

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version
Comments

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1966) : Comments, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 01, Iss. 10, pp. 4-5, <https://doi.org/10.1007/BF02922852>

This Version is available at:
<https://hdl.handle.net/10419/137645>

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COMMENTS

Coffee Conference

Chacun pour soi et ICO pour tous . . .

Like most of the world commodity markets the international coffee market is characterised by a production exceeding total demand. A price decline, however, which would occur in a free market is prevented by the market regulations of the International Coffee Agreement existing since 1962. Established, to the greater part, in favour of the mostly underdeveloped producer countries—to guarantee them a certain amount of export proceeds—and to the smaller part, in favour of the industrialised consumer countries—to avoid short-term price fluctuations—the agreement cuts the world supply of coffee by a yearly renewed export-quota system until supply meets total demand. By this procedure it seems to be relatively easy to reach price stabilisation, but it is quite clear, too, that this end is reached at the expense of steadily growing coffee-stocks in the producer countries. The evil in the world coffee market is not rooted out gently by this measure.

But the recent double session of the International Coffee Organisation (ICO) in London at least has raised hopes of a long-term settlement of this key issue. First the export-quota system has been improved to achieve a more flexible adjustment of supply and demand. More essential, however, seems to be the fact that the so-called "hardship waivers", which complete the system of basic quotas and special export authorisations, have been connected with the obligation that 20% of foreign exchange earnings to be gained from such "waivers" have to be used for financing a diversification and development programme.

Both arrangements point out that the ICO has recognised the only way to overcome the permanent disequilibrium in the coffee market.—But the ICO alone will hardly realise its ideas because of the differing interests of the various member countries. The producer countries themselves have to think over their coffee policy and to care for adequate measures to keep the coffee crop within reasonable limits and to ease the necessary structural change from single-crop farming to an industrialised economy. A positive example seems to be given by Brazil, number one among the coffee producing countries. Just recently President Castello Branco proclaimed the return to a realistic coffee policy and ordered the destruction of 350 million coffee bushes.

At any case the future parole for all coffee producing countries has to be the variation of an old French sentence attributed to Montesquieu: Chacun pour soi et ICO pour tous . . .

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West German Foreign Trade Policy

Export Promotion in Slices

A short time ago the Federal Government improved its system of financing exports and now it has also made export credit insurance (HERMES) more attractive: as of 1.9.1966, German exporters are able to obtain full insurance cover against embargo risks. Hitherto this risk was only covered if it was caused by a foreign government after a contract had been concluded. Now German exporters can also obtain cover against actions of their own Government affecting export contracts already concluded.

This new arrangement is a very unconventional move on the part of the Federal Government, even if it is to be regretted that export promotion is not based on a compact scheme, but is done piecemeal. All the same, this new measure means that the Government is making it possible for exporters to protect themselves against imponderables of which it might be the cause. In any case of State induced damages HERMES Credit Insurance Company—an institute which the State entrusted with the coverage of export risks—will intervene. Whatever the political drawbacks of this decision may be, its economic results will certainly be advantageous for German foreign trade relations. Perhaps it will also help in getting the unrealistic embargo upon large-size pipes lifted, so that traditional German-Soviet trade can be revived. schi.

Raw Material Markets

Tin Agreement Not Tried Yet

The First Tin Agreement (1956-61), born in an era of burdensome supply, was reasonably successful in balancing the market. The Second Agreement (1961-66)—with tin in shortage and the General Services Administration releasing surplus tin from its National Stockpile—lost its stabilising influence on the price of tin. We were back to the free play of the market,

when a strike in a tin mine, transport difficulties or a lock-out in consuming industries led to considerable price fluctuations.

The events of the past ten years have proved impressively that an international commodity agreement can work in times of over-supply by means of export control and buffer stock operations, if all the big producing countries are members. However, in times of under-supply it must be described as a failure, if some of the world's biggest tin consuming countries are not members of the agreement.

The Third International Tin Agreement, which entered into force provisionally on July 1, 1966, may be an insurance of the producing countries against the rainy day. Under the prevailing circumstances its objectives, "to provide for adjustment between world production and consumption of tin", "to prevent excessive fluctuations in the price", "to make arrangements in order "to maintain and increase the export earnings ... of the developing producing countries" on the one hand and "to secure an adequate supply at prices fair to consumers" on the other hand, etc., do not appear very realistic. The increase in the floor and ceiling prices of the Tin Buffer Stock in July, 1966, means a relatively little change of this situation.

As long as the United States, the Soviet Union and Western Germany as major tin consuming countries do not join the agreement, there will never be an International Commodity Agreement within the meaning of the Havana Charter.

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Trade by Aid

Marketing in Developing Countries

The opening up to trade of markets in industrial countries is a stereotyped demand of the "Third World". Although justified, it is easily used to divert us from a more important problem: what is the use of markets being open if people are unable to sell in them? In the long term it is practically useless to grant sales guarantees; developing countries have to learn to sell their products. The Import Exhibition in Berlin showed that developing countries are beginning to recognise this need. Not only has the number of exhibitors grown; there is also a great improvement in quality. Developing countries have begun to make use of modern trading and selling methods. Developing countries no longer shy away from the "hard sell"—as used in developed countries. This is a good school and the best way to successful selling. "First sell, then produce", said an expert in Berlin; there is a lot of truth in this. Mastery of modern "marketing" techniques is at least as important as sufficient production capacity and strong quality-consciousness. Promising support from industrial countries is available here. Comprehensive, synchronised measures for the promotion of exports in developing countries are

an effective way of facilitating the incorporation of the latter into a world economy based on division of labour. The assistance given by the Federal German Republic can serve as an example.

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Argentina

"Social Market Economy"

In Argentina, the economic system appears to vary with every change of government. Recently Signor Salamei, the Minister for Economic Affairs in the new Onganía Government, drafted a programme envisaging reliberalisation from a state-directed economy to a "social market economy". ("Social market economy" is the official term.)

This broad palette of economic innovations stretches from the relaxation of foreign currency control, through inhibition of inflation and encouragement of private initiative to modification of wage policy and the rationalisation and reorganisation of the apparatus of government. However, it is significant that the economic programme is content to present a list of all-embracing principles without indicating any practical way of putting them into practice. A favourable economic development and a two-year "toleration agreement" with the Peronist unions initially created for the new Government concomitant circumstances which underpinned the belief that it would be possible to achieve speedy realisation of these plans.

Meanwhile Salamei's programme has met with increasing opposition. It has been necessary to modify considerably the line originally taken. The recommended free decision of producers and consumers has for instance been limited and on the foreign exchange market as well as in wage policies the old state of affairs prevailing in the days of Illia has returned. It is difficult for results achieved hitherto to be catalogued under the concept of "social market economy" as we understand it.

It is impossible for any critical appraisal of all these economic measures of Salamei's to avoid the impression that the Argentinian variant of the system of a "social market economy" is absolutely different from what we, in the Federal German Republic, conceive such an economy to be and that their system would be better described as "liberalisation by dirigiste methods".

Now that the fight against inflation and attempts to reduce the budget deficit have not succeeded, laws on domestic trade, a "Welfare Ministry" and a "National Development and Security Plan" have become characteristics of current economic policy. This makes it possible for the Government to undertake direct interventions affecting the price system and social structure.

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