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1972: Increasing growth of the world economy

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WORLD BUSINESS TRENDS

1972: Increasing Growth of the World Economy

In most industrial countries 1971 was a year of declining economic expansion together with a continuing unusually vigorous upward trend of prices. Simultaneously the pending crisis of the world monetary system reached its peak with the suspension of the dollar's convertibility into gold while, however, the international exchange of goods and services was not impaired. The slightly accelerating growth of GNP in real terms in the western industrial countries to hardly 3.5 p.c. (after about 2.5 p.c. in 1970) reflected almost exclusively the market swing in the United States, where production increased by about 3 p.c. (after a decline of 0.5 p.c.). As against this, economic growth slowed down in almost all countries, i.e. in Japan to about 5.5 p.c. (after 11 p.c.) and in Western European economies to an average of 3 p.c. (after 5 p.c.).

The excessive demands on resources characterising developments in Western Europe and Japan for a prolonged period has now stopped. In spite of this relaxation the upward trend in prices remained extraordinarily vigorous. In 1971 the cost-of-living index of private households rose—in spite of frequent price controls—by more than 6 p.c. and in Japan by about 7 p.c.

Upward Price Trends

Since the upward trend in prices hardly levels off even during the cyclical downswing, the governments are handicapped initiating prophylactic policies for avoiding sags in economic activity. Only when a recession is threatening, the target of employment gains a clear priority over the aim of stability and pronounced stimu-

lating measures will be taken, as hitherto mainly in the USA, Britain, Sweden and Japan. Last but not least because different target priorities play a role, it is hardly possible to anticipate the moment when other countries will similarly change the course of their cyclical policy. Moreover, at present any forecast is rendered extraordinarily difficult by the precariousness of trade and monetary policy decisions.

The following assessment of next year's international production developments is therefore mainly based on the present internal and external economic skeleton conditions. On the whole, for 1972 a further accelerated economic growth of about 4.5 p.c. is indicated for the western industrial countries. And again this will be mainly a reflection of the North American cyclical upswing. In western Europe GNP in real terms—although individual developments will differ widely—should again increase only by about 3 p.c., in nominal terms, however, it should go up by almost 9 p.c., a clear indication that the upward trend in prices will decline only negligibly.

Index Numbers of World Market Prices of Foodstuffs and Industrial Raw Materials

Index and commodity group	1970	1971					
	October	January	April	July	October	Nov. 5	Nov. 19
HWHA-Index ¹ (1952–1956 = 100)	107.7	108.9	110.0	110.2	109.0	108.8	108.4
Foodstuffs	104.2	109.0	108.3	104.0	101.5	101.5	101.3
Raw materials other than foodstuffs ...	109.4	108.8	111.8	113.1	112.5	112.3	111.8
Fuels	112.5	112.3	113.5	118.5	123.0	122.9	122.9
Raw materials for consumer goods ..	91.8	93.1	94.4	98.6	99.6	99.9	99.5
Raw materials for capital goods	118.2	116.0	121.9	117.5	110.8	109.9	108.9
Reuter's Index (18. 9. 1931 = 100)	557.2	551.1	534.5	525.6	506.2	507.3	506.5
Moody's Index (31. 12. 1931 = 100) ...	398.2	385.0	378.2	370.9	366.8	368.8	367.5

¹ Index compiled by the Hamburg Institute for International Economics.

New Order of the World Monetary System

The present cyclical and monetary problems are closely inter-related. On the one hand, the monetary interregnum is obviously conjuring up a dangerously increasing disregard for indispensable rules of liberal international transactions in goods, services and payments, which will promote an escalation of protectionism. On the other hand, a lasting solution will become more difficult when threatening unemployment limits the government's freedom to act.

Besides, the improvement of the US balance of current transactions, which is necessary also in the interest of the world economy, appears only obtainable if the beginning cyclical differences between the USA and western Europe are counter-acted.

A lasting elimination of difficulties that have arisen over a prolonged period of time requires a new monetary system with a considerably higher flexibility, i.e. more compulsion for and ability to adjustments. This applies particularly also for a

system which in principle is based on fixed equivalences of exchange, all the more since all countries are now striving for the smallest possible parity change. Too small a de-facto devaluation of the dollar would, however, obstruct the reestablishing of the US balance of foreign trade and payments, which everybody is demanding.

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

Gross National Product of the OECD-Countries 1970 to 1972
(Comparison with a year earlier)

	at stable prices			at current prices			price index of GNP		
	1970	1971 ^α	1972 ^α	1970	1971 ^α	1972 ^α	1970	1971 ^α	1972 ^α
USA	- 0.6	3.0	5.5	4.8	8.0	9.0	5.4	4.5	3.5
Canada	3.3	5.0	6.0	7.6	8.5	10.0	4.1	3.0	4.0
Japan	10.9	5.5	7.0	18.2	12.0	12.5	6.6	6.0	5.0
Western Europe ¹	4.9	3.0	3.0	11.3	10.0	9.0	6.5	7.0	6.0
Belgium	6.1	4.5	3.0	10.7	9.5	8.0	4.3	5.0	5.0
Fed. Rep. of Germany	5.4	3.0	1.0	13.0	10.5	6.0	7.3	7.0	5.0
Denmark	3.2	2.0	3.0	10.9	8.5	9.5	7.5	6.5	6.5
Finland	7.4	2.0	3.0	12.0	9.0	9.0	4.3	7.0	6.0
France ³	6.1	5.5	4.5	11.9	11.5	10.0	5.5	5.5	5.5
Britain ³	1.7	0.5	3.0	9.7	9.0	9.5	7.9	8.5	6.5
Italy	5.1	0.5	3.5	11.7	7.5	9.5	6.3	7.0	6.5
Netherlands	5.6	5.0	3.0	10.5	12.0	10.5	4.5	6.5	7.5
Norway	3.5	5.0	4.0	15.5	12.0	9.5	11.6	6.5	5.5
Austria	7.1	5.5	4.0	12.0	11.0	9.0	4.6	5.5	5.0
Sweden	4.5	0.5	3.0	10.5	6.5	8.0	5.8	6.0	5.0
Switzerland	4.3	3.5	3.0	9.5	11.5	8.5	5.0	7.5	5.5
Spain	6.8	5.0	5.0	13.2	13.5	13.5	6.0	8.0	8.0
OECD-countries total ¹	2.7	3.5	4.5	8.6	9.0	9.5	5.9	5.5	4.5
OECD-countries total ^{1 2}	4.7	3.5	4.0	10.5	10.0	9.5	5.5	6.0	5.5

¹ Weights and exchange rates of 1970. ² Weighted by the share in German exports 1970. ³ Gross domestic product. ^α Estimate rounded off to half per cents.

Source: OECD, EEC, national data, own estimates.

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