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Inflation, Recession and Growth:

A Global and Societal Approach

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INFLATION, RECESSION AND GROWTH: A GLOBAL AND SOCIETAL APPROACH

The science of economics is in a crisis.

The dilemma arises from the massive ills that plague the world economy and absorb people and governments everywhere. My response is that present approaches are inadequate. A new, more comprehensive approach is essential.

That approach must be "global and societal." My conclusion is based on three decades of helping with problem solving in many countries. During that time, I was immersed in what we economists call monetary and development economics — that is, money, central banking, fiscal policy, interest rates, monetary reserves, balance of payments, external debt and so on through the traditional areas of economic practice.

My experience eventually led me to the firm conclusion that these traditional approaches are valid and reveal significant truths, yet fail to provide diagnostic depth of economic and social ills needed to provide viable solutions, even within the area narrowly defined as monetary. I believe my conclusion is now solidly confirmed by our confrontation with those twin demons of global economic instability — inflation and recession.

Simultaneous strong inflation and strong recession confound analysts and policymakers alike. Solutions require much deeper insight into the functioning of our world economy than is currently available. Our problems, which many think insoluble, call for extraordinarily wise and determined leadership to devise and implement new, effective policies and to secure a degree of international cooperation now seemingly unachievable.

Simultaneous inflation and recession could not occur, our leaders had been told by the experts. Many blamed such recent occurrences as the four-fold increases in oil prices for the paradox. Yet the world was predictably headed for strong inflation and strong recession before such events, although perhaps not so virulently, nor with such disruptive national and international consequences.

The present difficulties must be seen as a combination of continuing long-term trends in the world economy and unpredictable factors. These long-term trends predictably create persistent inflation and weaken efforts to avoid unemployment and sustain satisfactory growth rates. Strong recession and inflation result from years of neglect and wrong policies. Our unwillingness to recognize that the world economy has been heading many years toward current conditions is a primary cause of the situation. We cannot confront our problems unless we diagnose them correctly.

Huge balance of payments surpluses of some oil exporting countries generating huge current accounts deficits among many oil importing countries is primarily the consequence of the four-fold increase in oil prices. In some cases, high food prices have substantially increased the deficits of food importers while offsetting the oil price increases of the few food exporters. These huge surpluses and deficits have compounded the difficulties of simultaneous inflation and recession. The problems intermingle and interact. Solutions must unravel this complexity and interaction. However, effective solutions must also recognize the distinctions within the complexity. Otherwise, the dangers of strong inflation combined with strong recession will continue to plague nations and the world's economy even after the relatively temporary problem of oil surpluses and balance of payments deficits no longer bedevil world policymakers.

I have discussed my views on modern inflation in detail in my book, "Inflation — A Worldwide Disaster," and elsewhere and will here give only a brief summary. Contrasted with others in their field, I have taken what I have called a global and societal view of the problem, which I find thus far to provide the basis for correctly forecasting the accelerating inflation of recent years, the phenomenon of simultaneous strong inflation and strong recession, the widespread and deepening social ills and political disorders being experienced in all parts of the world and the threat which continuing inflation constitutes for the objectives and aspirations of modern societies everywhere.

Of primary importance is recognizing that the nature of current inflation is quite different from that of the temporary, local inflations of past eras. Inflation today is a long-run persistent problem whose cure requires a combination of reordered priorities on the demand side and, on the supply side, national and international cooperation to increase the quantity of goods and services on a global scale.

Because inflation today is persistent and worldwide, its underlying causes operate everywhere. There are no longer areas of cheap food, fuels, raw materials and labour. All become relatively expensive. Savings for investment are available, but at relatively high interest rates of return.

Our world of today contains highly sophisticated, sensitive and innovative market mechanisms that provide, among other things, the quick international transmission of inflation via exports, imports, exchange of services, and movements of capital.

These market mechanisms are not causes of inflation but are transmission belts. In any programme to end inflation, these same market mechanisms can transmit forces to end the inflation.

For example, drought or increased demand for food anywhere impacts on world food prices. This has immediate impact on wage demands since food prices are a major component of the cost of living. Drought in a major supply country, such as Canada, combined with large increases in demand from a country like India, increase food prices in the United States. High prices for capital goods reflecting inflation in the industrial nations mean higher prices in countries that import such goods. Higher food prices, or higher prices of capital goods, mean higher prices, in turn, for exports from the developing countries as the prices they pay for imported foods and capital goods become part of their domestic price structure.

