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Economic Commission for Latin America and the Caribbean

THE INDUSTRIALIZED COUNTRIES: SUMMARY OF  
ECONOMIC FORECASTS FOR 1990-1991 \*/

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## FOREWORD

This is the second report prepared by the Economic Projection Center on the perspectives of the evolution of the international economy and in particular that of the OECD countries. It shows in a systematic way information on the international environment in which economies of the region must operate.

In this opportunity, that international environment shows special economic and political features that can determine important changes in the course of economic events in the next years. The deepening of economic integration in Western Europe, the economic and political reforms of Eastern Europe and the creation of new economic blocks constitute important changes in the international economic system: thus the region is likely to face new options and challenges with impacts and consequences difficult to predict.

For that reason the follow-up of the probable evolution of the international economic events, and specially those related with industrialized countries, acquires great importance. Even more in the context of the unforeseeable political events --the Irak invasion of Kuwait-- at the begining of August. Provided that the information contained in this document comes from prospective studies prepared before this event, the basic assumptions of the foreseen scenarios and the projections do not take into account the changes produced in the economic variables and its subsequent effects. However, getting back to a more normal situation can restore the validity of the elements presented in this paper; in this perspective this publication has been considered useful. As a complement, an annex has been included, giving a preliminary vision of the possible consequences of the conflict.

With respect to first report, in this occasion new sources have been utilized. That means more wide information and a better support to the general conclusions.

Finally, according the purpose of analyzing more carefully specific topics, this time particular attention has been given to demographic and labour market tendencies.

## SUMMARY

### a) Substantive issues.

The main conclusions that can be drawn on the basis of the sources taken into consideration can be summarized as follows:

1. Once again the forecasters were obliged to revise upwards their previsions, since 1990 is still a year of sustained growth (around 2.9% - Table 1), continuing the longest OECD expansion period since the Second World War.
2. Even if in 1990/91 a relative slowdown in comparison with 1988/1989 will take place, still the OECD growth performance will be above the average growth rates considered normal for the present decade (2-2.5%).
3. A so-called "carousel pattern of growth" among the three major OECD economies is considered the more relevant new feature of the present economic development: the slowdown of one of the G-3, presently of the United States, is counterbalanced by the strength of the others so that a more pronounced economic deceleration is avoided and the riequilibrium is favoured.
4. Demand has gone back to a more normal rhythm of growth after the 1988/89 expansion (Table 2); its most dynamic component continues to be investment (Table 3), that represents a good guarantee against a feared inflationary boost, pushing ahead the capacity constraints of industry.
5. There is no agreement on the current and future levels of inflation neither for the industrial countries as a group nor for the single major countries and regions (Tables 6-7): an acceleration of inflation is likely but its measure is uncertain.
6. The stability of commodity prices was considered the main determinant of the general price index stability, thus, despite the fact that primary commodities account only for a relatively small and shrinking share of the final output value and for a minor share of consumer spending, their price changes continue to be crucial in determining the general price developments because of the cyclical sensitivity of demand for industrial inputs and of the highly competitive nature of world commodities markets. The

skyrocketing of oil prices as a consequence of the Gulf crisis (+62.4% in a month) is therefore feared for being abrupt and unexpected but also for the chain effects on prices, recalling the phantoms of the rapid inflation of the Seventies.

7. Production bottlenecks, manpower shortages and acceleration in real unit labour costs (Table 8) threaten price stability, but rigorous concerted monetary policies should maintain inflation under control, even with detriment to economic growth.

8. The decline in fertility rates and the improvement in mortality levels witnessed in the developed countries and the consequent aging of the population are already affecting the general economic evolution: the changes in the patterns of consumption and saving are a matter of major concern with their effects on interest rates, investment and external balances.

9. The share of new entrants in the labour force is increasing not as fast as in the recent past soothing partially the cronic problem of youth unemployment; simultaneously the share of the elder group has stopped declining because of the postponement of retirement age, already introduced in some countries and envisaged in others.

10. Even in the countries where unemployment is still high (Table 14) episodes of labour shortage are quite frequent, especially for skilled jobs: in the medium term the opening of Eastern Europe should alleviate Western Europe's skilled labour and capacity problems and the connected inflationary risk, as it demonstrated now by the case of West Germany.

11. The IMF suggests, as it did last year, that the NAIRU (non-accelerating inflation rate of unemployment) has risen and therefore high unemployment levels do not serve anymore to control wage pressures. An increase in the NAIRU is, however, not sufficiently demonstrated; it seems more likely that the presence of labour shortages favours wage increases in some areas or sectors, transmitted then to the rest of the economy because of the pressure of egalitarian legislation or trade unions action. This phenomenon of catching-up is evidenced also at the Community level, disproving the fears of "social dumping": the real danger is that

the less developed EC countries improve too rapidly their wages and working conditions. Obviously these considerations do not regard the informal sector which functions according to its own rules, normally with very limited guarantees for its workers.

12. While in the past Europe, unlike the US, used to register strong output growth without any relevant employment increase, now apart the FRG, the other countries approach more and more the American model (Tables 9-13); however the present employment growth is still not sufficient to reduce sensibly unemployment.

13. Large divergences exist relatively to the amount of the current account and trade balances and to their weight in terms of national product (Tables 15-16-17); the lack of consensus is imputed to the uncertainty about the exchange rates and to the scarce reliability of trade models by unprecedented movements of the relevant variables.

14. World trade growth will decelerate after the 1988 peak (Table 20) as a direct reflection of the relative growth slowdown.

15. A key issue of the present projections is the evolution of the imbalances of the G-3. All the forecasters consider now sustainable the disequilibria and they even fear their sudden dwindling. They express however concern for the slowdown in the adjustment process provoked by the large income flows directed to the surplus countries, by the large initial trade disequilibria, requiring big import-export differential to be eliminated, by the US loss of competitiveness.

16. An open question is the behaviour of the Central and Eastern European countries, of the USSR and of China: their decisions are considered with growing attention for their effects on the evolution of world demand, in its consumption and investment components, and of commodity prices, being both big producers and big consumers of primary goods.

b) General information on the paper.

Structure of the paper: The following paper has been elaborated on the basis of the forecast reports published by several international and national organizations, both public and private, and listed below in the bibliography. In comparison with the previous paper the amount of sources has been considerably augmented thanks to the contacts established during the last months.

The objective is to offer a comparative description of the economic expectations for the next two years stressing the similarities and disparities of views.

The main aggregates taken into consideration are output, consumption, investment, prices, employment and unemployment, current account and trade balance; on these aggregates almost all consulted sources formulate their previsions.

In this issue of the paper particular attention has been given to the demographic trends and the developments on the labour market, even if they are transcending the short-term period; in the future a survey on long-term projections should help to complete the basic information presented on this subject and to cover also the other relevant economic aggregates.

The events of the last weeks changed dramatically the panorama depicted by the experts, but until now it is still very difficult to evaluate the impact of the crisis and to anticipate its evolution. In the annex we reproduce the current opinion in the first two weeks of September, already partially disproved by the more recent facts, but only in the coming months it will be possible to supply a serious survey and not just unsteady hypothesis.

Geographical area: In accordance with the sources used, the paper focuses on the economic developments of the industrialized area, with only short occasional reference to the developing countries.

Main assumptions: They are not always mentioned; where they are explicit (IMF, OECD, EC), they regard the exchange rates, the oil and non-oil commodity prices, the national policies.

In detail:

a) Exchange rates

As regards exchange rates, the forecasters suppose that they will remain constant in real (IMF and EC) or nominal terms (OECD) against the US dollar at the level they had when the forecast was elaborated, i.e. at the beginning of August 1989 for the IMF (average rates in the four weeks ending August 8, 1989 corresponding to an average US\$/SDR conversion rate of 1.291 in 1990), at the end of October 1989 for the OECD (US\$1= Y142, DM1.84), at the end of February 1990 for the EC (US\$1= DM1.67 in 1990 and DM 1.64 in 1991).

b) Oil prices

Assumptions for oil prices are based on the assessment of the world oil market and of the expected OPEC policy. The IMF estimates for 1989 an average price of US\$ 16/bl, which will remain constant in real terms in 1990; the OECD formulates the same hypothesis, but starting from a basis of US\$ 17/bl. The EC considers likely constant prices in 1990 (around US\$ 16.5/bl) but with quite strong short-term fluctuations (2-3 US\$ for bl).

c) Non-oil commodity prices

Only the EC mentions this assumption; dollar non-oil commodity prices are expected to show a tendency to decrease in 1990 and to recover moderately in 1991.

d) Macro-economic policies

Monetary and budgetary policy are assumed to maintain the orientation they had when the projections were elaborated, except when changes have already been announced.

e) German economic, monetary and social union

It is worth mentioning as a novelty the fact that the EC services formulate their hypothesis about this important issue. I quote: "...the implementation (of the union) will begin in the middle of 1990 as the East-German currency is replaced by the



Deutsche Mark. Large budgetary transfers from West Germany will take place to ease the social impact of the transformation, but a substantial deficit on the East German budget may still appear. As a result of these unification measures, the GDR demand for West German exports will increase gradually and reach a level equivalent to 1.75% of West German GDP in 1991. Immigration to the Federal Republic of Germany, after a total influx of 720.000 persons in 1989, is expected to slowdown to about 650.000 units in 1990 and 540.000 in the course of 1991".

#### GENERAL ECONOMIC OUTLOOK: GROWTH, INVESTMENT AND CONSUMPTION

In the present year will continue the expansion period of the OECD economy, which started in 1983 and that represents the longest period of growth since the Second World War, at least for the industrialized countries. Already in 1989 the experts were obliged to revise upwards their estimates, since the OECD performance was positive against their expectations of recession based mainly in the October 1988 Stock Exchange crash. Very similarly the October 1989 stock market crisis does not seem to have affected negatively the growth performance of this year, when however a relative slowdown in comparison with 1988/89 will take place (Table 1).

The measure of the slowdown is until now very uncertain, as shown by the disparity in the collected forecasts, even in those elaborated more recently: generally a growth rate around 3% is expected both at the world level (however with large differences among countries and regions) and in the OECD. As already noted by the analysts of the International Economics Department of the World Bank <sup>1/</sup> private sector forecasters as a group seem to be more cautious about 1990 than official centres: in our table it is evident that the French CEPII, the German economic institute of Kiel and the US First Interstate expect a major slowdown and when

their previsions are around or above the average it depends on special causes: so the projections of the Kiel Institute and of First Interstate for Japan and for the Federal Republic of Germany are quite high since in the first months of 1990, when these projections were elaborated, the good prospects of these two countries were already evident (Table 1).

In the light of the displayed dates it seems exaggerate to speak of "slugflation", a new term coined by The New York Times reporter, Leonard Silk, to describe a state of combined "sluggish growth with sluggishly rising prices"; such expression could be appropriate for the United States, but on the whole the OECD economy seems to be in good shape. It is true that the IMF in the Spring edition of the World Economic Outlook (not yet available in ECLAC) corrected downwards its projection for output growth (from 2.9% to 2.2%), but the Fund considers a scenario of unchanged national policies, constant real exchange rates and unchanged real oil prices <sup>2/</sup> and consequently does not forecast the most likely result, but only shows the most likely outcome "everything being equal", which is a rather strong assumption.

Moreover pessimism does not seem justified because an average growth rate around 2%-2.5% is considered by economists to be "normal" for the present decade <sup>3/</sup>, therefore the forecasted rates are even for the slow-growing United States above the average for the three years ahead (Table 1).

An element of novelty in respect to the past is the so-called "carousel pattern of growth" among the three major economies, that is the slowdown of one of the G-3, presently of the United States, is counterbalanced by the strength of the others so that a more pronounced economic deceleration is avoided. This new feature had already been evidenced last year <sup>4/</sup>, but it seem to be confirmed now, when the lack of synchronization has become even stronger, reducing the probability of excess demand and of the consequent energy and commodity price increases, and facilitating the riequilibrium of external balances.

The reasons for the outstanding OECD growth performance in 1987-

1989 are several: the decline in interest rates and inflation, the weakness of commodity prices dampening the inflationary pressures produced by the growth of liquidity and the loosening of monetary conditions, the increase of profits favouring, together with the relatively low interest rates, the resurgence of investment, finally, last but not least, a general climate of confidence.

In 1989 some of these elements faded out: in the light of new inflationary pressures monetary policies took a more restrictive stance, investment reduced its rapid speed (maintaining however its dynamism), OECD terms of trade deteriorated, some countries (US, UK, NICs) entered a phase of recession, the utilization of equipment reached very high levels, creating structural hindrances to further production increases, limited also by sectoral and regional labour shortages.

Demand, that was the driving force of the recent expansion, went back to a more normal path, corresponding to the expansion of output (around 3.5% in 1989, around 3% in 1990/91 - Table 2). While public expenditure (consumption and investment) was already evolving at a very low rate, because of the generalized need to riequilibrare the state budgets (Table 5), private consumption and investment were increasing rapidly and started to decelerate only in the second half of 1989 (Tables 3-4). Despite the slowdown investment continues to grow at rates above the average and this fact until now has represented a good guarantee against a dangerous inflationary boost, because it pushes ahead the capacity constraints of industry and because its increase has a softer effect on prices than an increase in consumption. The investment champions were Japan and the European Community (Table 3), but while Japan should record in 1990 investment rates half as high as in 1989, the European investment rates were always lower but appear to be more enduring. Japan seems to have been seriously affected by the 1989 Summer crisis provoked by internal political storms and by the Chinese Tienanmen Square massacre, when investors moved large shares of their capitals offshore considering the investment abroad safer and more rentable than the investment at home. In

Europe, on the contrary, a continuous optimism is registered by the business and consumer surveys of the EC services <sup>5</sup>/: at least two thirds of investments are destined for capacity expansion and rationalization, showing the confidence of businessmen in the future demand prospects, anticipated by satisfactory order-books both for capital goods and for consumer goods; replacements investments are mainly concentrated in United Kingdom, Germany and Benelux, which traditionally dispose of an already consolidated industrial structure.

