# The World Economic Forecast for 1983

## Western industrial countries: insufficient growth stimulus from economic policy

Contrary to expectations a year ago, the economic situation in most Western industrial countries in 1982 failed to improve, indeed it deteriorated further. In particular, in leading West European economies demand and output have been declining again since mid-year. In the United States, where the national product grew slightly during the summer months of 1982, the recession now also seems to have gripped again. Japan too is currently undergoing a phase of economic weakness, with demand and output rising only slowly.

The reasons for this unsatisfactory economic picture are due partly to governments' economic policies, but partly also to the fact that exports to the rest of the world, which had previously been propping up economic growth, are now no longer rising but falling. Since the developing countries' and the state trading countries' balance-of-payments situation has deteriorated markedly, partly in consequence of the long-drawn-out recession in the industrial countries, these countries are being forced to cut back their imports. The greatest pressure is on countries with very large current deficits and considerable debt problems. These actually include some oil countries, whose foreign exchange earnings have also declined steeply.

Current deficits in many countries rose partly in response to the launch of ambitious development programmes, which in view of the immense need for development in principle seemed sensible. They led to balance-of-payments problems primarily because of the economic downturn in the industrial countries and the high interest rates. When planning the development, the governments had taken an optimistic view of world economic prospects. When these forecasts failed to materialise, the developing countries at first attempted to avoid the pressure on them to adjust by borrowing more. Many countries got themselves too deeply into debt and were eventually forced to adjust after all. The fear of liquidity crises threatening the banking system, but also of cumulative shrinkage in international trade, persuaded leading industrial countries' central banks and the international banking community to make support loans available. These measures are helpful in preventing a sudden adjustment which would make the world economic situation even worse, and an uncontrolled chain reaction in the banking system; but without a turnround in the industrial countries' economies, the necessary improvement in the developing countries' external payments situation will not materialise.

But because of fears of a fresh acceleration in inflation and rising public-sector deficits, the industrial countries' governments are not giving a sufficiently large stimulus to get the economy out of the doldrums. To the extent that any economic stimuli are being administered at all, they mostly focus on only one area of policy, while restrictions are still applied in other areas. Thus an expansionary financial policy is often cancelled out by a restrictive monetary policy. Or if there is reasonable progress on monetary relaxation, financial policy is too tight, getting in the way of an economic upturn.

In view of the large public-sector deficits, most governments are forced to aim for consolidation, both by cutting back spending and by partial tax increases. But such procyclical measures cannot bring about the desired result. Even in the United States and France, where financial policy has not been subordinated to budget consolidation, public-sector deficits raised steeply by cyclical factors have made governments more cautious. Tax cuts in one area are partially compensated for by tax increases in other areas; increased spending in one place is made up for by expenditure cuts elsewhere.

In principle, monetary policy everywhere – even where it has been relaxed a little more – is sticking to its consolidation course conceived to prevent a fresh acceleration in inflation. In reply to criticism that in the present recession this policy does not provide enough growth impulses and, in particular, does not lead to interest rate cuts on the scale required, it is argued that given the permitted expansion of the money supply, the monetary margin for real economic growth has widened because the pace of inflation has slowed down. If inflation were to continue to slow down because the market partners were adjusting better to the framework set by monetary policy than they have done so far, the monetary margin available for growth would widen even more. Further interest rate cuts would then become inevitable, and this would eventually provide the impetus for an economic recovery.

But this argument relies too heavily on the belief that only lower interest and wage costs will persuade firms to go for growth again, particularly as far as investment is concerned. The slower rise in prices and wages is simply a consequence of a deterioration in the economy brought about by economic policy, which had a major impact on industry's sales and profits prospects as well; not much of an incentive to invest more.

If the economy is being stimulated only in a half-hearted way, it is not surprising that sales prospects remain depressed and no economic upturn has materialised. But the danger of a fresh acceleration of inflation and a further rise in public-sector deficits cannot be denied. The problem is that a policy which gives priority to averting this danger, and proceeds accordingly, will not help to stop the rise in unemployment and to make a reduction possible. The defensive formula that an expansionary policy will not, in the long

