

Großer, Günter; Weinert, Günter

Article — Digitized Version

World economy taking a turn for the better

Intereconomics

Suggested Citation: Großer, Günter; Weinert, Günter (1994) : World economy taking a turn for the better, Intereconomics, ISSN 0020-5346, Nomos Verlagsgesellschaft, Baden-Baden, Vol. 29, Iss. 1, pp. 49-52,
<https://doi.org/10.1007/BF02929812>

This Version is available at:

<https://hdl.handle.net/10419/140437>

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.

Günter Großer, Günter Weinert*

World Economy Taking a Turn for the Better

After a three-year slowdown in the world economy, unemployment in the industrial countries is again almost as high as at the end of the recession in the early eighties. Any improvement will be dependent on a distinct resurgence of economic activity. With the recovery in the USA gaining greater momentum and the recession in Western Europe evidently coming to an end, the outlook in recent months has brightened. Will expansionary forces prevail in 1994?

As in the years before, the world economy in 1993 was marked by disparate, and in part contrary, developments. Aggregate production rose in a number of Asian and South American emerging economies by between 4% and 8% and even more in the People's Republic of China. On the other hand, the decline in the majority of Central and East European countries – especially the CIS – continued. The key factor determining the overall picture, however, remained the recession in most of the industrial countries. At just under 1%, their aggregate gross domestic product grew even less in 1993 than in 1992. While the increase in the USA, Canada and the United Kingdom was markedly stronger, the level of production in Japan and the Continental European economies hardly changed. Utilization of capacity rose only in North America.

In the industrial countries whose economies have returned to a growth path this was partly due to the considerable progress made towards the solution of the debt problems in the private sector, which had had a restraining influence on the readiness to lend and to borrow in that sector in the aftermath of the excesses of the eighties. A major driving force, particularly in the USA, has been the persistent monetary stimulus from low rates of interest. In Japan in contrast, the adverse developments in the financial sector have remained so pronounced that even the expansive monetary policy – the bank rate was lowered to 1.75% in September – has not been able to offset this. Progress toward improving the economic climate, which was discernible in the spring, has been thwarted by the strong appreciation of the yen and the attendant deterioration in international competitiveness.

In most Continental European countries, except for Scandinavia, the debt problems of the private sector had not played a major role. However, the monetary relaxation did not begin here until Germany changed its monetary policy in the autumn of 1992. A major burden at first was the recurrent turbulence on the foreign exchange markets. Not until radical corrections in exchange rates and a drastic enlargement of the bands in the European Monetary System (EMS) at the beginning of August was there a distinct relaxation with a general further decline in interest rates.

Fiscal policy last year underpinned demand in most industrial countries. In Western Europe too, where many governments launched medium-term consolidation programmes to curb the high deficits, the rise in budget deficits due to the recession was accepted as a whole – with considerable differences from country to country. Only the Japanese government saw any scope for an extensive fiscal stimulus of demand, however; the overall budget in Japan had achieved a financial surplus up to 1992 thanks to capital accumulation in social insurance. In the USA on the other hand, fiscal policy had been pursuing a restrictive course even before the medium-term consolidation plan was adopted. The US government deficit declined much more in 1993 than it would have simply as a result of the improvement in the economy, due not least to cuts in defence spending.

Trends on the Labour Markets

The divergent economic trends in the industrial countries last year also had their effect on the labour markets. Employment rose only in the USA, Canada and recently in the United Kingdom, with unemployment dropping slightly. In Canada and the United Kingdom, however, unemployment is still as high as in the

* Hamburg Institute for Economic Research (HWWA), Hamburg, Germany.

Continental European economies, where the percentage of the labour force which was unemployed rose up to the end of last year by an average of 11% due to a heavy decline in employment. This amounts to an increase of three percentage points over the three-year downturn. In Japan, in contrast, the major reduction has been in working hours, with overall employment stagnating and a slight increase in unemployment from a very low level. The statistical criteria used in Japan, however, probably tend to play down the deterioration.

With the generally adverse climate on the labour market, wage increases have on the whole slackened off further. Hourly earnings in manufacturing in the industrial countries were on average at the latest count only some 3% higher than a year ago. Even in countries with relatively high wage rises over a long period, such as Italy and the United Kingdom, the rates rose little more, despite a marked depreciation of the lira and pound sterling. Although the growth of productivity has in many cases been held back by the recession this has been counterbalanced by the vigorous efforts of businesses to cut costs, largely resulting in a tangibly slower rise in unit labour costs.

