

## Structural Problems in the Crisis

About ten years ago when the great reorientation of economists in relation to economic policy gained momentum it was often said, perhaps as an excuse for their *volte face*, first, that “conditions were not what they had been before” and second, that global measures to control demand were not sufficient “any more” (they never were). An apparent justification for these arguments was the structural problem. Of course, this had existed before (Keynes 1929). But may be there is something new in the world-wide character of the present structural problems. All over the world the steel industry, the shipyards, the motor car and plastics industries and so on are in difficulties. But what may also be new is that the structural problem appears now not only in its industrial and regional aspects but also in its aspect of organisation (the crisis of the large concerns). We shall deal with these various aspects in turn although they are so closely connected as to be inseparable.

### Excess Capacity

The reasons for the problem are partly technological: the requirements of steel per unit of output have declined (on account of substitutes and lighter construction). Economic reasons are: saturation of demand, competition by new industrial countries. At the same time the labour input per unit of output has declined strongly just in the mature mass industries; like motor cars, steel, etc.

Actually the overcapacity of the primary and some other mass production industries is only a special case of the general tendency to create overcapacity in periods of expansion and large investment; in the cyclical boom this excess capacity (in relation to the growth of demand) according to Kalecki is the explanation of the turning point which leads from boom to recession. The special feature in our case is that the

excess capacity is largely concentrated in certain industries (steel, shipbuilding) owing to the technical changes and other shifts which have taken place in the preceding period of expansion and heavy investment. And owing to the fact that it is concentrated in industries which are bound, for technical reasons, in terms of employment at least, to decline further, the overcapacity is not cyclical but permanent (until it is removed) or, if you like to call it so, structural. That indeed means that a recovery of general demand will not be sufficient to restore the demand for these products, or if so then at any rate not the demand for labour in these industries.

I referred already to the role of displacement of labour (even with unchanged output) in the structural problem. Of course, the displacement of labour owing to technical progress can occur generally, over all or most industries, and this is how it was conceived originally, for example by Marx. In fact it would occur whenever the growth of manpower plus growth of productivity were to exceed the growth of real product. This kind of discrepancy played a large role in the emergence of unemployment in the 1970s in the U.S. and Europe, although for demographic and not for technological reasons. This would have required, to maintain full employment, a high growth rate, stimulated, for example, by large public investment. This was against the spirit of the time, which manifested itself already then in the U.S. and in Germany. There was, however, also a difficulty in so far as the direction of industrial investment required special consideration. A concentration of investment in the large concerns (steel, motor cars) would have increased the structural imbalance. The new products and industries were still to be created. The uncertainty of potential investors was increased by the environmental problems and the question of energy.

### Displacement of Labour and Compensation

Let us deal with the problem of displacement in a general way, starting from Marx and the subsequent debates. I should at first mention that, as I read it, technical progress in Marx's *Capital* plays two different roles: it may be induced when it occurs as a response to scarcity of labour, or it may be autonomous, occurring also without

scarcity, and then it will increase unemployment (displacement of labour). The displacement effect, both before and since Marx, has given rise to heated discussion. It has been maintained that the displacement could not be more than a temporary and transitional phenomenon, because in principle an automatic compensation would be assured by a corresponding amount of new employment. This compensation, it seems, must come from two sources:

From investment: assuming that the technical progress involves the use of new and improved machinery, the amount of employment generated in the investment goods industries must be set against the loss of employment in the industries which introduce the new methods.

From consumption: as Marx rightly argues, the total labour employed (including that used in the investment goods industry) must be smaller with the new methods than with the old — and the difference represents the gain in productivity. This gain, in principle, represents a potential increase in standard of life, made possible by using the displaced labour for the production of more consumer goods. The compensation argument says that through technical progress new real income has been created and this will automatically create the demand for the new output and therefore for the displaced labour. Each of these points gives rise to a long series of considerations.

#### (i) *Compensation by investment.*

1. We have first to exclude the case in which the technical improvement takes place on the occasion of the replacement of an old machinery which would have to be undertaken anyhow. There need be no new employment here, unless the new machine is more costly (in terms of manpower) than the old one. It must be admitted, however, that most replacement in industry is motivated by technical obsolescence, so that the argument loses much of its force.

2. If the investment goods industry is located far away — in the extreme case, if it is in another country — the compensation becomes problematic or fails.

3. In the above argument we have tacitly — and fictitiously — assumed that the labour input in machinery is distributed over the whole lifetime of the machine. In reality it will occur in one lump before the increase in productivity takes place and labour is displaced: the

compensation precedes the displacement, there is in fact at first overcompensation. Afterwards, over the whole life of the machine, there will be no more compensation but only displacement. This explains the expectation of Kalecki that innovations will start an upward trend, though this may be reversed unless further innovations follow.

(ii) *Compensation by consumption.*

Compensation under this heading depends basically on the distribution of the additional (potential) real income. If the share of wages in the additional output is at least as great as in the average income of the economy, that is, if wages increase in pace with productivity, then there is a good chance for compensation. But it is not only necessary that the workers participate in the results of the productivity increase, there must also be additional investment in order to realise the expansion of output required for compensation.

