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The club of ten: Compromise—No solution

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such a devaluation would have any positive effect upon the trade balance would depend upon what countries were to follow Britain's lead and devalue also. Even more important, however, is the extent to which devaluation would improve British competitiveness on the world market and lead to a rise in the value of exports. This very definitely depends upon the elasticity of prices in world demand. Experience with the special import duty should not lead to excessive optimism. Insofar as the lack of competitiveness depends upon factors other than price, this will certainly not be affected by devaluation. In addition, the following appears certain: even if Britain devalues, this would not mean that its policy of deflation and the freeze on prices and incomes would become superfluous, unless the intention is to destroy any success achieved by devaluation by higher rates of deflation. Although it is quite unclear what the positive effects upon the development of foreign trade will be, it is even more difficult to predict the psychological effects of such a step. There will probably be an even heavier fall in foreign Sterling deposits and London could only counter this by paying higher interest rates. In addition, it will not be possible to solve, in the short term, the problem of insufficient gold and foreign currency reserves. Thus, in the short term, there is still the problem of either funding foreign debts or having recourse, in future crises, to stand-by credits from well-disposed banks of issue.

Devaluation—which will mean the liquidation of the Pound as a leading currency—can only be undertaken sensibly within the framework of the re-organisation of the world monetary system. me.

East Bloc

Via Bucharest to Prague

Germany has established yet another economic bridgehead in the East bloc. Ambassadors have been exchanged between Bucharest and Bonn and, after two weeks of tough negotiations, a German-Czech Trade Agreement was signed on 3rd August. This Agreement provides for an exchange of trade missions between the two countries and regulates traffic in goods and payments up to 1969.

This means that the last blank area has disappeared from the map of German representations in Eastern Europe—if we overlook the special cases of Yugoslavia and Albania. Of course, the establishment of a trade mission is of far less importance than that of a diplomatic representation, which is what the Federal Government first wished to do. But it is still a promising step towards further "rapprochement". The Prague Agreement proves very definitely that, firstly, Bonn's new Eastern policy has by no means ground to a hopeless standstill and, secondly, that the Eastern bloc countries also want a relaxation of the situation. The deep-seated economic reforms taking place inside Czechoslovakia make it more than ever essential to

achieve a "rapprochement" with Western industrial countries. The move away from strict planning increasingly requires a search for new sales markets and sources of supply. The agreed volume of trade (DM 1,000 million) can hardly be taken as a ceiling in the long term. The West German Government has promptly seized its opportunity to penetrate a rich future market. State support will be useful for German entrepreneurs in researching this market and initiating business. More intensive trade will provide a basis for a closer involvement between the two economies. It is no longer utopian to think of a co-operation agreement with Czechoslovakia, similar to the one signed in the same period between West Germany and Rumania. 11.

The Club of Ten

Compromise — No Solution

For the first time, the Conference of Ministers of the Club of Ten, which ended on 18th July in London, was able to achieve far-reaching agreement on the basic outlines of a plan to reform the current international monetary system. The Ministers reached agreement on the introduction of special drawing rights vis-à-vis the IMF with fixed provisions for repayment, should deficiencies in international liquidity occur. This has temporarily put a stop to the interminable controversy about reforming the monetary system.

Nearly four years ago, when the Group of Ten decided to examine the existing international monetary system, all those concerned agreed that it was essential to maintain the system of fixed exchange rates and an agreed gold price. Work was initially concentrated upon how to overcome the lack of international liquidity by increasing credit facilities or by creating special reserve funds. However, these efforts at reform developed increasingly into a political argument between France and the US, since France, who had initially been in favour of the creation of special reserve funds, had a change of heart part-way through the negotiations and introduced the subject of increasing the price of gold.

The agreement reached in London was a compromise. France waived its demand for an increase in the price of gold. It insisted, however, that, on the one hand, drawing rights should take precedence over additional reserve units and, on the other, fixed regulations should be drawn up for repayment. It will depend upon these regulations how far holders of dollar claims can be prevented from recourse to American gold reserves. It was precisely on this point that no agreement could be reached in London. Although a solution was outlined, it is dubious whether—with the fall in gold production due to fixed gold prices, the increase in industrial consumption and rising private hoarding—the London plan will make it possible to avoid, in the long term, an increase in the price of gold or the introduction of flexible exchange rates. ho.