# Table 1
## Balance of payments by economic areas
in US-$ billion at current exchange rates

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | West European industrial countries[3] | | | | | | | of which: EEC | | | | | | |
| Current balance | -4.1 | +17.9 | -13.2 | -45.0 | -15.9 | -13.5 | -3.5 | +1.6 | +16.4 | -10.9 | -39.4 | -16.5 | -15.5 | -6 |
| Trade balance | -1.7 | +16.0 | -12.7 | -40.5 | -6.7 | -2 | +11.5 | +5.9 | +17.2 | -5.3 | -27.8 | -1.7 | +2 | +15 |
| Invisible balance | +12.3 | +20.5 | +22.2 | +21.1 | +14.6 | +13 | +11 | +8.4 | +15.3 | +14.5 | +11.0 | +6.5 | +4.5 | +2.5 |
| Transfer balance | -14.7 | -18.6 | -22.7 | -25.6 | -23.8 | -24.5 | -26 | -12.7 | -16.1 | -20.1 | -22.6 | -21.3 | 22 | -23.5 |
| Capital balance[7] | +35.5 | +11.3 | +34.9 | +64.7 | -11.3 | -9.5 | . | +28.0 | +2.0 | +34.0 | +57.1 | -8.9 | -6.5 | . |
| Long-term capital | +0.3 | -15.3 | -17.7 | -17.6 | -22.5 | . | . | +0.3 | -10.7 | -5.1 | -5.7 | -11.8 | . | . |
| Short-term capital[8] | +35.2 | +26.6 | +52.6 | +82.3 | +11.2 | . | . | +27.7 | +12.7 | +39.1 | +62.8 | +2.9 | . | . |
| Balance of foreign exchange[9] | -31.4 | -29.2 | -21.7 | -19.7 | +27.2 | +23 | . | -29.6 | -18.4 | -23.1 | -17.7 | +25.4 | +22 | . |
| Official gold holdings | -1.1 | -1.8 | +3.7 | +0.6 | +1.8 | +1.5 | . | -0.9 | -1.4 | +3.7 | +0.5 | +1.4 | +1.5 | . |
| Official foreign exchange holdings | -30.4 | -26.4 | -24.5 | -19.7 | +26.1 | +21.5 | . | -29.0 | -15.8 | -26.1 | -17.6 | +24.7 | +20.5 | . |
| IMF position[10] | +0.1 | -1.0 | -0.9 | -0.6 | -0.7 | 0 | . | +0.3 | -1.2 | -0.7 | -0.6 | -0.7 | 0 | . |
| | Non-European industrial countries[4] | | | | | | | of which: USA | | | | | | |
| Current balance | -7.2 | -1.7 | -13.4 | -10.1 | +4.7 | +5.5 | +0 | -14.1 | -14.8 | -0.4 | +1.5 | +4.4 | -2 | -8 |
| Trade balance | -10.8 | -4.6 | -21.7 | -15.4 | -1.3 | +0.5 | -2.5 | -30.9 | -33.8 | -27.3 | -25.3 | -27.9 | -33.5 | -39.5 |
| Invisible balance | +8.6 | +9.1 | +14.8 | +13.0 | +13.5 | +12.5 | +10.5 | +21.8 | +24.5 | +32.9 | +34.1 | +39.5 | +39 | +39 |
| Transfer balance | -5.0 | -6.2 | -6.5 | -7.7 | -7.5 | -7.5 | -8 | -5.0 | -5.5 | -6.0 | -7.3 | -7.2 | -7.5 | -7.5 |
| Capital balance[7] | -21.7 | -19.0 | +13.8 | +8.0 | -3.6 | -12.5 | . | -20.3 | -16.2 | +14.4 | -9.0 | -7.0 | +1 | . |
