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BRUNO KREISKY AND AUSTRIA'S INTERNATIONALIST ACTIVE NEUTRALITY

by Andrea Cicchinelli

The global ideas of social democracy in the economic, political, and social fields were also taken up and developed by the Kreisky Commission for Full Employment in Europe, financed by the Norwegian, Finnish, Swedish, Luxembourgish, and Austrian Governments. Renowned personalities such as Galbraith, Michel Rocard, Raymond Barre, Paavo Lipponen, and representatives of OECD, ILO, UNICEF, and the European Commission participated in the Kreisky Commission.

The final project drawn up by the Kreisky Commission focused on the need for future investments in education, technology, and infrastructure, as indispensable preconditions for the creation of new jobs.

Keywords: Austria, social democracy, internationalism, active neutrality.

Le idee globali della socialdemocrazia in ambito economico, politico e sociale furono espresse anche dalla Commissione Kreisky per la piena occupazione in Europa, finanziata dai Governi di Norvegia, Finlandia, Svezia, Lussemburgo e Austria. Alla Commissione Kreisky parteciparono importanti personalità come Galbraith, Michel Rocard, Raymond Barre, Paavo Lipponen e rappresentanti dell'OCSE, dell'OIL, dell'UNICEF e della Commissione europea.

Il progetto finale della Commissione Kreisky raccomandò la necessità di futuri investimenti negli ambiti dell'istruzione, della tecnologia e delle infrastrutture quali indispensabili precondizioni per la creazione di nuovi posti di lavoro.

Parole chiave: Austria, socialdemocrazia, internazionalismo, neutralità attiva.

From 1945 to 1990, Bruno Kreisky was, with Olof Palme and Willy Brandt, the undisputed protagonist of European social democracy, as well as of the political scene of Austria and the world. Kreisky, as a socialist, adhered to an internationalist vision intended to build bridges between peoples.

Bruno Kreisky put together Austrian neutrality much as a tailor puts together a bespoke suit: it was "a suit made-to-measure for its foreign policy" (Magagnotti, 1980, p. 24).

It was a policy of active neutrality that gave a specific identity to the second Austrian Republic and that, precisely because it is active, has shown itself to be fully compatible with the country's entry into the Council of Europe, with its membership of the United Nations (UN), with the deployment of Austrian soldiers to various parts of the world as part of UN missions, with continuous dialogue and negotiation as a tool for resolving disputes, and has become an instrument of defence of a small State, otherwise geographically squeezed between countries belonging to one or the other of the two large opposing blocks.

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In an article in *Foreign Affairs*, Kreisky wrote:

> We have never doubted that Austrian neutrality is only a function of an international balance and that it would be in grave danger whenever this balance was disturbed. It follows, therefore, that Austrian foreign policy must always aim at helping to maintain the balance of power by contributing in all possible ways to easing international tensions (Kreisky, 1959, pp. 269-281).

And, on another occasion, to the question: "What part did Austria play in the process of international detente and what do you plan to do in the future?"

Kreisky replied:

> Austria gladly sees itself as a country that tries to experiment. But we have no illusions: the process of international tension is a consequence of the balance of forces in the world. Are we moving towards a change in the balance? Then even the politics of tension will change its data ("L'Unité", 1976, p. 1570).

The path undertaken by Austria was that of neutrality and not of neutralism. Neutrality and neutralism have in common only the fact that they both do not adhere to international pacts of military alliances.

However, active neutrality, unlike neutralism, is clearly characterised by a cultural and political choice of side in favour of Western democracies because it considers democracy to be a constitutive element that cannot be ignored[1].

With his policy of active neutrality, Kreisky entrusted Vienna with the task of becoming a "great city of political encounter" (Magagnotti, 1980, p. 24) and in his building projects he was constantly inspired by his values as a socialist militant: as a socialist, Kreisky adhered to an internationalist vision that intended to build bridges between peoples. This allowed him to convert an initial abstract concept of neutrality (acquired as a function of independence) into active support for the policies of detente, containment, and disarmament.

His adherence to the principles of social democracy therefore guided not only his domestic policy (as we have seen in the previous chapter) but also foreign policy, which he considered to be the instrument through which active neutrality for Austria could be achieved[2].

