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**UNEXPECTED EFFECTS OF TRADE
 WITH LOW-INCOME COUNTRIES**

by

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Trade with low-income countries does not necessarily lead to unemployment in industrialised nations; but it may substantially widen the disparity of incomes within both kinds of countries. It may also lead to the disappearance of the middle class, as can be seen in the US. This is not the only possible change, but it is the likely result of non-intervention on the part of governments in regulating international exchange or income policy. This thesis provoked a lively discussion.

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I - PRESENTATION BY PIERRE-NOËL GIRAUD¹

The debate over industrial¹ relocation and free trade with low-income countries is lively, but is actually somewhat wide of the mark. For understandable reasons, it focusses on the question of unemployment. However, this is not the real issue, and we are merely watching the thrust and parry of dogmatic arguments - which recall the older, but still relevant debates over technical progress and employment. In fact these days, the inevitable consequence of increasing free trade between rich industrialised countries and low-income countries with technological capacities (LICTC) is not necessarily a rise in unemployment in the former, but rather the regular and probably rapid increase in the disparity of incomes in both kinds of country.

Method: two ways of thinking

First of all, it is essential to make the distinction between two ways of thinking in contemporary world economy: that of private firms and that of nation states. Given that capital, goods and services are circulating more and more freely at ever-decreasing cost, it makes sense for firms to locate their various fields of activity (design, R&D, production, finance etc.) in the precise areas which are most cost-effective for them. From the moment when one or more of a group of firms in competition with each other commits itself to this kind of relocation, and gains a competitive edge in doing so, and others have to follow suit or lose out altogether. They cannot in any way be blamed for acting in this way, they are constrained by the nature of competition which is at the heart of our capitalist economies.

Relocation, therefore, is no more than one manifestation of free trade with low-income countries, and it is this trade itself which raises the real question which concerns the behaviour of nation states. The guiding principle of a state in economic terms is to create conditions of prosperity *in the areas where it exercises sovereignty*. It is therefore up to the state to decide whether, and under what conditions, free trade contributes to this prosperity - and to act accordingly.

Three kinds of working populations in developed countries

In order to analyse the consequences of free trade, I'm going to divide the working populations of industrialised countries into three categories. Firstly, the 'competitive', those who have the qualifications and experience to ensure that industrialised countries are always able to produce certain products and services which the LICTC can't reproduce - in France these range from Airbus to Perfume, by way of Camembert. The 'exposed' are those who are directly in competition, due to the increasingly free and easy circulation of capital, goods and services, with their counterparts in low-income countries - from the shop-floor worker to the computing engineer with a PhD. Lastly there are the 'protected', producing goods and services which by nature don't travel².

An elementary mechanism which initially loses jobs

We must then accept - and this point is rarely raised in the current debate - that increasing trade between a rich nation such as France and low-income countries will, initially, cause more losses of exposed jobs in France than it will create competitive ones, simply because the latter cost more. The exchange of expensive skilled work - competitive work - for cheap and less

¹ A rather more extensive treatment of this thesis was published in *Gérer et Comprendre* in December 1994

² This schema is not dissimilar to that outlined by Robert Reich in *The Work of Nations* (Knopf, New York 1991). The perceptive reader of this stimulating book will see, however, that our categories are different and that I use a different interpretation to Reich's.

skilled work - exposed work - is in fact the *raison d'être* of such trade and represents its inherent interest for the participating countries.

Let's take a simple numerical example, as used by one of our ministers in a '*Lesson on the advantages of free trade*' given in the columns of *Le Monde*.³ His demonstration is as follows. Buying a pair of imported shoes at a cost of 100F instead of a pair from a French manufacturer costing 250F, he says, is a saving of 150F for the consumer, who may use the money to buy books or go to a restaurant, providing work for French employees in either case. The buying power of 100F distributed in the low-income country which manufactured the shoes, once it has circulated on the world economy, will normally give rise in the end to a demand for 100F worth of French products which we will then export. So, the balance is in our favour: our consumers are better off and we are still producing just as much - 150F worth of various goods and services and 100F worth of goods for export replacing the 250F worth of shoes which we no longer produce - and our balance of trade is even.

