

Chapter 5

Problems of recovery

What are the necessary conditions for a reduction in unemployment in the European Community and what are the chances that those conditions could be fulfilled in some or all member countries? The purpose of this chapter is to suggest answers to these questions, making use of numerical estimates derived from our models of the Community and the world economy* but recognizing that the estimates are subject to wide margins of error.

The first part of the chapter suggests that there cannot be a significant reduction in unemployment in the Community without a rate of economic growth similar to that achieved before 1973.

The second part considers the external obstacles to a high growth rate in the Community and indicates broad lines of policy by which those obstacles might be overcome.

The third part of the chapter examines the distribution of economic growth between member countries of the Community. The problem is that even if external constraints could be eased, unemployment might still remain high in many member countries because economic growth would be disproportionately concentrated in Germany which already has relatively low unemployment. Adjustment mechanisms within the present framework of the Community are not powerful enough to obtain a distribution of economic growth which matches the needs of different member countries; at best only a partial adjustment in this direction seems possible.

The final part considers how far any one member country can achieve economic recovery and reduce unemployment by policies of its own.

* For details of the world model referred to in Chapter 2 see *Cambridge Economic Policy Review* vol. 6 no. 3. The model of the Community, based on the accounts in the Appendix, is still at an early stage of development and will therefore not be discussed in this publication. Agricultural output, energy supply, market shares of manufactured exports and imports, fiscal policy and demographic trends are the main exogenous variables for each country. The model determines sectoral demand, trade flows, value added and employment as the main endogenous variables.

5.1 The need for economic growth

In recent years there has been some support for the notion that the Community should accept limits to growth imposed, in particular, by shortages of natural resources and that it must learn to live with little or no overall expansion of real income. This view ignores the fiscal problems discussed in Chapter 1. There we showed that it has become impossible to reconcile improvements in social provision for the less well-off with stable rates of taxation and social security contributions. Moreover, as we shall now show, it is out of the question for there to be any general reduction in unemployment in the context of a low or zero rate of economic growth. Certainly work-sharing and a greater emphasis on services as opposed to goods could make a contribution to resolving the problem of unemployment. But even with changes of this kind, sustained economic growth is essential if unemployment is to be brought down.

Table 5.1 sets out estimates of the additional number of jobs needed in different member countries of the Community to reduce the recorded rate of unemployment to 5% by 1985. This would still be high by past standards (it is about the same as the rate experienced on average after the 1975 recession). Yet in all countries except Germany total employment would have to rise by some 10% or more to bring unemployment back to this level by 1985. In the Community as a whole 9½ million additional jobs would be needed in the next four years.

Various forms of work-sharing, notably a shorter working week, help to increase the number of jobs at any given level of aggregate real income insofar as they reduce the average value added per job. But productivity growth which increases value added per job cannot be suspended altogether. Labour-saving technology cannot easily be rejected where it can improve conditions of work or in industries where Europe has to compete with the rest of the world.

Table 5.2 illustrates the magnitude of the problem in terms of sectoral developments in the Community as a whole. With either fast or slow economic growth there is likely to be some further loss of jobs in agriculture and little measurable

Table 5.1 The need for jobs: increases in employment required to reduce recorded unemployment to 5% in 1985

	Actual employment	Required increase in employment	
	1981 ^e (millions)	1981 ^e -85 ^p (millions)	(per cent)
Germany	25.4	0.5	1¾
France	21.5	2.3	10¾
Italy	21.0	2.5	12
Netherlands	4.8	0.4	9
Belgium	3.9	0.6	14½
United Kingdom	23.4	2.6	11½
Ireland	1.1	0.1	12½
Denmark	2.4	0.3	12¼
EEC	103.3	9.4	9

