An Overview of the World Crisis and International Trade

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It is extremely difficult, even for those who were already mature and established economic adults at the time, how settled, stable, and virtually automatically growing in terms of productivity, technological improvement, and individual standards of living the world economy seemed to be as little as a decade ago. Employment was normally at levels in excess of the "full employment" standard of the earlier part of the century. Productivity — even in Britain, the "sick man" of Europe — was rising at a rate well in excess of any recent sustained experience. And all this, was occuring consistently with rates of price increase of a few percent per annum, close to the statistical margin of error in price indexes and the "threshold of sensitivity" of public concern about inflation; and with a steady reduction of barriers to international trade and investment (excluding the special case of agricultural protectionism). It is true, that the international monetary system of fixed rates of foreign exchange based on the use of the U. S. dollar as the world's reserve currency was showing signs of strain. But there was ample confidence among the advanced countries that a new system based on an international credit-based reserve money, and providing somewhat more flexibility of exchange rate adjustment, would be evolved by international agreement in due course and in good time. So far as the less-developed "third world" was concerned, the errors of excessive inward-looking protectionism were coming to be recognized, as was the necessity of shifting the emphasis of development policy from industrialization to increasing agricultural productivity. Meanwhile, the "green revolution" held out the hope of a solution to the population problem through the development of acceptable programs of population control being reached before the "classical checks" of starvation and misery came inexorably into play on a serious scale.

How the world has changed in the intervening decade! The spectre of famine in a number of the less developed countries has again raised its ominous head. While this is not my main theme, it is worth noting that the humanitarians have as usual confused the problem of shortage of food with shortage of resources in general; and that an important part of the problem is inefficient transport systems and indifference about or ineffectiveness in dealing with the problem of domestic food distribution on the part of the governments and governing classes of the less developed countries themselves. Nevertheless, there are obvious connections between the current food problems of certain less developed countries, and the more general problems of inflation, recession, and escalated oil prices and energy disturbance. Oil for many such countries seems more vital to the future than food itself. And certain self-centred anti-inflation policies in the developed countries have tended to disrupt the production and interfere with the sharing through international trade of potentially available food supplies.

The matter of more general concern is that inflation on a world basis has escalated well into the two-digit range, while at the same time the trend of unemployment has been upward, culminating recently in the appearance of some strong signs, and of even stronger fears, of a major world depression. The process of escalating inflation has been dramatized by the collapse of the fixed exchange rate system in February, 1973, and the adoption of a floating exchange rate system rightly characterized at least in its early stages as "a regime of dirty floating". In spite of some of the common arguments for floating rates as a safety valve for inflation, what is generally referred to as a world inflation has continued on its merry and ever-magnifying way. More accurately, precisely because of widespread misunderstanding of what a floating rate system can and cannot do, and particularly of the dependence of what a floating rate does on what overall fiscal and monetary policy the national governments choose to follow, floating exchange rates have not only not been used to combat inflation, but have instead been used in some countries at least to permit inflation to accelerate while absolving governments from responsibility for it. In the meantime, both the superior ability of floating rates to cope with international monetary and financial problems, and continuing inflation and more recently the energy crisis, have relegated to limbo (or to purgatory, if you will) the determination to restore a fixed exchange rate system sufficiently improved to survive and flourish for the rest of the century.

As if the problem of "stagflation" — as it came despairingly to be called, in the days when people still did not know first-hand what a real problem of large-scale industrial unemployment was — were not enough to struggle with, the difficulties and the gloom have been vastly increased by the four-fold rise in the price of oil initiated in the winter of 1973 - 74. Adding to the difficulties associated with the increase in the oil price by itself have been the resulting uncertainties about the reliability of future supplies, the financing of oil deficits and surpluses, and the energy and balance-of-payments policies of the major non-O.P.E.C. oil-consuming and -producing countries; and more generally, uncertainties about the survival of a liberal world trade order. It is little wonder, then, that public opinion has rapidly come to think of the 1960s, or the late fifties and early sixties, as a sort of "golden age" unlikely to be experienced again. Some pessimists indeed are prepared to assert that the decline and fall of western European civilization has already got under way, and to envisage with resignation an inevitable collapse into barbarism. Others, more sanguine and usually younger, foresee nothing but continuing difficulties, summarized in the concepts of secular inflation, another "great depression", and a growing scarcity of energy requiring the transformation of the planet into a space-ship economy and ecology.

