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# Causes of the Growth Crisis in the EC Countries and Strategies for Overcoming It

by Thomas Baum, Cologne\*

**Whereas in 1970 most of the large EC countries were still recording real growth rates in excess of 5 %, after the two oil crises there was an appreciable slowdown in economic expansion and at the beginning of the eighties even a real contraction. At the same time unemployment increased dramatically. Where do the causes of the crisis lie? What strategies promise success in overcoming it?**

Unemployment increased dramatically in almost all western industrialised countries during the seventies. In the European Community<sup>1</sup> the unemployment rate rose from 2.4 % of the civilian working population to nearly 10 % between 1973 and 1982 and in the USA it increased from 4.9 to 9.7 % over the same period. In Japan the unemployment rate is still relatively low, although it has almost doubled since 1973 (see Table 1). The rising unemployment figures are undoubtedly due in large part to demographic trends, in particular the entry into the labour market of children born in the baby boom. However, the tremendous increase cannot be explained by demographic factors alone.

Economic growth in the western industrialised countries has slowed down markedly since the beginning of the seventies. Whereas in 1970 most of the large EC countries were still recording real growth rates in excess of 5 %, after the two oil crises there was an appreciable slowdown in economic expansion and at the beginning of the eighties even a real contraction in activity. A similar trend could be observed in the United States and Japan, although in Japan the change occurred at a higher level (see Table 2).

## Causes of the Crisis in Europe

As stated above, demographic trends provide an important explanation for rising unemployment. However, the chief cause of the crisis of growth in the EC countries, which has impeded the creation of new jobs in sufficiently large numbers, lies in the deterioration in supply-side conditions during the seventies, particularly after the two oil crises. In Europe as a whole, the last decade saw priority given to individual incomes over employment, wages over profits and consumption over investment. The two oil

crises did not lead to an adjustment in demand, in other words a relative reduction in wages and consumption, but to a steady increase in government deficits, in the proportional size of the public sector and in labour costs (see Tables 3, 4, and 5) because the EC countries repeatedly but unsuccessfully attempted to defer the necessary structural adjustment and to halt the decline in employment by means of countercyclical government programmes and, in some cases, by reducing working hours.

This trend was exacerbated by the oversized social security systems, which had been constructed on the premise of steady economic growth but found themselves confronted with high expenditure and low revenues in periods of weak economic activity, so that the failure to adjust expenditure necessitated repeated increases in contributions that acted as a disincentive. The dramatic ensuing decline in yields in Europe – in 1980 the net profit on own capital of the hundred largest industrial corporations came to 11.5 % in the USA and 13.8 % in Japan but worked out at a negative figure of –0.1 % in Europe<sup>2</sup> – led to a process of disinvestment or de-industrialisation. Gross fixed capital formation as a proportion of real gross domestic product declined in all the major EC countries, with the Netherlands recording the sharpest contraction (see Table 6).

As the synoptic tables show, Japan and the USA have also witnessed an increase in public-sector deficits and unit labour costs and a decline in the investment ratio. However, these countries have coped better with their employment problems, mainly because wage cost pressure was less than in the EC. Whereas overall unit labour costs in the EC increased by an average of 9.3 % a year between 1971 and 1983, the corresponding

<sup>1</sup> Excluding Greece.

<sup>2</sup> Excluding oil companies. See European Parliament, Working Documents 1983-84. Towards European Economic Recovery in the 1980s. Report presented to the European Parliament by Mr. M. Albert and Prof. R. J. Ball, 31st August 1983, p. 14.

\* Federation of German Employers' Associations. The article represents the personal opinion of the author.

**Table 1**  
**Unemployment Rates in Major Industrial Countries**  
 (Number of unemployed as a percentage of the civilian working population)

	Fed. Rep. of Germany <sup>1</sup>	France	Italy	UK	Netherlands	Belgium	EC <sup>2</sup>	USA	Japan	
1973	1.0	1.2	1.8	4.9	2.4	2.3	2.9	2.4	4.9	1.3
1974	2.2	2.6	2.3	4.8	2.4	2.8	3.2	2.9	5.6	1.4
1975	4.2	4.7	3.9	5.3	3.7	4.0	5.3	4.3	8.5	1.9
1976	4.1	4.6	4.3	5.6	5.1	4.3	6.8	4.9	7.7	2.0
1977	4.0	4.5	4.8	6.4	5.4	4.1	7.8	5.3	7.0	2.0
1978	3.8	4.3	5.2	7.1	5.3	4.1	8.4	5.4	6.0	2.2
1979	3.3	3.8	6.0	7.5	4.9	4.1	8.7	5.5	5.8	2.1
1980	3.3	3.8	6.4	8.0	6.3	4.7	9.4	6.1	7.1	2.0
1981	4.7	5.5	7.8	8.8	9.6	7.2	11.6	7.9	7.6	2.2
1982	6.8	7.5	8.9	10.5	11.1	12.0	13.2	9.6	9.7	2.4
1983	8.6	9.1	9.1	10.8	11.7	15.6	14.5	10.4		