Table 5.2 Job creation and the rate of economic growth in the EEC, 1981^e-85^p

Sector	Slow growth			Fast growth		
	Value added total (% per year)	per employee	Change in employment (millions)	Value added total (% per year)	per employee	Change in employment (millions)
Agriculture	-1	1½	-0.8	½	3	-0.7
Fuel and power	5	5	0.0	9	9	0.0
Manufacturing	0	2½	-2.6	5½	5	+0.6
Construction	1	2	-0.6	2½	2½	+0.1
Market and non-market services	2	1	+2.4	5½	1½	+8.8
Whole economy	1½	2	-1.6	5	3	+8.8

Note: the projection with fast growth assumes very high public spending on services and restraints on productivity growth in market services.

increase in jobs in the fuel and power industries, which rely on capital-intensive technology. Given a low rate of growth in income, jobs would certainly be lost in manufacturing where productivity has to rise for the reasons mentioned above. Some new jobs could be provided in services. But with low economic growth overall, value added in services could not expand fast and the number of new jobs would be small.

On the other hand a high rate of economic growth could provide the opportunity for job creation on the scale needed to bring unemployment down. Net job losses in manufacturing might be avoided if industries expanded rapidly, as they must to keep the Community's external trade deficit within bounds. Value added in services, too, could grow rapidly; with pressure for work-sharing much of the growth in value added might be translated into additional jobs. Although the figure cannot be precise, a growth rate of the order of the 5% a year illustrated in our table seems to be capable of bringing unemployment back to the level of the late 1970s, though only if productivity growth in services were held down by work-sharing arrangements. Whether or not such a

growth rate is attainable in the immediate future, it should be regarded as the benchmark for assessing the adequacy of policies.

5.2 The external constraint

The three preceding chapters have emphasised that growth in the Community as a whole and in individual member countries has been depressed by external constraints which derive from world energy problems. Before examining what may be done to ease such constraints it is important to have an idea of the scale of the problems likely to be encountered in any attempt to secure a high rate of growth.

The potential magnitude of deficits

As a starting point let us consider the implications of fast economic growth in the Community ignoring repercussions in the rest of the world - i.e. assuming fixed world prices for raw materials and oil and given demand for the Community's exports. Table 5.3 provides illustrative figures for

Table 5.3 Balance of payments implications of fast economic growth in the EEC, 1981^e-85^p, ignoring responses in the rest of the world

	Actual 1981 ^e	Projections for 1985	
		with slow growth (1½% per year)	with fast growth (5% per year)
<i>(billion 1975 PPS)</i>			
Balance on food, raw materials, fuels, services and transfers	-64	-65	-85
Manufactures:			
exports	127	149	149
less imports	-79	-103	-134
balance	48	46	15
Balance on current account	-15	-19	-70
<i>(as % of income)</i>			
Net manufactures	3.9	3.5	1.0
Other trade and transfers	-5.2	-5.0	-5.6
Current account	-1.2	-1.5	-4.7

Note: projections assume conditions in rest of world consistent with slow growth in the Community.

the Community's balance of payments in 1985.

The 'slow growth' column of the table is broadly consistent with a projection of our world model assuming present policies and trends. The 'fast growth' column incorporates estimates of the increase in imports induced by higher internal demand. The main effects of fast growth are likely to be on the Community's oil bill and on imports of manufactures. Our estimate is that fast growth would require in total some 18% more spending in the Community than in the slow growth case. This would entail a more-than-proportionate rise in oil imports since there is little scope for accelerated growth of internal energy supply, except in the long term. As noted in previous chapters, demand for manufactures is cyclically volatile and has been disproportionately held down by recession; it must be expected to rise as a share of income with economic recovery. Given a booming internal market for manufactures, imports of manufactures would be likely to grow faster than they have done in recent years.

If the Community could count on favourable reactions in the rest of the world, the rise in imports entailed by fast economic growth might be manageable. Part, though only part, of the addition to imports would be financed by the induced rise in the Community's exports. The increase in external borrowing needed to finance the remainder might then be of the order of 1-2% of income. Although the deficits of many member countries are already at a high level, it is at least imaginable that their governments and business sectors could increase their borrowing by this

amount without a dire collapse of confidence in European currencies.

