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Reports on Gloomy Days

The economic situation of the western industrialized countries is gloomy, the prospects are disquieting, at least uncertain. This is the uniform opinion of various institutions which in the last weeks delivered reports or statements on the state of the world economy. GATT, for instance, characterizes the situation of the industrialized countries in terms of continuing inflation, slackening growth, accelerating monetary expansion and fluctuating exchange rates. Even more stress than previously is put on the obvious danger of a further and more rapid spread of protectionism.

In its latest Annual Report the IMF, too, underlines the growing danger of increasing trade protectionism in the industrialized countries. Similarly the World Bank focusses in the part on international policy issues of its World Development Report, 1978, on the protectionism in the industrial countries and its drawbacks: "By delaying structural change, protectionism delays the shift of labor out of the traditional industries where labor productivity is low . . . Labor costs in the latter group of industries in the industrialized countries will therefore rise more than they would if greater labor mobility were permitted, and economic growth will be slower" – and the inflationary pressures stronger!

Little has to be added to this economic analysis and credit has to be given to all these institutions for having warned the policy makers insistently enough of the dangers that would arise from a further rise of protectionism in the western industrialized countries for these countries themselves. A solution, however, is not offered. The warning is directed against the probable losses of growth as a result of protectionism which is applied today as a means against further decreases in employment. Thus there remains only the hope that the world economy will somehow experience a faster increase in economic activity and that the protectionist pressures will cease as a consequence of higher growth rates with corresponding employment effects.

How the desired higher growth rates are to be achieved, however, remains an open question. The failures of the previously employed instruments and the different concepts discussed between politicians and economists within the individual industrialized countries and between them provide evidence for the prevailing helplessness. Therefore it is not surprising that an increasing preoccupation with the prerequisites and conditions of economic growth can be registered. The main aspect under which the struggle against protectionism has to be seen is the fact that with its increase a basic condition is removed which has doubtlessly contributed to the relatively high growth rates in the sixties. It should not be forgotten, however, that protectionism is not merely a cause, but primarily a result of the prolonged worldwide recession.

Of great moment in this connection is the GATT analysis according to which increased growth, more acceptable balances of payments, and more stable exchange rates in the industrialized countries can be achieved only if the latter bring their inflation rates down to the level prevailing in the first half of the sixties. With that the GATT report addresses primarily the US. For, there can be no doubt that the high inflation rates of the late sixties and early seventies have contributed to underemployment, and certainly one has to agree to the GATT view that a con-

sistent stabilisation policy in all industrialized countries would reduce the uncertainty and improve the bad investment climate, thus paving the way for recovery. It should further be possible to reach agreement on the notion that in the medium and long term the risks connected with a stabilization policy pursued with priority are lower than the dangers of chronic inflation and rising protectionism. However, quite apart from the fact that what has been said with regard to protectionism applies also to stabilisation policy (although the distribution of advantages and disadvantages over time is different), namely that the present political and social costs of such a policy are more obvious than the medium and long-term benefits, the removal of inflation and protectionism would merely pave the way for a recovery in the industrialized countries; whether this recovery would materialize must presently be regarded as a matter of conviction rather than of knowledge. And which government elected for four or five years would be prepared to bear certain political costs in return for an uncertain hope?

The gloomy prospects in the industrialized countries are not restricted to these; given the existing structural relationships they have consequences for the developing countries. Due to the uncertain developments outlined above, GATT assesses their future expansion as uncertain. The Annual Report of the IMF stresses the fact that the bulk of the protectionist trade measures adopted by the industrialized countries affect primarily the trade between these countries themselves and above all with Japan; the adverse effects on a balanced growth of the international trade flows and thus on the developing countries' exports, however, are not to be overlooked. Growth in the developing countries is also hampered – with the corresponding feedback effects on the exports of the industrialized countries and thus on their economic growth. For there is no doubt that in the past years the developing countries succeeded – partly thanks to their high borrowing – in achieving relatively high growth rates (5.9% annually in 1970–75 as compared with 5.5% in 1960–70 and with 2.8% and 4.9%, respectively, in the industrialized countries) thus reducing, by means of a corresponding absorption of goods from the industrialized countries, the latter's losses of growth.

In view of the moderate growth, the rising protectionism and the lacking preparedness of the industrialized countries to undertake, in their own interest, more intense and more generous attempts to a solution of the debt problem, it is not astonishing that the World Bank Development Report comes to the conclusion that "the scope for the growth of exports from the developing to industrialized countries is likely to be much more limited for the next decade than it was in the last two." Similarly the UNCTAD Council, after its latest session in Geneva, expressed the opinion that effective assistance to the developing countries will not be possible before the situation of the industrialized states has improved sufficiently to enable them to increase their imports from the developing countries.

However one assesses the industrialized countries' chances for higher growth in the foreseeable future, these views seem to be based somewhat uncritically on the assumption that the growth of the developing countries must be accompanied by a continuing high rate of growth in the rich industrialized countries. All the discussions in the industrialized countries of the benefits of a further high economic growth and its physical, psychic, and social limits are thus ignored. However, will it really do to give no thought to the statement that – according to the simplified assumptions of the World Bank Report – the rich countries will have to double their output and consumption within roughly two decades (what about the energy problems or the environment?) to enable the developing countries to treble their output starting from a far lower level?

In view of such questions and the uncertain growth prospects of the industrialized countries, the developing countries could be well advised to concentrate their interest on the more obvious growth potentials of which they themselves dispose. Perhaps they should search for a solution of their problems in their own countries rather than in the North. There exist already names for the concepts following from such an attitude: self-reliance and collective self-reliance.

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