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A Chance Lost

There is a general consensus that robust inflation-free growth is a precondition for solving most of the world's economic problems. This was no doubt one reason why the public pinned high hopes on the 18th world economic summit, which took place in Munich in July, for the world economy has been sluggish for some time. Major summit participants, the USA and Great Britain above all, have as yet found no way out of their prolonged economic downswing. Unemployment everywhere is higher than a year ago. Furthermore, the economies of nearly all countries are burdened by specific factors: in Germany, for example, the costs of unification are much higher than expected; in Japan the drastic drop in share and real estate prices has caused huge asset losses.

The expectations directed toward the world economic summit therefore stood from the beginning in stark contrast to the specific national interests of the seven leading economic powers taking part. They do not even agree on priority objectives. While the USA, as well as Great Britain and some other West European countries, are striving above all for higher growth in demand and production, Germany's prime concern is to contain price rises, despite a year of stagnation, albeit at a relative high rate of capacity utilization following the boom triggered by unification.

Where there are fundamental differences on priority objectives, it is almost impossible for the individual countries to agree on a common economic policy. The contrary monetary policies – repeated rises in the bank rate in Germany, numerous cuts in the USA – were continued after the summit. Of course, in view of the fact that the central banks in both countries are largely autonomous, the issue of monetary policy was not really up for debate by the summit leaders. But fiscal policy was. The high budget deficits, not least the result in most countries of insufficient consolidation in the eighties, provided little room for manoeuvre, however. This applies not only to expansionary measures; it also holds for improvements in supply or growth policy such as a lowering of direct taxes, which made a major contribution to the long upswing in the eighties. The best way fiscal policy could have an effect would be via a credible consolidation course, which would help lower long-term interest rates and hence boost growth, in particular if lowering the budget deficit in the medium term were achieved by curbing the expansion of spending, and especially by cutting public expenditure on consumption. The seven at Munich did pronounce that they intended to lower their deficits, but this declaration of intent, just like the proclaimed bundle of measures to promote growth, was too general to make even a slight impact on the international financial markets.

Bearing in mind politicians' predilection for measures which take effect in the short term, though, failing to take action was probably the least of all possible evils. The sometimes insistent call for joint efforts to cut interest rates and for measures to expand public debt in some countries underline how serious the danger of short-range activism was this time as well. A sustained recovery of the world economy would only have been jeopardized by such

moves, all the more as international coordination presupposes that the individual nations pursue economic policies to put "their own house in order". Although the participants undertook to do their homework first, their commitment to this was rather restrained.

The "exhausted" potential for macropolitical action prompted various politicians already during the run-up to the summit to point to the importance of microeconomic reforms as a source of growth promotion. Keener competition through deregulation and liberalization would have greater effect in this direction, the more areas are fully exposed to market forces. We can, however, only expect a gradual dismantling of rigid structures: the differences between the various possible areas are certainly not the only reason why the micropolitical declarations remained quite vague.

The impression created of a certain helplessness in the face of current economic problems might have been mitigated by action in another policy area: trade. Only the heads of government themselves can achieve a final breakthrough in the Uruguay Round, which has been going on since 1988 and which, if successful, would bring about a tangible expansion in world trade. Despite the considerable advances made, however, it again proved impossible to reach a settlement in the transatlantic dispute over farming subsidies. The EC has recently taken a first step towards meeting the USA's demands for the curbing of its support payments to European farmers by lowering its guaranteed prices for grain, but the pace and scale of the cuts in export and other farming subsidies is still at issue. Even if, above all, the French referendum on the Maastricht Treaty on European Economic and Monetary Union planned for autumn on the one hand, and the presidential elections scheduled for November in the USA on the other, posed major obstacles to a breakthrough, the renewed postponement hardly gives ground for optimism.

The heads of state and government in Munich missed a great opportunity here. A breakthrough would not just have bettered the chances for growth without climbing deficits and higher inflation risks in the G7 countries; it would also have set a positive signal for the rest of the world. It would have provided the developing countries and the post-socialist countries with easier access to the markets in the industrialized countries. Above all, though, the G7 would have set an example by themselves applying the principles they are asking others in the world, particularly the East European countries, to follow.

With no breakthrough in trade policy, hardly anything was done for the rest of the world, except for the successor states to the USSR, in particular Russia. The substantial aid which is needed in connection with the large slump in production there for a successful transformation of the centrally planned economy to a market economy and to ensure a democratic development calls for a coordination of the "help towards self-help". The marked reluctance here to provide funds was no doubt partly due to the G7 countries' own budget problems. Thus, efforts to establish the partnership with the post-socialist countries and the Third World which some of the seven are striving for are proceeding only slowly.

With its numerous declarations of intent, postponements and adjournments and the absence of concrete resolutions, Munich was, however, a very traditional summit. In line with the original philosophy, it remained an informal gathering. The coordination of economic policy to the benefit of all that summits are expected to achieve has always been difficult. But now that the socialist economic system has collapsed the responsibility of the G7 for the world economy is even greater. Like last year in London, the participants did not come up to the mark, a failure which highlighted all the more the large amounts of money spent on the sumptuous backdrop to the summit. Even here, the G7 did not set the example which is expected of them. Rather, the political heads of the G7 inadvertently "demonstrated" a lack of leadership.

Günter Weinert