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His most important initiatives were carried out within the Socialist International (as in the case of the Arab-Israeli conflict), through continuous personal contact with the other two social democratic leaders of his time, Olof Palme and Willy Brandt, on issues

[1] "In international politics, as I have always said, there is a certain attribution of tasks, that is, in the areas of friction of international politics, where an artificial truce is often imposed, which can only take place if certain states are not bound to international pacts lend themselves to the task by taking on certain roles. Neutralist states – as I treated extensively in a book – do not consider democracy as important as we do, they do not feel connected to the West, while we consider ourselves to be Western from a cultural and political point of view. Of course, both of them are free from international agreements, only that some feel part of the West, of Western democracy. This is precisely the case of Austria" (Bruno Kreisky in Magagnotti, 1980, pp. 26-7).

[2] Kreisky's joining the social democratic movement was another factor that promoted his global outlook. Indeed, his internationalism was anchored in the long-cherished socialist principles of peace, freedom, democracy, equality, justice, and solidarity. He made these principles the springboard of his practical politics – internally and externally. His attachment to the International Youth Section of the Austrian Socialist Party (SPÖ) had given him a wide arena of activities, and introduced him to the wider socialist realm far beyond the borders of Austria, which, in due course, was to transcend cultures and continents (Vivekanandan, 2016, p. 119).

of fundamental importance (such as Global North-South relations, the future of Europe, disarmament, unemployment, the environment, etc.).

Bruno Kreisky: a social democratic view

The economic crises that swept Europe and the world from 1973, by Kreisky defined as the period from which the "post-history" of industrial society began (Brandt, Kreisky and Palme, 1976, p. XVI), showed unequivocally that the golden years were over: throughout Europe, development suffered a setback, well-being was faltering, and even the very concept of democracy was not a fact to be considered definitively acquired in modern industrial societies.

Faced with this new international scenario, Palme, Brandt, Kreisky, and European social democracy in general strived to put forward proposals and to seek solutions to oppose a different vision to neo-liberalism.

One of the solutions proposed by Bruno Kreisky for global growth and employment, exhibited both within the Socialist International and in the independent international commissions of which he was a member, as well as in the Third UN Conference in New Delhi, was the introduction of a new Marshall Plan (Kreisky, 1983).

The new Marshall Plan has its roots in the concept of international solidarity but also of global economic interdependence.

Having acknowledged the impossibility of developing nation States paying off their debts to western industrialised States by resorting to ordinary credit instruments, especially owing to the high interest rates imposed, having acknowledged the failure of previous industrialisation policies undertaken in developing countries both because such attempts failed to integrate into their context and because of a lack of adequate infrastructure, having acknowledged the high unemployment rate in Europe and the large quantity of goods produced that in the western market were surplus to demand with resulting job losses above all in the iron and steel industries, and having further acknowledged the impact on employment in the West, of the fall in exports to Latin American countries that had more difficulty in paying off debt, Kreisky went on to imagine a great project of international cooperation aimed at creating development in the countries of the Third World by intervening, through western companies (and thus providing employment for hundreds of thousands of European workers), above all though the creation of new infrastructure and in agriculture. In particular, the focus of intervention was to be: transport, energy, agriculture, water supply, and telecommunications.

With regard to the means of financing this global project, Kreisky (in addition to highlighting the sums industrialised western States allocated to armaments) illustrated the cost for a State such as Austria, of a single unemployed person, and the benefit (also from a social point of view) of having the possibility of creating new employment opportunities for that unemployed person in the project he imagined.

Kreisky's proposal of a new Marshall Plan attracted criticism from both the right and the left for being, it was claimed, economically flawed, but was also supported (or independently rethought) by prominent figures such as, for example, the Nobel laureate in economic sciences Leontief[3], and was even disseminated by newspapers close to the industrial world and the Swiss banks such as *Neue Zürcher Zeitung*.

[3] In 1983, Leontief was also Director of the Institute of Economic Analysis at the New York University.

Kreisky always believed that aid to developing countries, as had been practiced for many years, did not promote any stable and consequent development of the economic resources of the countries concerned.

In his speech at the Food and Agriculture Organization (FAO), Kreisky reiterated the need to carry out these activities, even in the face of high unemployment in industrialised countries. According to Kreisky, in fact, just as the first Marshall Plan had taught, the implementation of this project would provide the opportunity of employing hundreds of thousands of people also in Europe who probably, given the advantages obtained, would then have looked at the problem of world hunger through different eyes: not as "charity" but as a mutual opportunity.

