem fair to compensate the losers from the general gains. Yet until recently, adjustment assistance has been run as if the aim is not to spend any money or to find any cases of valid disruptions and losses.

To conduct either public or private business more adequate compensation systems are going to have to be developed in the future. Those who suffer the localized costs that generate universal benefits are going to have to be compensated. But this is also likely to make a change in the mixture of the mixed economy since government will undoubtedly be called upon to help decide what constitute fair compensation and how the necessary revenue should be collected.

## II. The Growth of Government: The Vanishing Disinterested Citizen

Many people think that the mixed economy has become unstable. One part of the mixture--government--is threatening to swallow the rest of the mixture. In examining this argument, there are at least three ways one could measure the mix of the mixed economy. (1) What proportion of national resources are spent by government? (2) What proportion of national resources are transferred from one private individual to another by government? (3) To what extent does government influence (regulate) private decisions?

If we look at the U.S. economy from the perspective of each of these three measures, it is clear that the mixture has changed most in dimensions (2) and (3). Government purchases of goods and services have only grown from 18.9 percent of the GNP to 21.6 percent of the GNP from 1956 to 1976. This is a relatively small increase, but Federal purchases actually went down from 10.9 to 7.8 percent of the GNP while state and local purchases were going up from 8.1 to 13.8 percent of the GNP. In terms of purchases there has been growth of government, but the growth of 38,000 independent tax levying agencies is not the same as the growth of some centrally directed monolith. Just as there is not an integrated monolith called "the private economy", so is there not an integrated monolith called "government". Thirty eight thousand governments are not going to swallow anything. Even within the Federal Government one can ask whether the different agencies are really integrated and centrally directed.

There has been an explosive growth of government in the second dimension. In 1956 only 4.1 percent of the GNP was transferred by government from one individual to another, but by 1976 this percentage had risen to 10.9 percent (\$184 billion). If we added in the cost of in-kind aid and business subsidies (maritime, etc.) the government's income redistribution expenditures would be even larger. (Purchases would, however, fall by a corresponding amount.)

The ultimate spending decisions are still private, but government plays a role in determining the distribution of spending power within the private economy. The impact that this has on the mixed economy will be examined in a later section.

Government regulation is the third dimension upon which the mix of the mixed economy can change. While it is difficult to quantitatively measure changes in the mix on this dimension, it is equally clear that there has been explosive growth in regulation. But before examining the impact of growing regulation, we should look at the mirror image problems caused by the growth of government.

To be workable, a democracy assumes that public decisions are made in a framework where there is a substantial majority of concerned but disinterested citizens who will prevent policies from being shaped by those with direct self-interests. Decisions in the interests of the general welfare are supposed to be produced by those concerned but disinterested citizens. They are to arbitrate and judge the disputes of the interested parties. But as government grows, the number of such citizens shrinks. Almost everyone now has a direct economic stake in what government does.

The Watergate and associated corporate bribery scandals revealed the illegal side of this problem, but the real problem is not so much illegal acts as it is the incentive to use legal ones. With everyone's economic self-interest at stake, we all form perfectly proper lobbying groups to bend decisions in our favor. But with the disinterested citizen in a minority, how are decisions to reflect the general welfare? Who is to arbitrate? Our natural inclination is to rely on the adversary process where different self-interested groups present their case, but somewhere there has to be a disinterested judge with the power to decide or tip a political decision in the right way. The

general welfare is not always on the side of those that can mobilize the most economic and political power in their own behalf. If we really were to enforce the rule that no one could vote on an issue if his or her income would go up or down as a result of the action, we would end up with few or no voters on most issues. The problem is to establish a modicum of disinterested decision-making capacity in a political process where everyone has a direct self-interest.

### III. Regulating the Private Economy: An Irreversible Process?

The growth of government regulations can be traced to a number of factors. In the first burst of regulations at the turn of the century, anti-trust laws were to break up man-made monopolies and government regulations were to control natural monopolies. The second burst of regulations in the 1960S and 1970S focused on the problem of correcting externalities. In cases like pollution, one individual can impose costs (dirty air, etc.) on another individual without having to pay compensation. The second individual's most natural recourse is to demand government regulations stopping the first individual's acts, and this is exactly what has been happening.

