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Germany: Will there always be a surplus?

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COMMENTS

Germany

Will There Always be a Surplus?

The relative rates of exchange of the French franc, the English pound, and the D-Mark have remained unchanged even after the crisis of recent weeks. Attempts are now being made to repair and strengthen the world currency system by measures designed to be surrogates for a devaluation or revaluation, respectively. In the Federal Republic, a new law to protect the economy from external disturbances has been passed. Under this new statute, German exports are made more expensive and imports cheaper, each by 4 per cent, through variation of turnover tax.

To what extent the new imposition will slow down the growth of German exports depends, on the one hand, on the amount of the price increase for the final foreign consumer and, on the other hand, on the price elasticity of demand for such products. The Hamburg Institute for International Economics (HWWA) estimates that, next year, German exports will suffer a loss of growth by an amount of D-Mark 1,400 mn, compared with their total value to be expected without the special taxes. Average import prices, after the special tax reduction, on the other hand, are estimated to decline by more than 2 per cent. Imports could grow therefore by D-Mark 2,300 mn more than calculated before. Originally, the forecast for 1969 was for a German net export surplus of more than D-Mark 16,000 mn, and this might drop to D-Mark 12,500 mn.

This means that Germany would still earn a big surplus for some time to come, and that the threat of a new crisis remains permanent. Would a "harder" revaluation, against which the Federal Republic of Germany has fought tooth and nail, perhaps have been a more effective remedy?

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United Kingdom

An Unoriginal Policy of Restrictions

In spite of the Bonn agreements, a new run for the D-Mark is far from being impossible. Those who will suffer most from such a renewal of panic reactions can only be the currencies that are weakest at the time in question, which means either the French franc or the English pound.

Wilson's endeavours to strengthen the pound's position up to now were not supported either by agreement of the British electorate or by foreign approval. In a recent report published by OECD, all efforts hitherto undertaken by the UK to overcome its economic difficulties by restrictions on imports were described as badly-thought-out and ineffective. Restrictive policies of this kind are a challenge to others to impose counter-restrictions. OECD calls it the paramount task of the British to preserve the price margin supporting their exports since the last sterling devaluation. And in addition, British employers' organisations and trade unions ought to improve the international competitiveness of British products by better cooperation. Reducing production costs, utilising labour reserves more efficiently, and rationalising the structure of British industry are described as more indispensable now than ever before.

In spite of these and similar warnings, Roy Jenkins, the Chancellor of the Exchequer, has produced a new big parcel of restrictive measures. The tax load, which was very high already, has been massively increased. Virtually all consumption goods, except food, will be marked up in price by about 10 per cent. Further price increases will be caused by the new system of import deposits, under which British importers are forced to deposit 50 per cent of the declared value of all imports, which will remain in a blocked account, bearing no interest, for 6 months. As Bank Rate is at present 7 per cent, this means an additional cost increase by 3.5 per cent. The Government apparently believes that such brutal intervention will cure the country's economic ills. The unilateral release of the sterling rate of exchange from its present ties, as the "Economist", weekly paper, and many leading economic experts have suggested, will probably be considered only when it is too late.

hg.

France

Strong Physic, but ...

President de Gaulle's veto against any variation in the French franc's international exchange rate is new proof for his courage to take internationally unpopular measures, but it scarcely helps France in its dramatic situation. In a period during which the heads of government in Western industrialised states believe that devaluation or revaluation of their respective national currencies are indicative of their political success or failure, even de Gaulle was not able to jump over his own shadow.

It is highly doubtful whether the currency restrictions that have been readopted in France