The containment of rising domestic costs coincided in 1993 with a substantial drop in world raw materials prices: on a dollar basis, crude oil averaged over 10% down on the previous year and industrial raw materials were down by 14%. As, in addition, capacity utilization was for the most part considerably depressed, there was keen competition, and price rises in many cases slowed down further; the average rise in the cost of living as compared with a year previously has fallen, its latest figure of 2.5% having almost reached the same low level as in 1986, when oil prices plummeted. The virtual price stability in Japan is attributable, apart from cyclical factors, to the strong appreciation of the yen. On the other hand, the stabilizing forces in some West European countries proved so

powerful as to more or less offset the inflationary trends stemming from depreciation.

Elements of Instability

Altogether, the world outlook is brighter thanks to the increasingly solid recovery in the USA. The other side of the coin are the clear risks still remaining, in particular in Japan. A major factor is the burden weighing on many banks as a result of losses due to the steep drop in real estate prices and shares, while another is the far-reaching and in detail unpredictable adjustment process following the rapid rise in the value of the yen. Structural factors have played a much smaller role in the weakness of economic activity in Western Europe. Now that the currency storms and the associated uncertainty about developments in interest and exchange rates have abated, improvement in the economic climate depends in particular on a continuous monetary relaxation. An element of instability remains the worries as to how fiscal policy will manage to cope with the pronounced deterioration of government finances in most economies.

Under these circumstances, economic policy in the industrial countries must aim at countering the retarding influences by raising confidence in improved conditions for growth. This was the main reason for the steps taken to curb the high structural government deficits even before a satisfactory utilization of overall capacity was achieved. The easing of public capital demand and the lowering of fiscal policy risks are intended to help lower interest rates. In the USA, the medium-term consolidation plan provides for a renewed tangible curtailment of the budget deficit, in particular in 1994. The forecasts, however, point to only small advances in the following years. There is also still considerable uncertainty as to how the health reform already underway will fit in with the planned budget parameters. There are signs that the financial burden will entail further contributions from businesses, which in turn will curb the growth effects of the consolidation policy.

Peter-Christian Müller-Graff (ed.)

East Central European States and the European Communities: Legal Adaptation to the Market Economy

The legal adaptation in East Central European states to the market economy of the European Communities is treated in four parts:

- Law as the basis of the market economy of the European Communities
- features and problems to the legal adaptation to market economy in Czechoslovakia, Hungary and Poland
- Common Market Law aspects for privatization and public enterprises, deregulation and the protection of public goods and interests, competition and industrial policy
- the cooperation between the European Communities and East Central European states.

The author analyses these different aspects and gives a well-based overview of these problems of adaptation.

1993, 235 p., paperback, 48,- DM, 338,50 öS, 43,50 sFr, ISBN 3-7890-3135-6

(ECSA-Series - European Community Studies Association - Europe / Association pour l'Étude des Communautés Européennes, Bd. 2)



NOMOS VERLAGSGESELLSCHAFT • Postfach 610 • 76484 Baden-Baden



Curbing the Financial Deficits

Most West European countries have also intensified their efforts to contain government deficits. In the United Kingdom this has been done amidst accelerating economic growth; the budget planning in a number of other countries is also directed at lowering deficits in 1994, in many cases through higher taxes, duties, etc. Although the full realization of the various estimates appears questionable to a greater or lesser degree, the automatic fiscal stabilizers in Western Europe cannot be expected to take full effect this year. The only leading industrial country in which the state pursues a policy of stimulating demand will in all likelihood again be Japan, where the deficits of regional and local authorities will rise again by a sizable amount due to the pronounced expansion of government demand, resulting in a large general government deficit this year, despite the continuing considerable surpluses in social insurance.

By fostering expectations of lower interest rates, the consolidation line prevailing in the fiscal policy of the industrial countries eases the task of central banks to achieve stability and growth. Although the Federal Reserve can be expected to tighten the monetary reins soon in the face of the sustained economic momentum in order to signal its resolve to fight inflationary tendencies at an early stage, the present very low discount rates will probably only be raised to a modest degree at first, in

particular as a shift in the interest rate differential as compared to financial assets in other currencies will tend to raise the value of the dollar and promote stability.

