THE WORLD ECONOMY: HEADING TOWARD GROWTH

In the broadest sense, the outlook for the world economy is bright, according to Barry Herman, chief of the United Nations Economic Survey Unit in New York. Total world output — and thus total income — is growing at its fastest pace so far this decade, according to the latest United Nations Economic Survey, yet not so fast as to threaten an outbreak of high inflation.

But while real output per capita is rising in the largest number of countries in at least 15 years, not everyone is feeling a lift. There are still many countries in which output continues to stagnate or fall, particularly in Africa. Meanwhile, conditions remain unsettled in central and eastern Europe, where the rocky transition from planned economies to free markets still promises more benefits than it has delivered. And even in the developed economies, the residue from the recession of the early 1990's can be seen in stubbornly persistent high unemployment rates.

Those dark clouds aside, the global forecast is upbeat. Based on the Project Link model at the Wharton School, which was developed by Nobel laureate Lawrence Klein, the numbers indicate that the world economy seems to have attained a "cruising speed" in output growth of about 3 percent a year, a pace that now appears to be sustainable. Economic growth rises and falls in cycles and presumably will continue to do so, but policymakers in the major economies have been trying to lengthen the upward swing, even at the risk of making it slower. Thus far, the strategy has worked and the forecast is that it will continue to work at least through 1996.

> THE NUMBERS INDICATE THAT THE WORLD ECONOMY SEEMS TO HAVE ATTAINED A "CRUISING SPEED"

Although the growth rate of output is not very rapid — about at the average of the 1980's — it is unusually widespread. Just 30 percent of the countries are expected to experience a decline or stagnation in per capita output this year, compared with 55 percent in 1993.

The latest statistics show that the developed market economies, which account for almost three-fourths of world output, have clearly emerged from the recessionary days of the early part of the decade. The recessions in individual countries were generally short and less steep than in earlier cycles, particularly for Britain and the United States, and the recoveries have also been relatively gradual. On the other hand, in Japan, where slow rates of growth were previously considered a "recession," the present cycle has caused output to actually fall and the rebound is turning out to be extremely slow. The recession hit the European continent in 1993 and, while output has been recovering for two years, the double-digit rates of unemployment left in its wake remain a major cause for concern.

Indeed, one major aspect of the present recovery is the slow rate of decline in the unemployment rate. It is expected to average 7.5 percent of the labor force of the industrialized economies as a whole in 1995, not significantly less than its peak in 1993 and 1994. This is a social and economic matter of great importance, as highlighted by the heads of state and government who met in March in Copenhagen. According to the U.N. report, it also puts heavy political pressure on macroeconomic policy managers to step up the growth of aggregate demand at the risk of higher inflation, even if that will add only temporarily to total employment. However, the solution seems to lie mainly in a greater effort to achieve human capital development, regulatory reform and infrastructure investment.

The main thrust of macroeconomic policy today is to keep a tight rein on the recovery in order to hold back inflation, while using the recovery period as an opportunity to reduce the structural components of fiscal deficits. Policymakers see themselves as operating in a relatively new environment in which maintaining the confidence of the financial markets takes high priority (as large volumes of funds may be moved quickly from market to market and across national boundaries) and in which the traditional tools of macroeconomic policy are less potent than they were in the past.

In some cases, especially the United States, fear of the public deficit mainly pertains to long-term dynamics, as the current situation is a relatively enviable one among developed market economies: the general government deficit (which consolidates all levels of government and gives a good idea of public-sector borrowing needs) was already reduced to only 2 percent of gross domestic product in 1994.

Of the seven major industrialized economies, only Japan had a comparably small deficit, a measure of the capacity of that country's Government to nurture the economy's weak recovery with further fiscal stimulus, as the Government announced it would do. Elsewhere, budgetary consolidation remains a particular focus of attention, especially in the European Union, where the targets for policy harmonization associated with the Maastricht Treaty were not close to being met by most countries.

As for those economies that are in transition to a market approach, their aggregate annual production will not begin to increase until 1996. Still, the situation there may be judged as encouraging.

