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ANNUAL REPORT OF THE BANK FOR INTERNATIONAL SETTLEMENTS

The BIS annual report contains its usual fascinating analysis of the world economy.

The summary on pages 3-7 is worth glancing at if you have time, though as with all these international institutions, the bits which are likely to be widely read tend to be bland.

Two particular points struck me in reading the report.

First, the role of the United States budget deficit and its counterpart in the current account deficit is a recurrent factor which appears in every chapter. Some of its effects are obvious, for example, its role in helping to create unsettling and damaging movements in exchange rates over the past four years. Others are more subtle, for example, its role in encouraging changes in the financial markets. The shift away from direct lending by banks to lending through securities (commercial paper, Euro-notes and bonds, etc.) began before the current account imbalances between the United States and Japan became so extreme. But the Japanese reluctance to engage in direct investment overseas, the BIS believe, has encouraged the growth of securities markets as a way of lending and borrowing. (Japan's direct investment accounted for only 11 per cent of overseas assets at the end of 1984 compared with 33 per cent for the UK.) This could itself help towards future instability because securities can be bought and sold more easily than direct investments.

Secondly, the BIS emphasise the continuing importance of control of the monetary aggregates. They point out that the world's performance on inflation is not as good as it looks, because of the fall in oil and commodity prices which is unrepeatable. They point to the evidence of liquidity ease in industrial countries (the boom of stock market prices, the scale of takeovers and generally the borrowers' markets) as cause for caution.

In this context they also argue against excessive reliance on goals for nominal income (as of course we have in a modest way) or interest rates (page 116). Furthermore they suggest that for countries within the EMS, other than Germany, interest rates have been assigned as an instrument for managing exchange rates while credit or exchange controls have often been used to permit monetary objectives to be pursued at the same time (page 127). This is of course a point you have yourself made from time to time.

Other interesting points are:

(i) OECD and world bank figures suggest that the proportion of manufactured products subject to non-tariff restrictions in the industrial world may have risen from 20 per cent in 1980 to 30 per cent in 1983 and the trend has almost certainly continued since then;

(ii) only a fifth of the 11 million non-agricultural jobs created in the United States since the end of 1982 have been in industry;

(iii) the table of international comparisons of budget deficits on page 26 - which excludes asset sales - shows ours equal to that of the United States and around three times that of Germany and Japan (though a more sophisticated analysis would also take into account savings ratios, shown on page 63, with our private savings ratio substantially higher than that of the United States and France);

(iv) the fascinating table on page 68 showing real returns on equities, housing and bonds; the returns on all three in the UK have been high in the past three years, particularly for equities;

the returns to housing have been poor over the past six years taken together though higher than in all other countries except Japan and much the same as Italy; the return to agricultural land in the US has been negative to the tune of more than 33 per cent over the six years.

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pp (DAVID NORGROVE)
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