



POLITICAL DREAMS AND ECONOMIC THEORY

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1. Can economics be a positive science ?

Politics and the economy have always been closely connected. In 1615 a book was published by the French mercantilist Antoine de Montchrétien (1575-1611) with the title; "Traicté de l'économie politique, dédié au Roy et à la Reine ,mère du roi ".

The mercantilists considered economics as an auxiliary of politics. Economic policy had to increase the power of the national state.

In the second semester of the 19th century some economists tried to create a more independent and objective economic science . In 1871 Léon Walras (1834-1910) published his book "Eléments d'économie pure ". By means of mathematical equations he tried to explain the way certain prices prevail in the market. Francis Edgeworth (1845-1920) used in his book "Mathematical Psychics" (1881) indifference curves to explain the pricing process in an exchange of goods between two persons. However, these theoretical treatises could but explain a limited number of evolutions in the economic field. Most macroeconomic entities such as incomes, investments, savings, interest rates etc. are determined by so many factors, of which some can not be measured, that it is impossible to explain them by means of mathematical relations. In the natural sciences relations between the diverse aggregates are discovered by means of experiments. In economics few can be implemented . In most cases some material interests are involved and the firms or persons concerned are not inclined to provide information, which could be useful for competitors. Finally economists must keep in mind that to-day the structural features of the diverse economies are rapidly changing. Relations, which have existed during a certain period, may disappear thirty years later. For example during the crisis of 1930-'35 it was possible to increase substantially the demand for goods and services by increasing public outlay. A dollar paid by the state to a firm created an income, which was almost totally used for buying domestic goods and in this way created new incomes. In the sixties most industrially developed countries applied

free trade policies. The primary income produced by public works was partially used for imported products .As a consequence the “multiplying effect “on domestic income was much smaller.

The lack of reliable methods for discovering economic relations by experiment has induced economists to use deductive reasoning. They formulate some general ideas about the ways of reasoning of entrepreneurs, employees, consumers, rentiers, investors and speculators and deduce from these premises rules about how the economic mechanism works.

Political dreams influence the choice of the premises. Most economists are not completely satisfied with the existing economic structure. Some are convinced the authorities are too lavish in granting subsidies to persons on the dole , to the sick, invalids and to poor families They believe such individuals do not want to work. The costs of helping them to survive are excessive As a consequence they tell us, taxes are too high and investment in the competitive capacity of national firms is curtailed .

Others on the contrary wish to increase social outlay. Such money is not lost for the economy.

As poor persons do not save much, the subsidies increase consumption. Demand is increased and the various firms find a good domestic market for their products .

The French, who have always much admired the positive sciences , speak about the “masters of science “ . When they refer to a reputed economist they say that he is “ un économiste élégant”. They do not mean that he is a well dressed person , who is looking for the favours of some rich entrepreneur, who will offer him a seat on the board of a big company .They use the word “élégant” in another sense. They mean a person ,who is skilled in developing theories ,which seem to explain economic situations and suggest adequate political measures.

In the following chapters the relations between political dreams and economic theories from the end of the eighteenth century till to day are analysed.

2. The controversy between mercantilists, liberals and socialists from the end of the eighteenth century till about 1850.

As in most sciences the first extensive treatises about economics date from the end of the eighteenth century. In that period the majority of economists defended the mercantilist policies of their government. These policies were intended to favour the creation of enterprises under strict government

control. The states wished to limit the importation of foreign luxury goods and increase the exportation of national products . In this way they could obtain an influx of foreign currencies .This increased the offer of money for investment and the creation of new firms. The mercantilists thought that by practising such a policy they could increase the offer of work to a rapidly increasing population and limit the number of vagabonds and thieves. Moreover governments obtained a substantial income .by delivering patents against payment .In many cases such a document guaranteed that the beneficiary obtained a monopoly in a sector of industrial production. Mozart's opera "Der Schauspieldirektor"(1786) begins with a monologue of a protagonist, who wishes to start a theatre. The man is happy because he has finally obtained permission to realise his plans.

In the second half of the eighteenth century some economists had misgivings about the drawbacks of limiting free competition. The Frenchmen Jacques Turgot (1722-1781) and François de Forbonnais (1722-1800) tried to introduce a system of free trade. Turgot was from May 1774 till May 1776 general controller of the finances of the French state. He suppressed the regulation of the trade in grain. This was completely in the hands of a limited number of merchants. In periods of scarcity of food they profited from their exclusive right to buy grain to build great stocks, which could afterwards be sold at a large profit. Turgot intervened and stocks of grain were confiscated with the help of the army. This "guerre des farines " made a great impression on the French people. It discredited the old economic system. In January 1776 Turgot abolished the "corvées " imposed on the peasants and the "jurandes " of the artisans. This brought about heavy protest from the nobility and from the deacons of the crafts. On 12 May 1776 Turgot was dismissed by Louis XVI .

Forbonnais was also an opponent of all monopolies and privileges. As a "social" liberal he wished to reduce the heavy taxes imposed on the peasants. In 1759 he obtained from Etienne de Silhouette, general controller of finances, that more taxes were loaded on the shoulders of the rich. They had to pay taxes on footmen, cooks, carriages and several luxury goods. Voltaire complained that in the end one would have to pay a tax for breathing. The nobility protested and Silhouette was dismissed. In 1764 Forbonnais was banished, but returned after the French revolution. In 1789 he was appointed counsellor of the commission of finances in the Constituante . He published a book, entitled "Principes et observations économiques " However, he was weak in reasoning . After the publication of the translation in French of

Adam Smith's famous book "Inquiry into the Nature and the Causes of the Wealth of Nations (1779) the book of Forbonnais was forgotten.

In his book Smith proceeds from three suppositions, which constitute the basic premises of economic liberalism ,namely :

1. Free competition favours economic progress and increases the well being of the majority of the population .Entrepreneurs are obliged by the pressure of competition to apply the most efficient ways of production and commercialisation. Moreover, in order to retain their customers they improve the quality of their products.

2.. In a free market there are great differences in income. These inequalities promote saving. The rich save more than lower class persons. Moreover, the rich are often entrepreneurs . They use their savings for the creation of new firms. As a consequence the demand for labour increases . Wages start to rise. In the end also members of the lower classes of society participate in the general prosperity.

3. The luxury of the rich urges most members of a free society to work hard in order to attain a higher living standard. This contributes to a permanent increase of the income of the nation.

Smith's ideas were well received by bourgeois society. In France the guilds and trades were suppressed after the French revolution. In Great Britain they lived on in name but their power was limited by the creation of new industries, that were not subject to guild regulation. Their legal power was abolished in 1835.

After the French revolution the quasi-permanent wars between Great Britain and France reduced the export of British products to the continent. When in 1806 Napoleon introduced the continental blockade the English merchants lost almost all chance of exporting products to Western Europe. This engendered an economic crisis and an increase in the unemployed Instead of rising, wages decreased. Most workmen lived in extreme poverty . Women and children had to look for work as the wage of the main breadwinner was insufficient to sustain a family. Many men could not find work because the factory owners replaced male workers by women and children in order to reduce their labour charges.

Council authorities, which had to provide food and shelter to orphans, lent them as workers to factory owners, who paid very low wages. This too

exercised a downward pressure on the price of labour. Smith's dream of a liberal society had become a night-mare for the lower classes .

The British clergyman Thomas Robert Malthus(1766-1834) claimed in his book " Essay on the Principles of Population (first edition 1797,second 1806,fourth revised edition 1807) that the lower classes had to account for their poverty. The poor generated too many children and in this way increased excessively the number of persons looking for work. On the contrary the members of the richer classes limited their number of children in such a way that they could provide for their upkeep.

David Ricardo (1772-1825),a stockbroker, who had enriched himself and lived as a rentier, published in 1817 his book " The Principles of Political Economy and Taxation" (second edition 1819, third 1821). He agreed with Malthus that the lower classes had as a rule more children than they could bring up. Therefore there was a regular surplus of labour and the wages were reduced below what was strictly necessary for the maintenance of a family.

As a consequence many children died ,which caused a reduction in the offer of labour.

Wages rose, but again the number of children, who survived , increased till the offer of labour surpassed the demand. Ricardo did not believe that technological progress would improve the fate of the working classes. The average wealth of the citizens would increase, but many labourers would lose their work.

The theories of Malthus and Ricardo were popular with the prosperous, as they exculpated the rich from any responsibility in the extreme poverty of the majority of working class families. However, they ignored that workmen had to accept the wages they were offered.. They could not defend their interests by organising trade unions. The Combination laws voted by the British parliament in 1799 forbade the creation of syndicates and the organisation of strikes.

Not everybody agreed with Malthus and Ricardo. The British philosopher Thomas Carlyle (1795-1881) considered them as "The honourable professors of a dismal science ".

The Scottish entrepreneur Robert Owen (1771-1854) thought that by creating producers' and consumers' co-operatives he could improve the living standard of the labouring class. His efforts to create first in Scotland and afterwards in the United States consumers' co-operatives failed .Finally in 1844 some weavers of Rochdale, a town close to Manchester, succeeded in establishing a co-operative, which survived. This example of " The Equitable Pioneers of Rochdale " was imitated in many industrial towns and finally led

to the establishment of a powerful co-operative movement in Great-Britain during the second part of the nineteenth century .

In France the first socialist theories appeared in the second half of the 18th century .Gabriel Bonnot de Mably (1709-1785) and Morelly (a penname for an unknown author) contested the contribution of private property to the general prosperity. During the years which followed the French revolution and during the reign of Napoleon a new class of wealthy peasants and petty entrepreneurs had acquired political power. They found devices which prevented the elimination of British competition resulted in a greater demand for workmen and an increase in wages. The law Le Chapelier (1791) prohibited the creation of trade unions. Workmen could not leave easily their employer to look for better paid work They had to give their boss a "workman's book", in which the employer could write his appreciation of the workman. By inscribing an unfavourable notice or retaining the "workman's book" the employer could make it difficult for the labourer to find another job.

After the overthrow of Napoleon (1814) Europe was flooded with British industrial products. Many continental firms could not compete and had to close . As a consequence the number of unemployed persons increased and wages went down. As a reaction on this situation new socialist theories appeared. Charles Fourier (1772-1837) published in 1822 his book " Traité de l'association domestique agricole ou attraction industrielle ". He explained that he wished to redeem workmen from the « industrial galleys « by creating producers' co-operatives, named « Phalanstères «. The members of these societies would work alternatively in agriculture and in workshops. He supposed, an idea we shall find in most socialist writings, that man by nature likes to work and collaborate with fellow workmen. It is the bad organisation of society and the unjust distribution of the fruits of labour, that urge many individuals to linger when they have to work. Followers of Fourier established two Phalanstères in France and 28 in the United -States. Strife and ageing of their members brought about the dissolution of all co-operatives .

