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GERMAN PRISM

Relaxation of German Credit Restrictions

As had been anticipated, the Central Bank Council at Frankfurt has released the Federal Bank's credit restrictions, i.e. by lowering the minimum reserve ratio. The 100 p.c. minimum reserve on the increase of liabilities vis-à-vis foreign countries is being eliminated. Furthermore, the reserve ratios for liabilities vis-à-vis foreign countries are adjusted to the ratios for domestic liabilities. And, thirdly, the general minimum reserve ratios are reduced by 10 p.c. All these measures are becoming effective retrospectively as of November 1, 1969. With that about DM 2.5 bn should be released for the market.

After the temporary release of the exchange rate on September 30, and particularly after the fixing of a higher DM-parity on October 27, considerable amounts of speculative money that had flown in, returned to other countries. The big loss of liquidity is to be particularly compensated for by the general lowering of minimum reserve ratios. Together with the DM-revaluation the cause for the different treatment of foreign and domestic liabilities as regards minimum reserve obligations ceased to exist.

German Stock Exchange after the DM- Revaluation

Neither the new Government nor the high revaluation rate of the DM have made the German stock exchange nervous. This leads to the conclusion that neither a social-democrat government is thought to be an economic disaster nor is the revaluation considered to be a shock to the economy. While after the Bundestag elections in the first week of October a bullish mood even set in, a few days ago authoritative export quarters stated freely that they do not fear the consequences of revaluation but in spite of it anticipate further high rates of expansion.

Measured against the official stock market index the average level of quotations rose by 5.2 p.c. during the last month. With that the index at the end of October reached with 153.3 a new peak for this year and marks a medium market profit of 15.5 p.c. since the beginning of the year.

The overall index is not at all typical for all market sectors. Some securities, e.g. the Volkswagen shares, experienced even lower quotations in October and other shares were thrown back to the previous month's level after the decision to revalue. Above all the internationally known ex-

port-oriented shares of the chemical, electro-technical, automotive and engineering industries suffered set-backs after the revaluation rate of 9.3 p.c. became known. Mainly foreigners sold their shares. but this wave of sales was not impressive, all the more since domestic investors were hardly impressed by the revaluation. Quite the contrary, the shares of branches not effected by revaluation and showing a high import ratio—i.e. banks, insurances, department stores and suppliers of electricity, gas, etc.—were even firm after revaluation.

Not All Industrial Prices Have Been Rising

The rising index of industrial producer prices must not make us ignore the fact that prices of a number of industrial manufactures—especially important to the consumer—have in September 1969 been lower than in the preceding year's corresponding period. Apart from mineral oil products and high-grade coal derivatives (−7.0 p.c.) as well as some building materials, these were especially electromotive household equipments (−0.9 p.c.), chemical products (−0.7 p.c.) and a number of products of the food processing industry as e.g. nutritive cereals, starch products, margarine, beer and feeding stuffs.

German Foreign Trade with Develop- ing Countries

In 1968 the Federal Republic's imports from developing countries amounted to DM 81.2 bn and its exports to the nations of the Third World were DM 99.6 bn. While the Federal Republic's total imports have been rising by 15.7 p.c. from 1967 to 1968, imports from developing countries outside Europe increased by only 13.7 p.c. to DM 15.6 bn. Thus the share of developing countries in total imports declined slightly from 19.5 p.c. to 19.2 p.c. A similar development was to be noticed in exports to the developing world, whose share of 13.4 p.c. in 1967 decreased to 13 p.c. in 1968. The growth rate of exports to less developed nations with 10.5 p.c. (to DM 12.8 bn) was also smaller than that of total exports (14.4 p.c.). The long-term trend towards a declining share in German foreign trade of developing countries has continued again—after a short interruption regarding imports in the period of 1966/67.

Most important partners in the exchange of goods with the Federal Republic showing a turnover of more than DM 1 bn in 1968 have been Libya, Iran, Brazil, Saudi-Arabia, Chile, and Argentina.

Adding 12 other producer and consumer countries, each of which reached a turnover of more than DM 500 mn, these countries' share in West-Germany's total foreign trade with developing countries was 62 p.c.