Non-market externalities have become much more important in the economy for a number of reasons. In our technically more advanced and much more congested society, one group's actions much more frequently impact upon another group <sup>(e.g.)</sup> airport noise. But our technology has also revealed long-standing externalities that we previously did not recognize <sup>(e.g.)</sup> the cancer danger of asbestos fibers.

The problem is real, but there are other solutions. Pollution externalities can, for example, be turned into market problems with effluent charges. Individuals and business can simply <sup>(be)</sup> charged for their polluting activities until these activities are reduced to the desired level, until the funds raised

from the charges are adequate to clean up the environment, or until the funds raised from the charges are adequate to compensate those who must suffer the effects of the pollution. Similarly, many safety problems can be turned into market problems with accident charges similar to effluent charges. These accident charges are raised until they produce the desired level of safety or adequately compensate those being hurt. There are undoubtedly areas where such market solutions would be difficult to implement (cancer agents with long time delays might be one), but they could solve the problems in many of the areas where regulations are now rampant. Yet despite our professed belief in the market, such solutions are resisted by everyone involved.

Those who want to protect the environment or the employee believe that people will simply pay rather than reduce pollution or accidents. Those who would have to pay in the first instance (in the long-run the consumer pays for any and all solutions) resist on the grounds that they do not want to pay for something that they have always had free of charge. This resistance is only rational, however, if you believe that the alternative--direct regulations--can be avoided or frustrated at a small cost. I would suggest that whatever the original validity of this belief, it has been proven wrong by history. Regulations will be adopted and substantial costs will be imposed regardless of whether the regulations do or do not produce the desired effects. Although it has resisted them in the past, the business community should become the prime proponent of market solutions to the real problem of externalities.

But other factors have also contributed to the growth of regulation. For reasons that are not altogether clear, society seems to be much more interested in protecting individuals from their own mistakes and failures than it was in the past. "Let the buyer beware" is not an aphorism that attracts much support anymore. This change is strange since one can make a good logical argument that

and the idea is more willing to let individuals make their own decisions. Our citizens are now on the average much better educated, and better educated citizens presumably make fewer mistakes. Average incomes have gone up substantially, making individual mistakes less important. We can now afford our mistakes more easily.

But the reverse is in fact true. We are much less willing to let individuals make mistakes. <sup>(Federal Housing Agency)</sup> A mortgage regulations act as if buyers are idiots, who must be protected against making any decisions for themselves. Similarly, consumer legislation acts as if the consumer is an idiot of the second degree if not of the first degree. It is popular to explain the growth of these regulations as if they were forced upon society by some small but extremely powerful minority that wants to torment the current economic system. This is a mistake. The problem is to understand why a majority of the voters want to be protected from their own mistakes.

In a similar vein, the voter is no longer willing to tolerate substantial reductions in his or her real income without resorting to regulation in an effort to avoid the reductions. The OPEC energy price increase and the food price increase of 1973-1974 were both met with overwhelming demands for government regulations to mitigate the real income losses. Energy became a regulated industry and export embargoes were imposed on grain. In neither case could government regulation eliminate the price increase. At best all it could do was to spread the increases out over a longer period of time. But the regulations were adopted anyway. Perhaps these demands are connected with the growth of large institutions. Income losses are no longer seen to be the product of impersonal market forces, but are seen as the direct result of deliberate actions by some large economic actors.

While there were and are demands to have either horizontal or vertical

divestiture in the oil industry, part of the growth of regulation must be traced to perceived failure of anti-trust laws. At one time it was thought that problems could be solved if markets were made more competitive. For a number of reasons this vision has faded from view. First, to the extent that the problem really is externalities, competitive markets are no solution at all. A competitive firm will generate as much, or more, smoke than a non-competitive one. Second, there is a suspicion that much of our economic progress is due to large firms. Without their research and planning, the economy would not operate as well as it does. Third, historical experience shows that breaking one very large firm into <sup>two</sup> 2 or <sup>three</sup> 3 smaller firms does not make much difference in industrial behavior. Slightly increasing the number of oligopolistic firms just is not worth the enormous effort it takes. Anti-trust laws have taken on a legal life of their own, but from the perspective of economics they have little meaning and no objectives. With the intellectual heartbeat dead in anti-trust action, regulation remains as the only alternative.