The task of equipping developing countries with water and energy, as well as with modern telecommunications systems, would in fact be entrusted to western companies, which had the technical background to manage it, with a vision of cooperation according to which, in the international division of labour, each would play its role according to its respective possibilities.

According to Kreisky, only those already having the infrastructure had the technical knowledge and instruments needed to build it. These instruments include modern vocational training systems, obviously with appropriate adaptations to local conditions. It is clear that, in order to carry out infrastructural projects of this magnitude, it would not have been possible to apply the rules that were in force in the international credit sector.

The problem of the means, that is, the means of financing such a global project, then arose. In this regard, Kreisky pointed out that, according to the Stockholm International Peace Research Institute, in 1982, between 700 billion $ and 750 billion $ had been spent on armaments. Only a seventh part of that amount would have been sufficient to complete this new Marshall Plan. The real costs of unemployment for the countries involved also had to be considered.

To the objection concerning the high costs of the new "non-repayable" Marshall Plan, after reiterating the amounts spent on armaments, Kreisky replied that, in the face of 35 million unemployed in modern industrialised States, none of these States could afford to maintain a long-term cyclical policy, which would inevitably lead "not only to deserted factories, but also to deserted offices" (Kreisky, 1983, p. 9). Faced with such gigantic unemployment, enormous financial burdens would be imposed on modern industrialised countries, for an estimated cost of about 168 billion $ a year.

What the critics of the time, in Kreisky's opinion, overlooked was the imperative need to fight the crisis in industrialised States by preparing alternative solutions and by highlighting the opportunity not to ignore the dynamic impact of cyclical measures on economic growth. To those who objected that this could mean the maintenance of obsolete structures for a certain period of time (the reference was, for example, to the industries that produced steel then in decline in many parts of Europe), Kreisky replied that such criticisms did not take into account that, no doubt, it would be much easier to plan for structural changes in European economies working at partial capacity rather than in a situation of total collapse.

In relation to the world economic situation of the time, Kreisky made several observations. One of these, which he defined of a political-psychological nature, showed a certain widespread tendency in Europe to declare that, in fact, there was no crisis and that certain dramatisations were excessive. For him, these considerations stemmed from the inability (of Governments) to put an end to unemployment in a period of supposed incipient prosperity, and were also the result of different conceptions held by economists

of the very term "crisis" (the reference, in this case, is the contrast between an expansionist economic policy based on investment, and another, restrictive policy, focused on the control of inflation and budget deficits).

To these approaches, Kreisky responded by recalling that he had experienced an extremely serious crisis and that he had learned crises cannot be overcome with economic measures but only with political methods.

Interdependence and North-South common interest

Kreisky warned that the society of the time was characterised by its ability to produce an enormous quantity of goods, but that it was not clear how this capacity could be used. More specifically, if the problem of redistribution of those goods on a world scale were not addressed, the 35 million unemployed in industrialised countries would not be reintegrated into the world of work. Citing a publication by the Organization for Economic Co-operation and Development (OECD), *Employment Outlook*, according to which demographic growth alone would require the creation of 18-20 million jobs between 1984 and 1989, Kreisky pointed out that, even if these new jobs were created, the outcome would leave the then high level of unemployment unchanged. It follows that, in order to come out of that situation of high unemployment, the industrialised countries needed to undertake a truly huge project. This project included promoting effective growth in developing countries so as to also create new jobs in industrialised countries and to expand the market. In this regard, Kreisky illustrated how, in recent years, the industrialised countries of the West had injected large amounts of capital into developing countries by resorting to credit channels in the capital markets. According to moderate estimates, the debt of developing countries at the time was about 700 billion $, and the interest on this debt far exceeded 70 billion $. The banking system was in the process of setting new terms for the debt, and, therefore, the debt would increase by higher additional interest owing to the higher risk. According to Kreisky, that was certainly not the solution to the problem. Looking at the facts, the industrialised countries would have had to give up much of that money. On the other hand, letting the countries of the South sink into debt and economic misery would not have helped anyone. Even the former US Secretary of State Henry Kissinger, Kreisky recalled, had stressed that those countries could only pay their debts if they had more than the capital received and that all the industrialised countries should contribute to avoiding exploitative conditions that might nurture anti-western sentiments among large sectors of the populations of developing countries. Just as the Nobel laureate Wassily Leontief in an article entitled *For a Marshall Plan II* declared that concerted action by western democracies would be the only response to the debt crisis.

