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COMMENTS

USA

Expensive Index Clauses

General Motors has started it: After a strike which lasted nearly two months, cost 26,000 cars a day in lost production, made 34,000 accessory suppliers idle in the USA alone and led to massive lay-offs in the steel industry the company felt its wounds acutely enough to make an unprecedented concession to the trade unions—a link-up between prices and CPI.

The 12–14 p.c. wage rise is to be followed in 1971 and 1972 by 3 p.c. hoists which will be revised upwards according to any rise in the cost of living. The extra burden forecast for the next few years may well turn out to be in excess of twice the annual gain in the industry's productivity, and higher prices are the only remedy. It remains a moot point whether the settlement reached may not yet do greater harm. The automatic escalator clause will after all carry considerable weight not only with Ford and Chrysler but in the coming negotiations in the steel, aluminium and copper industries as well.

The cost-price spiral will certainly be actuated and all its undesirable side-effects accentuated. Apart from the harm done to all those whose incomes have not yet been rendered "dynamic", the settlement will prove most detrimental to the industries directly concerned because their competitive position is bound to suffer on the international level. And this could have a boomerang effect on the workers if American products are supplanted, either directly as the result of the cost handicap or indirectly through foreign countries retaliating for import restrictions if such are imposed.

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OECD

No Panacea

There has been a big increase of late in the number of countries which have promulgated a price-stop to combat inflationary tendencies. Following Finland which used this remedy some years ago already, Denmark, Sweden, Eire, Iceland, the Netherlands and Norway have all in recent months resorted to this drastic form of intervention. It would hardly cause surprise if more countries were soon to join them as—temporary—price control to avoid an excessive price spurt was recently suggested even by the OECD.

A price-stop however does not by itself restore stability but at first merely conceals an excessive strain on resources. To make a price-stop redundant more is needed than curing symptoms. Action must be taken at the same time to strike at the roots of the overall imbalance in the economy. Official price control must be supplemented by a convincing stabilisation programme also because it will decisively influence the expectations and thus the attitudes of those who take economic decisions. If there is a presumption of successful stabilisation, employers and trade unions will also find it easier to return to wage and profit projections which are compatible with stability.

It is precisely here that a temporary price-stop can exercise its proper function: In the ambit of a successful stabilisation policy the period of readjustment before a move is made towards a new equilibrium could be shorter. But if the conditions making for success are not fulfilled, price control can do no more than dam-up the inflationary tendencies and economic policy will face a great dilemma: When the price-stop is withdrawn, the old inflationary path will soon be regained by an even steeper ascent whilst continuation of the price-stop will eventually result in the well-known distortions which occur inevitably when the price regulator is dispensed with.

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Thailand

Like the Bamboo in the Wind

A flexible diplomacy emulating the bamboo in the wind has for centuries past been the Thai formula for eluding foreign expansion. Siding with the Americans in the Vietnam war was the sole and more and more regretted exception. Bangkok at first counted on an American victory in Vietnam as apparently the best "advanced defence" against China and the communists. It also appreciated the development prospect involved—development aid worth \$ 30 mn a year. And there was the foreign currency income from 50,000 GIs stationed in Thailand.

Two events have caused an estrangement: The Nixon doctrine and the collapse of Cambodia as a buffer between Thailand and the Vietnam theatre of war. All of a sudden the Vietcong were found close to the gates of Bangkok. The bitter disappointment at the American refusal to engage in the direct defence of Cambodia was heightened by the rejection by South Vietnam

and Cambodia of a Bangkok proposal for participation in a defence pact for Indochina. Instead Thailand was asked to send regular troops to Cambodia without receiving anything in return. Thailand however sees no need for that as long as other alternatives are open to its foreign policy. While its attempt to embark on a dialogue with Peking has been rebuffed, Bangkok's advances towards the Soviets are faring more favourably. The most important candidate for an arrangement with the East however is North Vietnam. Thailand did not hesitate when Hanoi declared itself ready to resume the repatriation talks broken off in 1965, perhaps with the idea of thereby securing a better bargaining position vis-à-vis the USA at the hoped-for big Indochina conference.

Bangkok's somewhat obscure political course makes sense only against the background of its by no means rosy political and economic situation. It can only wait and see—and risk falling in the end between two stools. la.

Pakistan

Cry, o Bengal, Cry!

Although tidal waves of calamitous extent are no rare occurrence in Bengal, neither the former British nor the present West Pakistani colonial masters have done anything to protect what is one of the most densely populated areas in the world. Human lives are cheap where up to 1,000 people are condemned to vegetate on one square kilometre of land. No fewer than 70 mn of the 125 mn Pakistani are living in East Pakistan but the Government considered the \$ 800 mn which, according to World Bank calculations, protection for the Ganges Delta would cost too high a price to pay. Such a sum of money can be found if it is wanted for West Pakistan's prestige project, its sixth giant dam at Tarbela, and the arms race with India which swallows 60 p.c. of the Pakistan State budget is evidently also held to be more important than hundreds of thousands of human lives.

The very magnitude of the disaster may now perhaps help to force action to grapple with the untenable conditions. During his State visit to China, for instance, President Yahya Khan was promised a \$ 200 mn credit for Pakistan's fourth five-year-plan which, unlike previous credits, is to be used especially for the benefit of East Pakistan. This sum is, however, not enough for combatting the floods unless China sees its way to co-operating with western donor countries. China at the same time offered a piece of advice which makes sense also to western experts: Pakistan should study the "ant system"

tried out in China and, instead of concentrating so intently on big technological projects, mobilise the millions of unemployed East Pakistanis for the construction of a network of dykes. And the results of the general elections prove the urgency of drastic remedies lest Pakistan should be finally divided. hg.

GATT

A New Round?

In Villa Bocage, the Geneva headquarters of GATT, one plays with the idea of holding another round of general negotiations. The efforts for the enlargement of the EEC are at the root of these considerations. First, the EEC association and preference agreements with countries in the Mediterranean region and Africa involved problems for GATT. Now the batch of extensions and the network of consequential agreements in the heart of the European industrial countries creates new ones; for the advantages which these countries concede to each other are to be excluded from most-favoured-nation treatment. Logical though this may seem from the point of view of the EEC and the countries wishing to join, the enlargement of the Community will entail grave consequences for international commerce. No wonder therefore that the outsiders feel themselves challenged and want to curb these tendencies through GATT.

There can be no doubt that these developments will necessitate negotiations within the framework of GATT. In question, however, is the timing of a new round. Besides, misgivings begin to be felt as to whether GATT is in a position at all to exercise control over this development. Commonsense allows only one answer to the question of timing: The proper time will come when it is manifest that agreement on practicable terms can be achieved by the EEC and the countries ready to join. Only when this happens will it be possible to assess the repercussions on world trade and determine compensatory measures. But this situation has not yet arrived.

Consideration could and would, however, have to be given before then to the question whether the tasks set to GATT do not require re-examination and possibly reformulation, for the European countries will not forgo the advantages of integration for the sake of observing certain GATT regulations which were formulated in principle in 1947. This does not mean that the "new" tasks of GATT will necessarily be of less significance than the "old" ones, for GATT will undeniably still have a great part to play in the concert of world commerce in future. ogm.