| Long-term capital | -11.8 | -24.0 | -29.5 | -6.6 | +7.2 | . | . | -12.4 | -11.7 | -18.0 | -8.4 | +13.2 | . | . |
| Short-term capital[8] | -9.9 | +5.0 | +43.3 | +14.6 | -10.8 | . | . | -7.9 | -4.5 | +32.4 | -0.6 | -20.2 | . | . |
| Balance of foreign exchange[9] | +28.9 | +20.7 | -0.4 | +2.1 | -1.1 | +7 | . | +34.4 | +31.0 | -14.0 | +7.5 | +2.6 | +1 | . |
| Official gold holdings | -0.8 | -1.1 | +0.4 | +0.5 | +1.2 | +1 | . | -0.6 | -0.8 | +0.4 | +0.4 | +1.0 | +1 | . |
| Official foreign exchange holdings | -4.8 | -13.4 | +13.7 | -11.7 | -3.6 | +6.5 | . | +0.3 | -4.4 | +0.6 | -6.3 | +0.4 | +0.5 | . |
| IMF position[10] | -0.9 | +4.0 | -0.9 | -1.6 | -3.6 | -2 | . | -0.7 | +5.0 | -1.4 | -1.5 | -3.7 | -2 | . |
| Dollar liabilities with monetary authorities | +35.4 | +31.2 | -13.6 | +14.9 | +4.9 | +1.5 | . | +35.4 | +31.2 | -13.6 | +14.9 | +4.9 | +1.5 | . |
| | Rest of the world[5] | | | | | | | of which: OPEC countries | | | | | | |
| Current balance | +11.3 | -16.2 | +26.6 | +55.1 | +11.2 | +8 | +3.5 | +29.0 | +4.5 | +62.0 | +115.0 | +67.0 | +3 | -3 |
| Trade balance | +12.5 | -11.4 | +34.4 | +55.9 | +8.0 | +1.5 | -9 | +61.5 | +42.5 | +107.0 | +172.0 | +122.0 | +55 | +75 |
| Invisible balance | -20.9 | -29.6 | -37.0 | -34.1 | -28.1 | -25.5 | -21.5 | -32.5 | -38.0 | -45.0 | -57.0 | -55.0 | -52 | -78 |
| Transfer balance | +19.7 | +24.8 | +29.2 | +33.3 | +31.3 | +32 | +34 | | | | | | | |
| Capital balance[7] | +10.3 | +20.8 | +2.2 | -38.1 | -10.9 | -21.5 | . | -18.7 | -19.8 | -48.0 | -95.3 | -66.0 | -17 | . |
| Long-term capital | +11.5 | +39.3 | +47.2 | +24.2 | +15.3 | . | . | . | . | . | . | . | . | . |
| Short-term capital[8] | -1.2 | -18.5 | -45.0 | -62.5 | -26.2 | . | . | . | . | . | . | . | . | . |
| Balance of foreign exchange[9] | -21.6 | -4.6 | -28.8 | -17.0 | -0.3 | +13.5 | . | -10.3 | +15.3 | -14.0 | -19.7 | -1.0 | +14 | . |
| Official gold holdings | +1.9 | +2.9 | -4.1 | -1.1 | -3.0 | -2.5 | . | 0.0 | -0.2 | 0.0 | -0.1 | +0.1 | 0 | . |
| Official foreign exchange holdings | -24.3 | -4.5 | -26.5 | -18.1 | +1.6 | +14 | . | -10.0 | +14.9 | -15.0 | -18.2 | +1.1 | +14 | . |
| IMF position[10) 11] | +0.8 | -3.0 | +1.8 | +2.2 | +4.3 | +2 | . | -0.3 | +0.6 | +1.0 | -1.4 | -2.2 | 0 | . |