Kreisky believed that the industrialised countries should have understood the opportunities offered to them by the development of the economic potential of Third World countries, the commercial possibilities that would open up to them, and the opportunity to exploit certain resources that were underutilised in those times of crisis.

Kreisky's FAO address focused on the need to articulate a new model of global development capable of taking into account the needs of industrialised, developing, and poor countries in order to achieve balanced growth. Such issues were also addressed by the independent commission chaired by the former German social democratic Chancellor Willy Brandt, to which Olof Palme and Bruno Kreisky also made decisive contributions.

The commission was formed following the 1977 proposal of Robert McNamara, President of the World Bank. It operated for about three years, and published two reports: the first, *North-South: A Programme for Survival* in 1980; and the second, in 1983, *Common Crisis. North-South: Cooperation for World Recovery*.

Particularly important was the fact that the New International Economic Order (NIEO) proposed by the developing countries, and already approved in 1974 by the UN General Assembly against the will of the more developed countries, was instead placed at the basis of the discussions of the Brandt Commission, which, therefore, acknowledged the development need of the less developed States represented by the southern members of the commission. In the resolution of 1 May 1974, the UN proclaimed the urgency of working for the establishment of a new international economic order, based on equity, sovereign equality, interdependence, common interest, and cooperation between all States. Its aim was to eliminate the growing gap between developed and developing countries, as well as to take note of the fact that the hitherto existing international economic order had not allowed for a balanced and uniform development for all countries. Developing countries, in fact, had been left behind, and, while representing 70% of the world population, they held only 30% of the total income. The economic crises of the 1970s had produced changes showing the reality of the interdependence of all members of the world community: the interests of developed countries, and those of developing countries could no longer be isolated from each other because by now it was clear there was a link between the prosperity of developed countries, and the growth of developing countries. Therefore, international cooperation for development was required as a shared objective and common duty of all countries.

The activity carried out by the Brandt Commission and the Socialist International was therefore not supported, to say the least, by the USA, because it encroached on its geostrategic interests, especially in Latin America. The convergence between European and Latin American democratic reformists, which since the 1970s had questioned the hegemony of the USA in Latin America, was precisely at the origin of the NIEO's demands for greater autonomy vis-à-vis the two Superpowers and, above all, from the USA. The Socialist International had thus contributed to the globalisation of international relations, hitherto focused exclusively on East-West relations, contrasting the approach of the Superpowers (a world based on the competition between a dictatorial, communist, and State-planned economy, on the one hand, and free capitalism, on the other) with that of social democracy (Rother and Larresin, 2018, pp. 3-4). The conceptual partnership of interdependence and common interest in balanced growth between the Global North and the Global South (in the same perspective with which they were outlined by Kreisky's new Marshall Plan) were therefore at the core of the Brandt Commission's work, and represented perhaps its most central aspect.

Of the many issues addressed by the Brandt Commission, for the purposes of this work, the "mutual interest" of a North-South collaboration should therefore be highlighted above all. Emphasising this aspect, in fact, means stressing the intention of the commission to give back to the South of the world an equal role with respect to those of the North, in line with the desired NIEO, which envisaged the full independence and sovereignty of developing countries also with regard to the methods of managing their economic activities and to the exploitation of their own natural resources. This implied, therefore, the exclusion of any hegemonic attitudes.

This interdependence is effectively illustrated by Brandt himself according to whom, beyond the existing contradictions, the common interests of the North and the South

of the world are much more numerous than it superficially appears, are increasing, and require a different approach to cooperation.

The Brandt Commission's 1980 and 1983 recommendations failed to win approval in Washington and in many other western capitals. However, in the following years, the Brandt Commission became the model for several other commissions, such as the Palme Commission dealing with disarmament, and the World Commission on Environment and Development (WCED), established in 1983 and chaired by another Social Democrat, the Norwegian politician Gro Harlem Bruntland. The Brundtland Commission's report *Our Common Future* was presented in 1987, and contained guidelines for sustainable development. These commissions were all led by personalities who had worked closely with Brandt, mostly within the Socialist International. The activities of the Brandt Commission and subsequent commissions should therefore perhaps be seen as part of an emerging international civil society (Rother and Larresin, 2018, pp. 3).