The increase in consumption may raise a question of the structure of demand. In former times there was no such problem: you needed more shoes, trousers' etc. But when a high standard of life is reached the structure of demand is bound to change drastically. As long as you can copy existing models, for example, the American way of life, you are able to follow a given pattern. But once you have yourself reached a high standard of national income you have to become a pioneer in consumption. It has become an economic problem that we do not very well know how to build our lives, that we do not have a vision of a desirable culture. An analogous and related question arises in the case of investment goods where the rapid technical change causes great uncertainty and perplexity. It will therefore not do simply to use the displaced labour in order to increase the output of existing industries. It has to be shifted to new industries (products) for which the capacity has to be created. And now a decisive point: the new industries have to be there ready to absorb the labour as soon as it becomes redundant in the old industries. If it is not, the displacement occurs and starts a downward spiral.

The post-war history of European countries shows an interesting contrast. In the first period there was a large displacement of labour in agriculture and in other industries in connection with strong productivity increases there. This labour was absorbed as soon as it became available by growing industries. The growth was based on the import of American technology — a catching up process — and of American

consumption patterns. The pull was stronger than the push. More recently, the opposite is the case: the basic industries, steel, heavy chemicals, etc. as well as some saturated or mature consumers' goods industries (motor cars) have redundant labour and there are no or not sufficient industries to absorb them. The push is there but not the pull.<sup>1</sup> No doubt the situation is made even more difficult by the fact that while in the former case the displacing industry — agriculture — was a low wage industry, the basic industries which are now displacing labour are privileged in wage and fringe benefits. But that is only an aggravating factor: however ready the steel workers would be to accept lower wages this in itself would not produce greater demand and new industries.

The two cases correspond roughly to the two patterns of technical progress which are implicit in Marx's description of accumulation: one, adaptive, which is induced by scarcity of labour; the other, autonomous, proceeds in the absence of new absorbing industries. Technical progress can act quite as viciously as Marx argued, but it all depends on the more or less dynamic character of the economy.

### Regional Problems

Structural problems become as serious as they are nowadays owing to the combination of industrial and regional structure. The steel industry and others are most often concentrated in certain regions whose labour market is almost wholly dependent on the one or on a few ailing industries. The steel region of Upper Styria in Austria may serve as an example which is probably representative for other much larger and more important regions or depressed areas. It is dominated by relatively large concerns from few industries (apart from steel, mainly pulp and paper). There is little trade between the firms inside the region, all the trade is between the large concerns and the world outside the region. The intra-regional trade has been either internalised by the concerns or replaced by imports into the region. Without going into the

<sup>1</sup> The experience recalls irresistibly what JOAN ROBINSON (1937) said about "technological unemployment": that its causes were no different from those of ordinary cyclical unemployment and its cure was the same. By heating up effective demand and thereby creating scarcity of labour in most of the economy, enterprise and demand for labour would be diverted to the depressed areas, and labour would be drawn out of those areas and industries.

history we may guess that this situation did not always exist. It arose from the entry of big concerns into the region who concentrated the industry, absorbed all the labour (including labour newly drawn into the region from outside) by paying higher wages and crowded out the older independent firms, so that everything became integrated in their hands.

It should be appreciated that there is a close analogy between the imbalance of such regions and that of many developing countries who acquired the imbalanced structure in the colonial era. Their typical fate was that the internal network of trade and economic relations decayed and the relations of a limited number of large firms with the outside world tended to dominate the economy. Here as there the imbalance ("monoculture") has increased the vulnerability. It seems very difficult, in such an environment, to induce new firms to settle in such a region. There is a parallel here to ecological problems: once a balance is destroyed it is difficult to restore it; it takes a long time, sometimes it never happens, at least not by itself.

The story of colonisation is old, it is described by Fernand Braudel (1979) as the relation between centre and periphery. The periphery tends to be a raw material supplier. It appears that centre and periphery (although connected by long distance trade originally) can also be situated in the same country.

There is a school of regional economists in Italy (Fuà and Zacchia, 1983) which sets up an ideal of regional development which is the diametrical opposite of the unfortunate development described above. It advocates — for those regions which are fortunate enough to have been spared the destructive old type of industrialisation — an "industrialisation without ruptures" (*industrializzazione senza fratture*) which is based on existing resources in manpower, skills, houses, agricultural activities, in other words which makes use of existing structures, economic, social and cultural, instead of destroying them by imposing an entirely new structure imported from outside. The experience on which this model is based is that of the rural industrialisation in Central Italy. But of course such recipes are not directly of use for the regions which have already been subjected to the disruptive type of industrialisation.