When after the French revolution of February 1848 a republican government under the direction of the poet Alphonse de Lamartine (1790-1869) took office, Louis Blanc(1811-1882) managed to create two producers' co-operatives, one for tailors and the other for saddlers. These co-operatives worked for the French army.

After the failed revolution of May 1848 a right wing government took office, and in the end the new president Louis Napoleon Bonaparte(1808-1873), as

emperor, succeeded in creating an authoritarian regime.. The co-operatives of Louis Blanc no longer received orders and were dissolved. The socialist dream of a new economic order with workmen's co-operatives as the main theme was over.

3. From revolutionary socialism to social democracy and from right wing liberalism to radical liberalism (1850- 1920)

In France on November 7 1852 Louis Napoleon, was proclaimed emperor as Napoleon III. He obtained a great popularity by the introduction of general voting rights and the establishment of hospitals, children's homes, asylums for old persons and other social institutions. Being a convinced liberal he tried to conclude trade agreements with neighbouring countries . This policy succeeded well and brought about a general improvement in the living conditions of the French population.

The discovery of new gold mines in the United States and Australia brought about an extension of the gold reserves of the main industrial countries. In France it permitted the creation of enough money for the extension of industrial and commercial activities.

In such a situation socialist schemes had no chance of finding many supporters.

Karl Marx(1818-1883), a young German lawyer, who had fled to Paris, concluded from the failure of the producers' co-operatives that the workmen would never be able to manage their own factories . He was convinced that the only alternative for a capitalist society was an authoritarian state managed by intellectuals .

Under the influence of the dialectical philosophy of Friedrich Hegel (1770-1831) and the more materialistic theories of Ludwig Feuerbach(1804-1872) he believed that the development of society is determined by the economic evolution. As new economic activities developed new social classes emerged. These acquired consciousness of their material interests and opposed the ruling class with ideas, that formed an antithesis to the thesis of the traditional rulers. A class struggle set in and in the end some members of the new class succeeded in conquering powerful positions in society . Together with the old elite they developed a synthesis from elements of the thesis and the antithesis.

During the feudal period the nobility, as the reigning class, based its right to rule on its possession of the virtues of chivalry. With the development of international trade in artisanal products a new rich bourgeois class grew. It claimed a part in the political power in order to defend its economic interests.

After the French revolution the bourgeoisie became the ruling class, but adopted many ideas from the thesis of the nobility such as those connected with heredity.

In his book "Misère de la Philosophie" (1847) and in "Manifest der kommunistischen Partei" (1848), a paper that Marx published in collaboration with his friend Friedrich Engels (1820-1895), Marx insisted that industrial development had created a new social class "the proletariat". Members of this class would with the help of intellectuals formulate an antithesis and finally by means of a revolution seize political power.

In February 1848 a bourgeois revolution broke out in Baden against the political power of the grand-duke. This spread rapidly and in all the German states kings and princes had to give in and accept liberal prime ministers. Marx went to Cologne and worked as a left wing journalist of the "Neue Rheinische Zeitung". He hoped that the workmen would organise and claim political power. However, the industrial proletarians had no organisations and no leaders. Most liberal politicians were insufficiently prepared to exercise political power. In June 1848 the Prussian army restored the absolute power of the kings and princes in all the German states. Marx fled to Paris and later to London.

There he worked as a reporter of European events for the "The New York Daily Tribune" and during his free hours he studied history and economics. In June 1851 he published his book "Zur Kritik der politischen Oekonomie". Later he doubted the value of that book. It did not give a satisfactory version of his opinions. He started a more extensive work. In 1867 he published the first volume of "Das Kapital". Like Ricardo he was convinced that the relative values of goods are determined by the number of working hours necessary for their production. The entrepreneurs pay wages which are lower than what the workmen as value produce. In this way the various firms realise a surplus-value. All the surplus-value produced in an economy is divided under the capitalists in proportion to the invested capital. As a consequence prices are not proportional to the natural value of the various goods. Economic progress increases the capital that is invested in the various productions and reduces the amount of labour that is required. Marx concluded that as the global amount of surplus-value will decrease and the amount of capital will rise the profit rates must go down. This would cause serious recessions and more unemployment. In the end the working classes would no longer endure hardship and by means of a "proletarian revolution" they would destroy the capitalist economy.

Marx' catastrophe theory contained a paradox. How would an impoverished "proletariat" be able to buy the necessary weapons for realising a successful revolution. Believing in such a possibility meant political dreaming.

In Germany two followers of Marx, Wilhelm Liebknecht (1826-'1900) and August Bebel (1840-1913) founded in 1869 a socialist party with a Marxist program. However, when this small party united with another socialist movement ("Der allgemeine deutsche Arbeiterverein") and organised a congress in Gotha, the participants adopted a program with proposals to reform capitalist society. Marx protested, but the leaders of the new party realised that the great majority of labourers wished an improvement of their living conditions and were not inclined to prepare a revolution.

Nevertheless, Bismarck did not trust the German socialist movement. Its internationalism was irreconcilable with his desire to create a powerful German state. The S.D.A.P. (Sozial demokratische Arbeiterpartei) was forbidden. Its leaders had to flee to Switzerland.

Bismarck found the necessary inspiration for the development of a system of social legislation in the proposals of the economists of the Young historical school.

Most of these economists were ex pupils of Karl Knies (1821-1898), professor first at Freiburg and afterwards at Heidelberg. In his book "Die politische Oekonomie vom Standpunkt der geschichtlichen Methode" (1853) he denied the existence of general economic laws. Each economic phenomenon has to be explained by prevailing traditions and circumstances. Under the influence of the German philosopher Friedrich Hegel (1770-1831) Knies considered the state as the incarnation of the economic and ethical aspirations of the nation. He was convinced that state intervention was a necessity each time private initiatives opposed such aspirations.

His followers established on 5-6 October 1872 at Eisenach "Das Verein für Sozialpolitik"

They promoted social legislation in order to improve the living conditions of the labouring class Bismarck followed suit. By imposing measures to better the life of the workmen he hoped to stop the dissemination of socialist theories.

However, due to a constant increase in the number of German industrial workmen and the economic recession the popularity of the German socialist party increased and its revolutionary character was strengthened.

Some German intellectuals were interested in Marx' work and tried to develop further his theories and apply them to current situations.

Rosa Luxemburg(1870-1919) stated in her book “ Die Akkumulation des Kapitals”(1913) that as a consequence of the low wages entrepreneurs did not have a sufficient outlet for their products. They tried to sell the surplus in the colonies. Moreover, they realised important investments in these dependent countries in order to increase the production of the basic materials and agricultural products, they could sell in the home countries . In this way they created incomes, which made possible the purchase of products of the home country .

As a consequence the basic principles of capitalist production and commerce were spread over the whole world.

Rudolf Hilferding (1877-1943) developed in his book “ Das Finanzkapital” (1910)the idea of a cumulative process leading to more and more economic concentration. Marx had always claimed that in a capitalist economy free competition determines prices and wages. Hilferding pointed out that in various branches of the economy, cartels determine prices, which are applied by all the members of those organisations. As a rule the firms concerned realise higher profit margins than the firms operating in a competitive market. Therefore most entrepreneurs will try to become members of a cartel. The big participants of such organisations try to exclude competition by buying the equity of their competitors. The necessary funds are as a rule procured by big banks. In this way these banks obtain seats in the councils of the cartelised firms. Finally almost the whole industry of the various countries would be under the control of a single big bank. Hilferding concluded that in the distant future socialist parties would be able to take over the direction of the industrial structures of the different countries by nationalising that single big bank. Hilferding’s political dream was not realised. He lost sight of the fact that in the Germany of the beginning of the twentieth century a militarist minority of “Junkers’ exercised much influence on daily politics. In 1890 anti-socialist legislation had been suppressed and the S.D.A.P.(Sozialistische Deutsche Arbeiterpartei) became after each election more powerful in the German parliament . However, it was not able to resist the influence of the “Junkers”. These convinced the German government that a war with Russia was a necessity in order to slaughter the Russian bear before he became too powerful.

The leading members of the S.D.A.P. were convinced that a conquest of Germany by the Russian totalitarian state would mean the end of their party . Therefore they approved the war-credits claimed by the German government. They did not realise that they had handed over the whole direction of daily affairs to the Junkers class, who controlled the German army.

After the defeat of Germany, the S.D.A.P. played a leading role in the democratic governments, which took over the direction of the German state. However, they inherited a ruined economy and were confronted with the excessive financial claims of the allies. In such a difficult situation they had to work together with the other democratic parties in order to assure a minimal living standard for the German population. As collectivisation of enterprises was resisted by all liberal and right-wing parties, they could not realise their collectivist dream .

In France the transition from a revolutionary socialist party to a social democracy started already at the end of the nineteenth century . The way to a reformist socialism was prepared by the Bonaparte's tradition of state intervention in the market economy. Napoleon III had no clear project for the transformation of capitalist society, but he wished to mitigate the contradiction between extreme richness and extreme poverty by creating public services. This idea was further developed in the books of some French professors.

Michel Chevalier (1806-1879) lectured on political economy at the " Collège de France". In the second part of his course he asserted that economic progress was the consequence of the combination of two forces .Economic freedom fosters the creation of new firms by private initiative. The need for order entails state intervention . A society without economic liberty would be petrified . In case of absence of state intervention society would become chaotic, which would impair a harmonious development.

Paul Cauwès (1843-1917) defended the creation of important public enterprises . He upheld the establishment of public railways. He asserted that a coherent railway system could not be realised by private initiative, because some parts of the trajectory would not yield sufficient benefits .He said that when services, needed for economic and social development, could not be delivered by private initiative, the state had to step in.

These ideas prepared the way for the development of a peaceful reformist socialism.

After the failure of the Commune (1871) reviving French socialism lacked unity. There existed many factions . Some leaders like Jules Guesde (1845-1922) and Paul Lafargue(1842-1911), the son in law of Karl Marx, wished to establish a party that could prepare a proletarian revolution. Others such as the physician Paul Brousse (1854-1912) wished to develop a gradual socialism by taking over private enterprises. In 1883 he published his book "La propriété collective et les services publics ". He believed that the

socialists had to take part in municipal elections in order to stimulate local and regional initiatives to take over essential public services .

