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Great Britain: Risk to the balance of payments

Intereconomics

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pean proposals would receive favourable consideration. But promises are apparently not being taken too seriously. For, meanwhile a whole year has passed, and the EEC is still waiting for these undertakings to be honoured. Instead of accelerating the dismantling of the non-tariff barriers to trade, there is, at least on the part of the USA, a reluctance—or so it would appear today—to consider any further liberalisation of trade for the present. There is of course no lack of facile justifications for such an attitude: there is the War in Vietnam, the dollar crisis and the need for protecting specific branches of industry. The USA evidently believes that its own problems can be solved at the expense of other states, and of the EEC in particular.

The EEC has repeatedly and clearly demonstrated its willingness to make concessions and to cooperate in the solution of such important problems, if only to safeguard the positions of its own member countries; the last time was when it agreed to an asymmetrical tariff reduction during the Kennedy Round negotiations. The Six would therefore be justified in demanding to see at last something in return. The ball is now in the court of the other parties, it is their turn to play, if the liberalisation of trade, which was begun with such high hopes, is not to come to a standstill or is not to make way for a renewed escalation of protectionism. rd.

United States

New Export Expansion Measure

In 1967 the USA had to put up with an unexpectedly high balance-of-payments deficit of \$ 3.6 billion — as well as with a considerable decline in its gold reserves. Not content with tackling the items that are in the red, the US Government also seeks to bring its influence to bear on items that show a surplus. To the latter belongs traditionally the balance of trade. In the past few years US imports have been increasing faster than exports, and, as a consequence, the export surplus showed only a marginal increase to \$ 4.1 billion. This surplus was by now far from sufficient to make up for the deficits of other balance-of-payments items, and for this reason the expansion of exports has once again become one of the main starting points for the balance-of-payments policy.

Among the measures designed to facilitate exports a particularly important role has been assigned to the financing of exports by the Export-Import Bank of the United States, whose maximum liability limit was some time ago raised by 50 per cent to \$ 13.5 billion. Within this raised maximum liability limit the US Government wishes to see set aside a special fund of \$ 500 million to be used for credits which the Export-Import Bank has hitherto been prevented by its rather conservative statutes from granting. The type of transactions that it is intended to facilitate concerns the granting of credits for exports to developing countries that have hitherto not been enjoying credit

facilities because the prospects of getting the loans repaid were considered unfavourable.

This extension of credit facilities and the creation by the Export-Import Bank of a special fund will further intensify competition for terms on the world markets. True, for the time being other countries are likely to refrain from counter-measures because of the unfavourable balance-of-payments position of the USA. But if the USA should rely too much on its export facilities and should increase them even further, its competitors are bound to abandon their restraint and to take counter-action. hch.

Great Britain

Risk to the Balance of Payments

Six months after the devaluation of the pound sterling it is becoming increasingly apparent that all the official estimates of the positive effects the measure was to have on the British balance of payments have been too optimistic. According to the latest estimates the balance of payments for the current year is now expected to be by £ 450 million less favourable than had been expected. Particularly disquieting is the fact that despite a 9 per cent rise in import prices owing to devaluation the volume of imports also increased considerably during the first three months.

This is due to the failure on the part of the British Government to take in time the requisite monetary and fiscal measures to curtail domestic demand, particularly private consumption and state expenditure sufficiently. Only now after the budget of March 19th provided for increased taxation and after the even more recently introduced credit restrictions came into effect demand should be adequately curtailed. The greatest danger threatening the recovery of the British balance of payments in the coming months can therefore be expected from the trend of prices and incomes. Particularly important is to see to it that excessive wage increases do not nullify the reduction of purchasing power that has been achieved by tax increases and that such wage increases do not cause a rise of prices through increased production costs. The creation of a special Department of Employment and Productivity under Mrs Castle and the reformulation of the law governing prices and incomes show that the government fully appreciates the importance of its prices and incomes policy. It is, however, doubtful whether the wider possibilities of intervention provided for in the new law and the extension of the delaying powers of the Prices and Incomes Board in cases where wage increases exceed, the upper limit of 3½ per cent will prove effective in stopping further wage increases. For adherence to this norm in a period of sharply rising prices is equivalent to a lowering of the standard of living, which the trade unions are certain to resist. Quite apart from the dangers the pound is exposed to as a reserve currency, there is for the time being still the uncertainty as to whether or not the efforts to restore the balance of payments will prove successful. me.