Influence of Monetary Stimuli

The central banks in most of the other industrial countries will not follow the change of course in the USA so quickly, if only because their economies are in a far less healthy condition. In Japan, for example, monetary policy will keep its sights set on overcoming the reluctance to borrow and to lend by retaining low interest rates and on stepping up monetary expansion—which has been weak to date—in order to spur demand. If this puts pressure on the exchange rate of the yen, this will certainly be a welcome development after the sharp appreciation, especially as price stability seems to be under no immediate threat, given the continuous decrease in utilization of resources.

Up until recently, Western Europe showed the greatest monetary policy “lag” behind the USA. Led by the Bundesbank—even after the large broadening of the EMS bands—the monetary reins will be loosened again this year, in particular as the upward push of costs and prices has generally let up. Short-term interest rates can now be expected to drop below the level of long-term rates in a growing number of countries, thus improving incentives for investors and consumers.

Economic Indicators

	Real Gross Domestic Product (Year-on-year change in %)				Consumer Prices (Year-on-year change in %)				Exchange Rates ¹ (Change over 12 mths in %)		Unemployment Rates ² (Annual average)	
	1983 to 1991 ^a	1992	1993 ^b	1994 ^c	1983 to 1991 ^a	1992	1993 ^b	1994 ^c	Dec. 1992	Dec. 1993	1992	1993 ^d
USA	2.7	2.6	2.8	3.0	3.9	3.0	3.0	3.0	4.5	1.4	7.3	6.8
Canada	2.9	0.7	2.5	3.5	4.7	1.5	2.0	2.0	-9.6	-4.2	11.2	11.2
Japan	4.4	1.3	0.0	1.0	1.8	1.7	1.3	0.5	7.1	18.4	2.2	2.5
Western Europe ³	2.6	0.8	-0.3	1.5	4.9	3.8	3.2	2.9	—	—	9.3	10.6
Austria	2.7	1.6	-0.5	1.5	2.9	4.1	3.5	3.0	3.1	-0.6	5.2	6.0
Belgium	2.3	0.5	-1.5	0.5	3.6	2.4	2.7	2.5	3.4	-2.6	7.9	9.2
Denmark	2.2	1.2	-1.0	1.5	4.4	2.1	1.3	1.5	5.8	-1.6	11.3	12.3
Finland	2.2	-4.0	-2.5	1.0	5.6	2.9	2.3	3.0	-12.3	-4.3	13.0	17.7
France	2.2	1.4	-0.5	1.0	4.6	2.4	2.0	2.0	4.7	-1.0	10.3	11.5
FR Germany ⁴	2.9	1.6	-1.3	1.5	2.0	4.0	4.2	3.0	4.6	-1.5	5.9	7.4
Ireland	3.7	4.8	2.5	3.0	4.9	3.1	1.5	2.5	5.7	-10.3	16.1	16.8
Italy	2.6	0.9	0.0	1.5	7.6	5.2	4.5	4.0	-13.5	-11.7	10.5	10.0
Netherlands	2.6	1.4	0.0	1.0	1.8	3.7	2.1	2.5	3.7	-0.7	6.8	8.4
Norway	2.8	3.3	1.5	2.5	6.1	2.3	2.3	2.0	-1.1	-2.5	5.9	6.1
Spain	3.4	0.8	-1.0	1.0	7.8	5.9	4.5	4.5	-7.7	-14.3	18.1	22.4
Sweden	1.6	-1.9	-2.0	1.5	7.2	2.3	4.5	3.0	-12.8	-12.5	4.8	8.3
Switzerland	2.3	-0.1	-0.5	1.5	3.1	4.0	3.3	2.0	2.1	3.6	2.5	4.5
United Kingdom	2.6	-0.5	2.0	2.5	5.7	3.7	1.5	2.5	-12.0	2.0	9.9	10.3
OECD Countries Total ³	3.0	1.5	0.9	2.0	3.9	3.0	2.7	2.5	—	—	7.5	7.8

¹ External value of currencies weighted by share in international trade. ² In % of total number at or available for work; in most cases, OECD standardized figures. ³ Total of listed countries weighted by real gross domestic product or private consumption in 1991. ⁴ Gross domestic product until 1991, consumer prices and unemployment: West Germany. ^a Average year-on-year change. ^b Partly estimated. ^c Forecast; country data rounded to nearest half percentage point. ^d Partly estimated.