1) Partly estimated. - 2) Estimated. - 3) EEC, Norway, Austria, Sweden, Switzerland. - 4) USA, Canada, Japan. - 5) Calculated as residuals which, however, are also due to differences in the coverage of individual balance of payments items; capital and foreign exchange balances differ from the residuals by the change in the hard-currency countries' foreign exchange liabilities not separately shown. - 6) Oil countries according to the IMF definition. - 7) Net capital exports (-), imports (+). - 8) Including statistical discrepancy. - 9) Increase of reserves (-), decrease (+). - 10) Including Special Drawing Rights. - 11) Including IMF liabilities.

Sources: International financial statistics; national statistics. Estimated and forecast absolute figures rounded.

**Table 2**
**Trends of gross national products in Western industrial countries**

| Country | Weights[1)] 1981 in per cent | | % change on previous year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | GNP | West German exports | 1981 | | | 1982 | | | 1983 | | |
| | | | real | nominal | prices[2)] | real | nominal | prices[2)] | real | nominal | prices[2)] |
| West Germany | 9.6 | 0.0 | -0.2 | 4.0 | 4.2 | -1 | 3.5 | 4.5 | -0.5 | 3.5 | 3.5 |
| France | 8.0 | 19.2 | 0.3 | 12.2 | 11.9 | 1 | 13.5 | 12.5 | 0 | 10 | 10 |
| United Kingdom | 7.1 | 9.7 | -1.4 | 10.4 | 11.9 | 0.5 | 9.5 | 8.5 | 1 | 7 | 6.5 |
| Italy | 5.0 | 11.5 | -0.2 | 17.4 | 17.6 | 0.5 | 16 | 15.5 | 0 | 15 | 15 |
| Netherlands | 2.0 | 12.5 | -1.2 | 4.4 | 5.6 | -1.5 | 5 | 6.5 | -0.5 | 3.5 | 4 |
| Belgium | 1.4 | 10.7 | -1.2 | 3.4 | 4.6 | -2 | 6 | 8 | -0.5 | 7 | 7.5 |
| Denmark | 0.8 | 2.8 | -0.3 | 9.3 | 9.6 | 0.5 | 11 | 10.5 | 0 | 8.5 | 8.5 |
| Ireland | 0.2 | 0.6 | 1.6 | 19.3 | 17.4 | 1 | 18.5 | 17.5 | 1.5 | 16 | 14.5 |
| EEC | 34.1 | 0.0 | -0.4 | 9.4 | 9.9 | 0 | 9.5 | 9.5 | 0 | 8 | 7.5 |
| Sweden | 1.6 | 3.8 | -0.9 | 9.0 | 10.0 | -0.5 | 7.5 | 8 | 0 | 7 | 7 |
| Switzerland | 1.4 | 7.6 | 2.7 | 9.6 | 6.7 | -1.5 | 5.5 | 7 | 0 | 3.5 | 3.5 |
| Austria | 0.9 | 7.4 | 0.0 | 5.9 | 5.9 | 1 | 7.5 | 7 | 0.5 | 4.5 | 4 |
| Norway | 0.8 | 1.8 | 0.8 | 15.7 | 14.8 | -0.5 | 9.5 | 10 | 0 | 9.5 | 9.5 |
| Europ.indust.countries | 38.8 | 0.0 | -0.3 | 9.5 | 9.8 | 0 | 9 | 9 | 0 | 7.5 | 7.5 |
| Europ.indust. countries excl.West Germany | 29.2 | 0.0 | -0.3 | 11.3 | 11.6 | 0 | 11 | 10.5 | 0 | 9 | 9 |
| Europ.indust. countries excl. West Germany 3) | 0.0 | 87.6 | -0.2 | 9.6 | 9.8 | 0 | 9.5 | 10 | 0 | 8 | 8 |
| USA | 41.4 | 9.6 | 1.9 | 11.6 | 9.4 | -1.5 | 3.5 | 5 | 1.5 | 6 | 4.5 |
| Canada | 3.9 | 1.0 | 3.1 | 13.5 | 10.1 | -5 | 5.5 | 11 | -1 | 9 | 10 |
| Japan | 15.9 | 1.8 | 3.0 | 5.9 | 2.8 | 2.5 | 5.5 | 3 | 3 | 6.5 | 3.5 |
| Non-Europ.indust.countries | 61.2 | 0.0 | 2.3 | 10.2 | 7.7 | -0.5 | 4 | 5 | 1.5 | 6.5 | 4.5 |
| Non-Europ.indust.countries 3) | 0.0 | 12.4 | 2.2 | 10.9 | 8.5 | -1 | 4 | 5 | 1.5 | 6.5 | 5 |
| Total | 100.0 | 0.0 | 1.3 | 9.9 | 8.5 | -0.5 | 6 | 6.5 | 1 | 7 | 5.5 |
| Total excl. West Germany | 90.4 | 0.0 | 1.4 | 10.6 | 9.0 | -0.5 | 6.5 | 6.5 | 1 | 7 | 6 |
| Total excl. West Germany 3) | 0.0 | 100.0 | 0.1 | 9.8 | 9.7 | -0.5 | 9 | 9.5 | 0 | 7.5 | 7.5 |

1) Dollar basis.- 2) Deflator.- 3) Weighted by country's share in German exports. EEC excl. Greece.

Sources: National statistics and forecasts by official and private institutions and the DIW. Estimated and forecast rates of change rounded.

run, solve the employment problem, diverts attention from the fact that the policy pursued to date almost everywhere, while aiming to contain inflation and consolidate public-sector budgets, has exacerbated the employment problem in a way which would have been unimaginable only a few years ago.

To solve these problems, economic policy has to become more expansionary again and tackle the inflation risk in a fresh way. What is needed is an incomes policy as a flanking measure in conjunction with an expansionary monetary and financial policy so as to counter the threat of a self-reinforcing wage-price spiral. The usual objection to this is that such an incomes policy is condemned to failure if other elements of economic policy are pushing up inflation, and that it is unnecessary if this is not the case. Yet a well-conceived flanking incomes policy in the form of a social contract or solidarity pact is not intended to cushion the undesirable effects of a faulty monetary and financial policy, but is meant to widen the economic policy margin available for a stimulus to growth. If the incomes policy were to be part of a comprehensive set of economic policy measures to revive the economy, moderate wage increases could also be justified more easily than with the vague hope that wage restraint might persuade firms to invest more.

With a flanking incomes policy, monetary policy could more aggressively pursue a further cut in interest rates, which the current economic doldrums demand, and would not have to stick to money supply rules which are too narrowly conceived. The current policy is often described as potential-oriented; but this term is questionable if the guideline is a potential path which the sustained investment slump has flattened in every country. If economic growth were to move in line with this potential path, a major reduction in unemployment would be impossible without a marked cut in working time. This path can rise more steeply again only if investment grows vigorously. But if businessmen behave rationally, this will happen only if the real trend actually leads to a full utilisation of capacity again and this is not choked off by monetary policy. However, in such a

