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112

# Eurosclerosis

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## EUROSCLEROSIS\*

1. What went wrong with Western Europe's economy? In terms of GDP, the economy in Europe is growing

- less than it did in the 1950s and 1960s,
- less than the U.S. economy, and
- less than the economy in the Pacific Region.

This may be illustrated by the following figures:

(i) Average annual GDP growth in the European Community (EC), which had been 4.8 per cent from 1960 to 1973, declined to 2.1 per cent from 1973 to 1983 and is projected to be only slightly higher (2.4 per cent) until 1988 (according to EC forecasts).

(ii) Between 1981 and 1985, the EC shows an average annual growth rate of GDP of 1.1 per cent, only half the rate which the U.S. economy achieved and only a quarter of the figure for Japan.

2. The cyclical upswing in Europe which started in 1983 has been largely imported from the U.S. Europe gained more from world economic development for its exports than in the upswing after 1975, and it contributed less to the expansion of world demand by its imports than it gained on the export side. Instead of helping to solve the transfer problem of the overindebted countries in the less developed world as the U.S. did with its current account deficit, Europe, through its politicians, criticised the U.S. deficit and ran an export surplus.

3. The worst part of Europe's economic performance is to be found in the labour market. The unemployment rate in the EC continuously increased from 5.5 per cent in 1978 to 11.5 per cent in 1985 whereas in the U.S. after 1982 it dramatically fell to about 7 per cent. Youth unemployment is above 30 per cent in the Benelux countries and Italy. In these same countries, but also in the

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U.K. and Ireland, more than 40 per cent of the unemployed are reported to be without a job for more than one year.

4. Although Europessimism has declined in the course of the recent upswing, there is reason to remain rather skeptical because of the labour market situation. In this respect, there is still so much to do to invigorate Europe's economy. While leading politicians claim that the glass is already half full I consider it to be still half empty.

5. Prospects and opinions vary from sector to sector. Just as in the U.S., it is the smokestack industries and the smokestack regions which suffer most. In the U.S., spokesmen of these industries and regions maintain that the villain of the piece is an overvaluation of the dollar. In Europe, they complain about excess capacity and subsidisation in other countries. But there as well as here, these industries and regions really are subject to Schumpeter's forces of "creative destruction" which are now emanating from the newly industrialising countries (NICs). Steel-intensive products were once innovations; they carried economic development way ahead thirty or even a hundred years ago. By now they can easily be produced almost everywhere and will thus be attracted by locations whose factor endowments ensure low production costs. They have become what some economists call Heckscher-Ohlin goods, named in honour of Eli Heckscher and Bertil Ohlin, two famous Swedish economists who stressed the role of trade and location in international factor price equalisation. Europe's old industries and the regions in which they are located clearly feel how strongly this equalisation process operates - to their disadvantage and to the benefit of the NICs. The answer to this problem is not protection or the so-called adjustment subsidies which tend to become permanent subsistence support, but a shift of resources to future-oriented activities. This shift requires flexibility to adjust, a scarce resource everywhere and a very scarce resource in Europe.

6. Europe's housing and construction industries, although not exposed to the gales of international competition, are said to suffer from high real rates of interest which are supposed to be due to a sole exogenous cause: the high U.S. budget deficit. But instead of blaming others, Europe should recognise

that, during the 1970s, the continent had an inflation which depressed real rates of interest and induced many people to build and purchase houses and apartments as a hedge against it. No wonder that houses are now in excess supply, particularly in areas which are dominated by Heckscher-Ohlin industries and which, therefore, suffer from particularly high unemployment and outmigration. Again, the answer is flexibility: lower rents in problem areas and lower wages to attract future-oriented resources for regional regeneration.

7. Geographically, Europe's economy looks best in those countries which are in a catching-up process; this group includes Finland, Ireland, Spain, Portugal and Turkey. For the 1979-1983 period, the growth rate for Spain was twice as high as the EC rate; the growth rate came close to 3 per cent in Finland and Turkey and surpassed 3.5 per cent in Portugal. These countries, with the exception of Portugal, are likely to surpass the EC performance in 1985 as well. This is good news since it indicates how income gaps become smaller in the process of economic growth; it is bad news if we consider that the closing of the gap is also due to a slowdown of growth in the more advanced countries.

