

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

Comments

Intereconomics

*Suggested Citation:* Hamburg Institute of International Economics (HWWA) (Ed.) (1971) : Comments, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 06, Iss. 10, pp. 294-295, <https://doi.org/10.1007/BF02929125>

This Version is available at:

<https://hdl.handle.net/10419/138532>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

# COMMENTS

---

## *India*

### **The Great Powers Take a Hand**

The pact between India and the USSR has given Moscow one of the cornerstones of strategic importance in the Far East, and the one-sided support of China and the USA for West Pakistan was not the least important factor for this Russian success. From the Indian point of view the demonstrative upgrading of US-Chinese relations after Kissinger's trip, which significantly began and ended in Pakistan, sounded an alert and invited unmistakable counter-measures. The agreement between New Delhi and Moscow was precisely that. The débâcle in East Pakistan and the conspicuous support by China and the USA for the West Pakistan Government in its efforts to keep East and West Pakistan together led in the end to the Treaty of Peace, Friendship and Cooperation between India and the USSR.

After 24 years India has thus abandoned the principle of absolute neutrality which was its hallmark under Ghandi and Nehru; for the treaty gives India protection against attack by Pakistan or China, even though by the laws of political logic it has to pay a price, namely the acceptance of a curtailment of New Delhi's room for political manoeuvre. The Indian Government has thus set an important precedent even though, as New Delhi says, it wants to continue without change along its old course. India will have to commit itself in future to whoever gives the country protection. Thus its dream of a policy which fits it to act as the leading nation of the third world on a middle course between the great powers in conflict with each other is doomed to oblivion. Not the least of the reasons for its failing is the economic instability of the Indian colossus compared with his Chinese rival.

mk.

## *EEC*

### **Integration à la Carte for the Neutrals**

The stage of soundings has ended in the EEC talks with the neutral EFTA countries—Sweden, Switzerland, Austria and Finland—unable to join as full members. The Council of Ministers has taken up a position on the Commission's proposals and presented a scheme, albeit a vague one, which leaves a free trade zone between the enlarged EEC and the neutral remnant of the EFTA the only possible form of arrangement. At first this arrangement is to apply only to industrial goods and cover all four countries equally.

Official comment on the EEC offer from all the Governments concerned has been positive. Nevertheless distinctions have to be made. Austria, and Finland even more so, have little leeway in their foreign trade policy because of the special limitations due to their neutrality policy. They have accomplished their modest objective by largely making sure of free trade. Sweden, and also Switzerland, are unlikely to be entirely satisfied with the offer. During the soundings both had urged a closer institutionalised cooperation with the enlarged EEC short of full membership. Their efforts in this direction were chiefly due to the fact that both countries, because of their very substantial commercial entanglements, would be directly hit by EEC decisions and have to adjust to them without however having any say in matters.

The rejection of "integration à la carte" gives added importance from the Swedish and Swiss points of view to the question how far the free trade agreements to be concluded will be capable of future development. A compromise should be possible, for the Council of Ministers has hinted at the possibility of expanding cooperation. Sweden, on the other hand, has cause to re-examine the arguments based on its policy of neutrality, since one of the main objectives of this policy—to prevent Finland from tying itself more closely to the Comecon—must apparently be considered to have failed.

ju.

## *Argentina*

### **The Military and Perón**

Argentina's economy is on the downgrade. High unemployment, unprecedented inflation (at the record rate of 40 p.c. per annum in July 1971), mounting deficits on the balances of trade and payments and slow growth of the GNP (down to 2.3 p.c. in the first quarter of 1971 after 6.1 p.c. in the same period last year) are current features of the economic situation in this second largest South American country.