In 1885 Benoît Malon (1841-1893), an ex-Communard, who had fled to Switzerland and later to Italy, created on his return to France, a society for socialist research. He attracted young intellectuals, who were interested in social reform. Some became parliamentarians as independent socialists . When Pierre Waldeck-Rousseau (1846-1904), a convinced republican, became prime minister in June 1899 he invited the socialist Alexandre Millerand to become minister of commerce and industry. Millerand accepted and brought forward a programme of labour reforms . He was attacked by anarchist and marxist socialists, who were convinced that “ Un ministre socialiste, n’est plus socialiste “.

However, his action was defended by moderate independent socialists . One of them Jean Jaurès (1859-1914) succeeded in unifying in 1905 most socialist fractions in one party.: “La section française de l’internationale ouvrière “(S.F.I.O).

Jaurès, was like Millerand a convinced supporter of reform. He believed that many members of the French bourgeoisie would for ethical reasons accept reforms, directed at relieving the living conditions of the poor. A convinced anti-militarist, he realised that the growing antagonism between France and Germany could lead to a devastating war. Therefore he sought a friendly relation with the German socialists. The name, he gave to the socialist party was a symbol of his internationalist ideals. He mistrusted the good relations of France with Russia, because this alliance was directed against Germany. . He hoped that by organising a general strike the German trade unions would prevent a mobilisation of the German army. However, at the Stuttgart Congress of the Second International(1907) the German delegation refused the inclusion in the conclusions of the congress of any reference to a general strike as way to impose the maintenance of peace. Jaurès’ socialist internationalism was but a political dream He was murdered by a French nationalist on 31 July 1914, On August.2 German troops entered French territory. The first world war had started.

After the war the S.F.I.O. split at the Congress of Tours (1920) into a communist group, which became a member of the Third International and various socialists groups ,which refused to accept the dictates of Moscow. They rebuilt a reformist socialist party. The Comintern required complete obedience of the French communists to directives, that only served the interests of the Soviet Union. It claimed that the French trade union movement should be subordinate to the party Most trade union leaders could

not accept such subordination and by 1926 the membership of the socialist reformist party was more than twice that of the communists.

In Great Britain , during the second half of the 19th century the political struggle between the liberals (the Whigs) and the conservatives (the Tories) motivated both parties to increase their popularity by according more rights to the middle and the lower classes.

The British liberal economist John Stuart Mill (1806-1873) criticised the pessimistic theories of Malthus and Ricardo. In his "Principles of Political Economy" (1848) he contested the theory of Malthus that an increase of the population would cause towering food prices and aggravate the poverty of the lower classes. He cited the example of the Flemish peasants, who by a well conceived succession of the diverse cultures and heavy dressing with manure, succeeded in obtaining great quantities of food on a limited number of acres. He denied that the mechanisation of industrial production would cause unemployment. When the number of consumers increases the entrepreneurs can expand their production . This raises productivity and wages. Higher wages create more demand for goods and services, so that the number of jobs will not decrease. In 1865 Mill was elected member of parliament. He presented a draft to extend the suffrage to all men and women, and another to introduce primary education for all children.

Few MP's were interested in his progressive plans. Disgusted he found that most members of parliament were " diminutive politicians" . They had no desire to better the living standards of the majority of the British population.

However, in 1867 the conservative prime minister Benjamin Disraeli lowered the franchise for the population of the towns. The electorate was almost doubled

The liberal prime minister William Eduard Forster (1818-1886) introduced in February 1870 an education bill ,which became law in August 1870 and made primary schooling obligatory for all children.

In the mean time, due to the growth of trade-unions and co-operatives the living standards of the British working classes were raised . At the end of the century there was a general evolution of public opinion to a more radical liberalism. This also became manifest in the theoretical treatises. Alfred Marshall (1842-1924), professor at the university of Cambridge was considered as the most important economist of the beginning of the twentieth century. His book " The Principles of Economics "(first edition 1890) was regularly revised by the author and reprinted eight times. His prestige was so important, that many economists thought it was no longer possible to find new economic theories ." It was all in Marshall ! "

Marshall was convinced that in economics exact methods could be used because needs, production and incomes could all be measured in money terms. To measure the importance of desirability he used the "marginal theory". This theory had been almost simultaneously formulated by some English (William Stanley Jevons (1835-1882)) Austrian (Carl Menger (1840-1921)) and French (Léon Walras (1834-1910)) economists. It starts from the idea that the subjective value of a good is determined by the utility of the unit, which is available for the least important use. When a person disposes of a certain income he will start buying the goods, which he judges most important. He will use his last £ for buying a less important good. It is the utility of that good, which determines the value of his money. As a consequence when a poor person loses one £ he will suffer more than a rich person losing the same amount of money. This justifies the introduction of progressive taxation.

Many liberal politicians were not unwilling to apply more progressive taxation. In 1909 the liberal chancellor of the exchequer Lloyd George (1863-1945) issued "a people's budget".

Death duties and income tax were increased. Moreover a super tax was introduced on incomes above £ 3,000. The return of all these taxes was used to pay for an extension of the British fleet and for financing a system of state pensions for all citizens. In 1911 Lloyd George pushed through parliament "The National Insurance Act". This law was an imitation of the German law of 1889. It insured all labourers in private firms against the consequences of illness and invalidity.

The liberals realised such important reforms because they were convinced that in the rich British society of the beginning of the twentieth century it was no longer acceptable to let unfortunate people live in extreme poverty. Moreover, they feared to lose votes to the "Labour representative Committee", which had separated itself from the liberal party, because it found the reforms insufficient. This embryo of a socialist party was supported by the majority of the British trade unions. As a consequence its purposes were purely reformist. Although Marx had passed the greater part of his life in England, he had found there few adherents. Revolution seemed superfluous in a society which was on the move to peaceful reforms.

4. Capitalism in crisis : from the First World War till the end of the Vietnam war .

From 1895 till 1914 a booming economy prevailed. This was a consequence of a series of inventions, which produced new industries in the fields of electricity, communications, new materials, chemical fertilizers and medicines.

Marx had predicted a collapse of the capitalist system as a consequence of a severe crisis. Such a crisis did not manifest itself.

In 1912 the Austrian economist Jozef Schumpeter(1883-1950) published an important book, namely " *Theorie der wirtschaftlichen Entwicklung*". He was convinced that economic progress was a consequence of the initiatives of entrepreneurs. They devise new products, new methods of production and management. Moreover they explore new markets and develop the cultivation of tropical plants and the exploitation of mines in foreign countries. All these activities can be classified as " innovations ".As a rule they result in the realisation of higher profit margins than are usual in the traditional industries. Other entrepreneurs will follow suit and act as "imitators" of the successful innovators. The necessary capital for all these new enterprises is delivered by capitalists and rentiers ,who will invest their amassed savings, and by the creation of money by the banks. The demand for labour increases . New incomes are created and in the end the economy is "overheated". Demand in most branches exceeds productive capacity. Prices increase and there is a lack of capital to go on financing new initiatives . The banks have no longer enough guarantees to create great quantities of new money. They raise interest rates in order to limit the demand for credit and increase their profits All enterprises are confronted with a growth of their costs. Many traditional enterprises, which realised but a moderate rate of profit, can no longer sustain this increase. They go broke . These bankruptcies cause great losses to their suppliers and the dismissal of labourers. Many persons reduce their consumption because they fear losing their job. Demand for goods and services decreases. A recession sets in, which is necessary in order to adapt the productive capacities of the nation to the new technical and sociological demands and opportunities. When this adaptive process comes to its end a recovery of the confidence in the circles of financiers and entrepreneurs sets in. New investments are made and a phase of economic recovery prepares a new economic boom.

Marx was convinced that depressions prepare the collapse of the capitalist system. Schumpeter considers them as temporary unfavourable interludes in the development towards greater prosperity.

His political dream of a favourable evolution of the capitalist system received a serious blow when the first world war started in August 1914. Schumpeter had ignored the fact that within the capitalist system large parts of the political and economic elites had adopted extreme nationalist visions. This made a war between various European nations inevitable.

In 1917 the imperial regime in Russia collapsed. In November of that year a communist regime took power in most Russian towns. After four years of civil war the communists were master of the whole of Russia. Their leader Lenin(1870-1924) had in his book "State and Revolution" (1917) foreseen that after the proletarian revolution a limited number of communist party members had to exercise a totalitarian regime. He claimed that this was necessary to eliminate bourgeois culture.

The communists had promised that landlords would be expropriated and the peasants would become proprietors of the land they cultivated. Lenin had to honour that promise. The direction of the industrial firms was entrusted to councils of labourers, in which members of the communist party occupied a paramount position. This communist dream state ended in complete anarchy .The councils were not able to resolve the numerous problems of production and organisation in a country impoverished by a long disastrous war. The government had to print much money to pay its employees and the officers and soldiers of the red army. .The scarcity of industrial products combined with the great amount of paper money led to a huge inflation. As they could not buy much with the money they received for their crops, the peasants were not motivated to produce more than they needed for feeding their own families. There was a lack of food in the markets. Members of the communist party had to organise expeditions of industrial workmen to the country-side in order to acquire by force the needed agricultural products.

In March 1921 Lenin introduced a new policy (the NEP = New Economic Policy) .

As far as they had survived the revolution, the ex-bourgeois entrepreneurs recovered their positions of manager of their firms However, they had to work under the supervision of a member of the communist party. In the agricultural sector the majority of the peasants had to become member of a co-operative, which bought the necessary machinery and raw materials and organised the sale of agricultural products. The NEP brought about a recovery of the economy, but entailed many unsound situations. A small number of NEPmen could enrich themselves and live in a way irreconcilable with communist ideals.

Lenin died on January 21 1924. In the central committee of the party three different options to reform the economic system were proposed :

1. The agriculturist view : Nikolai Kondratieff (1892-?) and Gregory Sokolnikov (1888-1939) proposed to increase agricultural production in such a way that large quantities of grain and other food-stuffs could be exported. However, after the failure of the Spartakist revolution in Germany and the defeat of the Soviet army in the wars in Poland and the Baltic states, it was evident that a neo-physiocrat policy would make the Soviet-Union industrially dependent on the goodwill of capitalist nations. Therefore the majority of the members of the central committee didn't accept neo-physiocratism. During the dictatorship of Stalin many neo-physiocrats were arrested and murdered. Of the reputed economist Nikolai Kondratieff, we do not even know the date of his decease.