Between 1987 and 1989 productive investment in the OECD increased by a 30% in value and by a even larger percentage in volume because of the fall in machinery and equipment prices. Despite this increase the ratio of net investment to output is now below the level of the Sixties-Seventies: for instance for the US the ratio is now 5.8% as against 7.2%, in Japan 11.5% as against 14%, in Germany 8.4% as against 11.8%, the only exception among the G-7 is the UK which increased its ratio from 6.2% to 7.9%. The reason for this generalized decrease has to be found in the acceleration of the mechanisms of depreciation both financial and real because of the increase of the share of machinery and equipment, which have a higher scrapping rate than construction and which presently become more rapidly obsolete than in the past.

As regards the major single countries, already in 1989 were becoming evident signs of fatigue in the US economy. The first alarm was given by business surveys indicating stagnating orders in most branches of the manufacturing industry; a matter of particular concern was considered the bleak perspective of the auto industry, reputed to be a sensitive thermometer of the economical health of the nation.

The fall in consumption growth (+1.8% in 1990 and +2.1% in 1991 as against +2.7% in 1989 according to the EC forecasts of May 1990 - Table 4) is the result of several elements:

a) disposable income is eroded by inflation, so a still dynamic job creation in the service sector and wage increases are counterbalanced by the price increases;

b) inflation is simultaneously eroding the income coming from saving assets; in order to maintain constant their real interest earnings Americans are pushed to increase their saving rates, that in 1989-1990 are around 5.5% (in 1988 4.2%);

c) The phasing out of deductions for certain interest expenses is making less attractive the purchase of consumer durables;

d) relatively low long-term interest rates are encouraging investment in housing, which experienced a trough in 1989 and which was already declining since 1986, thus other expenses are sacrificed in favour of residential construction spending;

e) as regards the car sector, one of the most hardly hit, the household sector does not need to purchase so many cars after the 1988 boom (10.6 million units purchased), encouraged by a massive campaign of rebates that is now coming to an end.

Besides these conjunctural factors the experts mention also an element which is supposed to influence the consumption evolution for a longer period: the "baby boom generation" is now entering in a phase of life where the propensity to save increases at the expense of the propensity to consume.

In this conditions consumption, that peaked at over 66% of GNP in 1986, will fall to less than 64% by the end of 1991.

The evolution of investment is less certain: according to the dates elaborated by the IMF and the EC, displayed in Table 3, this variable seems to be accelerating its rhythm of growth in respect to 1989, but the comments published in the last months are less optimistic: the double-digit annual rates of increase in exports, that sustained the US economy in 1987-88 (in 1987 + 13.8%, in 1988 + 23.5%), abruptly ended by mid-1989 and are not likely to recover in the next future since the national currency maintains a relatively high valuation despite the evident signs of economic slowdown and the appalling internal and external deficits; this, together with the described fall in consumption growth, should reduce the pressures on capacity and make less urgent capacity-expanding investment; lower corporate profits, lower own resources and high costs of financing should also prevent massive

rationalization investments, that characterized the last years. A risk is represented by the high dependence of the United States on foreign funds to finance their domestic investment: in the period 1985-1988 nearly two-thirds of the US net domestic investment was financed by imported capital; if the deficit as a percent of GNP will further increase, financial-market participants could possibly lose confidence in dollar-denominated financial assets, shaking the bases of the US economy.

The forecasters, however, consider unlikely a serious recession and repute the current evolution as a temporary slowdown with no major consequences: they seem to exclude the hypothesis of a "hard landing" and prefer to stress the potential of recovery of the US economy as long as it maintains its resilience and as long as the monetary crucial variables are managed in a flexible way. A rate of growth around 2% is predicted for 1990 (Table 1) and a slow recovery is expected for 1991: these rates are below the average of the last thirty years (+3.1%), but are close to the rates considered "normal" for the current level of development. This situation had already been correctly described in a World Bank paper elaborated in January 1988, <sup>6/</sup> which announced a recession in the United States starting with rising interest rates and growing inflation. The solutions, according to the mentioned paper, were to be found in a convincing package of budget cuts, similar to the one tailored by the staff of Mrs. Thatcher, accompanied by adequate monetary measures.

Crucial is the behaviour of the Federal Reserve: contrarily to the previsions of many analysts <sup>7/</sup> the Fed is still giving absolute priority to the objective to control and reduce inflation like in the past two years, and has not take any decisive step in order to sustain growth and to preserve the stability of the financial system.

The reason for the Fed's stubbornness in its role of defender of monetary stability has to be found in the failure of the Administration and the Congress to implement tighter fiscal measures and to approach the targets set by the Gramm-Rudman-

Hollings (G-R-H) balanced budget law, designed to control the Congressional public money mismanagement. Until now it seems that the opportunities open by the improved US-Soviet relations to cut military spendings have been misused and overestimated in order to avoid a more organic intervention to cure the federal budget deficit estimated to be in the range of 150-155 billion dollars yearly in the biennium 1990-91 (corresponding to more than 2.5% of GNP), while the G-R-H target for 1990 is around 100 billion dollars and for 1991 it is 64 billion dollars.

As regards Japan, its growth performance will continue to be outstanding also in the years ahead (Table 1), even if the growth rates will be below the levels of 1988 (5.7) and 1989 (estimated around 5%); according to the analysts of the Namura Research Institute <sup>8/</sup> over the next six years growth rates will not fall below an annual average of 4.1%, propelled by burgeoning personal consumption and business investment. The Namura forecasters predict a consumption growth rate of 4.5% on average until 1995 and business investments growing by 6.5% yearly in the same period. Consumption will recover (Table 4) in 1989: it registered a relative slowdown due to the introduction of the general consumption tax in April 1989, pushing consumers to anticipate their purchases in 1988 (+5% consumption growth rate) and in the first months of 1989, and to the mourning for the death of the Emperor; simultaneously saving, which picked up in 1989 (+16.8%), will decline (+16.6% in 1990, +16.2% in 1991 - OECD estimates). Public consumption is likely to increase (Table 5), given the sounder situation of Japan's budget in respect to its major partners.

Business investment will further be the driving force of the growth process: the pressures on the productive capacities, the labour shortages, the specialization of Japan in high-technology sectors, requiring continuous adaptation of the equipment, have justified in 1988/89 double-digit rates of investment growth, favoured also by a skillful monetary policy, keeping interest rates at a low level. Thanks to this strategy Japan could counteract the

competitive threats represented by a strong yen and by the rising aggressiveness of the Asian neighbours. For 1990-91 it is likely that the low quotation of the yen and the inflationary risk will not allow to keep interest rates as low as last year, therefore the investment wave will slowdown (Table 3); however the forecasters are partially adjusting their pessimistic previsions in the course of this year: the EC services predicted in September a rate of investment of 5.4%, now they expect a 7.8%.

In 1989 the Federal Republic of Germany registered an exceptional rate of economic growth, estimated around 4%: we have to go back to 1979 to find a similar level of economic performance. The driving forces of this phenomenon have been, at least until the last quarter of the year, business investments (Table 3) and exports, while private consumption was rather stagnant (Table 4) and public consumption was even decreasing (Table 5). In 1990 the situation is almost inverse: the rate of increase of consumption, both private and public, is higher than in 1989, while the rate of increase of investment is now lower (Tables 3-4-5). The introduction of higher indirect taxes and the uncertainty about the reform of the social protection and pension system, that together with the moderate increase of real personal income had had depressing effects on consumption during last year, have now been substituted by positive incentives: personal income taxes have been reduced, the fiscal policy has taken an expansionary path, wages are increasing as a consequence of a new round of contract renewal, prices are maintained under control by a cautious monetary policy. As regards the impulse to consumption given by the Eastern immigrants and by the buyers of the GDR, who now have access to the Western part, the result is not certain: the Dutch Centralplaan-bureau estimated the additional consumption in the order of 2-3% of GNP, the other observers hesitate about the measure of the impulse, considering for instance that it could be partially counterbalanced by an increase of precautional saving of the FRG families.

Even less clear are the effects of the Eastern European events



on investment: the tightening of monetary policy, designed to control inflation and to equilibrate the effects of an expansionary fiscal policy (social measures for the immigrants and to sustain the GDR economy), exerts a contractionary pressure on investment, that however is encouraged by positive demand perspectives for all types of goods and by evident capacity bottlenecks in the existing productive structure. Very indicative is the buoyancy of the construction sector, overwhelmed by the demand of a population of immigrants, increasing monthly at the rhythm of 55.000 units. The correction upwards of the EC forecast for 1990 gross fixed investment (from 5.1% to 6.4%) implies that the positive impulses seem until now to be prevailing. Determinant will be the inflationary evolution of the next months: the arrival of the immigrants reduces the tensions of the labour market and it is therefore likely that wages will not increase as much as it was expected, but if demand is not maintained under control, prices, especially those of services that can not be easily imported, could go up faster than desired and induce the Deutsche Bundesbank to be more severe in its policy.

In all the German-German evolution is expected to be converted in additional growth for the FRG (as long as it exists as a separate entity) in the order of 1% yearly for the two years ahead.

#### INFLATION

There is no agreement among forecasters on the current and future levels of inflation neither for the industrial countries as a group nor for the single major countries and regions (Tables 6-7). For instance, in 1990 all dates collected, apart the French dates, indicate a fall in United States private consumption deflator; for Japan the forecasts are even less concordant and there are also big differences in the absolute levels of projections going from 1.2% (First Interstate Bancorp) to 2.8% (EC); for 1991 the picture is not more homogeneous (Table 7).

The conclusion that we can draw is that prices will be unstable

and that inflation is likely to accelerate, but the elements influencing price movements are rather uncertain and will act in opposite directions, consequently the results obtained by the experts are depending on the different weight attributed to each of them and on the projected measure of their variation.

However the level of inflation is well below the peaks reached during other periods of acceleration in economic growth in the 1970s, mainly because of the stability of commodity prices; a World Bank table <sup>9/</sup> shows that between 1982 and 1989 by a cumulative rise in U.S. real GNP of 31 percentage point the non-oil commodities US\$ price index increased by 13% while oil prices decreased (-47%); between 1975 and 1980 by a 18% real GNP growth non-oil commodities became dearer of 65% and between 1971 and 1974 a 10% real GNP growth was accompanied by an increase of 111% in non-oil commodities price index and by a record increase of 561% in oil price index.

Without misregarding the contribution of other factors commodities prices are indicated as a major motor of inflation also by the EC experts, who stress the striking parallel movement in import prices (excluding intra-EC imports) and price deflators, especially from the early 1970s, and calculate that in 1989 the increase of import prices alone would contribute with more than half a percentage point to the increase in consumer price deflator.<sup>10/</sup> Thus, despite the fact that primary commodities account only for a relatively small and shrinking share of the final output value <sup>11/</sup> and for a relatively minor share of consumer spending (in 1980 9%), their price changes continue to be reflected in a considerable measure in the general price developments because of the cyclical sensitivity of demand for industrial inputs and of the highly competitive nature of world commodity markets.

All consulted sources seem to agree that in 1990/91 commodity prices will be fairly stable or increase only moderately after the increase in 1987 due mainly to the impulse on the quotation of the highly sensitive industrial inputs produced by the buoyant economic growth. Some inflationary pressures could be produced in the countries outside the US\$ area because of the lasting appreciation

of the US currency and because of the fact that commodity prices are not adjusting enough to compensate for the exchange rate variations and, contrarily to the traditional opinion, are moving slower than manufacturing prices in response to them, a phenomenon already registered last year by the Prometeia experts <sup>12/</sup> and stressed this year in the OECD report <sup>13/</sup>: the circumstance that commodity prices, usually expressed in US dollars do not adjust automatically by US\$ exchange rate variations, in contrast to what happens to manufactures prices, normally expressed in national currencies, together with the (until recently) common tendency of manufactures prices and of the US dollar value to increase faster than commodity prices, seems to neutralize partially the effects of the higher price elasticity of commodities to exchange rate variations as compared to manufactures, given the higher competitiveness of commodity markets.

In 1989 oil prices recovered from the low of October 1988 (around 13US\$/b was the OECD import price of crude) to around 18/19US\$/b: this recovery was the product not only of the successful implementation of the OPEC agreement of November 1988 but also of several conjunctural factors considered by the experts (IMF, OECD, WB) equally or even more important, thus it is not expected to maintain its vigour in 1990-91 since these factors have disappeared or faded. They can be reminded here:

- 1) the reduction of non-OPEC supply because of producers' decisions to restrain extraction and because of the accidents in Alaska and the North Sea;
- 2) the increase in demand, characterized also by a more marked seasonality because of a rigid winter in the Northern hemisphere;
- 3) the reduction of existing stocks.

Also unanticipated events around end '89 such as the United States intervention in Panama, again a cold winter and delays in the startup of North Sea platforms have produced an increase in oil prices (24US\$ in January) only temporary and without major consequences. The International Commodity Markets Division of the World Bank <sup>14/</sup> assigns an 80% probability to a fall of oil prices

by 1-2 US\$/b already in the first half of 1990, even if the current level of OPEC production is reduced; if Saudi Arabia, Kuwait and Lybia do not respect the assigned quotas and production increases, prices would fall even more (-4US\$/b).

On the whole import price inflation in 1990 is expected to be half (3.5%) the 1989 value but still above 1988 level because of the delayed effects on final prices.

Finally a note of pessimism is introduced by the IMF report which reminds that the continued volatility of oil prices has masked the reversal of the previous decline in world oil consumption and the slowdown in the growth of non-OPEC supplies; these elements could result in new market disruptions in the future given the increasing dependence from oil supplies and from OPEC producers. <sup>15/</sup>

Other factors, apart the almost neutral developments of commodity prices, are supposed to represent inflationary risks in the projection period.