To understand the problem of recent world inflation it is I believe most illuminating to see the problem in the context of ignorant management, or deliberate mismanagement, of a system of fixed exchange rates such as the gold standard, which standard has broadly prevailed, with gradual modifications, and occasional disruption, up until 1973. Such a standard, as has often been said, imposes an automatic monetary discipline on the member countries of the system, through the need to maintain balance-of-payments equilibrium at the chosen exchange rate. But, contrary to the beliefs and assertions of its advocates, the system imposes no pressure whatsoever for the maintenance of stable prices in the world economy. Instead, it imposes strong pressures on each and every member country to keep in step with the world rate of inflation or deflation. That rate, in turn, is determined in broad terms by the growth of the supply of international reserves on the one hand; and on the other hand by the growth of the demand for such reserves, as determined by general economic growth and by financial innovations economizing on the international reserves needed to back domestic money supplies and the use of credit in international payments. Reference to the use of credit in substitution for actual reserves points to the Achilles heel of the system. Not only does the use of credit in place of actual money depend on confidence which can be shattered and lead to an international liquidity crisis, but there is always economic pressure for such substitution because gold is sterile, requiring real resources to mine and yielding no interest on the resulting asset, and paper money costs nothing to create and can be invested in productive assets. Further, at least until the invention of Special Drawing Rights and most likely even since, the credit money substitute is inevitably a national currency, and its use is conditioned by the state of general confidence in the nation whose currency is so favoured. Thus Britain in the 1920s was unable to restore the role and leadership of the pound sterling in the actual functioning of the gold standard ("the gold exchange standard", as it has come more accurately to be termed); and European national rivalries combined with American isolationism and monetary mismanagement to produce the international collapse of the 1930s.

As a result of that experience, international monetary thinking, as embodied concretely in the International Monetary Fund, started unconsciously from the assumption that a shortage of international liquidity was the chronic weakness of a fixed rate system, and mass unemployment of the 1930s variety the major problem to be solved by economic policy. But this assumption overlooked the fact that the fixed rate system (like any well-conceived and logical system) is itself neutral, and simply serves to channel either deflationary or inflationary disturbances through the world economy in a certain orderly way. Thus, in an important sense, what we have been having in the past decade has been a "re-run in reverse" of the 1930s — with a world inflation instead of a world deflation; with the weakness of United States monetary policy the main source of disturbance; with the European countries unable to agree on the concerted policy action that would either have solved the problem globally or isolated the United States to bear the full costs of its own policies of monetary mismanagement, without infecting others; and with the system eventually collapsing under the strain of its own inner contradictions into a regime of dirty floating of exchange rates. We can, at this date, even carry the parallel one stage further. For in the 1930s, as in the 1970s, countries did not in fact use the freedom of a floating exchange rate to pursue boldly independent economic policies — at that time of economic recovery and full employment — but instead attempted to maintain traditional or modified-traditional relationships between the values of the domestic and foreign currencies, eventually winding up at pretty much the same exchange rate relationships as they had started from. In fact, the main international monetary accomplishment of the travail and suffering of the 1930s was to remedy the international liquidity shortage by raising the price of gold; and if one likes to play with historical analogies, one might ponder the thought that the main effects of world inflation and dirty floating in the 1970s will eventually come to be seen as a roundabout and inefficient means of mopping up excess world liquidity in the form of surplus United States dollars.