2. The theory of genetic development : This theory stipulates that the natural development of an economy is realised in three stages. Agricultural production and the treatment of plants and animals with the purpose to produce food and basic materials for the clothing industries are first organised. During the second stage the industries, necessary for the production of durable consumption goods are created.. At the end of this stage the nation can provide the citizens with all the goods they need. By exporting consumption goods it obtains the necessary financial resources for the purchase of industrial equipment and foreign raw materials. The third stage is focused on the development of heavy industries, which can procure the machinery and basic materials needed for the production of consumption and investment goods.

Some former Mensheviki like Wladimir Groman(1873-?) and Wladimir Alexandrovich Bazarov (1874-1939) defended this theory.

At first Stalin (1879-1953) seemed convinced that this was the best way to develop the Russian economy. He used this theory as an alternative for the propositions of Trotzki(1879-1940),who in the Central Committee defended the creation of heavy industries. Trotzki was convinced that this was necessary in order to produce the armaments Russia needed to resist an attack by the capitalists. When in 1927 Trotzki was banished and fled to Turkey and later to France, Norway and Mexico, Stalin felt no longer the need to defend genetic development.

The stagnation of agricultural production and the insufficient deliveries of food to the towns convinced him, that the application of genetic development ended in failure.

The former Mensheviks, who wished to practice a humane method of economic development, were discredited and most of them were arrested and died in prison.

3. Applying teleological planning. The theory of teleological planning was defended by Stanislas Strumilin(1877-1974) during the years 1926-'27. He stated that without the creation of some heavy industries economic development would be impossible. Patrick .Feldman (1893-1936) constructed a growth model with two sectors, one for the production of consumption goods and one for the production of capital goods. He proved that a rapid development was only possible if all the surplus value was invested in the production of capital goods. At first Stalin opposed teleological planning but in 1928 he changed sides. On October 1 of that year started the first "Five Years Plan". The peasants had to transfer all their land and cattle to co-operatives ("The Kolkhozes). Those who refused were arrested and sent to work camps. The kolkhozes sold the greatest part of their production at low prices to the state and to consumers' co-operatives. In this way the living standard of the peasants was lowered and many peasants emigrated to the industrial centres, where they found work as labourers . As food was cheap, wages could remain low and great quantities of basic materials and machinery could be produced at low cost.

The first five years plan was realised in four and a half year. In this short period the production of electricity was increased by 150 percent and that of machinery by 300 percent.

The production of consumer goods remained very limited. In Moscow it was almost impossible to find new furniture. Therefore the second five years plan was more directed towards the production of consumption goods . However, when the third plan started in 1937 the Soviet Union was confronted with German rearmament and regular verbal attacks of Hitler against communism. Therefore this plan was directed at the creation of heavy industry and the production of weaponry in regions situated eastwards of the Ural mountains. Later this proved to have been a wise decision. During the second world war the Germans captured the greater part of the heavy industries in the western part of Russia. The soviet army had to rely on armaments and ammunition produced in the factories in the eastern part of the country.

The results of soviet planning made some impact on economic thinking in Europe and the United States. There a recession had degenerated into a grave depression. In the most important industrial states such as the United States and Germany millions were on the dole. Three kinds of solutions were proposed by the economists of that period namely :

1) Deflation : The adherents of this solution believed that the crisis was a consequence of the excessive rise of prices, wages and interest rates during the boom of the years 1926-'29. High interest rates decelerated investment and high wages and prices limited the possibilities of exporting the national production. In order to lower the interest rate the government had to balance its budget so that the state could limit its demand for money in the capital market. As due to the crisis the demand for private investment was very low a strong decrease of the interest rate would follow. Such a decrease would bring about a resumption of investment and a general recovery. The crisis had already caused a decrease of prices and wages so that investment could be realised at low cost.

In Belgium such a deflation policy was applied by the catholic-liberal government of Charles de Broqueville (Oct. 22 1932- Nov. 13 1934). This government introduced a crisis tax in order to balance the budget. Such a tax diminished the demand for consumption goods and aggravated the crisis. On November 20 1934 another catholic-liberal government was constituted under the direction of George Theunis (November.20 1934- March 19 1935). This government tried to compensate the loss of exports by an increase of some production (for example of coal) for the domestic market. In order to limit failures the government issued the enactment of December 7 1934. It gave to a majority of the producers of a group of products the possibility to determine the prices that had to be applied by all the firms of that branch. This measure was in contradiction with the deflation policy. Instead of letting the prices fall further, the government gave power to the most important firms to stabilise them.

In the mean time some big industrial nations like the United States and Great Britain had devalued their currency in order to fortify their competitive position on the world markets Belgium followed this example on March 30 1935. The Belgian franc was devalued by 28 percent. This made the resumption of deflation impossible . All imported products became more expensive. The Theunis government which had tried to defend the value of the Belgian currency had resigned on March 19, eleven days before the devaluation.

2)The application of economic planning. The idea of economic planning dates from the first World War. Walther Rathenau (1867-1922), the son of a rich German manager had been appointed head of the service for the

recovery and distribution of basic materials . He discovered that regular consultations of the involved managers of the diverse firms permitted planning investments and production in such a way that unnecessary extensions of certain branches could be avoided . In his books “ Von kommenden Dingen”(1917), “Die neue Wirtschaft “(1918), “Nach der Flut “ (1919) and “Die neue Gesellschaft “(1919) he proposed establishing trade organisations and industrial agencies .The trade organisations would distribute orders among the enterprises. The industrial agencies would analyse the development of economic markets and plan new investments . All firms would sell products at cost prices to the trade organisations, which would enjoy a monopoly in the diverse markets.

In order to avoid abuses and excessive rises of prices, the pricing process would be controlled by a commissioner of the ministry of economy.

Rathenau's proposals were well received by Rudolf Wissel (1869-1962), who as minister of economy submitted them to the Reichstag for approval. A Reichwirtschaftsrat (“State Economic Council “) was created, but the resignation of the government meant that the other organisations necessary for the realisation of economic planning were not installed.

In the following government the social-democrats had no majority and the liberals opposed any idea of economic planning .Moreover, the diverse German governments of the twenties were confronted with serious financial difficulties. They had to finance heavy reparation payments to their opponents in the first world war. There was no room for profound and costly reforms of the economy. When in July 1932 the world crisis brought the German economy to a state of collapse the idea of economic planning was brought to the fore . The leaders of the German socialist trade union published in July 1932 a project of economic planning prepared by a work group under the direction of Wladimir S. Woytinski(1885-1960), Fritz Tarnow (1880-1951) and Fritz Baade (1893-1974). Woytinski was a reputed economist, Tarnow and Baade were parliamentarians of the social democratic party. In their project the nationalisation of the collieries, the steel and iron plants, the chemical and the cement factories, the most important means of locomotion, the banks and the insurance companies were proposed. The planning department of the government would design the necessary investments in the nationalised branches of the economy. The banks and the insurance companies would assure that the necessary financial means would be provided.

The German social democratic party saw no chance of realising such an ambitious plan in a democratic way. However, it could not prevent the continuous increase in the number of men out of work.

Adolf Hitler succeeded in acquiring great popularity with his criticism of the Treaty of Versailles. He held that treaty responsible for the hardships of the Germans.

The German government obtained on July 9 1932 at the Conference of Lausanne that it no longer had to continue its reparation payments. The French government protested but the British and American governments were convinced that Germany could no longer support such a heavy drain. British industry hoped that by abandoning the reparations they would be able to resume their exportations to Germany. American statesmen considered the ending of the reparation payments as the only way for the American enterprises to recuperate a part of their investments in German industry.

However, it was too late to stop the electoral successes of the Nazi party. In the parliamentary elections of July 31 1932 Hitler's party won 230 seats and became the greatest party in the German Reichstag. President Hindenburg refused to appoint Hitler as chancellor. New elections were organised on November 6 1932. The Nazis lost some seats, but they remained too strong to permit the formation of a government without the participation of their party or of the communists.

Franz von Papen(1879-1969) a right wing catholic, succeeded in convincing Hindenburg that he had to install Hitler as chancellor of a coalition government of the Nazis and right-wing parties. On Januari 30 1933 Hitler was appointed as chancellor. As also the ministry of home affairs was put in the hands of a Nazi minister, Hitler could control the German police,. who were ordered not to intervene when SA and SS storm troops destroyed the socialist co-operative and mutualist buildings. Socialist and communist members of parliament were arrested and sent to labour camps. In the spring of 1933 Hitler had succeeded in eliminating by this brutal method all opposition to his political power. He introduced a four year plan to resolve the problem of unemployment and prepare the reorganisation of German industry. Many unemployed persons were mobilised for the execution of great public works. The heavy steel and chemical industries received big orders for the rearmament of Germany. The problem of unemployment was solved but the majority of Germans had to live with a low income.

In Belgium Henry De Man (1885-1953)designed with the help of Albert Halasi ,a Jewish Hungarian economist “,a scheme of a Labour plan “.On Christmas day 1933 it was approved by a congress of the Belgian Labour

Party and 22 commissions were installed to work out its details. It contained many proposals which were copied from the plan in 1932 published by the German syndicalists. Probably this was a consequence of Henry de Man's stay in Germany during the years 1929-'32. He was a professor of social psychology at the university of Frankfurt am Main. The nationalisation of the basic industries, the creation of a commissariat for the co-ordination of all transportation services and a national institute for the control and co-ordination of the banking operations..were included in his plan. Moreover, a service for the organisation of economic recovery would be installed. The commissioners of these diverse institutes and services would attend government proceedings as ministers without portfolio.

After the demission of the Theunis government, a coalition of the three dominant parties took office under the direction of Paul Van Zeeland (1893-1973). De Man was appointed minister of public works and reduction of unemployment. The profits made by the Belgian state as a consequence of the devaluation were used for the execution of a great number of public works. This led to a decrease of unemployment . Moreover the general recovery in the world economy created opportunities for export and this too brought an increase in the number of jobs. This gave the impression that Belgian economic planning was successful, but in fact the structural reforms devised in the plan of de Man were not realised. The catholic and liberal members of the government refused any idea of nationalisation of private firms. When in 1938 the world economy was confronted with a new recession unemployment again increased.

