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## Foreign trade and payments: new tasks ahead

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### *Political Aspects*

#### **A Turning Point in History?**

There was more doubt about the outcome of the Bundestag election of November 19 than on any previous occasion. However, after the electorate's surprisingly unequivocal decision in favour of the SPD-FDP coalition, after the ephemeral exaggerations and distortions of the propagandists have died away, reality must once more be faced.

The next four years of the Brandt-Scheel government will certainly not be easy ones. The great determinants of foreign policy have been fixed, and the spectacular successes lie behind us. The task now is to extend the achievements in the East and to work again for closer cooperation with the USA under the auspices of "Europe's Year" as proclaimed by Nixon. A great task as a mediator between the USA and the EEC may fall to Federal Chancellor Brandt's share.

But for the opposition parties, too, the next years will be problematic ones. During the past three years they wasted too much time concentrating on ineffective tactics in the hope of regaining power prematurely instead of developing a truly alternative programme. The next legislation period will offer them the chance of reformulating their ideas and preparing themselves to take over again.

Brandt's first cabinet has rendered historic services by its foreign policy; the second one will be judged on its performance at home. There are those who regard November 19 as a turning point in German post-war history. But turning points have a snag: it is usually only afterwards that they are seen to have been such. In this sense the decisive turn occurred at the 1969 election which carried the SPD into government, the CDU/CSU into opposition and proved the viability of our democracy by this change in governmental responsibility. It made Brandt's eastern policy possible. In 1969, and not now, was the die cast.  
hg.

### *Economic Policy*

#### **Demand for Closer Cooperation**

Price stabilisation is one, if not the most eminent problem of the newly elected government of the Federal Republic of Germany. Advancing over 6 p.c. during the last months, the level of price increases has reached unprecedented heights. Even more disturbing, however, is the tendency towards an increase in the inflation rate. It is no wonder therefore that many German politicians and experts are watching closely the efforts by

other countries to break the inflationary mentality through a rigorous income policy, i.e. price and wage stops.

The fascination of such measures does not lie so much in the success enjoyed in those countries; on the contrary, almost all such attempts have remained without proof of success. Their actuality lies to a greater extent in their character as a "last resort" and as an expression of a certain helplessness and resignation. The reason for seeking the solution in directive measures and controls is that the traditional steering of the economy by both monetary and fiscal policy did not bring the desired result and must be labeled a failure. Both policies influence the demand side, but in most countries inflation seems to be cost push induced. The result is that when demand curbing has been consistently practised, unemployment, but not necessarily price stability has taken place.

Nevertheless there is still some hope left, for until now the politicians—and not only they but also the economists—have indulged in the human weakness of swinging from one extreme to the other—from aggregate steering of the economy to price and wage controls. Too little attention has been paid to an intermediate solution: aggregate steering of the economy and stability oriented behaviour of the autonomous groups. This solution would imply in the Federal Republic a closer cooperation between the state, trade unions and business in the fight against inflation.  
ogm.

### *Foreign Trade and Payments*

#### **New Tasks Ahead**

What judgment will be passed on the second Brandt Government will depend largely on the success of its economic policy. In contrast to the stabilisation policy which is unlikely to yield results for a year or two, its foreign trade policy has had an auspicious start, at least as far as contacts with the East European countries are concerned. The Federal Republic is here doing increasingly well since the Federal Government, on the strength of the normalisation of its relations with these countries, managed to conclude bilaterally new long-term trade agreements. After January 1, 1972, this will be ruled out by the EEC's exclusive right to the conclusion of commercial treaties.

In regard to foreign and monetary policy however the future of the Federal Republic does not lie in the East but in the West which accounts for the bulk of its foreign trade. The western indus-

trial countries as well as the developing countries expect the Federal Government to contribute to the solution of the international trade and monetary problems posed by large balance of payments disequilibria and the search for a new monetary system. The export surpluses of Japan and the Federal Republic contrast with the balance of trade deficit of the USA, and the foreign commerce of the developing countries has been stagnating for years, especially in agricultural products.

These problems cannot be solved by monetary measures alone. What is rather more important at the present juncture is that the outstanding problems should be overcome by world-wide or bilateral negotiations so as to counter the protectionist forces at work in some countries. A first opportunity will present itself in the new GATT round due next autumn in which new principles of trade policy will have to be formulated. Special importance attaches in this context to the Federal Republic with its economic strength inside an enlarged EEC. If the Federal Republic succeeds here and in the International Monetary Fund in contributing to sensible arrangements, it will be all the better placed for promising work on the domestic element of its stabilisation policy. kw.

#### *Development Policy*

### **Trade Demands by LDCs**

In spite of all the rumors that were circulated in Bonn, Dr Erhard Eppler will remain in charge of the Federal Ministry for Economic Cooperation. He was able to convince Chancellor Brandt that a transfer of competence over capital aid to his own ministry would improve the efficiency of German development assistance. This could indeed have very positive effects on the future work of the Ministry since it marks the end of the solution whereby the Federal Ministry of Economic Cooperation was only responsible for the distribution of technical aid (1971: DM 1.5 bn), while capital aid was still under the supervision of the Federal Ministry of Economics (1971: DM 1.1 bn).

One of the most important tasks Dr Eppler will face during the next months is the preparation of the next GATT-round. For the concern of the developing countries about their declining share in expanding world trade and their fear of agreements between the EEC, Japan and the USA at the expense of the Third World is increasing. Efforts should therefore be made by the Federal Ministry of Economic Cooperation to secure enough support in Germany and the other industrialised countries for the following demands of the developing countries: arrangements of temporary commodity agreements through which the

prices and marketing of raw materials can be influenced; assistance of diversification efforts in developing countries; prohibition of additional tariff and non-tariff obstacles for products exported from the Third World and agreement on priority removal of existing obstacles; improvement of preference schemes; establishment of joint actions by industrial nations to advise developing countries e.g. in the form of marketing and distribution assistance; implementation of suitable schemes for the restructuring of their own industries in order to arrive at a more rational international division of labour; and constructive participation of all concerned in the review of all articles which permit deviations and exemptions from GATT because they can provide an alibi for trade restrictions. crm.

#### *Intra-German Relations*

### **Basic Treaty and its Consequences**

The Basic Treaty regulating the relationship of the two German States which emerged from the negotiations between State Secretaries Bahr of the Federal Chancellery and Kohl of the GDR Council of Ministers was signed in December. Its signing will open a new phase of cooperation in the most diverse fields; it will, in the words of Willi Brandt, "break the ice in which the relationship between us and the GDR was frozen for many years".

Of particular economic interest is the supplementary protocol which provides for arrangements in many fields, such as legal assistance, technology and protection of the environment. The first item on the list of these arrangements concerns the continuation of interzonal trade on the basis of existing agreements. It would be most welcome if long-term agreements were reached under this heading so as to encourage a continual development of the economic relations, bring obsolete regulations up to date and improve the structure of trade. Such issues have in the past been handled rather warily on the GDR side which, understandably, did not wish to forgo its unofficial EEC association, domestic-market prices, exemption from external tariffs and levies, and tax advantages. The Basic Treaty will probably put an end to such reticence on the part of the GDR.

The novel experience of increasing economic cooperation may however disappoint if the EEC partners decide to revise the special position hitherto conceded to intra-German trade, as they may possibly do. If so, the two states should still not desist from following up the intentions of the Basic Treaty and continuing with the intensification of their economic relations on the new basis. lwe.