All of this is fairly benign or obscure when rates of price increases are small, but now that rates of increases are large it has become more obvious and destructive. The much discussed impact of oil prices is only one, though the most dramatic, illustration of the integrated character of the world economy and the nearly instantaneous international transmission of price changes.

The global and persistent nature of twentieth century inflation has created an expectation of persistent inflation on the part of peoples and governments everywhere. That fact by itself compounds the inflationary situation. Over decades inflation accelerated, as governments not only failed to end it, but repeatedly raised the rates of inflation that they deemed acceptable. Acceptable levels have risen from two or three per cent in the 1950's to 6 and 7 per cent in early 1970's, and now to anything below a "double digit" figure.

Inflation today is rooted in attitudes and experiences of the Great Depression and World War II and in a number of mutually reinforcing trends that emerged in the aftermath of the war. These trends generated a huge expansion of demand throughout the world. Tremendous disparities have arisen between world demand and world capacity to produce. Principal among these are huge increases in demand for foodstuffs, natural fuels, and other industrial raw materials, such as copper, tin, and rubber. They are seen, for example, in the widespread trend toward urbanization with its concomitant demand for resources to restructure cities and their related educational, police, transportation, water supply, sanitation, lighting, medical service and recreational systems.

The 20th century has been characterized by a historic novel combination of multipliers increasing world demand, in a manner independent of world output and income — a tremendous explosion of population, a new definition of accept-material well-being, and an expectation that **all** will participate in the improved well-being and social mobility, combined with a belief that governments can create the conditions needed to fulfil these expectations. Cyclical behaviour brings temporary gluts in some areas, but the basic longer-run underlying conditions of world scarcity in relation to demand remain and explain why inflation and inflationary expectations persist even during recession as it has done repeatedly in the post-war period.

The world population explosion has resulted in an increase in the population of the world from close to 2 billion inhabitants in 1940 to well over $3\frac{1}{2}$ billion in 1973. At the same time the expectations of this $3\frac{1}{2}$ billion are on a much higher level from those of preceding generations. The economic population growth rate is much higher even than the demographic growth rate. Out of the disastrous Great Depression and World War II came the universal conviction that all people were entitled to a much improved way of life, irrespective of social or even economic position in society.

Money income, including gifts and loans, no longer limit effective demand. Demand is generated by society's definition of the reasonable and promised expectations of people. Moreover, government is seen as capable of ensuring economic policy that fulfils these expectations. New areas of societal induced demand have been added through the years — higher education, medical care, retirement income, modernized housing and down the long list.

Vast numbers of people are lifted from subhuman to human conditions as economies respond to these societal demands. In today's world, nowhere is the responsibility of government to fulfil these expectations seriously contested.

Thus, as economies go through downward phases in cyclical and growth conditions and money incomes are affected, total demand fails to parallel their decline; it simply shifts from the private to the public sector. If families cannot afford housing and education, the adequacy of which is defined by society, then demands are made on government to provide these services or products. Recessions are accompanied by huge budgetary deficits not to overcome the recession, though they may help incidentally, but more directly to ensure that people continue to have consumption levels no longer possible on the basis of earned or borrowed income.

In terms of the disparity between total demand and total supply, the shifting of demand from the private to the public sector does little, if anything, to reduce the disparity. It takes time and some things cannot be transferred. But very much can be transferred and the pressures continue inexorably to do so. In real or physical terms total consumption for all purposes cannot exceed total supply. In money terms, the disparity between world demand and world supply is made to disappear temporarily by the rise in prices, only to reappear quickly because in real terms the demand remains unsatisfied.

After World War II and the Korean War, wartime technological innovations were applied to the civilian system and expectations were vastly altered by a range of goods. TV, transistor radios, jet airplanes, global communications educated consumers and producers alike on a worldwide scale. New financing arrangements made everyone a potential buyer of products well beyond his current income.