Nevertheless, the success of Belgian planning had as a consequence that the idea of economic planning found many adherents in the socialist parties of France and the Netherlands After the Second World War in both countries and also in Norway planning departments were established. In the Netherlands the famous Dutch economist Jan Tinbergen (1903-1994) was appointed head of the planning department. His collaborators designed a series of mathematical functions, which permitted the prediction of the evolution of the main macro-economic magnitudes. Such planning was very useful for stipulating the desirable economic policy, because the financial means ,which would be put at the disposal of the government in the coming years could be predicted. Moreover, it was possible once the planned outlays were made to predict the economic consequences of the financial policy applied.

In France the "Commissariat du Plan" was created by George Monnet(1888-1979) in 1946.. Monnet had participated in the planning of British

production and distribution of raw materials and labour during the Second World War. His methods of planning were different from the Dutch method. They were directed at the realisation of the production of goods and services, which were estimated as being necessary for the reconstruction of the French productive system.

In Belgium economic planning was introduced in 1959. In that year "The Bureau for Economic Programming" was created. In 1970 it was renamed "The Bureau for Economic Planning". However, due to the open character of the Belgian economy it is very difficult to anticipate the future evolution of the main macro economic magnitudes. Therefore the Bureau has to revise its predictions regularly. This reduces the value of economic planning for designing an efficient economic and financial policy.

The dream of stabilising economic growth by means of economic planning is over.

3) The introduction of a new economic and financial policy.

Most traditional economists considered economic planning as too rigid a system to be able to guarantee a satisfactory economic development. They were convinced it was preferable to let the managers of the various firms free to avail themselves of the opportunities for realising profits by adapting the production to the various demands in the markets. Therefore they sought a solution for the great depression of the thirties by introducing a new financial policy. Instead of increasing taxes in order to balance government budgets they suggested that during a depression the government should increase its outlay in order to create a greater demand for goods and services.

The most important and original author of that period was John Maynard Keynes (1883-1946.) The son of a tutor, afterwards registrar of the University of Cambridge, Keynes studied mathematics and economics at King's College in Cambridge. He was appointed a lecturer in economics on a recommendation of the then famous economist Arthur Cecil Pigou (1877-1959), one of the defendants of a new financial policy. In 1915 Keynes became an official of the British Treasury. As such he participated as financial expert in the peace negotiations in Versailles. He did not agree with the excessive reparations imposed on the German nation. On June 5 1919 he took his leave. In the summer of that year he wrote his book "The Economic Consequences of the Peace". He insisted that Germany would not be able to pay such a huge amount, and that such financial transfers would ruin the productive capacities of the German economy. This would have a very unfavourable influence on the whole European economy. This book made an

enormous impression on British academic and commercial circles. Keynes became a reputed economist. In the following years he regularly published articles and some books on English politics and general economic theory. In March 1933 he wrote four articles for the famous newspaper "The Times" on the diverse economic and financial measures, which would bring about economic recovery. In 1936 he developed his proposals in a more theoretical book, namely "The General Theory of Employment, Interest and Money". It is a very original work, but it is not always easy to understand Keynes' theories. The central theme of his reasoning is the relation between consumption, investment and saving. He distinguishes the ex-ante and ex-post values of these big economic entities. If we use Y as symbol for the national income, S for global saving and C for consumption at the end of each period $Y = S + C$. In this relation S represents all income which is not used for consumption. This means that the income used for purchasing investment goods is also contained in S . The total demand is equal to $C + I$. In that relation I symbolises all investment outlays. At the end of each period the total demand, which was satisfied is equal to the created income. $C + I = C + S$ or $I = S$.

However at the beginning of each period planned investment may differ from planned saving. If it is greater than planned saving, total demand for goods and services will exceed total production. The diverse firms will increase their production and eventually also their prices so that in real and in nominal terms the national income will increase. A part of that greater income will be saved. As a consequence ex-post saving will exceed ex-ante saving. Ex-post investment will normally be smaller than ex-ante investment because due to insufficient productive possibilities not all planned investment will be executed. This explains why ex-post S will be equal to ex-post I . If ex-ante saving exceeds ex-ante investment the offer of goods and services will be greater than the demand and national income in nominal terms will decrease. S will decrease too. At the end of the period it will again be equal with I .

With this reasoning Keynes proves that Adam Smith was wrong when he stated that the greater the amount of saving the higher will be economic growth. More saving will only promote economic growth if it leads to an equal increase in investment. If saving grows more than investment a recession will follow, due to a lack of demand. Such a recession is a cumulative process for when demand remains smaller than production, diverse firms will dismiss some members of their work force. The fear of losing their jobs will motivate many members of the working class to reduce their consumption. Capitalists will fear that some enterprises will lose

money and will no longer be able to pay dividends . Therefore they will reduce their investment. Large amounts of money will remain idle in the banks and a general depression will follow.

In order to avoid such a dismal evolution the state should increase consumption and investment by lowering taxation and increasing its outlay for public works and social subsidies. As a consequence a budgetary deficit would be unavoidable. Such a deficit would be financed by bank credits and the emission of government bonds.

The traditional liberal economists condemned such a policy because it causes an increase in interest rates . This makes investment more expensive and will decrease private investment They assert that whereas the state will invest more the private sector will invest less .

In order to avoid an increase in interest rates Keynes defends a “cheap money policy.” The central bank would allow large credits to the private banking sector, which would be able to finance at low interest rates public and private outlays.

Keynesian politics have important social repercussions. They favour the interests of the working class as they increase the demand for labour. They reduce the income of the rentiers, who will receive less rent on their capital .Moreover, by increasing the demand for goods and services Keynesian politics enhance the price level .The rentiers would lose a part of the buying power of their money and would not be sure that this loss would be compensated by the interest they would receive on their deposits and bonds.This explains why Keynesian theories were well received by the majority of left wing politicians but found few adherents in the circles of conservative politicians and financiers. However, in the thirties the repercussion of the crisis on the living standard of the working classes was so terrible that something had to be done to avoid bloody rebellions. Already before the publication of Keynes’ articles in “The Times” the American president Franklin Roosevelt (1882-1945) applied a policy ,which was akin to that proposed by Keynes . Roosevelt’s “New Deal ‘started in the spring of 1933 by devaluing the dollar and spending a lot on public works. Prices were stabilised by means of agreements between the main producers. This put an end to the “cut throat competition “ which had caused the failure of many American companies. Trade unions were stimulated to make collective agreements with the entrepreneurs in order to guarantee good wages for their members and in this way promote consumption The “New Deal’ policy caused great budgetary deficits. Republican politicians accused Roosevelt of raising the debt .of the American federal state.. On December 1933 Keynes

published an open letter in "The New York Times" to the president in which he defended the policy of big government outlays. He was invited by an American university to come to the states . In May-June 1934 he visited Washington and engaged in conversations with higher officials .However, he was not received by the president.

The American democrats did not like him because he had in his book " The Economic Consequences of the Peace "criticised the democratic president Thomas Woodrow Wilson(1856-1924) . Keynes had accused Wilson of weakness in his attempts to bring about a more honest and practicable peace treaty with Germany .Keynes' stay in America increased the interest of many young American economists in his work. He found many American epigones. of whom Paul Samuelson (°1915) is the most well known. In 1970 he received the Nobel Price for his extensive work.

In England John Hicks (1904-1989) devised in an article "Mr Keynes and the Classics – a Suggested Interpretation ",which was published in the journal " Economica" of April 1939, a scheme which took account of the classical and the Keynesian views of the causes of economic growth and depression. This was the starting point of a new economic school "the Neo-Keynesians " . They tried to prove that the economy could reach a state of equilibrium when the interest rate was such that ante-investment was equal to ante-saving. In order to mitigate fluctuations the government had to keep the money creation in such limits that inflation remained low and full employment was nevertheless realised. This was feasible by what was called " fine tuning ". When inflation increases the money creation would be reduced, so that the demand for goods would decrease. When unemployment goes up ,the banks would receive more credits from the central bank so that they could deliver cheap loans for new investment.

Neo-Keynesian economics were practised by many European governments during " The happy sixties" They seemed to guarantee the possibility of stable economic growth with almost constant full employment and low inflation. However, at the beginning of the seventies in most countries inflationary tendencies grew stronger. In 1973 the big increase of energy prices brought about such high inflation that the "fine tuning policy " could no longer guarantee economic equilibrium.

Among the many economic treatises based on Keynesian and Neo-Keynesian theories I must quote the book of the Belgian economist Alexander Lamfalussy (°1926) "Investment and Growth in Mature Economics- The Case of Belgium (1961)".Lamfalussy explains in this book that in a mature economy ante-saving regularly exceeds ante-investment . This brings about

domestic demand which remains smaller than domestic production. Fierce competition obliges firms to use the most efficient productive methods. This reduces cost prices. As a consequence many firms are able to compete on foreign markets. Exports exceed imports. The balance of trade closes with a surplus. As the profit margins of most Belgian industries are low many capitalists prefer to invest in foreign industries. This brings about a new equilibrium. The surplus in the balance of trade is absorbed by a deficit in the capital account with foreign countries. Lamfalussy warned that in the long run Belgium was running the risk that investment in the Belgian industries would remain too low and would be excessively directed to traditional branches. Indeed that has happened during the seventies when the Belgian government in order to guarantee the survival of old industries gave large subsidies to steelworks, coalmines, shipbuilding yards and textile plants. These huge public outlays prevented a fierce crisis, but created a huge public debt, which made an increase of taxation inevitable and limited foreign investment and the development of new industries.

Keynes had stated that during an economic boom the yield of taxes would increase in such a way that it would be easy to repay the loans emitted during a recession.

However, the increase of incomes creates a greater demand for public outlay. More people buy a motor car. As a consequence it becomes necessary to construct more and better ways in order to avoid congestion. Parents wish to extend the studies of their children. In order to satisfy the demand for more schools and teachers the government has to increase the outlay for education. Disabled, ill and crippled people claim in a richer society more help and social subsidies from the community. This too increases the government's outlay. During the sixties most governments used their bigger income to satisfy the wants of their electors and repaid only a small portion of their debts. In Belgium at the end of the sixties the minister of public works J. de Saeger started a program of building a network of motorways, which was financed by public loans. As a consequence when in the years 1973-'79 the country was confronted with a serious inflation due to the excessive increase of energy prices, practising a Keynesian policy led to an excessive growth of the global public debt. The interest, which had to be paid on this debt made it almost impossible to balance the budget. Only by devaluing the Belgian franc in February 1981 could the weight of the public debt be reduced and the regular increase of it be ended. Countries such as France, Great-Britain, Italy and Spain have also used devaluation as a way of

diminishing the weight of their public debt. Such policies discredited Keynesian methods to bring about a permanent growth of the economy.