The price of oil and other external responses

In the presence of a global scarcity of energy, reactions in the rest of the world to accelerated growth in the Community would most likely increase, not reduce, the size of the Community's trade deficit. The reason is that the price of oil would be driven up, not only by higher energy demand within the Community but also because a rise in the Community's imports of manufactures and raw materials increases income in other countries, stimulating their demand for oil as well.

An *ex ante* increase in demand for oil, backed up by an unlimited willingness to borrow, could be accommodated in three main ways (see Chapter 2) – higher OPEC oil exports, a rise in the world price of oil sufficient to induce expansion of non-OPEC energy supplies and energy saving, or preventive measures to cut down on energy use.

We can only guess at the magnitude of such responses in the unlikely event that the Community were ready to push up its external deficit indefinitely to sustain fast internal growth. Table 5.4 provides a sketch of what might happen, using our world model to generate results for Western Europe as a whole (since the model does not distinguish the Community as such). Even assuming that the Middle East supplied a 15% larger volume of oil exports, fast growth sustained by unlimited borrowing could lead to a rise of 80% in the world price of oil; Europe's deficit on food, raw materials

Table 5.4 Balance of payments implications of fast economic growth in Western Europe, 1980e-85p, allowing for responses in the rest of the world

	Projections for 1985		
	Actual 1981e	with slow growth (1% per year)	with fast growth (4¼% per year)
Real price of oil (base 1975 = 1.00)	1.7	2.1	3.2
<i>(\$ 1975 billion)</i>			
Balance on food, raw materials, fuels, services and transfers	-98	-107	-232
Manufactures:			
exports	138	177	198
less imports	-82	-104	-140
balance	56	74	58
Trade balance	-42	-33	-174
<i>(as % of income)</i>			
Net manufactures	2.9	3.6	2.4
Other trade	-5.0	-5.2	-9.6
Trade balance	-2.1	-1.6	-7.2

and fuel would then increase by about \$200 billion (1981 money). Europe would not gain much on manufactured exports to recompense it for buying more imports because other parts of the world would spend most of the extra income on their own higher oil bills. Overall, Western Europe's trade deficit would deteriorate by some \$250 billion (1981 money), or 5% of its total income.

It is unlikely that OPEC would bail out fast growth in Europe by supplying more oil on the considerable scale required to avoid a higher oil price. It is also unlikely, on the basis of past experience, that energy saving and substitute energy supply would respond quickly and strongly to a higher price. Given this, whether our illustrative figures are correct or not, it seems plausible that Europe's external deficit would have to rise to entirely unprecedented levels to keep fast growth going. It is doubtful whether European governments would alter their financial policies so as to promote borrowing on such a scale. Even if they did, the growth path might not be sustainable. Thus if Europe is to secure economic recovery, it seems essential to find other means of alleviating the external constraint.

Policies for the external constraint

To make its own economic recovery more feasible, European governments could aim to reduce the volume of Europe's oil imports and promote faster economic growth in the rest of the world so as to expand opportunities in non-oil trade. They might also aim to strengthen Europe's market

position relative to Japan and the USA to make sure that Europe reaped a large share of the benefits.

The least problematic of these objectives is that of reducing Europe's dependence on oil imports. It is at least quite clear what needs to be done. Gains could be made quite quickly through accelerated energy saving. For example, if Europe were to emulate Japan and cut the ratio of energy use to income by 3% a year rather than the 1% a year achieved up to now, the oil deficit would by 1985 be some 15% lower at any given level of economic activity. At the present oil price, the saving would be worth about \$25 billion. In the longer run Europe's oil deficit could also be reduced by accelerated development of coal, hydro and nuclear electricity or other oil substitutes.

