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France: Strong physic, but ...

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# COMMENTS

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## *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? sto.

## *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

will be able to attract back home capital that has escaped abroad when the speculation believed that the D-Mark would be revalued. On the contrary, since currency controls have been introduced, France has become a mousetrap for the funds still left there, feared by those that are outside, so that their existence actively discourages a return of the escapees and thus delays indefinitely the restoration of the French balance of payments. How the abolition of the tax on wages and the simultaneous increase of the tax on value added can be "neutral" regarding the price level is not clear at all. What such measures presuppose are businessmen and consumers acting in strict rationality—which especially in times of crisis cannot be expected automatically. Even narrowing the deficit in the budget has its problems, since this is not possible without cuts in public investments which are needed to sustain economic growth.

Economic growth, balanced external accounts, price and currency stability—all this must be coordinated now with harsh measures of state intervention. All these aims would have been achieved without such tremendous effort much more likely on one condition: a moderate devaluation of the French franc. sch.

#### *United States*

### **Waiting for Nixon ...**

In the course of the tough negotiations of the "Club of the Ten", in which several of the Ten demanded a revaluation of the D-Mark, the Chairman of the meeting, the German Minister of Economics, made a commentary on the position of the USA: It is not the German currency which should be considered to be undervalued, but the American dollar which is overvalued. This remark by Professor Schiller made a point which, during the whole of the conference, was virtually ignored or gravely neglected—the point that the US \$ is in a highly problematical position within the present international currency system.

That this problem was not more thoroughly dealt with was, of course, due to the momentary weakness of the French franc (and of the English pound); apart from this, the US delegation also did everything to evade a serious treatment of the dollar problem. True, the dollar, in international markets, has recently shown a surprisingly firm trend but, nonetheless, the Washington Administration has not ceased to feel the pressure caused by the massive outflow of gold.

The delegation led by the US Secretary of the Treasury, Mr Fowler, made a strong stand, during the currency negotiations, in favour of revaluing the D-Mark, which was evidently a measure of self-protection. Yet, though the USA, in this respect, had the full support of France and the United Kingdom, it did not succeed. How-

ever, the American delegation was satisfied with the outcome of the conference and specifically welcomed the German measures representing the administrative equivalent of a currency revaluation, and the currency restrictions introduced by France.

In Washington, the results of the conference are assessed "mainly as measures of transition" which, in the short run, will be beneficial for the USA. The task is now to find improved solutions. For the time being, Washington has no clue what they should be. All hope is therefore concentrated on the new President, Mr Nixon. hch.

#### *The Currency System*

### **... and for a New Bretton Woods**

In spite of everything, there has been a revaluation in Bonn, though not of any national currency, but of the importance of upward or downward corrections of the rates of exchange. Whether a national currency was upvalued or devalued was considered an indicator of success or failure of a given government.

This way of thinking—evidently already firmly established in the minds of people—will not, however, open the door to a true solution of the problems of our currency system, which will inevitably very soon loom ahead again, and become more pressing than ever. This attitude will very likely lead again into the murky valleys of perpetual state intervention and protectionism, and carry down into the abyss all the achievements of liberalisation gained over the last twenty years. This, however, would be against the interests of all parties concerned. This gives grounds for, at least, some moderate hope for realistic thought and new and effective initiatives.

If the system of rigidly fixed rate of exchanges is retained, from which no deviation over 10 per cent is permitted without special sanction, at least a completely new settlement of all the relative currency valuations is needed. But to expect that such a change could grant more than a brief interval for recovery would be over-optimistic. After a period of new tensions maturing, the present drama, possibly with other main actors, would inevitably be staged again and again. On the other hand, time does not seem to be ripe yet for the introduction of flexible currency rates, though practically all economic experts believe this to be the optimal solution. But perhaps the number of people advocating at least limited and graduated flexibility will have grown until the next conference. This solution together with a worldwide correction of rates of exchange might be a long-term remedy quelling the unrest in currency policies. On the other hand, to patch up again the ramshackle Bretton Woods system appears to be a dubious nostrum. ke.