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Foreign labour: The reverse of the medal

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COMMENTS

East-West Trade

Fusion of EEC and EFTA

Just recently, the movement towards an intensification of East-West trade has emanated not solely from the West, but has been vigorously reciprocated by the East.

Efforts towards liberalisation made by these centralised economies of the East-bloc have meant, first, that market economy influences have become apparent in production which tend towards a more flexible buying and selling policy on foreign markets. This means that such states no longer consider foreign trade to be a mere "stop-gap", but that this is assuming an important function in the changing economic system and that the latter—whilst basically accepting the idea of planning—is aiming at much more decentralisation and greater freedom of decision.

In future, Eastern bloc countries will become serious competitors, particularly in the clothing industry, precision engineering and optical sectors, and Western industrial countries would be well-advised to recognise this in good time so as to gain what advantage they can from such changes.

Not least, it is essential that there should be a very rapid fusion of EEC and EFTA. If Western European countries wish to participate—without political resentment and more or less on equal terms—in this intensified East-West trade, it is imperative that the relatively closely-knit COMECON should be confronted, on a supra-regional level, with a unified economic bloc composed of both EEC and EFTA.

li.

The Crisis in Rhodesia

Dubious Sanctions

The Security Council's decision to boycott Rhodesia is the first time since its inception that the United Nations has applied economic sanctions against any country. However, the implementation of this decision will take effect only gradually, since it will probably take some time before all participant countries have taken whatever legal steps are necessary to impose restrictions upon foreign trade; these are expected to affect about one half of Rhodesia's exports.

However, it is already obvious that this decision means that the line the United Nations has taken is not certain at all to achieve its purpose. Experience of similar boycotts has always shown that the an-

ticipated effects of such measures can be greatly decreased by opening up new channels of trade and new markets. Participation in such measures always means that conflicts spread, although it would be preferable to confine them, since just because there are ways of circumventing such sanctions it must be assumed that the boycott will, of necessity, be extended to yet other countries if the intention really is to enforce effectively the initial boycott decision. In the case of Rhodesia this risk affects mainly Portugal and South Africa.

Apart from this pragmatical aspect, the US decision is also being contested under international law. Thus, those countries which are not directly affected by the political problems of the Rhodesian conflict should start thinking that any over-sedulous acceptance and observance of the sanctions adopted might lead to uncontrollable developments and should therefore indulge in precise deliberations how far they wish to be involved in this conflict and what degree of expansion is acceptable in view of the interests of those directly or indirectly involved.

dw.

Foreign Labour

The Reverse of the Medal

Times are changing. Formerly the integration of foreign labour—the so-called "guest workers"—into the West German economy was welcomed by all parties concerned. When full employment was reached in 1958 and income and demand increased furthermore there were two alternatives to expand production—either by raising capital intensity and productivity by rationalisation or by importing foreign labour. In micro-economic view the second way often proved the more profitable one and in macro-economic view the employment of foreign labour seemed to be an adequate measure to reach the targets of the "magic pentagon" of economic policy, especially the aim of short-term stabilisation. By increasing the supply foreign labour diminished the tensions of the German labour market expressed by a permanent wage pressure. So the employment of foreigners worked at least in the direction of price stability. This effect was completed by the damping effect which the above-average propensity to save of the foreign workers has on the demand for consumer goods. And, last not least, the mostly mediterranean home countries favoured part-time emigration because of the diminution of unemployment and the transfers which effect their balances of payments positively. Nowadays, however, while the German economy has to endure a slight recession, the

parties concerned judge the employment of "guest workers" in a different way. The individual enterprises dismiss their foreign workers first and with a lighter heart, because they are "only" foreigners. In case the "guest workers" should have long-term contracts the enterprises are moaning. The advocates of macro-economic interests now realise that the import of foreign labour can show negative effects, too. For, the structural changes, necessary for every long-term economic growth, at least are postponed, if not prevented. For the home countries finally, the "guest workers" returning home cause great problems. First the decreasing transfers deteriorate their balances of payments. Above all, however, there are the difficulties to reemploy the returning workers corresponding to their newly learned skills. As this is not always possible now social troubles are threatening or even increasing. This is the reverse of the medal!

ha.

Latin American Shipping

Preferences for Regional-Flag Ships

The "Agreement on Water Transport" signed by the members of the Latin American Free Trade Association (LAFTA) has been severely criticised in shipping circles. According to the cargo preference plan drafted in the Agreement, transport of cargo by sea between LAFTA countries will in future be reserved for ships flying the flags of member countries. Shipping lines from non-Latin American countries which run regular services between their countries and LAFTA States will be permitted to participate in this trade to "supplement" the service. Within the free trade area shipping belonging to third flag countries is to be completely excluded from transporting goods loaded in the region.

It is a logical step for countries in South America to exploit contacts made through the LAFTA to obtain a preferential position for their own shipping. The expansion in trade, which it is anticipated this Association will bring, offers a welcome opportunity to extend or maintain national shipping lines. Why should protectionist measures like those which are standard equipment in other sectors of industry throughout the world be taboo in the shipping industry? To waive all protection against superior foreign competition would mean the present concentration of forces in world shipping becoming a permanent fact and would make it impossible for these countries to build up commercial fleets of their own.

To counter this argument, past experience of the shipping industry has shown that protective measures of this type have never led to economic working or efficiency in running shipping lines. The new "Agreement on Water Transport" will reduce considerably the large number of sailings offered hitherto to and from LAFTA ports and will prejudice cargo being carried by sea. From the cost aspect, the cargo preference plan means that economic resources will be

injected in the wrong place. The greater use of domestic cargo ships will doubtlessly go hand in hand with a rise in carrying costs—to the detriment of intra-regional trade and of economic growth in the LAFTA.

re.

West Germany – Foreign Trade Policy

As Great as Possible, as Much as Necessary . . .

At the turn of the year, Germany's new Minister of Economics, Professor Karl Schiller, expressed some thoughts about the relationships between German economic policy in general and foreign trade. The Minister's thesis is that West Germany's foreign trade involvements will become increasingly important for its domestic growth in the coming years. In view of the German economy's decreased flexibility of supply, it is essential that there should be state support for growth-promoting structural changes. This could only be achieved by a better international division of labour. i.e. the elimination of protectionist measures in force. In order to obtain equilibrium in external economy it is essential to balance the long-term structural deficit items in the balance of payments by surpluses in the trade balance.

It cannot be disputed that a country's domestic production structure can be improved by greater division of labour internationally. But whether the abolition of protectionist measures will prove to be an adequate and sufficiently dynamic way of achieving this largely depends upon how far the Minister is able to prevail against other interests. That will be the great future task.

The pressure for trade balance surpluses in order to adjust balances of payments is not new—thus far, for instance, Schiller is in agreement with the President of the Landeszentralbank in Bremen, Dr Gleske, or with Prof Jürgensen of Hamburg. However, the Minister is more or less keeping his own council about the method of achieving this aim. In addition, he immediately goes on to qualify this opinion further, as follows: "A continuing over-surplus would be just as bad as a shortfall." From this we can see his anxiety about the prejudicial side-effects upon monetary value of excessive demand incentives due to rising trade balance surpluses and/or his fear of growth losses due to insufficient trade balance activity. All the same, we are forced to ask where the dividing-line between over-surplus and shortfall lies. When Schiller states: "As great as possible an extension of foreign trade, as much trade surplus as necessary", one can only say that it is quite unclear what he really means by this. How far is such an extension of foreign trade possible, how far are trade balance surpluses necessary? Who is to decide, on what generally acceptable bases, about "proper" quantification? Here economic policy should offer a guideline.

schl.