These forces in themselves might explain why the worldwide demand for goods and services after World War II chronically exceeded production capacity despite the unprecedented five per cent sustained annual real growth of the world economy. But other major factors were also operative — the nation-state explosion and the cold-hot war. Irrespective of their economic viability and burdened in many cases by an overwhelming assortment of social and political problems, new low income nations undertook the same scope of responsibilities to improve the well being of their peoples, as had high income countries. At the same time the cold war meant continued military expenditures at war-time levels. The burden of wars and armament were piled on top of already excessive demand pressures.

Thus, persistent inflation is based on a condition of worldwide chronic demand exceeding supply. Cyclical behaviour brings temporary unused capacity or over-supply in some areas but does not change the underlying long run secular trend of scarcity on a global scale. The simultaneous occurrence during recessions of dampening inflationary pressures — usually, declining rates of price increase or weakened demand for wage increases, or even important declines in commodity prices — together with continuing underlying expectations of continuing, even accelerating, rising prices in the future — easily create confusion and uncertainty as to what is happening and what to do.

People today are restive and frustrated in their failure to achieve expectations. Inequities are increased as inflation is uneven and unpredictable, and people find themselves unable to defend themselves effectively against its in-roads. Devices like cost of living indexation are tried, but, in practice, often prove impractical when inflation is accelerating at a high rate. For example, governments find it hard to raise salaries to keep up with cost of living increases despite their favoured access to Central Bank financing. Even contractual obligations become uncertain safeguards as neither supplier or buyer can know the final costs or the market selling price in the future. Discouragement of savings, distortions in investment, unsatisfactory consumption patterns and output (lower cost goods tend to disappear) prevail. These conditions result in social and political disorders ranging from increased personal dishonesty, frequent strikes, disruptions in family relations, loss of confidence in governments, widespread repudiation of current leaderships to violent political upheavals. The adoption and implementation of programmes to end inflation are made more difficult by these conditions.

Traditional economies, policies and instruments have been unsuccessful and, in fact, have often compounded the problems by creating public hostility to well-intended monetary and fiscal policies and discrediting anti-inflationary programmes using these measures. A successful attack on inflation requires new approaches adapted to the conditions and dynamics of each country coupled with practical day-to-day international collaboration.

Some very basic changes must be made.

The novel character of inflation today, especially that it arises fundamentally out of excess of demand over supply on a worldwide scale, must be understood. At the same time the aim of modern societies to improve man's way of life must be accepted. There must, however, be a redefinition of national priorities to transform unrealizable expectations of private and public consumption into realizable ones. More production and more savings must be encouraged. Areas of inefficiency and waste must be identified and effective measures taken to overcome bottlenecks interfering with the most efficient use of productive capacity.

Internationally there must be, basically, a two-fold attack to increase output and restructure world demand to conform to the new world supply capacity. To do this will require years of effort and entail balance of payments deficits by many countries. To meet this contingency the international monetary system must be strengthened.

There must be international cooperation to increase world output by increasing everywhere the efficiency of labour and other non-labour inputs and, more particularly, through the use of vast unemployed resources in low income and developing countries. There must be increased international cooperation to avoid the need to restrain growth and employment because of balance of payments difficulties. We must bring together world technology, finance, raw materials, management and labour to maximize output on a global scale.

The fantastic development in transportation and communication among nations makes it increasingly possible to develop a true partnership between the developing and developed nations to harness the technical know-how and capital accumulation of the one, with the underdeveloped resources of the other, and thereby increase the global supply of goods and services. It is in the developing world that great increases in productivity are obtainable. It is in these countries that huge reservoirs of underutilized or unutilized manpower still remain. It is in these countries that the application of fertilizer, machinery and technology can bring quantums gains to the global food supply. It is in these countries that we still find untapped mineral resources such as we find in Venezuela and unused arable land as in Brazil. Underemployed, underproductive labour are found throughout the low income world. It can be trained and utilized. Brazil, Korea and Pakistan provide excellent examples of the tremendous increases in productivity that such countries offer.

In the intensely mobile world today, finance or technical knowledge can be obtained from the industrial nations or the large oil exporters and applied successfully to the untapped labour resources of countries such as India or Korea. The multinational corporation of today has become an important means to this end.

International cooperation is needed for both demand and supply management to deal with the problem of global scarcity underlying global inflation. There are many instruments already available to effectuate this cooperation. These must be expanded, modified and increased to meet the new needs arising out of structural transformation on a global scale.