The Kreisky Commission for Full Employment

The global ideas of social democracy in the economic, political, and social fields were also taken up and developed by the Kreisky Commission for Full Employment, which, while recognising the importance of the domestic market, called for a strengthening of cooperation between States in economic and employment matters, considered cooperation between Governments and social partners to be essential, promoted investment in technology and innovation, emphasised the employment effects of environmental protection policy, and paid particular attention to education and culture.

For Kreisky, full employment was the main objective of a Government's economic policy, and, as a top priority, it had to be placed before price stability or a balanced budget. Therefore, in the mid-1980s, faced with the prospect of mass unemployment in Europe, it was Kreisky himself who was appointed President of an independent International Commission on Employment Issues in Europe, financed by the Norwegian, Finnish, Swedish, Luxembourgish, and Austrian Governments. Renowned personalities such as Galbraith, Michel Rocard, Raymond Barre, Paavo Lipponen, and representatives of OECD, the International Labour Organization (ILO), the United Nations Children's Fund (UNICEF), and the European Commission partook in the commission. The final project drawn up by the Kreisky Commission focused on the need for future investments in education, technology, and infrastructure, as indispensable preconditions for the creation of new jobs (Kreisky Commission on Employment Issues in Europe, 1989).

During the period in question, right from the start, a strong controversy existed regarding the definition of a "just policy" for employment. According to Walterskirchen (whose task was Commission Coordinator), this involved OECD, which in his opinion had become the new refugee of neoliberalism, the European Commission, which had become the centre for the promotion of liberal policies, and the neoclassical economists, who he believed supported the need for making the labour market more flexible, adapting people's needs to those of the economy and not vice versa. This was achieved through downward wage flexibility, lowering non-wage costs (e.g. social benefits), supporting precarious and temporary employment, zero-hour contracts, etc. (Walterkirchen and Lipponen, 2006).

The most tenacious supporter of these positions within the commission was sociologist Ralf Dahrendorf. On the other hand, Kreisky opposed the American concept of "working

poor", that is, workers who earn so little that they are not able to live of their earnings. The positions between the parties were clearly irreconcilable, and Dahrendorf, along with other neoliberal economists, left the commission (Walterskirchen, 2012).

In short, a situation similar to that of the Brandt Commission occurred in which "on the one hand there were the institutions that supported development based on free market and free trade; on the other hand, the institutions of the United Nations that most valued aspects of political regulation and social and distributive justice in their research and studies" (Romano, 2020).

Those who continued to work in the commission and with Kreisky were therefore aware that the economic recovery taking place in Europe at that time would not be enough to solve the unemployment problem. It had been the restrictive policies previously adopted that had resulted in mass unemployment, and these were anything but fleeting. Therefore, any attempt to solve this situation required a change of direction in economic, social, and labour policies. The solutions proposed up to that point, which, assuming a certain rigidity of the labour market, had introduced increasingly flexible and precarious jobs, had proved ineffective. It was therefore necessary to find the courage, which had been lacking until then, to take concrete steps and to prevent mass unemployment from being passively accepted as an integral part of liberal society. This, in turn, was jeopardising the democratic institution itself, as the frustrations and anger of those excluded were channelled into forms of violence and political support for those who claimed to be able to ensure work and security in exchange for liberty.

Over the years, Kreisky, as well as Palme and Brandt, never stopped advocating that unemployment not only represents a severe blow for the people who are affected but also for their families. They believed that it also determined many other social problems: the increase in crime, the political radicalisation of young people, as well as all the other consequences of prolonged poverty, and, finally, that it was a real threat to democracy, the symptoms of which needed to be detected as early as possible.

For the Kreisky Commission, unemployment carried with it both a social and an economic cost (Kreisky Commission on Employment Issues in Europe, 1989, pp. 31-6). The challenge in fighting it was difficult: up to that moment, Governments had been more concerned with avoiding inflation and budget deficits than with employment problems, and, in any case, the problem was not easy to solve, also because unemployment was not distributed homogeneously in the various parts of Europe or between the regions within States.