1. The rates of capacity utilization in manufacturing are very high, close to the peaks of the early 1970s, years of accelerating inflation. According to an EC survey <sup>16/</sup> however, the present situation is not dangerous because, in contrast with 1979 or other capacity utilization peaks, the profitability of capital is high favouring capital widening investments. The assessment of entrepreneurs on expected capacity constraints is rather positive but seems to have worsened during 1989. The forecasted growth slowdown should alleviate the pressure on capacity utilization and output prices.

2. An acceleration in real unit labour costs (Table 8) could show up as a consequence of slowdowns in output and productivity growth (Table 9) and of acceleration in salary increases. The different forecasters attribute a variable weight to the two elements of pressure but all recognize that both are present. In the major countries 1990 will be a year of renegotiations of collective labour contracts, following at least five years of wage moderation that has reduced the share of labour in the distribution

of wealth; thus it is likely that the trade unions, profiting of the still positive economic situation, will try to riequilibrare the distribution balance in favour of workers. In this phase inflationary expectations should play a neutral role, after having exercised some pressures during 1988/89 even if it was partly due to exceptional factors such as VAT increases and rising import prices.

As regards productivity, it seems that it will continue to increase, although at a slower rate than in the last years, but still faster than in the 1970s and early 1980s (Table 9). <sup>17/</sup> The OECD experts warn from too superficial judgements about the evolution of productivity: partly the less dynamic productivity growth could be a "statistical mirage" linked to measurement problems in the service sector, where productivity tends to be understated; partly the recent buoyant investments, both capacity-augmenting and capital deepening, have been a vehicle of introduction of new technologies and their operation is likely to increase productivity.

In the Prometeia report of March 1990 a risk is mentioned: the different levels of productivity in the different branches inside a country and in different countries can produce dangerous wage conflicts, pushing up salaries with no link to the real specific level of productivity; this phenomenon is already evident comparing the salaries in manufacturing, whose increases are below productivity increases since at least a decade, and in services, where the contrary happens.

It is uncertain if the prospective rise in unit labour costs will be passed on to producer prices. Corporate profits have maintained quite high levels, therefore firms should be able to absorb without shocks some costs increase. However firms could be tempted to raise prices if they are operating at full capacity or if they suffer from labour shortages, as it seems to be common. Decisive will be the orientation of monetary policy, that at least until now does not seem sufficiently accomodative to permit an automatic and easy transfer of costs.

3. The increase in indirect taxes that were introduced in

1988/89 for instance in Japan, Germany, Italy, Canada and Belgium, are supposed to have a once and for all impact on prices, that should have already been absorbed. The risk exists, however, that they could still foster higher inflationary expectations and spill over especially into wage increases.

Monetary policies are expected to be rigorous given the persisting concern among monetary authorities to control inflation, responding also to the pressures of Western public opinion, that after the price explosion of the 1970s is increasingly sensitive to inflation; in fact the negative impact of inflation on people's confidence and government credibility is therefore larger than expected, especially if we consider the OECD one-digit inflation rates from a Latin-American perspective.

This restrictive policy stance is expected to persist as long inflation remains a major concern and as long fiscal policy is affected to the control of budget deficits. In the United States, the record deficit country, the Federal Reserve Board does not just want to keep inflation from rising: recently its chairman Alan Greenspan has thrown his support behind a congressional resolution that would commit the Fed to eliminating inflation within five years. Thus also the control of the dollar value is dealt through interventions on the foreign exchange markets, sterilized in order not to affect money supply, with the aim not to divert monetary policy from its primary task of controlling the domestic economy.

<sup>18/</sup> Only in 1991 it is likely that monetary policy becomes less tight, even if the prospect of a German monetary union implies a tightening of German monetary policy, functioning as a guide in the European Monetary System and thus impeding a different behaviour to the other central banks in Europe and outside the continent.

The OECD experts consider however that the effects of a tight antinflationary monetary policy on business investment may not be as negative as expected because of the financial innovations, which have significantly reduced liquidity constraints on corporations and weakened the link between changes in policy-controlled interest rates and their cost of capital. Also the effects on

households' consumption and investment are likely to be mitigated by financial liberalization and by the increased flows of interest payments on households' assets when interest rates rise.

Only a limited reduction of the inflationary differentials among the major countries is expected. Tensions could therefore appear in the European Monetary System and they could become unviable after 1992 when the European integration will be deepened. The EC services distinguish three groups of countries: while the first group (Belgium, Germany, France, Ireland, Luxembourg, the Netherlands) represents an area of broadly stable prices, Greece and Portugal are still fighting against two-digit inflation rates, but every intervention to contain the price increase risks to compromise their growth possibilities.

To sum up most of the experts estimate that inflation will remain under control but a substantial progress in reducing core inflation is considered unlikely unless demand growth slows to lower rates or productivity evolves more favourably than expected.

#### DEMOGRAPHIC CHANGES AND LABOUR MARKET TRENDS

The relevant expansion of the world population registered in the second half of this century (from around 3 billion in 1960 to the present 5 billion people) will continue beyond the year 2000, although a progressive decrease of its speed has already been witnessed all over the world in this last decade (Table 10).

The most important slowdown in population increase is observed in the developed countries because of the decline in fertility rates and despite the improvement in mortality levels. The majority of developed countries, the Soviet Union and Eastern Europe register fertility levels below the replacement (2.1 children per woman), in some cases by 20-30%. The Population Division of DIESA has elaborated three variants of long-term demographic projections assuming different fertility rates (1.8, 2.1 and 2.3 children per woman in the low, medium and high variant respectively --Table 10). Even if the high variant becomes true, the rate of population growth in the ECE will be only half the rate in the developing

in the developing countries. As a result the share of ECE's population in the year 2000 is expected to be less than 20% falling from the 1950 30% and the 1980 23.5%.

In the short term no major migratory movements will counteract the ECE's population decline, but in the medium and long-term it is likely to assist to considerable migratory flows to Europe, mainly from the African countries, which have the highest demographic growth rates in the world (around 3%), and to North America, from the countries of Latin America and the Caribbean. However, because of the measures restricting the free circulation of workers that appeared at the time of the first oil shock and that have now been strengthened in all OECD countries, legal migration will diminish while the number of illegal immigrants will climb. Already now serious social problems affect these workers who can only find an employment in the informal economy and who are often recruited by criminal organizations; worrying racial accidents are registered more and more often all over Europe and the nationalist parties are taking root launching fierce chauvinistic campaigns.

In the other regions of the world the divergence in demographic trends (around 3% in Africa and West Asia, 1.2 in Asian planned economies) and the decline in mortality rates will further be the main features of population evolution during the decade ahead.

The aging of the population will be the most important consequence of the demographic developments under way and will affect both the developed and the developing regions, but while in the developing countries the share of elderly (60 and over) will not increase very much (from 7 to 8% in 2000), in the developed countries it will reach a 18% level and even higher level in Western Europe and Japan (around 20%). The ECE stresses also the relevant increase in the population aged 75 years and over, that already represents one third of the elderly population.

The change in the composition of the world population will have sensible impact on several categories of expenditure. Old-age pensions will have an increasing weight, and it is unlikely that



the OECD countries will be able to maintain the present pension coverage. To avoid a collapse of the social security system, considered one of the main acquisitions of the developed societies, measures have to be taken already before the end of the century.

The postponement of the retirement age seem to be considered a necessary step, even if it collides with the opposition of trade unions; the present level of retirement age is viewed as a right that cannot be waived and has to be defended also in order to protect the mass of unemployed. The promoters of this proposal opine that even by an increase of the retirement age the ratio between the active life and the total life will not increase because of the rise in life expectancy. Incentives could be created for part-time work or consulting activities for elderly people profiting of their experience. Another way to keep the system functioning, complementary and not necessarily alternative to the postponement of retirement, will be a radical reform of the pension system that will forcedly result in increased contributions of the active population and in reduced pensions but will permit to guarantee the basic needs of all present and past workers. The system introduced in the United States in 1983 consisting in the creation of a reserve by the imposition of higher contributions to the workers does not seem very effective, because it does not solve the problem once and for all and it represents only a precarious solution. <sup>19/</sup>

Health expenditures will also increase considerably, since health care is estimated to be on average four to six times higher for elderly people than for the rest of the population.

Further effects will be perceived in the cycles of consumption and saving. Not only there will be a change in the patterns of consumption given the higher preference of aged persons for certain services (health care primarily) but also saving will start to decrease after the turn of the century, when the pensioners will begin to finance a part of their needs with the economies accumulated during their active life. It is likely to assist therefore to a flow of capital from the countries with a larger

share of young and middle-aged citizens, more inclined to save, to the countries with a larger share of pensioners. Japan and the Federal Republic of Germany are presently recording household saving rates above the average (in 1988 15% and 13.6% respectively while the G-7 average, excluding Italy, was 8.9% - IMF dates) not only because of the traditional high propensity for saving of their population but also because their demographic composition is such as to favour saving, while in a few years this tendency will be progressively reversed. The IMF in the October 1989 report considers in details the effects of prospective demographic trends on saving and on the related variables; interest rates are expected to rise to foster saving and investment will consequently fall depressing output. The differences in the speed of aging should be reflected in changes in current account balances favouring the re-equilibrium of the major imbalances (United States, Federal Republic of Germany, Japan).

As regards the evolution of labour force, it will reflect the change in population growth and therefore it will reduce its pace in the medium run (Table 11), while its changes in the two years ahead are not very significant (Table 12).

It results more difficult to evaluate the developments in participation rates, the other element determining the labour force changes. Because of the described demographic trends the more relevant decline in the rate of growth of the working age population will be registered for new entrants (the 15-24 age group); even in the developing countries, where the young generation is not shrinking, this phenomenon is likely to happen because of the increase in the number of years spent in full-time education.

The expected decline will partially soothe the cronic problem of youth unemployment, that affects in some countries more than one third of the young generation (15-24 years): according to the OECD <sup>20</sup>/ in 1988 around 37% of the young Italians and Spaniards were unemployed, 24% in France, 15% in the United Kingdom.

While until now we have assisted to a progressive decline in

the share of the group aged 55 and over, because of the extension of the pension system both in developed and developing countries, in the years ahead this trend will be reversed because of the mentioned rise in retirement age, that has already been introduced in some countries (Japan, Italy) and is likely to be extended to the generality of countries.

The main uncertainty concerns female activity rates: it is unlikely that they continue to rise as they did in the after-war period in most regions of the world; in the ECE region where this trend was stronger female labour force increased between 1960 and 1980 by 40% while the male labour force increased by less than 18%. In the decade ahead male labour force is projected to increase faster than female labour force, because more and more women who entered the labour market in the boom years are now approaching the age of retirement and because a slowdown in female participation rates is expected in the areas where they are already very high (centrally planned economies, Nordic countries). A massive withdrawal of women from the labour market, however, is not to be expected; the lasting expansion of the service sector will act as a stimulus for women's integration in the labour market, as it did in the former decades; young women seem to consider essential their insertion in the active life: the Economic Commission for Europe stressed in a study <sup>21/</sup> the weakened connection between fertility and activity rates and supposes that even an increase in fertility rates, spontaneous or as a consequence of pronatalist campaigns, will have little impact on female activity rates, therefore the ECE study suggests that it is no longer true that women are less reliable workers, leaving and re-entering the labour market several times during their lifetime, on the contrary it considers appropriate to evaluate prime-age women as productive as men in the same age group.

As regards the effects on productivity produced by the changes in labour force composition, older workers are likely to be more experienced, but less favorable to innovation, thus making more difficult the implementation of technological improvements and

detaining rapid productivity increase. Unemployment will continue to be a thorny problem also in the coming years (Table 14) and at least until the end of the decade; only a very slow improvement is expected, that however will not be sufficient to solve the more difficult cases. Even the OECD experts, generally rather confident on the prospects of a new growth wave, recognize in their Employment Outlook that full employment is an unattainable aim and that the society should better find solutions to avoid the permanent marginalization of part of the labour force. The more delicate situation is registered in the European Community, where a two-digit unemployment rate persists, despite the moderate optimism of the EC forecasters, who expect already for this year an unemployment rate below 9%, encouraged by the positive perspectives related to the Europe 1992 project (Table 14).

A considerable increase in unemployment in the Federal Republic of Germany is signaled by the LINK dates, the last ones to be elaborated (Table 14); the increase is imputed to the migrations from East Germany and from the other states of Eastern Europe and the Soviet Union, evaluated in 600,000 people in 1989 and in 3 million people more in the decade ahead. However, some experts,<sup>22/</sup> who base their opinion on the estimations of the Institut für Wirtschafts - und Gesellschaftspolitik on the account of the West German authorities, consider the negative effects on the labour market only temporary, limited to the time necessary to the increased demand provoked by the Übersiedler to stimulate growth and employment. The German observers<sup>23/</sup> are even more optimistic and on the basis of the results of the labour market survey of the last months estimate that unemployment is decreasing because of the positive production cycle; the immigrants are helping the German economy to overcome the shortage of qualified labour, made evident by the increased number of vacancies and of overtime.

According to the sources consulted episodes of labour shortages are quite frequent not only in the FRG, as already noted, and in the United States and Japan, where the current level of unemployment is close to the respective level of frictional

irreducible unemployment (5.3% and 2.4%), but also in countries where the level of unemployment is high, for instance PROMETEIA <sup>24/</sup> signalizes labour bottlenecks in Northern Italy, while in Southern Italy unemployment is still around 20%. The regional disequilibria pose an important political dilemma since general measures of labour market stimulus risk to worsen labour shortages in some areas or for some groups of workers. The OECD <sup>25/</sup> stresses that, apart in the United States, "the ranking of regions by unemployment rate has changed little since 1960" and this proves how difficult it is to apply successful regional policies and is also related to the slowing of equilibrating mechanisms operating in the post-war period such as migration flows, relocation of companies, wage differentials <sup>26/</sup> and to the long-term decline of agriculture, which in the past gave occupation in marginal areas, creating a class of "underemployed" who did not register as unemployed even if they did not have any full-time job (Southern Europe, Japan).