But what is the balance in terms of jobs? 100 million francs' worth of imported shoes in place of 250 million francs' worth manufactured in this country will cause the loss of around 1,250 jobs. 150 million francs' worth of extra production in this country creates around 420 jobs. The export of 100 million francs' worth of Airbus or TGV only creates 300 jobs. The end result is therefore a rise in unemployment of 530. These figures are only approximate, as I only took the added value per job in each category and did not look at the secondary effects. Are there any more precise statistics? Claude Vimont calculated some⁴. In 1991 trade between France and South Korea was as follows: French exports of FF 75.5 billion, imports from South Korea of FF 85 billion. If the two are balanced, the employment figures are: 919 executives' and technicians' jobs created, 1198 foremen and skilled workers' jobs lost (the 'exposed' are not only unskilled workers), 7377 unskilled workers' jobs lost; in sum, 7656 jobs lost in the balance.

However, we hardly need figures here - the reason for these job losses is clear: *the products we export account for fewer jobs than the products which have been replaced by imported goods*. Even a perfectly balanced increase in trade between rich industrialised countries and LICs begins by losing more exposed jobs in the former than it creates competitive ones.

Unemployment and inequality - a matter of rhythm

Faced with these initial job losses, in the evolution of unemployment patterns everything turns on the industrialised countries' ability to create enough competitive and protected jobs to compensate for the loss, by means of internal growth. The problem is therefore essentially one of dynamics, a matter of comparing two different rates: that of shedding exposed jobs due to the competition from LICs, and that of creating competitive jobs in the industrialised countries, since it is this in turn which dictates the creation of protected jobs. Effectively, the number and the incomes of competitive jobs must increase in order for the demand for protected goods and services to expand. On what factors do these rates depend ?

The rate of competitive-job creation depends above all on our capacities for innovation, supported by our efforts in training. As for the rate of loss of exposed jobs, it is dependent on the number of people in developing countries implicated in expansionist industrialisation, on the speed at which they can imitate processes and the spread of technology. In this domain matters are changing radically, and that is the nub of the argument: we are no longer talking in terms of a few 'dragons', countries of thirty to fifty million inhabitants which started at the most primitive level of development, but of countries with three or four *billion* inhabitants, *already* technologically very advanced - able to launch their own satellites, for example. These are the

³ A. Madelin, *Le Monde*, Friday 24 June 1994

⁴ C. Vimont, *Le commerce extérieur français, créateur ou destructeur d'emplois?* (Economica, Paris 1993)

most likely to experience rapid growth fuelled by exports to the rich nations: China, India, the former Communist countries of Europe, the whole of Latin America, various southern Mediterranean countries. They are not only strongly encouraged in this direction by our own governments and the international organisations, but also assisted by our firms who are impelled by competition to uproot and to invest in these countries, rapidly transferring advanced technology there.

Do we have any chance, in these conditions, of running fast enough before the powerful catching-up dynamic of the new LICTCs - that is, can we create enough jobs in time? Yes we do; but on one condition: the labour costs of exposed and protected must decrease regularly. On the one hand, this will slow down the shedding of exposed jobs, and on the other hand, more importantly, the implied reduction in cost of protected goods and services will encourage the competitive - the only group whose salaries are increasing - to consume more, which in turn will allow the creation of enough protected jobs to absorb the shortfall between exposed jobs lost and competitive jobs created.

As for the low-income countries, the disparities will increase there also. Their new capitalists (and the old capitalists from industrialised countries who set up in the low-income countries) will have vast, rich export markets before them, and will not be obliged by the demands of self-maintained growth to seek consumers in their home markets and so raise the salaries of their employees in pace with the rise in productivity. They are therefore making exceptional profits, and will continue to do so. We are beginning to see the making of vast fortunes in these areas, beside which Rockefeller and Morgan may seem quite modest with hindsight.

Finally, we shouldn't conclude from all this that the competitive group will always be safe and at ease. That would be to ignore the fact that *competition between rich countries is bound to increase likewise*, and that they too are obliged to run faster and faster to stay within the group. If the competitive group in one wealthy country should lose competitiveness *compared with that of other wealthy countries*, as well as the movement of increasing disparities I described previously we should see a reduction in the average wealth of this country within the group of rich countries.

To sum up in a single phrase: *at present*,⁵ the increase of free trade with low-income countries with technological capacity does not automatically lead to massive unemployment in First World countries, but undoubtedly *does* lead to increasing disparities, along with a tendency to polarise societies in two distinct groups: competitive and protected. The latter are dependent for their income on the number and the relative competitiveness of the former. The relationship which tends to establish itself between the two groups is in effect one of 'clientèle', in the Roman sense of the term, even when it is very much mediated by markets and by the State. It is, therefore, the very existence of the middle class in wealthy countries which is under threat; although this class was not only created by 20th century capitalism, but was the one which ensured its growth.