8. In the core of continental Europe we observe a comparatively good economic performance in the southern regions of countries north of the Alps and in the northern regions of countries south of the Alps. What these regions apparently have in common is proximity to Switzerland (the only European country which ranks almost as high as the U.S. on the scoreboard of competitiveness established by the "World Economic Forum"). As to their economic structure, these prosperous regions are not endowed with raw material deposits, nor do they have their comparative advantage in the heavy industries which carried economic development in Europe's postwar reconstruction. On the contrary, it is human energy rather than coal, brainpower rather than manpower that characterises the factor endowment of these newly prosperous regions. Their relative advantage is that they offer opportunities for creation without requiring prior destruction; this is in sharp contrast to the severe adjustment problems facing the regions in Europe's rusting steel belt. Let me call these newly prosperous regions "Schumpeter regions", in honour of Joseph Schumpeter, who was the

apostle of innovative entrepreneurship and who rightly deserves to succeed Keynes as the economic saint for the rest of this century.

9. The problems facing Europe's old industries and regions are not cyclical, although they appear more pressing in years of recession and less urgent in a cyclical upswing; in fact, they are more structural. They have their roots on the supply side. It is true that demand and supply have to be seen together, and it is also true that we could allow ourselves faster expansion of the quantity of money and total spending if we could trust in a greater responsiveness of supply. But repair work on the supply side takes more time than bringing about an expansion of demand. This is why supply siders have to come in first. What is it they have to repair, what is the cure to be applied?

10. The diagnosis for Europe's disease can be called Eurosclerosis. It means two things:

(i) Essential members of the body economic have become too rigid to permit a quick and painless adjustment. So they requested and obtained assistance. Instead of using it for regeneration, most of the beneficiaries took it as a protective device and asked for more of it. Measures that might have been justified along the lines of the infant industry argument for tariffs turned out to be devices for protecting senile industries. This kind of industrial policy is an almost necessary consequence of a full employment promise that has an inherent tendency to become gradually more specific, thus inducing economic agents in declining areas and industries to rely more and more on government aid, a phenomenon closely related to the well-known Samaritan's dilemma.

(ii) In the problem industries and problem areas, partly as a result of actual and expected government aid, the innovative and regenerative forces turned out to be too weak to overcome the rigidities, notably the rigidities in the labour market.

11. Historically, Eurosclerosis became more and more pronounced in the early 1970s when the European economy, having reached full speed on its march into the welfare state, was hit by shocks: a wage explosion, a sudden increase in the prices of energy and raw materials, and rising costs of pollution control.

These shocks added up to a great cost push. Together with increasing competition from the NICs, this cost push inevitably depressed profit margins. Thus it impaired investment opportunities and capital formation in Europe and Europe's competitiveness in world capital markets.

12. Since then chronic unemployment has become Europe's economic problem No. 1. The jobless rate in the European Community, which had been only two per cent in the 1960s, doubled in the 1970s. As said earlier, it is above 11 per cent at the present juncture, despite the cyclical upswing. Whatever laymen, interest groups or economists of other persuasions may choose to depict as exogenous causes for this unemployment - from higher energy costs to changes in demography or some features of technological advance - I maintain that the chief cause is to be found in the labour market itself: the level and the structure of wages have become too rigid to allow a proper adjustment to the new conditions. Europe's labour market fails to clear.

13. While the U.S. and Japan showed a sufficient downward flexibility of real wages, Europe's unions were strong enough to resist the cuts required for maintaining employment, independent of whether or not wage indexation was practised. The consequence of this wage rigidity is striking. In the depression year of 1982, the U.S. economy employed almost four per cent more people of working age than it did in the boom year of 1960, whereas EC employment per population of working age declined by more than five per cent over the same period. Since then total employment has been going down in most EC countries.

14. This seems to be all the more surprising as the EC area still uses more of its GDP for fixed investment than the U.S. and should, therefore, have created relatively more new jobs. But the puzzle is resolved once we consider that the pressure of wage costs in Europe was much stronger, so that firms were driven into raising labour productivity in compliance with the excessive wages rather than creating new jobs together with new capacity. This induced rise in capital intensity explains why investment in Europe had a weaker capacity effect than in the U.S. and why the decline of this effect was faster.

