

Paradox of Thrift

To the extent that the crisis has a second and perhaps even third wave, and that the standard IMF prescription is handed out in each round, it was pointed out that the global economy could be faced with a "paradox of thrift". The paradox, first put forward by John Maynard Keynes, is that while it may be in the best interest of individual actors in an economy to reduce spending during an economic downturn, it would not be in the interest of the economy as a whole if most or all economic actors reduced spending at the same time. A related threat is that of global deflation. Generally, participants felt that while deflation in the sense of falling prices is already a reality, especially in international commodity markets and more widely in Japan, the threat of a 1930s-type depression is less likely because of industrialised governments' ability (and presumed willingness) to act in a counter-cyclical fashion, especially on monetary policy.

Even if global deflation does not set in, the ability of the Asian economies to export their way out of the crisis will depend on whether or not there is sufficient global demand for their exports. The United States and Japan are the two most important destinations for Asian exports, yet the ability of either economy to increase imports on a large-enough scale is questionable. Table 1 shows principal export destinations of major Asian economies, and their continued reliance on the US and Japanese markets.

Who will be the Engine of Growth?

The United States is already experiencing its longest economic expansion in the post-war period, and there are doubts if this can carry on for much longer. Furthermore, it is not clear that either financial markets or the US electorate will tolerate a burgeoning US current account deficit and the potential loss of jobs in some sectors, notably automobiles. Indeed, the trajectory that the IMF has set out for global recovery, as contained in its December 1997 World Economic Outlook, projects the US current account deficit to be 2.7 percent of GDP by 1998, a level not seen since the mid-eighties when the US dollar came under severe pressure, leading to the Plaza Accord of 1985 and the rapid appreciation of the Yen.