**Table 3**
**Trends in GNP components in Western industrial countries**
Real % change on previous year

| Country | Private consumption | | | Government consumption | | | Gross fixed investment | | | Exports of goods and services | | | Imports of goods and services | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1981 | 1982 | 1983 | 1981 | 1982 | 1983 | 1981 | 1982 | 1983 | 1981 | 1982 | 1983 | 1981 | 1982 | 1983 |
| West Germany | -1.2 | -2 | -0.5 | 2.0 | 0 | 0.5 | -3.8 | -6.5 | 1 | 8.5 | 2.5 | 0 | 1.2 | 1.5 | 0 |
| France | 1.6 | 2.5 | 0.5 | 2.4 | 3 | 2.5 | -2.3 | -1.5 | -0.5 | 4.7 | -3 | 1 | -1.1 | 4 | 1.5 |
| United Kingdom | 0.3 | 0 | 1 | 0.3 | 0 | -0.5 | -8.2 | 1.5 | 2 | -0.3 | -1 | 0 | -0.1 | 3 | 2 |
| Italy | 0.2 | 0 | 0.5 | 1.8 | 2 | 1 | -0.2 | -2.5 | -1 | 6.0 | 5.5 | 1.5 | -5.4 | 3 | 2.5 |
| Netherlands | -2.6 | -2.5 | -3 | 1.3 | -0.5 | 0.5 | -10.8 | -5 | -2 | 0.9 | 2 | 1.5 | -7.4 | 1.5 | 1 |
| Belgium | -0.3 | -2.5 | -1.5 | 0.6 | -1 | -2 | -15.7 | -7.5 | 0 | 2.5 | 2 | 1 | -1.4 | 0.5 | 1 |
| Denmark | -1.1 | 0.5 | 0 | 3.0 | 3.5 | 2 | -16.3 | 0 | 0 | 5.3 | 0.5 | 0.5 | -2.1 | 2.5 | 1 |
| Ireland | 0.0 | -2.5 | 0 | -0.1 | 3 | -1 | 4.9 | 1 | 1 | 1.5 | 0 | 1 | 2.0 | 0 | 1 |
| EEC 1) | -0.0 | 0 | 0 | 1.6 | 1 | 0.5 | -4.6 | -3 | 0.5 | 4.3 | 1 | 0.5 | -1.5 | 2.5 | 1 |
| EEC excl. West Germany 1) | 0.4 | 0.5 | 0 | 1.4 | 1.5 | 0.5 | -5.0 | -1.5 | 0 | 2.6 | 0.5 | 1 | -2.5 | 2.5 | 1.5 |
| Sweden | -0.6 | -2 | -0.5 | 1.9 | 1.5 | 0.5 | -5.6 | -5.5 | -2 | 1.6 | 2.5 | 1 | -4.2 | 1 | 0.5 |
| Switzerland | 0.5 | 0 | -0.5 | 0.5 | 2 | 1 | 3.0 | -5.5 | 0.5 | 6.8 | -1 | 1 | -0.2 | -0.5 | 1.5 |
| Austria | 0.7 | 0 | 0.5 | 2.0 | 2 | 2 | -2.0 | -3 | 0.5 | 7.8 | 2 | 2 | 1.0 | 2 | 3 |
| Norway | 1.5 | 0 | 0.5 | 4.5 | 2 | 2 | 16.3 | -1.5 | 0 | 0.6 | 0 | 0 | 1.7 | 3 | 3 |
| Europ.indust.countries 1) | 0.0 | 0 | 0 | 1.6 | 1 | 0.5 | -3.7 | -3 | 0 | 4.3 | 1 | 0.5 | -1.4 | 2 | 1.5 |
| Europ.indust.countries excl.West Germany 1) | 0.4 | 0.5 | 0 | 1.5 | 1.5 | 1 | -3.6 | -2 | 0 | 2.9 | 0.5 | 1 | -2.2 | 2.5 | 1.5 |
| USA | 1.8 | 2.5 | 2 | 0.9 | 0 | 0 | 1.7 | -6 | 1 | -0.4 | -7 | 0 | 7.2 | 0 | 2 |
| Canada | 1.9 | -2 | 0 | 0.9 | 2 | 1.5 | 5.7 | -12 | -1 | 1.6 | -1 | 0 | 2.6 | -8 | -1 |
| Japan | 0.7 | 2.5 | 3 | 3.5 | 3 | 2 | 2.1 | -1 | 2 | 17.1 | 2 | 4 | 6.3 | 6 | 5 |
| Non-Europ.indust.countries 1) | 1.5 | 2 | 2 | 1.3 | 0.5 | 0.5 | 2.1 | -4.5 | 1.5 | 5.1 | -3.5 | 1 | 6.3 | 0.5 | 2.5 |
| Total 1) | 1.0 | 1.5 | 1.5 | 1.4 | 1 | 0.5 | -0.2 | -4 | 1 | 4.6 | -1 | 1 | 1.7 | 1.5 | 2 |
| Total excl.West Germany 1) | 1.2 | 1.5 | 1.5 | 1.4 | 1 | 0.5 | 0.3 | -3.5 | 1 | 4.0 | -1.5 | 1 | 1.8 | 1.5 | 2 |

1) 1981 weights on dollar basis. EEC excl. Greece.