<sup>1</sup> The second figure gives the number of unemployed as a percentage of wage and salary earners as reported by the Deutsche Bundesbank (provisional data from 1980 to 1983).

<sup>2</sup> Nine countries (excluding Greece); partly estimated data.

Sources: For EC countries: Commission of the European Communities: Annual Economic Report 1983-84, in: European Economy, No. 18, November 1983 (figures for 1983 estimated); for the USA and Japan: Institut der deutschen Wirtschaft: Internationale Wirtschaftszahlen 1984.

**Table 2**  
**Rates of Growth of Real Gross Domestic Product**

	Fed. Rep. of Germany	France	Italy	UK	Netherlands	Belgium	EC	USA	Japan
1970	5.2	5.7	5.3	2.2	6.7	6.4	4.8	-0.3	9.8
1971	3.3	5.4	1.6	2.7	4.3	3.9	3.4	3.1	4.6
1972	4.2	5.9	3.2	2.2	3.4	5.3	4.1	5.4	8.8
1973	4.5	5.4	7.0	7.5	5.7	6.2	5.9	5.5	8.8
1974	0.7	3.2	4.1	-1.0	3.5	4.5	1.7	-0.7	-1.0
1975	-1.6	0.2	-3.6	-0.7	-1.0	-1.9	-1.2	-0.7	2.3
1976	5.4	5.2	5.9	3.6	5.3	5.7	5.0	4.9	5.3
1977	3.1	3.1	1.9	1.3	2.4	0.7	2.4	5.2	5.3
1978	3.1	3.8	2.7	3.7	2.7	3.0	3.2	4.7	5.0
1979	4.1	3.3	4.9	1.6	2.1	2.4	3.3	2.4	5.1
1980	1.9	1.1	3.9	-2.0	0.9	3.0	1.3	-0.3	4.4
1981	0.2	0.2	-0.2	-2.0	-1.2	-1.8	-0.4	2.3	3.2
1982	-1.0	1.8	-0.3	1.5	-1.6	-0.7	0.4	-1.9 <sup>a</sup>	3.0 <sup>a</sup>
1983	1	0	-1	2	0.5	-0.5	0.5	3.5	3

<sup>a</sup> Rate of growth of real gross national product.

Sources: DIW-Wochenbericht 1-2/84, p. 3. Figures for 1983 rounded to nearest half percentage point. Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung: Jahresgutachten 1983/84, p. 277; Commission of the European Communities: Annual Economic Report 1983-84, in: European Economy, No. 18, November 1983; calculations by the author.

**Table 3**  
**Government Debt per Head of Population<sup>1</sup>**  
 (in Deutsche Mark)

	Fed. Rep. of Germany	France	Italy	UK	Netherlands	Belgium	USA	Japan
1973	2682	1615	2802	6162	5665	6407	7386	1244
1974	3030	1766	2897	6380	5341	6888	7751	1255
1975	4093	1647	3888	6962	5845	7854	9407	1956
1976	4752	2340	3301	6496	6504	8675	10578	2774
1977	5300	2300	3600	6300	6900	9800	9800	4000
1978	5900	2600	5600	6600	6900	11300	9400	5600
1979	6600	3100	7200	8100	8800	12900	9700	5800
1980	7500	3100	6200	9800	10000	15300	13700	6800
1981	8700	3750	6700	12000	10800	18110	13600	7820
1982	9835	4400	8550	12886	12015	22226	14095	8535

<sup>1</sup> Total public-sector budgets excluding social security.

Source: Institut der deutschen Wirtschaft: Internationale Wirtschaftszahlen 1984.