Supplementary Levy for One More Year Only

The Federal Government has already submitted the draft of a "Tax Amendment Law 1970" to Federal legislature. This draft is to realise in anticipation of a planned comprehensive tax reform two immediate measures becoming effective as of January 1, 1970: (1) The doubling of the employee allowance of at present DM 240 to DM 480 annually and (2) the gradual reduction of the supplementary levy to the income and the corporation tax.

The Federal Government is of the opinion that the of necessity different forms of taxation and systems of income ascertainment, in spite of equal tariff burdens, lead to tax disadvantages for workers and employees that are not sufficiently balanced by the employee allowance of DM 240. The Federal Government therefore proposes as a measure of social symmetry a doubling of the employee allowance from January 1, 1970, on.

The reduction of a supplementary levy on the income and corporation tax furthermore provided by the draft law takes into consideration that this levy is, according to its very nature, only a temporary measure for the elimination of former budgetary difficulties.

Government Statement on Develop- ment Policy

The Government of Herr Brandt, announcing its intention to increase public development aid (1968: DM 2,380.6 mn) by an average of 11 p.c. annually, and until the mid-seventies to double the number of development assistants and experts, has again emphasised the importance of development aid. It embraces the development policy as introduced by the Government of Herr Kiesinger and intends to continue it consequently. The continuity of this engagement to the Third World is also proven by the person of the old and new Minister for Economic Cooperation, Herr Eppler.

Further objectives mentioned by the Statement are quality improvement of development aid, its better organisation, promotion of non-government initiatives and additional granting of trade preferences. These targets are unfortunately formulated only very generally and require a better reification.

Even if no new concept of development policy is to be expected, another softening of the "Hall-

stein Doctrine" should come about. The Government did not oblige itself unambiguously in this respect. But the tendency of the Government statement indicates clearly a more flexible handling of the doctrine.

Particularly interesting is the statement of Minister Eppler that the developing nations will not suffer any disadvantage by the DM-revaluation. The less developed countries' liabilities—about DM 9.6 bn—have increased by the revaluation rate of 9.3 p.c. It remains to be seen what the regulations will be like.

Industrial Turnover Increased by DM 41 bn

In the first eight months of 1969 industrial turnover with DM 296 bn (excluding added value tax) surpassed by DM 41.0 bn (16.1 p.c.) the volume of the previous year's corresponding period. Approximately one half of the growth rate with DM 20.2 bn to DM 106.8 bn (23.4 p.c.) fell to the share of the capital goods industries. The turnover of the basic materials industries rose by DM 12.1 bn to DM 90.6 bn (15.4 p.c.), while turnover of the consumer goods industries increased by only DM 6.0 bn to DM 51.7 bn (13.1 p.c.), that of foodstuffs and luxuries industries by DM 2.3 bn to DM 40.6 bn (6.1 p.c.) and that of mining by DM 0.35 bn to DM 6.5 bn (5.6 p.c.).

Algae to Fight Hunger in the World

About 44 p.c. of the world's population is underfed, due mainly to the lack of protein. If efforts to supply these people with more and better protein-containing food succeed, it would be possible to improve their health considerably. While the carbohydrate gap prevailing in developing countries may probably be closed by the mid-seventies through the growing of improved cereals, more intensive cultivation and several crops, the protein gap requires much greater efforts. Research is therefore endeavouring to develop "unconventional" protein media, i.e. algae and yeasts.

The Federal Republic's most important contribution to the solution of this worldwide problem is the green alga *Scenedesmus obliquus* and its introduction into countries of the Third World. German development aid can now utilise this alga cultivated by the Carbon-biological Research Institute at Dortmund as well as the simple technological procedure to render it useful. This alga contains all important amino-acids and propagates particularly well. Besides it exploits almost without waste water, scarce as it is in most developing countries, as well as expensive fertilisers and, moreover, it is palatable.

In spite of Soviet hints that Chinese continuance of the Great Leap Forward could jeopardise the USSR aid program, the Peking government proceeded with the programme. The dispute lasted until July 1960 when the Soviets withdrew their technicians. The spirit of the Leap Forward was not sufficient to overcome the technological deficiency in the Chinese labour and management forces.

