

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. 11, pp. 4-5, <https://doi.org/10.1007/BF02922717>

This Version is available at:

<https://hdl.handle.net/10419/137653>

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# COMMENTS

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## *Soviet Commercial Bank*

### **Trade or Disturbance?**

After London (1911), and Paris (1917) it is now Zurich where the Soviets have established the third foothold in the western financial world: The "Wozchod Handelsbank" ("Sunrise Commercial Bank"), officially concerned with the development of Soviet-Swiss trade relations and international economic relations in general. But is this the only, the true reason of opening a bank in Switzerland? Surely, trade between Switzerland and Russia—although expanding by 50 % in 1965—is still modest; less than 1 % of total Swiss exports and imports. And East-West trade is actively supported through Soviet banks in London and Paris. But nevertheless "Sunrise" certainly has a more political background. Before opening the new bank at No. 1 Schützengasse, Russian gold business was channeled almost entirely through the London market. Zurich would be an additional base for handling Soviet sales of gold and allow the USSR to become more independent in periods of rising international tensions. Switzerland with one of the best developed financial networks in the world, its unrestricted currency convertibility, and—last but not least—its central position as a neutral country is the best place for future Russian gold business. It would be wise to be aware that sudden, sizeable sales of Russian gold against western currencies could some day quickly bring about undesirable disturbances on our foreign exchange markets.

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## *Pipeline Management SA*

### **International Pipeline Construction**

The new Pipeline Management SA has been formed in Luxembourg. Partners in the new venture are Buckeye Pipeline Company, New York, Omnium Technique des Transports par Pipeline (OTP), Paris, and Pipeline Finance SA, an international consortium of banks, among which are also the German banks, Deutsche Bank AG and Dresdner Bank AG. Through close cooperation between these partners Pipeline Management SA is to assist in the construction of pipelines through commercial, technical, and financial aid.

This private initiative leads to expectations of a further rapid development in the West European pipeline network, which may eventually become as closely knit as that of North America. The new organisation

will very probably contribute to improved integration between, and financing of, new pipeline projects, although also in the past large pipeline undertakings have always implied financial participation by major oil concerns and consortia of bankers, for any pipeline is essentially a public transport utility "which transcends national boundaries" and thus calls for co-operation beyond the confines of individual nations.

Legislation on pipelines—which is strongly opposed by the oil companies—will, however, not become superfluous through the new step. As hardly any State, with a few significant exceptions, has legislated yet on the questions of pipeline construction and operations, joint regulations within the EEC are thought to be possible and indispensable on such important questions as, for example, safety questions and compensation claims for forced land purchases.

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## *Trade with the East*

### **Credit Guarantees by the United States**

As trade with the East becomes a progressively booming business for those European States which have fully or virtually ceased to adhere to embargoes and credit limitations, the United States now also makes a serious attempt to improve its eastern trade relations. Thus, President Johnson made the proposal in early October to facilitate deliveries mainly to Poland, Hungary, Bulgaria, and Czechoslovakia by making federal credit guarantees available. After the failure of his first proposal to authorise the President to apply the most-favoured-nation clause to trade with East European countries, the new initiative led to a compromise, after tough negotiations. Under a resolution of Congress of October 21, the President may ask the Export Import Bank to extend credit guarantees to deliveries of non-strategic goods to any communist country, provided such trade is thought to be in the national interest of the United States.

This decision will certainly increase the competitive strength of US companies for individual projects, but even the new formula leaves unsolved the crucial problems, because disputes can rage endlessly as to what is in the national interest, and which are non-strategic goods. Especially in trying to discriminate between strategic and non-strategic goods, it should not be forgotten that any delivery to a communist State helps its Government to save on production implements of its own, and if it so wishes, aids it in switching them to strategically important production.

The question is incorrectly put: it should not be, how trade with the East can be increased without risk, but, does any trade with the East make sense?

Once the decision has been made to trade with the East, restrictions of any sort are of doubtful value only. At any rate, loosening up the rigid and dogmatic attitudes of the past can be judged as a first step towards a more realistic policy.

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### *Latin America*

## **Development Policy by Birth Control**

The actual development in many countries seems to verify Malthus' gloomy prediction that economic growth is always outstripped by a higher rate of population growth entailing a permanent mass poverty, held within the limits of subsistence by a heavy mortality.

In former times it was fairly reasonable to trace back a high death rate to economic poverty and a falling death rate to economic as well as physical health in a nation. But today in the case of underdeveloped countries this conclusion does not hold any longer. Science has shown the way to cut down the death rate of an impoverished people quickly, with only modest investment of resources and without any major change in the material conditions of living. A striking example is the—with respect to the available resources—rich subcontinent Latin America, and here especially Brazil. Unless present trends are slowed down, Brazil will have 225 million pariahs at the end of the century. There is no economic formula for maintaining living standards under these circumstances. To avoid disaster they are not thinking so much of Reverend Malthus' recommendation to indulge in the practice of "moral restraint", i.e. the prudential delay of marriage rather than of the possibilities of birth control by an educational campaign on contraception; a survey showed that 91 % of the persons interviewed were in favour of such a campaign. The first effective response to Brazil's population growth rate of 3.5 % a year is the floating of The National Family Welfare Foundation; however, there is no direct governmental involvement. The Governments of Chile—the pioneering country in population control—and Honduras have made family planning a publicly supported service. The representative of Latin America in The International Planned Parenthood Federation of London said that only Nicaragua, Bolivia, and Paraguay lacked the nucleus of a family-planning group. "The people are ready. They want help. It takes leaders in this field to break the taboos". Initial steps in this direction have been made, mostly by private organisations. It is to be hoped that these endeavours will soon receive a broad governmental support. Birth control is an important and efficient means raising the per capita incomes with a given amount of capital, that means raising the standard of living.

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### *Meeting of the IMF*

## **Declarations and True Intentions**

The main result of the recent annual IMF meeting at Washington was a plan for the early setting-up of a system of additional international liquidity, to be created artificially. One of the main arguments for forming additional reserves is the fact that the disturbances in the equilibrium of balances of payments have lately grown to such an extent that their size roughly equals the value of the entire world trade.

In discussing a feasible solution, three main groups have made their appearance who, though all of them being convinced that additional payment reserves will have to be created, are far from agreeing with each other. This may have been caused by each of them saying something which does not correspond with what they really mean.

At the head of the first group stands France. It waxes lyrically about the virtues of gold, at the same time condemning the gold exchange standard. But what France really means is probably that it finds the dollar politically intolerable as the main reserve currency.

Representatives of the second group are the US and the UK. Both emphasise the urgency of drawing up a new reserve plan. What they state is that additional international liquidity is needed for making it easier for many countries to acquire currency reserves for mastering their economic difficulties; what they really mean are their own tight balances of payments, because of which they want to shed their sole responsibility for having reserve currencies.

As the last group, the developing countries would welcome any artificial increase of liquidity ostensibly because temporary problems of international payments could thereby be more easily overcome. Their true intentions, on the other hand, are hardly a secret: They believe a new reserve plan could serve as a new pattern of development aid, enabling them to use the new liquid reserves for a permanent transfer of goods.

These true intentions of the interested countries will probably all do serious harm to the planned additional reserve system. First: it is wrong to set political considerations above economic ones; secondly: it would be unwise to tackle problems of balances of payments through creating additional liquidity—on the contrary, the reserve plan should be carried out not before such difficulties have been overcome. And lastly: a reserve system must on no account be interpreted as additional development aid.

Any reserve machinery works on the basis of mutual credit obligations, and will only work if and when it is operated on the basis of mutuality.

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