The difficult economic situation is causing exasperation among the masses. The calls for the return of ex-dictator Perón are getting louder. It is thus not surprising that the ruling officers are reinforcing their efforts to get a grip on the economic difficulties, in the hope of thereby increasing their popularity. To this end a package of measures has been adopted which signals a real triumph for dirigisme. Among its features are increases of up to 90 p.c. in import duties, imposts

on foreign currency earnings, taxes and restrictions on currency for foreign travel, and control of swap transactions.

When one examines the measures in detail, some at least do not seem to make sense. Curtailment of imports is an acceptable means of reducing deficits of the balances of trade and payments. But if exports are curbed at the same time, any effect on the trade deficit will at least be delayed. Curtailment of exports is being justified on the ground that it will slow down inflation, but with unemployment giving cause for concern damping down foreign demand is incomprehensible because a satisfactory level of employment depends on an adequate aggregate demand.

The lack of balance between the measures is explained by the haste with which they were taken. Unsatisfied masses force the Argentine Government to a spurt of activity. But to go by past experience, it seems at least doubtful whether dirigiste measures, though they may suit the mentality of the ruling officers, are suitable remedies for an economy in a state of crisis. ro.

#### *Iran*

### **2,500th Anniversary Celebrations**

To commemorate the day 2,500 years ago when the Persian Empire was founded by Cyrus, heads of state, envoys and other guests from all over the world will converge on Iran. In tented palaces between the remnants of the architectural splendors of Persepolis tribute will be paid to the illustrious past of the Persian people and their dynasty.

Costly celebrations however are no way of coping with the difficulties still confronting Iran in the economic and social sphere. There is no doubt that the country has registered rapid economic growth in recent years. By raising its GNP every year since 1965 by 9.5 p.c. on average, Iran has achieved the highest growth beside Japan. Despite the economic upsurge however the GNP per head of population is still no more than about US \$ 350 annually and thus substantially below the US \$ 500 which, according to the United Nations, marks the border between developed and underdeveloped countries. Moreover, it is only a part of the population which has benefited from the economic advance. Although the land reform has been almost completed, living conditions have not improved appreciably for the major section of the people, those in agriculture. Here the income per head is in many parts of the country below US \$ 100. In education also great problems remain to be solved, as is shown by the high rate of illiteracy — affecting 60 p.c. of the population.

Faced with such facts, it behoves the responsible men in Iran to look ahead to the future rather than back into the past. Iran's problems would certainly be less invidious if the reforms in the economic and social fields were tackled with as much energy as the preparations for the 2,500-year celebrations. na.

#### *International Monetary Crisis*

### **Squandered Chances?**

When Nixon rescinded the US' obligation to redeem dollars for gold, many enthusiasts on the other side of the Atlantic thought Europe's hour had come. The disappointment was that much bitterer when the finance ministers in Brussels parted. Professor Schiller again presented his plan—as in May of this year—which foresaw the fusing of the EEC into a currency block with fixed exchange rates and the floating of the European currencies against the dollar. Giscard d'Estaing however—as in May of this year—rejected the plan and argued for split foreign exchange markets. He also would have nothing to do with a compromise proposal presented by the Benelux countries. Thereupon observers lamented the spoiled chances and the failure of the EEC.

They failed to see, however, that nothing else could have been expected. This crisis simply came too early for the EEC, since the existing institutional weaknesses and the still insufficient common consciousness in no case would have been able to close the breach, which ensued from the lack of American organisation and leadership qualities.

The EEC countries should have formed ad hoc a currency union, for which attainment, before the crisis, they believed would require a long time and an intensive learning process. And that rightly so, for at the present the economic and currency conceptions of each of the member states deviate so widely from one another that a harmonisation appears almost impossible — apart from the fact that the tools for such a harmonisation and implementation are missing.

The learning process must be completed quickly, however, and the adjustment of sectional views cannot be put off very long either, because the present currency systems in the EEC are preying on their very substance. Therefore the EEC must come to an understanding as soon as possible on a *common* currency policy and determine which role it will play in the reorganised currency system. The ministers' meeting on September 13 was a step in this direction. ogm.