International governmental institutions that help increase world supply must be strengthened. Practical new responsibilities and support must be given to existing institutions such as the World Bank group, the Food and Agriculture Organization, the new environment programme, and the various new regional development organizations like the Asian Development Bank.

Existing world productive capacity must be harnessed to this end. Most of this capacity, including plant, equipment, technology, management and finance, is found in the private sector. Increasingly, the private corporate form is a multinational enterprise operating in many countries. Additionally, in socialist countries, productive capacity is government-owned. In many countries, both forms of ownership are found in a variety of mixtures. Multinational corporations are now under close scrutiny; they must conform to the sovereign wishes of the countries in which they operate. Their future will depend on their ability to demonstrate that they serve the needs of social equity and economic growth.

As noted earlier, on the demand side there must be a transformation of fantasy expectations into more realizable ones. National priorities must be compatible with realistic global expectations, otherwise competition among nations for goods will stoke new inflation. Examples of available organizations and means to assist this assessment of global demand and help fit national programmes into the global picture are the International Monetary Fund with its annual consultations among nations, the work of the U.N. agencies, the Bank for International Settlements, and related approaches such as the consultations between OPEC and oil consuming countries. Regional institutions such as the Andean Pact and such means as the International Coffee agreement and related proposals for world commodity stabilization stockpiles are also useful.

The international monetary system must be expanded and strengthened to ensure that countries may carry through the structural changes inherent in this transformation of world supply and demand. This structural transformation could mean large and substantial balance of payments problems for high or low income countries, or industrial or primary producting countries.

The responsibility of the international monetary system to assist in the structural transformation of countries and the world must be clearly recognized. It is not enough for the system to help countries deal with relatively short-lived emergencies such as adjusting to large, abrupt increase in oil prices, crop failures or cyclical problems resulting from recession. The rules governing international monetary behaviour like those pertaining to exchange rates, restrictions on current payments, and capital controls, as well as the magnitudes, terms and conditions on which financial assistance is available and what institutional arrangements are needed, must reflect this major additional responsibility of the international monetary system.

For example, rules or guidelines governing international borrowing or capital movements cannot be divorced from consideration of structural transformations. Countries placing primary emphasis on structural transformation are not eager to have influxes of volatile short-term capital (unless it is long-term capital in disguise) nor, if in balance of payments surplus, do they wish to have excessive highly liquid foreign assets. The holding of highly liquid assets is costly. They are useful in dealing with emergencies and cyclical changes, either by being used directly or to strengthen external credit-worthiness, thereby improving terms and conditions of foreign borrowing. Beyond this point, countries planning structural transformation want either long-term capital or, if in surplus, ways and means of protecting foreign exchange surpluses from inflation erosion, currency depreciation, blockage, and so on, until the country is ready to transform external assets into internal assets through the development process.

Given these concerns, rules of international conduct governing capital movements have to differentiate clearly among the purposes of the capital flows. Indeed, for many countries the technology transfer financed by, or accompanying, the capital movement may well be more important than the finance. In such cases, the development interest may lend to external borrowing even though it is not needed for balance of payments reasons.

In the future, the international monetary system will be judged as much, if not more, by its ability to assist the process of structural transformation as it was in the past by its ability to finance the current international transfer of goods and services and, more recently, by its ability to assist in maintaining high levels of employment and avoiding prolonged and deep recessions. In practice, this new function of providing the needed favourable monetary environment for structural transformation could be merged with the global attack on inflation.

It may well be that existing mechanisms, such as commercial banks and direct foreign investment, combined with such public mechanisms as bilateral aid programmes and such multinational institutions as the World Bank, the regional development banks and the IMF, will be able to provide the necessary financing for structural transformation. Increasing the capacity of these lending institutions would give added assurance that balance of payments deficits would not disrupt this process of structural transformation and would increase the capacity of the existing private institutions to expand their activities and still keep within the criteria of prudent management.

Prospects are that the years 1975 and 1976 will continue to be years of grave uncertainty but there is reason for optimism. On the one hand there are the well-known objective adverse factors. On the other hand, there is increasing awareness of these problems and the need for effective international action.