**Table 4**  
**Size of the Public Sector in Various Countries<sup>1</sup>**

	Fed. Rep. of Germany	France	Italy	UK	Netherlands	Belgium	USA	Japan
1970	38.7	38.9	34.2	39.3	46.0	36.5	32.3	19.4
1973	41.7	38.5	37.8	41.1	49.3	39.1	31.3	22.3
1974	44.7	39.7	37.9	45.2	51.5	39.4	33.0	24.4
1975	49.0	43.5	43.2	46.9	56.6	44.5	35.5	27.2
1976	48.1	44.0	42.2	46.2	56.6	45.0	34.5	27.8
1977	48.1	44.2	42.5	44.1	54.6	46.6	33.3	29.1
1978	47.8	45.2	46.1	43.6	55.9	47.9	32.8	30.7
1979	47.7	45.5	45.2	43.4	58.0	49.5	32.9	32.0
1980	48.3	46.4	46.0	45.6	59.7	51.6	34.9	33.1
1981	49.3	48.9	50.8	47.3	61.5	56.1	35.4	34.0
1982	49.8	50.8	53.9	45.5			35.7	35.6

<sup>1</sup> Public-sector expenditure including social security as a percentage of gross domestic product.  
Source: Institut der deutschen Wirtschaft: Internationale Wirtschaftszahlen 1984.

increase in the USA and Japan came to only 6.9 % and 7.9 % respectively. The USA even recorded a decline in real wages between 1971 and 1981. The contrast was even more marked after 1976; whereas the average annual rate of increase in unit labour costs was 8.3 % in the EC, it stood at 7.4 % in the USA and only 4.1 % in Japan.<sup>3</sup> One reason for the lower rate of increase in Japan is undoubtedly the fact that many Japanese firms pay up to one-third of the salary as a bonus that depends on the company's performance.<sup>4</sup> This form of wage flexibility also means that although the employee's income risk increases, the risk of unemployment declines. The continuous increase in labour costs and the sharp rise in public-sector deficits and in the size of the public sector have affected supply-side conditions and hence investment and economic growth in Japan too, so that although it is in a much more favourable starting position than Europe the Japanese economy must also expect growth rates to be lower than in the seventies, at least in the near future.<sup>5</sup>

#### **National Deficit Spending not a Suitable Remedy**

As the crisis affecting growth and employment in Europe was caused by the emergence of structural flaws on the supply side, the crisis must be remedied by action on the supply side of the European economies. In the past, governments have repeatedly failed in their attempt to resolve the problems by means of deficit spending at national level, in other words by boosting public-sector demand. Any repetition would also be doomed to failure, as artificial demand stimulation does not remove the true causes of the crisis. The French Government's unsuccessful and now abandoned attempt to increase employment by means of a combination of state interventionism and reductions in working hours should serve as a warning in this respect.

A policy of deficit spending, that is to say a demand-oriented strategy, is not bound to fail whatever the economic circumstances, but it can only succeed if supply conditions do not automatically preclude a lasting volume effect. Steps must be taken to ensure that increased demand implies not only higher turnover but also higher corporate profits. This has implications for incomes policy, but it should also be noted that the level of indebtedness is itself an important determinant of supply conditions owing to its effect on interest rates. The economic climate is made worse by the high level of US interest rates, which is largely immune to European influence and makes financial investment in the USA more attractive than domestic investment in physical assets.

The structural flaws that have developed on the supply side of the European economies over a number of years are such that despite the improvements in the economic climate in some countries considerable supply-side adjustment must still be made<sup>6</sup> before public-sector demand stimulation can again be discussed seriously as an instrument of economic stabilisation.

Finally, the already high level of public-sector debt in the EC countries militates against further deficit spending. For this reason the EC countries must regain their lost scope for financial action by means of a

<sup>3</sup> See also G. Großer: Die Weltwirtschaft im Jahre 1984, in: Konjunktur von morgen, No. 653 of 12. 1. 1984, which states with regard to Western Europe: "The obstacles to growth are now stronger than in the USA; a slowdown in the rise in labour costs provides less relief, so that the dampening effect of high interest rates is more pronounced."

<sup>4</sup> See European Parliament, op. cit., p. 13.

<sup>5</sup> See, for example, OECD: Economic Outlook, No. 33, July 1983, p. 25, which forecasts a real growth rate of 3½ % for 1984. See also DIW-Wochenbericht 1-2/84, which predicts the same rate of growth.

<sup>6</sup> See also G. Großer, G. Weinert: World Economy out of the Doldrums, in: INTERECONOMICS, No. 1/1984, p. 48.