This remark, however, takes us somewhat ahead of the main story. For roughly two decades, the restored gold exchange standard worked surprisingly well, partly perhaps because inflationary policies can be used to support high employment without fomenting actual inflation so long as the public continues to believe that stable or falling prices are the historical norm. To be more precise and technical, the system worked well largely because, by luck rather than conscious management, the United States maintained reasonably stable prices, while by virtue of the dominance of the United States in the system other countries could remedy inflationary errors or policies by devaluing against the dollar from time to time, on an individual basis which left intact the concept of a fixed exchange rate system. It is true that there were, increasingly from the end of the 1950s on, manifestations of resentment against the presumed unique advantages accruing to the United States by virtue of the reserve currency role of the dollar. But this resentment was directed against the presumed advantage of "dollar imperialism" and relative freedom from balance-of-payments disciplinary urgency, not against the potential or actual power of the United States to force inflation on the rest of the world; and in any case by the mid-1960s the major European central bankers had more or less accepted the idea that the United States was confronted with special problems but was doing its best under the circumstances.

All this changed with the failure of the United States to accompany the escalation of the war in Viet Nam by appropriate tax increases, and its reliance on monetary expansion instead — together with a subsequent general laxity of American monetary policy the reasons for which have been too complicated to enter on here. As mentioned, a sustained inflation, in a reserve currency country especially, must spread itself throughout the fixed-rate system; the only escape available for the others is through either floatation of exchange rates, or frequent and co-ordinated currency revaluation against the inflating country. But the

European countries were conditioned to think of exchange rate adjustments as being directed against their European neighbours, though expressed in terms of the dollar exchange rate, rather than directed against the United States by European neighbourly cooperation. Further, the standard theory of anti-inflationary policy, which was strongly influenced by both war and immediate postwar economic management experience and by Keynesian policy theories that assumed a closed national economy and a sociologically-determined level of money wages, persistently envisaged inflation as a *national* problem, to be dealt with by *national* fiscal and monetary policies, supplemented by a *national* wage-price policy. Consequently, much time and ingenuity was wasted in denying the obvious and devising brilliant improvisations on the irrelevant, with the ultimate aim and result of avoiding necessary exchange rate changes at the expense of willy-nilly enduring unnecessary inflation — until President Nixon's "New Economic Policy" of August 1971 cut the Gordian knot and allowed the Europeans sufficient rope to hang themselves in their own inability to agree on a collective world-responsible solution.

It was during this period — towards the end of the 1960s — that the actuality and the concept of "stagflation" began to surface in European and American policy discussions. If European and American policy-makers and economists were not so parochial, they would have recognized the problem as a familiar one in Latin American experience. "Stagflation" means the combination of unusually high unemployment with abnormal rates of inflation or even accelerating inflation. It is an artificial word, of the kind that British journalists love to coin and their academic and official readers to circulate ostentatiously, under the false impression that to coin a new word is to prove the existence of a new problem that confounds all established theory and clears the way for the novel theory of the semantic counterfeiter himself. The reality of "stagflation", however, did deal an almost mortal blow to the self-confidence of the Keynesian school of economic policy thinkers. The reason was that, on the basis of an erroneous theory that followed Keynesian tradition in confusing real and money wages, contemporary Keynesian theorists had espoused an alleged empirical relationship called "the Phillips curve". According to that theory, the rate of inflation of money wages is determined by the balance of real demand for and supply of labour, summarizable in the unemployment rate, such that society has a "trade-off" between the rate of unemployment and the rate of wage and price inflation it can have. The appearance of continuing inflation and rising unemployment appeared to destroy the heart of Keynesianism as a theory of economic policy. In fact, what it should have — and subsequently has — destroyed is the simple notion that workers and employers are blissfully ignorant of the fact that inflation is going on, and happily settle for the same money wage increases as usual, despite the obvious effects of inflation in reducing the real value of a given money wage increase to the workers and its real cost to employers. Still, as my great teacher Joseph *Schumpeter* used to tell his classes in the history of economic thought:

> "When an economist finds his predictions flatly contradicted by the evidence, he never says 'I am a fool!' Instead, he says 'Reality is much more complicated than even I had thought."

The appearance of the phenomenon of "stagflation" is easy enough to understand, once one clears his mind of the Keynesian assumption that a nation is a closed economy, or closed partially, in the sense that foreign influences can only affect it through the income-multiplier and international reserve flow effects of the balance of payments, and that workers and employers are too stupid to recognize an inflation when it hits them in the face. Let me list the main points of explanation without attempting to be comprehensive.

