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Raw materials: The international cocoa agreement

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COMMENTS

Germany

A Vote for Brandt

For the observers of the German election on November 19 there were quite a few surprises: First, the tight race between Herr Brandt and Herr Barzel which had been forecasted did not take place. Second, not only did the Liberal Democratic Party—FDP—under the leadership of Herr Scheel gain votes and Bundestag seats (8.4 p.c. of total votes, 42 seats)—which had been generally expected—, but also Herr Brandt's Social Democratic Party—SPD—(45.9 p.c., 230 seats)—which came as a surprise even to its leaders. Third, the loser of this election is the candidate for Chancellor of the Christian Democratic Union—CDU—and the Bavarian Christian Social Union—CSU—, Herr Barzel, whose opposition against the "Ostpolitik" of the SPD/FDP coalition, attacks on the past economic policy that secured employment at the cost of an inflation rate of over 6 p.c., and law-and-order-preaching did not lead to an increase, but to a decline in voters' support (44.8 p.c., 224 seats).

The victory of the old and new coalition government does not mean that the Federal Republic of Germany is a country without problems. On the contrary, there are several matters which need solution during the next few years. In the field of foreign policy the establishment of a *modus vivendi* with the German Democratic Republic and the normalisation policy towards the East will continue to be difficult. The same applies for the future development of the EEC and the strained relations with the USA, Japan and the developing countries. But the most difficult task should be the trimming of the price increase from an intolerable 6 p.c. to less than 5 p.c. This will only be possible if government, trade unions and industry are willing to work out a strategy for stability. No doubt such a strategy will demand sacrifices from all crm.

EEC

Ineffectual Stabilisation Conference

The scepticism about the results of the summit meeting in Paris of the heads of state and government of the enlarged EEC was substantiated only ten days later in one important field. The attempt by the European Economics and Finance Ministers to implement their mandate from the summit conference and decide on effective and concrete Community measures against the progress of inflation has largely failed.

Agreement was reached only on guidelines for budget and credit policies, which are within the

competence of the individual states. These policies are to be applied in such a way that between the end of this year and the end of 1973 price rises in the EEC are held to a rate of 4 p.c., but exemptions have been granted to countries suffering from underemployment. It is not difficult to foresee already now that Britain, Italy, Eire, Belgium, Luxembourg and, possibly, also the Netherlands will avoid imposing a restrictive stabilisation policy by claiming exemption on this ground. Hence a second package—the tariff and agricultural measures on which the Commission and the Federal Republic were insisting—seemed to be all the more important. Action on these fields, which are unquestionably within the competence of the Community, however failed in the face of French opposition; the French regarded voluntary tariff cuts ahead of the GATT conference due next year as inopportune.

The latest Council meeting has thus demonstrated once more that for the time being the member states cannot be committed to a common stabilisation policy. Economic conditions in the individual countries differ too widely, and their economic policies are correspondingly also differing as far as the order of priorities for the various objectives is concerned. Countries with underemployment and structural problems have other things to worry about apart from stabilisation. ogm.

Raw Materials

The International Cocoa Agreement

The United Nations cocoa conference ended in Geneva at the end of October with the adoption of an international cocoa agreement. It is based on an export quota system linked with a buffer pool mechanism, and the quotas are to be adjusted as the situation in the market changes. To supervise the agreement, an International Cocoa Council has been set up, which is to include producing as well as consuming countries.

It is the aim and purpose of the agreement to stabilise the cocoa market in general. Exceptionally wide fluctuations of cocoa prices, which are detrimental to the long term interests of producers and consumers alike, are to be prevented. The success of the agreement however is in jeopardy because the United States have not joined and the Federal Republic of Germany has substantial reservations. In the view of the German delegation it could not join an agreement which takes in no more than about 70 p.c. of world consumption. As the USA, with about 25 p.c. of the world total, wants to stay outside, the agreement lacks, in Bonn's view, a large enough basis.