Sources: National statistics and forecasts by official and private institutions and the DIW. Estimated and forecast rates of change rounded.

situation inflationary bottlenecks could soon develop. During that phase an incomes policy will be faced with the difficult task of preventing the development of price-wage spirals. There is of course no guarantee that it will succeed. But there is no doubt either that a steeper potential path will not be achieved if the fear of running risks imposes excessive caution.

In this situation a go-for-growth financial policy cannot be a procyclical consolidation policy, which will only make the recession worse. However, given the scale the public-sector deficit has already reached in several countries, the governments see hardly any room for manoeuvre for an expansionary financial policy. In many countries such room for manoeuvre has been reduced not by an excessively active financial policy in earlier years, but mainly by the sluggish growth in tax revenue because of the economic situation. However, quite apart from the size of the public-sector deficits, it remains true that a lasting reduction is possible only during a sustained economic expansion. If a reduction is attempted during a downturn, the downturn will be reinforced, and the only chance – if any – of success for the consolidation policy will be acceptance of an economic depression with politically incalculable consequences. If the governments want to achieve consolidation on acceptable conditions, they have no option but to include financial policy among the instruments to stimulate growth as far as possible.

But such an expansionary policy, even within a system of flexible exchange rates, would soon run into trouble if pursued by just one country alone. The consequence would be a drop in the exchange rate and balance-of-payments difficulties. This policy could enjoy a lasting success only if the leading industrial countries, at the least, decided to act together. An economic upturn started up in this way would spread to the other countries.

Unfortunately the considerable differences between the different economic policy camps on the appropriate means to overcome the economic crisis make it unlikely that action will soon be co-ordinated internationally. In these circumstances the forecast for the world economy in 1983 cannot be optimistic. This applies to all industrial countries. There are differences between

**Table 4**
**Trends in gross incomes, unit profits and wage costs per unit of output in Western industrial countries**
% change on previous year

| Country | Gross income from: Self-employment and property | | | Gross income from: Employment | | | Profit per unit of output 1) | | | Wage cost per unit of output 2) | | | Wage cost per unit of output 2) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | in national currencies | | | | | | | | | | | | in SDRs | | |
| | 1981 | 1982 | 1983 | 1981 | 1982 | 1983 | 1981 | 1982 | 1983 | 1981 | 1982 | 1983 | 1981 | 1982 | 1983 |
| West Germany | -0.7 | 4.5 | 5.5 | 4.7 | 2.5 | 2 | -0.5 | 7.5 | 6.5 | 4.8 | 3.5 | 2 | -7.0 | 3 | |
| France | 5.4 | 14 | 10 | 13.0 | 13.5 | 10 | 5.1 | 13 | 10 | 12.7 | 12.5 | 10 | -3.3 | 0 | |
| United Kingdom | 12.3 | 10 | 9.5 | 8.2 | 7 | 6 | 13.8 | 9.5 | 8.5 | 9.7 | 6.5 | 5 | 5.6 | -1 | |
| Italy | 3.4 | 17 | 8 | 22.4 | 17.5 | 18 | 3.6 | 16.5 | 8 | 22.6 | 17 | 18 | 2.0 | 5.5 | |
| Netherlands | 8.8 | 10.5 | 7 | 2.0 | 4 | 3 | 10.1 | 12 | 7.5 | 3.2 | 5.5 | 3.5 | -9.2 | 5 | |
| Belgium | -1.5 | 7 | 13 | 4.8 | 5.5 | 5 | -0.3 | 9.5 | 13.5 | 6.0 | 7.5 | 5.5 | -7.9 | -6 | |
| Denmark | 12.9 | 13 | 13.5 | 8.2 | 9.5 | 7 | 13.2 | 12.5 | 13.5 | 8.5 | 9 | 7 | -5.2 | 0 | |
| Ireland | 28.3 | 24.5 | 16 | 17.0 | 16.5 | 16 | 26.3 | 23.5 | 14 | 15.2 | 15.5 | 14.5 | -0.1 | 9 | |
| EEC 3) | 4.6 | 11 | 8.5 | 9.9 | 8.5 | 7.5 | 5.6 | 10.5 | 8.5 | 9.2 | 8 | 6.5 | -3.0 | 1.5 | |
| Sweden | 0.2 | 8.5 | 2.5 | 9.6 | 8 | 8 | 1.1 | 9 | 2.5 | 10.6 | 8.5 | 8 | 2.0 | -2 | |
| Switzerland | 12.1 | 3 | 3.5 | 8.5 | 6 | 4 | 9.1 | 4.5 | 3.5 | 5.5 | 7.5 | 4 | -0.7 | 11.5 | |
| Austria | -2.2 | 15 | 6 | 7.8 | 6 | 4 | -2.2 | 14.5 | 5.5 | 7.8 | 5.5 | 3.5 | -3.3 | 5 | |
| Norway | 21.0 | 9 | 10.5 | 13.1 | 9.5 | 9.5 | 20.1 | 9.5 | 10.5 | 12.2 | 10 | 9.5 | 6.6 | 6.5 | |
| Europ.indust.countries 3) | 5.1 | 10.5 | 8 | 9.9 | 8.5 | 7.5 | 5.8 | 10.5 | 8 | 9.2 | 8 | 6.5 | -2.4 | 2 | |
| USA | 12.8 | 0.5 | 4.5 | 10.6 | 5.5 | 6.5 | 10.7 | 2 | 3 | 8.5 | 7 | 5 | 19.8 | 14 | |
| Canada | 4.0 | -7 | 2 | 13.9 | 10 | 11 | 0.8 | -2 | 3 | 10.5 | 16 | 12 | 19.0 | 19.5 | |
| Japan | 2.0 | 1 | 3 | 8.0 | 7.5 | 8 | -1.0 | -1.5 | 0 | 4.9 | 5 | 5 | 19.1 | -1 | |
| Non-Europ.indust.count. 3) | 9.0 | 0 | 4 | 10.2 | 6.5 | 7 | 5.9 | 0.5 | 2 | 7.7 | 7.5 | 6 | 19.4 | 10.5 | |
| Total 3) | 7.6 | 4 | 5.5 | 10.0 | 7 | 7 | 5.8 | 6.5 | 5.5 | 8.6 | 8 | 6 | 6.6 | 5.5 | |