But large size also forces government to take many actions which it would not otherwise take. At the heart of competitive markets and capitalism lies the doctrine of failure. People are rewarded because they are willing to accept the risk of failure. Yet no government can tolerate the failure of any large economic actor. Neither Lockheed nor New York City can be allowed to fail since the disruption to our integrated economy would be too large to tolerate. Yet this creates a double standard with respect to the local grocery store and the small town that undercuts the whole rationale of the mixed economy. Individual economic actors are not on their own. If necessary, large actors will be rescued and controlled, but this creates a demand for rescuing small actors from their mistakes. If Lockheed can be rescued from its mistakes, why can an individual consumer not be rescued from his mistakes? But to rescue is to control.



Detailing the reasons why government regulations have grown, however, does not explain why the economy is becoming more regulated. If new regulations were matched by the abolition of old regulations, the economy would not become more regulated over time. The failure of deregulation is also central to the process. To detail the failure of deregulation is to come right back to the lack of a disinterested majority and the problem of compensation for economic losses.

Consider the Interstate Commerce Commission and its regulations. The ICC was set up at the turn of the century when railroads were genuine natural monopolies. Since then, however, we have invented or perfected planes, autos, trucks, pipelines, and a host of alternative transportation systems. An industry that was at one time a natural monopoly has become one that could potentially be one of our most competitive. But the regulations continue.

The reasons are clear. Regulations affect incomes--capital and labor--after they have been in place for any period of time. Conversely, deregulation always poses large losses (capital or wage) on some of those in the affected industry. Often the people who will suffer the losses are not those who make the original income gains from regulation. The latter are long dead or long ago sold out at capital values which reflected the value of regulations. In transportation deregulation, for example, many trucking firms would probably suffer losses. As a result it is not surprising that they and their employees resist deregulation strenuously. The rest of us may get cheaper transportation, but our economic self-interest is more diffuse and not as intense. A similar reaction could be seen in response to proposals to deregulate the airline industry. Who objected in an article on the Op-Ed page of the New York Times? Not some fool who wants to regulate everything for the sake of regulating everything, but the President of American Airlines. Regulations are held in place by economic self-interest.

Here again we face the problem that we have been unable to recognize the real economic losses that would be imposed and are unwilling to design compensation systems that would at least mitigate the losses. To compensate is to admit that the government has responsibilities when it suddenly imposes large economic losses, but de facto this is an admission that we long ago made.

#### IV. Inflation: No Solutions Without Severe Side Effects

For reasons that are not altogether clear, inflation seems to be endemic in the modern mixed economy. Historically prices have always risen in boom periods but they have fallen during recessions. What has changed is these periods of falling prices. They no longer occur. Monetary and fiscal policies can still be used to control unemployment, but they only have a one-sided effect with respect to inflation. They can make prices go up, but they cannot make prices go down. Given public demands to achieve acceptable rates of unemployment and inflation, pressures arise for the creation of new policy instruments to deal with the problem of inflation. All of the suggested instruments will, however, make major changes in the structure of the mixed economy.

Direct price and wage controls need no comment since they obviously completely alter the structure of the mixed economy. All or most of the basic economic decisions must be made by some central planning process. As in wartime it is highly likely that any long-run use of price and wage controls would also require labor controls such as those which existed in World War II.

"Social contract" solutions to the problem would also require major changes in the economy. If acceptable price and wage behavior is to be achieved by having the major groups in the economy sit down around a table and agree on acceptable price and wage policies, then the economy must be structured so that most of the population is represented at that table. Each group must also have the power to police their own members to enforce the agreed upon arrangements.

