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trary to popular belief, not so much how to increase the supply of consumer goods to a certain minimum. Exactly the reverse applies: and this is whether and to what extent the standard of living can be kept low.

The rate of saving and the extent of capital formation are decisive. As Prof. W. W. Rostow explained in a series of articles on economic growth in the "Economist", the whole difference is whether, as until now, only five per cent of the national income or even less go into savings, or whether it will be possible to raise this percentage to ten or more. For our question it is of secondary importance whether savings are directed into production investments by State functionaries or by private enterprise; what matters is to achieve this expansion of production facilities.

Aid from Outside?

Attention will be directed to the possibility of attracting foreign capital. This will be all the more the case the more the economic policy of a potential debtor country conforms with market rules and the sounder its balance of payments is. We would point to the United States last century and to Canada at present. Nevertheless, every statistical evidence about the less developed countries reveals a gigantic demand for capital; in the light of these gigantic dimensions any capital influx from abroad is only a drop in the bucket.

As to private investments in particular, it should be pointed out that they are being discouraged not only by an economic policy which is hostile to creditors but also by the absence of an efficient "infra-structure".

The United States Reviews the International and Financial Economic Outlook

By Professor Dr Robert G. Wertheimer, Cambridge/Mass.

The 53rd National Foreign Trade Convention held in New York early in November provided an exciting climate and confrontation with issues and policies for 1967. Officials and experts from the business community and government presented their views and projections shaping up some of their principal propositions as follows.

The Balance of Payments and the Dollar

There exists general agreement that the level of world trade of \$ 400,000 million (imports and exports) should continue to grow at least at present rates of 8% annually, that the US Balance of Payments is sound and that the United States is not living above its means but that the deficit, though minor, can be eliminated. More important, the US will support all measures designed to expand world trade without discrimination and assist the International Monetary Fund. In terms of international solvency the US continues to reflect overwhelming strength with net assets of \$ 50,000 million.

The trade and service balance continues in surplus while the deficit items consist of private capital exports, foreign aid and the financing of military commitments carried for the entire Free World. Any one of these items remains enough flexible though to permit that all together may close the deficit gap. Particularly, an expansion of agricultural exports is expected to improve exports probably assisted by a success of the Kennedy Round. Americans being accustomed to think in terms of world-wide business, reject narrow nationalistic payments prescriptions and do not consider it an outrage that the world may have to live with an annual US deficit of \$ 1,000-2,000 million. For demonstration purposes, however, the ex-

perts agree that the gap can be closed completely at will though this may hurt the world and change the entire international climate in an unfavorable way. This author projects the US balance of Payments for 1967 as follows:

Item	exports	imports
	(in million of \$)	
Goods	30,800	26,300
Services, remittances and net investment income	12,300	10,200
net private capital exports		2,500
government foreign aid (minus repayments)		3,300
military spending (minus paid-for military exports)		2,400
Total	43,100	44,700

The actual deficit for 1966 is expected to amount to \$ 1,500 million. According to the Department of Commerce, a briefing on the deficit outlook and the extension of the voluntary capital export restraining program for 1967, is to be expected momentarily. However, due to the uncertainties of war and probable growth rates of the GNP for 1967—at 7%, for example, both imports and exports are expected to grow by 10%—any projection even though officially submitted, will carry a considerable margin of error. Hence, the estimates submitted ultimately might come as close to reality as can be expected at this early date.

Concerning the dollar, the US remains the world banker with foreign countries holding one-half of their reserves in high-yield earning dollars. The dollar itself is expected to continue to be sound and to remain the most wanted reserve currency. The price of gold—notwithstanding some European Alice in

Wonderland motions that all monetary ills would be solved by an increase in its price—will remain unchanged. The rising strength of the pound sterling bars even a devaluation of this second most important reserve currency. As it stands now, the British Balance of Payments will be in surplus and hence much strengthened in 1967 though at the price of a sharp reduction in the load of Britain's external responsibilities.

