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THE NEW ZERO-SUM WORLD

International Competition and
Global Economic Growth

by

Michael Dauderstädt und Alfred Pfaller

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Preface

This brochure is a spin-off — of sorts — from a symposium to which the Friedrich Ebert Foundation in November 1983 invited a number of scholars, politicians, labour and business representatives. Their purpose was to discuss the question: Is today's global economy a zero-sum game? If yes, what are the implications for the future of our increasingly interdependent planet? As was to be expected, the questions were not answered, in any final fashion, by the discussion circle. The experts did, however, tend to retain their belief in a fundamental harmony of interests within the world economy.

The following considerations, although they are nourished by the deliberations during the conference, point in another direction: Conflicting distributive interests come to prevail more and more over the common interest in economic growth, due to long-term and far-reaching shifts in the structure of the world economy. The authors do not propose a new economic policy. They try, rather, to help bring the theoretical comprehension of what is going on in the global economy to a level that political practice (without systematic deliberation) has maintained for some time now.

In accord with the customary style of the brochures in this series, the following text makes (almost) no reference to works of other authors. This is in no sense to say that the authors of this brochure owe their position exclusively to their own thinking. So it seems appropriate here to name some of the scholars whose works have particularly influenced the analysis presented here: They include Michael Beenstock, Manfred Bienefeld, Stephen Cohen, Hartmut Elsenhans, Wolfgang Hager, Detlef Lorenz, Eckard Minx, Jürgen Wiemann and John Zysman.

Michael Dauderstädt
Alfred Pfaller

A. Our Gain — Other Countries' Loss?

1. The Beggar-My-Neighbour Policy Is "In" Once More

"If the world market doesn't offer enough opportunities for all of us, then at least I want to get as much as I can out of it for my own country. Let the others go begging." This attitude summarizes the unrestrained scramble for foreign-trade advantages by the industrialized nations during the 1930s — a phenomenon that added to the vocabulary of political economy "the beggar-my-neighbour policy". Of course, there was no payoff for any of the competing countries: The various beggared neighbour-countries reacted with counter-measures. The victim was not this or that nation's neighbour-country, but world trade. Existing economic cycles were interrupted. Countries everywhere were thrown back on their domestic markets to expand production and keep people at work. This earlier version to the zero-sum game, in which everybody tried to obtain an advantage at the expense of everybody else, ended as a negative-sum game: All concerned got into worsening economic positions.

Under the influence of these disastrous experiences of the 1930s, and with the leadership of the United States, the Western industrialized nations tried after the Second World War to agree on a quite other conception as a mainstay of their economic relations. The guiding philosophy: One country does not increase its prosperity at the expense of other countries; instead, the growing affluence of one country raises the economic well-being of others. The transmission belt in this transfer of wealth is international trade so that every country should benefit from expanding world markets — assuming that the country in question takes part in creating and maintaining these markets.

The plan worked: To a considerable extent, the industrialized countries actually did summon the prescribed discipline. They stopped fighting for shares of the market by devaluing their currencies and erecting barriers to international trade. As a result, they experienced an increase in income and in their citizenry's standard of living — to an unprecedented extent. Even countries that were lagging by international comparison, such as Great Britain, did well. The United Kingdom over two decades recorded a faster economic growth than ever before. It seemed to have become obvious that the world economy can represent a positive-sum game, in which everybody wins. If that is so, it doesn't pay for a country to squeeze out short-range advantages for itself at the expense of trading partners.

But then, from the 1970s onward, the tide turned. The industrialized countries rediscovered the policy of beggar-my-neighbour. More subtly now, than in the Thirties, it is true, but nevertheless more and more unashamedly, they are trying to solve their economic problems at the expense of each other and of developing countries. The problems that were or are at issue are increasing unemployment, and the burden of drastically increased prices for energy that is imposed on a country's balance of payments. Policy-makers seem more and more to perceive foreign competition as threatening existing and future at home. These beggar-our-neighbours statesmen — without admitting that they are doing so — view the world economic theatre as the scene of a zero-sum game. By the rules of zero-summing, the market offers room for only a limited number of aspirants: Your country stands its ground or it will be pushed offstage. The preferred means of holding one's national ground in the international market naturally is to wage successful competition. But if a country can't keep up with the competition, then currently its policy-makers are also ready to resort to other means: ranging from subsidizing their country's industries to direct hindrance of competition. What matters is the result: safeguarding market positions and, therefore, jobs.

The basic motivation behind this new beggar-my-neighbouring is fear. Underlying the drastically increasing readiness of the industrialized countries to turn to means that distort the market pattern and the mechanism of competition in order to bring about the desired national results, there is usually a defensive frame of mind. An economic policy-maker simply doesn't see another way out. He is worried that sticking to the rules will make his national economy come off badly. This attitude, in turn, can be an indication of lack of confidence in the self-healing forces of the open market.

But the fears of a country that has started feeling economically on the defensive may also stem from a realistic appraisal of the course of the market. Here we find another aspect of the international battle over distribution of market positions. The chief beggar-my-neighbourers are the countries that are strongly competitive internationally — countries that are assuring themselves of large shares of the world market, thus buttressing their own domestic employment situation, but that are not at the same time contributing to the expansion of this market. And in a worldwide recession it is the countries with a positive balance of services and a restrictive economic policy — for example, the Federal Republic of Germany — that are especially liable to charges of begging their neighbours.

The struggle over jobs within a stagnating global economy is the most outstanding aspect of the way the zero-sum game has been played in recent years. But it isn't the only one. Following the oil-price explosion of 1973/74, the industrialized countries with strong competitive positions

pursued an almost literal policy of beggar-our-neighbours. At that time the oil-importing countries taken as a whole were confronted with an enormous balance-of-trade deficit vis-à-vis a few petroleum countries. Instead of distributing this collective deficit so that it would rest on as many shoulders as possible — and relatively more on stronger shoulders — countries like Germany and Japan successfully tried to keep their foreign current accounts balanced. On the other hand, weaker national economies, principally in the Third World, had to incur massive debts to maintain their imports. By so doing these hard-put countries were also supporting the industrialized countries' balances of payments. Meanwhile, it is true, the nature of the problem has changed. It is no longer a matter of balancing huge OPEC trade surpluses by taking on current account deficits. But the issue of indebtedness calls more urgently than ever for a solution. And still the countries with strong balance-of-payments positions refuse to grant additional export possibilities to the indebted countries so that they can earn sufficient foreign currency to meet their enormous debt-servicing obligations. Instead, the creditor-countries press the debtors to make drastic cuts in their imports — which would mean major cuts, too, in a country's living standard. Because this approach by the creditors also diminishes their own industries' export prospects, the attitude comes pretty close to the self-damaging beggar-my-neighbour policy of half a century ago.

We can complete this picture of countries rivaling each other for economic advantages with a further observation: The fear of getting the worst of it technologically and thus in the long run getting to be a beggar oneself has become an important consideration within the industrialized countries' national economic policies. Although opinions differ as to how you go about achieving a technologically peak position, a country's economic policy-makers are prepared to subordinate many another value, including the international rules of the game, to this end.

2. Zero-Sum and Positive-Sum Logic in the Global Economy

How can it be that, after the grim experiences of the 1930s, followed by the overwhelming success of an internationally co-operative policy of trade liberalization for decades after the Second World War, the defensive, ultimately self-defeating beggar-my-neighbour economic policy again looks attractive? Seeking an explanation for the zero-sum game's popularity, one first will take account of the drastically worsened economic conditions. For some years, extending into the 1970s, the situation invited the realization of, and participation in, the global economy's potential for growth. Not so now. Primary attention now is focused on coping with a global world crisis and the accompanying problems of adjustment. Now it seems plausible that it is much harder for countries to commit themselves to a global discipline involving the

distribution of inevitable sacrifices than involving common gains. The immediate domestic political costs of crisis discipline are higher; the temptation first of all to save one's own skin is greater. You could put it this way: Rational behaviour in times of crisis exacts a higher price — in self-discipline, one might say — than is demanded of rational action in times of economic expansion. So the thing is to focus on the factors that enable Governments to act with this desirable rational behaviour or that make doing so more difficult for them. Still, the observable fact that economic policy becomes internationally less disciplined possibly also admits the conclusion that discipline is, for individual states, no longer entirely reconcilable with the rational pursuit of self interest. For example: Does it really pay, just as it did in the 1960s, for a country to open its markets to the competition of imports? Can the position that the world market assigns to one's own country still be regarded as the best reachable position? Are the economic advantages that a country seeks to secure for itself at the expense of other countries in the end really illusory? The perspective that has been predominantly that of the Western world since the Second World War provides a clear "yes" to these questions: Everybody wins in a positive-sum game. What is behind this optimistic faith in international co-operation for the eventual economic good of all? In the final analysis, the motivation is recognition of the primary importance of economic growth, with questions of distribution taking secondary positions. General growth — so the underlying logic — in the long run can apportion to every individual participant in the world economy a greater increment of economic gain than that country could achieve by taking something away from others. By this reasoning, long-term self-interest enjoins a country, consequently, to concern itself mainly with the achieving of general economic growth — putting to the side the fight over distribution. If the system is undergoing a crisis in its growth rate, the positive-sum approach shows that it is still better for all concerned to work together to limit losses than to save one's national skin at the cost of other countries.

However, this case for team play contains a "but". It only pays off to relinquish the beggar-my-neighbour policy if the others on the global economic team do so, too. If, however, many countries are rushing each to get its own cows safely into the barn, the country that opts for international co-operation is left out in the thunderstorm. If a player in the global game takes this danger of going it alone into his calculations, he may decide it is safer for his country to try for a best-possible market position; and this means to behave according to the rules of another game, which was devised for the zero-sum world. Once one country starts "playing safe" in that way, it becomes even more dangerous for others not to follow suit.

But also without such safety-first considerations, a state can see itself in the situation of being able to attain higher economic gains at the cost of

others than it could by aiming at international sharing of common growth or even by participating in joint measures of crisis management. The other way around, the redistribution of economic opportunities may threaten a nation with such grave damage that to take part in the general growth would not, for the foreseeable future, make up for the losses. Under such conditions, it will seem more important to play the zero-sum game than to hope for eventual gains from a positive-sum game.

If you look more than 50 years into the past, you will come upon more than one situation in which the economic ascent of a region coincided with the decline of another region. You will also note that, in the same way, the fast development of some areas of the earth conditioned the retardation of other areas. Then in order to estimate under which circumstances the perspective of the zero-sum game is the reasonable one, and under which that of the positive-sum game, you need to consider the interrelationship between national affluence and world economic growth. Given division of labour, the economic situation of the individual (and persons he is supporting) depends directly on the income he derives from the market. The determinant is the price the individual gets for the services of products he offers in relation to the price of the goods/services he obtains from the market. What the individual can offer on the market depends on the resources over which he disposes. But the amount of income he can attain with a certain supply of resources is governed by the competitive situation in the various markets. The income has to be struggled for and has to be defended

- a) against competitors, who contest the individual aspirant's market bid, and
- b) against partners in the market mechanism: actors who, being on the other side of the potential transaction, wish to influence the terms of exchange in the other direction.