Therefore, with the aim of leaving no one behind, a faster economic expansion was necessary in order to stimulate growth with public interventions and private investments, as well as special measures to combat "uneven" unemployment between regions and unemployed groups, to attract investment and jobs in depressed areas, and to increase geographic mobility, in addition to projects aimed at the education and training of long-term unemployed and low-skilled young people with little work experience.

A strategy of this kind could not be left to market forces (here the social democratic and partly Keynesian ethos of the commission is particularly evident) but would have to be guided by a series of coordinated actions between European States capable of stimulating long-term economic developments. At the same time, there was a need to direct the nature of growth in such a way as to guide investments and also to minimise environmental damage. Moreover, also through environmental protection, high-quality jobs could have been created, employing those the market had expelled from employment, such as long-

term unemployed. The ultimate goal was to improve quality of life for all by providing satisfying job opportunities in a better environment and through cultural enrichment. To achieve these results, according to the commission, the way forward was not to offer low-wage and low-skilled jobs, but to set up an expansionary long-term macroeconomic planning programme that envisaged making the most of Europe's wealth of skilled and educated workforce.

The commission's programme consisted of six points (Kreisky Commission on Employment Issues in Europe, 1989, pp. 37-91):
a) more investment in European infrastructure;
b) environmental investments to improve growth and to make it more environmentally friendly and acceptable;
c) driving technology, innovation, and research;
d) promotion of education and culture (education mainly concerned those who dropped out of school, or were discriminated against in any way);
e) enlargement of information and communication services;
f) deepening of economic relations between eastern and western Europe[4].

The commission proposed short-term strategies and long-term plans; the latter aimed at maintaining competitiveness (Walterskirchen, 1996, pp. 81-7).

Among the short-term strategies, infrastructure investment plans for job creation could be included. In this regard, the commission proposed a series of interventions that must be implemented with short or medium-term planning. These included, for example:
a) modernisation and "repair" of European infrastructure, which has long been neglected due to budgetary constraints;
b) urban and village renewal: this included projects for the rehabilitation of large residential buildings, improvement of traffic (with the provision, for example, of exchange parking lots), remediation and development of industrial sites, and renovation of school buildings. The commission emphasised how vandalism and petty crime were more common in areas where old, dilapidated buildings are built;
c) energy saving to protect the environment, but also to curb the demand for fossil energy and to prevent energy shocks like those experienced in the 1970s;
d) telecommunications: improving the "transport of information" was a major challenge, particularly in southern Europe. In general, Europe needs fewer new motorways than in

[4] Kreisky Commission on Employment Issues in Europe, 1989, pp. 3-4: "(a) European governments must together develop the infrastructure necessary to reap the fruits of their endeavours to create a free internal market by 1992 and beyond. Key areas for such investments should be telecommunications, rail and road transport, urban renewal and housing. (b) A new and co-operative approach to environmental protection and improvement is urgently needed now if accumulated damage is not to become irreparable. Expenditure on the environment needs to be at least doubled. A substantial broadening of environmental R&D efforts is also required and international agreements are necessary to prevent environmental 'dumping'. There must be closer East-West co-operation in Europe; pollution does not respect national frontiers. (c) Europe's research, technological and innovative programmes should be further strengthened, not only to manage structural change and to ensure competitiveness, but also to improve living standards, working conditions and the quality of life generally. There is scope to build in a greater role for human skills in new technology. (d) Cultural and educational programmes should be expanded – for their own sake, and also because they can stimulate open-mindedness, experimentation and inventiveness, all of which are increasingly essential in economies now characterised more by 'brain' than by 'muscle-power' tasks. Unsatisfied demands for cultural services are especially great outside the big cities. (e) The rapidly growing demand for intermediate information services to other producers (such as software, databanks and consulting, all of which require very good telecommunications links and services) must be met. (f) The new opportunities that glasnost and perestroika are creating for more East-West trade and co-operation should be taken up, and Europe's relations with developing countries must be further strengthened".

the past, but more "data highways". Producer service industries were in urgent need of an official telecommunications network;
e) human services: projects creating large numbers of jobs in the health sector, social services, education, and culture could be carried out with relatively modest investments. The forecast of an increase in the proportion of older people will lead to a greater demand for aged care.

