# UN agency warns of "anxious time" for world economy

**Nick Beams**
**13 October 2003**

A leading United Nations economic agency has warned that the world economy faces a series of major problems and has called for a program of global economic stimulation, particularly in the major industrial countries.

The annual report of the United Nations Conference on Trade and Development (UNCTAD) issued in Geneva earlier this month pointed to an "anxious time for the global economy."

"The long anticipated rebound in the United States continues to be delayed, and there are concerns that the imbalances and excesses created during the high-tech boom of the 1990s could result in a long period of erratic and sluggish growth, with occasional surges and dips, accompanied by price deflation. With Europe undecided on, and Japan unable to find, the appropriate policy mix for sustained recovery, the world economy looks set to repeat the weak performance of the past two years and could still falter badly."

According to the UNCTAD report, economic problems have developed on a number of fronts. The current downturn, it noted, had been preceded by the rapid expansion of the US economy at the end of the 1990s amid claims that it had overcome the operation of the business cycle—the so-called Goldilocks scenario in which the US economy was neither too hot nor too cold. But as it had noted in its report of 2000, "Goldilocks is a fairy tale."

US growth at the end of the 1990s was fuelled by a massive inflow of capital from the rest of the world, attracted by the prospects of seemingly endless high capital gains from the booming stock market and the prospects of high profits from the hi-tech boom. But with the ending of the boom in March 2000, "the unwinding of the legacy of the 1990s is proving a good deal more difficult than many had expected."

In spite of aggressive interest cuts by the US Federal Reserve investment has failed to recover and capacity utilisation remains low despite the scrapping of excess equipment. The US economy has only been prevented from falling into a more prolonged period of recession because of the growth in consumer demand which now appears to be losing momentum. At the same time, European authorities have failed to respond to the current downturn because of the restrictions imposed on government deficit spending by the Stability and Growth Pact and the relatively tight money policy of the European Central Bank.

Due to what it called "weak policy responses to sluggish growth" there is now "increased reliance on currency adjustments to reduce trade imbalances and revive growth." So far these adjustments have centred on the downward movement of the US dollar against the euro, while the East Asian currencies have maintained their parity with the US dollar by massive interventions in the international currency markets by their central banks, leading to the accumulation of large foreign reserves.

This has given rise to a campaign in the US for a revaluation of the yuan. But, according to the UNCTAD report, it is by no means clear whether currency movements would reduce trade imbalances between Asia and the rest of the world.

"Indeed," it continued, "the events of recent months evoke memories of the competitive devaluations of the inter-war period. Certainly, it would be unrealistic to expect the international trading system to evolve in the right direction or international monetary stability to be maintained in the face of slow growth and mounting unemployment. A reversion to the pattern of unruly competition and conflict characteristic of the 1930s could derail the process completely."

What then is to be done to stimulate world growth? The UNCTAD report pours cold water on the idea that further liberalisation—increased privatisation and the imposition of "free market" principles—will lead to economic stimulation. It pointed out that for the poorer countries the strategy based on imposing "sound economic fundamentals" through the replacement of state-backed national economic development with a market driven export strategy had failed to deliver. Policies based on downsizing the public sector and the imposition of tight monetary policies had often undermined growth and hampered technological progress. This meant that the "current economic landscape in the developing world has an uncanny resemblance to the conditions prevailing in the early 1980s" when many poorer countries experienced a deep crisis.

The report noted that industrial progress had halted in much of the so-called "developing world" with only eight of 26 selected countries experiencing an increase in the share of value added by manufacturing to the gross domestic product between 1980 and 2002. In much of Latin America "big-bang" liberalisation had led to inconsistencies in trade, macroeconomic development, foreign investment and financial policies. It was therefore doubtful whether a "second generation" of neoliberal reforms would rectify the problems of the past.

The further development of trade would not stimulate economic growth, rather trade expansion depended on an increase in demand and production in world economy as a whole.

"The world economy," the report noted, "is now facing a widening deflationary gap created by deficient global demand. There is a global glut in both labour and product markets, with too many goods chasing too few buyers and too many workers chasing too few jobs. Intense price and exchange-rate competition among major exporters have been adding to instability and deflationary pressures, while many developing countries facing tight payments positions are being forced to curtail imports."

If decisive action were not taken to restore stability in international financial and currency markets, start a global recovery and reverse the rise in unemployment then "there is a real threat that trade imbalances and the coexistence of continued rapid growth in some parts of the world with stagnation, decline and job losses elsewhere could deepen the existing discontent with globalisation among a wide section of the world's population, triggering a political backlash and a loss of faith in markets and openness."

According to the UNCTAD report, the way to begin to resolve the world's economic problems and prevent the eruption of major political struggles is to apply the soothing balm of Keynesian measures based on increased government spending. Warning of the "real danger" of a "liquidity trap"—a situation where monetary policy becomes incapable of reversing the downturn in output and employment—it called for "Keynesian policies to expand liquidity and effective demand, both at the national and global level."

Such policies should include a fiscal stimulus over and above that provided by the so-called automatic stabilisers, such as social welfare spending which increases as unemployment rises, and should be coordinated on an international scale.

Such calls for international Keynesian policies are frequently made by critics of the "free market" program who fear that if it remains unchecked it will only result in deepening opposition to the global capitalist order.

But none of these would-be-reformers of global capitalism, UNCTAD included, ever explain why the previous Keynesian agenda collapsed in the mid-1970s, why economic problems continue to deepen in the face of vast advances in productivity, why a decade of Keynesian-type stimulus over the past decade has singularly failed to revive the Japanese economy, and how international economic co-operation can be introduced when there is deepening economic and political conflict among the major capitalist powers.