

Developed Countries: Current Situation and Where are They Going?

Năstase Luiza Loredana
University of Craiova, Faculty of Economics and Business Administration
nastase.luiza@yahoo.com

Abstract

The international economic and financial-monetary crisis, as we know, began in developed economies. Just over eight years after the official announcement of Lehman Brothers bankruptcy (On September 15, 2008, Lehman announced its bankruptcy and AIG shares collapsed on international stock exchanges), the overall situation has seen a significant improvement, the macroeconomic damage created by the crisis has been largely focused, but not in a homogeneous manner along the economies and regions.

The present paper tries to fit the current situation and perspective of developed economies (such as the US, the eurozone, Canada, Japan, the UK and others) in a general picture to capture the most relevant indicators, in perspective and in the unfavorable state of the world economy.

Thus, according to the data presented by the International Monetary Fund and the United Nations experts, it seems that the forecasts for the current and the forthcoming year are not encouraging, and even have seen unfavorable revisions, both on savings categories and globally, of some indicators such as gross domestic product, economic growth, demand and supply of goods and services, exports and imports, exchange rate, etc. All these aspects will be presented below.

Key words: developed economies, sustainability, budget policies, economic growth.

J.E.L. classification: E23, E24, F16, F43.

1. Introduction

If in the first part of 2016 the probable values of the main indicators seemed easy to estimate, both for the current year and for 2017, a number of expected factors (the desire of states to recover after the international economic and financial-monetary crisis, balancing the exports of the chinese state), but also unforeseen factors (the british referendum ended with the desire of the people to leave the European Union, the election of the businessman Donald Trump as President of the United States, uncertainties of geopolitical nature) have made the predictions of specialists undergoing multiple reviews and attempts to explain and find solutions to issues such as the weakness of international trade, the persistence of low inflation, and so on.

According to the data estimated by the International Monetary Fund, the overall increase for the first half of 2016 is close to 3 percent, lower than the Fund's April forecast.

Table no.1: Industrial production and trade volume of developed economies in 2014-2017 (percentage changes)

	2014	2015	2016*	2017*
1. Industrial production				
United States of America	2,4	2,6	1,6	2,2
Canada	2,5	1,1	1,2	1,9
Japan	0,0	0,5	0,5	0,6
UK	3,1	2,2	1,8	1,1
The Euro area	1,1	2,0	1,7	1,5
➤Germany	1,6	1,5	1,7	1,4

➤France	0,6	1,3	1,3	1,3
➤Italy	-0,3	0,8	0,8	0,9
<i>Total developed economies</i>	1,9	2,1	1,6	1,8
2. Exports	3,8	3,6	1,8	3,5
3. Imports	3,8	4,2	2,4	3,9

* Forecasts

Source: Data processed by authors based on information provided by the International Monetary Fund

As can be seen in the above table, the percentage changes in industrial production in 2014 were favorable for the United Kingdom (3.1%), Canada (2.5%) and the United States of America (2.4%). At the opposite end, in the case of developed countries, they were located economies such as Italy (-0.3%), Japan (0.0%), France (0.6%) etc. At the level of 2015, the average growth of industrial production of developed countries was 2.1%, with 0.2% higher than last year.

The top was led by the US (2.6%), the UK (2.2%) and the Eurozone (2%). The forecasts for the years 2016 and 2017 are some unfavorable; in most cases it is a continuous decline in industrial production. The situation is not much different in the case of trade exchanges of developed economies; both exports and imports are projected to fall for the current year, with a slight recovery expected in 2017. The data presented by the International Monetary Fund in WEO, the version of October last year, shows that compared with the April forecast, the growth of the euro area gross domestic product registered a decrease from 2.1 percent in the first quarter to 1.2 Percent; in the UK rose 2.4% compared to 1.8% in the first quarter and in Japan the decline was 1.4% (from 2.1% to 0.7%).

With regard to inflation, we must keep in mind that its level during the year 2015 (0.3%) was the lowest since the beginning of the international economic and financial-monetary crisis. In the first half of 2016, it grew by 0.2% due to the reduction in oil prices.