15. Moreover, excessive wages in Europe appear to have induced a bias towards labour-saving technical progress. If relative factor prices are not distorted, technical progress can be taken to be neutral in the sense that, on average, it does not affect relative factor scarcities. But when wages are too high in relation to the costs of capital, as was the case in the 1970s, the opportunities opened up by new technical knowledge will be exploited mainly in the form of labour-saving innovations. These innovations are often process innovations. Process innovations help to defend the production of old goods against the new competition from the NICs. For the world economy, the outcome is what trade theorists call a reversal of factor intensities. For the NICs and the LDCs, such defensive investments amount to what I sometimes call an abortion of embryonic jobs.

16. Subsidies and protective devices designed to maintain obsolete jobs in Europe reinforce this tendency and are tantamount to exporting part of Europe's problems. Such defensive measures force other countries, notably NICs and LDCs, to adopt excessively capital-intensive paths of development. The result is a great dilemma of "capital shortage cum unemployment" all over the world. This - apart from our government deficits - is Europe's contribution to high real rates of interest. Of course, such indirect effects are not in the limelight of the economic policy debate; but this does not mean that they are negligible.

17. The wage-induced bias towards labour-saving innovations in Europe makes technical progress appear to be the enemy rather than the friend of mankind. In some countries like West Germany, many among the young have become quite outspoken in their view that the progress they observe offers them little or no future; they feel attracted by movements which articulate their anticapitalist feelings. Materially supported by the welfare state, they turn away from the industrial society towards romantic ideals of a world unchallenged by technological change.

18. Further contractionary reactions to unemployment and the wage-induced bias towards labour-saving innovations are union efforts to cut the work week and to reduce the retirement age. If successful and if not combined with new elements of flexibility, they shorten the supply of experienced workers and of

highly skilled personnel, a factor of production called human capital that is complementary to unskilled labour and hence to a good part of Europe's unemployed.

19. Such contractionary reactions must be presumed to impair technical progress. Firstly, they limit total research capacity if personnel in R & D departments work fewer hours. Secondly, they increase the above mentioned bias towards labour saving by directing attention and resources to process innovations at the expense of product innovations. Not surprisingly, it is in the field of product innovations where Europe has reasons to worry about falling behind the U.S. and Japan despite all efforts to raise R & D spending.

20. Technological Europessimism is not warranted in the nuclear power and aircraft industries and in satellite launching where massive government support is involved; nor has Europe's pharmaceutical industry lost its traditionally strong position, mainly thanks to comfortable profit margins in uncontested domestic markets. But in the application of electronics to new products, where small- and medium-sized firms have a comparative advantage, Europe lacks the dynamism which the U.S. economy has shown in the creation of thousands of new companies. In the final analysis, Europe's weakness is not technological but institutional.

21. Labour market institutions are one factor behind Eurosclerosis. There was reason to praise centralised wage bargaining when its rigidity made wages lag behind the surprisingly rapid productivity advance in the period of postwar reconstruction and market liberalisation. But when markets slowed down and unions as well as governments succeeded in catching up, centralised wage bargaining contributed to an overshooting. Populist pressures in the political arena led to legislated rigidities. The EC Commission lists: "The wage determination system; non-wage costs; taxation; minimum wage levels; unemployment insurance; rules governing recruitment and dismissal, the flexibility of working hours and the organization of work, health hazards and safety; rules governing unions and the right to strike; pension schemes; the housing market; training and education" [Commission of the European Communities, 1984, p. 100].

22. Some examples from recent West German experience may suffice to illustrate this point. As to wages it is true that there are no minimum wages fixed by law, but wages resulting from the collective bargaining process are being extended - formally or by custom - to employees and firms that are not members of the bargaining organisations. In this institutional setting, per capita lump-sum increases in addition to percentage increases became the rule during the 1970s. Thus "over the ten years period ending in 1981 first year compensation for apprentices had increased at least a third faster than compensation for skilled workers" (Spinanger, 1983, p. 27). No wonder that under this policy regime youth unemployment increased along with general unemployment despite the fact that heads of governments made themselves responsible for providing, by moral suasion, a sufficiently large number of jobs for apprentices.