General Trade Policies

The United States attaches high hopes to the success of the Kennedy Round not only for a reduction of existing tariffs but also the removal of any barrier to the expansion of trade. Balance of Payments pressures though exerted by some European countries have focused once more on the question of protectionism. American business remains fully opposed to such measures, fully supporting the views of F. J. Borch, president of the General Electric Co. who pleaded for a further integration of the Free World's economic resources by trade expansion. In the same spirit, the Final Declaration issued by the Convention rejected any retreat into protectionism. Some voices are rising that would prefer a conditionally-favoured nation clause in order to cope with discriminatory, restrictive, inward-oriented trade blocs or regional integrations. While a failure of the Kennedy Round undoubtedly would play into the hands of these minorities, the government position remains strongly in favour of freer trade. Obviously, the absence of pressures against the dollar will defeat any protectionist strategems.

In the trade with Europe (Common Market, EFTA and Spain), the US continues to run an annual deficit of \$ 1,000 million in spite of a large surplus on the merchandise balance reflecting American deficits in tourist trade, unilateral payments and capital exports. Stimulated by the Viet Nam war, imports from West Germany, for example, rose by one-third over last year opening up the market for more machinery equipment, machine tools, etc. However, this deficit and the corresponding gains of another \$ 1,600 million in gold and foreign exchanges by Europe in 1965 is of no real concern to the US as it reflects the international business expansion. Pressures for bilateral balances, if we exert them—such as to purchase more military equipment in the US—only reflect a reaction to foreign measures against our deficit. Like any other nation, the US cannot eat and have the cake at the same time!

Capital Exports for Business Growth

In the broadening of world markets, the trend towards the multinational firm has been truly impressive. Of the 200 largest non-American companies, 136 are multinational, and of a similar number of American firms, 168 belong in the same category. American investments in Western Europe increased by \$ 10,000 million during the last decade and 3,000 companies contribute with production facilities, research, innovation

diversification and marketing in the great 300 million persons market of Europe. The real reason for the spread of subsidiaries abroad is not the "overwhelming power" of American capital but their willingness to take risks and to utilise their capital, management and new knowledge in competitive markets. This is no small contribution to the revitalisation of business everywhere leading to sounder structures, benefits for the consumer and improvement in national balances of payments by reducing import needs and the earning of foreign exchanges. Due to this mechanism, at least in part, the members of the Common Market, for example, have strengthened their ability to convert their currencies and become highly solvent internationally.

In spite of a continued shortage of capital in the world as recently pointed out by George Champion, chairman of the board of directors of the Chase Manhattan Bank, the US for the sake of a better balance in the Balance of Payments, is reducing its capital exports. The voluntary restraints on direct investment abroad will remain in force and are fully accepted by the business community. Hoping for complementary action the Government expects that the surplus countries will encourage capital exports on their part to fill the gap and they will be welcome in the US. The Foreign Investors Tax Act (HR 13103) which becomes law on January 1, 1967, is designed to encourage foreign risk takers in the United States. It is particularly applicable to American branches of foreign corporations. In support of these measures, the US Department of Commerce has set up office to point out to profitable opportunities in the US. Mr Johnson Garret of the Department will advise small and medium firms who wish to enter this great market. A two-sided street for capital investments with no restraint whatever on private foreign investment will go far to reduce prejudice against US capital abroad.

In this connection, the rising role of banks in this international process should be stressed. The need of American subsidiaries to raise funds locally has encouraged the expansion of banking participation abroad. Early in 1966, 12 American banks operated 230 overseas branches with \$ 10,000 million deposits and assisted in the marketing of bonds and stocks (so far, three-fifths of all issues were convertible bonds) in order to mobilise much needed saving everywhere. In this way, not only resources for growth are raised but a valuable contribution in the fight against inflation can be achieved.