Maybe it's just a case of history turning the tide...

If one stands back a little, it seems that all this may just be history turning the tide. At the end of the 18th century the world actually consisted of a number of equal territories. According to Paul Bairoch, the average income in the three major populated areas, Europe, India and China, was *of equivalent amounts*. The world's inequality was an *internal* inequality within these

⁵ I must repeat that this is a *historical* conjecture. In theory, it is not impossible for developed countries to create sufficient competitive jobs so that the disparities do not increase. Thus I disagree with the main results of neoclassical theories of international trade which say that a levelling out of cost factors (and therefore the increase in income disparity) is inevitable in trade. The problem with such theories is precisely that they remain static.

territories, the eternal inequality between the rich and powerful - aristocrats and merchants - and the masses of peasants and artisans who lived more or less in like fashion everywhere.

In today's world inequality presents itself primarily *between territories*: the average income in industrialised countries (*including* Eastern Europe and the former Soviet Union) is eight times that of the average in the countries until recently called the Third World. This difference began to manifest itself - slowly - in the 19th century; in 1900 it was still only a ratio of three to one, and it is in the 20th century above all that it has been accentuated.

At the same time, however, there occurred a phenomenon which was in many ways exceptional, since it had no basis in economic principles but arose instead from political events and decisions: the notable *reduction in inequalities in the midst of most territories*.. This came about as a result of Fordism - the combination of mass-production and mass-consumption, giving rise to an extended middle class - first in the United States, then in western Europe and in Japan after the Second World War; and as a result of Socialism in Russia and then in Eastern Europe as well as China, but also extensively in India. Consequently growth was exceptionally *egalitarian* and also widely and *for this very reason, principally self-generating and driven by domestic markets* (The domestic market for Western Europe being the European Union).

In less than 20 years, from the early Seventies to 1989, the factors which allowed for this kind of growth disappeared: in the rich nations, the virtuous circles which maintained such growth were interrupted, as the conjunction and mutual maintenance of the economic dynamics of firms and their home territories weakened, once the former became international and were impelled to play off the *differences between territories*. Socialism crumbled; governments in the Third World now had no other model than export led growth. Capital, explicit knowledge and merchandise circulated almost without hindrance, and flowed according to the gradient of the steepest economic slope: production wherever the quality/price ratio (from design to unskilled labour) was at its best, sales wherever there should be buying power.

The result was that the dual development which characterised the body of the 20th century (from the 1920's to the 1970's) - dramatic increase in inequalities between territories, and exceptional reduction in inequalities within those territories - *began to turn back on itself*.

What should we do ?

Should we do anything ?

Firstly, why should we do anything about it? Free trade with the LICs and its consequences wouldn't after all be so very disagreeable for the competitors in the rich nations. It would soon make the supreme luxury widely available, after one short century during which it was not an option: being able to afford domestic servants (the definitive example of protected jobs). Nonetheless, the rise in unemployment in certain European countries seems to worry them. *The only solution therefore is to remove all obstacles to lower incomes*, both direct and indirect (welfare systems), for exposed and protected jobs. If, despite this measure, the market does not create enough protected jobs - that is to say, if private demand for such jobs does not increase quickly enough - complementary measures should be taken: the State would create some of these jobs in the public interest (cleaning up the environment, calming the housing estates, looking after old people who otherwise have no means of support), with funds otherwise destined to subsidise unemployment. In such conditions everyone 'works', a large proportion of the population becomes very much poorer, public and private police forces are responsible for containing delinquency and the influence of private charity develops.

In my opinion this is the way chosen by the US; the creation of NAFTA even goes some way towards speeding up the process. In the course of 20 years the US economy has gone from

an exposure rate (imports/GNP) of 4% to 11% and NICs have taken 13% of the market for manufactured goods. At the same time 20 million jobs have been created and unemployment, more cyclical, is undeniably lower on average than in Europe. However, this has been accompanied by a considerable increase in disparity of incomes and a constant reduction of low incomes; as we know, a large number of these jobs were created in the protected category - janitors, restaurants, household services etc. During these 20 years the real net wage of blue-collar employees has fallen by 0.73% per annum and the gap between the 10% highest and 10% lowest salaries has multiplied by 1.8. Currently 17% of *full-time* employees live below the official poverty threshold.