It is not quite so obvious how Europe could effectively promote economic growth in the world as a whole and thereby expand its export markets. According to our analysis in Chapter 2, the main requirement is an alleviation of world energy scarcity. In addition to reducing its own dependence on oil imports, Europe might contribute to this in several ways. It could give financial and technological aid to developing countries for energy saving and development of their own energy resources. It could give more priority to energy policy in commercial negotiations, particularly with the USA. Perhaps most important of all, Europe could favour a higher world price of oil and help to make sure that this came about by keeping up the level of its own external borrowing, thereby ensuring adequate recycling of OPEC sur-

pluses.

A policy of support for a higher world price of oil might seem perverse because it will increase the cost of Europe's own oil imports. Such a policy could indeed be harmful to Europe's prospects in the next few years if pushed too far (shown in Chapter 2). But it is so important for Europe to improve its opportunities for non-oil trade that, within reason, the cost is worth paying. The main practical contribution which Europe can make to ensuring a high oil price is to keep up its own external borrowing, which will in itself help to cover the higher cost of oil imports. The potential benefit is greater pressure on the USA to reduce its very high rate of energy consumption and a stronger commercial incentive for development of energy resources which many developing countries, in particular, certainly possess.

The main caveat regarding a higher world price of oil is the plight of low-income non-oil countries, some of which are already in desperate circumstances. However, Europe could give aid and trade preferences to such countries to protect them from the ill effects of a very high oil price.

The policies discussed so far would contribute to world economic growth but Europe's share of the benefit might not be very large because its main industrial competitors, Japan and the USA, could take a considerable part of the additional trade generated. This problem inevitably arises if Europe seeks to accelerate economic growth, if only because its own markets are so open to imports from these two competitors.

One answer to this problem is that a high level

of external borrowing by Europe should help to bring the exchange rates for European currencies down relative to the dollar and the yen (a tendency which can easily be reinforced by deliberate cuts in European interest rates). Although devaluation may add to inflationary pressures in Europe and cannot therefore be pushed too far, Europe could gain some improvement in the competitive position of its industries in this way. The question also arises of whether Europe should seek to reduce its vulnerability to deficits with the USA and Japan by limiting growth of imports from those two countries. Such action might be justified on the grounds that expansion of demand in Europe would otherwise feed the USA's appetite for energy by helping it to increase its surplus in non-oil trade, and on the grounds that Japan's trade surplus is now already a source of embarrassment. Alternatively Europe might attempt to negotiate for measures to help it recover the share of the US market which it has lost to Japan.

None of these things seem very likely to happen, but they are the kinds of things which would have to happen if the external constraint were to be overcome. Table 5.5 provides an illustrative projection of the effects of a combination of all the measures discussed. With increased energy saving but a higher real price of oil, Europe's deficit on energy and raw materials would rise from 5% to 6½% of income. Given fast economic growth in Europe, the balance on manufactures could not fully offset this, even with restraints on the rise in imports. Europe's trade deficit would rise above its

Table 5.5 Fast economic growth in Western Europe, 1980^e-85^p, with policies to limit the external deficit

	Actual 1980 ^e	Projection for 1985 with fast growth (4¼% per year)
Real price of oil (base 1975 = 1.00)	1.7	2.5
<i>(\$ 1975 billion)</i>		
Trade balance on food, raw materials, fuels, services and transfers	-98	-160
Manufactures:		
exports	138	192
less imports	-82	-94
balance	58	98
Trade balance	-42	-64
<i>(as % of income)</i>		
Balance on manufactures	2.9	4.0
Balance on other trade	-5.0	-6.6
Trade balance	-2.1	-2.6

1980-81 level but the increase might conceivably be reduced to the order of ½% of income or some \$20 billion (1981 money). With a small expansion of borrowing by governments and the business sector in Europe, the external constraint on economic recovery would then have been overcome.