Another short-term strategy was to lower interest rates.

One of the long-term strategies to maintain competitiveness was to create a policy regarding technology. The Brandt Commission noted that technology and innovation policies needed to be strengthened to maintain competitiveness in the long term. Compared with Japan and the USA, Europe's joint efforts in this area had been very limited. New technologies did not create jobs immediately as is the case, for example, for new infrastructure. However, they were key for a successful economy so as to sustain employment. According to the commission, it was wrong to believe that automation and rationalisation are causes of unemployment (in particular, microelectronics is blamed for the largest loss of jobs) because the positive outcomes of technical progress, albeit less evident, outweigh the negative ones.

Only the fast evolution and the availability of powerful low-cost technologies will generate new markets, and give new tools to businesses and families. This, therefore, concerned not only economy but politics as well, because it would directly impact daily and work life.

The new "information society" was therefore considered by the commission to be an international and global issue, which forced everyone to reflect on this dimension because it strengthened economic growth, and is intended to serve social needs. Technical progress needed plenty of work (research and development, production of new machines, etc.) as it would generate additional income through increased productivity later spent on goods and services.

A highly industrialised country missing to continuously develop new technologies was bound to become less competitive. In advanced countries, new technologies create jobs because they increase investments, fuel exports, and allow for wages to rise. This could only be achieved by producing goods and by developing production methods that could not be copied easily, implying a constant process of technological innovation to keep up and ahead of the market. For the commission, meeting this challenge is important for Europe, and was mainly a task for Governments because companies, in general, were more concerned with immediate profits. Closely linked to technological development were innovation and research. In this regard, it is emphasised that, not surprisingly, in West Germany, research and development came under the auspices of the Ministry of Technology. However, the commission believed that the trend of allocating these resources almost exclusively to large companies should be rectified. Instead, it was necessary to help small and medium-sized enterprises (SMEs), which, otherwise, would not have the necessary resources to hire personnel who can take care of the development of research projects.

Another long-term strategy was to intervene in the education sector, which, the commission stated, must be strengthened. The results would not be visible in the short term; however, the unemployment of people with high-school education was a loss for the State because it means resources invested in education have been wasted.

The first and most important obstacle to full employment was of a political nature: the core causes identified by the commission were the transition to neoliberal politics that

favoured the maintenance of the status quo for a substantial portion of the population that had acquired certain rights, to the detriment of an expansionist policy that advocated income redistribution in favour of the less well-off categories.

In addition to this political obstacle, the commission identified four arguments for expansionary investment programmes and the creation of jobs, normally opposed by neoliberals (Kreisky Commission on Employment Issues in Europe, 1989, pp. 107-30):

a) the first obstacle was the need for environmental protection, and the social distress that would arise from structural changes. In fact, the commission believed that the lack of such changes would inevitably lead to fewer available resources for both environmental projects (i.e. for interventions at the level of prevention that could no longer be postponed, as well as to cope with already existing environmental disasters) and for easing the tensions resulting from economic and social changes. One of these changes, foreseen by the commission as inevitable in the coming years, was population ageing, a burden in terms of pensions, health care, etc. Consequently, higher unemployment meant fewer available financial resources, so the burden could not be shared, and would be entirely borne by a smaller part of the population;

b) the second hindrance (and for most people the most important constraint on growth policies) was inflation. After the oil crises, an expansionary policy was immediately associated with a rise in inflation. On the other hand, the commission emphasised that, by limiting growth, productive resources would be destroyed. This would be the case above all for human capital but also financial capital and organisation. This would have grave consequences taking into account the urgent needs arising from welfare, the protection of the environment, and other similar needs. For the commission, the conditions for an expansionary programme could not be better (mostly very low inflation rates, plentiful oil and other commodities, and a low dollar, keeping import prices low, especially raw materials and commodities);

c) a compromise between unemployment and inflation could be reached in three ways: 1) stabilisation of commodity prices (through buffer stocks and so on); 2) labour market policies to prevent bottlenecks, and equipping the workforce for structural change; and 3) an adequate income policy for workers. In some Nordic countries and in Austria, an explicit income policy has contributed considerably to overcoming stagflation. In West Germany, a tacit income policy held wage claims down. Lower nominal wage demands might also permit higher increases in real wages, since they would pave the way for stronger growth and faster improvements in productivity. The commission was, of course, conscious of the political and technical difficulties associated with all three approaches;