Already in 1947 the American economist Milton Friedman (°1912) criticised in a lecture held at "The econometric society" the Keynesian theory that it was possible to obtain permanent economic growth by an expansive fiscal and monetary policy. He claimed that Keynesian policy promotes inflation, which after some years acquires a galloping character. Everybody tries to get rid of money, that is rapidly losing its purchasing power. Friedman insisted that to stop inflation the creation of money by the banks must not exceed what is needed for the normal extension of the production of goods and services. This lecture was the starting-signal for the monetarist school. It intended to stabilise prices, while the Keynesians wished to realise full employment. Moreover, these schools had opposite visions on the efficiency of econometrics.

Keynes had no confidence in econometric methods. He insisted that many psychological factors, which can't be measured, play a major role in the determination of the economic processes. Milton Friedman asserted that only by analysing these processes with mathematical methods can an objective economic theory be devised.

In politics he wished to limit the interventions of the state as much as possible. He asserted that free competition was the main source of economic progress and that the number of monopolies in the American economy was very low. Therefore the United States were the most efficient economy. In many European nations public monopolies impeded the development of private initiatives. Moreover, European states too often fortified powerful firms by permitting that they paid no or very low taxes on the profits, they used for acquiring more power by absorbing competitors.

During the seventies Friedman's political views found many adherents in the circles of American and European managers and right-wing economists. They complained that by not adapting the scale of taxation to inflation, the states confiscated an increasing part of the profits of private firms.

Not only the managers and capitalists complained about the increase of taxation, but also the great majority of the members of the middle class found their living standard debased by excessive taxation. As a consequence right-wing parties realised at the end of the seventies, beginning of the eighties electoral victories in major industrial nations like the United States and Great Britain.

5. The development of neo-capitalism and the globalisation of the world economy.

During the period from the end of the First World War to the end of the seventies the capitalist part of the world was shrinking, while the communist and socialist nations became more numerous. After the creation of communist states in Central and Eastern Europe, the victory of communism in China (1949) and the transfer to quasi communist systems in some countries of Asia(Vietnam, Cambodia, Laos, South Yemen) , Africa (Ethiopia, Angola and Mozambique) and Latin America (Cuba and Nicaragua) many political observers foresaw that in the end the capitalist system would disappear.

Many books were published about the methods practised to transform a capitalist system into a socialist one.

The defeat of the American troops in Vietnam debased the prestige of the United States.. Moreover, the enormous cost of this war undermined confidence in the value of the dollar. During the seventies the dollar was devalued repeatedly. This increased inflation in the United States. The majority of Americans believed that they needed a president with a strong character, who would re-establish order in the economy and assure America a leading position in the world. In November 1976 they elected the democrat Jimmy Carter(°1924) as president, because they had no longer confidence in the sitting president, whose efforts to deal with inflation and unemployment had switched policies several times. But Carter failed to solve the economic woes .Moreover, he could not avoid the staff of the American embassy in Teheran being taken hostage by militant followers of the Ayatollah Khomeini. An effort to free them by means of a surprise assault by an American commando failed miserably and created the impression that Carter was an inefficient manager In the mean-time some American economists had devised a set of economic principles they specified as “ the supply side economics”. They argued that the supply of goods and services is determined by their price . When the producers can obtain good prices they will increase efforts to extend production. High taxes diminish the net result of production and as a consequence reduce the supply. This leads to lower incomes and lower demand. Finally the vicious circle of downhill movements of production, incomes and consumption brings about general economic stagnation or even a recession. Therefore good government must include low taxation. The American economist Arthur B. Laffer (°1940) illustrated this idea with a curve (The Laffer curve).An increase of taxation procures

initially a higher public income, but once a certain ceiling is attained, higher taxes cause lower public income. In 1977, during the presidency of Jimmy Carter, republican members of the Congress formulated proposals for the reduction of taxation. However, the democrat majority rejected them, because they feared they would cause an excessive budgetary deficit.

The following year Jude Wanniski (°1936) published his book "How the World works". He stated that men learn the principles of economy during their childhood. They experience that each person defends his own interests and that to obtain an income you must produce goods for which there is a demand or render services to other persons. Wanniski is an opponent of the classical vision that during a recession the government must increase taxation in order to balance its budget. Such a rise discourages the producers and aggravates the crisis. Keynesian deficit spending works, because the citizens do not realise that in the end they will be taxed to pay the interest the state will award them.

When in 1980 Ronald Reagan (1911-2004) was elected president he tried to apply the principles of supply side economics. In 1981 he obtained a first set of fiscal reductions from the Congress and Senate. The following year other reductions were approved. They caused a huge deficit in the budget of the federation, but attracted much foreign capital as taxes were now lower than in Europe and Japan. Many European and Japanese capitalists invested money in American enterprises. Moreover, many foreigners bought American bonds. The great demand for dollars to pay for these purchases brought about an increase of the exchange rates of the dollar. A cumulative process started. The rise of the value of the dollar enhanced the purchase of American bonds and equity. In the end the dollar was strongly overvalued. The prices of American products in the world markets were no longer competitive with those of similar European and Asian products. American exports declined, and as foreign products priced in dollars became cheaper, imports increased. America had to import more foreign capital to pay for the deficit in its foreign trade. Already in 1986 the United States were the most important debtor state in the world.

Many left wing economists and politicians considered this evolution as a prelude to a general collapse of capitalism. They were wrong. The booming of the American economy attracted more and more capital and encouraged the creation of new industries, especially in the sectors of informatics and biomechanics. America became again the leading nation in the field of modern technology.

In the mean time the failure of a socialist experiment in France and slow economic progress in the Soviet Union and most communist states, discredited the dreams of an alternative economic system. In May 1981 the socialist François Mitterrand(1916-1996) became president of France. He intended to transform the French economy into a mixed system with an important public sector He appointed Pierre Mauroy(°1928) as prime minister of a government with the participation of French communists .This government nationalised 12 big industrial enterprises, 36 banks and 2 financial groups. The nationalised enterprises had to devise a program of activities in agreement with the government. Their "contrats de plan" were integrated in a great economic plan called " le plan intérimaire 1982-'83 ". Its purpose was to increase the competitiveness of the main French firms, which would obtain a greater part of the foreign markets . In order to acquire new technology certain foreign firms were bought by the nationalised industries .The government intended to reduce unemployment, which under the previous right-wing government had risen .By increasing French exports, expanding the domestic markets by government outlay and reducing the working time the government foresaw a decrease of unemployment by 400.000 units. However, during the years 1981-'83 French export did not rise as the world economy was in depression. The increase of the wage cost as a consequence of reducing working time with maintenance of the same wages, made French products more expensive . The income of the French working-class was increased and this caused more consumption of foreign goods and services. The balance of trade could not be kept in equilibrium. The balance of payments too deteriorated for many capitalists fled with their capital to other countries .The exchange rates of the national currency in international markets weakened. The government had to devalue its currency in order to reduce the outflow of foreign valuta. On October 4 1981 the French frank was devalued a first time with 3 per cent. On January 12 1982 followed a devaluation with 5.75 per cent and on March 21 1983 a third one with 2.5 per cent. Each time these devaluations took place together with a revaluation of the German mark. The French government expected that these devaluations would increase French exports. . However, they created distrust in the value of the French frank. More capital was exported and the balance of payments remained in the red.

In the end the new policy could not be maintained . In March 1983 the government of Mauroy was succeeded by a socialist government under the leadership of Laurent Fabius (°1946), in which the communists were not

represented. Laurent Fabius introduced "une politique de rigueur ". Government outlays were reduced, money creation by the banks was restricted and the increase of domestic demand stopped. All this brought about a reduction of imports and an improvement of the balance of payments. However, many adherents of a transfer to a socialist economy were disappointed .They realised that the " politique de rigueur " put an end to the increase of incomes of the working classes.

On March 16 1986 the socialist party lost the election. A right-wing government with Jacques Chirac (°1932) as premier took office . The laws of July 2 and August 6 1986 made possible the privatisation of most nationalised industries. The dream of a mixed economy was over.

During the eighties the members of the Warsaw Pact suffered from increasing economic difficulties . During the sixties and seventies they realised higher growth rates than the majority of the capitalist nations, but in the eighties their growth slowed down As the need for better products increased, the planning of economic activities became more difficult. Most planning agencies had the bad habit of making their plans on the basis of traditional technologies. They did not sufficiently take into account the new devices available. The central committee of the Soviet Union, which was the leading nation in the communist world , was composed of the elderly. They had experienced the unexpected German attack and feared that some day the powerful capitalist nations would try to destroy the communist world. Therefore they imposed the creation of powerful armies on all the members of the Warsaw Pact. An excessive number of their best technicians and a great part of their national resources were mobilised for military purposes. Moreover, important financial and material means were reserved for promoting the development of communist third world nations such as Vietnam, South Yemen, Ethiopia, Angola, Mozambique and Cuba. The organisation of many firms was inefficient. The communists did not tolerate unemployment Most enterprises had more workers than were necessary. A boss had no right to dismiss a member of his staff without offering him other work Often drunkards and other unproductive workers were paid the same low salaries as productive members. Such a system promoted general discouragement and indifference towards the results of economic plans. As a Polish worker declared : "We put on a semblance of working hard and the authorities try to make us believe they pay us well". As a consequence of this faulty way of management most consumption goods produced in the communist countries were of poor quality. In order to promote the sale of these products the state banks delivered extensive credits to the governments,

so that they could practice a liberal social policy. Pregnant women received good compensation for the loss of their salary during the period they were allowed to stay at home. Pensions were, compared with wages, rather high. Health care was free. The large outlays of the governments did not cause inflation because all prices were fixed by the government. There was an excess of purchasing power that was not used due to a lack of attractive consumption goods. When on March 11 1985 Mikhail Gorbachov (°1931) became head of the Soviet State in five industrial branches an experiment had been introduced in order to increase productivity. In these branches the managers had received more power to take decisions they judged favourable for efficiency.

Gorbachov extended this project to more industrial branches. Moreover, he stimulated journalists to demand information about the situation and the technological development in the diverse soviet firms. This was called "the glasnost". During the party congress number 27 he formulated the principals of "perestroika". All enterprises had to revise their production and marketing methods in such a way that they would cover their costs. Instead of delivering their products to the enterprises for distribution, they would be obliged to sell them. Gorbachov was convinced this measure would force managers to pay more attention to quality.