**Table 5**  
**Development of Unit Labour Costs<sup>1</sup>**  
 (Percentage changes in relation to the previous year)

	Industry			Economy as a whole		
	EC	USA	Japan	EC	USA	Japan
1971	8.9	0.7	8.9	8.4	3.7	10.6
1972	5.2	0.5	3.8	6.3	4.0	5.4
1973	8.3	1.5	11.1	9.3	5.6	13.9
1974	13.2	12.8	28.1	14.8	11.1	27.0
1975	19.8	9.2	12.6	16.4	6.5	13.3
1976	5.4	4.1	-2.5	7.0	5.9	6.7
1977	7.6	6.2	2.4	8.0	5.6	6.0
1978	6.9	6.9	-1.8	6.9	7.9	3.2
1979	6.4	8.5	-2.0	8.3	9.6	2.3
1980	11.0	12.1	-1.2	12.1	10.3	3.0
1981	8.1	6.5	3.4	10.7	8.1	4.7
1982	8.1	7.9	3.8	7.2	6.6	3.4
1983 <sup>a</sup>	7.0	4.1	2.2	6.1	5.1	3.6

<sup>1</sup> In national currencies.

<sup>a</sup> Provisional estimate.

S o u r c e : Commission of the European Communities: European Economy, No. 15, March 1983.

**Table 6**  
**Investment Ratios<sup>1</sup>**

	Fed. Rep. of Germany	France	Italy	UK	Netherlands	Belgium	USA	Japan
1970	24.3	23.8	24.4	20.7	25.4	23.4	19.0	34.6
1973	23.5	24.6	22.9	19.9	23.4	21.9	20.3	36.5
1974	21.1	24.1	22.7	19.5	21.7	22.4	19.0	33.6
1975	20.4	23.3	20.6	19.5	20.9	22.5	17.0	32.4
1976	20.3	22.9	19.9	19.1	19.3	22.0	17.2	31.7
1977	20.4	22.1	19.4	18.4	21.0	21.8	18.1	31.6
1978	20.7	21.6	18.9	18.3	21.0	21.6	19.0	32.9
1979	21.4	21.6	19.1	18.2	20.3	20.6	19.1	33.3
1980	21.6	21.8	20.1	18.1	19.6	21.0	18.0	32.0
1981	20.7	21.4	20.1	16.9	17.7	19.7	17.6	31.6
	Producing sector's percentage share of total gross fixed capital formation							
1970	31.1	29.5	29.3	34.0	32.5	34.8	13.7	—
1981 <sup>a</sup>	25.1	26.5	29.0	32.7	25.5	23.5	18.6	—

<sup>1</sup> Gross fixed capital formation as a percentage of real gross domestic product at 1975 prices and exchange rates.

<sup>a</sup> 1980 in the case of Italy.

S o u r c e : Institut der deutschen Wirtschaft: Internationale Wirtschaftszahlen 1984.

resolute policy of budgetary consolidation. Reform of the oversized social security systems is not the least important measure required.

The first steps have already been taken. Unmistakable progress towards restored budgetary health has been made in the United Kingdom and the Federal Republic of Germany. In the United Kingdom the budget deficit of the public sector (including social security) fell from 5.3 % of gross national product in 1975 to 2 % in 1981 and has since remained at around that level.<sup>7</sup> In Germany the Federal Government's net borrowing requirement was held down to an estimated DM 31.5 billion in 1983 and the medium-term financial

plan provides for a further reduction to about DM 22.5 billion by 1987. The so-called structural public-sector budget deficit as defined by the Board of Economic Experts has even fallen from DM 38 billion in 1981 to DM 17 billion.<sup>8</sup> Belgium has also registered initial success with the policy aimed at improving the government finances that was introduced in 1981, chiefly on foreign trade grounds. In France, too, a reform programme was

<sup>7</sup> See Presse- und Informationsamt der Bundesregierung, Aktuelle Beiträge zur Wirtschafts- und Finanzpolitik, No. 36/1983: Finanzwirtschaftliche Daten der sieben Gipfelländer.

<sup>8</sup> See also Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung: Ein Schritt voran, Jahresgutachten 1983/84, Stuttgart 1983, paragraph 235.

launched in March 1983 under the impetus of serious economic problems.<sup>9</sup> Policies of this kind must also be initiated or carried further in the other countries of the Community.

### EC Investment Programme Financed by Borrowing

The proposal that the European Communities should launch an investment programme financed by borrowing to take the place of deficit spending by the individual member countries, a proposal made by Michel Albert in a report prepared for the European Parliament,<sup>10</sup> should likewise be rejected. Using an econometric model to support his argument, Albert recommends an investment programme of 15 billion ECUs a year financed by borrowing, which over three years would supposedly produce 1 % more economic growth a year than would be possible on the basis of current trends. Flanked by a reduction in working hours of 1.9 % a year that would have no effect on costs, this programme is expected by its proponents to create 3.1 million jobs within three years.<sup>11</sup>

Albert also advocates consolidation of the national budgets of the EC member states; individual countries' job-creation schemes are, he says, doomed to failure in any case, as they mainly benefit the rest of the world owing to the interdependence of the world economy.

