Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

Western Europe: Continuing expansion

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1968) : Western Europe: Continuing expansion, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 03, Iss. 8, pp. 251-252, http://dx.doi.org/10.1007/BF02930570

This Version is available at: http://hdl.handle.net/10419/138012

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.
Western Europe: Continuing Expansion

The cyclical expansion of the West European economy continued also in the first half of 1968. However, just in the most important economies a number of special factors distorted noticeably the development of production and demand. To begin with, in the Federal Republic of Germany the upswing slowed down temporarily at the beginning of the year after the change of turnover taxation had taken place. Before the turn of the year this change in taxation had caused the exaggerated boom. Then there occurred a similar undulating motion of demand in connection with the announcement in March of a foreseeably restrictive budget in Britain.

Growth Expectations

The growth expectations for the current year have been impaired by distorting influences in France only, where an increase of the GNP by but 3 per cent can be anticipated (before the strike: +5 per cent) even if special activities for the purpose of overtaking arrears are being considered. Of the same magnitude will be the economic growth in Britain, Belgium, Austria, and Switzerland. About 4 per cent it should reach in the Scandinavian countries and approx. 5 per cent in the Federal Republic, the Netherlands and Italy. Under these assumptions the growth rate in real terms of the GNP will amount to 4 per cent in 1968 (1967: 2.6 per cent) for Western Europe as a whole.

To a large extent this acceleration will be promoted by increasing investment activities (investments in fixed assets: +5 per cent in real terms after +2 per cent), which again will occur in the Federal Republic only. In the other economies the improved tendency of private propensity to invest is partly balanced by a reduced government demand in this sector. The increase of West European private consumption for 1968 will hardly be higher than in the preceding year (+3 per cent in real terms). In the individual countries the rate of expansion generally will also change but little. Only exceptions are the UK, where the curbing of the growth rate of consumption (+1 per cent) is an important part of the rehabilitation policy and, on the other hand, the Federal Republic, where consumption is reviving again (+2 per cent) after having stagnated almost completely in the previous year. In Italy the growth rate of consumption will remain far above average (+6 per cent).

Consumer Prices

This spring in most countries the number of unemployed persons was even higher than a year ago. Only in the Federal Republic of Germany there was a pronounced reduction of unemployment as previously caused by the recession. The slowing down of the upward trend of prices in a number of countries is also an indication of the easier supply-demand relation. Most recently consumer prices were higher than those of the previous year's corresponding period by 1 per cent in the Federal Republic, by 2 per cent in Italy and Sweden and by 3 per cent in Belgium, Austria and Switzerland. In those countries, where the price increment was higher at 4 to 4.5 per cent—France, Norway, the Netherlands—government measures partly played a major role.

This applies particularly to Britain, where devaluation and flanking tax increases should finally result in an arithmetical price increase of consumer goods by about 5 per cent. Here imported consumer goods are involved more than proportionally. Nevertheless, the pressure to import so far has remained unexpectedly heavy. Since anyhow exports could reflect Britain's improved competitiveness but gradually, in the first half of 1968 the country's balance of payments developed very unfavourably still. In this situation it is of decisive importance that Britain's international credit facilities help to avoid another crisis in confidence.

The Risk of Troubles

Due to the events occurring in France in the last months, this country has become the second major element of uncertainty in Western Europe. After the extraordinary wage concessions it seems to be hardly possible to avoid a wave of price increases and a deterioration of the country's international competitiveness, all the more since expansion—if only paying heed to the situation in the labour market—is to be continued. The conflict of targets between stability and growth is clearly reflected by the government measures — already taken or planned, respectively. On the one hand, raising of the bank rate and tax increases, on the other, a drastically increased budgetary deficit...
and new export and investment facilities.

Thus, in Western Europe as a whole, the good prospects for a continuation of the cyclical expansion are running the risk of troubles caused by two of the most important economies. Although it is not always unreserved, the other industrial countries’ support of France and Britain is showing, however, that the former are realising the looming dangers. In view of the United States’ limited ability to act in the field of foreign trade and payments, the burdens to be carried particularly by the European countries producing a surplus are increasing. But their international integration, i.e. their dependence on world economic developments, does hardly leave them another choice than to go ahead.

**Raw Material Markets**

**Pressure on Sugar Prices Continuing**

On the international sugar markets the pressure on prices has been continuing as before during the past months. At the New York Exchange the quotations for World Contract No. 8 are fluctuating between 1.70 and 2.25 c/lb since mid-February 1968, after at the beginning of the year a price of 2.50 c/lb had been obtained still. These quite considerable fluctuations were caused by changing forecasts of the sugar production in the current season 1967/68, sales from old stocks by producers and traders, speculative purchases in connection with currency troubles and, finally, the course and resultless winding-up of the UNCTAD-Sugar Conference.

The continuously large supply surplus, which will decline but inconsiderably during the current season, forms the background of the constantly weak trend of sugar prices. According to F. O. Licht, 1967/68 production will probably grow by 2.1 per cent to 67.0 mn t, while consumption will rise by 3.6 per cent to 67.8 mn t. Although thus production will lag behind consumption for the first time in a number of years, a noticeable reduction of the price depressing stocks, that with 18.5 mn t nearly match the world import demand, will not be possible.

The most important prerequisite to a lasting recovery of sugar prices would be—together with a steady increase of consumption by 3 to 4 per cent annually—the reduction of production or, respectively, at least the abstention from an expansion of production for several years. Since the producer countries do not take this line voluntarily, during the last years with the assistance of UNCTAD it has been repeatedly attempted to find an alternative solution, i.e. to negotiate an international sugar agreement limiting the total volume of sugar to be sold in the world market. However, also at the spring conference of 1968 a dispute started again about the allocation of export quotas to the individual countries. So the conclusion of a sugar agreement can hardly be expected till the end of the year.

Growing difficulties obstructing the regulation of the free sugar market are resulting from certain efforts of a number of East-bloc states and industrial countries. Without any particular consideration for the developing countries they are aiming at self-sufficiency as regards sugar and, if possible at all, even at selling themselves sugar on the world market. Moreover, thus the scope for sugar deliveries to these countries within the framework of preferential agreements is reduced. These deliveries are carried through at higher prices and for many developing countries are an important source of foreign exchange.

*Compiled by the Department for Business Trends Research of the Hamburg Institute for International Economics*