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The World Economy: Risks and Opportunities

The picture presented by the current international economic situation is a mixed one. Signs of an economic recovery are overlapped by symptoms of the longest ever post-war recession, particularly the high level of unemployment. The recession in its turn is the result of adverse structural developments which can be traced back to the late 1960s. Depending on the aspects which are under consideration, there predominate, in assessments of the situation, either a restrained mood of economic optimism or – often only slightly allayed – concern over how the adjustment problems which have accumulated over time are to be overcome. Analogous to this situation, economic policies everywhere are confronted by the task of encouraging the short-term increase in demand and production, while at the same time improving the overall conditions for a lasting recovery of production and employment which are decisive in the long run. The choice of measures depends to a great extent on the assessment of basic economic relationships. Here, however, substantial differences of opinion still exist between individual governments. Economic summits such as the one in Williamsburg at most help alleviate such differences or merely conceal them.

Another important aspect is that the recent economic improvement still cannot be regarded as a world-wide phenomenon. Successes in this respect can be primarily observed in the USA, the Federal Republic of Germany and Britain. Nevertheless, there have also been indications of a general improvement in the economic climate elsewhere. The trend reversal would appear to be decisively due to the expansionary monetary policies which began in 1982 in the USA, and in its wake in other countries, too, as a result of the pressure of the continuing economic weakness, growing unemployment and the expectation of liquidity problems in the banking system. In contrast to their previous attitude, the leading central banks now felt that there was some scope for accelerating monetary expansion as inflation was slowing down appreciably. The improvement in the economic climate was supported by the fact that banks, national and international monetary authorities as well as governments had very swiftly developed an effective crisis management to take the edge off the urgent problems of indebtedness. Another important factor was the drop in oil prices of which there were already indications towards the end of 1982 and which was realized in March this year with the announcement of the reduction of the official export prices by the OPEC.

The widespread pessimism in industrialised countries right up until the end of last year yielded to more optimistic expectations at the beginning of 1983. Via stock-cyclical influences this changed mood found its immediate expression in terms of production. In various cases the turnabout appears to have been reflected also in an increased propensity to consume. The success achieved by the majority of industrialised countries in their fight against inflation would suggest that the slight international economic recovery during recent months is not just a flash in the pan. At the same time, however, it is still not certain whether we are already witnessing the start of a lasting upswing which will finally also lead to an improvement in the employment situation. The burden of unsolved problems still weighs too heavily. This is underlined especially by the still relatively high interest rates in the USA and – emanating from there – in other countries. These high levels would suggest widespread scepticism towards efforts designed to consolidate public finance and, therefore, towards the chances of a lasting curbing of inflation. The increasing impediments to international trade caused by protectionist measures, and the continuingly strained external economic situation of developing countries, present additional serious obstacles.

Whereas, apart from a few exceptions, industrialised countries are no longer dogged by serious balance-of-payments problems, the crisis facing developing countries continues. In their case, too, this is no mere cyclical phenomenon. The inevitable adjustment to the weaker growth trends in industrialised countries and – in oil-importing countries – to the oil-price-induced deterioration in the terms of trade had been deferred too long with the help of increased borrowing. For this reason, the expected gradual increase in export revenues, the reduction in the price of oil and the slight reduction in the nominal interest rates on international credit markets do not yet hold promise of a far-reaching solution. Although there has been a clear improvement in the adverse balances on current account in developing countries, their financing via new credits and the refinancing of the older credits due is faced by considerable difficulties owing to the increased awareness of banks of the risks involved. Close international cooperation will therefore continue to be essential so as to keep the resulting risks to the international financial system under control. Central banks and the International Monetary Fund can only provide a limited amount of support here. More extensive financing on their part would only create new monetary inflation potential without enabling the developing countries to avoid external consolidation via painful processes of adjustment.

The situation of the developing countries is exacerbated by the import restrictions set up by industrialised countries. In addition, protectionism is becoming a growing obstacle to trade between the industrialised countries themselves. Meanwhile, countries have resorted to the most subtle forms of state intervention in trans-frontier market processes. As a result, outdated production structures are preserved, whilst the propensity to invest declines, particularly on the part of those enterprises which are at the international level especially competitive and thus dynamic. Even the short-term, limited supportive effects of protectionist measures are very doubtful in the face of the many counter-reactions. Therefore, there is all the more reason to expect the overall improvement of the economic climate soon to take a dampening influence at least on the increase in protectionist activities.

Overcoming the crisis of indebtedness and checking protectionism are by their very nature international problems. However, the discussion on internationally coordinated measures to support the expansion of demand and production has also intensified in the fields of monetary and fiscal policies. Apparently, the not so encouraging experiences with the locomotive strategy five years ago have already been forgotten. Despite the determination, expressed again and again by all those concerned, to improve growth conditions by curbing inflation, the real problem once more lies in the differing degrees of emphasis placed on demand- and supply-side oriented explanations of the pronounced weakness of growth and the associated approaches to overcoming it. Now that the aim is no longer to bring about an economic change but to lend the economic upswing a lasting character, there is all the more reason to improve above all the framework conditions. Indeed, fiscal policy in industrialised countries will undoubtedly, to begin with, be marked by increased consolidation efforts while monetary policy will in many cases set itself the task of once again restricting monetary expansion in the interest of lasting success on the stabilisation front.

On the whole, international developments are still overshadowed by considerable risks. However, led by those countries which have made clear progress in their stabilisation and adjustment efforts, the opportunity has emerged to find a way back onto a growth path which would allow a gradual increase in capacity utilisation and employment over the coming years. The prospects, however, will remain uncertain for some time to come, the more so as the ability of economic policies to shape developments must not be overestimated. More important is the question whether there are enough countries in which the distributional illusions which have accumulated over the past years – in the relationship between employees and employers as well as between the public and the private sectors – will yield to the realisation of the primary need for achievement and its encouragement through appropriate incentives. In view of the duration of such social processes of change, hopes of an early adjustment in this respect must not be raised too high. Indeed, it is more likely that we are dealing here with one of the often cited long waves in the development of the world economy.

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