First, the data for individual countries reveal that all the central and eastern European transition

GROWTH OF WORLD OUTPUT, 1981–1996
(Annual percentage change)

	1981–1990	1991	1992	1993	1994[a]	1995[b]	1996[b]
WORLD	2.8	0.4	0.7	1.0	2.6	2.75	3.25
Developed market economies	2.8	0.8	1.5	1.0	2.9	2.75	3.0
Economies in transition[c]	2.0	-8.8	-15.5	-8.6	-9.9	-6.0	2.75
Developing economies	3.1	3.4	4.9	5.0	5.4	5.0	5.0
MEMORANDUM ITEMS:							
Number of countries with falling or stagnant per capita output	48	58	62	76	48	41	..
Number of countries in sample	122	122	136	137	137	137	..

[a] Preliminary estimate.
[b] Forecast, based in part on Project LINK.
[c] Based on reported G.D.P., which increasingly underestimates activity in several countries.
Source: U.N./D.E.S.I.P.A.

economies and the Baltic States began last year to climb out of the economic depression that everywhere accompanied the early stages of the transition process. The recovery is slow, however, and the social and economic disruptions, in particular high rates of unemployment, remain severe. Indeed, even the Polish economy, which is in its fourth year of growth, has yet to attain the level of output of 1989, the year the opportunities for rapid transition first appeared.

Second, the data for several of the transition economies, especially the successor states of the Soviet Union, are considered to be distorted downward because of the difficulties in adequately capturing the activity in the non-state sector, where small-scale enterprises abound. It is even possible that G.D.P. in the Russian Federation is already rising.

Third, even if the rise in output is slow in coming, the reforms that have been put in place are likely to raise the quality of much of what is produced. What's more, at the macroeconomic policy level, rates of inflation are generally in decline. Indeed, the focus of policymakers has been turning to microeconomic and institutional features of market-oriented reforms.

For their part, the developing countries are in their fourth year of 5 percent growth of G.D.P., and 1996 promises to continue the string. This is indeed an important trend, especially set against the average annual growth of 3 percent in the 80's. Unfortunately, not all countries in the group are growing by that 5 percent rate since the statistic is a weighted average.

As in years past, the most rapidly growing economies are concentrated in Asia, paced by China, Vietnam and Singapore. In contrast, clustered among the slower growing developing economies are a disproportionate number of African countries.

The economic situation in Africa is nevertheless improving, although the gains are slow and modest. The G.D.P. of the sub-Saharan grouping grew in 1994 for the first time in two years,* but the population in those countries grew even faster. Per capita output might rise this year, but marginally at best.

There are cases in Africa, however, in which adjustment programs have begun to pay off in economic expansion. For example, Ghana, Mauritius, Tunisia and Uganda have all had a string of years of substantial growth of G.D.P. But sustained high rates of growth are exceptions.

The World Summit for Social Development has committed the international community to reducing poverty and integrating all people into the economic mainstream. The situation in Africa underlines the difficulty of the task, but severe poverty also exists in Asia, Latin America and the Caribbean. Serious progress in poor countries requires rapid and sustained economic growth.

How to bring about the right economic adjustments to produce that growth has been a major focus of international discussion for 15 years, if not longer. Current thinking gives greater prominence to national initiatives in the design of adjustment programs, where knowledge of local economies is greatest, and to questions of proper sequencing of policy measures.

After the exchange-rate crisis in Mexico in late 1994 and the financial shock it spread over Latin America, there has been much concern about adequately timed corrections of policy. Latin America's growth rate, which had finally been gathering steam after the "lost decade" of the 80's, is set to drop precipitously this year to less than half the 1994 rate. Creditor governments and the financial community, including investors who lost considerable sums in the wake of the peso crisis, have asked whether better international surveillance of domestic policy might avert future crises.

This is a complicated question about information, analysis and the politics of policymaking. It does not yet seem to have a clear answer. SB

* Defined to exclude Nigeria and South Africa, which otherwise swamp the data of the smaller countries.