5.3 The distribution of economic growth between member-countries

We noted in Chapter 1 that migration between member-countries has played a diminishing role in the 1970s in compensating for the uneven dispersion of job opportunities relative to population. This heightens the need for economic growth within the Community to be distributed between countries in accordance with the severity of unemployment and the likely increase in numbers seeking jobs in the future.

Table 5.6 Income growth rates required to reduce recorded unemployment to 5% in 1985

	Actual growth of real income 1973-81 ^e	Required growth of real income 1981 ^e -85 ^p
Germany	1.7	3½
France	1.9	6½
Italy	1.6	6½
Netherlands	1.1	4
Belgium	0.7	7
United Kingdom	0.2	5½
Ireland	1.6	6½
Denmark	0.4	4
EEC	1.3	5½

Table 5.6 indicates the distribution of growth required to equalise unemployment by the mid-1980s. Italy, France, Belgium and Ireland need to grow some 1% faster than the Community as a whole and the UK needs to match the average growth rate (which it has never yet done). Germany starts with comparatively low unemployment and the prospect of little increase in its labour force; it is therefore less in need of fast economic growth. The majority of other member countries would have to grow 2-3% per year faster than Germany if unemployment rates were to be equalised.

Germany as an obstacle to growth in the rest of the Community

In the context of economic recovery Germany might act as a brake on growth in other member countries. It has a large share of the internal Community market for manufactures, which has been exceptionally depressed in recession. It could hardly avoid a large rise in its exports if there were a general recovery in demand in the Community. It would therefore be one of the fastest-growing member countries in that context, not the slowest-growing. The German authorities would hardly be likely to stimulate demand by high external borrowing once Germany's own unemployment had fallen. But a fall in Germany's external deficit would nullify the attempts of other member countries to sustain deflation. Worse, the German authorities, worried by 'over-heating' in their own country, might not be prepared to help finance the deficits of other members.

Table 5.7 suggests what the consequences might be. With unemployment down to 2% in Germany, it could remain at around 8% in France, Italy and the Netherlands and at 10% or more in Belgium, Denmark, the UK and Ireland. There would doubtless be a new tendency for migration to Germany, tending to diminish the discrepancy in unemployment. But from the perspective of many member countries the outcome could hardly be

Table 5.7 The internal distribution of growth: faster growth without an internal adjustment mechanism, 1981^e-85^p

	Required to reduce unemployment to 5%	Growth of real income projected in the absence of an internal adjustment mechanism (% per year)	Excess (+) or shortfall (-)	Projected unemployment 1985 ^p (%)
Germany	3½	5	+1½	2
France	6½	4½	-2	8
Italy	6½	5	-1½	7
Netherlands	4	1½	-2½	9
Belgium	7	4	-3	10
United Kingdom	5½	2	-3½	11
Ireland	6½	1½	-5	13
Denmark	4	0	-4	12
EEC	5½	4	-1½	7

said to constitute an economic recovery.

The common market and links between member-countries

The Community's common market is at the same time a cause of the interdependence of member countries, tending to link their economic growth rates, and a potential agent of change in their relative positions if they gain or lose shares of the market. These two aspects of the common market are the key to the question of whether the distribution of economic growth within the Community can be improved.

First we must stress the strength of the linkages which arise because each member country's exports to the rest of the Community are an important source of income and because the common market opens member countries to suppliers from inside and outside the Community. Table 5.8 gives comparative data for 1981, emphasising the role of manufactures. There is considerable variation between member countries, but on average their exports of manufactures to the rest of the Community are of the order of 10% of their income and *marginal* imports in total (all commodities from all sources), on our estimates, typically absorb 40% or more of any addition to their income. From these data we can infer that a 1% rise in demand in the rest of the Community, with its disproportionate effect on demand for manufactures in particular, will typically permit a member-country to increase its own income by almost ½% without any change in its external borrowing. The countries most strongly linked to

the rest of the Community through this mechanism appear to be Belgium, Germany and the Netherlands; those with the weakest linkages are the UK and Denmark.