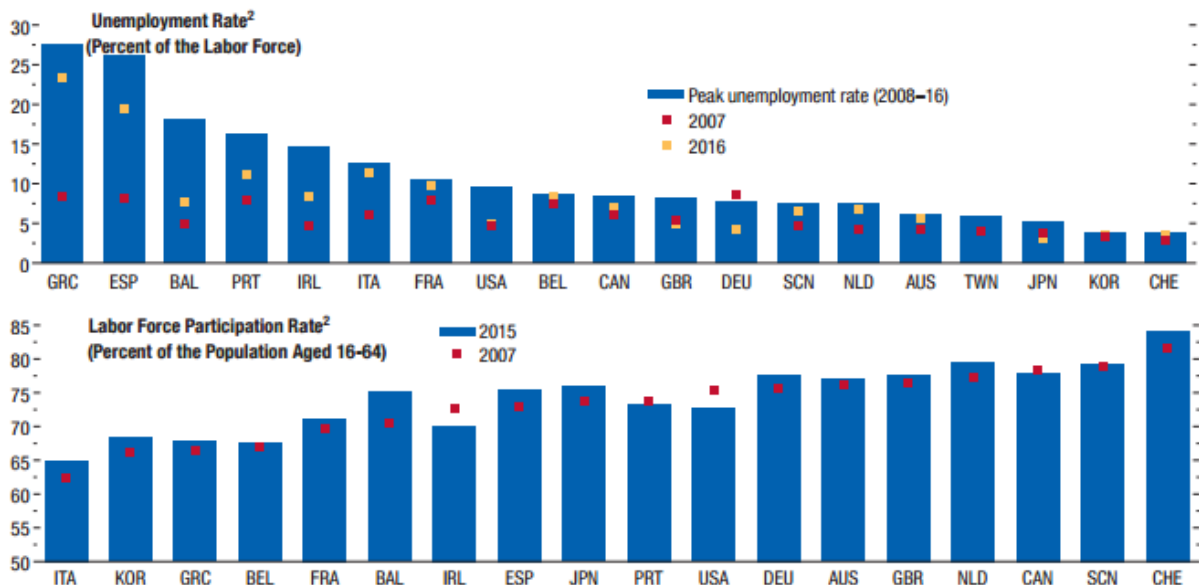
2. Current situation of the developed countries

Currently, the world's main macroeconomic indicators have come close to those before the global crisis, with the exception of a few cases (for example, the United States of America). Of course, the recovery has depended on a number of factors, such as the aging of the population specific to certain states, low global demand, reduced productivity, labor market participation, falling commodity prices etc.

Continuous fragmentation of production has taken place, in the present case due to the protectionist measures applied by the states. Even if trade has declined, ways must be sought to restore the role of commerce as the main actor in boosting productivity and economic growth. In this case, we can say that it is not only a qualitative perspective, but also a quantitative one. Thus, trade influences productivity in various aspects, such as the situation of exports, that of imports and why not imported inputs. In this way, the effect will be felt from low to high, from the economic agent to the state, that is from the microeconomic level at macroeconomic level and then mono-economic.

Next, we present in the figure no.1 the situation of the unemployment rate and the rate of labor force participation in the developed economies, both at the level of 2007 (prior to the outbreak of the crisis) and at the level of 2016. As can be seen in the chart below, the unemployment rate (expressed as a percentage of labor force) is the lowest in countries such as Korea, Taiwan, Japan, Austria, Switzerland. Countries that still have higher levels of unemployment than in 2007 are Greece, Spain, Estonia, Latvia, Lithuania, Portugal, Ireland, Italy, France. In the middle of the ranking we find the states reaching the level of 2016 equal or almost equal to the one registered in 2007; we include the United States of America, Canada, Belgium, the UK and Germany (its case is special because the unemployment rate is much lower than 9 years ago).

Figure no. 1. Unemployment and Labor Force Participation in Advanced Economies



² BAL = Estonia, Latvia, Lithuania; SCN = Denmark, Finland, Iceland, Norway, Sweden. Other labels in the figure use International Organization for Standardization (ISO) country codes.

Source: Data selected by authors from World Economic Outlook: Subdued Demand-Symptoms and Remedies, International Monetary Fund, oct. 2016, p. 12

For the current year, things do not seem to be very favorable; taking into account a number of factors such as the UK referendum on leaving the European Union, the still uncertain situation of emerging economies, the vulnerabilities of financial markets, low productivity, etc. The situation is not uniform even for all developed economies; So growth is expected to be more significant on the American continent (the United States and Canada), given the recent economic recovery seen in these countries, and less important in European economies, based on British referendum results.