First, under a fixed exchange rate system, as already mentioned, all members are inexorably doomed to more or less the same rate of inflation, due allowance being made for leads, lags, and national differences between the movements of measured price indices in different countries experiencing the same basic inflationary impetus. An important implication is that the national rate of inflation may have little or no connection with the state of the national labour markets. In the extreme, countries may have not even a short-run employment-inflation trade-off, and only a choice of how much unemployment to suffer along with the world rate of inflation. To be more pointed, if countries wrongly believe that they can trade off domestic unemployment for a lower world inflation rate, they can get the higher unemployment, but they will not get the abatement of inflation: in other words, their policies will create "stagflation", confounding their Keynesian economists and policymakers.

Second, nothing but confusion can result from the usual political procedure of selecting a certain magic number as a full-employment target, by psychic bidding for electoral support. Apart altogether from the likely effect of uncertainty bred by inflation, in making both workers and employers more willing to stay out of the labour market temporarily in hopes of an eventually more satisfactory and better-informed contractual employment commitment, the "normal unemployment rate" consistent with price stability is itself an economic variable, and one subject to policy influence. It is frequently ignored that the 1930s crash led to the development of two alternative lines of policy attack on the evils of depression: full employment policy, to be implemented by Keynesian demand management; and social insurance and social security provisions, designed to remove the social and personal economic sting of unemployment and related income-loss problems. To the extent that the provision of social security has been successful — and it may well have been all too successful for the majority of the population — it obviously increases the limit points of numbers and duration of unemployment beyond which unemployment is an objectively serious social problem. Further, the progress of affluence, including increased female participation in the labour force, has had a significant parallel effect by spreading the risks of unemployment over the accumulated capital as well as the labour-power of the typical worker, and over more than one worker in the family unit.

Thirdly, since the population of the major advanced cuuntries entered the recent inflationary period with two centuries of experience of price stability in peace-time, and changing society's views of normality is a slow process, one should expect people to go on for a long time after inflation has once got under way, making their decisions on the assumption of continuing inflation even though they personally are suffering from deflation (specifically, unemployment). After all, it took nearly a quarter of a century after the second world war for inflation to build up into a normal way of life in the countries that had suffered mass unemployment in the 1930s; and it would be surprising indeed if governments, simply by announcing their determination to stop inflation, could turn public opinion around within the six-months-to-a-year-or-so period which is the maximum span of attention that either the public or its government can devote to pursuing a logical but unpopular policy. Hence one has the worst of all possible results: all the misery of trying to stop inflation and none of the satisfaction of succeeding.

This is, of course, the main fear of those who foresee continuing rapid inflation ahead — not that governments could not stop inflation if they really tried, but that the need for re-election will always lead them to desist from trying well before the situation has changed sufficiently decisively to permit them to ease up gradually — and the word "gradually" is as important here as the stipulation of decisive change. There may, however, still be some hope, for reasons to be explained a little later.

As already mentioned, the concept of a "world inflation", against which governments are powerless to act independently, makes economic sense only in a world of fixed exchange rates. Floating rates in principle restore the capacity for independent anti-inflationary action. But world inflation as a statistical fact has persisted and even accelerated (though judgement is complicated by the effects of the oil crisis) since the resort to "dirty floating". Why has this occurred? Several factors suggest themselves. Central bankers are creatures who derive their power from, and exhaust their mental powers in understanding the superficial logic of, a fixed rate system, and consequently they persist in operating a floating rate system as close to a fixed rate system as possible while looking forward to the day of resurrection. Floating rates give national independence in anti-inflationary policy, but leave unchanged the necessity to alter expectations by imposing unemployment and business losses and excess capacity on those who will not learn wisdom from Sunday School parables; the resistance may well be intensified by the fact that stopping inflation means letting the exchange rate appreciate, to the consternation of exporters and import-competitors who will naturally believe that they are being priced out of the market. Finally politicians are eager to provide leadership in the form of noble rhetoric about small-size problems attributable to anti-social behaviour by some private group. But when a major problem arises for which they are ultimately responsible, they prefer to pass the buck to the politically absent and defenceless foreigner. The last thing they want to do is admit responsibility for inflation; and the second-last thing they will do is provide protection for the public, by indexing and other cost-of-living adjustments of money incomes, against injury by a monetary cancer that they want to pass off as an act of God.