He considered an aggression from the Western nations as improbable. Therefore he wished to reduce the military outlays of the Soviet Union and its satellite states. In exchange for loans and subsidies from the Federal German Republic he agreed to withdraw the Russian troops from East-Germany. Moreover, he agreed that the Hungarians could open their Western frontier, so that persons from the Eastern-European countries could emigrate to the West. This brought about a massive emigration of the best workmen and their families to Western Europe and a collapse of all the East-European communist regimes. This collapse took most economists by surprise. They had overestimated the efficiency of the Soviet system and underestimated the need of its citizens for more freedom.

As the American author of Japanese origin Francis Fukuyama (°1952) explained in his book "The End of History and the Last Man"(1991) every human being needs to express his personal ideas and sentiments to his fellows. In communist countries it was not possible to criticise the working of the economic and cultural system without incurring the risk of being arrested and sent to prison or to a labour camp.

The communist states tried to increase the intellectual and cultural level of their citizens, but afterwards they refused to accept that these citizens

criticised the abuses in communist societies. Such a contradiction could not last.

Fukuyama was convinced that the communist dream was therefore over. He believed that a return to such a system was impossible because it contradicts human nature.

The theory of Fukuyama about the political future of diverse nations has found a supplement in the book of Michael E. Porter (°1947) "The Competitive Advantage of Nations" (1990). Like Adam Smith he investigates why some nations succeed in attaining a higher economic growth than their neighbours. He states that firms attain only a high degree of efficiency when they have to compete with others. In the communist nations such competition did not exist and therefore most enterprises stagnated in inefficiency.

In a globalised world, where many firms compete in the world markets, there are three ways to acquire a competitive advantage, namely :

- to reduce production costs beneath the normal level of competitors;
- to differentiate the aspects and qualities of the products in such a way that they better satisfy the needs of the potential customers;
- to focus on a limited number of products, in which the firm enjoys a competitive advantage.

Countries, where the firms are involved in fierce competition acquire a high level of prosperity. Their low production costs and the high quality of their products permit them to increase their exports. Afterwards when they have conquered some foreign markets, they can create in the countries of their foreign clients subsidiary firms and profit from the lower wages and omission of transport costs.

Porter's theories urged many governments to create institutions, which had to proceed against agreements and fusions, which excluded or weakened competition.

In the European union the commissariat for the defence of competition extended its activities and imposed heavy fines on firms which by their commercial policies hindered the development of fair trade. Member states were pressed to eliminate monopolies of public enterprises for the production and supply of electricity, gas, drinking water, postal and telephone services.

Social-democratic parties, which traditionally were the main defendants of those public monopolies, have liberalised their doctrine. As a rule they agreed that private firms may compete with public enterprises. They now try to realise what they call "a social free market economy". However, it is doubtful if such a system can be maintained in a world where new big states

like China, India and Brazil are competing with the traditional industrial nations by means of low wages for millions of workmen .

6. Potential economic developments

Most economists agree that at this moment three different models of capitalism exist :

1. The Anglo-Saxon model :

It is based on the principle that everybody is responsible for creating the income necessary to support his family . Only when due to illness, invalidity or another serious reason which make it impossible for the main-breadwinner to work, must the state intervene.

This model of capitalism exists in the United States and in a less brutal degree in Great-Britain and some British ex-dominions. In these countries the level of taxation is lower than in European continental countries, but the services offered by the state to its citizens are more limited . In the American health sector only the elderly and the very poor have free access to medical care. The great majority of the Americans have to underwrite costly private insurance policies. About one third of American children are not insured at all, because their parents can not pay the necessary premium.

In Great Britain all health care is free for everyone, but there are waiting lists for those who need surgery. As a consequence many take up private insurance and use private hospitals. There treatment is as a rule very expensive.

As to pensions in the United States everybody has to insure himself or must obtain private insurance from his employer. In Great Britain there are state pensions for everybody, but they are very low. Moreover, as the number of elderly people increases, the cost of state pensions is augmenting ..The Labour government which is confronted with a budgetary deficit and does not wish to raise the level of taxation, is planning to raise the age at which a citizen can obtain a pension from 60 to 65. Most members of the moneyed classes have an insurance, which guarantees them a reasonable pension at about sixty . Almost all important firms have organised a pension fund, in which they invest a part of their benefits in order to guarantee reasonable pensions for the members of their staff. However, persons employed by such firms run the risk that the managers invest the money of the pension fund in their own firm in order to increase its profits. If in that case the firm fails the employees may lose their pension rights.

As far as education is concerned in the United States there are great differences in its quality in primary and secondary schools. Schools in wealthy neighbourhoods are as a rule well equipped with a lot of pedagogical material and have classes with a limited number of pupils. In poor neighbourhoods classes are often crowded and teachers have difficulties in maintaining discipline. Many American films have illustrated "the black-board jungles" in some poor industrial towns.

In Great-Britain too, primary and secondary public schools are often overcrowded, with classes of about thirty pupils . The Labour government intends to improve education by nominating more teachers and reducing administration.

As taxes are lower in the United States and in Great Britain than in most industrial nations multinational societies have located there a great number of their enterprises . The growth rate of their national income is higher than in continental Europe, where enterprises have to pay more taxes . Moreover, employees have to work more hours .In the United States the average working time is 40 per cent higher than in Europe. In the European Union Great Britain has regularly refused to approve proposals to reduce the maximum working-week to less than 48 hours.

2. The model of the European continent :

In most countries of the European continent the influence of Social and Christian democratic movements has been stronger than in Anglo-Saxon countries .

Therefore the social services offered to the citizens by the state or by organisations subsidised by the government are more important than in the Anglo-Saxon world .Moreover, in the greater part of continental Europe councils with representatives of the employers and the trade unions for determining the wages and the other working conditions have been created...

As a consequence the number of strikes is as a rule more limited than in the Anglo-Saxon countries, but wages are higher and working hours shorter.

In 2003 the average wage per hour in industry was higher in Denmark, Western Germany, Finland, Belgium, Sweden, Austria and France than in the United Kingdom and the United States. Profit rates are as a rule lower in continental Europe than in the United States and Great-Britain and this explains why economic growth is smaller and unemployment higher . Germany, which is considered as the most industrialised country of the European continent, had in 2.005 a growth rate of only 0.8 per cent. For 2.006 a small increase is anticipated, due to the growth of exports .The

growth rate would attain 1.2 per cent . In the whole Euro-zone the growth rates for 2005 and 2006 would be respectively 1.2 and 1.8 per cent. This is lower than growth rates in the United States and Great-Britain.

3. The model of the Scandinavian countries:

The Scandinavian states Denmark, Norway and Sweden have small populations, who have specialised in economic activities, which are related to the natural resources of these countries . Denmark, which has an important fishing fleet, produces fish oil, fish meal and tinned fish. As a traditional agricultural nation it has developed some specific biotechnical products and is an important producer of bio-vegetables . Its industry has specialised in machinery for the production of food commodities. Norway has an important petro- chemical industry and has a large income from its export of natural gas.

Sweden ,which has mines with high grade iron ore, has specialised in the metal industry.

The Scandinavian countries have in common that they were governed for long periods by Labour parties which practised policies in the interest of the common people. Taxation is very high .In 2.003 the fiscal income of the state amounted to 50.8 per cent of the national income in Sweden and 48.8 per cent in Denmark. In Norway taxes are lower because the government obtains a high income from its participation in the exploitation of petrol and gas The diverse social services are well developed and a great deal of the population is occupied by public organisations. .Norway has a mixed economy with public corporations active in the petrol and gas industry, the production and distribution of electricity, the railways and the postal services. In Sweden and Denmark the public sector is less important but private enterprises are subjected to strict regulation, which protects the employees against exploitation by capitalist societies. Wages are in most branches established by collective agreements between employers and trade unions. Unemployment is rather low, because Scandinavian governments have organised uniquely well-run employment services. In Sweden employers are legally bound to notify the employment services of all vacancies . People out of work have to keep in touch with their local state-run employment office. Together with the job-seeker, the employment office draws up an individual plan of action. A system of vocational training ensures that persons, who have lost their work in a stagnating industrial branch can find a job in an expanding industrial sector. This guarantees that the unemployed remain active and keep in touch with working life .Inequalities in salary remain

limited., due to the action of the trade-unions, which try to ensure that all employed persons obtain a reasonable income.

The globalisation of the world economy and the increase in the prices of energy have brought misgivings about the future of European capitalism. Most European continental nations were mature economies in the sense described by Lamfallusy. Saving surpassed regularly investment . As a consequence European firms had to export a great part of their production. The balances of trade of these countries were positive and they could afford to export capital for investment in foreign enterprises.

The heavy increase of the price of oil and the appearance of new big competing nations such as China, India and Brazil in the world markets have an adverse influence on the balance of trade of Europe. The European nations have to pay more for oil and their export possibilities are reduced by the entry in the world markets of new competitors. Most European nations now have a deficit in their balance of trade. Moreover, their economic growth rates have declined to no more than 2 per cent a year, while the Chinese growth reaches 9 per cent a year. The American firm Goldman Sachs has calculated that at this growth rate in 2050 the gross national product of China will exceed that of the United States . India will occupy second place, and Europe fourth.

The European nations are unable to devise a common. economic policy to avoid their relative decline. In 2000 at a congress in Lisbon they decided that all member states had to increase their outlay for scientific and technological research to 3 per cent of their national income. By achieving this target Europe would become technologically the most advanced continent in the world.

However, this decision has not been implemented. It was but another political dream .

Confronted with big outlays for people on the dole and for the health care of an ageing population continental West European governments have neglected to realise the target, stipulated in the Lisbon Congress. The European community too has failed to increase its subsidies for scientific and technological research . In 2005 36.4 per cent of the outlay of the European Union was destined for agricultural subsidies against only 7.8 per cent for research, internal security and culture.

Tony Blair, who as prime minister of Great Britain, was president of the Council of European ministers during the second semester of 2005, proposed to reduce the EU's aid to the agricultural sector in order to reserve more

money for research and industrial development . This proposal met with stiff resistance from France and some other nations with an important agricultural sector. When in order to stop the production of sugar in the European Union the European commission decided to reduce the guaranteed prices it paid for beets and sugars, eleven member states (France, Belgium, Spain, Italy, Portugal, Finland, Latvia, Lithuania, Hungary, Slovakia and Greece) protested. This reduction is necessary to satisfy the claims of the sugar producing countries of Latin America, who complain that by exporting subsidised sugar the EU makes it impossible to sell sugar at reasonable prices. These countries refuse to lower their import duties for European products and services if the EU countries do not stop their dumping practices.