It cannot be proven a priori, however, that there is any fundamental difference between the countercyclical and employment effects of deficit spending by individual member countries and those of a Community investment programme financed through borrowing. The fact that national investment multipliers are lower on account of countries' dependence on foreign trade does not appear to provide sufficient grounds for claims that the employment effects are different. If the high import ratios vis-à-vis other EC countries were the main obstacle to the success of national countercyclical programmes, the employment problem could

<sup>9</sup> Cf. *ibid.*, paragraphs 34 and 36.

<sup>10</sup> Cf. European Parliament, *op. cit.*

<sup>11</sup> Cf. *ibid.*, p. 58. Albert assumes that the EC borrowing requirement is partly self-financing. He recommends that the additional financial resources needed to implement the programme be raised by levying an import duty on crude oil, which would also be desirable on energy policy grounds. Cf. *ibid.*, pp. 63 ff.

<sup>12</sup> Nevertheless, there may be distribution effects among the EC countries. For example, borrowing on an individual basis, countries with a lower credit rating and weaker currency would tend to have to pay higher interest rates than countries with a stable currency and high credit rating. Hence if funds were raised by the Community some countries would enjoy an improvement in their credit terms. Distribution effects among member countries could also be expected upon repayment of the deficit. Such intra-European effects must be disregarded, however, when assessing the employment effects of alternative measures.

<sup>13</sup> Cf. European Parliament, *op. cit.*, p. 58.

theoretically be solved by simultaneous deficit spending by all member states, for viewed as a whole there is no essential difference between Community debt and borrowing by individual countries as far as the raising and repayment of funds and their effects on employment are concerned. The EC deficit must also be financed in the international capital market, so that the impact on interest rates that is decisive in any assessment of crowding-out effects will not be fundamentally different. Nor can the EC programme be justified adequately by pointing to the need for budget reform at national level, for the Community deficit must eventually be repaid out of tax revenue from the member states in any case.<sup>12</sup>

### Doubtful Employment Effect

Finally, it should be pointed out that the investment programme itself would generate only 600,000 jobs; the remaining 2.5 million are attributable to the reduction in working hours, which Albert assumes would entail no additional cost.<sup>13</sup> Given that 80 % of the estimated 3.1 million increase in jobs is due to changes in working hours, in other words *supply-side* measures, one wonders whether it would not be possible to dispense with the investment programme for that reason alone. Moreover, the scale of the employment effects predicted with the help of an econometric model must be interpreted with utmost caution. By their very nature, econometric models are constructed along Keynesian lines and can therefore not take adequate account of the supply side, in particular changes in the behaviour of groups involved in the economic process.<sup>14</sup> Hence assumptions must be made about the behaviour of economic agents that are obviously arbitrary to a greater or lesser extent.

In the model in question Albert establishes that the reduction in working hours will have no effect on costs by assuming that the productivity gains of 2 to 3 % a year deriving from the package of measures will accrue solely to enterprises.<sup>15</sup> In the light of experience, however, it can be practically ruled out that the European trade unions will be prepared to tolerate this shift in favour of profits, which is essential to the success of the programme, if they can assume that the Community will shoulder the main responsibility for

<sup>14</sup> "Here it can be seen that the stability of models and hence their significance have suffered as a result of the many and varied economic changes that have occurred since the early seventies. Furthermore, it should be noted that as a matter of principle econometric models are better suited for investigating the effects of changes in demand conditions than changes in supply conditions." Ifo-Schnelldienst No. 30/83, *Gesamtwirtschaftliche Auswirkungen einer Verkürzung der Arbeitszeit*, p. 14.

<sup>15</sup> Cf. European Parliament, *op. cit.*, p. 58.

employment. Realistically, it must be assumed that trade union wage restraint is less prevalent if the state attempts to give a kind of employment guarantee by instituting a job-creation programme.<sup>16</sup> In the case of an active demand-oriented counter-cyclical policy, measures with regard to working hours which otherwise entail no additional cost – such as flexible working hour arrangements, which Albert also favours and which we shall discuss later, and the creation of more part-time jobs – must be expected to fail because the unions are more likely to take the accompanying productivity gains as grounds for higher wage demands than if there were no state employment guarantee. The productivity effects cannot then be used to offset the increases in costs caused by the new working hour arrangements, with the result that jobs become unviable and unemployment increases.<sup>17</sup>

Hence against the background of the present crisis of growth occasioned by flaws on the supply side, demand-oriented measures should be rejected, regardless of whether they are implemented at national or Community level.<sup>18</sup> Like the previous attempts at deficit spending, they would lead to a further deterioration in supply conditions and hence in medium-term employment opportunities.

