
Interview

Davignon assesses the global slump

Viscount Etienne Davignon, Vice-President of the European Community in charge of industrial affairs, energy, research, and science, talked with EIR European Economics editor Laurent Murawiec on April 1 at the Brussels EC headquarters. A Belgian, the Viscount was responsible for the Davignon Plan to "rationalize" EC steel output.

Murawiec: According to Club of Rome member Jean Saint-Geours [now an economic adviser to President Mitterrand], "sunset" industries, as they are phased out, take many jobs away with them which are not being replaced by "sunrise" industries, which are of little benefit for employment. Can large, permanent underemployment be averted?

Davignon: Let me make a few remarks. First—Saint-Geours acknowledges it, and he helped us define some points; he did several studies for us on the notion of economic strategy within a changed energy environment—we are only slowly coming along this idea that the economic model we are dealing with is not an old model subjected to new pressures, but a new situation, a structurally changed situation. It is a nasty and very worrisome, disquieting situation. . . .

My second remark is that this structural analysis sheds light on some positive elements that had not been noticed before that. For instance, the fact that there has been a decoupling between energy consumption and growth. This phenomenon has been occurring for the last three years. While the curves of growth and energy consumption were parallel—this holds for the United States as well as Europe—when there is actual growth, nowadays, the energy curve is flat or even inflected downward. . . .

Murawiec: These are curves for non-manufacturing activities, services, so-called "soft" technologies. . . .

Davignon: No, no. There are also manufacturing elements! It is not well known yet. We must distinguish between what results from a decrease in production and what results from a structural transformation. This decoupling is a fact. . . . The real distinction is between

those industries that will not adapt and those that will adapt. This holds for high-technology industries as well as others. Our Manichean mind would like to have clear-cut solutions—it does not work.

Murawiec: The United States is plunging headlong into economic depression. How will Europe react?

Davignon: When so large a market as America's undergoes such difficulties, global trade undergoes difficulties too. Insofar as the problem persists in the United States, we will find ourselves faced with the problems posed by the monetary setup, the interest rates. . . . Whatever efforts are made, it is extremely difficult for a European country, whichever it is, to dissociate itself from U.S. interest rates, lest the penalty is paid by the currency. If our interest rates climb, our currencies will not fall too much, but productive investment will suffer. . . .

In the field of energy, of construction, we need considerable increases of productive investment. How can savings be convinced to flow in this direction if it will be rewarded by rates several points above the rate of inflation without taking the slightest risk? This increasingly shifts to public authorities the burden of investment—but there are limits to what public investment should do.

Murawiec: Do you intend to subject other sectors of European industry to the same fate as steel?

Davignon: The steel problem must be distinguished from usual industrial problems. In the case of steel, it was a classical case of worldwide structural overcapacity. . . . The Japanese extricated themselves better than the others, but at the price of huge sacrifices. But as they did the sacrifices in time, the results [success] drew more attention than the sacrifices. The situation of steel in the United States is complex. Some states there did not succeed in their post-industrial adjustment any better than some European regions.

Murawiec: Is there a concrete perspective of the European Monetary System [EMS] for creating the European Monetary Fund [EMF]?

Davignon: The EMS question is this: when it was set up, the EMS drew quite some skepticism. But the services it rendered compelled the member states to consolidate it. It's an old story: if you don't have a car, you find it's normal to use public transportation; when you've enjoyed the benefits of a car, but you have no money to buy another one, your organizing of a good maintenance for your car becomes an essential element. . . . Today we have a generalized sentiment, politically, that the EMS should be strengthened. . . . Should it be—that's the choice to be made—a fund, or an enhanced solidarity with more operating modes? The fund, it is true, has an important quality, symbolic, subjective. . . .