

How difficult is to make credible forecasts

THE WORLD IN 1989 and onto the 1990s

1989 will end on a new decade; this survey looks at what shape the world will be in as we enter the 1990s. The consensus is "not bad, not at all bad". A weak, well, weakish, American president will wind down world politics leaving other political leaders to cultivate their own backyards: Mrs Thatcher to find a policy to see her through another two elections; Mr Gorbachev to find his Marks & Spencer; the heirs of Emperor Hirohito to cope with a society metamorphosing from toiling caterpillar to butterfly.

Unpleasant little local hot spots will by mutual agreement be kept just that, unpleasant and local.

It should be a wealthier decade. The world has all the ingredients for growth and does not need miracles of modern technology to bring it about. The traditional, written-off, smokestack industries have brushed off the rust, oiled their joints and are proving that steel and machine tools are every bit as necessary to life in the 1990s as computers and Sony Walkmen.

As ever, it is in our power to mess things up. There will be financial collapses. The separate authors of this survey are unanimous on this. They are also unanimous that the world of financial speculation has decoupled from the real world of machines and eggs and bacon. But if this impending round of financial collapses, which will have been caused by lending policies as irresponsible as the South Sea Bubble, coincides with what is likely to be an inevitable down-dip in world trade, nerves could snap and we would be in trouble.

The soviet economy



ТЕ ЖЕ ГОДЫ, ДА РАЗНЫЕ „ПОГОДЫ“



Was Us economy declining?

Comparing US economy at the international level

Was US economy declining?

Biggest world economy's share of world production and trade

year	Country	% World GDP	% World trade
1870	UK	32	25
1913	USA	36	11 (16UK)
1928	USA	42	14
1938	USA	32	10 (14 UK)
1950	USA	45	15
1970	USA	25	12
1990	USA	25	11,8
2000	USA	23	12
2010	USA	19	8,4 (China 10,4)

AVERAGE ANNUAL GROWTH RATES OF REAL GNP

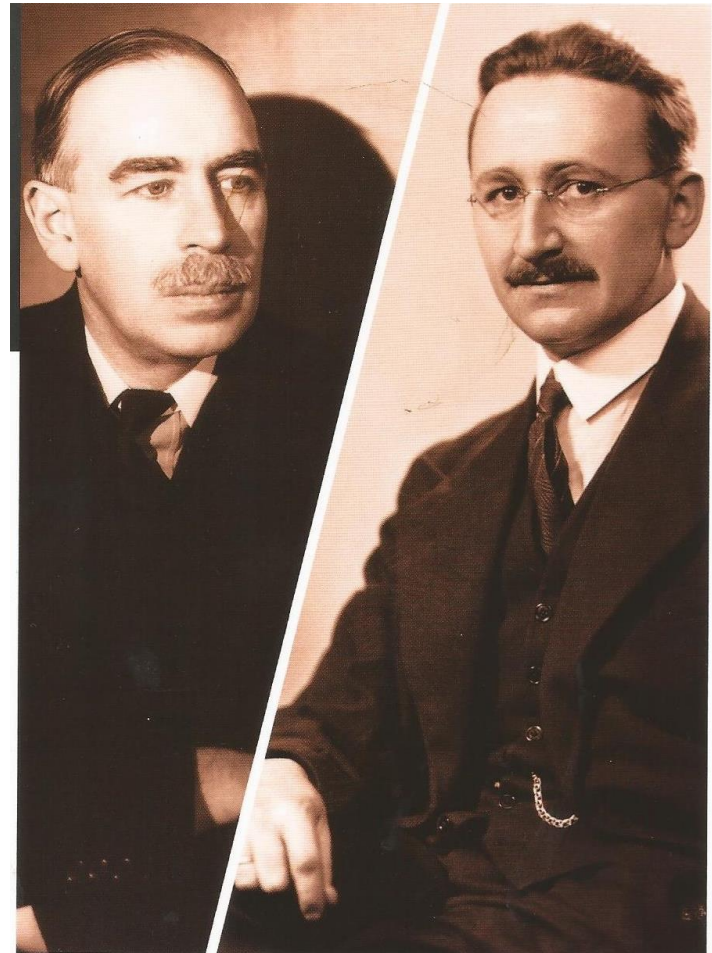
	United States	Japan	EEC
1961-1965	4.6	12.4	4.9
1966-1970	3.0	11.0	4.6
1971-1975	2.2	4.3	2.9
1976-1980	3.4	5.0	3.0
1981-1985	2.6	4.0	1.5
1986-1987	2.9	3.1	2.5

From the failure of the market to the end of the mixed economy

- Beveridge Report**
- French “planisme”, IRI in Italy**
- Germany and Scandinavian countries, welfare state**
- the “superiority” of the social economy**

The 80 years “war” (1929-2008)

- From the triumph of Keynes to the victory of Hayek – and return ?
- *The General Theory vs. The Road to Serfdom ?*
- State intervention vs. monetarism or supply side economics



Hayek, the revenge

- “The theory which has been guiding monetary and financial policy during the last thirty years, and which I contend is largely the product of such a mistaken conception of the proper scientific procedure, consists in the assertion that there exists a simple positive correlation between total employment and the size of the aggregate demand for goods and services; it leads to the belief that we can permanently assure full employment by maintaining total money expenditure at an appropriate level. Among the various theories advanced to account for extensive unemployment, this is probably the only one in support of which strong quantitative evidence can be adduced. I nevertheless regard it as fundamentally false, and to act upon it, as we now experience, as very harmful”
- (Prize Lecture, *The Pretence of Knowledge* ,December 11, 1974)