23. Paid vacations add 18.5 per cent to gross pay in present-day West Germany compared to less than 10 per cent in 1966. Paid sick leave, which has existed for white collar workers since 1931, was fully extended to blue collar workers in 1970. This also caused increasing costs to employers: 6.3 per cent of gross pay in 1980 compared to 1.7 per cent in 1966 (see table on p. 17 and Spinanger, 1983, p. 32). To what extent moral hazard is involved can be gathered from the observation that 70 per cent of sick days fall on Monday or Friday but only 4 per cent on Wednesday.

24. Direct taxes and social security contributions take almost 30 per cent of gross pay earned by the average worker; this compares to a moderate 18 per cent in 1966 (see table). Thus the wedge between gross pay and take-home pay has become considerably larger.

25. For the West German economy as a whole, we observe an increase in the ratio of taxes and social security contributions to GNP since 1970 by 6 percentage points to more than 42 per cent in 1983. This figure is much higher than the corresponding figures for Japan and the U.S. On this account, West Germany is still much less socialised than other parts of Europe such as the Scandinavian and the Benelux countries, also clearly less than France, but far more than Switzerland and Italy and clearly more than the U.K. (which is thought to have been suffering from the British Disease for several decades).

26. Focusing on public expenditure, we observe a similar picture: the EC has a higher share of public expenditures in gross domestic product than the U.S. The rise of this share was faster in Europe (from 40 per cent in 1973 to 51 per cent in 1982) than in America (from 31 to 35 per cent); and it was faster in Italy (from 38 to 55 per cent) and France (38 to 52 per cent) than in West Germany (40 to 50 per cent) and the U.K. (41 to 46 per cent). Thanks to the efforts of the liberal-conservative government in Bonn, the German share has been brought down (to 48 per cent) since 1982.

27. High taxes and high public expenditures - notably in the form of transfer payments - make for low incentives to work and to take risks. If marginal tax rates are high there is a particularly strong impairment of work incentives and of the demand for income in terms of effort. In West Germany, the marginal tax rate for the top income bracket, although not approaching 100 per cent as in Sweden, can turn out to be as high as 66 per cent if social security taxes and the church tax are included. Even in the lowest income bracket, relevant for unskilled workers who were unemployed before, there is a marginal rate close to 40 per cent.

28. West Germany's wage cost development since the mid-1960s can best be summarised by looking at take-home pay in relation to value added (see table). Between 1966 and 1980 labour gained three percentage points at the expense of other production factors, mainly capital and profits, but take-home pay as a share of value added - instead of rising - declined by ten percentage points. The wedge thus increased by as much as 13 percentage points. Of these 13 percentage points, ten are accounted for by contracted and legislated benefits and three by direct taxes and social security contributions. If we add what the worker takes home and what the employer has to pay out to other production factors, we find that this sum, as a share of value added, has fallen from 70 per cent in 1966 to less than 60 per cent in 1980. This indicates how much more incentive there is now for entrepreneurs or for workers to shift activities from the official economy to what we call the "shadow economy", i.e. to do-it-yourself activity and the underground economy.

29. Cumbersome and costly rules governing dismissal make it very difficult for firms to adjust their labour force to their output. This was strongly felt in the 1982 recession when legal practice in West Germany tended to give severance pay priority over other obligations in cases of bankruptcy. If workers have a kind of property right in jobs and if this property right has become a mortgage on capital, firms will wait long to hire new workers in an upswing, particularly if robots and machines are ready to replace unskilled labour. "The hardest hit, as a rule, are entrants and re-entrants into the labour market" [Commission of the European Communities, 1984, p. 100].

30. The list of rigidities which make Europe's labour market sclerotic can be further extended. We may just mention: non-transferable rights, especially pension rights, rent control causing regional housing shortages and educational and vocational training systems "that are often inadequate to respond to rapidly changing technologies" [ibid., p. 101].