The matter may also be examined the other way round. What effect does a rise in demand in one member country have on the income of the rest? The result mainly depends on the size of the country's imports of manufactures from other members. Germany has the most powerful leverage on the rest of the Community since its intra-EEC imports are larger than those of any other member; we estimate that a 1% rise in demand in Germany would permit a 0.2% increase in income in the rest of the Community without any change in external borrowing. The French market is almost as important as that of Germany; Italy, the United Kingdom, the Netherlands and Belgium have lesser importance while, from the point of view of the rest, Denmark and Ireland are too small for their demand to be of any consequence.

These linkages apply to reductions as well as to increases in demand and income. They probably account for much of the historical stability of relative growth rates in different member countries. But they are not immutable. Export market shares and import ratios alter through time, the rates and even directions of movement being influenced by changed circumstances or policies.

The difficulty of redistribution through changes in export performance

The classical and widely-recommended means for

Table 5.8 Linkages between member countries through intra-trade in manufactures, 1981^e

(percentages)

	Response of country to rise in demand in rest of EEC			Response of rest of EEC to rise in demand in country		
	Exports to EEC as ratio to income	Marginal import ratio	Response of income to 1% rise in demand in rest of EEC	Exports to country as ratio to income of rest	Marginal import ratio of rest	Response of income to 1% rise in demand in country
Germany	10.2	38.6	0.53	2.96	30.6	0.19
France	6.7	34.6	0.39	2.33	28.0	0.17
Italy	8.5	35.9	0.47	1.79	27.3	0.13
Netherlands	17.3	67.4	0.51	1.19	24.7	0.10
Belgium	29.6	87.5	0.68	1.16	25.0	0.09
United Kingdom	5.7	40.3	0.28	1.58	24.6	0.13
Ireland	20.3	97.3	0.42	0.27	23.1	0.02
Denmark	6.7	45.8	0.29	0.22	23.1	0.02

Note: marginal import ratios assumed to be equal to *twice* actual ratio of imports of manufactures to income plus an allowance of 10% for marginal imports of other goods and services. The marginal import ratio of 'rest of EEC' excludes trade in manufactures between the countries concerned. The estimated income responses assume that the marginal response of exports is in line with other countries' marginal import ratios and that net external borrowing remains unchanged. The elasticities in the third column are therefore equal to twice the first column divided by the second column (see Chapter 3 for the theoretical background).

securing changes in relative growth rates is through alterations in export performance – i.e. changes in the share of external markets gained by the industries (particularly manufacturing industries) of different countries. It is often argued that countries with relatively low growth rates should improve their export performance and thereby achieve faster economic growth. It is less often suggested that countries with high growth rates should endeavour to curb their exports to give others a better chance.

Is it plausible that an appropriate distribution of economic growth in the Community could be brought about by changes in the pattern of exports? To cast light on this we have calculated changes in shares of intra-Community markets for manufactured exports necessary to achieve the 'target' distribution of economic growth discussed earlier on the same assumptions about trends of import penetration as in our projection of unbalanced growth (Table 5.7 discussed earlier). The results are given in Table 5.9. Germany's share of intra-EEC markets would have to fall from 39% in 1981 to 28% in 1985 while the shares of most other member countries would have to show modest increases. The adjustment required is very hard to achieve because countries attempting to increase their shares cannot avoid competing with one another as much as, or more than, they compete with Germany. There is no direct mechanism for enforcing a large reduction in Germany's own market share. The block to economic recovery in other member countries implied by Germany's relatively low unemployment and its dominant position in the internal market for manufactures appears unlikely to be fully resolvable within the present common market framework.

5.4 The possibilities for accelerated growth in one country

Suppose that the Community as a whole does not succeed in securing an adequate rate of economic growth or that a particular member-country lags behind the rest. How far, within the present framework of the Community, is it possible for one country to procure economic recovery independently?