The Budget Office of the Congress of the United States <sup>27/</sup> emphasizes the fact that already in 1988 in the United States the unemployment rate for prime-age males and the unemployment rate for married women fell to comparatively low levels, indicating together with the increase in unfilled vacancies tighter conditions on the labour market. None of the other sources consulted takes into consideration these indicators and the OECD, which analyzes the family status of the unemployed in 1986 <sup>28/</sup>, seems to treat this indicator as a measure of welfare, depending very much on the structure of the national labour market rather than on conjunctural evolution. Interesting enough is the remark that in the countries of Southern Europe, which register relatively high unemployment rates, about half the unemployed are young people coming from married-couple families and as a result married men and women represent a particularly low share of unemployment, making more viable the problem.

The more frequent cases of labour shortage are registered for skilled workers: according to a EC labour market survey in industry <sup>29/</sup> the shortage of adequately skilled applicants ranks now sixth

as an obstacle to increasing production and is considered by 23% of the interviewed a very important hindrance, <sup>30/</sup> while in a similar survey in 1985 this reason was put by the consulted companies only at the eight place and considered by no more than 15% of them as very important. Quoting the head of Rexeco, a Paris forecasting company, "the main brake on economic growth right now is not enough skilled workers and industrial capacity", but in the medium term the opening of Eastern Europe should solve Western Europe's skilled labour and capacity problems much faster than they would have been solved had the Iron Curtain stayed up. <sup>31/</sup>

This result confirms the utility of training and retraining in boosting employment prospects, since it is also demonstrated that a lack of occupational skills increases the risk to become or stay unemployed: in Spring 1989 54% of unemployed in the EC had no occupational training, but only 30% of the employed were without educational training. <sup>32/</sup> This tendency is likely to become even more evident in the coming years since the fastest-growing sectors of the economy-classified in ISIC 8 and 9, that is finance, insurance, real estate, business, community, social and personal services, register the highest levels of educated workers and thus a strong correlation between education and occupation can be found.

<sup>33/</sup> A matter of concern is the fact that the unevenness of educational attainment patterns across sectors concentrates low-qualified workers in relatively declining sectors, compromising their possibilities to increase productivity and competitiveness; for this reason Japan is already encouraging graduates into manufacturing, but similar experiences in other OECD countries are not yet known.

Employment creation is projected to be slower in 1990 and in the years ahead (Table 13), however the 1986-1990 period will be recorded as the period of faster employment growth in the OECD and it is certain that growth is now more employment-creating than it used to be; the EC experts <sup>34/</sup> observe that in the 1960s, an average growth rate of more than 4,75% corresponded to a net job creation of 0,25%, in the 1970s average growth rates of 3% increased

employment by the same rate, at present growth rates comparable to those of the 1970s are increasing employment by more than 1% per year. The most impressive job creation performance was registered in the United States and Japan, and also in the coming years these two countries are likely to be the leaders in employment creation, although they cannot maintain the rhythm of 1988/1989; it is however worth noting that already in 1988 a slow-down was forecasted and did not take place.

The OECD <sup>35/</sup> compares the forecasts for output and employment and the actual outcome in 1987/1988, underestimated because of a greater than expected growth in labour productivity and demand. The comparison shows that the underestimation for employment growth was less than that for output growth for the whole OECD, but was concentrated in Europe (apart from Northern Europe). The experts draw therefore the conclusion that the development pattern of Europe has changed: Europe used to register strong output growth, almost entirely reflected in higher productivity without increase in employment, while North America experienced strong employment growth by stagnating productivity; now only West Germany continues to exhibit the old European pattern, while the other countries approach more and more the American model.

If the forecasted slowdown in job creation becomes true the causes should be found in the increase in the relative cost of labour and in consequent acceleration in the substitution of capital for labour after years of wage moderation (Table 8) and in the slowdown in the reduction of working time: no institutional reduction of working time has been registered and part-time jobs seem to increase slower than in the past; in fact employment creation had been somewhat overestimated since at least a portion of part-time employment (13% in the EC) is involuntary <sup>36/</sup>.

The IMF <sup>37/</sup> suggests once again, as it did last year echoed by the OECD, that the so-called NAIRU (non-accelerating inflation rate of unemployment) has risen since the early 1980s and therefore high levels of unemployment do not serve anymore to control wage pressures. Another interpretation seems to me more apt to explain

the present situation: the presence of labour shortages, despite high levels of unemployment, favours wage increases in some areas or sectors, hit by tighter labour conditions that are transmitted to the rest of the economy because of the pressure of egalitarian legislation or trade unions action. The empirical observation that the peaks in the utilization of capital in each business upturn, followed by inflationary boosts, have been associated with successively higher rates of unemployment is not a sufficient proof to demonstrate an increase in the NAIRU. It is quite significant the case of West Germany, where the arrival of the immigrants from Eastern Europe has reduced the tensions in the labour market, so that the German labour costs are actually falling in real terms, recording faster increases in labour productivity than in labour costs (Tables 8-9).

Another interesting aspect emerges from a survey among employees carried out in the spring 1989 by the Community services: workers in EC low-wage countries (Spain, Portugal, Greece, Ireland) are the least prepared to forgo a nominal increase in income in return for correspondingly shorter working hours, although they would like a reduction in working time. The EC experts comment: "These results indicate that in the context of the completion of the internal market there is a wish among countries and regions with lower wages and longer working hours to catch up quickly, which is in many cases incorrectly understood by those who consider the danger of "social dumping" to be high . . . the clear danger is that economic progress will push up wages and improve working conditions too rapidly so that the economy is prevented from catching up on a sound basis".<sup>38</sup> Thus apart from internal pressure, also the tendency to equalize conditions with partner countries functions as a spur for wages.

In order to permit a catching-up process for the low-wage countries in these conditions a stronger increase in productivity is needed, as it happened in the 1960s when labour productivity in Spain, Portugal, Greece and Ireland increased by almost 7%, while in the Twelve increased only by 4.5%, but real wages should be



maintained under control to be compatible with stable or even decreasing unit labour costs. <sup>39/</sup> In the perspective of European union and of a greater mobility of workers inside the Community it is likely that the concerned governments will decide a homogenization of their pension systems with a consequent adaptation to the most favourable conditions and a further burden for the less developed countries, which will need therefore an even higher margin of productivity gain in order to maintain their competitiveness. <sup>40/</sup> More and more often reductions of working time are indicated as a partial solution to unemployment; <sup>41/</sup> the proposal finds favour in the eyes of both employees and employers: according to the mentioned EC survey among employees <sup>42/</sup> most workers would like to work shorter hours than agreed in their contracts; by a constant hourly wage rate a working week of 35 hours is considered ideal. In addition workers seem to be ready to work more flexible hours: 61% would be ready to start earlier or to finish later, 44% would accept to work on Saturdays, 21% on Sundays, 22% at night. Therefore there is still scope for breaking the link between working hours and operating times in industry, bringing together the interests of industrialists, of workers and of the economy as a whole. Apart to the need to avoid that the reduction of working time leads to decreased levels of capacity utilization, objective that it seems easy to reach according to what above mentioned, two other conditions seem necessary in order to make working time reduction an useful instrument to fight unemployment: first of all the reduction of working time has not to encourage the search for additional jobs neither on the part of the workers, who dispose of more free time, nor on the part of "outsiders", that is discouraged workers, housewives, students, pensioners, entering the labour market once work opportunities improve. Secondly remunerations have to be kept under control and match with the evolution of productivity: in practice in the most recent collective agreements, the partners seem to have accepted the principle of no income increase by working time reduction. It is a recognized pattern of the labour market evolution of the 1980s

the appearance of a so-called second market or, following the OECD terminology, of non-standard forms of employment, that is self-employment, temporary work, part-time work, any sort of precarious jobs. There are not available data on the present weight of this second market, apart some indications on part-time and self-employment, nor on its future evolution, although there is consent on the fact that it will further develop. The evaluation of it is however not homogeneous: the ones warn against the risks of encouraging low-paid jobs with no legal guarantees for the worker, the others applaude a more flexible labour market. It is certain the danger of a "dual society"; to promote instead a "pluralistic society", based on a sharing out of work and income, with greater mobility of existing jobs <sup>43/</sup> a continuous effort of all the partners --political authorities, firms, workers-- is needed: the promotion of new forms of work has to be obtained without undermining fundamental labour rights.

Finally it is worth mentioning a note of the EC services on labour cost levels, <sup>44/</sup> prepared as a reply to the argument, already mentioned above, that after the completion of the internal market high-wage countries would either have to accept market share losses or they would have to make downward adjustments in their wage and social welfare levels. First of all the EC experts observe that over the period 1970-1987 the growth of unit labour costs expressed in national currency was quite different in the single member countries, but the differences are almost evened out, once values are expressed in ecus, because exchange rates have compensated for possible competitive advantages brought about by comparatively low national wages and price growth and possible competitive disadvantages brought about by comparatively high national wages and price growth. Also the structure of labour costs, i.e. the breakdown into direct earnings and non-wage costs, differs widely among member states. Non-wage labour costs accounted (in 1984-latest figures) for 47.5% in France, 43.5% in Germany, 28.7% in United Kingdom and only 16.4% in Denmark, since this country finances its social security system to a greater

extent through taxation reducing the burden on labour. Moreover Denmark shows the lowest proportion of labour costs accounted for by employers' statutory social security contributions (4.6% as compared with the Italian 32.2%).

Finally, on the basis of national accounts data it can be shown that the ratio of compensation of employees per head to labour productivity has been very similar across Member countries, then the weight of labour cost levels cannot be overestimated: in determining the country competitiveness structure of labour force, raw material and energy costs, real interest rates, taxes and duties, infrastructure endowment, market proximity, technological levels are factors equally or even more important.

The experts seem to suggest to the developing countries that a policy based on the maintenance of artificially low salaries is not a good instrument for securing their competitiveness and that they should rather aim to increase productivity and to keep the system as flexible as possible. On this last point there is an increasing interest: the Japanese model based on flexibility both in working time and in remuneration is considered an example to follow. <sup>45/</sup>

#### EXTERNAL BALANCES

Even at first sight the comparative tables on current account and trade balances (Tables 15-16-17) reveal the lack of consensus about the evolution of the international external relations: there is neither agreement on the absolute amount of the balances nor on their weight in terms of national product; also the tables displayed in former reports showed analogous divergences.

The forecasters attribute this scarce consensus and the rather poor correspondence between the forecast and the actual result mainly to technical reasons and, with regard to the present forecasts, to conjunctural events. The fact that the forecasts are produced on the basis of a technical assumption of stability of the exchange rates on the levels prevailing at the moment of the forecast elaboration implies that exchange-rates sensitive

variables are strongly affected by the conditions of the moment and therefore, even by analogous models, the results can be dramatically different. In fact in the table 20, featuring the percentage variations in volume of imports and exports and less influenced by the exchange rate levels assumed, the discordance between the results obtained by the different forecasters is less marked, if we exclude the case of Japanese exports, expected to rise much slower by the EC services than by the other forecasters; however, this discordance is explainable by the fact that the EC forecasters published their report in Spring 1990 and therefore counted on more updated information than their colleagues of OECD, IMF and World Bank, information showing capacity constraints and labour market tensions limiting exports, partially substituted by direct investment abroad; the World Bank forecasters, whose report appeared in January of this year, seemed to have correctly tracked this development and their previsions for Japan's exports are intermediate between the IMF and OECD previsions and the EC ones (Table 20).

The OECD experts <sup>46/</sup> observe that the models used to forecast external trade and capital movements have been scarcely reliable since 1986/87 and explain this phenomenon by unprecedented movements in the relevant variables, that cannot be tracked by equations based on past experience. The depreciation of the dollar between 1985 and early 1987 seems to have led to an extraordinary improvement in US competitiveness; the model does not take into account this rather brisk change and tends to overpredict US imports and to underpredict US exports. To avoid this error the OECD experts are correcting the model's results but they are reluctant to correct the model itself because they estimate that in the long run imports and exports will eventually come back into line with equation predictions.

The same OECD experts suggest that the demand elasticities for exports and imports contained in the standard trade models should be revised in function of the change in competitiveness and the actual level of development.

As regards the present conjuncture, the forecast is complicated by the presence of high imbalances between the Major Three, that resulted viable until now but that could generate violent economic upheavals and require strong exchange rate adjustments. The recent events in Central and Eastern Europe are a further element of uncertainty, since it is unclear the amount and type of goods that the countries of this area will be able to purchase in the West, especially in the FRG, and how large will be the transfer of resources either in form of loans or in form of grants.

A relevant feature of world trade since the recession of 1982 has been its buoyancy, that peaked in 1988, when world exchanges increased by 9%, but that all along the period outpaced overall economic growth. The elasticity of external trade with respect to global economic activity has risen in 1988 from its 1980-1987 average of 1.4 to about 2 and this higher level is expected to continue during 1989-1991, thus the relative slowdown of trade growth will be a direct reflection of the general growth slowdown and does not imply a changement in the present pattern of development based on intense economic relations between countries. The reasons for the buoyancy of external trade are to be found in the growing internationalization of the world's production structure, as demonstrated by the impressive rise of foreign direct investment, and in the particular strenght of global investment, generally with a higher import content than other demand components; the appearance of capacity constraints is temporally a further motor of trade growth.

After the first semester of 1989 the pace of trade exchanges slowed down, a tendency that seems to be confirmed also in 1990 and that apparently will be partially reversed in 1991 by a new growth push (Table 20). It is worth observing that while in 1988 the surge of US exports accounted for one-third of growth in world trade the present trade expansion is more equally distributed, apart of the particular liveliness of the four Asian NICs and of the emerging economies of the Far East and apart of the increasing share of West Germany on the international markets because of its

peculiar situation of investment good exporter, of traditional partner of Central and Eastern Europe, now likely to augment their presence on the Western markets both as supplier and as purchaser, and of natural counterpart of the GDR.