This awareness manifests itself in a variety of proposals to expand the use of existing financial facilities, establish new ones, and to co-operate in conserving energy as such. New aid commitments to developing nations by oil exporting countries now total close to $17 billion. Most of this has not been disbursed but will be available as additional cushion in 1975 and 1976. It is likely that such programmes will be increased as these new creditor countries attain more experience. Most of this aid is bilateral but substantial portions are passing through such multilateral organizations as the International Monetary Fund. Steps are being taken to expand this facility and other moves to increase the regular financial resources of the IMF are being considered.

Other special funds are being established or proposed. The Kissinger-Simon safety net proposal for a fund to assist industrial countries on commercial or market terms and another fund to assist low-income countries on subsidy interest rate terms are examples. So are the special funds established by the EEC to assist its members in balance of payments difficulties. There are also special U.N. efforts, such as the Emergency Fund, set up to deal with the problems which low-income countries experience from oil price increases. Proposals like the safety net fund reflect the growing awareness of the difficulties inherent in trying to separate short-run balance of payments management from the problem of structural transformation like conserving oil and creating new sources of energy.

New bilateral relations, such as the trade and financial arrangements between Iran and France and the Saudi Arabia loan to Japan, are being implemented between the oil exporters and industrialized countries with balance of payments deficits.

Against this background there is the simple fact that private financial institutions can expand their international lending by tens of billions of dollars within the framework of prudent management criteria. Credit-worthy countries and entities can and will probably continue to finance the bulk of their deficits by borrowing from private financial institutions. Their terms are inevitably commercial, but such borrowing, even by low income and high-debt ratio countries can be economically desirable if productively and efficiently used. The low-income, weak-export countries are likely to be those whose deficits will require mostly non-commercial financing from old and new bilateral sources. Fortunately, there a number of significant new bilateral and multilateral sources of both short-term and long-term funding for such low income countries, while the World Bank and other regional sources continue to expand.

Thus, the essence of our grave current problems has not been the inability to finance external deficits.

The success of the world in handling the problem of simultaneous inflation and recession will depend on clear recognition of inflation as a persistent global phenomenon based on an imbalance of world supply and demand. Calling inflation a temporary problem focuses attention on the trade off between recession and inflation as the essential cure and makes the choice between general fiscal and monetary policy, versus some form of controls over prices and/or wages, the essential choice in policy. Experience again is demonstrating that recession is not a cure for inflation. Dampening rates of inflation do not end expectations of controlling inflation. The seeds of future accelerating inflation remain present. Even achieving a zero inflation rate would not mean the end of inflation if it was generally believed that the zero rate was temporary and would soon be followed by rising prices. The test of success is the end of expectation of continuing inflation. Experience is also indicating that anti-inflationary programmes, including the use of administrative controls, based on traditional analyses of inflation, are predictably falling.

When inflation is seen as a chronic structural global disequilibrium between supply and demand, then the essential cure is to end the fundamental disequilibrium by restructuring both demand and supply. This involves a strategy which admittedly takes time and international cooperation. The essential choices in policies are among those which are best suited to achieving increases in productivity and output and changing consumption demand so that the global impact of public and private demands combined are compatible with the available world supply.

In this process, the definition of national priorities that are compatible with national priorities of other countries is an essential ingredient. The strategy to achieve satisfactory sustained growth becomes the same strategy as the strategy to end inflation. Only the end of persistent inflation can prevent the repeated recurrence of strong inflation combined with strong recession.

On the basis of this global and societal approach to modern-day inflation, I arrive at rather different conclusions about the longer-run outlook for the world economy than those held by others. I use the word "outlook" in a special sense. It is not a prediction, nor a forecast. We cannot foresee the future. Rather, I speak of "outlook" as reflecting needs and practical potentials. My view is optimistic in that I do not assume in advance that countries will be unable or unwilling to change present attitudes which hamper their own growth and global growth and development. I also do not assume in advance that governments will be unable or unwilling to go farther down the road of positive international cooperation. Insularity can undermine the potentials which exist. I am assuming that the world will cooperate to end persistent global inflation because it is the greatest economic threat to the realization of modern objectives of social justice and growth and to the viability of modern societies and their governments.