This means, for example, that the 75 percent of the labor force that is not now unionized would have to be organized into what would be de facto unions.

Similarly, small business and farmers would have to be organized into representative groups with decision-making and policing powers.

Because of the ratchet effect in industrial prices, large fluctuations in raw agricultural prices are highly inflationary. When raw food prices go up industrial prices go up with them, but when raw food prices go down (as they will and have) industrial prices do not go down with them. Agricultural price stabilization stockpiles can theoretically eliminate part of this instability, but they demand that government be a major buyer and seller of agricultural commodities at all points in time. This creates obvious pressures from both farmers and consumers to manipulate prices in their favor rather than to stabilize prices.

Bottleneck industries may also be part of the problem. Individual industries reach capacity operations before the entire economy has even approached capacity. Inflation breaks out in these industries and spreads across the economy. If this is the cause of inflation, the only solution is for government to develop policies for manipulating demand, industry by industry or for it to develop policies for affecting supplies industry by industry. In wartime both types of policies are used to avoid bottlenecks that might stop military production. But either solution requires that government get much more heavily involved in industry, as opposed to economy-wide, decision making.

Similar problems exist if you work on bottlenecks in the labor market. From this perspective inflation occurs because of the structure of unemployment rates. Long before national unemployment rates reach acceptable levels, shortages of key groups, primarily adult white males, occur. Wage inflation starts among the groups in short supply and then spreads across the entire economy.

Here the only solution is to alter the demographic composition of labor demands. At least in the short-run there does not seem to be any way to alter the number of women and young people looking for work even if you wanted to do so. Labor demands, however, can only be altered by either direct public employment or wage subsidies. Wage subsidies do not directly alter the public-private mix, but they will inevitably bring government more directly into the firm hiring decisions of individual firms.

Tax schemes have also been suggested for reducing inflation. In these systems wage increases above some guideline level are not deductible business expenses and price increases above some guideline level push firms or individuals into higher rate brackets. When they are casually mentioned, these schemes seem like impersonal market mechanisms, but they are in practice simply price and wage controls with an agreed upon set of financial fines for violations. Acceptable price and wage behavior must still be defined and violators must still be caught and fined.

Another option is simply to learn to live with high rates of unemployment and/or inflation. Since the public does not accept high rates of either at the moment, it would have to be convinced that neither is as important as it has been led to believe in the past. Arguments could be made that inflation is, after all, a zero-sum game where there are economic winners to match each economic loser. Analysis indicates that the distribution of real incomes is little affected. On the other side much of the unemployment problem is a youth unemployment problem and all young people will eventually grow older.

Alternatively, we could seek to reduce the public's resistance to unemployment and inflation by designing better compensation systems to reduce the welfare implications of either even further. Unemployment compensation could be made more generous and coverage could be extended to new workers. That

part of the economy that is not now either de jure or de facto indexed could be indexed.

The problem with all universal indexing systems is that they cannot reduce the rate of inflation and will in fact probably lead to an acceleration in the rate of inflation. Living with high unemployment creates a human problem since unemployment is very unevenly shared and creates gigantic losses in output. In the U.S. economy, operating at an 8 percent unemployment rate rather than a 4 percent unemployment rate reduces the GNP by about \$220 billion per year.

All of these suggestions for fighting or living with inflation leave something to be desired. They all have severe side effects that are going to impact upon the mixed economy. For many of the suggestions a good argument can be made that the cure is going to be worse than the disease.

#### V. Job Security: An Unmet Demand

One of the dimensions in which the U.S. mixed economy differs from its industrialized neighbors is the ease with which it is possible to fire labor in economic downturns. The U.S. usually has and tolerates rates of unemployment that are much higher than its industrialized neighbors. Both financial penalties and cultural or social mores against layoffs are much less restrictive. Yet at the same time surveys show that job security is the number one interest of the labor force. When workers are asked what they want in a job, pay usually ranks somewhere between third and sixth in desired characteristics.