1) Gross income from self-employment and property per unit of real gross national product.- 2) Gross income from employment per unit of real gross national product.- 3) Weighted with 1981 shares. To 1) and 2): Weighted with world export shares on which the calculations of the SDR are based (with the exception of the USA). EEC excl. Greece.

Sources: EEC statistical office, national accounts; national statistics and DIW forecasts. Estimated and forecast rates of change rounded.

different groups of countries; the trend in the United States and Japan will probably be a little more favourable than in Western Europe. But a major upturn is unlikely even in those two countries.

In the United States, where financial policy initially provided a stimulus in the shape of tax cuts while monetary policy was still acting restrictively, financial policy in the second half of last year became less expansionary again for fear of a further rise in the budget deficit; taxes were increased and expenditure cut back. It was only recently that the government agreed to introduce a modest employment-creating programme. Monetary policy too has been relaxed now and the expansion of the money supply has been allowed to overshoot its narrow target range. Reductions in interest rates have made further progress. Although an expansion in the money supply in excess of the target is unlikely to be tolerated for long, monetary policy in future will probably be a little more expansionary than in the past. But this does not mean that economic policy has already set the signals for the economic upturn which has been expected for some time now, though it seems likely that there will be a slight economic recovery in 1983.

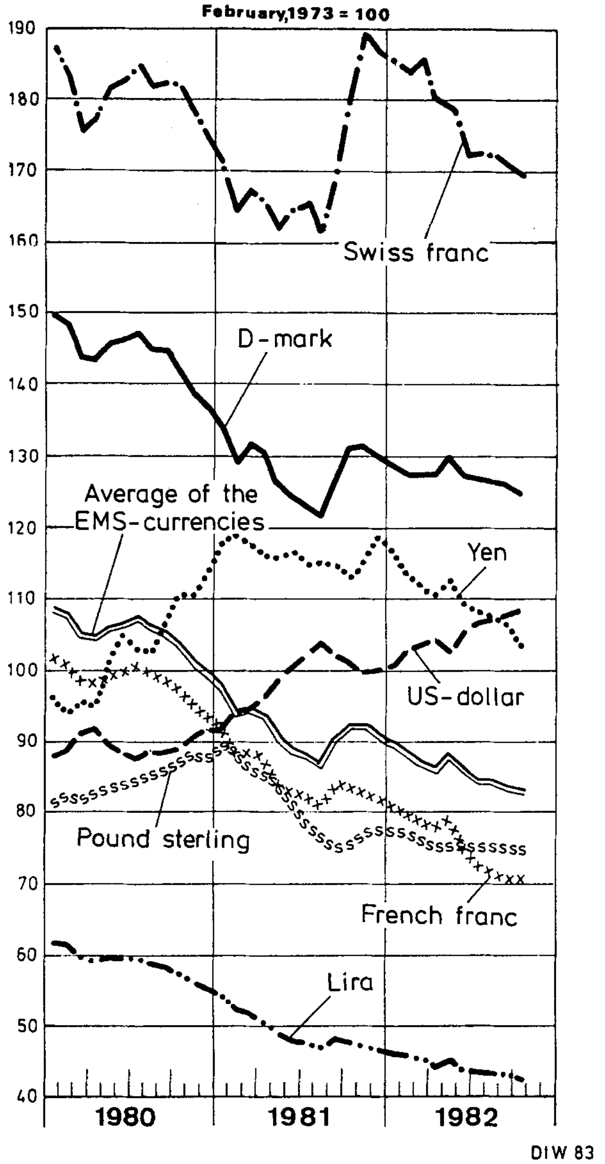
In Japan too, where the economy depends particularly heavily on exports (which actually declined last year), the best that can be hoped for is a slight economic upturn. In view of the uninspiring economic prospects in the Western world and the increasing protectionist tendencies, which affect Japan more than many others, a steep rise in exports capable of stimulating the Japanese economy is ruled out for 1983. Japan would already be doing well if its exports this year increased at all. In view of the considerable yen devaluation, however, a slight upturn in exports is likely. Together with the Japanese government's efforts to stimulate domestic demand, exports will probably help the Japanese economy to expand a little faster again in 1983.