If one opposes the scenario outlined above, whether out of personal interest - as is certainly true of the middle class in the rich nations, who still constitute a large part of their population and who risk being eliminated - or out of conviction, there are only two options.

Should we redistribute wealth within the rich nations ?

If we wish to keep the disparity in earnings within 'reasonable' limits, or at least to slow down its increase, whilst still accepting free trade with the LICTCs (whether by conviction or because we judge it impossible to prevent), then *we must disconnect real incomes from wages*. There should be no more fixed minimum wages for exposed and protected jobs, but instead, for example, a minimum earning level determined by the Government, the difference between actual wages and this level to be paid by the State and financed by deductions from the earnings of competitiveness. This option finds favour with those in favour of free trade but mindful of fairness and social stability. They are insistent on making the distinction between the increased 'size of the cake' brought by free trade and the actual sharing-out of the cake, which to their minds is purely a matter of internal policy. We must note, however, that if the disparity in earnings is to be maintained at a fixed level, tendentially the transfer of funding must increase. It is clear, then, that there must be a strong sense of altruism amongst the competitiveness, who will receive an ever-lessening share in the wealth they create. We should lastly emphasise that the supposed dichotomy and independence between growth and sharing of the cake will be somewhat summary and will ignore certain macro-economic constraints. I give you one example: taxing the income of competitiveness is always an option, but it must not have the effect of reducing their demand for protected goods and services by too much; and nor should the income thus transferred to the protected go mainly towards buying cheap goods from LICTCs. Now, a government may be able to wield the tax system but it can have no control over consumer demand! We may therefore doubt whether a sharing-out which increasingly opposes powerful economic tendencies would be politically tenable for long, and even whether it would be technically possible.

Should we regulate trade with low-income countries ?

If we wish to slow down the increase in inequalities the second option is *to refuse unrestrained free trade with the LICTCs*. It would not be a case of closing the borders completely (of course in our case I mean those of the European Union), but rather of limiting our rate of acceptance of imports from LICTCs in order to adjust the rate of job losses to our own rate of job creation. This would, *ipso facto*, force these countries into a more self-maintained growth - not necessarily within each country, but within larger territorial zones. Given the obstacles at a political level - geopolitical, in this case (amongst which would be the inconsistency of the EU in this field), this option seems to me currently to be equally impracticable⁶.

⁶ Let alone the fact that putting it into practice would raise extremely complex technical questions - which might also have perverse side-effects - given the very advanced stage of distribution of manufacturing processes between territories.

As a result, at the moment I think our most likely future, once again in economic matters, is in following the way of the US. Nonetheless, we have learned one thing this century - and we are indebted to Keynes for being one of the first to understand and formulate it even in vague terms. From Ricardo to the Neoclassics, by way of Marx, economists have believed that they have discovered the 'laws' which govern capitalism. In fact there are no more laws of capitalism than there are of history: it is true that capitalism follows broad trends and it is essential to be able to identify these, but capitalism in itself doesn't shape the terrain. Whether we suit ourselves to its latest direction or whether we end up by trying to modify it - and what crises might that cost us? - given our situation at present, I wouldn't like to hazard a guess.

II - DISCUSSION

Commentary by Jean-Marc Oury

Pierre-Noël Giraud offers us an approach in the tradition of the great economists who studied phenomena using precise models. He has the courage to speak unambiguously of individuals when he distinguishes between competitive, exposed and protected, and lays himself open to more criticism by doing so than those who use general and impersonal categories. His technique has the merit that it gives rise to a wealth of discussion regarding the stakes of international commerce.

Nonetheless, I have certain criticisms to make and questions to raise.

The notion of finance is absent from his analysis. Now, for every dollar spent in a purely commercial transaction, fifty or a hundred are spent in a financial one. His analysis takes no account of the evolutions of currencies or the impact of national policies regarding interest rates or monetary control; and from this stem considerable variations in competitiveness between countries.

Furthermore, I'm of the opinion that the flow of investments in low-income countries could fuel the economies of developed nations, as long as the investors are able to surmount the finance obstacles they are confronting at the moment - that is, as long as finance in low-income countries is feasible. I think the outlook might be less gloomy if one incorporated the financial and monetary dimensions into the picture.