The public opinion poll interest in job security is confirmed in a number of ways. Demands for seniority hiring and firing reflect a desire to confine job insecurity to a limited class of workers--new workers. Restrictive work rules are usually designed to guarantee job security. Businesses <sup>(which)</sup> look with envy at the lack of

restrictive work rules in Japan would do well to remember that a price is paid for this freedom. Workers get tenure and are only fired as a very last resort.

Today's system of pension plans also means that job security is directly tied up with income security during retirement. The individual with a succession of short-term jobs will end up with a much smaller pension than an individual with one lifetime job. One's occupational skills are also tied to job security. Professional workers see job changing as a road to higher pay or better jobs, but for most of the population a job change means a reduction in income and a worse job. Incomes go down, not up. When skills are acquired on the job and when openings occur on a seniority basis, to move from one employer to another is to go to the bottom of the skill ladder and start all over again.

The rational economic man will also place job security at or near the top of his or her demands. Given that income is necessary to survive, most individuals are going to be <sup>(averse to taking)</sup> ~~risky~~ <sup>averse</sup>. They will be willing to trade a substantial amount of expected but risky income for the guarantee of a certain income. Workers often report that they would be willing to trade a lower rate of pay for more job security. Yet this is exactly what the economy does not deliver.

To most successful managerial or professional workers the demands for guaranteed employment seem strange. This is because they do not usually face the risks of unemployment or the uncertainty in future income streams. As of late 1976 the average duration of unemployment is 16 weeks in the U.S. and 17 percent of the unemployed have been unemployed for more than 27 weeks. Given these probabilities unemployment obviously looms as a major danger to be avoided. Businessmen are used to talking about the risks of business investments, but forget the great risks of human capital investments. Going to college raises average incomes, but for white men there is a 60 percent chance that going to college will not lead to a higher income than if they had simply remained a

high school graduate. How many businessmen would make investments where there was an expected rate of return of about 10 percent but an expected failure rate of 60 percent?

Job security is sometimes opposed on the grounds that it retards mobility and hence productivity, but this is an argument that is difficult to sustain. Countries with much more job security have been outperforming us on a productivity basis for several decades and have now reached productivity levels higher than ours. If a lack of job security leads to restrictive work rules, job security may enhance rather than retard productivity.

In much of the rest of the industrialized world the demand for job security has focused on the private economy. Individual businesses bear the responsibility for providing job security. In the U.S. the demand has not focused on the private economy, but is now focusing upon government. Guaranteed public employment may not be an issue whose time has come, but it is certainly an issue whose time for public debate and discussion has come.

Some of the demand undoubtedly springs from the current recessionary unemployment rates, but the demand is unlikely to go away. There is little likelihood that high unemployment rates are going to disappear in the near future and the demand would remain even if the unemployment rates were lower. Job security tops the worker opinion polls even when unemployment rates are low.

If the government is to be the employer of last resort, however, then the government must produce something, even if employment rather than output is the prime objective. This creates a new mix in the mixed economy on two dimensions. First, there are few things which public employment could produce that would not compete with something that is already being produced by an existing private or public agency. Second, guaranteed public employment will significantly alter the nature of the labor market. The exact effects will depend upon the

exact system of public employment, but all systems will make fundamental changes in how labor is hired and fired.

#### VI. Income Distribution Problems: A Problem That Won't Go Away

Income distribution problems occur on two fundamentally different dimensions. First, there is the demand for less inequality. Reductions are to occur in the gap between rich and poor. Second, there is the demand for parity among groups. Blacks, Hispanic Americans, American Indians, and women are all demanding parity with white men. The poverty programs of the 1960s and the enormous increase in income transfer payments of the 1970s have been our response to the first problem. Commissions against discrimination, manpower training, and affirmative action programs have been our response to the second. Often the two types of demands are lumped together under the general rubric of a demand for income redistribution, but they will in fact have very different effects on the mixed economy.

