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Intereconomics

*Suggested Citation:* Cazes, Bernard (1976) : Economic growth in Europe: International dimensions and factors, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 11, Iss. 6, pp. 162-164,  
<https://doi.org/10.1007/BF02928959>

This Version is available at:

<https://hdl.handle.net/10419/139378>

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# Economic Growth in Europe

## International Dimensions and Factors

by Professor Dr Bernard Cazes, Paris \*

**This article is an excerpt from the author's report presented at the Second International Symposium on New Problems of Advanced Societies in which he also discussed possible interrelations between military and economic parameters as well as some of Europe's domestic problems.**

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There is a rather wide agreement to consider that economic growth rates which Western economies achieved in the last 20 years or so were critically dependent on the continuing expansion of world trade that took place during the same period, and conversely that the more rapidly GNP is growing, the wider outlets for foreign trade are. This positive association was the outcome of several interrelated structural factors in the system of international economic relations of the 1950s and 1960s<sup>1</sup>, including the existence of US leadership and its use to gradually build a set of arrangements conducive to freer trade, the dependence of US main economic partners — West Germany and Japan — on American protection, and the fact that increased transactions within the Western world took place in a context of sustained economic growth which helped every country to tide over transitional difficulties generated by foreign competition. All in all, a certain style of economic diplomacy progressively took roots in the "club" of advanced industrial countries, which implied a growing recognition by every member state that it had more to lose than to gain by immoderately using its sovereign right to be a nuisance to its neighbors.

### Reversal of the Past "Virtuous Circle"?

The trouble is that this new behavioral pattern, in clear contrast with the one prevailing during the interwar period, is not based on any emotional and/or ideological tendency, but it only stems from a realistic appraisal of the pros and cons of playing a zero (or even worse a negative) sum

game in a situation of intensified interdependence, which makes it in my view a fragile attainment liable to be jeopardized, should the aforementioned structural factors become less active and/or political new influences of a more inner-looking character come into play.

Now there are several indications that such a reversal of the past "virtuous circle" between international transactions and economic growth rates could happen. In the first place the emergence of *détente* in East-West relationships seems to have prompted Western governments to consider that security considerations were of a secondary order, or in any case that they did not take precedence over economic disagreements within the Alliance. Secondly, those European countries that are confronted with serious unemployment and balance of payments difficulties will be tempted to resort to import controls, competitive devaluations and costly import-substitutions in order to compensate for their inability to influence trends in their domestic factor-costs by some sort of incomes policy.

Thirdly, and most important, there are in Western Europe several schools of thought, related in part to left-oriented political affiliations, but where "Gaullist" components and Club of Rome (or "mondialiste", if one prefers) style of ideas come into play, all of which tend to take a distinctive

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<sup>1</sup> See A. Shonfield's lucid analysis of these factors in A. Shonfield (ed.), *International Economic Relations of the Western World*, Vol. I, p. 122 ff., and in "Playing it by the Rule-Book", *Financial Times*, March 19, 1976.

view of the international economic environment quite at variance with the one that prevailed during the last two decades.

### New Concept of Dependence

The two main differences relate to the changes that are supposed to happen in the geographic location of world growth areas and to the interpretation which is given of the concept of dependence:

□ According to this new vision of future international economic relations the oldest industrialized countries are no more the places with the brightest growth opportunities, for several reasons including increasingly unfavorable terms of trade between manufactured products and raw materials, saturated demand for consumer durable goods, mounting production costs due to environmental protection, etc. Therefore the only hope for developed countries to keep some growth potential is to take advantage of the promising possibilities provided by the "middle class" countries of the Third World, especially the oil producing ones<sup>2</sup>. New trade patterns would thereby emerge through bilateral State-to-State agreements, in which developed countries might meet their natural resources needs in return for their exports of sophisticated machinery and engineering services. In some extreme variants such as the so-called model of "Mediterranean Europe" these preferential trade and investment linkages would take place among politically like-minded countries, while there would be a loosening up of the former ties with the "citadel of capitalism" and its European extensions such as West Germany.<sup>3</sup>

□ Economic dependence is acknowledged as a truly crucial issue, but the emphasis is definitely not on oil and other non-renewable materials because, either it would be politically awkward to recognize that anti-imperialist countries can rely on economic blackmail, or the difficulty is expected to be taken care of thanks to bilateral agreements and their attendant security of supply, and/or by alternative energy sources (with special reference to "soft" energy supplied by wind or sun). Admittedly European dependence on some imported raw materials is occasionally stressed, especially wood pulp and, of course, US provided legume proteins (soya) for cattle feeding, but this is a field where political and neo-mercantilist considerations are so inextricably mixed that one finds it quite difficult, as in the new VIth French Plan (1976–80) to assess whether import substitutions are advocated to increase one's political leverage in international encounters, to save foreign exchange (by a *de facto* "commodity devaluation") or simply to seize up previously neglected investment opportunities.

As far as dependence is concerned the main aspect which is most frequently identified is related to advanced technology, with its twin dimensions of vulnerability and "helotization". Vulnerability refers to the damages which the supplier country can inflict with impunity to its partners by interrupting sales at its will or by arbitrarily fixing prices and other conditions of delivery. "Helotization" is a phrase of my own which is meant to describe the fear one finds expressed in books like Servan-Schreiber's "The American Challenge", according to which any country which refrains from producing technologically advanced machinery is depriving its scientists and engineers from the opportunity of "learning by doing" and eventually will find itself willy-nilly specialized more and more in low added-value lines of production.

Whatever the psychic gratifications or short-term gains in domestic politics this conception of international relations may bring its followers, there are I believe some good reasons to doubt its relevance for significantly improving Europe's geopolitical position.