The outcome of these factors is that the adoption of floating exchange rates has meant on the whole little real change in the nature of the problem of world inflation — though one must shudder in thinking of the difference that fixed exchange rates would probably have made to the other recent world problem, the oil crisis. The problem remains one of dependence on United States domestic policy to stop the internal

U. S. inflation for primarily domestic reasons. In this connection there is a slight ray of hope, mentioned earlier. The hope stems from two considerations.

The first is that, in the process of crisis of the International Monetary Fund system and retreat into floating rates, the United States did achieve — admittedly by strong-arm tactics — an effective devaluation of the dollar relative to other currencies, which has not been reversed, but rather accentuated, by the subsequent period of dirty floating. This devaluation has gradually brought about a compensating surge of inflation in the United States, and with it a heightening of the determination of the United States Administration to stop inflation, at least until the reversal of policy priority from inflation to unemployment that occurred last autumn. (Some commentators, incidently, give credit to the resort to floating exchange rates for accelerating price inflation in the United States and strengthening American resolve to stop it.) The second hopeful consideration is that, though the American public and their politicians are as prone to the "political cycle" of alternation between the inflation and unemployment priorities of overall economic policy, the independence of the Federal Reserve and the Constitutional division of powers between the legislative and the executive branches of government make it very difficult for United States macro-economic policy to reverse direction as swiftly as is possible in parliamentary (non-congressional) governmental systems. In brief, governmental delay in fighting the current recession may make recession last long enough to break inflationary expectations. And, since the delay will be greater than usual, due to the accident of a powerful Democratic Congressional majority facing a Republican President who is unable to govern strongly; and that accident in turn is attributable to the Watergate scandal; someone may eventually be grateful to Mr. Nixon's plumbers for their indirect contribution to the mopping up of excess liquidity.

I turn now to the second major problem of the contemporary world, the oil crisis that began in the autumn of 1973 and produced a quintupling of oil prices. Since the crisis and the policy problems it raises constitute a complex subject, only the essential outlines of which can be discussed here, I find it most convenient to approach it in terms of some elementary perspective considerations.

First, though its proximate origins were political, the ultimate origins were intimately connected with the previously-discussed problems of world inflation. Like the rest of the non-communist world, these countries had become used to the idea of the dollar as a currency of stable purchasing power, and therefore one in terms of which pricing and payment contracts could be made with fair certainty about the real value of those contracts (that is, their value in terms of purchasing power over goods). Having begun the process of raising the real price of their oil by collective agreement to raise prices in terms of the U. S. dollar, they became increasingly annoyed, especially after the 1971 "dollar crisis" and devaluation, with the fact that the dollar was depreciating increasingly rapidly in terms of purchasing power, and their expected real gains being threatened, with no easy solution to hand. The quintupling of the price in 1973 - 74 was explicitly related to their presumed losses consequent on inflation and the depreciation of the dollar. This point has two important implications. One is that a lasting solution to the oil crisis is probably largely conditional on the restoration of world price stability. The other is that continuing inflation cuts the oil-producers two ways. On the one hand, the impact of the 1973 - 74 oil price increase is being steadily eroded by inflation — reckoning inflation at roughly 20 per cent since the summer of 1973 and ignoring some crumbling of oil prices recently, the real price of oil is only four times, not five times, what it was before the autumn of 1973 — and continuing to fall. On the other hand, continuing inflation makes it possible for the oil-producers to talk a hard political and economic line while actually retreating from the policy of winter 1973 - 74, since few politicians and commentators indeed are capable of grasping the point that "holding the price line", or easing it only slightly, involves under rapid-inflation conditions reducing the real cost of oil in world markets quite rapidly. The burden on the importing countries is reduced still more if oil proceeds are invested rather than immediately consumed, since interest rates on most types of financial investment are below the level required to compensate for the erosion of the purchasing power of money by inflation.