Another feature of world trade that seems to be constant is its crescent regionalization: the intra-OECD exchanges are growing faster than the exchanges between OECD and the rest of the world, inside of the OECD the Europe 1992 project and the US-Canada Agreement have reinforced the trade links between the EC partners and US and Canada respectively; the links between the four Asian NICs and Japan have since 1986 increased and rising Japanese imports have substituted decreasing US imports; all these factors, together with the gradual opening of the East European economies, are likely to enhance the concentration of trade in the northern hemisphere and in the Pacific basin.

In part as a consequence of this relative slowdown in trade and activity the commodity prices have been falling and also the manufacture prices have been readjusted downwards, even if not in the same measure than commodity prices, because of the reduced demand pressures. Actually the major fall in commodity prices was registered in the second half of 1989, when a stagnating demand, product of slowing activity, faced an increasing supply, since the commodity price increases recorded in 1986-88 had encouraged commodity exporters to enhance their production using fully the existing capacities and reopening redundant production unities. At the beginning of this year prices were generally back at the level of early 1988 and registered quite brisk variations since then, proving the existence of relevant market tensions: non-iron ores, that registered as a group the strongest appreciation and depreciation in 1988 and 1989 respectively, became 10% dearer in March because of the effects of strikes and temporary closures of production unities, but their prices went back to the initial levels already in the following month; the price of coffee increased after the publication of negative production previsions for the two years ahead. It is likely that in 1990 commodity

prices will further be weak, especially the prices of non-iron ores, since the declining US sectors (transport, construction) are the world's biggest consumers of these inputs. Only in 1991 prices will partially recover because of the re-acceleration of activity worldwide and because of the adjustment of supply after almost two years of weak prices.

The developing countries, as major exporters of commodities, are registering a deterioration of their terms of trade, back to the trend registered until the commodity price boost of 1986-88, and despite the fact that the major price falls were registered in 1989 the effects will be mainly perceptible in 1990: both the trade balance and the current account balance are expected to deteriorate (Tables 15-17) and the deterioration will be even more marked if the developing countries would not reduce the pace of their imports (Tables 18-20).

Apart of the already mentioned market tensions, linked to political, social, natural factors, the previsions are subjected to even more dramatic changes in relation to the evolution of the countries of Central and Eastern Europe, of the USSR and of China. Simultaneously big importers and big exporters of commodities, these countries could provoke a crisis of excess demand, if they favor the satisfaction of the population's needs, in order to avoid dangerous social tensions during the delicate transition phase, or viceversa they could force their exports to restore their imbalances. Presently it seems that China has chosen the second option, but the CMEA countries seem rather inclined to augment their international demand; given the low level of stocks the resulting excess demand would have on prices a very strong impact, reversing all the previsions.

The prices of fuel registered in 1989 an increase that permitted the OPEC countries to ameliorate their external position: while the other developing countries registered major deficits or smaller surpluses, the OPEC members passed from a negative current account position to a small surplus (from -17.2 billion US\$ to + 4.3 billion US\$ - Table 15) and increased their trade surplus (Table

17) even if in 1989 their imports started to grow again and their exports grew less fast in volume than in the year before (Table 20). The displayed previsions seem to indicate no major alteration in their 1989 position and no expectation of any market disruption in the two years ahead: the fuel prices are likely to know saison-related variations and to accelerate again in 1991 by the revival of growth but always in a very small measure.

All the consulted sources seem to agree that the fuel prices will vary in a very narrow band, since no major demand or supply variations are expected. World oil consumption, which fell in the early 1980s, is now expanding at a rhythm of around 2% yearly, but the 1989 slowdown in activity, especially in the United States, which absorb half of the primary energy consumed in the OECD, has assured a temporary halt and has avoided an excessive price increase. On the supply side, the OPEC production is susceptible to be increased relatively easily and the pressures inside the Organization to augment the supply are actually stronger than the pressures to restrict it and to force upwards prices; also in the first months of 1990 the OPEC production was above the fixed quotas and only an agreement in May managed to reestablish the production levels. The non-OPEC producers presently are not forcing their production because the prices are not rewarding enough, but they could do it in case of important price increases.

As in the case of other commodities fuel prices are sensitive to the evolution in Central and Eastern Europe and in the USSR. The production and the capacity to export of the USSR (the world's major energy producer) is endangered by the political events and by increasing leaks in the transport system and the provision of inputs. It seems likely however that the USSR could augment its sales on the Western market, given the now weaker links with its CMEA partners. The reaction of the CMEA as a whole is rather uncertain: its energy consumption is very high (in the case of the GDR almost double in comparison with Western Europe) both because of high private consumption, until now heavily subsidized, and because of the waste in the industrial sector, which was not



restructured unlike the Western European one in function of energy saving; now it is likely that private energy consumption will decrease once subsidies disappear, while the industrial energy consumption could increase by the gradual redressement of the economy, since it is likely that efficient energy saving measures can be adopted only in the long term. As regards the energy sources, it could be that, even by a falling energy demand, the oil demand increases because of the substitution of coal with oil in order to ameliorate the ecological conditions of the region. At the moment it is not possible to foresee which factors will have a higher weight so that the influences on the energy markets have to be discovered in the coming months.

A key issue of the present projections is the evolution of the imbalances of the Major Three, that appeared at the beginning of the past decade and grew progressively without any halt at least until 1987: in 1981 the US current account balance showed a surplus of 8.2 billion US\$, corresponding to 0.3% of GNP, in 1984 the deficit amounted to 104.2 billion US\$ (-2.8% of BNP), in 1987 it peaked at 143.7 billion US\$ (-3.2% of GNP), simultaneously the surplus of Japan passed from 4.8 billion US\$ (0.4% of GNP) to 35 billion US\$ (2.8% of GNP) and in 1987 to 87 billion US\$ (3.6% of GNP) and the surplus of Germany did not stop growing: the initial deficit of -3.6 billion US\$ has been reversed into a surplus of around 50 billion US\$ (4.5% of GNP). During this period US supply grew faster than the average (+22% between 1983 and 1987), but so did US demand, permitting the accumulation of an increasing deficit. In the two years ahead U.S. domestic supply is unlikely to rise faster than projected domestic demand, implying that a major reduction in the visible trade deficit is unlikely, even if foreign demand would be unexpectedly buoyant, since there will be no space to satisfy it.

All the forecasters seem to have abandoned the Cassandra prophecies formulated in the past years, since the experience has shown that the international economic system is flexible enough to sustain the disequilibria and to react to occasional tensions.

Some experts start even to consider positively the stability of surpluses and deficits: <sup>47/</sup> in the last WEO the IMF sustains the view that a sudden dwindling of Japan's surplus could harm the world economy, and an influential government advisory council in Japan, whose opinion could be adopted as Japan's official position, estimates as appropriate the current level of surplus because it would allow Japan to help finance the US debt and the needs of developing countries.

After the reduction in the US current account deficit and in the Japanese surplus registered in 1988/1989, all the forecasters foresee a slowdown in the adjustment process with increasing trade and current account disequilibria (Tables 15-17) even if their weight in terms of GNP will remain fairly stable (Tables 16-19). Even forecasters, who declare themselves rather optimistic about the capability of the United States to adjust, like the OECD and World Bank forecasters, have to recognize that the measures of debt sustainability, such as the ratios of external debt to GNP and of debt to exports, are deteriorating and that an adjustment will necessarily need a currency depreciation, that could push up inflation and precipitate the country in a stagflationary vicious circle. Furthermore the complete liberalization of the EC financial markets could enhance the attractiveness of investment in European currencies with detriment to the dollar share in portfolios.

Some forecasters (World Bank, CEPII, French Direction de la Prévision) emphasize that the present carousel pattern of growth, with Japan and the FRG growing faster than the US, should favour the adjustment but the displayed projections are in contradiction with this expectation. The reasons for the slowdown in the readjustment are several:

a) The current account imbalances of the last years have resulted in an accumulation of a large stock of foreign debts and assets, which now generate income flows accentuating the imbalances; in 1988 the stock of net foreign debt of the USA amounted to 11% of its GDP while in 1984 debts and assets were still in equilibrium.

b) The large trade imbalances require a relevant growth differential between imports and exports or they widen inexorably: in 1990 in volume US exports should grow faster than US imports (according to the OECD + 8.4% as against 5.9%, according to the EC + 7.9% as against 4.8% - Table 20) but the US trade balance deficit is expected to worsen.

c) If the US inflation rate persists above the Japanese and the German ones a nominal depreciation of the currency is compensated by the diverging inflation rates and therefore real exchange rates remain almost stable, without any competitive gain for the US exports.

d) The rapid productivity gains accompanied by moderate salary increases that had given to the United States a competitive advantage on its major partners during the second half of the 1980s are not as fast as in the past while in the rest of OECD the efforts to regain competitiveness seem to have succeeded.

In this panorama the case of the FRG is even less clear-cut: the consulted forecasts show a continuous increase in the current account surplus (Table 15) and in the trade surplus (Table 17) but it is doubtful the demand effect produced by the new immigrants and in the wake of the imminent unification. As West German companies are estimated to be already working at about 90% of their total productive capacity, they will not be able to satisfy the new market by themselves and at least part of the additional demand will emerge as additional German import.

The IMF experts are depicting three alternative scenarios assuming different economic behaviours face to the US internal and external imbalances. The first scenario supposes that investors will reduce their demand for US assets, considering too large the existing imbalances among the Major Three and provoking the drop of the US currency. The immediate effect is an increase in the US exports, but the enhanced demand affects prices eroding the initial competitiveness gains. The Fed reacts increasing the interest rates with crowding-out effects on investments. Real GNP, which initially rises, declines and also the current account balance

deteriorates since the improved real trade position is offset by the worsening of the investment income balance. In the other industrial countries the real GNP initially declines for the currency appreciation and the fall in US imports, but in the medium term it recovers owing partly to lower interest rates in respect to the United States. However, in the medium term all countries are worse off than they would be without the chain reaction activated by the investors' confidence crisis. Also the indebted developing countries are negatively affected by the interest rates rise and by the fall in US demand. Until now this scenario is unlikely: the US policy seems to have been directed to avoid a precipitous fall of the currency value and to permit only a slow crawling of the dollar, focusing on the implementation of adjustment measures.

The second scenario appears viceversa closer to the present situation: while in the preceding market adjustment scenario market operators acted as motors of the reaction, here the driving force is the fiscal tightening that permits to approach the Gramm-Rudman-Hollings targets. The real GNP, after an initial decline, augments because of the positive effect of lower interest rates on investment and the current account balance also improves. In the industrial surplus countries real GNP grows weakly and the external imbalances stop widening, while in the developing countries it is predominant the positive effect produced by lower interest rates. Finally the most desirable scenario is the so-called structural adjustment scenario which illustrates the effects of a comprehensive package of budgetary and structural measures in the US and in the other OECD countries: output and investment grow faster than in both precedent scenarios, inflation and interest rates are kept under control, external imbalances are progressively dismantled and in the medium term all partners are better off than they would be without the implementation of the adjustment measures.

As regards the European Community, after the 1989 decrease in its trade surplus, it will register a gradual recovery that will

benefit also its current account balance although there is no agreement about the amount of this surplus (Tables 15-17). However, it is a matter of concern the widening gap between surplus and deficit countries. Until now the imbalances were financed smoothly, but if they would continue to expand, difficulties to manage them could surge. Also the Spanish and Portuguese imbalances are no longer looked optimistically as they used to be, considering that in an economic association with uneven levels of development it is a natural process that the more advanced members invest their surplus in the poorer areas fostering the catching-up process: the experts underline now the fact that both countries experience also higher-than-average inflation rates, while the surplus countries perform better also in the fight against inflation.<sup>48/</sup> So far the credibility of commitments to EMS parities, demonstrated by the efforts of the high-inflation countries to bring under control price growth, has served as a guarantee for the financiers, but the equilibrium of the market is now weaker because of a sharp drop in long-term flows and a surge in more unstable short-term flows.

An open question is the behaviour of the European CMEA countries (including the USSR) and its impact on the international economic relations' equilibria: with a population of more than 400 million people they represent only 9% of international trade, including also the intra-CMEA exchanges; outside the area they participate only in 3% of the international trade exchanges.

The reasons for the limited trade development have to be found in structural and financial constraints.

a) Given the slow increase of primary commodity trade as compared with manufacture trade and given the volatility of commodity prices, the CMEA countries, whose hard-currency exports are concentrated (55.5%) in the commodity sector, are negatively affected.

b) The CMEA countries suffer a chronic lack of consumption goods; in a situation of hard currency shortage indispensable consumption goods are imported with detriment to the purchase of

intermediary goods, essential to foster the productive process.

c) The slow economic growth has restricted the amount of resources to be used for the scope of industrialization and modernization, thus the competitiveness of CMEA products, has been reduced and market shares have been lost for the benefit of emerging developing countries.

d) Finally the external debt (100 billion US\$ in 1987) limits the space for significant import increases. The debt has been accumulated despite continuous current account surpluses recorded by the region (11.5 billion US\$ in 1989), because more than half of the surplus is an unconvertible rouble surplus of the USSR towards non-European socialist countries and because a relevant part of the surplus corresponds to surpluses towards developing countries, non recoverable at face value.

Finally in the two years ahead the orientation to protectionism or to an open multilateral trading system should become manifest and permit to formulate sounder projections on the future trade development. Presently there are contradictory signals, that impede to obtain a clear-cut view on this point; the renewal of the Lomé Agreement between the European Community and the so-called ACP (African, Caribbean and Pacific) countries, the partial liberalization of the exchanges between the EC and the CMEA, the Bush Plan show a will to foster trade relations, but the Europe 1992 Project, the US-Canada Agreement, the US Omnibus Trade Expansion and Competitiveness Act may lead to a return to bilateralism, as opposed to multilateralism, and to the emergence of privileged trade areas, while simultaneously the developing countries are still far from enhancing their mutual relations and counteract the ups and downs of the North-South trade.