Thus the individual has a continuing interest in bettering his economic standing at the expense of other market participants. It is different when we move from the individual to the over-all system. For the economic interests of the system, it is not the market prospects that represent the main factor; it is the common product obtained in division of labour, in other words, the gross national product. Determinant for the system is not the marketing of available resources, but their allocation; their productive use. Adam Smith 200 years ago helped a famous concept to its breakthrough: namely, that the competitive struggle among individual offerers on the market was the optimal mechanism for the allocation of a society's resources, and thus for the attainment of the highest possible standard of living for a community. Moreover, so Adam Smith, competition unleashes the forces of economic growth. So, even though at first

competition turns individual producers into actors with opposing interests in the market, in the end the competitive mechanism results in a situation beneficial to all: increased prosperity.

The elimination of competition might seem to be in producers' immediate interest. But absence of competition throttles the growth machinery, and in the end hinders a general rise in economic well-being. As for the individual, once more, he participates in this increased affluence; so he is the beneficiary of the competitive struggle in which he has constantly to stand his ground. But also: The individual is only a beneficiary to the extent that his market position lets him be. If he manages to better this market position at the expense of other market participants — for example, in establishing himself as a monopoly in offering a certain good or service, the result can be that the individual's income will rise proportionately much more than the increase in the gross national product.

And the country as a whole? The appropriate perspective for a nation is that of a system whose level of economic well-being is determined by the amount it produces. But the perspective changes within an interdependent global economy: Now the nation also takes on the role of market participant, with an accordingly altered perspective. On the international economic scene, an individual country can be viewed as a group of producers who are competing on the world market with the producers in other countries. The income of the respective national producers is dependent on their position in this market. From this standpoint, it is not the national production (gross national product) that is the dominating factor in a country's globally oriented economic interests; it is instead the international market prospects of the country's producers. The income that these producers attain from the international market depends on

- a) how their offerings stand up against foreign competition, and
- b) what price the national products can command in exchange for the products of other countries.

The international competition depresses the income of national producers to the extent that foreign competitors

- take away shares of the global market,
- force the national producers to sell at lower prices, and/or
- compel these producers to enter markets in which they can sell only under relatively unfavourable conditions.

The partners in an international exchange damage the national interests

- by using their market power, to exact a higher price for their own goods or

- by depressing, again via market power, the price of the country's export goods.

It is important to keep in mind that there is a hierarchy of international market positions; and that in the long run it is a matter of who amid the international competition can stand his ground in preferred markets. These are markets on which, because of lessened competition on the supply side as well as relatively higher and expansive demand, a relatively high price per employed unit of resources can be obtained.

Now of course within a country the individual domestic interests are rarely parallel: not everyone profits from a better international market position of the national producers. The situation is, rather, that foreign competition, which depresses the price of certain domestic products, at the same time increases the economic welfare of those consumers who obtain their income in other markets, that are not affected by foreign competition. This latter category of persons derives economic advantage from the worsened position of their countrymen. So the loss of income on one side (certain producers) is to be balanced off against the gain by the other side (the consumers). Let's look into this aspect in more detail later. For now, we can wind up our discussion with two points:

1. The national "net interest" — so to speak — is the more negatively affected by foreign competition
 - a) the more the country's markets abroad are involved, and
 - b) the more the domestic suppliers are acutely replaced by foreign suppliers, being pushed out of the market.
2. Where some groups within a country profit from a situation in which the national income as a whole decreases, the nation (for purposes of this analysis) is regarded as a community of interests within which these potential beneficiaries are (in principle) called on to relinquish their advantage. Thus for a country, an individual national interest vis-à-vis the rest of the world economy can also be ascertained, if there are conflicting domestic interests.

As the income of the individual participant in the market increases during the course of general economic growth, so too the nation, in its aspect as an association of participants in the world market, shares the global increase in affluence. Other countries are not only competitors or contracting partners in the fixing of prices for goods and services exchanged globally. They are also market partners who, with rising incomes, demand more of what the own country has to offer. An increase in production within one country operates via foreign trade as a stimulus for increasing production elsewhere. This brings us to the determinant economic difference between the zero-sum and the positive-sum games as played on a global scale: a shift of market positions because of

changes in international competition leads to a zero-sum game while the positive-sum game is based on the creation of additional income through expanding production within a country.

Then: Which of the two — shifts of position on the global market, or an increase in the global product — is the more important aspect in a country's concern for its welfare? That depends on a number of factors. Generally speaking, the question is whether changes are more likely to occur in the level of the global product or in its pattern of distribution. The question is also which of the two factors can be more readily influenced by national economic policy.

On the global economic level, the logic of the positive-sum game would take absolute precedence in determining policy if there were total competition in all markets, with the mechanism of competition left to assign individual offerers of goods and services their respective positions in the marketplaces. In such a — theoretical — situation, attempts to provide market privileges via political intervention would run up against the power of the market forces themselves. In this pure positive-sum economy, the only way of increasing a country's economic position would be by way of increased production. This increase in national production could be by way of additional productive capital; or better manufacturing techniques; or simply by putting in more work. But one of the prerequisites would also be that the increases in production would not meet with difficulties from the demand side. There would need to be a functioning interplay among the expansion of production; the creation of income; and the emergence of additional demand. Where additional production of certain commodities would clog the markets and depress prices, all the producers involved would need to be able to switch into more profitable areas. As for unemployment, it would have under such conditions to be only a very passing phenomenon. By contrast, the zero-sum logic takes precedence in a country's foreign economic policy if

- a) the world market functions only very imperfectly, presenting major barriers to entry, and, therefore, leeway for extensive privileges,
- b) access to the privileged positions is not (or is no longer) assured, but instead is contested and
- c) the above-discussed link between increasing production and broadening markets is severed by the onset of an economic crisis.

Up to now, the first of these three conditions — an imperfectly operating, obstacle-ridden world market with considerable room for privileged positions — has always existed. Its major privileged situation is that the residents of some countries have far better access than others to productive capital. The earnings from this productive capital are reserved for the privileged national groups: those who own the capital, those for

whom the right to paid work in the respective country is reserved, and those who benefit from the levies that "their" state may impose on the result of the production. The privilege of the nationals (and the foreigners who enjoy guest status) makes the national economy something that can be considered within the international scene as a "family business". This economy's superior productive ability not only provides the privileged nation with goods for its own consumption; it also affords advantages in exchange with other countries. These advantages (high prices for goods produced nationally, lower prices for the product of foreign work) rest on the ability to offer goods that on the one hand are much in demand on the world market and, on the other hand, can only be produced in a few countries. The market grants the countries that have an exclusive ability to turn out such high-grade production an especially high claim on the gross national products of other countries.

But the situation also has another dimension: The countries that supply the goods which are especially in demand tend to get the lion's share of the economic growth within the whole exchange system. For it is their production that has the best prospects in the market, and is accordingly the most rewarding for additional investment. Others take part in the growth of the out-in-front branches to the extent that these others are included in the circular course of increasing production, increasing income and increasing demand. Producers in the same country are to be counted first as the most promising candidates for this participation, but then, also qualifying are those elsewhere who establish themselves as offerers of marketable goods. Here again value is attached to the exclusive possession of certain resources (productive capabilities, raw materials, geographical proximity, cultural similarities, and so on). Quite different is, however, the situation of those who have nothing "special" to offer, aside from that lowest common denominator of all offerable commodities: their manpower. In principle at least, the only market opportunity they have open is to underbid by cutting prices.

The circumstance that the world market contains good and less-good positions doesn't already, and in itself, constitute a basis for playing the zero-sum game. For, in principle, even in a hierarchically constructed system economic growth works out for the benefit of all — even though more advantageously for some, less so for other participants. More important in determining the conditions for zero-sum playing is the second of the above-mentioned conditions; that the hierarchical structure is undergoing transformation. Such movement takes place when the resources that establish a country's privileged world-market position are devalued by the appearance on the scene of new competition. This conjunction is readily apparent in the case of a country whose economic strength rests on the export of a rare and much-in-demand natural product (for instance, caoutchouc) and which loses much of its former market because of the development of synthetic substitutes. It is also appar-

ent in the case of an important goods-trading centre which is superseded by a newly emerging centre (e.g. because of a change in shipping routes).

But privileged positions and the accompanying income prospects are also threatened, if technological leads are lost, and a country's producers are forced to compete with a large number of lower-priced bidders.

In all these cases competition becomes a mechanism of selection, assigning to the individual national economies privileged or less privileged positions in the global economic system. The situation is a contest in which there are constantly winners and losers, with the success of one inevitably meaning the failure of another. In these circumstances the other function of competition, the exertion of constant pressure to adjust to ever-higher standards of productivity, efficiency and product quality, takes second place. It is precisely the ability to set and then exploit market standards unreachable by others which is at stake. That such exclusive positions in the world market can be lost as well as won, this is the basis of zero-sum logic.

How high a valuation is to be put on the privileges that are being competed for in zero-sum manner, quite considerably depends on the third of the above-enumerated circumstances: the dynamics of growth within the system as a whole. As we have seen, it is not important to be the exclusive supplier of much-demanded high-tech products if you are among the preferred exchange partners of these suppliers. You then benefit from their rising income: You can extend your own productive capacity and maybe the scarcity value of your own productive resources (manpower, land).

By way of illustration, consider the barber, working with traditional and generally accessible techniques, who performs his service in an industrialized country that has full employment. A barber so situated does hardly less well for himself than the employees of a fast-growing electronics-concern in the same country. The stronger the dynamics of growth are in an interrelated economic system, the more the system will incorporate former peripheral zones and peripheral groups of producers (the barber) — approximating their market opportunities to the opportunities in the central area of growth (the electronics branch). And the more unimportant — at least temporarily — it becomes whether the producer group, the region, the country assumes a leading position or not. The distinction between favourable and unfavourable positions now refers to the degree of participation in a system's growth. An unfavourable position would mean that the increasing income of the expanding centre is improving one's own market chances not at all, or only relatively slightly:

— because one (an individual; group; country) has nothing saleable to offer,

— because one is too distant — geographically, politically or culturally — from the markets, or

— because close-at-the-heels competition is contending with one for the formerly privileged exchange position; and this challenge, despite expanding markets, compels a downward adjustment (meaning lower prices and wages).

Of course, if a system is no longer growing or is in fact shrinking, the various producer groups at the system's periphery or at the brink of sliding to the periphery will step up their rivalry for preferred exchange relations with the centre area. That way, an economic crisis — whatever its real cause — places increased emphasis on the zero-sum aspects of the world economy.