View on Reforms of the International Monetary Fund

In the difficult studies of liquidity, it should be taken for granted that the US is in favour of the creation of a new unit but principally for contingency purposes in line with the views of the managing director of the Fund, Mr Schweitzer. The US does not favour the creation of any unit that would facilitate the continuation of deficits including the US one nor does it wish

to limit the use of such unit by a few members of the Fund. Such new assets should be made available to all members pro rata of their quotas and imports. Nor should such means of credit be used to finance the needs of developing nations as narrow limits to such buying-power-creation must be set for anti-inflationary reasons. There exists no objection to link such assets to gold but in any case, some action is favoured for the following reasons: Over the last fifteen years, international trade has grown almost 3-times faster than additions to international reserves in spite of the growth of US deficits which provided the bulk of additions to these reserves. World trade expanded at an annual rate of 6% but liquidity gained only 2.6% annually during this period. Under these circumstances, something has to be done to add to international liquidity particularly with the drying-up of further dollar additions to it. While the American view on liquidity is closely aligned with the concepts of the British Chancellor of the Exchequer Callaghan presently presiding over the Group of Ten, in the ultimate decision on the nature and type of additions to liquidity Germany will be the decisive factor in the success of any plan.

Aid to Developing Nations

The poverty of two-thirds of the Free World found in the so-called developing nations, makes it imperative for all well-to-do nations and above all the US to be concerned with their problems. Manifold pressures call for a solution in a few years that took the now mature countries a century to solve; the effects of a rapid population growth, industrialisation, a low level of saving, the establishment of export markets, procurement of capital goods, the shortage of gold then and inflation now and lack of convertibility. In a recent lecture at Harvard University, Dr Prebisch, the Secretary-General of the United Nations Conference on Trade and Development, stressed the pressure a transformation to a modern society creates: unemployment in the shift of an agricultural to an industrial society, the inability to finance growth or to protect typical raw material exports from price fluctuations, and the need for new markets for their consumer goods exports.

The US realises that a new strategy and trade policy is urgently needed to assist vast areas in Latin America, Africa and Asia. In the Foreign Aid Message of the President in 1966, we promised to expand our effort to encourage private initiative and enterprise in developing countries. According to Mr Solomon, Assistant Secretary of State for Economic Affairs, the Kennedy Round is well designed to bring some relief to these areas by lowering trade barriers even without full reciprocity on their part. However, he reflected official opposition to the granting of trade preferences including Latin America because of fear of complexities of such rules that might defeat the purpose and depress their export opportunities. On the other hand, George Moore, Chairman of the Commission on International Monetary Relations of

the International Chamber of Commerce, favoured preferences to Latin America so long as they suffer discrimination in Europe. The US in any case, is willing to assist in the stabilisation of staple commodity exports. More International Commodity Agreements of the wheat and coffee type already operating, are favoured. However, while the entire situation is carefully studied, significant capital exports either public or private to these nations should not be expected in the near future. The costs of the Viet Nam War and the deficit in the US balance of payments presently bar any large-scale financial assistance to these countries.

East-West Trade

As part of a "balanced strategy" toward Communist countries, the US Government is facilitating trade with the Soviet Union and several of the Soviet-aligned countries. In pursuit of a relaxation of political tensions, this new era, according to the Assistant Secretary of Commerce for International Business Mr Trowbridge, indicates a "peaceful engagement with the Soviet Bloc". On formal grounds, controls on exports of strategic items have been liberalised, 400 items being taken off the licensing list and the range of commodities to be used for "peaceful purposes" greatly increased. The Export-Import Bank has been ordered not only to guarantee commercial credits on such industrial exports but to study the financing of such transactions. Exports of machine tools to Fiat in connection with their Soviet projects are to be financed by the Bank and broader medium-term credits for exports to Poland, Hungary, Czechoslovakia, Bulgaria and Rumania are being prepared.

In spite of these measures, only a modest expansion of US-Soviet trade (now totalling \$ 80 million annually) or trade with the other mentioned countries, should be expected. While the latter might purchase more US food (the total trade with these countries hardly exceeds 300 million annually) the two-way street of this trade will remain a challenge to the East European countries in view of their limited abilities to enter the US market effectively. Their inexperience with American marketing methods and probable unwillingness to finance substantial distribution costs to gain a foothold in this market apart from differentials in their production by type and quality, will make this trade expansion a slow process. This trading area is being opened for political reasons expressing a final official approval of the already practiced European trade with the East. The American business community, speaking through its organs at the Trade Convention, fully approves this new look but prefers the continuance of the embargo on goods and capital against hostile nations in close cooperation with our allies.