### Non-Ricardian Specialization

Concerning the pattern of international relations, the inner-looking approach which I have discussed neglects one crucial element therein, which is the character of the economic specialization process that took place after World War II. According to conventional economic theory trade occurs between unlike countries which exchange unlike goods between themselves according to their natural and other factors endowment, following the well-known Ricardian illustration of Portuguese Port wine being traded for English wool. What happened to Western foreign trade is a quite different story, viz that commercial transactions increased most rapidly between like countries, that is advanced industrial economies, and they mostly concerned like products, in the sense that international specialization which occurred was of an *intra-branch* and *intra-product* nature, while one should have anticipated a broader, less finely-grained *intra-branch* pattern<sup>4</sup>.

This counter-intuitive process actually reflects the new conditions of production and consumption in advanced market economies with their typical

<sup>2</sup> Curiously enough, Eastern countries which used to be considered during the early 50s as quite interesting economic partners (or even as dangerous competitors for the capitalist world) are now viewed with more detachment, in contrast with the high expectations which one finds in the USA toward East–West trade relations.

<sup>3</sup> Cf. *Nouvel Observateur* (1975), special issue on the world crisis.

<sup>4</sup> See H. H e n n e r, La spécialisation internationale de l'économie française, in: *Revue Economique*, No. 1, 1976; H. H e n n e r, B. L a s s u d r i e - D u c h e n e, Les tendances actuelles de la commercialisation internationale, in: *Chroniques SEDEIS*, No. 2, 1976; A. S h o n f i e l d (ed.), *International Economic Relations*, op. cit., pp. 107, 121–123.

combination of product differentiation and discretionary household spending. Manufacturers are jointly trying to meet what Henner and Lassudrie-Duchene call "la demande de spécificité" from business firms looking for new and better machinery and "la demande de différence" from consumers interested in new and better consumer goods. The fact that an increasing share of these two kinds of demand was met through international trade proved to be beneficial to the growth potential of all advanced countries — although unevenly so<sup>5</sup> — because it created highly income-elastic lines of production which in addition were able to take advantage of the economies of scale related to expanding foreign markets.

The point of this apparently purely technical discussion is that a significant part of the tremendous economic progress Western Europe made during the post-war period came from its being involved in precisely this kind of non-Ricardian specialization process. Consequently for Europe to opt out from it would entail a real loss in economic welfare, for no bilateral trade agreement or "cooperation ties" with non-Western economic areas would be able to create by itself an equally stimulating framework since, by definition, it would lack the two driving forces which underlie this finely-textured grid of international transactions, that is business demand for new technology and discretionary private income<sup>6</sup>. Incidentally the same lesson applies to less-developed countries, even more so since they have more to lose from standing outside of the network of international division of labor which the "club" of developed countries generated twenty years ago.

### Future Degree of Dependence

Turning now to the counterpart of economic interdependence, that is the degree of dependence which can be anticipated, or should be planned for, in Western Europe, let us start the argument by reminding ourselves that Europe did not reach its strong economic position by trying to reinforce its economic self-sufficiency but, on the contrary, by accepting a substantial degree of external reliance, and sometimes even *in spite* of its efforts toward more autonomy. The main achievement of the Common Market does lie in the remarkable increase of intra-Community trade which took

place thanks to the almost complete elimination of obstacles to free movement of goods. Common Agricultural Policy was at best neutral, with the increase in European farmers' economic welfare being compensated by the accumulation of agricultural stockpiles which have to be periodically sold off at a loss. Finally the specific projects which were inspired by the spirit of so-called European cooperation have not been outstandingly successful to say the least, and one could argue that some of them absorbed scarce technological resources which might have been more efficiently used in economically sound endeavors.

Therefore if one accepts for the sake of discussion that for Europe, the priority target in international terms is to regain as quickly as possible its former economic respectability in order to be able later on to translate it into any form of world influence it wishes to exercise, the right path thereto is to stay within the system of capillary network which provided such a stimulus to its past economic performance, and also to work for its enlargement toward those non-members that are both willing and able to play a useful part in it.

### Policy Rules

At the same time I am well aware that economic security considerations will still be with us for a long time. Hence my suggestion of three simple policy rules which might help us to cope with this issue somewhat more effectively than in the past:

☐ Everytime one feels the need to get insured against a contingency such as interruption of supply or quantic jump in price trends, beware that insurance policy is cheaper if taken out jointly by several countries — a trite proposition which somehow seems currently out of the reach of European collective mind<sup>7</sup>.

☐ Those prestige-laden sectors which are highly capital-intensive and technologically sophisticated are not necessarily the most promising ones in terms of profitability and rate of increase in world demand<sup>8</sup>.

☐ Economic security considerations, as well as reorganisation of industrial structures toward more efficient world specialization call for increased government intervention in business matters. Now there is no reason why governments should be better at micro-level economic management than in their more conventional fields of competence such as postal services, law and order or health care delivery, where their recent record has been less than impressive.

<sup>5</sup> See G. L a f a y, *Spécialisations et croissances comparées des économies occidentales*, Groupe d'Etudes Prospectives internationales, Paris 1976, mimeographed.

<sup>6</sup> It goes without saying that everybody can reject these two engines of economic growth on ethical grounds but then, one has to accept the implications from such a choice, which are that substituting government choices for market choices make for slower growth in exchange of unspecified welfare benefits.

<sup>7</sup> See for instance the stalemate which occurred recently within the EC concerning the location of the new European research facilities on fusion energy.

<sup>8</sup> For the demonstration, see G. L a f a y, *op. cit.*