Sources: OECD; Deutsche Bundesbank; other national statistics; own estimates and forecasts.

In the interplay between structural factors and economic policy parameters, monetary impulses are likely to exert more influence in the industrial countries this year. In the USA, where these stimuli have been taking effect for some time, investment in capital goods will remain attractive even when interest rates are slightly higher. In addition, private consumption can be expected to keep increasing due to the growth of employment and income. Real government demand, on the other hand, will continue to decline. Inhibiting factors will continue to have an effect on the exchange of goods and services, though less forcefully than until now, as exports to major foreign markets ought to expand again with the strengthening economic recovery. In all, gross domestic product in the USA will rise rapidly in 1994; its growth rate, at probably a good 3%, will be somewhat higher than last year.

In Japan the question still remains of when the massive economic policy impulses will prevail over the retarding effects of consolidation efforts by banks, businesses and private households. At least the additionally dampening after-effects of the exchange-rate shock can be expected to weaken this year, the external value of the yen having peaked late last summer. Experience shows that a firmer recovery in the USA also tends to improve the economic climate in Japan. Against this backdrop, there are some good reasons to expect a gradual revival of demand in Japan. Nevertheless, real gross domestic product in 1994 will not go up by more than 1% on last year, though at a slightly higher current rate.

Now that the currency turbulence has subsided, the West European economy will start to grow again this year. Progressive monetary relaxation since autumn 1992 and the distinct decline in long-term interest rates above all will increasingly work toward reversing the downswing. Following the substantial drop in yields from financial assets, capital investments have regained attractiveness, especially as many businesses have made great advances in cost-cutting. Their competitiveness over contenders from the dollar bloc and Japan has been much

enhanced by the appreciation of the dollar and the yen. At the same time, demand for housing will be buoyed by low interest rates. Aggregate demand in most West European economies ought therefore to revive slowly at first and gradually pick up momentum. Gross domestic product in 1994 is likely to average 1.5% growth on last year; only in the United Kingdom and Norway are there signs of a notably higher rate.

Revival of World Trade

World trade, which expanded last year largely as a result of the considerable increase in imports into North America and the emerging economies of Southeast Asia, will now start to receive a modest impetus from Western Europe. After imports there in 1993 dropped noticeably at the beginning of the year due to the recession, there is evidently a recovery taking place which will continue with the gradual economic upswing. As a whole, growth in world trade in 1994 ought to attain some 5% after nearly 3% last year. However, the industrial countries will not take full part in the expansion, while the exchange of goods amongst the developing countries will increase over-proportionately.

The anticipated revival of world economic activity will largely be the outcome of global monetary stimuli. The growth forecast for gross domestic product in the industrial countries of some 2% in 1994, at a slightly higher current rate, will not however suffice to raise utilization of overall capacity again or to curb unemployment to any notable degree. This can only be done by a more rapid and above all sustained overall expansion. The worldwide containment of cost and price rises is no doubt a conducive factor, but growth conditions need improving as well, especially through sounder government finances and through rolling back the regulation of the goods and factors markets. The successful conclusion of the GATT round last month and the attendant brighter prospects for an improved international division of labour in the coming years has made an important contribution towards this.

HWWA Index of World Market Prices of Raw Materials¹
(1975 = 100)

Raw Materials and Groups of Materials	1992		1993				1994	
	AA ²	December	AA ²	October	November	December	7. 1.	21. 1.
Total index	160.1	151.9	144.3	142.1	135.6	126.9	131.9	130.0
Total, excl. energy raw materials	132.1	124.9	120.0	117.0	118.3	121.8	123.2	125.2
Food, tropical beverages	88.6	88.3	91.4	93.2	96.5	99.7	100.6	98.2
Industrial raw materials	165.2	152.9	141.7	135.2	134.8	138.6	140.4	145.8
Agricultural raw materials	169.8	154.9	140.9	135.4	134.9	138.2	141.6	148.1
Non-ferrous metals	172.3	162.8	145.0	129.8	129.3	136.3	137.5	145.2
Energy raw materials	176.5	167.7	158.5	156.8	145.7	129.9	137.0	132.8

¹ On dollar basis. ² Annual Average.