d) the third obstacle was found in fiscal policy: fiscal expansion would create budget deficits and higher interest rates. The commission replied that, to prevent this situation (which occurred, for example, immediately after the oil crisis when the debt ended up covering the losses deriving from the increase in the price of oil, thus not translating into investments), the expansive demand must be formulated in such a way that it generated greater investments, greater productivity, and greater wealth;

e) the fourth obstacle was the balance of payments. In this regard, the commission recalls that past negative experiences (1978 and 1979) were caused not by expansionist policies, as such, but by the revolution in Iran and by the second oil crisis. Balances of payments could be kept under control through international coordination of management policies.

Another constraint was of an international nature. European countries, according to the commission, seemed not to have acknowledged the interdependence between

States and continents, as well as the fact that, especially in Europe, the success of an expansion programme depended on coordination in the decision-making process. If, at an economic level, according to the commission, Europe has achieved a high degree of integration, the same has not happened at political level. Industrial economies, however, are interdependent and, in turn, depended on stronger forces. At macroeconomic level, coordination would ensure the advantage of having additional information and of avoiding having to undertake policies that at national level may appear sensible, but, when they are carried out simultaneously by all States, become counterproductive (the commission recalled the serious and unexpected unemployment of the 1980s, when all the countries of Europe conducted a policy to keep inflation low). Economic policies had to be coordinated in order to ensure that, while economies needing to curb inflation were more restrictive, other economies simultaneously would be expansive, with a net expansive effect as a whole. Even micro-policies designed at national level to increase competitiveness and resource efficiency could give unsatisfactory results in at least two senses: the possibility of resulting in a bad allocation of resources (everybody investing in the same technologies) and an overall job-saving effect due to the impact of the productivity leap (if not coordinated, the intensity of investment in technology could at least in the beginning often have such consequences).

The commission therefore proposed an agreement that took the differences between the various European countries into account, as well as the need for an expansionist policy to cover all countries and not just the poorest ones (for a less unequal distribution of deficits and surpluses), and the need for an independent pan-European bank that could intervene with funds. The three fundamental points of the agreement were specified in the following terms (Kreisky Commission on Employment Issues in Europe, 1989, pp. 107-30):

a) Europe vis-à-vis other continental areas: the overall European trade deficit will depend on the size of the expansionary push in Europe and on how other countries behave. If they opted for restriction, the European deficit could widen to an unsustainable level (though it would be counter-balanced by exchange rate changes). However, Europe started then with a substantial surplus on current account (1% of GDP), and there is a long way to go before it runs into deficit. In addition, if Europe improves its competitive position through appropriate technological and educational policies in the medium term, it could partly offset the tendency to trade deficits;

b) the distribution of deficits and surpluses: Europe was a collection of States with very different levels of competitiveness and growth opportunities. The distribution of trade deficits and surpluses among European countries will depend on those structural factors (i.e. the different level of competitiveness) and, crucially, on how the expansionary push itself is distributed. If it were confined to countries mostly needing growth – but also in weaker structural condition, putting them in unsatisfactory current account and public-sector balances –, a European expansion would rapidly become unsustainable. Richer and stronger countries must also participate, expanding first and faster. Overall expansion would then go hand in hand with a less unequal distribution of current account and public-sector balances. This was another reason why ecological and infrastructural investment must be emphasised as a key element of expansionary expenditure. Investment of this kind was socially and politically appealing in the richest European countries, and should help to create a consensus in support of an expansionary programme;

c) even if rich countries expanded first and more, inter-country imbalances would remain. A political agreement must be reached, therefore, on how to tackle such imbalances. Richer

countries should be sympathetic to the need for more qualitative investment in poorer countries or regions, so they soon will be able to sustain more growth and expansion without incurring deficits. Once this was achieved, they would be able to function as locomotives of growth on a par with other countries. Some kind of pan-European bank should be created, with operating autonomy and funds commensurate with the scale of the task. The design of such an institution, its operating rules, its capitalisation, and its provision would probably be the subject of considerable political conflict (Kreisky Commission on Employment Issues in Europe, 1989, pp. 118-20).

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