One wonders whether the attitude adopted by the USA and Germany, who are both big cocoa buyers, will not subject the developing countries to yet another handicap. Avoidance of excessive cocoa price fluctuations and guarantee of a minimum price might be of greater help to the cocoa-producing developing countries than some of the development aid projects of these two industrial countries. Exports of cocoa certainly occupy an important place in many of these states; one need only mention African countries like Ghana and Cameroun. The agreement could also be of benefit to the Federal Republic: Hamburg was being considered as seat of the International Cocoa Council. Annoyance with the German attitude however has meanwhile, understandably, grown so much that another locality will probably be preferred. It is still to be hoped that the USA and the Federal Republic of Germany will reconsider their attitude so that the cocoa market can be stabilised after all. iwe.

Great Britain

Standstill on Incomes and Prices

Amidst laughter from the Labour benches the British Prime Minister, Mr Heath, on November 6, introduced his Counter-Inflation (Temporary Provisions) Bill in the Commons. It imposes an absolute standstill on wages, prices, rents and dividends for at least 90 and possibly 150 days. The opposition had good reason to laugh, for the Conservative leader was resorting to a measure which he himself had castigated not so long ago as an ideological aberration and political misjudgment by his socialist opponents which could not beat inflation but merely delay it.

Under the pressure of economic circumstances Mr Heath felt last year already compelled to make the first voluntary inroads into his own ideology of letting the commonsense of the market economy prevail. He had to appeal to industry and trade unions to join the Government in pursuing a prices and wages policy of limited rates of increase. The industrialists' organisation, the CBI, was indeed right up to the end willing to restrict the price increases to the proposed 5 p.c. The trade union organisation, the TUC, however would not accept the Government's latest proposal of limiting wage rises to £ 2.60 a week even as a basis for discussion.

It remains to be seen whether Mr Heath's Government will now, buttressed by the new enactment, succeed in stemming the current upsurge of prices and wages. Such laws usually leave too many loopholes, and human ingenuity can always discover new ones. It is possible, for instance, to raise wages through regrading, which in the

long run gives the general wage level a substantial hoist. Similar possibilities exist in the price sector. Besides, there is no knowing how artificially pegged prices, wages, rents and dividends will spurt once the 90 or 150 days are over and whether the Heath Government will manage to remove the real causes of the inflation before then. kw.

USA

Nixon's Second Term of Office

President Nixon has gained the expected overwhelming election victory, thereby proving the truth of a remark he made in 1968: It does not matter whether a politician is popular or not but that he is respected. Nixon has earned the respect of his nation. Apart from his unquestionable efforts to bring the disastrous US engagement in Vietnam to an end and apart from the impressive achievements of his foreign policy including the détente with the other super-powers, it was his acceptance of calculated risks in particular which won him the respect of the voter. Twice in his first term in office he had the courage to make decisions which could have cost him the reelection, The wage-price controls, which were an abrupt departure from his previous economic theories, and the blockade of Haiphong, which could have put the summit meeting in Moscow in jeopardy, were such calculated risks and proved successful.

Certain strategies to be followed in the second term can be discerned already. Nixon's main concern is with foreign affairs where he hopes, according to Henry Kissinger, to build an "enduring monument of his Presidency". The great outlines of this monument are: an end to the Vietnam war, diplomatic recognition of China, substantive commercial and armament agreements with the Soviet Union, a détente in the Middle East and in Korea, and a new order in international economic relations.

In regard to economic and social policy the USA may find the President to be conservative: he need no longer extend his basis to the left. A stricter fiscal policy and the fight against inflation are likely to come to the fore. Nixon is now also in a stronger position for standing up to protectionist tendencies in Congress. That however will depend on the extent to which the trading partners of the USA will be ready to make concessions in monetary and trade policy. The European "friends" of the USA will be up against a much harder Nixon. He will demand more from them than an offset for military burdens. He will apply the dictum of General de Gaulle whom Nixon admires: "Great powers have no friends but only interests." hg.