Second, it is quite wrong, despite its appeal to politicians (especially in countries of an anti-Arab pro-Israel international political tradition), to regard the increase in oil prices as inflationary in itself, without supporting argument and supplementary assumptions. In general monetary theory, an increase in the price of a particular commodity or good relative to others is just that — a relative price change that has no inflationary or deflationary monetary implications except to the extent that the relative price increase is associated with a reduction in supply which reduces real income and total transactions relative to the money supply, and so raises the average price level (normally to an insignificant extent). In Keynesian macroeconomic theory, a shift of income distribution away from people in general towards a group with a higher marginal propensity to save is definitely deflationary — and this is what one would expect to be true of a redistribution of income taken in small amounts from individual oil users and concentrated on a few oil-producing governments in amounts that have to be largly saved, at least temporarily. The main effect of higher oil prices is not a monetary effect (or, if so, a deflationary Keynesian one welcome in an inflationary situation) but a redistribution of real income from consumer importing to producer exporting countries. Inflationary effects come into the picture only to the extent that the governments of the consuming countries attempt to evade or cushion the transfer of real income and the need for adjustment to an increased price of energy by financing the extra cost of consumption through inflationary policies, including subsidization of energy prices, rather than let the economy adjust to the transfer of real income by the usual methods of the competitive price system.

In this connection, one may observe that the response of most national governments, and the international institutions that are supposed to act in the interests of the world economy as a whole, has been foolish, short-sighted, and counter-productive from any point of view one can conceive of. If one is faced with an extortionate price demand by a black-mailing monopolist (language I employ only to describe a common reaction to the oil crisis), it is obviously stupid to explain in detail in public how utterly dependent one is on supplies that only he can provide, while taking policy actions designed to prevent or minimize any efforts by your household to economize on the monopolized commodity, and assuming a moral obligation to lend on subsidized terms to any other household really badly enough hurt by the high price to be tempted to express its disapproval of monopolistic extortion as an anti-social activity. A signal example of what I would maintain is a perverse reaction is the popular proposal for continuing special credit facilities for poor underdeveloped countries hit by the oil price increase. This proposal not only implicitly sanctions the use of monopoly power by the O. P. E. C. countries, and even allows them to appear exceptionally public-spirited and generous by donating some of their ill-gotten gains to the poorer victims of their extortion; but also, since conventional interest rates for intergovernmental lending are well below the inflation rate, it amounts to subsidies for poor countries not to adjust to the oil shortage but to manage their economic affairs to get into balance-of-payments difficulties instead.

Third, a point important for assessing the future development of the oil crisis, O. P. E. C. is not strictly speaking a cartel, as it is usually described, but a price-umbrella arrangement. More concretely, it is not an agreement by all members to restrict output and sales in order to hold up the price, but an agreement by which some members who can afford to forego sales and revenue absorb the difference between quantity demanded at the agreed price and the quantity other members wish to sell. The important point here is that an arrangement of this kind is considerably more vulnerable to disintegrative pressures caused by reduction in demand than is a regular cartel. In this connection it should be remembered that typically cartels have been organized in order to maintain prices and profits in the face of a reduction in demand due to general depression or foreign competition, and that they normally succumb sooner or later to the temptation of individual members to cheat on the agreed restriction of individual total sales.

This brings me to the final point on this list, that producer cartels in primary commodities have been organized many times in the past, have usually succeeded for an initial period, and have ultimately and always been broken by divergence of interests among members — especially between conservative established producers interested in maintaining a reasonable return on existing investment, and aggressive newer producers interested in expansion and finding such expansion profitable at prices below those that are required to satisfy the safety-seeking members — or by the development of new sources of supply or of substitute materials and technologies. One suspects that the O. P. E. C. will go the same way in not too long a time, in view of both the erosion of the real price of oil by inflation already mentioned, and the prospect of a year or so of quite serious depression in the production levels, and therefore the derived demand for energy, in the advanced countries. If not, it is bound to succumb in the longer run to the economic, and more especially the political, motives that the O. P. E. C. policy action following the Arab-Israeli War of autumn 1973 has provided for the development of domestic and non-middle East sources of petroleum. Indeed, in the longer-run context the main economic costs imposed on the advanced countries by the oil price increase of 1973 - 74 are likely to be, not a transfer of real income to the oil producing countries, but the cost of over-kill investment in establishing independence of O. P. E. C., and specifically Arab, supplies of oil.