The president of the European commission José Manuel Barroso agrees with Blair that a revival of the Lisbon memorandum is necessary if the EU. wants to avoid stagnation.

However, he wishes to attain 3 per cent not by way of EU subsidies, but by means of lower taxes for firms, which organise a sufficient amount of scientific or technological research. From the 3 per cent 2 per cent would be realised in this way and only 1 per cent would be attributed as subsidies to public or private organisations.

This plan is in accordance with the advice of the Organization for Economic Co-operation and Development (O.E.C.D.), which insists that the nations of continental Europe must lower their social outlay in order to reduce heavy taxation on enterprises.

The new members of the EU practice as a rule lower taxation than the traditional members in order to attract more foreign investment . This has meant that all the member states follow a similar policy . They reduce taxation on industrial and commercial firms and increase indirect taxes. As indirect taxes are more painful for persons with a low income than for the rich , the result is a greater inequality in wealth.

Moreover, the diverse types of continental capitalism have to reduce their liberal social outlay in order to balance their budgets and lower their imports. At this moment most economists presume that the new German coalition government will lower taxes on enterprises, increase indirect taxation and freeze salaries .

The Scandinavian countries are in a better state to resist such an evolution to a more Anglo-Saxon type of capitalism. Till now the majority of their citizens accept high taxes because they value the good state social services. .

However, as people with a rather high income increases, opposition against the high taxes becomes stronger. Higher-income groups can look after themselves and therefore are more interested in lower taxes than in liberal social subsidies. In Denmark the Labour government was defeated in the parliamentary elections of November 2001. In Sweden the Labour party is confronted with a regular falling of its membership and an increase of political apathy. In 1991 the party had 259.000 members in 2002 153.000. It is not sure that Sweden's Social Democrats will be returned in power at the elections.

Anglo-Saxon types of capitalism seem more resistant to the challenge of Chinese competition than the European. This is due to a combination of circumstances, which permit American firms to realise higher profit rates than in most European countries. The fact that there is a continuing inflow of poor emigrants, who are ready to work long hours for a low salary increases the profits of many small and medium firms. There is also an important influx of foreigners, who possess special skills and come to the States because they will be better paid and pay less taxes. Another important factor is the great number of patents at the disposal of important American firms. Great-Britain too has a high number of immigrants, who are well integrated in the British economy. As immigrants have as a rule more children than the autochthonic families their presence reduces the problem of ageing.

These facts urge many right wing economists to warn governments of continental Europe that they must reduce their social outlay, lower taxation and allow more immigrants if they want to attain a sufficient economic growth rate and reduce the jobless. The present director of the International Monetary Fund, the Spaniard Rodrigo de Rato states in a recent interview with journalists of "Le Monde" that the European nations must revise their economic policy. They must stop protecting employees against prompt dismissal, abolish the practice of imposing minimum wages, and introduce more competition in the labour market. He is convinced that to slow down the increase of the cost of pensions it is necessary to raise the age at which employees retire. These measures favour the rich and would make the economic and social structure of continental Europe akin to that of the United States.

On the other hand left-wing economists propose an evolution towards a Scandinavian way of reorganising labour markets. John Monks (°1945), the General Secretary of the "European Trade Union Congress", describes in an article that in Sweden and Denmark a firm, which announces collective dismissals has to warn a public organisation, which will try to find new jobs

for the dismissed employees. They receive a dole, which is a fair percentage of their wage and are offered the possibility to retrain themselves for another job. Monks says that it is unjust and inefficient to let those, who lost their job, without any help to find a new workplace. He refers to what happened in Great Britain during the government of Mrs. Thatcher. The deregulation of the labour market resulted in an increase in poverty and inequality. Employees, who lost their jobs, were obliged to accept badly paid work and to leave their homes, because they could no longer pay the rent. Instead of accepting such downward labour flexibility, the government must organise a system that ensures the possibility of upward flexibility. Employees must have the opportunity to learn technologies which will guarantee them a higher income. Such upward flexibility may become reality if as the British Labour prime minister, Tony Blair proposes Europe becomes as a result of scientific and technological research a coalition of modern and dynamic nations.

This brings to the fore the question as to whether the private entrepreneurs and capitalists will be able and willing to organise such research and apply it for productive purposes.

The example of the United States suggests that this is possible. However, the majority of Europeans are not ready to give up their systems of social security in order to create a very dynamic society. That is the main reason why so many leaders of European nations are sceptical about the results of the proposals of Blair and Barroso concerning the revival of the Lisbon memorandum.

In France, where there is a tradition of industrial development planned and realised by public bodies, there are a lot of left-wing intellectuals, who prefer public initiatives instead of relying on the free market. Patrick Artus, who is director of the center for economic studies of the saving banks, published in 2005 a book "Le capitalisme est en train de s'autodétruire" (capitalism is destroying itself) in which he asserts that private firms are always trying to increase their profits in the short run and neglect the often nasty consequences of their actions in the long run. Therefore it is necessary to reorganise the saving and banking system and impose on the managers of private firms strict rules, which will guarantee a sound and sustainable growth of the national economy. The same year Jean Peyrelevade, ex head of the Suez group and the Crédit Lyonnais, published his book "Le capitalisme total" (Global capitalism) in which he suggests limiting the power of shareholders in private corporations. The managers of these corporations should no longer be responsible to the shareholders but would have to follow

the instructions of the public planning bureau. To the shareholders would be guaranteed a reasonable dividend, so that they would have no interest in selling their shares . A take-over of a French corporation by foreign capitalists would be forbidden if it proved to be in contradiction with the industrial policy of the nation.

Such a proposal is contrary to the aims of the EU.. It must be considered as a reaction against the globalisation of the world economy. This globalisation limits more and more the possibilities of the nation states to plan their economic development.

Not only in Europe but also in the United States there exists much opposition against the present Anglo-Saxon type of capitalism. .

Some followers of Keynes, such as Robert Clower (°1926) and Axel Leijonhufvud (°1933) stated already in the late sixties that a capitalist economy with a weak public sector is unstable. Keynes insisted that the entrepreneurs can not foresee the evolution of the economy .

Therefore they are inclined to follow the example of their competitors . They suppose that these are better informed. This causes excessive investment in various branches of the economy during booms and insufficient investment during depressions. When there exists an important public sector the fluctuations of investment are limited by the taxes on the profits of the various firms and the government outlays.

Optimists like the Dutch economist Willem H. Buiter(°1949) believe that in a free economy rapid technical progress guarantees that short recessions will always be followed by a quick recovery.

Other economists are less sure that a depression will always be avoided. During the boom many firms emit new equity in order to expand their operations. Due to speculative purchases of equity the notations of most stocks are excessive and a reaction becomes unavoidable . When it sets in everyone tries to sell before the notations are much lower.This brings about a crisis in the stock-exchange . It is no longer possible to find underwriters for new equity. Many firms, which foresaw great expansions can not realise their plans. They suffer big losses and some will fail and dismiss hundreds of employees. This reduces consumption outlay .Not only those who become unemployed buy less, but many other employees reduce their spending . They fear being dismissed. The producers of consumption goods are confronted with a reduced output, and will reduce their staff.

Such a dismal evolution occurred in the thirties and is still possible to day.

The higher demand for new goods and machinery enhances economic prosperity, but the increase of productivity due to the introduction of better

technology, reduces the demand for labour. Which of both consequences of the technological progress will predominate is uncertain. Much will depend on the financial resources of government. If in periods of recession it can expand its outlay for public investment and social services it will be able to stop the decline of gross demand for goods and services.

In Europe most governments are confronted with a combination of high outlay for social services and growing resistance of the citizens against heavy taxation. The possibility to expand the outlay is limited. In the United States it is doubtful that a efficient system of insurance against the nasty consequences of unemployment, illness, invalidity and old age will be organised. President Bill Clinton (°1946) tried in the years 1993-'94 to imitate the German system of social security and impose on all firms the obligation to pay contributions for insuring the families of the members of their staff against illness, invalidity and early death. In the election of November 1994 the Republicans won a majority in both houses of Congress. As they were opponents of his huge program of health care reform, Clinton had to give up his plans. He declared "The era of big government is over". The resistance of the millions of small entrepreneurs against new outlay had proved to be too strong.

The Republican president George W. Bush (°1946) has at the beginning of his second term acknowledged that the actual system of American Social Security could not last.

In 1950 there were 16 persons who paid the payroll tax for one beneficiary of social security. To-day there are 2.3 workers supporting every Social Security beneficiary. Now the tax, which is subtracted from the wage is 6.2 % below an annual amount of \$ 72.600 and the deduction for Medicare is 1.45 % of annual wages, with employers contributing matching amounts. This is not enough to guarantee a fair pension to every person older than 65 years and to pay the medical care of the many poor. Bush proposes to introduce a new system of personal Social security Investment Accounts. Every American would be encouraged to open such an account with a financial organisation. Workers would have the possibility to invest a part of their payroll tax in their personal account. Later the public purse would pay them a lower pension, but they would obtain a supplement from their personal account. It is not evident, that this proposal can bring a solution to the problem of the lack of funds in the next years for the payment of pensions. The president believes that by investing the money of personal accounts in stocks and bonds the financial result will be higher than the actual return on the money paid to the social security administration. This

money is invested in federal securities with a low interest rate. There is also the problem as to what will happen if persons invest unwisely and lose a part of the money that they put in their personal account. Moreover, Bush plan does not solve the problem of the growing deficit of Medicare and Medicaid. Their outlays grow with 2.5 per cent more than the national income. They have to borrow huge sums. If nothing is done, in 2050 43 per cent of the gross national income will be necessary to cover the cost of their outlay and rent on their debts.

It is evident the whole American system of social security is in a mess and needs more money. However, the Republican party refuses to raise taxes in order to procure the necessary funds.

Their opponents the Democrats may win the elections of November 2007 and of November 2009, but it is doubtful if a president from that party can bring a solution.

The American economist Joseph E. Stigler (°1943), who was a counsellor of president Clinton, asserts in his book "The European Dream" (2004) that now the majority of Americans find life more agreeable in Europe than in America. Working people in America have longer working hours, less holidays and have to live with the constant fear to be dismissed if they become less productive or if the firm is reformed in order to increase its efficiency.

May be in the end American capitalism will evolve to a less brutal kind of capitalism or on the contrary the pressure of competition from the outside world may eliminate in Europe a deal of its more favourably social environment .

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