We may distinguish two classes of policy in this context – one comprising actions which benefit the rest of the Community as well as the country in question, the other comprising actions which enable the country to increase its income at the expense of other members.

The first class of policy includes energy-saving, external borrowing, policies to increase exports to third countries and those which reduce imports from outside the Community – in other words all those policies which ease the external constraint on growth in the Community as a whole. If one member-country undertakes such policies part of the benefit will accrue to others through the linkages described above, unless the country simultaneously undertakes policies of the second type – i.e. which increase its share of markets in other member countries or reduce their share of its own market. To get the maximum advantage from policies of the first type, a member-country needs to complement them with policies of the second type. The outcome may then be to leave the rest of the Community no better and no worse off.

We have made tentative calculations of what two member-countries, France and the UK, could achieve by such means. In both cases we assume energy-saving, increased external borrowing and modest restraints on manufactured imports from outside the Community (reducing the *growth* of imports from outside by 2% a year relative to

Table 5.9 Fast growth with internal redistribution through adjustment of countries' shares of intra-EEC markets for manufactures, 1981^e-85^p

	Share of intra-EEC imports of manufactures by other member countries		Required growth of manufacturing value-added 1981 ^e -85 ^p	Resultant growth of total real income 1981 ^e -85 ^p
	1981 ^e	Adjusted 1985 ^p		
	(%)		(% per year)	
Germany	39	28	2½	4
France	20	23	7½	5¾
Italy	19	22	6½	5¾
Netherlands	12	9	2¼	4
Belgium	14	15	6¾	6
United Kingdom	13	16	6	5½
Ireland	2	4	13	6½
Denmark	2	2	8	4

Note: market shares are in each case the share of one country's exports in total intra-EEC imports by the other seven. They do not sum to 100 (on average the shares of seven out of the eight sum to 100).

income). These are policies of the first type. We also assume export gains inside and outside the Community through devaluation of the country's currency, reinforced by government preferences for domestic industries and aid to exports. These are policies with effects of both the first and the second type.

Our estimates, given in Table 5.10, are that such policies in France or the UK could improve their growth rates by about 1½% a year and keep unemployment about 2½% lower in 1985 than it otherwise would have been. In both cases we would expect a net increase in the country's deficit on trade in manufactures with the Community because of the expansion of demand within the country. Other member countries would derive some marginal benefit from this.

At present the UK is particularly well placed to expand through increased borrowing since its external financial balance starts in surplus. But its trade balance is increasingly vulnerable to an expansion of demand because the UK is becoming a net importer of manufactures (financed by oil exports) and much industrial capacity has been closed down during the present slump. The outcome of the policies mentioned above would be clearly superior for the UK than the results to be expected under present policies. Even with such policies, however, unemployment would be higher than now and deindustrialisation would have proceeded further. This is why the rationale for continued participation in the Community's common market has to be called into question.

Table 5.10 Growth policies in one country: illustrative examples for France and the United Kingdom

	France			United Kingdom		
	base projection	outcome of growth policies	policy effect	base projection	outcome of growth policies	policy effect
Growth of real income, 1981 ^e -85 ^p (% per year)	2½	4	+1½	-½	1¼	+1¾
Unemployment, 1985 ^p (%)	12	9½	-2½	15	12¾	-2¼
<i>Balance of payments, 1985^p (% of income)</i>						
Manufactures:						
intra-EEC	-0.9	-1.3	-0.4	-3.2	-3.5	-0.3
extra-EEC	3.2	3.5	+0.3	0.0	-0.4	-0.4
total	2.3	2.2	-0.1	-3.2	-3.9	-0.7
Other goods, services and transfers	-3.4	-3.9	-0.5	3.2	2.3	-0.9
Net external borrowing	1.2	1.8	+0.6	0.0	1.6	+1.6