Regional policy is also not covered. It's true that the opening-up of international trade must lead to renouncing Keynesian policies which create serious imbalances in trade unless they are co-ordinated between countries. At the same time specific action in particular regions or industrial sectors is always possible, as has been demonstrated with some success in the car industry. Shouldn't we be considering instruments adapted to stimulate the creation of competitive jobs and slow down the loss of exposed ones?

I also wondered what was so new about the phenomenon of relocation. When our coalmines came to the end of their reserves, you could say that coalmining was relocated. Naturally that caused problems on a regional level but it was possible to confront them with adapted policies. Maybe the principal difference is that modern-day relocation has more widespread effects and it is more difficult to act on widespread phenomena than on concentrated ones.

Finally, if the projection is correct we might reasonably fear that it will be accompanied by serious social disturbances. I was struck by the fact that P. N. Giraud came close to Marxist analysis when he predicted the impoverishment of the working class leading to the end of capitalism. Similarly, shouldn't we ask ourselves whether capitalism will survive the effects of trade with low-income countries?

Finance and currency

P.N. Giraud : It's clear that current exchange rate fluctuations work against free trade: a supporter of free trade would therefore propose 'honest' exchange rates. But what is an honest rate? According to economic theory, the exchange rate between two countries should be that which equates *average* productivity in the two. Now the average productivity of 1,300 million Chinese is substantially less than that of 250 million Americans; on the other hand, the productivity of Chinese workers in factories making goods for export to developed countries is

considerably higher than average. This is basically the problem, that there are areas of high productivity within countries whose productivity average is very low; so I don't think that more honest exchange rates would alter the phenomenon very much.

The prospects for growth in low-income countries are such that we should see a permanent flow of investments coming from developed nations. This is a good thing, since it will accelerate the growth of low-income countries and so reduce tensions between countries. However, these investments should bring hard currency returns, contributing to international commerce and as such becoming a part of the mechanism for increasing trade with low-income countries.

J.M. Oury : My question was more specific: the numbers of investments in these countries are such that they could be factors in creating jobs in our own, and also perhaps in the emergence of a middle class in the low-income countries themselves. Can we organise a flow of investments rapid and secure enough to limit the imbalance?

P.N.G.: Anything which might accelerate self-generating growth by raising the average standard of living in these countries must be a good thing; but I think it could take decades. At the moment we're moving towards a parity of average standards of living between territories and an increase in disparity of earnings within these. The more substantial the rate of investment, the more powerful the phenomenon of catching-up of living standards will be; but for the moment investments tend more to increase the tensions.

Moving towards more specialised services ?

Q : The phenomenon under study depends on the proportion of goods and services which travel. One instance: the Health Service is a little-exposed sector which will soon represent an added value equivalent to industry. How does your model incorporate it as such ?

P.N.G.: Fortunately there is a large number of protected goods and services, and demand for such services may increase; but there must be sufficient growth in the competitive group to allow for the growth of all.

Claude Vimont : Since my work has been quoted, I would like to offer two reasons to temper P.N.Giraud's pessimism: firms setting up in other countries, and the development of specialist services of quality.

Investing abroad represents not only the transfer of capital but also the creation of commercial jobs abroad and the development of services to business. This option however presupposes an increase in our representation abroad, which is regrettably little compared with other countries.

I'd like to stress the second option: compensation by means of developing service industries. The situation you describe is close to that evoked by Robert Reich in *The Work of Nations* in which he predicted that a large number of people would be brought into work serving the competitiveness. Having since been appointed Secretary for Employment, he recently observed that the service sector was acquiring a structure and was creating better-paid jobs.

It's an option open to us also. If one part of the population has the prospect of increasing its income, that part will become more demanding of quality. This will call for more qualified personnel in the service industry and a larger body of professionals, which in turn should create higher incomes. Furthermore, customers abroad will be able to purchase our services, as is already the case in the tourism and the consultancy industries.

P.N.G.: I quite agree: the increase in quality of services which will encourage competitiveness to buy them, and the sale of such services abroad, will limit the imbalance; but will the process be fast enough?

My thesis is that we will see an increase in job losses since the phenomenon is changing dimension: China is capable of offering almost all that we offer; India is eliminating the Soviet influence from its economy and Russia, whilst it is still in the middle of restructuring, could

prove a formidable competitor; a good part of Latin America is entering a period of export-led growth. It will be very difficult to compensate for these effects.