It would, however, be superficial to see the cause of the intensifying international struggle over market positions only in the reduced growth rate of the world economy. For one thing, precisely a crisis generates a high reward for overcoming the bad situation and in that sense, a time of crisis puts the emphasis on positive-sum aspects. Moreover, the actual reason for rivalry in the zero-sum game — the existence of market privileges that are subject to challenge — stems to a considerable extent from developments that essentially have nothing to do with the cycles of crises in the capitalist world economy.

Even if global growth rates like in the 1950s and 60s could be achieved again some strong zero-sum elements would remain in the pattern of international competition, and assert themselves rather still more markedly. For two reasons we may anticipate that the competition for favourable positions in the global market will become more intense — and that thereupon the advantage of one will indeed be the disadvantage of others. The first one has to do with the increasing internationalization of production, the second one with the tendency toward raw-materials scarcities. We shall consider them in more detail in the next two chapters.

3. Countries Competing as Locations for Production

The determinant resource of a country that bases its economic well-being on industry is its productive capital created by investment. As long as saving and investing can be regarded as interrelated proceedings within one single economy, the formation of capital is not a matter of inter-country rivalry in attracting investors. But capital has become internationally mobile. It is in no sense to be taken for granted any longer that those who control investable finance capital within a given country will choose to create additional productive capacity in "their" country instead of somewhere else. It makes more sense today to picture countries as regions within a global economy.

They compete to attract production facilities to their territory and to place their citizens into the corresponding jobs. The decisions about where to locate production are, however, taken on a transnational level. The outcome of these decisions determines the individual regions' outlook for growth, the material well-being of their populaces, and their positions in the world economic hierarchy. The zero-sum quality of the situation would remain without great political significance if in the international competition for industrial investment a balancing mechanism were to ensure that no regional territory would long remain too severely "under-employed" (because decreasing wages, taxes and prices for infrastructural services would re-establish the region's attractiveness to investors). But in reality there are self-reinforcing processes which make an already attractive location constantly more attractive despite higher wages and other costs. An economic region that has been passed up becomes less and less attractive as a production site. It can only compete for "inferior" production facilities by scaling down its prices for labour, land, services, and so on.

The self-reinforcing attractiveness of industrial centres is still to a considerable extent the basis of the high-wage privilege in the industrialized countries. It also accounts for the wide income gap between them and the countries of the world's industrial periphery. For decades the asymmetrical global pattern of siting production has widened this immense gap between the well-off and the economically lagging regions. But now the balancing price mechanism is beginning, after all, to assert itself and to challenge privileges of location handed down from the past. So the established industrialized countries are seeing themselves increasingly compelled to compete with new regions that offer potential industrial sites at very low prices for labour etc. The "established" industrial countries can hold up against this new competition only to the extent that they can reassert their previous technological lead and their previous prowess in efficiency — assets to which they owed their ascendancy in the first place. With regard to factor prices, they could not think of waging successful competition before the density of production in the new regions begins to approximate that in the established centres.

It looks as if the old industrialized regions are fighting a rearguard action. They may indeed succeed in temporarily regaining one or another of the lost terrains with the help of technological innovations (for example, the micro-electronic control of formerly labour-intensive processes). It can also be that global demand will turn more to technologically sophisticated goods and to non-tradable services. But on the broad front the scope for industrial relocation to less costly sites seems to be increasing irreversibly — the more so as development policies have been making peripheral regions increasingly attractive as production sites. More and more products that (in the words of the economist Seev Hirsch) formerly could be considered "rich man's goods" are becoming

"everyman's goods". The more important it becomes for individual industrialized countries to consolidate their market position in those products for which high factor prices do not matter, products that continue to be "rich man's goods". A country that is no longer competitive in this "rich man's market" will have to adjust its income level gradually down to the level of "everyman" — that is, to the level of those developing countries that are becoming competitive on the world market. Besides, it will experience a weakening of the dynamics of growth, since it loses just those lines of production from which usually the strongest impulse to economic growth comes. As for lines of production that depend more on the growth of other sectors, here the country tends to lose ground to the competition from the new low-cost production sites. In short, such a country will gradually be pushed toward the periphery of the world market.

But what is the meaning of competitiveness when applied to spheres of production in which low-cost sites are not essential? Here the market, even if it is growing, is limited. Only a part of the over-all demand impinges on this market. So, too, only a part of the over-all supply can find an outlet on this market. With the increasing geographical mobility of industrial production, this part tends to diminish; for the assortment of goods which can also be manufactured at low-cost sites widens. Can the remaining domains, mostly of high technology, engage as many producers as formerly were occupied in the whole field of industrial production? This is very much to be doubted. The lifeboats of high technology production might well be too small to accommodate all those who have to leave the sinking ship of standardized industrial production. So competition in these areas means fighting over a share of scarce markets. The bigger a slice of the economic pie a country can cut for itself, the smaller will be the portions of the others — a classic zero-sum situation. That "the others" can then find a place in the remaining areas of the international division of labour does not make up for lost gains. For in those other areas, the participants will have to adjust to standards that are being set by the competition of the low-cost sites.

Through the emergence of extensive new competition in markets that until not too long ago were the domain of the established industrialized countries, the range of production lines still "acceptable" to these countries has been narrowed down. A clear gap has been created between the income opportunities in the so-called high-tech areas on the one hand and, on the other hand, many other sectors of economic activity that once were, as far as market opportunities are concerned, on a par with the high-technology sectors. (Consider the above-mentioned example of the barber.) Accordingly, it has become more important than in earlier times to occupy quite specific positions in the international division of labour. The development of new production sites with immense additional manpower reserves for world market production is reviving the

question of the global distribution of privileges. Groups of producers who formerly could arrange among themselves a division of labour now are compelled to become rivals for the global economy's remaining places under the sun.

Of course, in an integrated world economy the impulses toward growth that emerge in this or that part of the global system are carried over to all other parts. Insofar, the growth benefits all the participants in this integrated economy. But that doesn't simply put an end to the struggle over the good positions in the market. For it is precisely the establishment of the integrated system, the gradual emergence of worldwide, homogeneous factor prices that makes the former privileges of selected segments of the globe's population no longer tenable — and threatens to degrade these segments to the lowly status of foot-soldiers in the world economy. It does not even out accounts in the long run when, in the course of general growth, better prospects arise for the "infantry", too. The spatial distribution of growth has become more important to the rival countries than its rate.

In practice the rivalry first makes its appearance as a competition over jobs. For the immediate effect of the low-cost competition is, for producers in the old industrialized countries, their being pushed out of the market. They could remain competitive in their traditional branches only if they were to accept a marked loss of income or if via new exclusive technologies they were able to keep the competition at arm's length. This feat can't be counted on as a long-term remedy. The first of the two possibilities, accepting a loss of income, won't work because of existing standards of living in the classic industrialized countries: Instead of taking a big wage or salary cut, a person would rather turn to unemployment payments. Yet finding a new position at the accustomed level of pay is not to be counted on: That depends on how one's country is succeeding in the attempt to consolidate its competitiveness as a location of high-technology production; or on how it is doing in attaining a preferred market position as supplier of certain goods and services (tourism) to domestic and foreign producers of high-tech goods. In those two fields — high-technology manufacturing and supplying to high-tech income areas — market shares directly determine the job and income prospects for a country's populace. Shifts in market shares bring about — to the extent that they aren't compensated for by sufficient economic growth — increases and decreases of job opportunities and of real national income.

To speak in this connection in terms of "national" gains and losses, however, is misleading, at least in economic terms. For a national economy is less a unit than it is a mosaic. Thus the loss of domestic jobs to competing "cheap" locations can and as a rule will accompany the existence of flourishing national enterprises in other industries. Those, including working people, who derive their income from these prospering

industries often aren't affected by the advance of low-cost competitors. On the contrary, they will even experience an increase in buying power because of the cheaper imports. They improve their position in the global market structure while the economic situation of some of their countrymen grows drastically worse. Unemployment benefits and similar mechanisms of national solidarity can diminish this disparity somewhat in a more basic sense, though, a dual economy emerges. The less-favoured citizenry get excluded from the network of exchanges that used to make up the national economy. The others get increasingly involved in exchange with producers beyond the country's borders and substitute these new partnerships for the former exchange relations with their countrymen.

The resulting network of new exchange relationships is less and less comprehensible in terms of a national economy. As little can the displacement process be fitted into the traditional categories of export and import. The country's economy indeed imports more and exports more, but still, on the whole, it produces less. For the shift of production goes along with a shift of demand, of the market outlets to foreign areas. In this sense an increase in exports does not correspond to a rise in production, but, instead, only to a replacement of domestic by foreign buyers. The balance of payments tends towards a new equilibrium, but the balance of domestic and foreign interests does not.

The fact that production may move elsewhere, and increasingly is tending to do this, endangers certain groups of hitherto privileged producers — but not necessarily whole privileged countries. It is, rather, the concomitant dissolution of the national economic cohesion that threatens to exile parts of the citizenry from participation in the privileged national world market position to the international competition of the underprivileged. To be precise, it is the threatened members of the various industrialized countries who engage in the zero-sum game about who gets to remain in the privileged sectors of the global economy. Because these candidates for economic survival are tied geographically to their country, they can succeed in the zero-sum game only to the extent that their country becomes a location of "exclusive production" (which means, first of all, high technology production). It is self-evident that those participants in the production process who have become exchangeable — the working forces — will face a worsening bargaining-position in the domestic struggle over distribution, while the position of internationally mobile capital improves.

4. Increasing Scarcity of Raw Materials

Precisely because the classic industrialized nations possessed superior production know-how, they were able to secure for themselves, in the global marketplace, a considerable share of the natural resources of this

planet. In exceptional circumstances, such a skilled nation didn't even need to have mineral reserves of its own; it could obtain the raw materials in exchange for a relatively small portion of the manufactured product.

Since the Industrial Revolution, the lion's share of the worldwide consumption of raw materials has been reserved to those who processed these materials or who offered services. Increasing efficiency in processing raw materials (in other words, rising labour productivity) entitled a country to increasing consumption; for the materials to be consumed did, in general, not get scarcer with increasing demand. The more raw materials the industrialized countries were able to transform, with their expanding production capacities, the more raw materials they were enabled to procure. The supply of these commodities was adequate. In the rare case of a shortage usually a substitute material could be found.

Recently there has been a turning of the tide. The development on the petroleum market in the 1970s should be received as a signal that the era of abundant raw materials won't last indefinitely — and possibly is already beginning to end. What effects would there be on the distribution of the world's economic goods if additional raw materials are only to be had at considerably higher costs (in terms of labour, from the standpoint of society, in terms of exchangeable goods and services, from the perspective of the individual economic agents)? A higher share in the global product would accrue to those who have property rights in regard to the growingly costly raw materials. Correspondingly less of the world's product would go to those who have only the know-how to process raw materials. These processors would have to pay an increasingly higher price, in manufactured goods or services, per traded unit of raw material. If their productivity fails to keep pace — if they fail to constantly provide more of their own product in payment — their real income will decline. The faster the rate of increase of raw-materials prices, the more difficult it will be for industrial producers to maintain their customary standard of consumption.