In Western Europe the economic situation is rather different: since the middle of last year, more countries have been involved in a new contraction phase. Thus the first priority must be to stop this process. No govern-

Chart 1

**EXCHANGE RATE MOVEMENTS OF CURRENCIES FOR SELECTED COUNTRIES AGAINST SDR**

February,1973 = 100




ment feels able to adopt a sufficiently expansionary financial policy to achieve this. Even so, the economic decline is likely to come to a halt in 1983, because the monetary relaxation in the United States will probably spread to Western Europe and encourage a more expansionary policy there too, which will lead to further interest rate cuts. However, in some countries, such as Italy, where a fresh attempt is being made to consolidate the budget, the recession will be overcome only relatively late.

Developments in France show clearly that because of the close trade relations between the Western European countries, in the long term any attempt by an individual country to make its own economy do better than the other countries' economies in a recession are doomed to failure. In contrast to most other Western European countries, whose balance of payments has improved, France was suffering from a deteriorating external payments situation. This forced the French government to backtrack on its strongly expansionary policy, which had tended to stimulate consumption rather than investment. It therefore seems unlikely that the French economy in 1983 will continue to perform better than the average of the Western European economies.

The same applies to the smaller countries, which are even more dependent on foreign trade. Some of them also tried to pursue autonomous policy, but did not get very far.

The fact that Britain's economy, in contrast to the other countries', is just stagnating at the moment, is not a sign that its consistently supply-oriented economic policy has been successful, but merely an indication that it is out of phase with the rest. The British government had tried earlier than the governments of other countries to improve supply conditions by applying a restrictive policy. This led to a sharp recession in the British economy at an early stage. This recession also came to a halt earlier than in other countries, partly because monetary policy was relaxed as early as 1981 to bring down the exchange rate of the overvalued pound. However, the slight upturn expected in Britain for 1983 is in marked contrast to the targets the British government's economic policies are aiming at. This is true even bearing in mind that Britain, too, would have difficulty in isolating itself from the interlinked economies of the Western European countries.

Because of the continuing recession in the Western industrial countries' economies, the rise in unemployment is continuing. Despite this gloomy prospect, however, only a few countries are cutting working time to ease the labour market. Instead, cuts in real wages to facilitate the substitution of labour for capital are being frequently demanded. This strategy amounts to renouncing possible productivity increases for labour market policy reasons. Most countries cannot afford to do this, if only because it will make them less competitive.

Besides, there are good reasons to doubt the effectiveness of such a strategy. Even if it were successful, the resulting employment gains would mean a reduction in wealth. It still makes sense to go for productivity gains. However, it is true that if growth remains below these productivity gains, the employment problem will become worse unless working time cuts are agreed on as flanking measures. It needs to be borne in mind that the rise in employment will not be proportionate to the agreed cuts in working time, because experience shows that part of the reduction in the volume of labour is compensated for by extra productivity increases.

Increased productivity gains mean that there is more to distribute between the two sides of industry. Ultimately it is the employers and employees who have to decide which combination of cuts in working time and real wages will be adopted. But demand factors have to be taken into account too.

Additional cuts in working time at times of high unemployment are also under discussion from the point of view of a fairer distribution of work. If working time cuts exceed the productivity gains, employers' costs will remain constant only if workers will accept less pay. It is doubtful whether the industrial countries are already in a situation where their only option is to impose, over an extended period, cuts in working time beyond the productivity gain, and the resulting loss of income, on the vast bulk of employees unwilling to accept this voluntarily.

Economic policymakers, particularly in the major countries, could stimulate enough economic growth to ensure that, if productivity gains were compensated for by shorter working time, jobs could be found for a large proportion of the unemployed in the not too distant future at a constant real wage level. Because of the flatter potential path, major problems would arise only if economic growth had to proceed at a pace corresponding to the desirable rise in employment plus the productivity gain.

A mixed strategy thus seems the best way of solving the employment problems in all industrial countries, relying mainly on the stimulation of growth. The associated productivity gains, however, should not be used just to cut employers' costs and to push up employees' real incomes, but also to increase free time. Again, the major industrial countries should adopt such a mixed strategy jointly.