### Notes

1. World Bank, The Developing Countries and the Short-term Outlook for the Global Economy, January 1990, p.11.
2. As explained also in the last IMF WEO "These assumptions reflect primarily a wish to avoid publication of projections for "sensitive" variables as well as the complexities involved in forecasting variables such as exchange rates" (p.28).
3. World Bank, Can the Industrial Countries Return to Rapid Growth?, August 1989.
4. See World Bank, The Developing Countries and the Short-Term Outlook for the Global Economy, July 1989, and Organization for Economic Co-operation and Development (OECD), Economic Outlook, No 45, June 1989.
5. See European Economy-Supplement B of October 1989 and March 1990.
6. World Bank, op.cit., August 1989, p.28.
7. See Tom Herman, "Economists show consensus that growth will continue in 1990", in The Wall Street Journal, January 2, 1990.
8. "Japan's economy forecast to grow by 4.1% a year" in Journal of Commerce, March 16, 1990.
9. World Bank, op.cit. January 1990, p.14.
10. European Economy-Supplement A, No.4, April 1989.
11. The last report of CLEPI reminds that for instance in the microchip industry raw materials represent only 1 to 3% of total production costs or that in telecommunication 100 pounds of optical fiber replace one ton of copper cable, whose production requires twenty times more energy. See CLEPI, Grandes maniobras estratégicas - Informe sobre la economía mundial, Santiago de Chile, 1989, p. 128.
12. Prometeia, Rapporto di Previsione, December 1988, pp. 20.23.
13. Organization for Economic Co-operation and Development (OECD), Economic Outlook, No.46, December 1989, pp.26-28.
14. Quarterly Review of Commodity Markets, December 1989, pp.48-49.

15. See also Economic Commission for Europe (ECE), Overall Economic Perspective to the Year 2000 (ECE/EC/AD/32), New York, 1988. United Nations Publication, Sales No. E.88 II E.4. In this publication two different energy scenarios are depicted: the baseline scenario supposes constant oil prices in real terms until the year 2000 (around 17US\$/b), the alternative scenario supposes that prices will double from now to the end of the century (around 35US\$/b). In all the hypothesis, apart the case of high oil prices accompanied by continuous efforts to increase energy efficiency and to reduce energy-intensive activities, the import dependency rises dramatically: in North America from the present 7.6% it could reach almost 40%, in Western Europe from 37.6% it could vary between 40% and 57.4%.
16. European Economy-Supplement A, No. 4, April 1989.
17. The data collected in the Table 9 are unfortunately only partially comparable, since the OECD considers the productivity in the whole business sector, including also the service sector, whose productivity traditionally increases not as fast as in manufacturing.
18. Bank of America, Economic and Business Outlook, November 1989.
19. See Robert Hagemann, "Vieillissement de la population: qui financera les retraites?" in L'Observateur de l'OCDE, No. 160, pp.12-15, October-November 1989.
20. Organization for Economic Co-operation and Development (OECD), Employment Outlook, September 1988.
21. Economic Commission for Europe (ECE), op.cit., p.89.
22. Direction de la Prévision - Ministère de l'Economie, des Finances et du Budget, Note de conjoncture internationale, Paris, December 1989, pp.34-35.
23. Deutsche Bundesbank, Monatsbericht, No.2, Februar 1990, pp.27-29.
24. Prometeia, Rapporto di Previsione, Bologna, December 1989, p.54.
25. Organization for Economic Co-operation and Development (OECD), Employment Outlook, July 1989, p.111.
26. The recent legislation, impulsed by the action of trade unions, tends to favour the levelling of salaries at the national level.
27. The Economic and Budget Outlook: Fiscal years 1990-1994, Washington D.C., January 1989, p. 14.



28. Employment Outlook, July 1989, pp. 35-39.
29. European Economy - Supplement B, No. 11, November 1989, p.3
30. The EC survey on employment in retail trade gave analogous results, see European Economy- Supplement B, No. 2, February 1990, p.2.
31. See note from Isaac Cohen, ECLAC Washington, 17th of May 1990, based on a Wall Street Journal article.
32. European Economy - Supplement B, No. 8/9, August-September 1989, p.4.
33. Organization for Economic Co-operation and Development Economic Commission (OECD), Employment Outlook, July 1989, pp.193-198 and (ECE), op.cit. pp. 96-98.
34. European Economy - Supplement A, No. 10, October 1989, p.7.
35. Employment Outlook, July 1989, pp. 16-17.
36. European Economy - Supplement A, No. 12, December 1989.
37. World Economic Outlook, October 1989, p.7.
38. European Economy - Supplement B, No. 8/9, August/September 1989, p.3.
39. European Economy - Supplement A, No. 1, January 1989, p.8.
40. Prometeia, Rapporto di Previsione, March 1990, pp. 34-35.
41. See for instance the Overall Economic Perspective to the Year 2000 of ECE, pp. 93-95.
42. European Economy - Supplement B, No. 8/9, August/September 1989.
43. See Michel Godet - Rémi Barré, "Major trends and uncertainties of the 1990s", in Futures, August 1988, p.416.
44. European Economy - Supplement A, No.1, January 1989.
45. See Uwe Vollmer, "Reasons for Japan's low unemployment rate", in Intereconomics, November/December 1988, or Klaus Schlote, Das japanische Bonussystem: Funktionsweise und empirische Ergebnisse, mimeo, Kiel, 1989.
46. OECD, Economic Outlook, December 1989, pp. 37-38.

47. See "Japan's trade surplus might not be negative" in a note from Isaac Cohen, ECLAC Washington, 1st of June 1990, based on a Washington Post article.

48. OECD, Economic Outlook No. 46, December 1989, p.39.

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**Tables**

TABLE 1

REAL GDP/GNP  
(Annual percentage change)

53

	1988 IMF	1989						1990									
		IMF	LINK	OECD	EC	WB	CEPII	Kiel	FI	IMF	LINK	OECD	EC	WB	CEPII	Kiel	FI
World	4.0	3.1	...	...	...	...	3.2	...	...	2.9	...	...	...	...	3.1	...	...
Industrial countries a/	4.4	3.5	...	3.6	...	...	3.1	3.5	...	2.9	...	2.9	...	...	2.6	2.5	...
Major Seven	4.5	3.5	...	3.5	...	...	...	...	3.4	3.0	...	2.9	...	...	...	...	2.5
European Community	3.7	3.4	...	3.6	3.4	...	2.9	3.5	...	2.9	...	2.9	3.0	...	2.5	2.5	...
United States	4.4	2.9	3.0	3.0	3.0	2.9	2.6	2.9	1.7	2.1	1.8	2.3	2.1	2.3	2.1	1.5	2.4
Japan	5.7	4.9	5.2	4.8	4.8	4.8	4.6	5.2	5.0	4.7	4.6	4.5	4.2	4.2	3.7	4.0	4.5
Federal Republic of Germany	3.6	4.0	4.3	4.3	3.4	4.2	3.4	4.0	3.9	3.0	3.4	3.2	3.7	3.3	2.7	3.5	3.0

  

	1991	1992									
		LINK	OECD	EC	WB	CEPII	Kiel	FI	LINK	WB	CEPII
World	...	...	...	...	...	3.6	...	...	...	...	3.5
Industrial countries a/	...	2.9	...	...	...	2.9	3.1	...	...	...	2.7
Major Seven	...	2.9	...	...	...	...	...	3.1	...	...	...
European Community	...	2.8	3.1	...	...	2.7	2.0	...	...	...	2.6
United States	2.6	2.5	2.3	2.5	2.5	2.0	2.0	2.7	2.6	2.5	1.9
Japan	4.4	4.3	3.4	3.6	4.2	3.5	3.5	4.2	4.4	3.4	4.3
Federal Republic of Germany	4.0	3.1	3.7	4.4	1.9	2.5	2.5	2.8	3.5	4.5	2.2

Sources: IMF, World Economic Outlook, October 1989; Project LINK (United Nations-DIESA), World Outlook, Spring 1990; OECD, Economic Outlook, No. 46, December 1989; EC Commission, Economic Forecasts 1990-1991, April-May 1990; Equipe MIMOSA, "Croissance et déséquilibres de l'économie mondiale - Une projection CEPII-OFCE à l'horizon 1993", in Observations et diagnostics économiques, No. 28, July 1989; Institut für Weltwirtschaft, Kieler Kurzberichte, No. 4, February 1990; First Interstate Bancorp, Forecast 1990/1991, Los Angeles, 1989.

a/ The OECD and CEPII forecasters consider the aggregate "OECD countries", which is larger than the aggregate "Industrial countries", since it includes also Greece, Portugal and Turkey.

TABLE 2

	FINAL DOMESTIC DEMAND (Real annual percentage change)									
	1 9 8 9			1 9 9 0			1 9 9 1			
	IMF	OECD	EC	DP	IMF	OECD	EC	DP	OECD	
All industrial countries	3.5	4.3	...	...	2.9	3.3	...	...	3.1	
Seven Major	3.5	3.6	...	...	3.0	2.9	...	...	2.8	
European Community	3.4	3.7	3.7	...	2.9	3.0	3.0	...	2.8	
United States	2.5	2.5	2.4	2.4	2.4	2.2	2.0	1.6	2.4	
Japan	5.3	5.6	5.8	5.8	4.5	4.6	5.5	5.2	4.0	
Federal Republic of Germany	2.8	2.8	2.8	2.7	3.1	3.2	3.5	4.0	2.9	

Sources: IMF, World Economic Outlook, October 1989; OECD, Economic Outlook, No.46, December 1989;  
EC Commission, Economic Forecasts 1990-1991, April-May 1990; Direction de la Prévision-Ministère de  
l'Economie, des Finances et du Budget, Note de conjoncture internationale, March 1990.



TABLE 3

**GROSS FIXED INVESTMENT**  
(Real annual percentage change)

	1988 IMF	1989 IMF    EC	1990 IMF    EC	1991 EC
All industrial countries	7.9	5.6    ...	4.0    ...	...
Seven Major	8.0	5.5    ...	4.3    ...	...
European Community	7.3	7.0    6.7	4.4    4.6	4.1
United States	5.8	2.2    1.6	3.8    2.6	5.0
Japan	13.4	9.4    10.8	5.1    7.8	6.0
Federal Republic of Germany	6.0	8.5    7.2	4.2    6.4	4.3

Source: IMF, World Economic Outlook, October 1989; EC Commission, Economic Forecasts 1990-1991, April-May 1990.

TABLE 4

PRIVATE CONSUMPTION  
(Real annual percentage change)

	1988		1989				1990				1991					
	IMF	IMF	LINK	EC	WB	CEPII	DP	IMF	LINK	EC	WB	CEPII	DP	LINK	WB	CEPII
All industrial countries	3.7	2.8	...	...	...	...	...	2.8	...	...	...	...	...	...	...	...
Seven Major	3.8	2.8	...	...	...	...	...	2.9	...	...	...	...	...	...	...	...
European Community	3.5	2.8	...	3.2	...	...	...	2.7	...	3.3	...	...	...	...	...	...
United States	3.4	2.4	2.7	2.7	2.7	3.1	2.7	2.3	2.4	1.8	2.6	2.6	2.2	2.4	3.0	2.2
Japan	5.0	3.3	3.3	3.5	3.5	4.3	3.3	4.4	4.3	4.2	3.1	3.1	3.9	4.2	3.4	3.3
Federal Republic of Germany	2.7	1.7	2.4	1.7	1.6	2.5	1.7	3.0	3.3	4.0	4.5	4.3	3.5	3.7	4.1	3.8

Sources: IMF, World Economic Outlook, October 1989; Project LINK (United Nations-DIESA), World Outlook, Spring 1990; EC Commission, Economic Forecasts 1990-1991, April-May 1990; World Bank, Planning Assumptions for Major Macroeconomic Indicators, mimeo, April 1990; Equipe MIMOSA "Croissance et déséquilibres de l'économie mondiale. Une projection CEPII-OFCE à l'horizon 1993", In Observations et diagnostics économiques, No.28, July 1989; Direction de la Prévision- Ministère de l'Economie, des Finances et du Budget, Note de conjoncture internationale, March 1990.

TABLE 5

PUBLIC CONSUMPTION  
(Real annual percentage change)

	1988 IMF	1989				1990				1991		
		IMF	LINK	EC	CEPII	IMF	LINK	EC	CEPII	LINK	EC	CEPII
All industrial countries	1.5	2.1	...	...	...	1.6	...	...	...	...	...	...
Seven Major	1.4	2.1	...	...	...	1.6	...	...	...	...	...	...
European Community	2.1	1.2	...	1.1	...	1.4	...	1.8	...	...	1.5	...
United States	0.4	3.1	1.8	2.7	1.1	1.5	1.6	1.1	0.4	1.1	0.4	-0.2
Japan	2.2	1.5	1.6	2.1	4.3	1.9	3.7	2.5	3.1	3.7	4.8	3.3
Federal Republic of Germany	2.2	0.1	-0.1	-0.8	0.8	2.3	0.4	1.0	0.1	1.1	0.5	0.6

Source: IMF, World Economic Outlook, October 1989; Project LINK (United Nations- DIESA), World Outlook, Spring 1990; EC Commission, Economic Forecasts 1990-1991, April-May 1990; Equipe MIMOSA, "Croissance et déséquilibres de l'économie mondiale - Une projection CEPII-OFCE à l'horizon 1993", in Observations et diagnostics économiques, No. 28, July 1989.