Behind and beyond such a development would be a sharpening of the competitive struggle among those on the demand side of the raw materials market. Every rise in demand would push up prices, for all concerned. This may be regarded as a balancing mechanism at work. But it can become a serious economic threat to those involved: For every price rise would force some who are on the demand side — namely, those who cannot come up with additional resources for defraying the increased costs — to reduce their consumption. They might have to give so much of their own products in payment that they will have less remaining for their own consumption. It could also be that the world market does not absorb additional exports from the country concerned — so that the quantity of imports would have to be reduced.

The less elastic the supply of raw materials becomes, that is, the stronger additional demand drives up prices, the more the consumption of raw materials becomes a privilege, one that has to be struggled for. International competitiveness secures this privilege for a country poor in raw materials — and simultaneously makes it harder for competitors to attain that position. Otherwise than with scarce market opportunities, the over-all growth of the system does not de-escalate this situation. Growing world markets indeed offer earnings prospects for more suppliers; but with increasing incomes new demand for scarce raw materials arises. Therefore, the supply of raw materials becomes less elastic, raw-materials consumers develop an interest in limiting as much as possible the ability of other countries to demand more of the increasingly scarce resources. Instead it becomes attractive for every industrialized country (and for every industrializing country) to strive for exclusive trade relations with raw-materials producers, and to keep global growth limited as much as possible to this exclusive system. The advantages of a worldwide division of labour become then secondary to the necessity of coping with the problem of increasingly costly raw materials.

This line of reasoning about the future role of raw materials may at first glance seem remote to the actual situation, because just now there is no sign of a general shortage of raw materials. In time to come, though, two considerations would seem to apply:

First, the problem will come to a head as soon as only one important raw material — for instance, petroleum — becomes ever more expensive. The fact that most other raw materials are simultaneously being offered in abundance limits the difficulties, it is true, for those countries that are without domestic supplies of either energy sources or the ores of, for example, copper, zinc and aluminium. But still, it doesn't free them from perhaps having to achieve constantly higher export surpluses in order, let us say, merely to keep the energy supply at the current level. Second, current optimism in the raw-material situation is based largely on the anticipation that with increasing demand there will also appear new, formerly unknown, reserves of supply. But this means to take it for granted that the future will repeat the favourable experiences of the industrial age up to now — a period that, seen in perspective, represents only a very short time in the long history of economic evolution. Moreover, this optimism overlooks an important reality: The Industrial Revolution, and the technological possibilities it opened up, have brought about an unprecedented escalation of the heedless exploitation of natural resources — a process that of simple necessity reaches exhaustion. What if, say for example, India, Pakistan, Indonesia, China, Brazil and Mexico were, with their present populations, to attain the levels of production and consumption of contemporary Spain? That development alone would mean an increase in world consumption of commercially offered energy of around 50 percent. If those countries were in fact to

reach the economic levels of the Federal Republic of Germany, this would mean a fully 125-percent increase in global consumption of energy.

What is true of the internationally traded raw materials also applies in principle to natural resources that up to now have been free — assets like air and water, components of the environment. Here too, the economic growth of one country or region is becoming a threat to the well-being of others — polluting air and water across national frontiers, endangering the climate, destroying marine life, and so on. An outlook of possibilities unlimited that still seems to characterize the dominant attitude toward raw materials is typical of the short transitional stage between millennia-long shortages that have suddenly been overcome by entirely new technologies of exploitation and the recognition of the new limits. Earlier rather than later, humanity is going to have to get used to conserving the assets of the planet, by recycling, which is essentially static in nature. The access to raw materials, whether a country controls them directly or obtains a privileged exchange relation with those who control them, will then become a determinant condition of economic well-being. Thus, for the actual economic policy of industrialized countries (as well as for geopolitics) the question of long-term supply with raw materials already has much more importance than economic theory, fixed on the current market parameters, would assign to it.

Possibly it is in the area of nutrition that the discrepancy between growing consumer desires and limited, if in fact not catastrophically reduced, possibilities of fulfillment first bring about a dramatic international redistribution of affluence — in the sense of a relative devaluation of industrial work. Thereby zero-sum situations will characterize, in particular, the time of transition from elastic to inelastic supply of raw materials. Over the long range, one could possibly manage to so define increasing prosperity — define it, that is, in a societally committing way — that to a considerable extent economic well-being would be uncoupled from increasing consumption of natural resources. This achievement may, however, be the more difficult the further removed a society is from the achievement of primitive, consumption-intensive economic aims.

5. The Zero-Sum World and Economic Policy

If the look we have just taken at the global economic situation is adequate, then every country has to put priority on securing for its own producers the most favourable possible prospects in international competition. The challenge is to occupy the good positions in international markets, and to — as far as necessary — banish the competitors to the worse positions. The immediate challenge that the zero-sum world poses

for every individual country is to succeed in it. In this sense; the global zero-sum game is a pattern that the players cannot withdraw from — the game is prescribed to them. As we have seen, this is a consequence of

- a) industrial production becoming increasingly footlose in the context of striking international price differences for factor services (especially labour) that are ever more similar;
- b) of raw materials getting scarcer.

Yet there are other, more trivial zero-sum games, which stem from individual states' attempting to gain better short-term sales prospects for their own economy at the expense of other countries. Zero-sum games of this category include the classical beggar-my-neighbour policy, aiming at export surpluses, but also the current, rather naive effort to achieve economic growth by improving international competitiveness. Once again, the individual countries are compelled to play these games, engaging in competitive devaluation, import restrictions, export subsidies, and cost-cutting austerity measures. For in today's interdependent world economy the leeway for an autonomous national economic policy of growth has become very narrow. In times of sluggish world-wide growth, initially the various countries have no choice but to adjust to the rougher going on the world market. This adjustment all too easily leads, however, to a negative-sum game, in which the economic damage the states inflict on each other exceeds any temporary advantage.

In this situation the central challenge is to jointly arrive at more constructive foreign economic policies. There should be due regard for the heightened need for supranational co-ordination. The kind of zero-sum games which results from insufficient discipline on the part of the individual nations must be avoided.

The task with which the global economy confronts the individual countries today is a double one: to succeed in the inevitable competition for the good market positions, while at the same time doing everything possible to keep this competition from degenerating into an avoidable escalation of mutual economic damage. Their common interest in a global positive-sum game links countries that nevertheless eye each other as rivals. Each country will need to consider how much it can reconcile the primacy of national competitiveness with the requirements of international co-operation. Co-operation that brings lasting disadvantages to a country as it contests for world market positions is not going to be acceptable from the viewpoint of economic rationality. International rules of play that systematically favour the competitively stronger countries can at best be forced on the weaker countries; and anyhow such rules are a standing invitation to break them. For in the circumstances of the zero-sum world, more important for every country than how the game is played is how the game comes out.

On the other hand, the contest for market positions can become so costly that the wiser course would seem to be the acceptance of some competitive disadvantages for the sake of a certain measure of international discipline. For the defensive reactions of a weaker economic partner can rob the stronger one of the fruits of his superiority. The other way around, the weak partner can often achieve more by going along with some handicapping rules than by making a protest that he can't enforce. Another thing for a country's policy-makers to consider is that subjection of the country to international discipline can also firm up domestic economic discipline — which in turn would enhance the country's ability to compete on the world scene. Naturally, no country is actually asked: "In the global economic system, are you going to play a positive-sum game or a zero-sum game?" The choice isn't that black-and-white. A country rather faces the complex task of combining optimally zero-sum and positive-sum-gains. The more successful the efforts toward accelerated growth, the more positive-sum aspects will supersede the zero-sum game. This is true, at least, of the competition for high-technology markets and the cruder variants of the beggar-my-neighbour game. But it does not apply to the competition for ever-scarcer raw materials. Yet even leaving the raw-materials aspect to the side, the problem posed for economic policy is, rather, the other way around: The more the threat can be kept under control which the advancing internationalization of production carries for, the income prospects of entire national population sectors, the more easily countries can be brought under the discipline of international rules of play. And the better, then, is the outlook for a growth-fostering positive-sum game. For the rules of the game will be adhered to if the outcome of the game remains acceptable to all players.

A main reason that the positive-sum game was played relatively well in the 1950s and 1960s was that the global economic hierarchy — with the United States in the role of the hegemonial Power — was comparably stable, and that no country considered its market prospects to be in serious danger. By contrast, the increasing inclination of industrialized countries to adopt, despite all assertions to the contrary, mercantilistic policies ultimately stem from the fact that this stability no longer exists. If the world's economic partners were to succeed in restoring it that would be the decisive step toward overcoming the countries' fixation on the zero-sum aspects of the world economy.

Restoring the old stability — what would that mean? It implies that the speed of industrial relocation to low-wage regions would need to be sufficiently decreased so that in principle full employment, without drastic reductions in income for certain groups, could remain assured to industrialized countries. The periphery of the world economy with its low density of production and its huge labour force (i.e. the Third World) could then only be integrated into the exchange network of the core re-

gions (the Western industrialized countries) as far and as fast as the growth and employment situation of these regions would permit. By no means could these peripheral economies be permitted to improve their world market position at the expense of parts of the currently privileged Northern labour forces. Keeping them from doing so would relieve the old industrialized countries of the threat of being driven to the edge by the new competition and it would reduce the compulsion to achieve technological top positions at any price. Thus, they could redirect their energy to restoring and broadening a growth-fostering international economic order. As liberal as such a revised order might be, there would be a most illiberal "entry fee": Membership in the club would remain restricted to countries of the North with somewhat similar standards of income.

In the next chapter we shall be examining more closely the possibilities and consequences of such a policy of freezing more or less the existing geographical distribution of production sites. But antcipatorily it can be said that skepticism is called for in regard to any expectation that the policy will really resolve the problem. Instead, it is more likely that countries which fall technologically behind will have to accept a considerable reduction of their income. In such a case, there is one area where a fight for market positions, in the zero-sum manner, is unavoidable: high technology. It simply isn't going to be possible any longer for any industrialized country to base its economic well-being on producing standard manufactured items. Then the task of international economic policy is to keep the playing of the zero-sum game within bounds, so as to prevent an escalation of international economic warfare which would break up existing networks of trade and lead to a general narrowing of markets. Moreover, a well-advised international economic policy will have to provide assurance that in spite of all the competition, the possibilities of growth cum division of labour are not totally blocked.

