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France: Outlook for exports favourable

Intereconomics

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COMMENTS

Great Britain

Economic Situation Not Hopeless

After 18 months of rule by Mr Heath's Government, the British economy seems to be in a sorry plight. For over a year the long-term trend of unemployment has been steeply upward, and the absolute number of unemployed has more than doubled compared with 1970, the election year. Like the USA before Nixon embarked on his new economic policy, the UK has to overcome a phase of economic stagnation coupled with what is primarily a wage-push inflation.

Government, industry and trade unions are agreed that this stagflation is the chief cause of the present unemployment, though their conclusions differ. While the Government is constant in its efforts to spur industry on to new investments and to reactivate the principles of a competitive economy, the trade unions always come back to their demand for monetary and fiscal measures which however might lead to a demand-pull inflation and fresh wage demands. That industry shows no great propensity to invest cannot surprise in these circumstances. To make things worse, a new wave of wage demands is closing in on the Government now that the miners have gained a 20 p.c. wage increase.

Nevertheless, the prospects of economic development are not as dim as they appear. The temporary unemployment need not turn into structural unemployment because it is partly due to rationalisation in industry which by itself tends to improve productivity and the balance of trade. In a dynamic economy increased mobility of labour results in healthy growth and more jobs at rising real wages. Besides, the new Industrial Relations Act, by allowing appeal to a supreme labour court for a 60-day calming-down period, gives the Government a tool for defusing labour conflicts in the future. And Mr Heath is still left with the possibility of adopting a comprehensive incomes policy à la Nixon with control of wages and prices. In difficult time hard measures are often necessary, as Great Britain has shown to the world many times before!

hg.

Germany

Uncertainty in Economic Policy

Uncertainty has become the dominant feature of political and economic life in the Federal Republic. During the Parliamentary debate on the eastern policy the Federal Government's majority dwindled to the very minimum needed for survival, so that

new elections have become a real possibility. Added to this, the tax reform, which now seems to have been finally shelved, has brought about an almost fatal crisis, and the economic trend is anything but gratifying.

As for the economic future, the views of the critics range from abject pessimism to moderate optimism. The dilemma is that overall production has been stagnant for a long time while the price trend is still upward. Giving production a boost would push up prices further, and action to moderate the price trend threatens to lead to a recession. The Federal Government is thus for the present condemned to bide its time.

On the external front the weakness of the dollar has forced the Federal Government to take action. The discount rate has been reduced to 3 p.c., the lowest level on the international scene. In addition, compulsory cash deposits have been introduced to deter business firms from borrowing money abroad. Whether the external flank of the economy can really be shielded from the dollar in this way is a matter of opinion, and the experts say — No! In the domestic sphere the Federal Government is fortunate in that the cut in the discount rate fits well into the cyclical picture. But there is a danger that, despite the reticence currently shown by businessmen, albeit with slightly optimistic undertones, the recovery may proceed faster than expected, in which case the price trend would not moderate noticeably.

This threat is accentuated by the fact that the Federal Government has announced that it will pay back the sums accumulated out of the tax surcharge, levied as a matter of economic policy until the middle of last year, in June. It could have waited until 1973. But then the problem would have been that the release of the compiled tax surcharge monies would probably have aggravated the economic boom expected for the next year. However, a release in June could strengthen the boom inducing forces, unless the monies are saved or consumed for foreign travelling. ogm.

France

Outlook for Exports Favourable

The current economic situation in France bears the stamp of a deceleration of growth, chiefly at the expense of the capital goods industries. The persistent rise of nominal consumption spending still makes for strong growth rates in the consumer goods industries, with the result that, e.g., the boom in the French automobile industry shows no

sign yet of abating. But the position in the labour market, marked as it is by a transition from overfull employment to full employment, is another symptom of cyclical normalisation.

And yet, the inflation — 5.8 p.c. — has still not been brought under control. Chronic inflationary impulses are set off in France by the multitude of strikes rather than by wage settlements unmatched by productivity gains. It remains in doubt whether President Pompidou's government will succeed in achieving a greater measure of price stability. Though the 1972 budget does not give rise to inflationary pressures, the attitude of the trade unions and employers in the next wage negotiations will be crucial.

According to Finance Minister Giscard d'Estaing, the future economic development in France will be determined chiefly by foreign demand and thus the economic trend in EEC and EFTA countries which absorb 60 p.c. of French exports. As the franc emerged unchanged from the Washington realignment, French goods have retained their competitive strength in foreign markets, a fact which is borne out by the French export record in December, 1971. If the present currency parities remain unchanged, it may be assumed that the domestic inflation will not be too much of a handicap for exports. bw.

Italy

A Spell of Bad Weather

It is not only the weather which is downright bad in Italy during this winter. The economic skies are also obscured by dark clouds. The discomfort is all the greater because Italy can look back on many years of exemplary economic progress. One of Europe's poorhouses has turned into a respectable industrial nation.

The fine weather period has for some time now come to an end. The most dangerous crisis symptom is that for the first time since the end of the war industrial production has been lower than in the preceding year. The number of unemployed is approaching the million mark. The rise of consumer prices at an annual rate of 5 p.c. is continuing this year, and experts even anticipate an increase at a rate of 7 to 8 p.c. in the near future. Despite such gale warnings, the wave of strikes does not abate. Between January and November, 1971, 75 p.c. of the country's productive capacity only was in use. But wages advanced within a year in some industries by more than 15 p.c. An opinion

poll revealed that one half of all firms expect investment activity to stagnate and the other half even anticipates a decline. An improvement of the economic climate owing to increased public sector expenditure cannot be expected before the coming elections since a caretaker Government is not very likely to bother with long-term economic planning.

The Italian economy viewed as a whole shows a picture of continuing stagflation without any sign of forces coming to the fore which could overcome the desolate situation. Common sense and energy are urgently needed from the social partners as well as the Government to stabilise the Italian economy. Otherwise the spell of bad weather may turn into a lasting depression. ro.

USA

A Good Year for the Economy

In 1972 the USA will achieve the hoped-for economic growth with slower price increases and declining unemployment rates. A real GNP growth of about 5.5 p.c. is indicated by the anticipated growth rates for investment and consumer spending and profits while capacities will be used more fully and, at the same time, enlarged. Positive effects on growth will also result from the dollar devaluation and the expansionary measures of the Nixon Administration. The numbers out of work however will not fall significantly, the creation of 1,000,000 new jobs notwithstanding, and the unemployment rate will stay up at 5 p.c. Despite the indication of vigorous growth, the rise in prices may moderate from 5 p.c. (in 1971) to a little over 4 p.c. which would be substantially above the Administration's 3 p.c. target for mid-1972.

It is thus very probable that the fruits of three years' efforts to improve the economic situation in the USA will be gathered in the election year 1972. The measures of August 15, 1971, and in particular the wage and price stop, the promised tax cuts and the suspension of the dollar's convertibility which led to its devaluation and the realignment of currencies, will only now have their full positive repercussions. The only thing that worries the public and the opposition at present is the predicted budgetary deficit of \$ 25 bn, since already in 1971 the deficit had amounted to \$ 40 bn vis-à-vis the anticipated \$ 11.6 bn. But in spite of this it is very likely that President Nixon will achieve his objective of making 1972 a good year, at least as far as his economic policy is concerned. kw.