In conclusion, something should be said about international trade, which is linked with the world crisis and promised to be overviewed in my title. Only a few general points may be noted. There will of course be an obvious adverse effect on world trade consequent on the recession in store for this year in the United States and to a lesser extent other advanced countries, an effect which may be particularly serious for less developed countries due to their export concentration on price-and-income-volatile primary commodities. To the extent that there is a lasting redistribution of world real income towards the oil-producing countries, the overall effect is very likely to be adverse to the interests of the non-oil-producing less developed countries, since the composition of final world demand will be shifted towards military hardware and high-technology investment goods, in both of which the less developed countries have a comparative disadvantage. The longer-run effects on the supply of development assistance and private capital for development investment are also likely to be unfavourable, since the Arab countries in particular have neither the political motivation for large-scale development assistance nor the profit-maximizing economic motivation and the entrepreneurial resources and attitudes required for private capital investment in developing countries.

There will undoubtedly be a revival of vain hope in the developing countries that their problems can be removed by monopolistic rigging of the markets for their primary product exports, on the false assumption that what O. P. E. C. has been able to do by surprise and speed, and probably only transiently, in the case of oil, other developing countries can do equally effectively in the case of bananas, coffee, cocoa, cotton, jute or whatever. The main hopeful development, from the standpoint of world trade and particularly the trade of the developing countries, is on the contrary, the failure of something to occur that might well have occured, and whose failure to occur is probably mostly attributable to the collapse of the fixed exchange rate system into a regime of dirty floating, together with the otherwise undesirable existence of a world inflation based on a plethora of American dollars. The event that failed to occur was a wholesale retreat from a liberal international trading system into predatory use of commercial policy discrimination and intervention by the advanced countries to protect their balances of payments from the impact of inflation and the oil crisis. The liberal order of international trading arrangements has been infringed on in some important ways. But its main contours still stand; and while they do, they continue to offer the opportunity of economic growth and development through international trade and specialization.

Zusammenfassung

Ein Überblick über die Weltwirtschaftskrise

Gegenstand der Untersuchung sind die Gründe für die weltweite Krise und ihre Rückwirkungen auf den internationalen Handel. Eine zentrale Stellung nimmt dabei die Frage ein, wie es zu dem Zusammentreffen von Inflation und Unterbeschäftigung kommen konnte — und dies in einer Welt, die durch die Aufgabe fixer Wechselkurse inzwischen die Möglichkeit hat, sich gegen inflatorische Einflüsse aus dem Ausland zu schützen.

Einleitend wird zunächst klargestellt, daß auch der Gold-Devisenstandard und das mit ihm verbundene System fester Wechselkurse keinen Zwang zur Stabilität ausübte, sondern lediglich einen gewissen Gleichschritt in den Inflationsraten verlangte. Aber auch ein System floatender Wechselkurse sichert nicht gegen inflatorische Störungen, wenn es sich überwiegend um ein „schmutziges Floaten" handelt. Hinzu kommt die Tendenz der Notenbanken, sich auch in einem System frei schwankender Kurse wie unter der Herrschaft fester Wechselkurse zu verhalten, da sie vornehmlich auf die Veränderungen der Kurse gegenüber ihren Nachbarländern achten.

Hauptquelle der Weltinflation war die Tatsache, daß die Vereinigten Staaten es versäumt haben, den Vietnamkrieg über Steuererhöhungen zu finanzieren. Die Überproduktion an Dollar mußte sich bei festen Wechselkursen über die ganze Welt ausbreiten. Dieser inflatorische Effekt ist erst durch die substantielle Abwertung des Dollars gemildert worden. Die europäischen Länder haben jedoch den ihnen durch die Maßnahmen von August 1971 eingeräumten Spielraum stabilitätspolitisch nicht genutzt. Die Möglichkeit zur Überwindung der Weltinflation wird vor allem aus der veränderten Haltung der amerikanischen Administration zur Inflation und aus dem Umstand abgeleitet, daß damit wieder ein dämpfender Einfluß auf andere Länder ausgeübt wird.