TABLE 6

GNP/GDP DEFLATOR  
(Annual percentage change)

	1989				1990				1991					
	IMF	OECD	EC	WB	CEPII	IMF	OECD	EC	WB	CEPII	OECD	EC	WB	CEPII
All industrial countries	4.1	4.3	...	...	...	3.7	4.5	...	...	...	4.3	...	...	...
Major Seven	4.0	3.7	...	3.5	...	3.6	4.0	...	3.8	...	3.9	...	4.1	...
European Community		4.6	4.9	...	...	...	4.5	5.1	...	...	4.1	4.5	...	...
United States	4.5	4.3	4.1	4.1	4.8	4.6	4.4	3.5	4.0	4.9	4.5	4.2	4.8	5.0
Japan	1.8	1.3	1.5	1.0	1.5	1.3	2.6	2.6	2.2	1.5	2.5	3.3	2.5	1.0
Federal Republic of Germany	2.5	2.6	2.5	2.4	2.5	2.5	3.0	3.3	2.4	3.0	2.0	3.5	2.7	2.9

Sources: IMF, World Economic Outlook, October 1989; OECD, Economic Outlook, No. 46, December 1989; EC Commission, Economic Forecasts 1990-1991, April-May 1990; World Bank, The Developing Countries and the Short-Term Outlook for the Global Economy, January 1990, Equipe MIMOSA, "Croissance et déséquilibres de l'économie mondiale - Une projection CEPII-OFCE à l'horizon 1993" in Observations et diagnostics économiques, No. 28, July 1989.

TABLE 7

PRIVATE CONSUMPTION DEFLATOR  
(Real percentage change)

	1989							DP
	IMF	LINK	OECD	EC	WB	CEPII	Kiel	FI
All industrial countries	4.5	3.7	4.4	...	...	...	4.5	...
Seven Major	...	...	3.9	...	...	...	...	4.2
European Community	...	3.5	4.6	4.8	...	...	5.0	...
United States	5.1	4.4	4.5	4.4	5.0	4.7	4.9	5.0
Japan	2.2	2.7	1.7	1.7	2.2	1.9	2.3	1.5
Federal Republic of Germany	3.0	3.3	3.3	3.1	2.6	2.7	3.0	2.8
								3.3
	1990							FI
	IMF	LINK	OECD	EC	WB	CEPII	Kiel	FI
All industrial countries	3.9	4.0	4.5	...	...	...	4.5	...
Seven Major	...	...	4.0	...	...	...	...	3.7
European Community	...	4.1	4.3	4.7	...	...	5.0	...
United States	4.9	4.1	4.5	4.1	4.1	4.9	4.5	4.2
Japan	1.6	2.1	2.7	2.9	1.7	2.1	2.5	1.2
Federal Republic of Germany	2.7	4.0	2.6	2.8	2.6	1.6	3.0	2.9
								2.6
	1991							CEPII
	LINK	OECD	WB	CEPII	Kiel	FI	LINK	CEPII
All industrial countries	3.9	4.4	...	...	4.0	...	3.9	...
Seven Major	...	4.0	...	...	...	3.3	...	...
European Community	3.9	3.9	...	...	4.5	...	3.8	...
United States	4.3	4.7	5.0	5.2	4.5	4.0	4.8	5.4
Japan	2.4	2.6	2.8	1.9	3.0	1.5	2.5	2.0
Federal Republic of Germany	3.8	2.6	2.3	1.2	3.5	2.0	3.7	1.0

Sources: IMF, World Economic Outlook, October 1989; Project LINK (United Nations-University of Pennsylvania), World Outlook, Spring 1990; OECD, Economic Outlook, No. 46, December 1989; EC Commission, Economic Forecasts 1990-1991, April-May 1990; World Bank, The Developing Countries and the Short-Term Outlook for the Global Economy, January 1990; Equipe MIMOSA, Croissance et déséquilibres de l'économie mondiale - Une projection CEPII-OFCE à l'horizon 1993", in Observations et diagnostics économiques, No. 28, July 1989; Institut für Weltwirtschaft, Kieler Kurzberichte, No. 4, February, 1990; First Interstate Bancorp, Forecast 1990/1991, Los Angeles, 1989; Direction de la Prévision - Ministère de l'économie, des Finances et du Budget, Note de conjoncture internationale, Paris, March 1990.

a/ The OECD and LINK forecasters consider the aggregate "OECD countries", which is larger than the aggregate "All industrial countries", since it includes also Greece, Portugal and Turkey.

TABLE 8

UNIT LABOUR COSTS a/  
(Annual percentage change)

	1989	1990	IMF 1989 Only in manufacturing	1990	1991	OECD 1989 In the business sector	1990	EC Whole economy
All industrial countries b/			1.6	2.3	3.8	4.0	3.7	...
European Community			2.6	2.8	...	...	...	4.2
United States			1.5	3.1	4.9	4.9	4.5	...
Japan			-1.6	-0.4	1.8	2.4	2.4	...
Federal Republic of Germany			0.8	2.0	0.6	1.9	1.6	0.7
								1.3

Sources: IMF, World Economic Outlook, October 1989; OECD, Economic Outlook, No. 46, December 1989; EC Commission, "Economic forecasts for 1989-1990", in European Economy. Supplement A, No. 10, October 1989.

a/ Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employment.

b/ The OECD forecasters consider the aggregate "OECD countries", which is larger than the aggregate. "All industrial countries" used by the IMF, since it includes also Greece, Portugal and Turkey.

TABLE 9

## LABOUR PRODUCTIVITY a/

(Annual percentage change)

	OECD b/		IMF b/	
	1973-79	1979-88	1989	1990
All industrial countries c/	1.4	1.7	3.6	2.8
European Community	...	...	3.4	2.8
United States	0.0	0.9	2.6	1.7
Japan	3.2	3.1	7.0	5.5
Federal Republic of Germany	3.4	1.9	3.7	3.1

Sources: IMF, World Economic Outlook, October 1989; OECD, Economic Outlook, No. 46, December 1989.

a/ Output per employed person.

b/ The IMF considers the productivity only of the manufacturing sector, the OECD in the whole business sector.

c/ The OECD forecasters consider the aggregate "OECD countries", which is larger than the aggregate. "All industrial countries" used by the IMF, since it includes also Greece, Portugal and Turkey.

TABLE 10

POPULATION GROWTH  
(Annual percentage change)

	1960-70	1970-80	1980-90	1990-2000
World total	2.04	1.88	1.66	1.55
Developed market economies	1.07	0.87	0.60	0.56
Developing countries	2.50	2.46	2.30	2.10
China and Asia planned economies	2.36	1.88	1.28	1.18

Source: United Nations, Overall Socio-Economic Perspective of the World Economy to the Year 2000 (A/43/54), 20 September 1988.

	1951-85	1986-2000		
		Low Variant	Medium Variant	High Variant
ECE region	1.0	0.4	0.7	0.9
North America	1.3	0.5	0.8	1.1
European market economies	0.8	0.3	0.5	0.7
Centrally planned economies	1.1	0.6	0.7	0.9

Source: Economic Commission for Europe, Overall Economic Perspective to the Year 2000 (ECE/EC.AD/32), New York, 1988. United Nations Publication. Sales No. E.88.II.E.4.



**TABLE 11**  
**TOTAL LABOUR FORCE**  
**(Annual percentage change)**

	1970-80	1980-90	1990-2000
World total	2.06	1.90	1.53
Developed market economies	1.34	0.91	0.52
- North America <u>a/</u>	2.58	1.77	1.00
- European market economies <u>a/</u>	0.92	0.92	0.54
Centrally planned economies <u>a/</u>	1.03	0.66	0.50
Developing countries	2.30	2.33	2.25

Source: United Nations, Overall Socio-Economic Perspective of the World Economy to the Year 2000 (A/43/54), 20 September 1988.

a/ Data from the baseline scenario of Economic Commission for Europe, Overall Economic Perspective to the Year 2000 (ECE/EC.AD/32), New York, 1988. United Nations Publication, Sales NO E.88.II.E.4.

TABLE 12

TOTAL LABOUR FORCE  
(Annual percentage change)

	1989			1990			1991	
	OECD	EC	CEPII	OECD	EC	CEPII	OECD	EC
OECD	1.2	...	...	1.1	...	...	1.1	...
European Community	0.4	0.6	...	0.7	0.9	...	0.6	0.8
United States	1.7	...	1.3	1.3	...	1.1	1.4	...
Japan	1.7	...	1.1	1.7	...	1.1	1.5	...
Federal Republic of Germany	0.8	0.6	0.3	1.0	1.1	0.1	0.8	1.4
							0.8	0.8

Sources: OECD, Economic Outlook, December 1989; EC Commission, Economic Forecasts 1990-91; April-May 1990; Equipe MIMOSA, "Croissance et déséquilibres de l'économie mondiale - Une projection CEPII-OFCE à l'horizon 1993", in Observations et diagnostics économiques No. 28/July 1989.

TABLE 13

TOTAL EMPLOYMENT  
(Percentage change on preceding year)

	1989				1990				1991				1992	
	OECD	IMF	EC	CEPII	OECD	IMF	EC	CEPII	OECD	EC	CEPII	EC	CEPII	CEPII
All industrial countries a/	1.7	1.6	...	...	1.1	1.0	...	...	1.0	...	...	...	...	...
European Community	1.4	1.1	1.7	...	0.9	0.7	1.4	...	0.6	0.9	...	...	...	...
United States	2.0	2.2	2.0	1.4	1.1	1.4	1.0	1.2	1.3	1.0	1.0	1.0	1.0	0.6
Japan	1.9	1.5	1.7	1.1	1.6	0.9	1.3	1.0	1.5	1.0	1.0	1.0	0.7	0.8
Federal Republic of Germany	1.4	1.2	1.4	0.9	1.2	0.8	1.7	0.8	0.7	1.7	0.5	1.7	0.5	0.4

Sources: OECD, Economic Outlook, No. 46, December 1989; IMF, World Economic Outlook, October 1989; EC Commission, Economic Forecasts 1990-1991, April-May 1990; Equipe MIMOSA, "Croissance et déséquilibres de l'économie mondiale - Une projection CEPII-OFCE à l'horizon 1993", in Observations et diagnostics économiques, No. 28, July 1989.

a/ The OECD forecasters consider the aggregate "OECD countries", which is larger than the aggregate "All industrial countries", used by the IMF, since it includes also Greece, Portugal and Turkey.

TABLE 14

UNEMPLOYMENT  
(As a percentage of labour force a/)

	1989				1990				1991				1992	
	LINK	IMF	OECD	EC	CEPII	LINK	IMF	OECD	EC	CEPII	LINK	OECD	EC	CEPII
All industrial countries b/	6.2	6.6	6.6	...	...	6.5	6.7	6.6	...	...	6.4	6.6	...	6.3
European Community	9.9	10.0	9.5	9.0	...	10.0	10.0	9.3	8.5	...	9.9	9.3	8.3	9.6
United States	5.3	5.3	5.2	5.2	5.3	5.7	5.5	5.4	5.3	5.2	5.7	5.5	5.5	5.7
Japan	2.4	2.3	2.3	2.3	2.6	2.4	2.3	2.3	2.5	2.8	2.4	2.3	2.8	2.5
Federal Republic of Germany	7.5	7.1	7.3	5.5	7.3	8.6	7.0	7.1	6.0	6.6	8.8	7.2	6.2	8.4
France	10.2	10.0	9.5	9.5	10.7	10.0	9.9	9.3	8.8	11.0	9.8	9.2	8.1	9.7
Italy	12.1	12.0	12.0	11.0	11.8	12.1	12.1	12.2	11.0	11.8	12.1	12.3	11.0	11.4
United Kingdom	6.5	6.7	6.5	6.7	7.0	6.2	7.4	6.6	6.1	6.9	6.2	6.9	6.3	7.0
														5.7
														7.3

Sources: Project LINK (United Nations - University of Pennsylvania), World Outlook, Spring 1990; IMF, World Economic Outlook, October 1989; OECD, Economic Outlook, No. 46, December 1989; EC Commission, Economic Forecasts 1990-1991, April-May 1990; Equipe MIMOSA "Croissance et déséquilibres de l'économie mondiale - Une projection CEPII-OFCE à l'horizon 1993", in Observations et diagnostics économiques, No.28, July 1989.

a/ The EC services calculate Member States' unemployment as a percentage of civilian labour force as well as do the United States and Germany, thus the data of the EC and of these two countries in the OECD table are not directly comparable with the others.

b/ The OECD forecasters consider the aggregate "OECD countries", which is larger than the aggregate "All industrial countries" used by the IMF, since it includes also Greece, Portugal and Turkey. The LINK forecasters consider the aggregate "OECD countries", excluding Greece, Iceland, Netherlands and Switzerland.

TABLE 15

CURRENT ACCOUNT BALANCES  
(In billions US dollars)  
Part A

	1988			1989			1990				1991	
	OECD	IMF	OECD	OECD	EC	WB	IMF	OECD	EC	WB	EC	WB
All industrial countries a/	-50.2	-77.6	-85	-72.2	-66	-66	-69.6	-72	-68.1	-34	-71	-68.7
Major Seven	-41.8	-59.7	-62	...	-49	-49	-50.6	-46	...	-26	-38	...
European Community	15.7	5.9	5	0.2	24	24	8.0	11	9.4	52	13	18.8
United States	-126.6	-125.1	-122	-96.1	-121	-121	-138.7	-118	-101.3	-128	-124	-108.9
Japan	79.6	72.0	61	57.0	60	60	89.7	61	57.8	60	69	59.0
Federal Republic of Germany	48.5	53.4	61	54.1	65	65	56.8	71	61.5	82	76	79.9
Asian NICs	29.0	26.1	22	...	...	...	25.0	22	...	...	21	...

Sources: IMF, World Economic Outlook, October 1989, OECD, Economic Outlook, No.46, December 1989; EC Commission, Economic Forecasts 1990-1991, April-May 1990; World Bank, The Developing Countries and the Short-Term Outlook for the Global Economy, January 1990.

a/ The OECD and EC services consider the aggregate "OECD countries", which is larger than the aggregate "All industrial countries", since it includes also Greece, Portugal and Turkey.