I believe that I am being realistically optimistic because adversity leads to innovation and invention, intellectual and physical. We already have widespread adversity. As we delay in acting together, the adversities will spread and deepen and the need for change becomes an irresistible imperative. It is in this sense that I give my outlook for the future.

1. I see the world economy expanding much more rapidly as the only practical response to an exploding population increase which cannot be slowed down enough to keep another two or three billion people from being added to the world population within the next 25 years. Constraining consumption to levels compatible with recent global growth rates of five to six per cent would simply be unacceptable to people educated everywhere to believe that society and government can do much better. The governments of the world, faced by chronic and accelerating internal pressures and frequent social disorders, will do all possible to cut the Gordian knot by opting for the highest possible growth rates. Witness Korea, Brazil or, earlier, Japan.

2. I see these higher growth rates partly made possible by dramatic increases in savings and investment in high-income industrial and low-income developing countries. Much of the increased savings will come from the United States and those other industrial countries whose standards of consumption are high but whose savings ratios are much below those of such industrial countries as Germany and Japan. Much of the increased savings will come from developing countries with export earnings in surplus of absorptive capacity—a common phenomenon in earlier centuries in Western Europe when surpluses came from agriculture or trade and were invested abroad as well as domestically. These savings will seek safe and profitable investment—some in high-income countries, some in low-income countries—with many new institutions and instruments intermediating between the saver and ultimate user of the savings.

3. I see this large increased output also made possible by new technological innovations responding to resource scarcities. For centuries, prizes have gone to those who invented labour-saving devices. Now the prizes will go as well to those who invent resource-saving devices and to those whose new tools can take advantage of the large pool of unemployed and inefficiently employed people in the developing world. We do not have a world of full employment. We have only begun to tap the productive capacity of the entire human race.

4. I see these large increased growth rates made possible by the globalization of all human endeavour. Not only knowledge, the key to increased efficiency and output, but people, goods, services, and finance are mobile in global terms. Immigration in tens of millions and hundreds of millions will continue within and among countries as people sort out what kind of lives they want, seek best opportunities, and respond to incentives to go where the action is. Iran and Saudi Arabia are now seeking industrial labour as did the United States in the 19th century and

Germany after World War II. Urbanization and internal migration on a colossal scale are taking place within developing countries creating both pressures and opportunities for giant strides in increasing employment and productivity. All of this will take capital which is why I emphasize increased savings.

5. I see additional pressures for much more rapid and sustained growth coming from the need to replace old public capital with new public capital. A number of examples have been mentioned earlier, but the restructuring of cities and building of new urban ones with all that this implies would be enough, based on historical performance, to push growth rates to limits beyond present expectations.

6. I see the labour force not only expanded by growing population and other factors mentioned earlier, but becoming more efficient and productive as mankind reaps the benefits of past and current investments in popular education and technology. More and more people are being trained formally and on the job to do the work of modern society.

7. I see these potentials for much more rapid growth pressing on available resources, repeatedly causing shortages and bottlenecks in unexpected areas as well as in more predictable areas like energy, urban land, food and transportation. Cyclical fluctuations will cause temporary gluts in some commodities and services, but only temporarily. Thus, countries emphasing exports will find markets for products of all kinds. They will find achieving high growth much easier. Traditional biases against the use of foreign savings will give way before the tidal pressures of need and mutually acceptable forms of economic activity positively encouraged. Scarcities will reinforce the need for more investment and output. Energy is only a single example made more dramatic by the abrupt increase in oil prices. The search for more energy was on before the fall of 1973. The high price of oil may encourage conservation of oil, but it will also stimulate more effort to use other sources of energy and to invent new ones. The propulsion to use more energy does not come from its new high price, nor does the new high price for oil mean a world consuming less energy of all kinds in the longer-run.

8. I see much more rapid growth rates in developed and developing economies. In the high-income economies, the growth rates will accommodate a rising living standard, but much of the growth will result in more rapid wealth accumulation, domestically and abroad, in the private and public sectors. Modernized industrial and, hopefully, modernized agricultural sectors in developed and developing countries

will become workshops for people everywhere. Demand pressures will focus on the modern productive sectors, wherever they occur. Developing countries will have such centres and they will grow, often painfully, in magnitude and importance in determining the character of society as well as of the economy.