3. Where they are going?

If we look at the individual perspective, we can remember the following:

- **Great Britain** - as mentioned above, the growth will be insignificant, quite slow due to the lack of certainty of the vote for leaving the European Union. Brexit's results affect all parties involved, from businesses / companies (who do not know whether to hire, invest or wait to be informed about the new trade conditions with the countries that remain in the European Union and the laws applied in the In the case of foreign investments or foreign employees) to the final consumer (who thinks twice before acquiring durable goods and is limited to what is strictly necessary). In fact, as shown in Table 1, a slowdown in economic growth is expected to be almost half the point of the previous period (1.8-1.9%), and for the year 2017 a growth of Slightly above one percent (1.1-1.2%).

- **Eurozone**- In neither the short-term nor the medium-term, the situation does not seem to be favorable to the Community's economies. The percentage change in economic growth over 2015 is expected to decrease for the next two years (2016- less by 0.3% compared to 2015 and 2017-less by 0.5% versus 2015). The major causes of this decline are the mistrust of investors, the fiscal-fiscal policy that does not seem to have followed the expansion path, the UK situation, government debts, high unemployment rates in some states, and low fuel prices.

- **Japan** - the growth for the Japanese state is extremely modest; Only half a point for 2016 and just over half for the next year. In this case, disturbing factors are observed: lack of decision to increase consumption taxes, budget measures announced by the government, fiscal stimulus measures adopted (announced with a view to increasing competitiveness and increasing the

national economy), declining population etc.

• **United States of America-** Forecasts are modest and on the american continent. Thus, for the US, the percentage change will be slightly above 1.5% (1.6-1.7%), and for the following year 2.2%-2.3%. Investments are still weak, productivity is not increased and the population ages. All of these are not at all favorable for a sustainable US growth; It simply hampers not only the recovery but also the recording of economic growth. In the case of Canada, the situation is similar (1.2 for 2016 and 1.9 for 2017).

4. Conclusions

To conclude, although the data do not look good, a recovery is still to be expected in the near future; optimism comes more from the specialists, because companies and economic agents are quite skeptical, given the recent financial results. We can not expect too much, economic growth can only be an anemic one if we look at analyzes of employment rate, unemployment, public debt etc.

In the European economies, France is the most unfavorable; the picture is a grim and tense one: the economic growth rate is one of the smallest among EU members, the youth unemployment rate is 24% (although they lack education and social services) and the public debt has reached almost 90 %.

5. References

- Bellemare, M.F., 2015. *Rising Food Prices, Food Price Volatility, and Social Unrest*, American Journal of Agricultural Economics 97 (1): 1–21
- Berden, K.G., J. Francois, S. Tamminen, M. Thelle, and P. Wymenga, 2009. *Non-Tariff Measures in EU–US Trade and Investment: An Economic Analysis*, ECORYS, Rotterdam
- Byrne, D.M., J.G. Fernald, and M.B. Reinsdorf, 2016. *Does the United States Have a Productivity Slowdown or a Measurement Problem?*, <https://www.brookings.edu/bpea-articles/does-the-united-states-have-a-productivity-slowdown-or-a-measurement-problem/>
- Hördahl, P., J. Sobrun, and P. Turner, 2016. *Low Long-Term Interest Rates as a Global Phenomenon*, BIS Working Paper 574, Bank for International Settlements, Basel
- International Monetary Fund, 2016. *World Economic Outlook (WEO): Subdued Demand: Symptoms and Remedies*, Washington (<http://www.imf.org/external/pubs/ft/weo/2016/02/>)
- Pescatori, A., and J. Turunen, 2015. *Lower for Longer: Neutral Rates in the United States*, IMF Working Paper 15/135, International Monetary Fund, Washington
- Syverson, C., 2016. *Challenges to Mismeasurement Explanations for the U.S. Productivity Slowdown*, NBER Working Paper No. 21974, February, National Bureau of Economic Research, Cambridge, Massachusetts
- World Trade Organization (WTO), 2015. *International Trade Statistics 2015*, Geneva: WTO (https://www.wto.org/english/res_e/statis_e/its2015_e/its2015_e.pdf)