TABLE 15  
CURRENT ACCOUNT BALANCES  
(In billions US dollars)  
Part B

	1988 EC	1989 EC	1990 EC	1991 EC
Non-OPEC developing countries (including Asian NICs)	-11.0	-8.7	-13.8	-7.0
OPEC	-17.2	4.3	3.6	6.8
Developing countries (including Asian NICs and OPEC) of which:	IMF	IMF	IMF	IMF
- Exporters of manufactures a/	-9.1	-7.3	-16.3	...
- Exporters of primary products b/	28.6	18.3	12.0	...
- Fifteen heavily indebted countries c/	-14.5	-13.6	-17.6	...
	-9.8	-8.9	-13.3	...

Sources: EC Commission, Economic Forecasts 1990-1991, April-May 1990;  
IMF, World Economic Outlook, October 1989.

a/ Economies whose exports of manufactures accounted for over 50% of their total exports in 1984-86 (includes the NICs, Brazil, India, China part of the Comecon).

b/ Economies whose exports of agricultural and mineral primary products accounted for at least 50% of their total exports in 1984-86; it includes the bulk of the developing countries.

c/ So called Baker 15: Argentina, Bolivia, Brazil, Chile, Colombia, Ivory Coast, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, Yugoslavia.

TABLE 16  
CURRENT ACCOUNT BALANCES  
(As percentage of GDP/GNP)

	1988		1989		1990		1991	
	IMF b/	OECD c/	IMF b/	OECD c/	IMF b/	OECD c/	IMF b/	OECD c/
All industrial countries a/	-0.4	-0.5	-0.6	...	-0.4	-0.5	...	-0.4
Major Seven	-0.4	-0.5	-0.5	...	-0.4	-0.3	...	-0.3
European Community	0.3	0.1	0.1	0.0	0.2	0.2	0.2	0.2
United States	-2.6	-2.4	-2.3	-1.8	-2.5	-2.1	-1.8	-2.1
Japan	2.8	2.5	2.2	2.2	2.9	2.1	2.1	2.2
Federal Republic of Germany	4.0	4.5	5.1	4.5	4.5	5.4	4.3	5.4

Sources: IMF, World Economic Outlook, October 1989; OECD, Economic Outlook, No. 46, December 1989; European Economy - Supplement A, No. 4-5, April-May 1990.

a/ The OECD forecasters consider the aggregate "OECD countries", which is larger than the aggregate. "All industrial countries" since it includes also Greece, Portugal and Turkey.

b/ As percentage of GNP.

c/ As percentage of GNP for US, Japan and the FRG.

d/ As percentage of GDP.

TABLE 17

TRADE BALANCES  
(FOB-FOB, in billions US dollars)

	1988 OECD	1989		1990		1991	
		OECD	EC	OECD	EC	OECD	EC
All industrial countries	-4.6	-14	-31.1	-1	-13.5	7	-4.2
Major Seven	9.6	11	...	26	...	40	...
European Community	19.5	9	9.2	18	30.4	19	45.2
United States	-127.2	-113	-111.3	-114	-116.2	-117	-122.9
Japan	95.0	85	77.1	86	76.9	96	79.2
Federal Republic of Germany	79.0	86	...	102	...	109	...
Total non-OPEC developing countries of which:	15.0	6	11.3	0	82	-1	14.0
- Asian NICs	21.9	17	...	16	...	14	...
OPEC	28.0	41	46.3	44	46.6	47	51.8

Sources: OECD, Economic Outlook, No.46, December 1989; EC Commission, Economic Forecasts 1990-1991, April-May 1990.



TABLE 18  
TRADE BALANCES  
(Annual percentage change)

	1989	1990	1991	1992
All industrial countries				
. Exports	8.4	10.7	10.2	10.2
. Imports	9.7	11.2	9.9	9.7
of which:				
- European Community				
. Exports	7.2	13.6	11.1	10.4
. Imports	9.3	14.6	11.1	10.1
Developing countries				
. Exports	15.0	8.4	10.6	10.9
. Imports	12.6	10.0	10.2	10.8

Source: Project LINK (United Nations-DIESA), World Outlook,  
Spring 1990.

TABLE 19  
TRADE BALANCES  
(FOB-FOB, as percentage of GDP)

	1988	1989	1990	1991
European Community	0.3	0.2	0.5	0.7
United States	-2.6	-2.1	-2.1	-2.1
Japan	3.3	2.7	2.9	2.7
Federal Republic of Germany	6.4	6.4	6.8	7.4

Sources: European Economy-Supplement A, No.4-5, April-May 1990.

TABLE 20  
WORLD TRADE - IMPORTS AND EXPORTS OF GOODS  
(Annual percentage change in volume)

	1988 OECD	I M P O R T S								1991		
		IMF	OECD	EC	WB	IMF	OECD	EC	WB	OECD	EC	WB
All industrial countries a/	8.9	6.4	7.9	...	7.0	5.6	6.0	...	6.0	6.3	...	5.5
Major Seven	9.4	6.2	7.3	...	...	6.0	6.1	...	...	6.4	...	...
European Community	9.0	7.0	9.0	8.7	...	5.4	6.5	6.7	...	6.7	6.7	...
United States	6.0	4.1	5.1	5.8	5.0	7.2	5.9	5.3	6.5	6.2	5.2	6.0
Japan	16.7	6.6	7.4	7.4	8.0	7.7	8.1	4.8	7.0	6.8	4.4	7.0
Federal Republic of Germany	6.2	8.0	7.0	8.4	9.0	6.4	8.5	10.3	6.5	8.0	10.5	6.0
OPEC	-1	...	6	...	...	...	5	...	...	6	...	...
Non-OPEC developing countries	13	...	9	...	...	...	8	...	...	8	...	...
of which:												
- Asian NICs	23	15.9	12	...	13.2	8.9	12	...	12.0	11	...	8.8

Sources: IMF, World Economic Outlook, October 1989; OECD, Economic Outlook, No.46, December 1989; EC Commission, Economic Forecasts 1990/1991, April-May 1990; World Bank, The Developing Countries and the Short-Term Outlook for the Global Economy, January 1990.

a/ The OECD and EC services consider the aggregate "OECD countries", which is larger than the aggregate "All industrial countries", since it includes also Greece, Portugal and Turkey.

TABLE 20 (Cont.)  
 WORLD TRADE - IMPORTS AND EXPORTS OF GOODS  
 (Annual percentage change in volume)

	1988 OECD	EXPORTS								1991 EC	WB
		IMF	OECD	EC	WB	IMF	OECD	EC	WB		
All industrial countries a/	8.3	7.4	7.5	...	7.2	6.0	6.4	...	6.2	6.9	5.3
Major Seven	9.0	7.9	7.8	...	...	6.3	6.6	...	...	7.3	...
European Community	6.6	7.3	7.9	8.3	...	5.6	6.4	7.1	...	6.7	...
United States	20.5	12.5	11.6	12.3	10.5	7.1	8.4	7.9	6.2	8.2	6.8
Japan	4.3	6.0	5.2	4.5	5.0	7.4	7.1	3.9	6.5	8.3	5.8
Federal Republic of Germany	6.7	11.1	10.1	10.0	10.0	6.0	7.7	9.2	7.0	7.5	6.0
OPEC	14	...	7	...	...	...	4	...	...	5	...
Non-OPEC developing countries	11	...	7	...	...	...	8	...	...	8	...
of which:											
- Asian NICs	16	10.8	8	...	...	7.4	9	...	...	10	...

Sources: IMF, World Economic Outlook, October 1989; OECD, Economic Outlook, No.46, December 1989; EC Commission, Economic Forecasts 1990/1991, April-May 1990; World Bank, The Developing Countries and the Short-Term Outlook for the Global Economy, January 1990.

a/ The OECD and EC services consider the aggregate "OECD countries", which is larger than the aggregate "All industrial countries", since it includes also Greece, Portugal and Turkey.

**Annex**

THE OIL CRISIS AND ITS EFFECTS ON THE WORLD ECONOMY <sup>1/</sup>

The unanticipated invasion of Kuwait by Iraq, which has taken some 4.6 million barrels of oil a day off the world market, has briskly changed the perspectives of the oil market, expected to know only limited season-related price variations and to recover its vigour only in late 1991 by the forecasted revival of growth: nobody was considering the danger of any market disruption like in the Seventies.

The factors which had caused the recovery of oil prices from the trough of October 1988 --the reduction of non-OPEC supply, the increase in demand, the reduction of existing stocks, delays in the start-up of North Sea platforms, the military intervention in Panama-- had disappeared or faded in the first months of 1990: until the May agreement the OPEC production was above the fixed quotas forcing downwards prices according also to the forecasts published in December 1989 by the International Commodity Market Division of the World Bank <sup>2/</sup>, which announced a fall of around 4US\$/b in oil prices if production quotas were not respected.

A note of pessimism was introduced only by the IMF report <sup>3/</sup> which reminded that the continuous volatility of oil prices was one of the causes of the reversal of the previous decline in world oil consumption and of the slowdown in the growth of non-OPEC supplies; the IF warned that these elements were paving the way to new market disruptions given the increasing dependence from oil supplies and from OPEC producers.

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<sup>1/</sup> On the specific effects produced by the oil crisis in Latin America, see "El impacto de la crisis del Golfo Pérsico sobre los países de América Latina y el Caribe" in Notas sobre la economía y el desarrollo, CEPAL, No.497/498, October 1990.

<sup>2/</sup> Quarterly Review of Commodity Markets, December 1989, pp.48-49.

<sup>3/</sup> International Monetary Fund (IMF), World Economic Outlook, October 1989.

In fact world oil consumption, which fell in the early 1980s, accelerated its pace expanding yearly by around 2% and only the 1989 slowdown in activity assured a temporary halt to its growth. Moreover the vulnerability of the system, until now largely subestimated despite two previous serious oil crises, is increased by the concentration of supply and demand: Oil accounted in 1989 for almost 40% of world commercial energy and two thirds of the world's proven oil reserves are located in the Persian Gulf. Over half of the Worlds oil is consumed by the industrialized countries, which since 1973 increased dramatically their dependency on Persian Gulf oil: according to a publication of the Economic Commission for Europe the import dependency from now to the year 2000 could rise in North America from the present 7.6% to almost 40% and in Western Europe from 37.6 to at least 40% or even reach a peak around 55/60%.

The rare Cassandra voices were not listened to until the burst of the crisis, but it is now evident that the military intervention in Kuwait only precipitated an already vulnerabl situation.

Tougher measures to reduce oil consumption and to increase energy efficiency were delayed because of environmental concerns, worsening budget deficits and mainly because of the competitive prices of oil to the point that in the United States in 1989 gasoline was cheaper than bottled water.

Until now the increases in oil prices, which surpassed the 30 US\$/b ceiling, were determined more by the fears of the market operators than by a real penury of oil and for this reason prices registered even dramatic variations from day to day.

The oil reserves are estimated at 3 billions barrels, well above the normal level of 700 million barrels, so even if the consumer countries decide not to use their strategic reserves, they could face a large conflict in the Persian Gulf without having to recur to drastic measures of consumption restriction. According to calculations of the International Energy Agency the OECD countries dispose of reserves sufficient to cover the needs of more than three months. The same Agency, however, predicts that a

substantial oil shortage will develop late this year; the worldwide shortage could rise to more than 500,000 barrels a day in December as demand increases because of the Northern hemisphere winter and as oil companies and countries could stop drawing down their stocks <sup>4/</sup>: this situation, confirmed a couple of days later also by officials of the US Administration <sup>5/</sup>, will by only partially softened by the August 29 decision of OPEC to allow members who can produce more oil to increase production above their quotas.

The bulletin No. 5 of IRES presents three hypothesis about the evolution of the Gulf conflict and about its effects on the oil market.

A: rapid resolution of the conflict by the withdrawal of Iraqi troops from Kuwait. In this case both institutes suppose that the official price would go back to 21 US\$/b and that the spot prices would stabilize around this level.

B: status quo maintained, that is, Iraq keeps the control of Kuwait. IN this case Iraq would be the larger OPEC producer and surpass Saudi Arabia, until now the most powerful member of the Organization. Since Iraq has traditionally an intransigent position inside the Organization, its predominance would mean a policy of higher prices.

The experts, however, suppose that Saddam Hussein could moderate his price claims, since high oil receipts would permit the rearmament of Iran. Official price would likely be fixed at 22-25 US\$/b but spot prices would be more unstable than in scenario A because of the persistence of a politically and militarily vulnerable situation.

C: War between Iraq and Saudi Arabia or, in the worst hypothesis invasion of Saudi Arabia and extended conflict. In this case the whole production of the Persian Gulf would be possibly

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4/ Washington press release, ECLAC, August 31, 1990.  
(New York Times, Wall Street Journal)

5/ Washington press release, ECLAC, September 6, 1990.  
(New York Times, Wall Street Journal)



blocked or heavily reduced; if also Iran would be affected by the blockade or heavily reduced; if also Iran would be affected by the blockade, 25% of the world oil production would be jeopardized. Rationing could be envisaged and official prices could rise to 30 US\$/b. However this last hypothesis is considered the least likely.

The OECD countries, which appears more affected by the Gulf crisis, is the United States, both because of its strong military engagement in the conflict area and because of its already precarious economic situation. While a couple of months ago experts still insisted that the US were experiencing only a temporary economic slowdown but were not facing any serious recession <sup>6/</sup>, now headlines are focused on the signs of lasting recession in the US. <sup>7/</sup> The dollar seems to be losing its function of sure haven in times of crisis and to have been substituted by the D-mark and the yen --even if the yen is weak in these days because of the high Japanese dependency on oil-- this fact, would not be so crucial if the US would not have to finance a budget deficit, that is far from decreasing.

The US will then be obliged to tighten their interest rate policies, jeopardizing their possibilities of recovery. The proposed energy tax is now not more viable because of the increase of the oil prices at the source, neither now the expected cuts in military expenses will take place, so that the handling space of the Administration and the Congress is very restricted.

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<sup>6/</sup> The industrialized countries: summary of economic forecast for 1990/91, ECLAC, Document 90-7-1213.

<sup>7/</sup> See Washington press releases, ECLAC, of the month of August.