### General Reduction in Working Hours

International experience militates against not only demand-oriented state expansionary programmes but also measures to bring about a generalised reduction in working hours, particularly if they are linked with a demand for full wage compensation. The cost effects associated with this defensive strategy would make many more jobs unviable than would be created in

individual industries by a reduction in working hours. For example, the 35-hour week was to be introduced in stages in France, but the experiment had to be terminated after only the first stage, which reduced the working week to about 39 hours.<sup>19</sup> According to data from the National Institute of Statistics, INSEE, the reduction in working hours in itself did lead to a modest increase of between 14,000 and 28,000 jobs in industry and commerce.<sup>20</sup> At the same time, however, the economic situation in France worsened progressively, so that net unemployment increased further.

A further general reduction in standard working hours is also ruled out on competitive grounds, for the annual number of working hours per worker in the EC countries is already far below the figures for the USA and Japan (see Table 7).

### Flexible Working Hours and Part-time Employment

Like the government job-creation schemes, measures to reduce working hours do not tackle the cause of the crisis in employment and can therefore play only an ancillary role in combating unemployment. Moreover, they must meet the criterion that they entail no additional cost for employers and must take account of the specific situation of the individual company concerned. Flexible working hours and the creation of part-time jobs that do not simply entail cost for employers but also bring them advantages are therefore promising possibilities.<sup>21</sup> If these measures can be implemented at no additional cost and on a voluntary basis, they would appear to offer quite substantial potential for the creation of new jobs, particularly as the proportion of part-time employees is still much smaller in

**Table 7**  
**Standard Number of Hours Worked per Year**  
**in Various Countries<sup>1</sup>**

Belgium	1748
Federal Republic of Germany	1768
France	1780
United Kingdom	1803
Denmark	1816
Netherlands	1824
Italy	1824
Ireland	1856
Sweden	1824
Switzerland	1966
USA	1904
Japan	2096 <sup>a</sup>

<sup>1</sup> Standard number of hours per year for industrial workers on the basis of 260 potential working days, as at 31st October 1983.

<sup>a</sup> Average number of hours worked in 1982.

Source: Calculations by the Federation of German Employers' Associations on the basis of data supplied by sister organisations in Europe, by the United States Embassy and by the Japan Monthly Labour Statistics and Research Bulletin (April 1983).

<sup>16</sup> Evidence to support this assertion can be adduced from the experiences of the United Kingdom before 1979. See K. C o u z e n s Die Wirtschaftspolitik Großbritanniens unter Margaret Thatcher, in: O. V o g e l (ed.): Wirtschaftspolitik der achtziger Jahre. Leitbilder und Strategien, Cologne 1982, pp. 246 ff.; A. R i d l e y : Die öffentlichen Ausgaben in Großbritannien – die größte aller Krisen?, in: H. R ü h l e , H.-J. V e e n (eds.): Wachsende Staatshaushalte. Ein internationaler Vergleich der Ursachen, Folgen und Begrenzungsmöglichkeiten, Stuttgart 1979, pp. 88 ff.

<sup>17</sup> See the remarks that follow with regard to the advantages and disadvantages of flexible working hours.

<sup>18</sup> Doubts must therefore also be registered about Schiller's proposal that countries that have already achieved visible success in their stabilisation efforts should form an international stability club pursuing a more expansionary economic policy. See K. S c h i l l e r : Aktuelle Fragen der Wirtschaftspolitik, in: WIRTSCHAFTSDIENST, No. 3/1983, p. 120.

<sup>19</sup> The extent of the reduction in the working week differed from one industry to another. The average working week in France is 39.2 hours.

<sup>20</sup> The French Government puts the overall employment effect at 70,000. This figure comprises not only newly created jobs but also jobs saved by reducing working hours.