## The Problem of Organisation

I come finally to the structural changes in relation to organisation. It has been a tenet of industrial organisation that large concerns have decisive advantages, and this has found expression in the economic policies of the '50s and '60s in Europe, which sought salvation from international competition in the formation of giant concerns, putting aside all doubts about the desirability of oligopolistic or monopolistic power. But since this happened we have had various signs that the big concern has lost its undisputed superiority. This is partly due to changes in technology which favour small establishments, partly to an increasing importance of the human factor in industry which brings to the fore dissatisfaction with the bureaucracy of the large concerns and preference (especially of the research workers) for the working climate of the small firm.

Changes in the technical conditions result, for example, from the applications of micro-electronics. They make machines more flexible so that they can serve various purposes in turn; the specialised machine with its need for continuous output and large lots is giving way to the adaptable multi-purpose machine. Modern communications favour decentralisation and the small firm. Co-generation of power favours the smaller thermal power station.

The bureaucratic organisation and elaborate hierarchy with advancement by seniority in most of the large concerns has been increasingly disliked by the younger generation of managers and research workers. Criticism of these structures which before has been subdued has become commonplace as the hapless leaders of the hierarchy show themselves less and less successful in coping with the present problems. One of their reactions is the attempt to decentralise either by putting out some of the work to independent business, or by creating subsidiaries in which management can feel as near as possible to independence.

In the course of the preceding brief exposition of structural problems mention has been made of various new ways of thinking which have become known in the last few decades. There are remarkable parallels and connections between these various streams of thought, both in their critical and their constructive aspects. The new ideas on regional development have their parallel in the re-orientation which took place in development economics in the last twenty years (see, for example, Mahbub ul Haq, 1976). This is a revulsion against the type of

development economics that was taught, with devastating effect, in the earlier post-war period: the transplantation of models of industrial development from the "North" to the "South" which caused disruption, monstrous urban agglomeration, and, except in few cases, did nothing to relieve poverty.

Both streams of thought are closely parallel to the environmental thinking. The ecological calamities — dead rivers, lakes, trees, soil erosion and so on — are the analogy to the disruptive and destructive effect wrought on a formerly balanced structure by the imposition of a ready made industrial regime from outside. The reverse policy is seen in an organic development based on existing local resources ("diffuse industrialisation") and, in the case of the "South", in a policy of providing for the basic needs of the population.

Again related to the above streams of thought is the revulsion of many young people against the hierarchies associated with large concentrations of power which are analogies to, in fact often identical with, the disruptive forces which destroy an interacting system whose usefulness is discovered only once it is gone.

The common denominator of all these ideas is the conviction that technological developments are not determined outside society and are not beyond human control (Piore and Sabel 1984): they are man-made and made by our society.

### Consequences for Economic Policy

It does not seem that the policies *en vogue* nowadays favour a lasting solution of the structural problems. Or is austerity likely to favour the development of new products for consumption? Can a creditor's and rentier's policy encourage pioneering investment in new technologies, in new industries? What has been done (in the best case) are short term measures of "protection", to keep the ailing firms going and keep at least a large part of the work force in their employment. As a short term solution this is preferable to throwing the workers out into the street. But it will be unsatisfactory if there is not at the same time a long term policy. The management and the unions of the sick industries are not necessarily in favor of it, they would like everything to remain as it used to be, which is, however, impossible. The long term policy

requires the creation of a new balanced industry in the region. Nobody will believe that this is easy. A balanced structure is difficult to recreate once it is destroyed. New enterprise is difficult to conjure up with a magic wand. It is all like planting trees in Sicily or on the rocks of Dalmatia.

A positive effort in this direction requires planning. This should not be misunderstood as an attempt to impose solutions worked out on the drawing board. In fact, such a policy might easily lead to "fractures", to breaking up what is valuable in traditional structures, unless it were to fail already in the early stages of its execution. The restructuring has to be done empirically, in the field, through learning by doing. The function of the plan is to coordinate and to provide services (research, information and contact, education and training). The planners have to study the technical possibilities currently available or in an advanced state of development on the one hand, and the available capabilities of the region on the other: the availability of know-how, of technical expertise (scientists and engineers) and of firms with suitable experience, management and skilled workers. The development strategy has to be based on the available potential. Such a policy of coordination requires, of course, a staff of experts, well organised in particular with a view to ensure cooperation between industry and the universities and in a strong position of independence *vis-à-vis* the vested interests, public and private, who are apt to defend the *status quo*.

It will often happen that the depressed region has also a neglected and unsatisfactory infrastructure, an obvious discouragement for new enterprise. In this case it will be an essential part of the strategy of government to improve the infrastructure by means of local labour and with local firms. This will involve a learning process and an educative effort in trying to bring the firms up to the required standard. It will be a way of getting the local industry and the internal trade and cooperation of the region going. Thus the building up of the infrastructure can be the occasion for a procurement policy directed to educative functions. The same can be done with procurement in connection with environmental policy and energy policy in the region. All this, however, will be very difficult to carry out in practice if the power structure of the region is such as to impede change, especially if the central government is itself involved in this power structure. This, in fact, explains why structural policy is such a hard nut to crack.

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