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Monetary policy: Narrower exchange rate bands

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COMMENTS

Germany

An Abortive Tax Reform

So far every Finance Minister of Germany has announced on assuming office that he intends to undertake a comprehensive tax reform. Such a reform has indeed been due because the tax system of the Federal Republic resembles a jungle rather than a system. There are about 50 individual taxes in which the tax-paying citizen sees himself helplessly entangled. As a rule several taxes are pressing in on him at the same time, and bases of tax assessment overlap, so that double and multiple tax burdens fall on one and the same tax object. Despite the urgency of reform, action has however been confined to predictions of reforms and the appointment of expert commissions.

When in the autumn of 1969 the SPD-FDP coalition took over the business of government, critics of the present tax system gathered fresh hope, for the new Government promised to enact the "law of the century" in the course of the current legislative period. But what has come out by now, after two and a half years of coalition government, is little — and that little is dangerous. The tax reform has, on the one hand, become a battleground of tax and social ideologies; and on the other, the tax reform plans are full of economic inconsistencies.

After the Federal Government had decided on the fundamentals of its plans for the future tax reform by fixing so-called "corner values", experts established that the resulting tax burden would in quite a few enterprises absorb nearly 100 p.c. of all profits. The Ministry of Economics and Finance tried to refute these calculations by counter-calculations, but one is left with the impression that undigested plans have been advertised as a political objective while economic realities have had to give way to the behests of social policy. The Federal Government would be well advised to take time over such an important reform, which is imperative, and defer its decision rather than risk killing the goose which lays the golden egg. ogm.

Great Britain

The Legacy of an Empire

Many Europeans welcome the British decision in favour of joining the EEC. The fact that the United Kingdom is the oldest European democracy and that it has a great experience as a world power makes for great hopes for drawing the Community together more closely economically and, above all, politically. Therefore many Europeans feel

shocked that the inheritance of the British Empire is still able to raise so much annoyance, specially in Northern Ireland and Rhodesia.

What started in October 1968, with Londonderry's march of protest organised by Northern Irish civil rights organisations under the slogan of "one man, one vote" as a class struggle, has long ago burst all attempts at controlling it and assumes progressively the features of religious and civil war. Even if the three governments involved should be able to hammer out a jointly-agreed solution, peace can be restored only on condition that the Ulster population which is riven by deep hatreds can find again a *modus vivendi*, for which much time and patience will be needed.

As to Rhodesia, Whitehall has repeatedly tried to obtain Rhodesian recognition for the British principles of decolonisation, since Salisbury proclaimed its Unilateral Declaration of Independence on November 11, 1965. This eventually produced the "Proposals for a Settlement", which should not be assessed according to what is desirable but according to what is possible. However, the British Fact-Finding Commission under Lord Pearce, which was charged with testing the views of the black population, met with an unexpectedly unanimous rebuff and became the trigger for the outbreak of wild riots.

There are, of course, in addition the difficulties on the British home front, mainly the, apparently intractable, problem of mass unemployment. All this might any British admirer of Heinrich Heine prompt to the sigh: "Nightmare is poisoning my sleep / for Britain's troubles I must weep." hg.

Monetary Policy

Narrower Exchange Rate Bands

At the monetary conference in Washington in December it was decided to widen the margins for exchange rate fluctuations from 1.5 p.c. of the parity rates against the dollar to 4.5 p.c. This widening of the bands allows non-dollar currencies, EEC currencies included, to fluctuate by up to 9 p.c. against each other. Such a wide margin for fluctuations obtains if at the start the dollar price of currency A is at the upper, and that of currency B at the lower intervention point and if later, owing to national or international developments, the dollar rates of both currencies are reversed, so that currency B moves to the upper, and currency A to the lower, intervention point. Such a development in the EEC—which is at least

conceivable—would, unless countered, have highly negative consequences for the Common Agricultural Market and the further extension of the economic and monetary union. The Commission has therefore proposed introduction of a narrower “intra-Community band”, with a total margin of 2 p.c. against a jointly fixed medium dollar rate, for EEC members’ currencies.

In relation to outside currencies, the internationally permitted 4.5 p.c. margin is to be retained. This can be done by shifting the “common medium dollar rate”, which implies a shift of the common band, within the upper and lower intervention points. At a first glance the idea of a narrower movable EEC band inside the wider international band for exchange rate fluctuations is very attractive. But whether this system is technically practicable must yet be examined. Besides, a band width of 2 p.c., it must not be overlooked, is still larger than the one which prevailed between member states before the monetary crisis. The present proposal of the Commission furthermore contravenes the mutual obligations entered into by EEC States in February 1971 that no relaxation of the international exchange rate system is to be applied to their interior rates. In practice this means that a 2 p.c. band is a retrograde step rather than one forward to economic and monetary union.

China

Spokesman of the “Third World”

Contrary to the most important donor country, the USA, whose public aid to the Third World has continuously declined since 1963 and meanwhile fallen back to the level of 1961, China can now show a proud record: in 1970, with development aid to the tune of US\$ 1,327 mn, the People’s Republic ranked among the big donor countries.

According to a study by the US Foreign Department the Chinese have given the developing countries more aid in 1970 than any other socialist country. The Soviet Union considerably stepped up military aid but its non-military aid performance amounted to only 28 p.c. of that of China. Next to the USA the People’s Republic of China is therefore now the most important donor country. Based on their own experience the Chinese extend their aid on the maxim that the peoples of the Third World have to support themselves by their own strength in the first place and to rely on international aid only as a secondary line. This principle is also applied to the projects aided by the People’s Republic. The Chinese aid projects which, except for example the very important Tansam railway, are in the main smaller and medium ones,

are interlinked with a development level already achieved and largely worked into national development plans initiated.

Because of this apparent restraint and the success of the majority of projects carried out, China can be sure of the developing countries’ sympathy. This became quite clear to everyone, for instance, in the course of the events accompanying China’s UN entry, and it will further show itself in the form of intensified conflicts between the industrialised and developing countries at Santiago. jvb.

EEC

The Language Problem

After General de Gaulle vetoed the UK’s accession to the EEC, one of the men well in the know said that the French president had adduced a number of reasons for his step but had kept silent on a number of others. As it could already then be foreseen that, through the British and the Scandinavian becoming EEC members, the French language would lose its preferential position, this had been sufficient reason to give a nugatory answer to the British request. Since the great man has died, it has become evident that, among all the questions, which overshadow life and evolution of the European Community, the problem of languages is certainly not one of the least. President Pompidou has made no bones about this to his German partners, and the British have attentively registered this kind of dialogue among their neighbours. The Education Committee in Hertfordshire discussed extensively the effect which Britain’s EEC membership will have on its schools. The Committee’s Report came to the conclusion “that there is no reason why, within the next ten years, most primary school children should not have the chance to start French”.

The Department of Education and Science will see to the fulfilment of this requirement by a new programme of exchanges of teachers. During the scholastic year of 1972/73 it is intended to send 200 exchange teachers to Germany and France; the number is to rise to 500 during 1973/74, and later about 1,000 teachers are to become involved annually. Those who still believe that the British, as linguistic isolationists, are not really prepared to integrate with Europe, will now have to be somewhat cautious with such sweeping statements. To see in the multiplicity of languages a common and joint inheritance of all EEC members, and to treat them as such, will make integration less difficult. This will obviate unnecessary conflicts within the Common Market, conflicts which may easily arise from questions of prestige. Ja.