31. These labour market rigidities - together with import protection, subsidies of all sorts, and numerous regulations - support a structure of labour costs which forms a barrier to entry (i) for less skilled workers and, not less important, (ii) for new firms. Those who have become part of the system receive an economic rent. The others remain outsiders and feel frustrated. While established firms can adjust to excessive wages by shedding the least productive workers, thus raising average labour productivity, newcomers among firms as well as among workers can hope to attain the high productivity levels required by Europe's wage structure only after a lengthy process of learning by doing. This may be one important reason why newly founded firms so often fail.

32. Europe is said to have established a common market, but this market just covers trade in the industrial sector and, even there, is not without barriers. Agriculture, transportation, financial services and telecommunications are subject to intervention, protection, control, regulation or government ownership. Here the forces of free competition are not permitted to work. As a consequence, these sectors suffer from inefficiencies. The following points may serve to highlight the situation:

- Telecommunication services in continental Europe's government-owned networks are notoriously expensive.
- Intra-European transportation services have been calculated (for 1975) to cost 30 per cent more than in the U.S. [Kravis et al., 1984, p. 190].
- Europe's railways, which are mostly nationalised, are overstaffed. They lose market shares and make losses (as they presumably would under free competition) but are in general heavily protected against competition from (i) trucks and buses and (ii) airlines by government regulation of road transport and the airline industry.
- Air transportation per passenger mile (economy class) in 1981 was 80 to 90 per cent more expensive in Europe than in the U.S. Among the 17 areas of the International Civil Aviation Organisation (ICAO), Europe has the highest rates [Kühne, 1985, p. 27]. "Competition between the airlines is limited" and "tariffs are set at a level corresponding to the revenue necessary for high cost airlines" [ECAC, 1982, p. 15].

Airline deregulation might bring competitive pressure to bear on ground transportation, but the major impulses will have to come from outside continental Europe, e.g. from the U.S. or the U.K. which, incidentally, has made successful efforts at deregulating ground transportation and is ahead of continental Europe in liberalising the airline industry, but also financial services and insurance.

33. If we consider these rigidities together with Europe's high marginal tax rates and their likely depressing effect (i) on the mobility of labour, (ii) on the incentive to achieve, (iii) on the enterprising spirit, and (iv) on the whole economic atmosphere, we recognise that the contrast between Europe on the one hand and the U.S. and the Far East on the other hand is anything but a puzzle. The kind of syndicalism and guild socialism which Europe has developed to protect former scarcity rents and to preserve established positions is diametrically opposed to the requirements of an evolutionary process involving destruction as well as creation.

34. A number of European countries, not excluding those with a socialist government, have endeavoured to re-establish confidence by pursuing a policy of fiscal and monetary conservatism. This helped to restore confidence and to bring down inflation. But confidence in government is not enough for regaining economic vitality. Much more has to be done soon. Even in the capitalist U.S. it took several years for courageous deregulation measures that were started in the 1970s to be carried out and to have their full positive effects. Taking into account that Europe has not yet squarely faced the issues of reforming taxes, removing barriers to entry, and freeing trade in old products and new services, one is led to believe that Europe, in the process of transition to faster economic growth, is at least half a decade behind the U.S. Incidentally, this is the basic reason why the dollar has become so strong vis-à-vis European currencies and why it is likely to remain in a strong position for a much longer time than most of the experts thought or still believe.

35. For coping with Eurosclerosis I suggest we turn to citizens rather than organisations, to ordinary people rather than politicians in office. The reason is twofold:

(i) Spokesmen of vested interests and rent-seeking organisations have no stake in change, and politicians tend to listen mainly to them. This positive feedback circle can be interrupted if the public, including the potential entrepreneurs and the unemployed who can gain from change, become sensitive to the problem and are made to speak up emphatically.

(ii) What has to be demanded by the general public and what is in the genuine interest of the unorganised and the unemployed is a public good which will not be demanded by organisations: the public good of openness. It comprises openness vis-à-vis competition from outside the established market and openness vis-à-vis innovative entrepreneurship, i.e. the future.