In fact, a continuing high growth rate could considerably reduce the penalties to those who technologically lag behind. For the competitive pressure in the area of footlose standard production would be less intensive. But the increasing rivalry among industrialized nations leaves only a rather small chance for this to occur. Precisely because of the high risk of being ousted from the sources of economic well-being, countries become less prepared, in their striving for competitive advantage, to abide by an international code of good behaviour. Probably the best that can be achieved in a conflict-ridden constellation of this kind is somewhat like a balance of deterrence: Each country is held back from the unrestrained pursuit of its own gain by an awareness of the other countries' potential power to retaliate. But even then there remains the competing country's constant temptation to disregard and evade the implicate or explicite agreement for the sake of additional advantages. What seems most likely is, therefore, a series of always newly negotiated, not very long-lived "armistices".

Perhaps still more harmful to global economic growth than the hard-to-keep-in-check escalation of mutual discriminatory measures is the way the increasingly high premium placed on international competitiveness affects a country's domestic economic policy. A policy oriented toward success on the world market tends to direct the national economy like a business firm. Priority goes to income discipline, monetary stability, and cost-lowering measures of every kind. The question of demand is left to the anonymous market, that is to say to the other countries. Now if countries everywhere share this intent concern with getting ahead of the competition, the same destructive beggar-my-neighbour policy threatens as a more superficial striving for export surpluses would bring about. However, the way from this insight to a cooperative policy for economic growth is longer, and more tenuous, than in the case of balance-of-payments-oriented job competition, with its mutual underbidding and discrimination. For even a successful growth policy grants only very conditional release from the necessity of being a front-runner in the modernization race. In contrast to the beggar-my-neighbour policy of former times, the current and future zero-sum game over the distribution of world market positions won't be eliminated by a positive-sum game of global growth, but at best mitigated.

As far as the long-term problem of raw materials goes, the course toward the de-escalation of future battles over distribution in fact heads in the direction of world-wide slowing of growth. This slowdown would, as an interim move, also be in the interests of each individual industrialized country that seeks a favourable buyer position for itself in the global raw-material markets. However, too slow a growth for the sake of lessening conflicts leads politically into a blind alley — which the countries best-armed for confrontation sooner or later are going to try to break out of, on their own. Over the longer run, international economic discipline would have to include

- a) an orderly distribution of the burdens resulting from ever increasing raw materials prices, accompanied by the assignment to individual countries of quotas of allowable demand;
- b) the creation of countervailing power on the demand-side, so as to challenge income shifts in favour of those who possess the raw materials;
- c) a delinking of economic growth from the consumption of raw materials so as to reduce the importance of distributive considerations within international economic policy.

The raw-materials problem illuminates a new aspect of the dilemma of a national economic policy caught between participating in global problem-solving and trying to get its own cows into the barn first before the thunderstorm breaks. De-escalating the conflicts which result from the

internationalization of industrial production, requires an acceleration of economic growth. By contrast, the raw-materials problem calls for rather small doses of growth. Leaving the first problem unsolved prevents tension from building-up in the raw materials issue. Simultaneously, though, this non-solution intensifies the competition over privileged positions on the world market, with all its inexorable consequences for the loser countries. The successful countries, however, ensure themselves of a privileged claim on internationally traded raw materials. Thus, because the issue of raw-materials distribution for the time being is adjourned, it is also implicitly decided. International discipline in this issue, as discussed above, then loses much of its importance. Its place is quietly taken over by the law of the strong. But if the industrialized countries — against all odds — achieve a policy of co-ordinated global growth, then over the medium term they will not be able to avoid dealing explicitly with the problem of the distribution of the earth's raw materials.

B. International Economic Policy to Overcome the Zero-Sum World

What are the prospects, via internationally agreed economic policy

- to reduce the various countries' felt necessity of doing battle for market privileges?
- to keep what struggle for advantages there is so much under control that excess mutual economic damage can be avoided?

The institutions that after the Second World War prevented a repetition of the crisis situation of the 1930s — and while doing so brought off a continuous and mutually reinforcing rise in prosperity in the industrialized countries — cannot do justice to this task in the same way today. The prerequisites of those first post-World War II years no longer exist. So the question becomes: What can international economic policy do for the changed world under the new circumstances?

1. Global Growth and Employment Policy: a Pipe Dream?

Both in some theoretical models of free trade and in the actual practice of the 1950s and 1960s, a liberal world-trade order was acceptable. This was largely because the structural changes in regard to international division of labour brought about by or at least accompanying free trade posed no serious threat — thanks to growth and full employment — to anyone. Put the other way around: Liberalized trade and structural change gave rise to just this economic growth and the consequent full employment. Could today's world manage to re-enact this pleasant scenario? If so, at least there could be a stop to the shrinking of the high-wage markets; and the struggle for privileged market positions could be de-escalated. The trouble is, though, that today policy and theory are helpless and at variance with each other in the face of the weak economic growth of the 1970s and 1980s.

True, there are proposals for improvement. Various crisis and/or business-cycle theories tend to differing recipes for new growth. The recommendations can be categorized as supporting one or the other of two diagnoses.

Diagnosis A: Supply-Side Weakness Caused by Policy Failures

According to the first of these two diagnoses, increasing state intervention — an increasing state share of borrowing from the capital market and of national consumption; central economic planning; excessive regulative activity; bureaucratization — has reduced the efficiency of the private sector. Investments no longer pay, because the costs, especially taxes, pay rates and social security contributions, are too high. The therapy is said to lie in reducing the role of the state and relaxing the rigidities of the labour market. Elements of this policy model are being applied internationally, whether as an original component of a national economic policy, or as measures taken at the suggestion of, or under pressure from, the International Monetary Fund (IMF), as a reaction to foreign economic necessities. As the model has never been pursued in a pure form, there is little information from experience about its efficiency. In the United States, for example, the supply-side concept was combined with high governmental indebtedness and a somewhat Keynesian deficit-spending. Accordingly, the recovery that got underway in the U.S. in 1983 may also have been powered by the demand side. Speaking for this interpretation would be that the American economic recovery has been following a consumption-led and import-intensive course, whereas the original concept of the U.S. Administration aimed at an investment-and-export-led recovery. This early priority on exports touches on a globally dimensioned problem of the supply-side approach: If countries everywhere try to achieve new growth only through increased exports, the stage is set for massively intensified competition. Now the pursuit of such an export-intensive policy may well indeed be a useful instrument of crisis management. But there is considerable danger that following the export-drive policy will also worsen the situation of a world playing the zero-sum game. Incidentally, the “international co-ordination” that was recommended earlier needn’t be sought after in this situation; it is already, of a sort, at hand. That is, countries competing with each other’s export drives compel one another to adopt each other’s tactics.

Diagnosis B: Demand-Side Weakness Due to Market Failures and Policy Errors:

According to this second diagnosis, it is primarily a slump in demand that has caused the economic crisis, and that is responsible for the failure, in most parts of the world, of recovery to get underway. Why the weakness of demand? It is traced to several, including some international, factors: redistribution in favour of market participants with low propensity to consume; in some important consumer-goods markets, tendencies toward satiation; deflationary economic policy. In contrast to the

supply-oriented policy, the demand-oriented approach requires close international co-ordination. For (as the example of France showed), national go-it-alone tactics dissipate themselves in rising imports and spirals of inflation and devaluation spirals. Moreover, it would seem to make sense to encourage the creation of additional income where potential consumption and unsatisfied demand are high, notably in the poorer of the developing countries. But it remains open to what extent additional purchasing power leads to a real rise in production (and so to growth and employment) instead of only to an inflationary price adjustment (worsening for the developing countries the terms-of-trade).

So much for the two current diagnoses of the ailing economic situation and its cure. However the causes of economic crisis are diagnosed and suggestions for therapy are regarded, there are still possibilities remaining within the frame of international growth policy — possibilities for intervention in those areas that merit attention independently of the controversy over supply-vs.-demand orientation. One major possibility is international co-ordination of stabilization policy, to avoid under- or over-shooting the mark. McKinnon, for instance, attributes the inflationary thrusts of 1972/73 and 1979/81 to misconceived monetary policies on the part of the American and the European central banks. If his analysis is right, then monetary-policy co-ordination among the large central banks could avoid a repetition of the rocketing price rises and the subsequent deflationary application of the brakes.

Other suggestions aim — even if on another analytical basis — in the same direction. There are proposals for controlling the Euro-markets, to prevent their giving rise to inflationary pressures or other destabilizations (interest rates; discontinuous access to credit for debtor countries). Then too, some politicians argue that the re-introduction of fixed exchange rates could, providing more safety for trade and investment, foster a new economic upturn.

All this may help to place global economic growth on a stable foundation once more, and to eliminate with recession an important zero-sum element from the world economy. But will that even more essential symptom of zero-sum play and economic crisis, global unemployment, be eased? This is more than doubtful. For the growth of production and the growth of employment differ by the growth of productivity. Since it is precisely the few growth sectors — in particular, microelectronics and its applications — that tend to rather contribute to an increase in labour productivity (their quota is probably about 2 to 3 percent of the over-all figure), rises in production of less than 3 % do not create jobs. Yet hardly anyone figures on higher growth rates. Something more: The international competition tends to force marked rises in productivity in the sectors involved. This is true particularly of the “matûre” industrial branches that are confronted with weak demand along with rising cost pressure.

But even better absorption of the unemployed by a growing economy — for instance, by measures to redistribute the work — probably would not change anything in regard to the enormous over-supply of manpower that is emerging from developing countries to flood the world's labour market. The total of job-seekers in this category exceeds, several times over, the total of all manufacturing jobs in the industrialized countries. So even shifting practically all industrial production to the Third World — leaving aside the utopianism of such a "solution" — would solve nothing. Then what is to be done with and for this unemployed legion? It is necessary to create work and income for the jobless within the domestic economies of the developing countries themselves. But there is no consensus on how this could be done and — probably much more important — on the redistribution of wealth, income, and power that would be necessary within developing countries. Moreover, the industrialized countries lack the political determination to compel — in the interest of the world economy — the developing countries to adopt policies which would be conclusive to accelerated and sustained domestic growth.

Thus the outlook, by way of a global economic and employment policy, for redirecting the world economy into a positive-sum game, is far from encouraging. Instead, what will be at issue will be the international distribution of production and employment according to the zero-sum logic.

How can then the struggle over distribution be so regulated that every participating country has a fair chance — in that way avoiding a destructive negative-sum play? Many observers assign to the international monetary system this mission of mediation.