Besides, Robert Reich is far more pessimistic in his book than I am: he speaks of the destruction of the social fabric and of political consensus in the US. I wouldn't venture such an opinion on that point: surely a society consisting of 30% competitiveness and 70% protected, working less and earning less but living together, would not be intolerable.

One observation regarding Jean-Marc Oury and Claude Vimont's questions: how are we to stimulate job creation, what kind of policies should we put in place? I can't give precise answers to these because I haven't studied these areas in depth. I'll only say that structural differences between countries cause them to react differently to the phenomena I have described.

In Japan, for example, there are quasi-feudal relationships with subcontractors established by competitive industrials who protect their employees. Moreover, competitiveness and the majority of the exposed consume a large quantity of locally-produced goods and services. Japan will therefore be less liable to job losses than other developed countries.

How can we imitate Japan in this respect? How can we ensure that competitive industrials treat their subcontractors better? How can we influence patterns of consumption? Probably not by advertising to persuade people to employ nannies or tutors! But this is allowing ourselves to be sidetracked from the issues I have raised this evening.

Will there be no cataclysm ?

Q : I'm astonished by the reasoning we've just heard.

On the one hand, we are being offered a determinist analysis which takes no account of the regulation or co-operation which might alter the outcome - phenomena about which there is nevertheless plenty of research.

On the other, how can one offer an apocalyptic vision without envisaging cataclysm? In this model there are no wars or revolutions. Surely it's not possible to make these kind of prophecies without imagining major upheavals?

P.N.G.: Naturally I don't work with the supposition of a Third World War or major social upheavals: that's outside the rules of economic analysis, which is about identifying trends.

However, I do take regulatory mechanisms into account. I've examined the mechanisms posited by the neo-classic economists, according to which free trade would increase well-being worldwide and it would be enough to take a part of the wealth generated and redistribute it.

I've also said that nations might regroup themselves in larger homogeneous zones for negotiating purposes, which would be a fundamental regulatory mechanism. Will this happen? I don't know, but I can see the potential obstacles to the establishment of a European bloc on account of the divergences of interest between countries. By this token West Germany, whose mechanical and equipment-manufacturing specialisation was beginning to burn out, can now look to huge markets in countries which are developing or reconstructing their industries (such as Eastern Europe). This privileged position could make it one of the few rich nations where creation of competitive jobs could compensate for the loss of exposed jobs, and could therefore cause it to oppose any idea of collective control of these rates of destruction.

Q : Your model interests me in that it allows us to foresee different kinds of cataclysm: for example, a recent study shows that in 30 major cities in the US the Mafia and other gangs are developing parallel fields of economic activity. We might also consider that the present-day evolution of the Arab states amounts to symbolic protection against international exchanges. We could also consider that self-maintaining economies might develop without following the dominant international economic pattern.

P.N.G.: Don't reproach me with offering an apocalyptic vision. If 30% of the population should earn on average fifteen times more than the rest, does that necessarily lead to apocalypse? Not if nobody lives in penury. Consumer patterns would have to change, and we would find many more cheap products. Indeed, this is already happening as we see the arrival of products from China and other low-income countries with technological capacity.

Realistically, the 'shopping basket' version of the retail price index doesn't mean much any more: if one has the time, it's possible to find the same item at half price in the sales, on special offer or imported in bulk from Korea, etc.

In the US the situations I have outlined are already a reality and will be accentuated by the North American Free Trade Association. It is true that this will oblige competitors to live in dedicated areas and to employ janitors; but that won't necessarily cause a general social upheaval. As for crime and violence in the US, that's an old problem and one in which economic determinants aren't necessarily the most important factors.

Q : After the Second World War in France we also had competitors, exposed and protected. We shed about 30% of jobs in agriculture, and we experienced relocations within our own borders perhaps on an even larger scale than the ones now predicted. What is the difference between our past and future experience - is it perhaps to do with the mechanisms of social transfer? The ones which helped us to adapt to radical change at home then are maybe not appropriate for today's evolution.

P.N.G. : I'll answer off the cuff, but I'd prefer to think about it a little more. The loss of jobs in agriculture came about because of an increase in productivity. If some jobs were cleared then others were created in the country as a whole, since the reduction in prices of agricultural products freed buying power which went to purchase other products. In contrast, today we have job losses without increase in productivity: we only gain 500 skilled jobs against 1,000 exposed ones. There is an increase in overall wealth in the country but there are still job losses. Maybe the mechanisms are different.⁷

The end of liberalism ?

