

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

Article — Digitized Version

The international economic situation

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1977) : The international economic situation, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 12, Iss. 11/12, pp. 333-334,
<https://doi.org/10.1007/BF02928827>

This Version is available at:

<https://hdl.handle.net/10419/139511>

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.

ECONOMIC TRENDS

The International Economic Situation

In its latest joint assessment of the economic situation the Working Group of German Economic Research Institutes comes to the following conclusions, presented here in an abridged form¹.

During the summer half year the forces stimulating economic activity have slackened in almost all the West European countries. In the USA the — previously vigorous — expansion of production has slowed down. In the weak-currency countries the measures aimed at reducing balance of payments deficits and inflation rates which had been adopted the last year took effect; in the other national economies the stimulating economic policies lost their impact before a process of cyclical self-acceleration had come about. Utilisation of capacities and employment in Western Europe fell again. This is the characterisation of the development of the World Economy by the above-mentioned institutes.

Slower Upswing in the USA

In the USA the cyclical upswing was continuing in the summer half year of 1977; in recent months, however, the process of expansion lost some of its dynamics. Since spring the unemployment ratio has shown no further decline. The flattening of the uptrend of prices was rather obvious. As regards the next year a continuation of the upswing seems more or less secure; this is primarily due to the planned increase in private investments. In addition there will be a steeper increase in territorial authorities' spending. Further cuts in taxation aimed at a stimulation of consumption and demand are under discussion. Altogether the real National Product can be expected to grow by slightly more than 4% (1977: 5%). Consumer prices will increase by about 6% in 1978 (1977: 6.5%).

Unstable Upswing in Japan

In Japan the real National Product was still vigorously growing up to the middle of the year. This development was primarily a consequence of the heavy expansion of Government expenditures. A self-accelerating cyclical process did not come about. Inflation has been slowing down during the summer half year. Around the turn of the year the public and private investment activities, especially house-building, will again be stimulated by the economic programmes that have meanwhile been agreed on. In addition, private consumption

is likely to increase at a faster pace. In case that in the course of the next year the upswing loses momentum, further supporting measures are to be expected. The real National Product will in 1978 grow at a rate of 5.5%, i.e. hardly faster than this year. The inflation rate will, on an annual average, fall to 7%, after 8.5% in 1977.

Slackness in Western Europe

During the summer half year of 1977 production was stagnating in most of the West European countries; in some of them it even declined. Altogether there were no significant stimuli emanating from either domestic or foreign demand. In view of the clear slackening of business activity and the consequent deterioration of the employment situation, the course of economic policy which until then had been restrained, was in some countries cautiously corrected. In general, the tendencies for more expansive economic policies will increase within a short time. Altogether the growth rate of the real National Product in the West European countries should in 1978 with 2.5% be only slightly higher than that of 1977 (2%). The utilisation of technical capacities will not generally improve, the employment situation will rather get worse. The increase in consumer prices should fall to roughly 8% in 1978, after 9.5% in 1977.

Temporary Stagnation in World Trade

After the strong expansion until the end of 1976 the volume of world trade did not rise any further in the first half of 1977. Its stagnation has probably been a transitory phenomenon. However, the speed of the expansion will be moderate in the next year, too. Altogether the world trade volume should, on an annual average for 1978, grow at about the same rate as in 1977 (5–6%). — The quotations in the world markets for industrial raw materials have generally fallen since last spring. In the course of the year 1978 the prices could start rising again.

Protectionist Dangers

Trade protectionism is no way out of the dilemma of high unemployment and balance of payments difficulties. It is not to be expected that measures of this kind will already in the near future affect

¹ Participating Institutes: Deutsches Institut für Wirtschaftsforschung, Berlin; HWWA-Institut für Wirtschaftsforschung-Hamburg; Ifo-Institut für Wirtschaftsforschung, München; Institut für Weltwirtschaft an der Universität Kiel; Rheinisch-Westfälisches Institut für Wirtschaftsforschung, Essen.

world trade to a quantitatively significant extent. But even the impending intensification of this development is unwelcome since it impairs the increase in productivity, supports upward movements of costs and prices, and dampens the entrepreneurial expectations in the export indus-

tries. The preservation of jobs in "import-damaged" sectors which the protectionists have in mind would then be accompanied by losses of jobs in other sectors which would soon get the ascendancy if this tendency should make headway.

The Economic Situation in the Federal Republic

Since spring economic growth has almost stopped in the Federal Republic of Germany. Overall economic production hardly increased any more. The utilisation of technical production capacities dropped and the increase in employment was replaced by a reduction. The number of unemployed — adjusted for seasonal variation — has been rising again since spring. Since June it is bigger than a year ago. The unemployment ratio remained at a level of about 4.5 %. The upward trend of prices continued declining, but as the increase of unit wage costs remained strong the diminution of the rise in prices happened to a large extent to the detriment of incomes from entrepreneurial activities and property.

Stagnating Equipment Investments

At the beginning of the year orders for equipment goods, in particular for machinery, declined distinctly and did not recover since. This reflects the unfavourable expectations regarding profitability damped by the weakness of demand and the rising costs of enterprises. Equipment investments in real terms have been stagnating since spring. Until summer building investments had been supported by the measures promoting commercial and residential buildings as far as they had been finished up to the middle of the year. Thereupon production probably declined. Public building investments have fallen back up to now. Orders for residential and commercial buildings are rising but tardily from the trough into which they sagged after the boom in orders initiated by the counter-cyclical measures of autumn 1975. Orders for owner-occupied houses however increase quite distinctly. In addition public agencies placed more orders than before.

Unsteady Expansion of Private Consumption

Up to the middle of the year private consumption increased only a little bit faster than available incomes although at the beginning of the year funds became available in substantial amounts under bonus savings contracts. The rising turnovers of retail trade, the growing demand of private house-

holds for credits and the reports of consumer goods fairs indicate, however, that the private households' propensity to consume has cheered up noticeably after the middle of the year. Relevant impulses originated probably also from funds which became available under bonus savings contracts in the middle of the year.

Hardly Any External Impulses

The external impulses that last year promoted the economic development considerably have been fading strongly during the last months together with the slackening of the cyclical recovery in almost all Western countries. The volume of orders from abroad rather declined, goods exports hardly increased any more. At first mainly the supplies of capital goods and consumer goods were affected by the weak demand abroad. During the last months also exports of basic materials and production goods hardly increased any more. The imports of goods had to begin with reacted too strongly on the downward tendency in the Federal Republic, i.e. by a reduction. Correspondingly they have recovered during the last months.

Outlook: Hesitating Expansion

The stagnation of production during the summer months and the, if anything, declining demand raise the question whether the Federal Republic's cyclical recovery lasting for two years has been replaced by a lasting downward trend. This can be excluded with some certainty. This assessment is supported by the fact that remedial measures of financial and monetary policy have already been introduced in the Federal Republic. And, in addition, in important European partner countries the downswing will probably be stopped. On the other hand, however, a rapid and vigorous recovery is not very probable. The uncertainties concerning the profitability chances of capital investments are still too great. This applies all the more as with the unfavourable cyclical development the cost pressures on enterprises have increased distinctly. And there are still political and institutional obstructions which oppose the full