Concluding Summary

The National Foreign Trade Convention expressed the following business and government concepts in the international field:

1. The dollar remains the soundest currency in the world. It is a mistake to exaggerate the significance of the deficit and the world may have to live with a deficit of \$ 1,000—2,000 million annually. For demonstration purposes, the gap could be closed but remedial measures would not concentrate on any one single aspect of the components of the balance.
2. No obstacles to imports into the US are proposed as only measures for a steady, two-sided expansion of trade can benefit the world community.
3. The US approves of fiscal discipline to prevent international inflation though a maximum of economic freedoms in international dealings should be protected. Reflecting these principles, the voluntary restriction program for capital exports will be maintained in spite of the world-wide growing need for capital. The businessman accepts these restraints in order to co-operate in the balancing of the Balance of Payments.
4. The growth of international banking is designed to assist all countries in their raising of funds locally for local benefits including subsidiary growth.
5. The growth of multinational organisations—and that includes European and Asian as well as American—relentlessly continues. They are owned and controlled by nationals of many different countries and inevitably are growing into dominant world producing and marketing factors.
6. The US offers full cooperation for reforms proposed by the International Monetary Fund. An expansion

of drawing rights and/or the creation of new international means of payments is acceptable. However, such super-central bank functions must only be exercised under strict non-inflationary controls for the benefits of all members but without providing development funds. The views of Dr Blessing in this respect are fully shared and will be supported.

7. The US rejects any tampering with set-gold-values of currencies in any form of devaluations or increases in the price of gold. Such manoeuvres could not bring a genuine increase in liquidity nor contribute to the expansion of world trade.

8. The US considers world economic relations as the most important link with the free world and instrument for improvement of the political climate throughout the world. Hence, it is determined to assist in the removal of all trade obstacles, directly or indirectly by lowering of tariffs and greater financing assistance. A success of the Kennedy Round would greatly contribute to silence those business voices who ask more hard-headed policies weighing our great bargaining strength in particular against non-cooperative creditor nations.

9. The US hopes that the Federal Republic of Germany as the preponderant nation in the Common Market will exert its due weight toward the growth of international trade, removal of obstacles and financial cooperation for the benefit of the entire world.

Revised Embargo Policy Towards the USSR

By Gerhard Schildmann, Hamburg

It became recently known that already in spring, 1966, the West German Government asked NATO for lifting the embargo on large pipes. The Federal Government had earlier decided on this embargo in November, 1962 (4th Decree on Changing the List of Embargoed Goods—Supplement to the External Trade Regulations of December 14th, 1962). Above all under the impact of the Berlin crisis and under US pressure the embargo was based more on political and military grounds than on economic considerations. It came into force on the 18th of February, 1963, and forbade the German steel industry to export to countries of the East bloc pipes and pipelines with an outside diameter of more than 19 inches.

Very soon, however, it was seen that the measure which had been controversial from the beginning produced neither the political nor the military results. Rather did it cause grave harm to the German steel industry and mainly affected the good will of the Federal Republic's economy in Eastern Europe. The Soviet Union which at the time had started on building a pipeline from Kujbybshev to Mosyr (the

so-called "Pipeline of Friendship")¹ accused the Government in Bonn and the firms involved of breaking contracts of delivery which had already been concluded. The ability of enterprises in a national economy to compete internationally depends, it is true, first of all on price and quality of the exported goods and on terms of payment and delivery; but other conditions, such as the image of the producers, are also decisive for giving an order. In a situation where competition in world markets became increasingly fierce and most industrial countries made growing efforts to win new markets or to strengthen the existing market position, the German action was bound to have harmful repercussions mainly on Germany itself.

Besides, the embargo could satisfy the NATO Council's aims only if all Western countries, together with the Federal Republic, abstained from supplying large pipes. This was not the case; competitors in Sweden and Japan took on the supply of 200,000 tons of large

¹ Detailed information about Russian pipeline building see Anneliese Sobek: Enlargement of the pipeline network in the USSR, in WIRTSCHAFTSDIENST, Vol 43 (1963), No. 7, p. 299 ff.