2. International Monetary Policy: Part of the Problem or Part of the Solution?

The earlier hope of arranging an international re-distribution of production and employment (at that time, it involved shifts of those economic assets from America to Western Europe) was godfather at the abandoning of the concept launched at Bretton Woods in 1944. The system of flexible exchange rates that was thereupon established was meant to de-escalate the sharpness of international competition. For changes in a country's international competitiveness could be corrected more quickly by changes in the monetary-exchange rate. Because the recovery of West Germany in particular, and also of Japan, was credited not least to the undervaluation of their currencies within the system of fixed exchange rates, the lesson seemed evident: After an upward revaluation of the Deutsche Mark and the Yen there would be a stabilization of the balances of payments, and with it a steadying of the international currency

market. In spite of a major upward revaluation, however, the German export strength remained the nightmare of many a competitor, even in the 1970s. This situation applies even more to Japan, whose currency still is considered under-valued. Numerous economists explain the Japanese export success by recurrent phases of a weak yen.

It seems that it is also possible within a system of flexible exchange rates for a country to under-value its currency and in this way to enhance its competitiveness, while attaining current account surpluses. Ways to do this:

- *A lower inflation rate than a country's trading partners have:* In an inflationary world economy, like the markedly inflationary one of the 1970s and the less pronouncedly inflationary one of the 1980s, a country with only a limited rate of price increase has a direct advantage as long as it avoids surrendering this lead through an upward currency revaluation. Monetary and incomes policy (social consensus between labour unions and entrepreneurs) can bring about such a price stability.
- *A deficit in the capital balance:* If this deficit outweighs the current account surplus, the balance of payments no longer exerts pressure to revalue the currency upward. This circumstance a country can achieve with interest rates that are low by international comparison and that deter capital imports and foster capital exports. The same purpose is served by direct interventions of the state, including export of public funds in the form of development co-operation.
- *Invoicing of foreign trade:* If foreign trade is being transacted mainly in foreign currencies, a country has more leeway for a policy of undervaluation.

Such a policy of deliberate undervaluation can also protect a country against expected future pressure to devalue, and so enable a more autonomous domestic economic policy — as in the case of Sweden, for example. The policy can, however, also create major problems for countries that don't pursue it voluntarily, but instead are constantly being compelled to devalue. Such countries may, if the devaluation causes domestic inflation, get into a devaluation/inflation spiral that wipes out the cost advantages the devaluation was supposed to gain. The other way around, economically strong countries can lengthen their lead in relative stability by way of occasional, minor upward revaluations, since the consequently cheaper imports act as a restraint on the domestic price level.

A country with an export economy that is competitive and skillfully specialized on the upper segments of the world market can, under given circumstances, even afford to select among

- undervaluation, which hinders the ascendancy of competitors, and fosters growth and employment at home, or
- upward revaluation which increases real national income.

A primary requisite of success is that the economy reacts flexibly enough to a signal in the form of exchange-rate alteration. If labour and capital rush into favoured sectors of the economy, the benefits of an allocation in line with the world-market situation can perhaps make up for possible loss of income through devaluation.

In sum, the ability to manipulate the exchange rate provides an instrument that can be of use primarily to those economies that are anyhow able to adjust, and are strong. For these countries, a flexible exchange rate opens up supplementary international economic options. For weaker economies, it is always possible that negative effects will prevail: If weak countries devalue, they are soon caught up by inflation; if they revalue upward, they are threatened with domestic setbacks in growth and employment.

So the flexible-exchange-rates system is far from a guarantee of de-escalating the international competitive battle. On the contrary, the monetary system has merely supplied one more weapon with which to conduct the battle. And this weapon is used, as numerous examples show. To remove it from the battlefield of economic competition and employ it instead as a monetary instrument in relieving international pressures is conceivable only if the participating countries were to agree on collective "disarmament".

Originally the International Monetary Fund (IMF) was thought of for carrying out an exchange-rate "disarmament" control, in order to avoid a repetition of the dangerous competitive devaluations of the 1930s. So the question is relevant: Has this supranational institution a steering mechanism that equips the Fund to carry out its mission? Part of the answer is negative.

For one thing, the IMF's two-track approach to monetary-policy sinners reflects the asymmetry characteristic of the exchange-rate system: While the Fund can force the weak to make policy changes, its influence on the strong is limited to ethical appeals. "Weak" within this conjunction means a country's having high balance-of-payments deficits and large foreign debts. "Strong" indicates a country that attains surpluses and is among the international creditors. It is the credit-needful "weak" who come to the IMF as their last resort.

The remedies the Monetary Fund proposes and the debtor country accepts for curing its economic situation often include currency devaluations — along with restrictions on domestic demand by reducing governmental spending and curbing wages, plus measures to brake the growth of the money supply. The IMF programme aims at making the weak strong. But the effort often falls short of the goal because the

structural problems cannot be resolved in this way: The devaluation creates an inflationary pressure that is slowed down by the policy of curbing demand. These steps reduce real income and imports, but without the consequence of a really extensive increase of internationally competitive production. Precisely this phenomenon dominates the Latin American debt crisis. The U.S. in particular, as well as other industrialized countries, have experienced pronounced declines in exports to the Latin American debtor-republics.

By contrast the International Monetary Fund has no leverage with the strong countries; they aren't dependent on its credit facilities. True, the IMF will criticize them if they curb their demand for imports, or launch an export offensive. But if they don't apply trade policy measures in a narrower sense, more subtle tactics, such as a restrictive monetary policy or extensive public capital exports for the purpose of currency undervaluation remain outside the Fund's scope. Seen as a whole, IMF operations tend to intensify competition. The Fund's measures cannot tame the strong; and to the extent that the IMF prevails with weaker countries, the result of the doctoring is only to fortify them the better to stand their ground in competition. And this latter situation means either that additional suppliers enter the market, or that sales opportunities shrink.

Now these results of the International Monetary Fund's policy are not in accord with its original purposes, as spelled out in the Fund's statutes. But the IMF seems constantly less able to carry out its good intentions. Why? What could be done to improve the situation?

One reason for the IMF's deficiencies is certainly its relatively weak funding. Since the 1950s its quota volume in relation to the world trade volume, to say nothing of current account imbalances, has receded. Accordingly the Fund is hardly able to finance deficit countries over a longer period without imposing on the debtors demands for restrictive policies. Beneath this inadequate instrumentarium are deeper-lying problems of achieving a consensus between the IMF's major donors and its major borrowers or even — possibly still more significant — agreement among the donor-countries themselves. These differences stem, in the final analysis, from the decline of the United States' hegemony on the global scene. With regard to the international economic order, hegemony implies first of all the readiness and ability to indemnify possible losers in the economic game and, to keep them through financial transfers, in the game (and abiding by its rules). For that, the hegemonies' own resources had to be enormous in relation to the losses that were to be indemnified. The U.S. performed this compensating function in the 1940s, the 1950s and still in the 1960s, in part directly, in part via the primarily US-supported and financed international institutions (the International Monetary Fund, the World Bank).

The trilateral world trading Powers — the United States, Japan, Western Europe — have only to a degree taken over from the once-hegemonial United States. The three Powers have not intensified their supranational economic commitment to the extent to which their engagement in international economic affairs has increased. But even if these three partners were to markedly expand the IMF's financial means, that wouldn't resolve — would probably worsen — the policy problem. For then the Fund, being even more dependent on the surplus countries, would be still more loath to criticize their international economic policies. The IMF would become more asymmetrical than ever.

Conversely, a "democratized" International Monetary Fund, in which all the countries were to have the same voting strength (or perhaps a vote in proportion to population), would have only slim chances of obtaining the needed funds from the rich surplus countries. Moreover, the record of decision-taking by the poorer developing countries in the Fund supports the supposition that a democratized IMF, too, would need to, and would, compel highly indebted deficit countries to undertake adjustment measures. After all, the developing-country members of the Monetary Fund also have an interest in not losing their contributed capital.

3. International Trade Policy: Code for International Competition of Global Restructuring?

International trade, too — the core of the worldwide positive-sum game of the first post-World War II years — has evolved from being a part of the solution to becoming a part of the problem. In the 1950s and 1960s global trade grew more than global production did, and was regarded as the handmaiden of just this growth. International trade policy had — as a liberalization policy, operating via the dismantling of trade barriers — made a major contribution to this development.

Since those decades, the trade-generated internationalization of national economies has come — under changed global economic conditions — to require adjustments that make it difficult to attain national economic and social goals. But the various countries do not simply yield to these constantly more evident external requirements; instead they try to restore the primacy of national goals. The ascendancy of protectionist tendencies is only the tip of the iceberg of neo-mercantilist policies, aiming to protect an individual national economy and to strengthen it for the international competitive battle.

To check these tendencies, for a few years now efforts have been made to put more emphasis on the free-market principle in the interchange among industrialized countries. Free trade is to be supplemented by international rules of competition that sanction all state-administered dis-

tortions in the world economic structure. The advocates of such an international code of competition impute that a distinction could be made between "natural" and "artificial" competitive advantages, and that the latter category could be eliminated. Then the international production structure resulting from the market process (and thereby the trade structure) would reflect the "true" or "natural" advantages.

Two major objections are to be made to that conception:

- The distinction between "artificial" and "natural" competitive advantages is neither analytically nor politically feasible. Even if subsidies and similar monetarily definable interventions by the state are surveyable, nevertheless state regulations of, for example, the factor markets (the law of strikes, wages policy, monetary policy, bank policy) set unsurmountable hindrances — for it is hardly to be expected that tax-burden quotas or the just-mentioned market orders are fully harmonizable internationally.
- For competitively weak suppliers/countries it can be only small consolation that their losses in growth and employment are traceable, not to "artificial", politically arranged superiority of competitors — but to the rival's "natural" advantages. It is very doubtful that under these circumstances the weaker competitor would be more readily willing to put up with the corresponding disadvantages.

The determinant problem obviously lies in the fact that countries aren't prepared to accept the results of the free-market process, and therefore only want to commit themselves to going along with the rules of the game, whatever they may be, if the game is going to turn out acceptably for them. An entirely different approach to halting the wild growth of protectionism/mercantilism, with its danger of getting still further out of bounds, consists of contingent-on-trade structural changes, anchored in an internationally agreed-upon system of control. Under this system, the free-trade norm in its absolute form would be abandoned. Market forces would be given only enough free rein so that the resulting requirements of adjustment would be reduced sufficiently to render them nationally acceptable.

Corresponding international arrangements already exist, even if in a still imperfect form, in the textile sector. Other problematic economic sectors (steel, automobiles) have regional or bilateral agreements on self-limitation or production control. However, these arrangements are all conceived as sector-related emergency solutions — not oriented toward a comprehensive strategy of protecting entire economic regions against massive shifts in income chances and therefore also ineffective for overcoming the zero-sum problem. The basic idea, outlined above, of such a limitation of trade would be that the Northern high-wage labour forces are protected against displacement — permanent displacement — by low-wage Southern labour. Thus the division of labour within the

Northern would become basically acceptable to all countries. For it would not matter so much in terms of national welfare whether or not a country possessed very specific competitive advantages. The necessary adjustments would at best bring moderate corrections in the income of the various market participants — but no dramatic process of decay. Within this protected Northern high-wages area, it would then be possible to continue with the positive-sum game that characterized the relations among the industrialized countries in the first decades after the Second World War. Freed of the necessity of subordinating their entire national economic policy to the goal of international competitiveness, countries could more easily turn to expansive measures, which in the end would also enlarge the potential of North-South trade, and would raise the threshold of tolerance for shifting production facilities to the South.