Openness is probably as old and powerful an idea as freedom, and in economic matters it basically amounts to the same thing. Keynes once remarked that ideas were more influential than vested interests. Should this (still) be the case we might have a good chance of bringing the idea of openness to those who need such openness for employment, trade and innovation and inducing them to raise their voices in the public arena.

36. Citizens will start raising their voices in favour of openness if they are assured of their basic civil rights. The most important one in the economic field is free entry. Apart from free imports for the benefit of domestic consumers and - indirectly - of domestic exporters, it includes free entry (i) for the unemployed and the young into the labour market, and (ii) for new firms into product markets.

Some barriers to entry have been identified so that they can become subject to more detailed research, but not all of them and perhaps not even the most important ones have been identified. This is why we need a process of discovery. A basic civil right would bring about such a process if it allowed individuals to sue in court all those legislative bodies and government agencies which have imposed legal and regulatory barriers to entry, and all those private organisations which are resorting to restrictive practices. The result would be, I guess, a broad citizens' initiative to free the initiative of citizens.

37. A major target would be barriers to entry into the labour market. Some countries have minimum wage laws, others (like West Germany) apply the practice of generalising collective wage settlements as norms which must not be undercut. However, both the unemployed and the newcomers among the firms need the opportunity to settle for lower wages as long as they cannot be sure of reaching the productivity levels prevailing in the established economy. And if managers and unions in the established economy knew in advance that they have to face outside competition not only from imports but also from within the country, they might agree on more moderate wage settlements which would help to clear the labour market.

38. As to new firms, we have reason to believe that Europe has by far not fully tapped its sources of potential entrepreneurship among (i) the young, (ii) the female population and (iii) the lower and middle management of established firms, mainly because of barriers to entry into existing markets. These barriers also lie under the fog of our ignorance about the vexatious institutions of the mixed economy. To clear up this fog we need a broad search process, initiated by a basic right to entrepreneurship. This right can be defined as a negative freedom, i.e. a freedom from rules and regulations which limit entrepreneurial activities to the benefit of insiders.

39. Entrepreneurship as a cure for Europe's disease also calls for tax reforms in the medium run. In the short run, governments could do well by participating in the risks of young entrepreneurs who are likely to become valuable taxpayers in the future. They could do so by granting newly founded firms three interrelated privileges:

(i) liberal depreciation allowances so that all investment can be written off at once;

(ii) a long period - say ten years - for carrying forward losses so that depreciation-induced losses have a good chance of being counted against taxable profits in future years; and

(iii) the transferability of these losses so that they can be sold - at whatever price the market will bear - to other taxpayers who want to reduce their tax base now.

New firms could thus obtain finance for their investment as if they earned taxable profits right from the start. As a slight modification the tax authorities would certify not the loss itself but the amount of tax that could be saved. This certificate would become valid only if and when the new firms actually earned the required amount of taxable profit. Who would buy such a certificate which offers not more than an option? The answer is: mainly established firms who have an interest in raising new firms as additional suppliers or customers. The option certificate might also induce old firms to decentralise and to separate themselves from plants that can better be run as independent units by "intrapreneurs" who want to become entrepreneurs. These hints are only given to show that even high tax areas in Europe have ways and means of stimulating entrepreneurship in the short run.

40. In the medium run, most European countries could - and would have to - carry out a double-track tax reform: (i) to reduce high marginal rates and (ii) broaden the tax base.

It would be advisable to start with reducing marginal tax rates to limit the danger that the operation may unintentionally lead to an expansion of the government sector. The momentum could come from a second civil right: Individuals and firms alike should have the right to keep at least 50 per cent of their

additional income (over and above last year's income or profit) as freely disposable income. Apart from fiscal taxes and compulsory social security contributions (taxes), the formula should cover transfer payments which are tied to certain income levels. If the system of taxes and transfer payments obviates the 50 per cent principle in individual cases, it is the fiscal authorities that would have to yield. Should these cases turn out to be numerous, as one might expect, the tax laws would have to be re-written. This would enable us to find out in practice how much of the income tax system needs repair. The whole proposal does not aim at a tax revolt; it is rather a gradualist strategy to shift the emphasis from tax rates to the tax base. Of course, the 50 per cent limit is merely set for the start. From year to year, the percentage may be raised; and the figure attained might become an indication of the progress made. Of course, governments, while lowering the tax rates, will take complementary measures to broaden the tax base. They should - at least equally important - be bold enough to cut subsidies.