9. In the low-income countries, living standards will rise more rapidly. As the high-income world becomes increasingly aware of the opportunities to use the labour and natural resources of the low-income world and as the needs and demands of rapidly expanding populations come to dominate societal and governmental thinking, attitudes which encourage increased employment, efficiency and output in all sectors will dominate societies and governments. The common ideology will be growth to meet the needs of mankind. I see a potential for a much greater rate of growth in the developing world—greater even than rates in the 50's and 60's, which exceeded those of the developed countries. There are several factors which contribute to this potential. In many countries the costly and time-consuming economic infrastructure—roads, dams, communications systems, energy generation—is in place. Thus, these countries now have a much better foundation for rapid growth. In addition, less developed countries now have sources of financing other than the industrial countries. The developing countries also have the benefit of the latest technology in all fields of production, both agricultural and industrial. They have the benefit of their own experience and that of other developing countries on which to draw. Finally, the developed countries now have a direct and immediate interest—solving their own problems of inflation and scarcity—in helping to accelerate growth in the developing countries. Under these circumstances, more rapid rises in living standards will, I believe, take place in the developing countries than in the developed countries, though the gap between them will remain very large for decades.

10. I see international or multinational institutions, private and public, become the primary institutional form for modern organized economic activity. They reconcile the nation/state political organization of the world with its global economic character. In turn, these institutions in their scope of activities, staff, management, sources of capital, ownership, technology, attitude towards government and their respective ideologies or policies will reflect the globalization of the world economy.

11. In brief, I see the **world** economy becoming the starting point for economic analysis and economic activity. Macro-economics will start with global facts; national facts or statistics will be a sub-sector of

the world. The nation/state will remain for the foreseeable future the political unit. Sovereignty of such will prevail and be emphasized. But simultaneously, the world economy will become integrated to the point of becoming truly global.

12. In conclusion, I see the world cooperating to end persistent inflation because persistent inflation threatens the very fabric of modern societies and the ability of governments to govern. Cogent reasoning may not be the method of persuasion; brutal necessity may have to do the job. The real question is whether the problems of modern societies will first result in large scale social disaster and human suffering before the world acts constructively and effectively. Events thus far are not too promising, but cogent reasoning can ease the process and reduce the pain and cost. Cogent reasoning can make us realize that the explosive dynamism of the modern world requires innovative thinking and action. My emphasis on a global and societal approach to inflation is an effort to help direct attention to the dynamic realities of our day.

ERRATA

Page 1 line 5
Add after the word "essential" "The immediate task is to end world-wide recession and accelerate world growth. The next and more difficult task is to end persistent inflation".

Page 2 line 11 from below
Substitute the word "their" by the word "this".

Page 3 line 13
After the words "mechanisms are" add the word, "however".

Page 4 line 1
After the words "7 per cent in" add the word "the".

Page 4 line 18
Substitute the word "accept" by "acceptable".

Page 5 line 12 from below
After the words "altered by a" add the word "wide".

Page 5 line 12 from below
After the words "range of goods" add the words "such as".

Page 6 line 12 from below
After the word "government" delete the coma and add the word "and".

Page 6 line 8 from below
Substitute the words "economies," by the word "economic".

Page 7 line 13
Delete the sentence beginning with "To do this" and closing with the words "strengthened".

Page 7 line 9 from below
Instead of the word "quantums" read "quantum".

Page 8 line 14
After the word "new" delete the word "regional".

Page 8 line 15
Substitute the words "Asian Development Bank" by the words "Kuwait Development Fund".

Page 9 line 4 from below
Substitute the word "lend" by "lead".

Page 10 line 9 from below
Substitute the word "this" by the words "the oil".

Page 11 line 20
After the word "there" add the word "are".

Page 11 line 24
After the word "problems" add the words "in 1974".

Page 11 line 5 from below
Substitute the word "controlling" by "continuing".

Page 12 line 3
Substitute the word "falling" by the words "failing to end expectations of persistent inflation".

Page 12 line 16
After the words "end of" add the words "expectations of".

Page 14 line 2
Substitute the word "are" by "now".

Page 14 line 2
Substitute the word "creating" by "create".

Page 14 line 22
Substitute "emphasing" by the word "emphasising".

Page 15 line 18
After the word "is" add the word "largely".