What applies to the Northern high-wage area as a whole can also be valid for smaller, possibly regionally defined segments of larger economic areas. Countries with relatively similar political, social and economic structures — for instance, in regard to the order of the factor markets — would, accordingly, jointly create a free-trade area, equipped with a corresponding supranational policy on competition. Within the frame of such a region (say, for example, the European Economic Community), it might be easier to attain a sufficient degree of policy consensus in regard to acceptable structural change and to stimulation of growth. The relative structural similarity within an economic region like the EC would also make it easier to agree within that region on what is required for adjustment.

An intensified regionalization would, it is true, mean that the efficiency advantages of a global economy with full division of labour would remain unutilized. If successful, though, it would provide the prerequisites for decentralized growth — a process constantly more difficult to foster on a global scale, for a world economy that, although integrated, is characterized by inter-nation rivalries over market positions. Within this conjunction, additional significance accrues to a specific experience, which in the history of economics usually has been evaluated negatively: the growth of the East European countries forming the Council for Mutual Economic Assistance (COMECON) and particularly the Soviet Union. Within these countries a process of rapid development has been taking place since 1945 — one that has been without major effects on the (capitalist) world economic system. Because of the comparatively slight degree of interrelationship between East and West, this growth in the COMECON area has neither greatly benefited the West through new demand nor has it created an unwelcome import competition, nor yet again has it made extensive demands on the West's raw-materials sources. Thanks to uncoupling and to domestic orientation, such a regional centre of growth as COMECON could evolve without bringing about a zero-sum game over production locations.

But the comparison with the East European economic area also illuminates a marked difficulty in the way of establishing an equally large economic area in the West. Otherwise than the COMECON countries, today the Western industrialized nations are so involved in the global economy that a shielding of their domestic markets brings no real immunization against a drastic worsening of national income outlook. In view of the threatening displacement of technologically mature production processes to low-cost locations, producers in high-wage countries not only need be guaranteed domestic markets, but also far-reaching protection for the existing network of export markets. The creation of regional blocs with common protection against foreign competition would not do justice to the actual trade patterns of most countries. For that reason they would also not be sufficiently freed from the exigency of either staying competitive despite higher wages or adjusting their standard of income downward. At the least, there would have to be an enormous new ordering of international exchange relationships with major cutbacks in overall global welfare. So it is more than doubtful that a control of international trade flows would actually point a way out of the zero-sum game. What it possibly could do, however, is to avoid one-sided, protectionist ad-hoc reactions, and to orient trade restrictions more closely to the jointly acceptable extent of adjustments. Organized, inter-bloc trade would, thus, work as a rational regulation of the zero-sum game — minimizing the costs of conflict.

4. Bleak Prospects for Global Regulations

All told, there is little prospect of overcoming the zero-sum aspects of the world economy. If we review the above-discussed policy options, it becomes clear that none can make a basic contribution to resolving the problem.

Growth and employment policy: A regional redistribution of production, whether steered by economic policy or by the market, would be the more easily endured by the disadvantaged under conditions of growth and full employment. But how those two conditions are to be realized is already a subject of disagreement on the level of national economic policy-making. So international co-ordination, which would be necessary particularly in the case of a Keynesian demand management, seems to have no chance.

Monetary policy: The system of flexible exchange rates for currencies has given the weaker national economies little protection; but it enables the strong as need be to launch more forceful export offensives. A return to fixed exchange rates might well, after the experience of the 1950s and especially the 1960s, change little of this situation, for even then it

was impossible to avoid hierarchical struggles. Moreover, the International Monetary Fund has proven incapable, for structural reasons, of keeping strong countries under control.

Trade policy: Protectionisms are very likely the sharpest instruments for intervening in international competition — but they are as double-edged as they are sharp. In the last analysis they are weapons in the competitive battle, and not means to mitigate it. An international policy on competition, in the sense of harmonizing national policies affecting the competitiveness of private firms, is even only regionally extremely hard to establish (consider the experiences of the European Economic Community), and globally quite illusory. Since it would have to proceed from a guarantee of “equal chances for all” to “equality of results”, it could function only as a global structural policy that would make decisions about the location of production facilities.

In addition, there are three general factors that would seem to render the idea of global regulations not very promising.

The end of U.S. hegemony: With the relative decline of the United States as an economic power, in comparison with Japan and Western Europe, the global economic policy lacks a guarantor in a position to compensate disadvantages and to sanction violations of the rules. In the foreseeable future there is no single Power in sight that could take over this role; here the most plausible prospect would seem to be a development frequently predicted from some U.S. quarters: a revival of American hegemony. The alternative, to establish a polycentric collective leadership, at least as of now runs up against the varying national interests of the countries that would constitute this “collective hegemony”.

The weakness of supra-national bureaucracies: Most global regulations imply for their implementation the establishment of international organizations or institutions to supervise agreed arrangements and/or carry out policies. The efficiency of such bureaucracies, even on the national level, is highly controversial. A highly unfavourable cost-benefit ratio seems to apply all the more to supra-national apparatuses, with their great need to arrive at a consensus.

The “ungovernability” of large interdependent systems: Still more generally speaking, already during the 1970s the impression became intensified that global interdependency increasingly eludes effective crisis management. Because adequate balancing processes are lacking, there is an accumulation of undesired side-effects (straining of the natural environment; social instability; a decline of values) that cannot be coped with.

C. National Economic Policy to Succeed in the Zero-Sum World

If the international economic policy cannot change, or at least cannot sufficiently change, the zero-sum character of the world economic system, then the individual countries must try to get their own cows to the barn before the storm breaks. Yet how does a policy for survival in the zero-sum world look? As reactions to the challenge, three ideal-typical possibilities are available.

— *Modernization:* Modernization attempts to specialize a national economy in growth sectors and the higher echelons of world markets.

— *Delinking:* This is meant to protect the domestic economy from the pressures towards adjustments that are exerted by the global economy, especially by the stronger countries.

— *Austerity:* This approach seeks to reduce domestic costs to the point where a country again becomes internationally competitive.

The three options must be considered as answers to different problems. Modernization that helps a country to succeed in the struggle for good world-market positions is the optimal adjustment to the new zero-sum world. By contrast, delinking is at most the second-best solution for those who fall behind in the modernization race. Austerity, finally, is the typical loser’s strategy — the course that remains open if modernization and delinking are not feasible. So a country doesn’t really face the problem of selecting among three strategies, but rather has the task of ensuring for itself, as far as possible, access to the most profitable options. Thereby, a country can definitely combine elements of different adjustment responses — as means to an end and as compromise with regard to the ends.

The successful countries combine the modernization strategy and elements of the other two options to a virtuous circle. A certain measure of protectionism facilitates adjustments allowing the protected sectors enough profit to get on with modernization. It also allierates the employment problem, thus reducing costly political and social conflicts. At the same time, a limited degree of austerity keeps the weaker sectors competitive, while not leading to the drying-up of important public investments (in infrastructure, education, and so on). For many countries, however, elements of delinking and of austerity combine to form a vicious circle. These countries practise protectionism so as not to lose still

more production and employment. This approach leads to increased costs for the downstream branches, raises prices of consumer goods, spurs inflation, and further reduces international competitiveness. Such a heavy dose of austerity is needed that political and social stability is endangered while the (anyhow weak) prerequisites for modernization are curtailed even further.

1. The Striving for Superiority

The strategy to succeed in the international competition and to secure a favourable place in the zero-sum world is the modernization of the national economy, the constant structural change in favour of growth and "sun rise" industries.

The general aim of modernization is clear: The internationalized sector of a country's economy is to serve as much as possible those segments of the world market which — thanks to high barriers to entry or to unusually strong demand — are now and in the foreseeable future free from massive price competition. Next to installing oneself in the right product markets is the concern for process innovations in the more mature industries, in order to increase productivity and to reduce the cost pressure. Far less clear, however, is where in particular these market segments are, and what the public policy can contribute to the private economy's taking advantage of them. In its general outlines, economic thinking is more or less identical in all industrialized countries. All consider computers, communication technology, micro-electronics, biotechnology, genetics, nuclear technology, aviation and space to be the industrial wave of the future. But both public administration and private firms are quite uncertain about which lines of production are the most important for development. Questions such as this are going unanswered: Must an advanced industrialized country be among the technological leaders in fields like basic electronics or genetics or is it enough to come off well in the downstream branches? Meanwhile the major industrial nations have become engaged in a research and technology promotion race, only limited by budget constraints, which occasionally compels regional co-operation — as with the European Airbus. This race has strong zero-sum features, for it is apparent that — aside from some segments, like communications — the high-technology market as a whole will be quite small. But the immense investments pay off only if a producer conquers a large part of this market. It is more likely that everyone will have to subsidize here.

The lack of clarity as to the exact direction in which modernization and structural change are to go hasn't contributed to clarity in regard to ways and means. In this sphere a brisk, usually ideological debate is underway. For the champions of the free-enterprise approach, only private

entrepreneurship and (free?) competition can efficiently identify and develop the profitable branches and product lines. The task of public economic policy would consist of making this search economically alluring and of clearing away the hindrances. On the one hand, there is a call for an austerity policy which, by reducing costs, will make investments more profitable. On the other hand, the free-market advocates also demand the abolition or reduction of obstacles to investment, like, for instance, governmental regulations for the protection of the workers, the environment, the consumers, and so on — measures that allegedly curtail the flexibility of free enterprise. In particular measures which hinder the abandonment of no longer competitive production are said to endanger modernization.

For the spokesmen of purposeful public intervention in the economy, too, the market and private initiative continue to play a major role. But this interventionist group doesn't trust the free market to get sufficient results on its own. Concepts of structural and industrial policy rely on a well-oiled co-operation between Government and the market — a partnership that is attributed as having long been second nature to that super-competitor, Japan. The promotion of selected growth industries via a bundle of individual policies (subsidies for research, technology, and the infra-structure, general assistance, policy on competition, trade policy, direct state regulations) is advocated. In addition, general investment conditions are to be improved, for instance by increasing the effectiveness of the capital market so it can more handily provide venture capital. Along the same lines, educational measures are advocated that should above all improve the supply of highly qualified working power needed by the industries of the future.