Q : You're trying to see what happens if there is no State intervention and you conclude that this increases the number of low salaries and menial jobs. In France this is as explosive an issue as an increase in unemployment. I'd therefore tend to conclude that some kind of protectionism is necessary - I'd even say that the government has no choice.

Q : I've heard some very interesting things this evening and some very dangerous ones, particularly the conclusion that we should re-establish protectionism. It must be made clear time and again that international trade is the source of wealth. If we trade 1 franc's worth of Airbus for 1 franc's worth of shirts, it's true that we're exporting a product representing a little productive and well-paid work against a product representing not very productive and ill-paid work; but the balance is positive, and that is why the trade took place. We might compare this phenomenon with technological progress and quote Alfred Sauvy's assertion, "*We mustn't complain that technological progress takes away jobs: that's what it's for*". Similarly, we shouldn't complain that international trade takes away jobs because equally that's what it's for - creating more wealth for less work, making international differences more efficient for the good of all. Every protectionist declaration should be condemned, because an area which rejects trade rejects wealth.

⁷ Having given some thought to this interesting question after the session, I've come up with the following answer. The kind of phenomenon which characterised the 'glorious thirty' in fact offers considerable similarities in form with the ones we're discussing here. During this period the number actively employed in agriculture, which was still quite large in France in 1946 (36% of the working population) decreased by 5.4 million in 30 years, of which 4.4 million had gone by 1968. However, these losses were exactly compensated by jobs created in industry and services. Nonetheless, there are two essential differences between that and the current situation: 1) it was undoubtedly easier for a farm labourer to become a blue-collar worker on the assembly line than it is for an exposed employee today to become a competitive, and 2) this movement, stemming from an internal productivity dynamic, was under Governmental control: I believe that the exodus from rural areas would have been actively slowed had it been the cause of mass unemployment.

Clearly, this poses two problems. On the one hand we should be sure that the balance of payments is equal, which means having a sufficiently strong competitive sector. On the other, we should have an adapted policy of redistribution of wealth.

P.N.G.: What you've just said is in line with classical theories of international trade. However, these theories are static, whereas my approach is a dynamic one and I have emphasised a *historical* conjecture : for the years to come, free trade between rich industrialized countries and LICTC will increase income disparities in both types of countries. Unlike you, I wouldn't conclude that there is no case for protectionism, since between this conclusion and an analysis of mechanisms there would have to be value judgments and we'd thus leave the domain of science. You know that in certain circumstances political reasons may lead to slowing down growth a little in order to achieve a certain fairness. It's easy to say with one voice that we should try to ensure that the cake is as big as possible, and with another that we'll change the way it's shared out, as though the two actions were independent. In reality it's never like that, and the two influence each other.

I have no stated position on whether a degree of protectionism is a better thing, or a degree of socialism. I've even suggested, in somewhat provocative fashion, that what I have outlined is by no means apocalyptic and would actually be quite agreeable for a proportion of the population.

Q : Let's go back to Marx, since you haven't really answered Jean-Marc Oury's invitation to state your relation to Marx' dialectic. The categories you use in your model don't account for all the French population: not everybody gains their income from work, some also gain theirs from capital. Should we not imagine a redistribution of wealth between those who hold capital and the others?

Besides which, when one takes the Metro in Paris it's clear that we're approaching a Brazilian-style situation of impoverishment. Should we be living in fortresses, protecting ourselves against the growing masses of the poor?

P.N.G.: Marx is a great economist, but also a classical economist. He didn't take into account historic variables: he spoke in timeless fashion of the tendential decrease in rates of profit, and of absolute impoverishment, and so on. When we say 'law' we mean 'mechanism' and place ourselves apart from historical contingencies: for example, he didn't consider the reasons whereby differences in income decreased so much after his time. This can be explained with a model like mine; my model isn't a Marxist one since it doesn't consider any contradiction between capital and labour. I don't predict absolute impoverishment, but an increase in wealth worldwide, a lessening of the differences between developed countries and low-income countries with technological capacity and an increase in disparity of incomes within each territory.

Consequently I don't see a very close relationship between his work and mine. Marx' work is mechanistic whereas mine attempts to capture a dynamic susceptible to policy. What we are going to see is a new dynamic of incomes, arising from the effects of international trade. Will political factors modify it in any way ? At present I shouldn't like to hazard a guess in that domain