When it becomes clear that it was usually cheaper to lift someone out of poverty with income transfer payments than it was to raise the earning capacities of those in poverty, the emphasis of public policies shifted from skill-augmenting poverty programs to income transfer payments. From 1968 to 1976 income transfer payments rose by \$127 billion. Yet the mirage of self-sufficiency has prevented us from designing an efficient system of income transfer payments. Politicians who favor welfare reform and an efficient welfare system can always be portrayed as being in favor of welfare rather than self-sufficiency. As a result they end up getting defeated in the next election. But self-sufficiency is impossible so we keep adding patches to the existing welfare system whenever problems arise. In the process it gets more and more inefficient, unfair, and complex.

At the same time there is broad agreement on the general outline of what would constitute a fair and efficient income transfer payment system. Both



President Nixon's family assistance plan and McGovern's <sup>("dem-grant")</sup> demogrant program were variants of the negative income tax. A national negative income tax could raise everyone above the poverty line for less money than is now being spent, but politically there does not seem to be any way for moving from the current system to it.

The current income transfer system has a number of negative effects on the mixed economy. The present system of complex, state administered, but partially federally funded, programs has enormous administrative costs per dollar delivered to the poor. Deficiencies in the structure of cash income transfers lead to even more cumbersome in-kind aid. Demands for rent control, food price controls, or energy controls arise whenever there

is a sudden change in the prices of any of the basic necessities. Since we cannot adjust income transfer payments to cushion the income shocks on the poor of sudden changes in these prices, we are forced to institute partial systems of price controls. The demand for guaranteed public employment also arises to some extent because of the one major gap in the welfare system. Intact families with male heads less than 65 years of age are generally not eligible for any of the welfare programs. Yet such families constitute 47 percent of the population below the poverty line. (Overall 12.3 percent of the population lives in families that have incomes below the government's poverty lines.)

While the demand for what is in essence a guaranteed minimum family income places strains on the mixed economy, the demand for parity is ultimately a much tougher problem. The problem of poverty can potentially be solved with an income transfer payment system that would not even cost as much as we are now spending, but the demand for parity can only be solved by a wholesale reshuffling of work opportunities.

As of 1975 there were 23.8 million blacks with an average family income 62 percent that of whites, 11.1 million Hispanic Americans with family incomes 67 percent that of whites, and approximately one million American Indians with family incomes somewhere between 30 and 50 percent of that of whites. In addition, the 44 million women who worked were asking why women who work full-time year-round should make only 56 percent as much as men who worked full-time year-round.

Parity is a very intractable problem. Economic differences cannot be removed by eliminating discrimination except in the very long-run. If discrimination were to cease now, it would take 45 to 50 years for those who had been subject to discrimination and are already in the labor market to retire from the economy. If opportunities and characteristics are transmitted from parents to children, a much longer period of time would be required. The affected groups say that they aren't willing to wait.

The strategy of the 1960s was to increase the skill levels of the affected groups in manpower training programs and to then let the individuals compete for higher earning positions in the labor markets. This strategy was a failure for a number of reasons. (1) Given the number of people involved, the costs would have been enormous. Even without the Viet Nam War, it is doubtful that the public was willing to pay the necessary bill. (2) When minority groups are aided, whites respond by increasing their own skills to maintain their relative position. Reducing black high school drop-outs increases the pressure for whites to go to college. (3) Since most U.S. job skills are acquired on the job and not in formal education and training, it simply was often impossible to give the necessary skills in government training programs. In addition, seniority advancement systems made it impossible to use the skills even if they could be acquired.

But this leaves affirmative action as the only possible solution. Any program of affirmative action is, however, in itself a major change in the mixed economy. People must be advanced on some basis other than merit or productivity. Government must write the rules as to how and when people can be promoted. In addition, affirmative action requires that someone (usually a white man) must pay the costs of eliminating discrimination that occurred in the past and was not perpetrated by him. He did not cause blacks and women to have lower incomes, but his own job prospects must suffer to eliminate the problem.

Affirmative action is the paradigm example of why domestic problems are so difficult to deal with in the mixed economy. It is the ultimate zero-sum game where there must be a loser for every winner. If blacks, Hispanic Americans, American Indians, and women are to get a larger share of the high income positions of the economy, then white men must get fewer of these positions than they now have.