<sup>21</sup> With regard to the advantages of part-time employment for companies and workers see also W. G r u h l e r : Flexibilisierung der Arbeitszeit – vorteilhaft für Mitarbeiter und Unternehmen, in: Gewerkschaftsreport 7/83, p. 11.

most EC countries than in the United States, for example.<sup>22</sup>

In Germany alone, about 250,000 unemployed persons are currently seeking part-time work and around 1.6 million full-time employees would be prepared to take part-time employment entailing a cut in wages.<sup>23</sup> The German Institute for Economic Research assumes that about 1 million additional jobs could be created over the medium term by extending part-time working.<sup>24</sup>

Part-time work and flexible working hours have been greeted with scepticism in many firms, however; apart from the organisational problems associated with increasing staff numbers, the introduction of part-time work generates additional costs. Besides the cost of initial training, higher administrative costs and increasing staff costs that arise on account of social security contributions which must be paid for each individual employee, capital expenditure and the cost of materials must also be expected to rise if new work places must be equipped for additional part-time employees.

The increased costs are balanced, however, by advantages in the shape of greater employee motivation, higher output as a result of greater job satisfaction and lower absenteeism. Furthermore, in certain cases it is undoubtedly possible to retain qualified workers who can no longer hold a full-time job for family reasons and would otherwise leave the firm.<sup>25</sup> Hence the additional costs are at least partly offset in the short term. In the long term, once the organisational teething troubles have been overcome, it is quite conceivable that productivity gains will outweigh the additional cost.<sup>26</sup>

Legal and social factors are a serious obstacle to the creation of part-time jobs, however. If certain

<sup>22</sup> The exceptions are the United Kingdom and Denmark, where the part-time ratio came to 15.4 % and 19.3 % respectively in 1979. In the remaining EC countries the figure was well below the level of 13.8 % calculated for the USA in 1981. Cf. H. Werner: Arbeitszeitverkürzung. Eine internationale Übersicht, in: WIRTSCHAFTSDIENST, No. 5/1983, p. 240.

<sup>23</sup> Cf. Bundesvereinigung der Deutschen Arbeitgeberverbände: Strategien zum Abbau der Arbeitslosigkeit. Wachstum, flexible Arbeitszeitgestaltung und flankierende Maßnahmen, Cologne 1983, p. 12.

<sup>24</sup> Cf. DIW-Wochenbericht 16/83, p. 217.

<sup>25</sup> See also W. Gruhler, op. cit.

<sup>26</sup> Once wage policy has re-established an income distribution conducive to employment, this extra productivity again increases the latitude for distribution adjustments.

<sup>27</sup> In Germany too certain workers' rights or employers' duties embodied in various regulations only apply above a specified minimum size of staff. For example, the number of posts that must be provided for severely handicapped persons depends on the number of workers employed.

requirements and levies on firms are dependent on the size of their staff, such as the percentage of handicapped persons to be employed or the public transport levy in France,<sup>27</sup> they constitute a serious disincentive to the provision of part-time jobs. The removal of such disincentives sweeps away a substantial impediment to the creation of part-time jobs; in France, for example, part-time workers have counted only proportionately since 1981 in calculating the number of employees. From the point of view of the worker, it would seem essential that part-time staff enjoy equal rights under employment and social security legislation, for example with regard to protection from dismissal.

### Financial Incentives from the State

The suggestion that the state should further encourage part-time employment by offering financial incentives<sup>28</sup> is unacceptable, however. The creation of part-time jobs can be expected to produce a lasting solution to the employment problem only if it offers long-term advantages to both employees and employers. Employers will only bear the additional costs associated with the creation of part-time jobs if they can expect corresponding benefits in the long term, if not sooner. Workers, for their part, will only accept a part-time post if the additional leisure time is worth more to them than the foregone income.

As financial incentives cannot be offered indefinitely, it is unlikely that businesses will allow the provision of short-term financial aid to sway their decisions about the creation of part-time jobs that entail long-term organisational changes. Similarly, in view of the probable size of the subsidies, the majority of workers will not be prepared to switch from full-time to part-time employment unless they already have a predominant preference for leisure time. International experience with financial incentives to encourage part-time employment<sup>29</sup> leads one to make a rather sceptical assessment. In most cases the bulk of the part-time jobs that qualified for incentives would have been created in any case.

In the present situation, a shortening of the working life should at most be considered to contend with short-term demographic peaks in the labour market; on grounds of cost, preference should be given to flexible schemes that take account of differences between firms. At any event, such arrangements must be subject

<sup>28</sup> Cf. European Parliament, op. cit., p. 68.

<sup>29</sup> Cf. Wissenschaftszentrum Berlin: Internationale Chronik der Arbeitsmarktpolitik 13, July 1983, pp. 1 ff.



to a time limit, for the repercussions of lowering the age of retirement on the budgets of pension funds must be borne in mind over the long term. The pension funds will be faced with growing problems from the end of this decade onwards in any case owing to the age structure of the population. In Germany every 100 contributors were supporting about 45 pensioners in 1980. Even assuming no change in the status quo, in other words no reduction in the retirement age, this ratio will have risen to 100 : 100 by the year 2035.