Die Untersuchung schließt mit einigen Überlegungen zum Einfluß der Ölkrise auf die Inflation. Es wird gezeigt, daß dieser Einfluß begrenzt gewesen wäre, wenn man diesem Problem mit den Erkenntnissen aus der Kartelltheorie und -praxis begegnet wäre. Erst der Versuch, den Folgen der Ölpreiserhöhungen durch Subventionen zu begegnen, hat ihren preistreibenden Einfluß verstärkt.

Summary

An Overview of the World Crisis and International Trade

The subject of this study is the grounds for the worldwide crisis and their repercussions on international trade. Central importance is assigned to the question of how it was possible for inflation and underemployment to coincide — and that in a world which, through giving up fixed exchange rates, is meanwhile capable of protecting itself against inflationary influence from abroad.

In the introduction, it is first made clear that the gold exchange standard, too, and the related system of fixed exchange rates, exerted no compulsion to preserve stability, but merely demanded a certain degree of uniformity of inflation rates. But even a system of floating exchange rates is no safeguard against inflationary disturbances, if the floating is predominantly of the "dirty" type. An additional facet is the tendency of central banks to behave in a system of freely fluctuation exchange rates in the same way as when fixed exchange rates prevail, since their attention is focused primarily on exchange rate changes relative to their neighbouring countries.

The chief source of world inflation was the fact that the United States failed to finance the Vietnam war by tax increases. With exchange rates fixed, the overproduction of dollars necessarily had to spread over the whole world. This inflationary effect was ameliorated only by the substantial devaluation of the dollar. The European countries, however, did not take full advantage for stabilization policy of the latitude they were given by the measures of August 1971. The possibility of overcoming world inflation is derived above all from the changed attitude of the American administration to inflation and from the circumstance that this will exert a damping effect on other countries.

The study concludes with thoughts on the influence of the oil crisis on inflation. It is shown that this influence would have been limited, if this problem had been tackled with the knowledge from cartel theory and practice. It was not until the attempt was made to combat the consequences of oil price increases with subsidies that its price-raising influence was strengthened.

Résumé

Un survol de la crise economique mondiale

L'article a pour object de rechercher les causes de la crise universelle et ses effets sur le commerce international. D'importance primordiale est la question de savoir comment ont pu se conjuguer l'inflation et le sous-emploi, en particulier dans un monde où, par l'abandon des cours fixes de change, l'on avait la possibilité de se protéger des influences inflationnistes en provenance de l'étranger.

Il est d'abord établi dans l'introduction que l'étalon-or de change et le système de taux fixes de change qui s'y rattache n'exercent pas de contrainte vers la stabilité; ils requièrent uniquement une certaine symétrie entre les taux d'inflation. Mais un système de changes flottants n'offre pas non plus de garantie contre les perturbations inflatoires dès lors que l'on a principalement affaire à un « ottement malsain ». Et il faut encore ajouter que la tendance des banques centrales est de se comporter dans un système de taux flottant librement comme sous l'empire de cours fixes, car elles surveillent principalement les modifications de taux à l'égard des pays voisins.

La source principale de l'inflation mondiale fut le fait pour les Etats-Unis de négliger de financer la guerre du Vietnam par des augmentations d'impôts. La surproduction de dollars devait par le système des taux de change fixes se répandre à travers le monde entier. Cet effet inflationniste ne s'est réduit qu'à dater de la dévaluation substantielle du dollar. Les pays européens n'ont cependant pas exploité en faveur d'une politique de stabilisation la liberté de manoeuvre que leur octroyaient les mesures du mois d'août 1971. La possibilité de maîtriser l'inflation mondiale est surtout basée sur un changement de mentalité de l'administration américaine, ce qui aurait des répercussions de freinage dans d'autres pays.

L'étude s'achève sur quelques considérations relatives à l'influence de la crise pétrolière sur l'inflation. L'auteur souligne que cette influence aurait pu être limitée si l'on avait abordé le problème par le biais de la science théorique et pratique des cartels. Mais la tentative de contrecarrer par des subventions les effets du renchérissement du pétrole n'a servi qu'à renforcer leur tendance à hausser les prix.

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