Two poor harvests in 1959 and 1960 closed the gap between total production and the subsistence requirements of the nation. Grave discontent among the population was evident throughout the country. The critical spirit needed to carry on the Great Leap was gone, it was time for a new economic policy. The events leading to the collapse of the Leap in 1961 made the Chinese government more conscious than ever that their ambitious aims in industrial development depended on the satisfactory solutions to the basic problems of economic development which led to the recovery and readjustment period.

Recovery Period

This period comprises the years 1961–1965. It was marked by a retreat from the economic policies of the Leap Forward and by significant changes in both economic priorities and in the style of economic management. Emphasis was to be placed on insuring the supply of food by concentrating rural labour on the growing of food crops, by commissioning industry to supply more fertilizer, and by importing grain from Canada and Australia. The government also abandoned the commune system, introduced in 1958.

Industrial recovery was geared to restoration of production in the areas of the greatest national importance and to improvement in the quality of industrial output. Industry was also to support agriculture through expansion of the production of chemical fertilizers and agricultural equipment. Petroleum refining was to reach the point of self-sufficiency at a rapid rate. Towards the end of this period a national birth control plan was put into effect in an effort to check the danger posed by the rapidly growing population¹³.

New Recession by Cultural Revolution?

As the Peking government regained control of the economy it announced the formulation of a Third Five-Year Plan to be effective over the years 1966–1970. Yet since this announcement was made nothing has been published which would indicate that it is anything like a detailed economic plan, such as the Soviet five-year plans have been. The information that has been released indicates, rather, that it is a preliminary sketch of major economic policy and contains output goals

for key commodities. There does not seem to be a detailed long-term plan for even major industrial establishments¹⁴. Economic planning in China is far from clear. Often economic planning appears to be a synonym for government control over the economy, commanding obedience from all enterprises, other units and individuals. The desire to minimise political difficulties, and not to run foul of current political trends, is likely on many occasions to exert more influence than either formal targets or material incentives.

This could have much meaning, particularly now, during the Proletarian Cultural Revolution underway in China. The big question remaining unanswered at this time is, will the aims of the Proletarian Cultural Revolution, which are mainly political, supersede the Third Five-Year Plan in the same manner that the Great Leap Forward did the Second Five-Year Plan?

Despite the political ferment and turmoil which is being caused by the revolution, the country seems to have functioned normally with little disruption to the national economy. According to the 1966 year-end official reports, the gross output value of industry rose 20 p.c. In the field of steel production there was a 20 p.c. increase in the first nine months of 1966 as compared with a like period in 1965. The government claimed self-sufficiency in crude oil and petroleum products. The output of chemical fertilizer showed a constant advance after 1963. Agricultural production has remained more or less in stagnation despite the fact that the 1965 grain output was 5 p.c. higher than the 1957 figure, although this represented actually a 5 p.c. decline in per capita availability of farm products¹⁵.

In December 1966 and January 1967 there were many work stoppages in various major industrial centers throughout China. There were also major transportation stoppages.

Although modernisation of the economic system in Communist China may not have progressed evenly in all sectors, one can be certain that the country's economic development will continue to move ahead. Two factors will be the driving forces for this continued progress. The first is the growth of the population. This will make it mandatory that the economy remain dynamic in order to remain stable. The political future of the country is actually at stake here. The people must be cared for if the government is to survive. The second factor that will assist in driving the economy ahead is the spread of modern science and technology. These two factors together will lead to further development of China's productive forces.

¹⁴ Arthur C. Ashbrook, *Main Lines of Chinese Communist Economic Policy. An Economic Profile of Mainland China*. US Congress. Joint Economic Committee. Washington, US Government Printing Office, 1967, p. 36.

¹⁵ Chu-yuan Cheng, *The Cultural Revolution and China's Economy*. *Current History*, v. 53, No. 313, September 1967, pp. 148-152.

¹³ Alexander Eckstein, *On the Economic Crisis in Communist China*. *Foreign Affairs*, v. 42, July 1964, pp. 655-668.