

DEVELOPMENT:

WIDER WORLD ECONOMY GROUP 1989 REPORT

The World Institute for Development Economics Research (WIDER) was established by the United Nations University as its first research and training centre in 1984 and started work in Helsinki in 1985. The principal purpose of the Institute is to help identify and meet the need for policy-oriented socio-economic research and pressing global and development problems, as well as common domestic problems and their inter-relationships.

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Preface

The usual run of reporting on the world economy stems from international secretaries who all work under familiar institutional constraints. By contrast, it is invariably academic work emanating from an independent, non-government research institute that is capable of being sufficiently forthright about the diagnosis of an important international economic problem as to provide a basis for early corrective action.

What is of interest are the kinds of fresh insights that the WIDER World Economy Group has to offer. There is first, a range of insights concerning the management of the twin deficits of the US, and key among them is the forthright pinpointing of their cause. The argument is that the US external current account deficit is neither the result of a strong economy, nor of increased investment opportunities in the US, nor of rising protectionism abroad. The deficit is seen quite simply as

“the direct result of low national saving.”

The report is also unusual and forthright in setting its face against relying on a domestic recession for correcting the US external deficit on account of the global costs of such a process. It advocates instead a substantial — 25 percent — real depreciation of the dollar over the next four years to bring the US current account into balance. Reduced interest rates would become the key mechanism whereby surpluses presently financing the US deficit could be re-switched to finance investment elsewhere, especially in the Third World.

A second novel feature of the analysis is the emphasis on specific policies aimed at absorbing the 18 million unemployed workers in Europe. There is an attempt to apply the lessons of Sweden which links the cessation of unemployment benefit to a detailed set of micro-economic labour market policies to ensure that people find productive work.

Thirdly, there is innovative thinking concerning the debt problem of the middle income countries which is intended to move policy beyond the current emphasis on debt reduction. What is new here is the suggestion that interest on debt be paid in domestic currencies which would be available to support reinvestment in the debtor countries.

Fourth, the report is espe-

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cially forthright in its recommendations on trade where the liberal trading system that has underpinned rapid growth in world trade since the 1940s is seen as being "under stress." The report points out that the shift to bilateral and regional trading arrangements carries with it the threat "that the world will break into trading blocks that are highly protectionist against both each other and any countries that are not participants".

Dr. Lal Jayawardena
Director WIDER.

WORLD IMBALANCES

The world economy has grown faster in the last six years than many expected after the traumatic events of the 1970s. but serious problems remain: signs of inflation re-emerging despite high unemployment in many countries continued imbalances in world trade; and repayment problems for third world debtors. If growth is to be sustained, these issues will have to be tackled.

Current Problems

First, there is the striking imbalance in external current accounts. The size of the deficits (US) and surpluses (Japan, Germany) are unprecedented in recent years. World savings are flowing into the US, while third world countries have to run primary trading surpluses to finance the interest on their accumulated debts. The result is a perverse allocation of world resources, and intense pressure towards greater protectionism in the US.

Second, high world real

interest rates add to the discomfort of debtor nations, and they discourage investment in future world economic growth.

Third, despite rising OECD inflation, there are still unused resources both in Europe and in the third world. In Europe, although unemployment is falling, it is still 10 per cent; only one point down from its post-war high.

Third world countries are restraining domestic growth in order to limit their import bill.

Fourth, there are still major impediments to free trade, especially in agriculture. Europe is reducing its internal barriers, but external barriers to trade between regions not only persist but are growing.

These are not the only problems in the world. But millions would benefit if they were dealt with. Our report suggests ways of tackling them.