41. All these suggestions will raise numerous objections for one simple reason: they are bound to hurt in a great number of particular cases, whereas their merits are general and widespread. Strong emotional resistance cannot be excluded. Should it manifest itself we might fall into resignation by saying that it is just another symptom for the extent to which Eurosclerosis has become part of the public's mentality. Nevertheless, the public debate about these matters may not truly reflect public opinion. Those who speak up are often the spokesmen of organised interest groups, those who have an active interest in openness and in a less discouraging tax system may remain quiet; and indeed they may already be active, perhaps in the underground economy, perhaps on the move to new opportunities in the service sector or the information society.

42. Technological advances towards the information society, brought about by the microchips, may help to overcome Eurosclerosis in a natural way for the following reasons:

- In my view, these advances have the characteristics of a technological revolution, comparable to the Industrial Revolution or to the great changes that led to the age of steam and steel in the late 19th century and the age of

road and air transport in the 20th century, giving a new direction to economic growth and structural change.

- Technological advances of such a dimension are bound to create numerous new opportunities at the expense of old activities. The old activities tend to be overregulated in large parts of Europe - nationalised railways; shops closing at 6 p.m. and over the weekend; factory work organised along the principle of the assembly line with highly unionised manpower and with industrial relations governed by co-determination; hierarchical and hence bureaucratic management.
- Newly emerging opportunities are still free. It is to be hoped that they will remain free although government and both labour leaders and intellectual proponents of the closed society want them to be controlled, be it for vague "social reasons", be it in defence of their vested interests. Nevertheless, spontaneity is likely to be faster and more ingenious than control and will, therefore, prevail when it comes to exploiting new technological opportunities.
- The move towards the information society is bound to go along with a reduction of information costs. The optimal distances will become larger, thus giving wider scope and comparative advantage to decentralisation in production and decision making and to a deglomeration of economic activities. In general: with lower information costs, markets will operate more efficiently.
- George Orwell's "1984" has made people aware of the dangers of low information costs in a given socialist society. What Orwell overlooked were the opportunities of a de-collectivisation likely to be opened up by the new technology. It cannot be excluded that Orwell's vision may once again become more relevant in the more distant future when organisations have managed to catch up with the acceleration of market developments, but I trust that the upswing of individualism will come first and prove to be quite sustainable.

Breakdown of Changes in Value Added, Labour Costs and Take-Home Pay (a) in West Germany, 1966-1980

	Percentage share of value added			Percentage change		Marginal share of value added	
	1966	1972	1980	1966-1972	1972-1980	1966-1972	1972-1980
Value Added	19 427 (b)	33 425 (b)	61 136 (b)	72.1	82.9	13 998 (b)	27 711 (b)
Nonwage value added	31.9	32.7	29.0	76.4	62.3	33.8	24.6
Total Labour Costs	68.1	67.3	71.0	70.0	92.9	66.2	75.4
Contracted benefits	11.4	12.0	16.3	81.3	147.6	12.9	21.4
paid vacation	4.7	5.3	7.5	96.3	159.8	6.2	10.2
benefits n.e.s.	6.7	6.7	8.7	68.9	137.9	6.5	11.2
Legislated benefits	9.2	11.8	14.2	119.4	121.6	15.3	17.2
holidays + maternity leave	2.8	2.6	3.2	60.3	124.4	2.4	3.9
paid sick leave	0.8	2.6	2.6	447.2	82.0	5.0	2.5
social security	5.6	6.6	8.5	101.8	135.9	7.9	10.8
Gross pay	47.5	43.5	40.6	57.7	70.4	38.0	37.0
social security	4.6	4.8	5.4	80.7	104.5	5.1	6.0
direct taxes	4.0	5.7	6.4	144.1	107.1	8.0	7.3
take-home pay	39.0	33.1	28.8	46.1	59.2	24.9	23.6

(a) Per average worker. - (b) Absolute amount in DM.

Source: Spinanger [1983].

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