### Growth Policy as Employment Policy

The main contribution to resolving the employment problems must come from measures that do not passively treat the symptoms but attack the real causes of the growth crisis. As established above, these consist in adverse supply-side trends in the European economies that led to an increase in companies' costs and a dramatic decline in profitability. Europe therefore needs a growth policy aimed at reducing companies' costs and resolutely promoting technological change.

The empirical approach not only confirms the need for a growth policy on account of the repeated failure of attempts to stem the decline in employment by means of state job-creation schemes and reductions in working hours; it also refutes the proposition that there is a productivity gap, whereby productivity gains run ahead of growth and hence increase unemployment.

It has been empirically proven, on the other hand, that even moderate economic growth leads to an increase in employment. This applies not only to the spectacular expansion in the United States, where about 14.6 million new jobs were created between 1975 and 1981 while the economy was growing at an average real rate of 2.6 %, <sup>30</sup> but also to the OECD as a whole, where average real growth came to 2.6 % and employment rose by 0.9 % a year between 1973 and 1981, an economically critical period on account of the two oil crises. <sup>31</sup>

The generally unsatisfactory employment and growth trends in the EC during this period are attributable not to excessively high but to too low productivity gains in Europe, which are themselves due to a deterioration in supply-side conditions. "The labour market problems we are facing today ... are not the result of technological advances that have been made but ones that have been missed". <sup>32</sup> The required growth strategy should therefore include the resolute promotion of technological progress which helps reduce costs by raising productivity and taps new demand potential by introducing product innovations.

The consolidation of government and social security finances that has already begun in some EC countries is another essential element in an employment-oriented growth policy. It must tackle the expenditure side of the budgets, for only in this way can room be made for a permanent reduction in taxation that hampers output. In addition, the privatisation of state enterprises should be considered in those areas in which there is no overriding national interest in the provision of goods and services by the public sector.

In considering measures to rectify government budgets, the speed of democratic processes should not be overestimated, however. The errors committed in the past cannot be corrected overnight, given the interrelationship of political and economic factors in the western democracies which themselves contributed significantly to the structural deficiencies that are now deplored, in particular the sharp rise in government debt and the growth in the size of the public sector. <sup>33</sup>

Incomes policy must also play a part in easing the burden of costs, particularly labour costs. The rise in unit labour costs in the EC as a whole has been checked slightly, but in most countries wage costs per unit of output continue to rise apace, especially in Italy, France, Ireland and Greece, the new member in the EC fold. <sup>34</sup> Stabilisation measures have been successful chiefly in the Netherlands (1.0 % increase in 1983) and in Germany (a rise of 0.2 %). However, the improvements in profitability associated with this development have not yet compensated for the low rates suffered over many years. <sup>35</sup> Incomes policy must therefore continue to aid the stabilisation of costs by achieving moderate wage settlements. In this way it also helps stabilise prices, improves the country's international competitiveness and, not least, raises real purchasing power.

<sup>30</sup> In the USA a reduction in unemployment on a similar scale was prevented only by the large increase in the number of young people reaching working age.

<sup>31</sup> Calculations by the author on the basis of the OECD Employment Outlook, September 1983, p. 15. The average annual increase in productivity came to 1.6 %.

<sup>32</sup> E. S t a u d t : Eine neue Dimension der Rationalisierung, in: Blick durch die Wirtschaft, 27. 10. 1983, p. 3. See also European Parliament, op. cit., pp. 27 ff.

<sup>33</sup> Cf. T. B a u m : Staatsverschuldung und Stabilisierungspolitik in der Demokratie, Frankfurt 1982, and T. B a u m : Eine politisch-ökonomische Theorie des Staatsschuldenwachstums in Demokratien, in: WIRTSCHAFTSDIENST, No. 3/1983, pp. 128 ff.

<sup>34</sup> In 1983 the rise in unit labour costs came to 20.5 % in Greece, 15.5 % in Italy, 11.0 % in Ireland and 10.0 % in France. Source: Sachverständigenrat, op. cit., p. 22

<sup>35</sup> In the case of the Netherlands see, for example, Sachverständigenrat, op. cit., paragraph 37. The Board of Experts has the following to say with regard to Germany: "In relation to the value of all goods sold and added to stock, corporate profits improved to such an extent in 1982 and 1983 that approximately two-thirds of the previous deterioration could be made good."