Nobel Prize Winners in Economic Sciences of the University of Chicago

- [Thomas J. Sargent](#), 2011
- [Leonid Hurwicz](#), 2007
- [Roger B. Myerson](#)‡, 2007
- [Edward C. Prescott](#), 2004
- [Daniel L. McFadden](#), 2000
- [James J. Heckman](#)‡, 2000
- [Robert A. Mundell](#), 1999
- [Myron S. Scholes](#)*, 1997
- [Robert E. Lucas Jr.](#)*‡, 1995
- [Robert W. Fogel](#), 1993
- [Gary S. Becker](#)*‡, 1992
- [Ronald H. Coase](#), 1991
- [Harry M. Markowitz](#)*, 1990
- [Merton H. Miller](#), 1990
- [Trygve Haavelmo](#), 1989
- [James M. Buchanan Jr.](#)*, 1986
- [Gerard Debreu](#), 1983
- [George J. Stigler](#)*, 1982
- [Lawrence R. Klein](#), 1980
- [Theodore W. Schultz](#), 1979
- [Herbert A. Simon](#)*, 1978
- [Milton Friedman](#)*, 1976
- [Tjalling C. Koopmans](#), 1975
- [Friedrich August von Hayek](#), 1974
- [Kenneth J. Arrow](#), 1972
- [Paul A. Samuelson](#)*, 1970

- **Structural changes in the world economy: oil and raw materials price dynamics**
- **The end of the international monetary system**

Stagflation in the 1970's

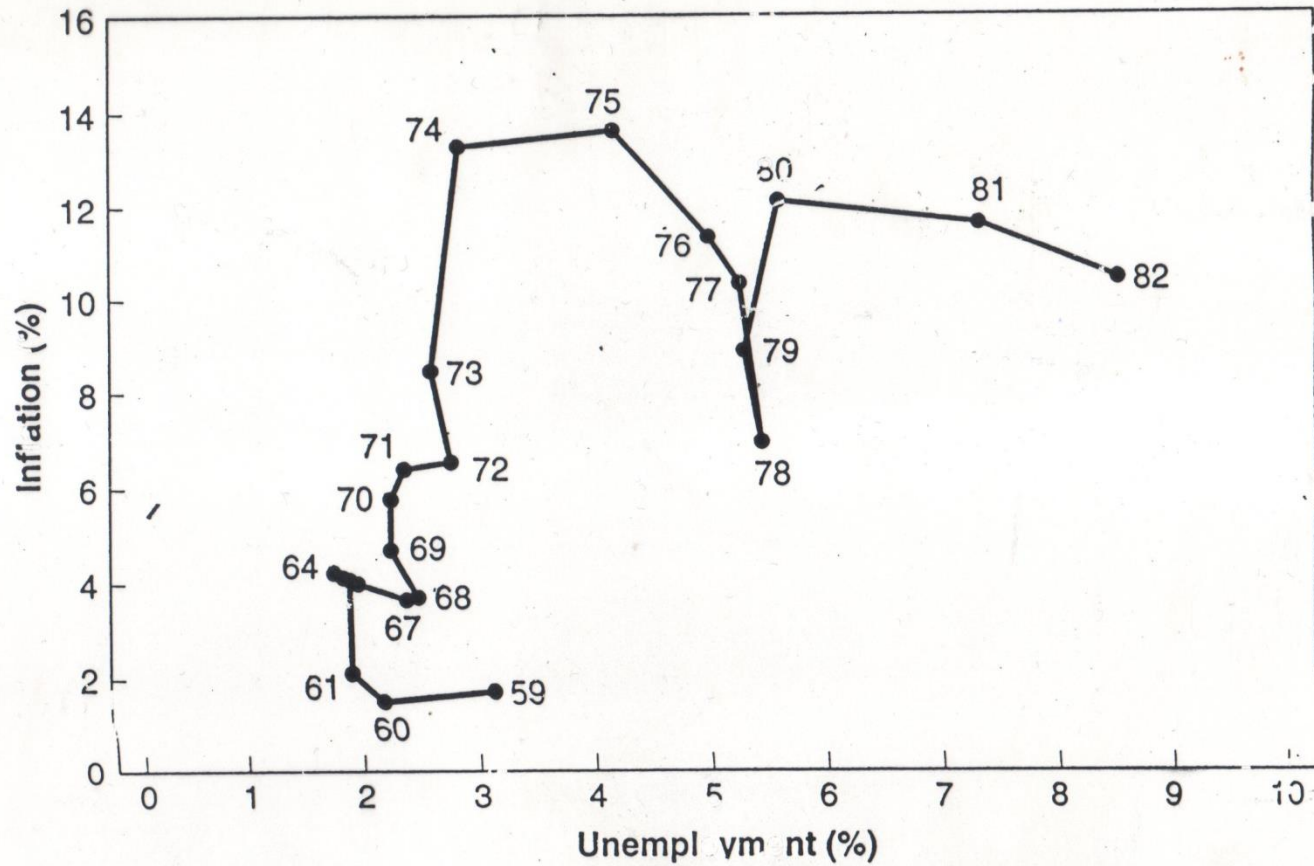


Figure 9.4. Inflation and unemployment in Europe, 1959–1982. Source: Eurostat.

The revenge 2.0

- There may be few instances in which the superstition that only measurable magnitudes can be important has done positive harm in the economic field: but the present inflation and employment problems are a very serious one. Its effect has been that what is probably the true cause of extensive unemployment has been disregarded by the scientistically minded majority of economists, because its operation could not be confirmed by directly observable relations between measurable magnitudes, and that an almost exclusive concentration on quantitatively measurable surface phenomena has produced a policy which has made matters worse. (Hayek)





Keith Joseph & Margaret Thatcher



Photo courtesy of David Kennerly

Ronald Reagan

Towards liberalization