2. Delinking — an Alternative?

Withdrawal from the international competition means self-limitation to markets from which competitors — at least those there is no desire to cope with — are excluded. The central idea here is to protect market positions from becoming devaluated as a consequence of the need to adjust to the cheaper offer of the competition. To guarantee this protection one of course has to narrow the choice of exchange partners for others, and has to compel them to deal with those who are to be protected. Consequently, the central policy measure of a strategy of withdrawal from global competition is also to raise import barriers. In this way one deprives foreign competitors of the possibility of underbidding domestic producers in the domestic market. The latter producers are assured of the chance to sell their services and goods to their own countrymen on the usual conditions. The domestic exchange partners, in turn, are obliged to refrain — out of solidarity with their hard-pressed countrymen

— from turning to cheaper or better sources of supply and thus to accept a lower standard of living than would be possible with free trade. This all assumes, however, that the income of the exchange partners who are compelled to solidarity is secured. This will not be the case if their market position, too, is endangered by foreign competition and left in need of protection. Either the partners have to be competitive internationally or they need to be operating in “naturally” protected markets. Seen that way, withdrawal from international competition can only be conceived as a partial delinking of some sectors. The industrialized countries’ branches that are threatened by low-wage competition can thus retain their market position.

But what if an industrialized country falls technologically behind the competition, and its high-technology industries are in danger of losing their markets? To the extent that primarily domestic markets are at stake — for instance, in a very large country with relatively few foreign-trade involvements — they, too, can, of course, be closed to imports. Whether this is done by trade barriers or via currency devaluation, in both cases the national level of consumption falls behind that of more competitive countries. Withdrawal from international competition becomes a mutual support of the competitively weak countries. None can let the others share in his prosperity. The delinked economy becomes a marketplace on which standard products at excessive prices are exchanged for obsolescent “technology goods”. This kind of dissociation no longer provides protection against losses in the world economy’s zero-sum game, but rather, brings them about. It amounts to accepting the relatively modest amount of well-being that the country can produce for itself. This appraisal does not rule out, of course, that a delinking from the world market in response to the loss of technological competitiveness will procure the best starting basis for the forces of economic recovery — at least for a time.

But the option of such a withdrawal into autarky is not so readily available to most industrialized countries today. Loss of competitiveness means for all (perhaps with the exception of the United States) also the immediate loss of important export markets. For this situation, the affected domestic producers could perhaps be indemnified by the “freeing” of former import markets at home — for instance, by barring Toyota and Nissan from the German car markets so as to compensate Volkswagen for a drop in sales. But such a forced loosening of existing trade ties would come to be a very costly way of achieving self-sufficiency. Not only would much capital be devalued in the course of reorientations toward other markets. In addition, there would also be an escalation of reciprocal retaliatory measures, and thus a vast world-wide shrinking of markets.

Adjustment to the new conditions of competition is certainly the better alternative here. But if the country no longer can maintain international

standards with regard to technology and productivity, that simply means lower income (via devaluation, via lowering of wages, via subsidies to be financed by the taxpayers). As painful as adjustment to reduced international competitiveness may be, it becomes unavoidable for any industrialized country that has to import indispensable (or only expensively substitutable) raw materials. And most industrialized countries are indeed decidedly import-dependent for their raw-material supply.

It is evident, then, that the sealing off of weakly competitive producer groups from the open world market practically makes sense only in alliance with other, competitive producers. For it is the efficient producers, who have to earn the prosperity that the weak producers want to keep sharing. Uncoupling from the world market requires at the same time joining up with strong partners. In the Western industrialized countries that today are protecting parts of their markets against increasing cheap imports from the Third World, up to now these strong partners have been competitive national export branches. Their export strength, based to a large extent on technological know-how and on high productivity, gave these countries the green light to go ahead and delink part of the economy from the world market (as it is generally done with agriculture). The good performance of the export sector paid for the protectionist luxury which they afforded themselves for safeguarding the incomes of certain groups of their population.

To the extent, however, in which the zero-sum world demands its tribute and hands out clear winner and loser roles, the protectionism, for some countries, no longer will be available so cheaply. The strong partners to whom the delinkers must attach themselves will then be only to be found abroad. Withdrawal from international competition while simultaneously maintaining the level of welfare is feasible only in association with other countries. The weak countries depend on preferential access to the markets of other, export-strong countries. The show-case example of such supranational protectionist blocs is the European Community. The EC offers, for example, the French farmers protected, price-guaranteed markets in Great Britain; or sees to it that in Germany, too, no cheaper olive oil can be bought than that from fellow EC-member Italy. Countries in need of market protection hold, in such arrangements, two possible trump cards: their political importance (e.g. for the project of a united, democratic Europe) and their domestic markets that they can offer the stronger partners and that for the latter can mean a favourable start in global competition.

In fact, the most attractive option that remains to those countries — the more so if they are small — which gradually are being edged into the losers’ role in the zero-sum game does seem to be to attach themselves to export-efficient partners. Larger countries, that could potentially become autarkic, as well as supra-national economic blocs like the Euro-

pean Community, could also try to decrease their vulnerability on the supply side, tying raw-materials-rich countries to their own economy. That this tie-in is a core element of colonial relationships of dependence can no more be overlooked than the circumstance that the politically and economically great Powers actually do pursue (with varying degrees of subtlety) such purposes. Here at the latest, political power begins to have direct influence on the struggle over distributing the wealth of the globe.

3. Belt-tightening — the Losers' Virtue

“Woe to the losers” is the motto in the struggle for the desirable positions in the international division of labour. Whoever can primarily serve those segments of the market that are characterized by high barriers to entry or by surplus demand — whoever can, therefore, to a considerable extent determine prices — can also afford to finance high wages, high profits, and an expensive welfare state.

This, in the zero-sum world, constantly fewer countries are able to do. The juiciest benefices become the rarer the more new suppliers (newly industrialized countries) there are competing for them. For the necessary inputs, especially labour, are available among the new candidate-countries, too, while particularly rare qualifications are no longer so essential as before. Economic stagnation and sluggish demand are additional factors in the shifting of the competition to the area of costs and prices. This is especially true of older, mature industries (for example, textiles, steel, shipbuilding, and to a degree chemicals and automobiles) that, independently of production site, feel the cost pressure; or whose locations are increasingly being chosen from the viewpoint of costs.

The more dependent a country is on earning its foreign exchange from these branches, the more it is to be counted among the losers in the international competition; and the more it is doomed to economic austerity. This is true of developing countries, that launch their industrialization in these older branches. It also applies to industrialized countries that don't manage to press forward far enough into the — anyhow relatively shrinking — privileged sectors of production and that maintain a high proportion of “sunset” industries. The “losers” who are beset with these crisis sectors and who don't succeed in receiving, from a strong partner, protected market reserves, have to tighten their belts. Their recourse in accommodating to the zero-sum world is to constantly underbid at any price.

Price competition demands in particular the minimization of all costs: wages, inputs, taxes and possibly even profits and interest. Exactly the wish to reduce costs is appealed to, typically, by the free production zones of the Third World, as well as by the declining regions of the First

World. Both try to attract investors by offering freedom from taxes, duty-free importation of inputs, free infrastructure, low wages, and credit at reduced rates. The crisis sectors of industrialized countries usually obtain for themselves similar concessions — reduction of wages, subsidies, re-financing of debt — through their Government's crisis-management policy.

In the end this is a concealed transfer of economic assets from the rest of the society to the sector exposed to threatening competition — and also into foreign countries. In this sense, protectionism, currency devaluation, and austerity are different versions of the same principle: The real incomes in the rest of the national economy decrease through higher import prices of higher taxes or directly through wage controls so that the sectors pressed by competition can price their supply more attractively and accordingly, can hold their ground on the world market (as well as on the domestic market, vis-à-vis the competition of imports).

It is not by coincidence that countries with stubborn balance-of-payments deficits and high foreign indebtedness have to follow the same austerity policy. The general lowering of income also reduces demand for imports and contributes to balancing the current account. A restrictive fiscal policy is a facet of austerity, just as is a tight monetary policy, intended to curb inflationary tendencies that are especially menacing as a consequence of protectionism or devaluation.

Belt-tightening means not only low or decreasing real wages, but usually, too, a dismantling of the welfare state along with stricter labour discipline: no absenteeism, no strikes, no shorter working hours. In other words, basically it is the working people who have to bear the burden of a country's austerity policy. As offerer of a commodity that has become abundant in the zero-sum world — especially unskilled manpower — they are threatened by the mechanism of international competition to “sell” themselves constantly more cheaply. Once the classical counterforces of labour-union wage policy and the state's social policy are neutralized, there is danger that this downward process will come to a halt only at the bare level of subsistence. Beyond this border waits the merciless reality of hunger or — given a more favourable circumstance — a falling-back on other sources of income (in industrialized countries: social-welfare assistance; in developing countries: the subsistence economy).

4. The Strong Call the Tune of the Market — the Weak Dance to It

Adjustment to the changing conditions of the international market means for every country also trying to influence market conditions in favour of its own economy. To achieve this is the ultimate aim of every

adjustment strategy. The successful countries adjust by occupying market positions

- that assure them of continually high incomes from world trade,
- that are conclusive to further expansion of their productive capacity
- and that guarantee, thus, a maximum share of the increasing global wealth.

Of course the winners in the world-wide struggle over distribution orient themselves by market signals. But these signals are structured as either-or-propositions: Either you come up with productive capabilities that most of the competitors on the international markets simply don't have, or you must get into price competition with all would-be suppliers.

Successful adjustment means securing the favourable alternative for oneself. But as a nation does this, the content of the market signal is being narrowed, for other countries, to the second alternative. For them the market signal becomes a market dictate. They have to adjust by settling, without illusions, for a less comfortable way of life, so as not to have later to suffer still further setbacks.

There is also an alternative of sorts to "either-or" — delinking: Some of the weaker countries may put themselves under the special protection of some of the strong ones. But delinking can also end up as just another packaging of the inevitable austerity. The first possibility shows that producer groups — entire countries or parts of them — can successfully defend themselves against the dictate of the market by deploying political power. But, in doing so they are imposing a new dictate, one to which the politically weaker competitors have to bow.

Moreover, in the long run the adroit playing of political cards also creates its own economic facts — new realities that further benefit the politically powerful country's market position. For example, a policy of nurturing "sunrise" national industries within a big and protected domestic market can be the basis for later advances into international markets. On the other hand, countries that have to fear the thus emerging competition, can try not to let matters get so far in the first place and — again by deploying political power — press for the opening of the protected markets.

The official credo praises the free market and maintains that market-led adjustments are optimal. But contrary to this expressed credo, the actual political practice of the economically strong industrialized countries has long since been oriented by the "laws" of the zero-sum world. While professing faith in free-market operations, these countries don't hesitate to intervene in the market if doing so promises national advantage. To act as if the positive-sum game of the first postwar decades is still being played, and to urge abiding by the old rules of the game — this is an important move in the strategy of those to whom the old rules are useful in

the new zero-sum game. For some, it may also reflect the difficulty in acknowledging theoretically the way their political acumen is motivating them to operate in world economic affairs.