

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

Article — Digitized Version

## Monetary crisis: Nixon's new strategy

Intereconomics

*Suggested Citation:* Hamburg Institute of International Economics (HWWA) (Ed.) (1973) : Monetary crisis: Nixon's new strategy, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 08, Iss. 3, pp. 68-69,  
<https://doi.org/10.1007/BF02927545>

This Version is available at:

<https://hdl.handle.net/10419/138791>

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# COMMENTS

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*Great Britain*

## **Waiting for an Economic Policy**

The feature of the British labour market in 1972 was a rapid decline in unemployment. In December alone the number of unemployed diminished by 25,000 to 744,876 — the largest fall in 30 years. Economic growth did not, in real terms, quite come up to the magic 5 p.c. rate but shows an upward trend. Is this reason enough for the Heath Government to look back proudly on a successful economic year?

Great Britain's investment goods industry has hitherto reacted hesitantly to the announcement of the country's accession to the EEC which has taken place in the meantime. Even initial signs of the hoped-for investment boom are as yet lacking. The positive growth trend has fed almost entirely on the consumer goods industry. The prices and wages freeze imposed in November 1972 has made little difference. The population is questioning the Government's ability to cut down the rate of inflation from about 8 p.c. to a more tolerable level. Moreover, it is afraid that the upsurge of prices will gather fresh momentum when the wages and prices freeze ends. Particular concern is being felt in this connection over the Value-Added Tax, soon to come into force. Purchases are made to forestall the new tax; consumer goods are being bought. Whether this will be enough of an impetus to translate the "consumer boom" into increased demand for investment goods is doubtful.

For the time being the investment goods industry is still waiting to see what kind of concept the Government will present for a "controlled upturn". The Government however has extended its "pause for reflection", the wages and prices freeze. That does not suggest that it is eager to take economic policy decisions. Resolute action however is necessary, the more so as owing to the wait-and-see attitude no great economic stimulus can be expected from the export industry. fa.

*Oil*

## **Iran Joins the Hard-Liners**

Iran does not wish to extend its current contracts with the Iranian Oil Operating Companies, which date back to 1954, beyond 1979 but wants to work the oilfields on its own account. In place of the licence contracts with this group of western petroleum companies due to expire in that year the Shah offers a choice between two alternative contracts on the assumption that the Iranian oil reserves are relatively limited and the output will have reached its peak in about ten years' time.

One alternative stipulates an increase in oil production by the group from 227 mn tons in 1972 to about 400 mn tons a year, with the present arrangements to remain valid until 1979. The other alternative is a contract for at least 25 years which provides that all production plants are to be taken over by the National Iranian Oil Company and the members of the international group are to be designated buyers to whom the crude oil would be offered at favourable prices to be agreed between the parties.

The financial success of the Arabs on the participation issues may have prompted the Shah to abandon his previous policy because Iran's fifth development plan — which exceeds the fourth plan more than threefold in volume — is starting in March of this year. The Shah apparently expects full nationalisation to provide a safer basis of finance. For the oil companies the announcement of nationalisation and assumption of control over the oil production came as a surprise because the Iran had taken a moderate stand in the dispute over a higher share in profits. They did not however indulge in loud protests. The reason is that Iran promises substantial and assured supplies of crude oil. The industrial countries and the petroleum companies want to keep this source of supply even if under different contractual arrangements. The looming power crisis in the USA is not the least important reason for this wish. na.

*Monetary Crisis*

## **Nixon's New Strategy**

The decisions of the Nixon Administration to devalue the dollar by 10 p.c. and of the Japanese and Italian Governments to let their currencies float — followed by a number of re- and devaluations — have for the time being brought back relative monetary calmness. But whether the breathing space will be long enough to carry through the long-expected reform of the world's monetary order must be doubted after the experiences gained in 1972. While it was agreed by every nation during the Smithsonian negotiations that the reform should be promptly undertaken in the framework of equilibrium and cooperation, the Committee of the Twenty has only met a couple of times to discuss the first issue of their agenda, the adjustment process. If negotiations continue at this pace a number of monetary crises will have to take place before the vague principles of reform — flexibility and prompter adjustment in exchange rates, bigger role of SDRs as reserves, and more symmetry both in adjusting surpluses or deficits in the balance of payments and in the position of the various currencies — will be transformed into concrete new rules.

Adjustment in trade matters will be as difficult as the reform of the international monetary system. Threats by the US Administration to cancel international trade agreements and to introduce again import surtaxes and quotas, if the EEC and Japan will not help the USA in its effort to bring the balance of trade and payments to equilibrium confirm President Nixon's readiness to pursue a hard line during the forthcoming negotiations. Whether this strategy, which stands in contradiction to his statement in September 1972 that progress in international trade relations will only be possible in the framework of equilibrium and cooperation, will bring about the desired reform in international trade within a shorter period of time, is an open question. But in the light of past experience in the field of world monetary reform, President Nixon's trade strategy is at least understandable. crm.

*Italy*

### Permanent Crisis

The Italian economy did not have much cause for rejoicing last year, too. The GNP admittedly rose by 3.1 p.c. — against 1.5 p.c. in the preceding year — but the growth lagged far behind the 5.5 p.c. average attained in the sixties. As far as prices are concerned, the rate of increase was such as to take Italy from the middle of the field to second place. The Andreotti Government has not gone beyond threatening control measures and freezing some prices which the state had however already had power to curb. Employment has fallen by 2.8 p.c. and is down to the 1965 level, and unemployment is at 3.7 p.c., the highest recorded in Italy in the last 15 years.

The balance of payments is once more in deficit and constitutes another crisis element. For this the outflow of capital is responsible. Borrowings abroad, a larger surplus on current account as compared with the preceding year and traditional foreign exchange measures made up for part of the outflow only. The Government at the end of January drew the consequences from this development by dividing the foreign exchange market into a commercial and a financial sector and allowing the exchange rates in the latter to move freely. At the end of the monetary crisis in February it decided upon a de facto lira devaluation by letting the currency float.

The structural variations inside Italy and the structural weaknesses of certain industries are the main reason for the economic — and also political — crisis in the country. Another are the strikes and general strikes frequently called by the trade unions which are an important reason for the flight of capital from Italy. Besides, there is an inclination among trade unions to have private enter-

prises transferred to state ownership and keep them in existence without alteration of their structure. The Andreotti Government seems to be left with little time to master the crisis, for it may soon have to make room for another Government. kw.

*France*

### Hudson Study — an Election Argument

In time for the French elections an expert opinion has been prepared on behalf of the French Government of which however excerpts only have so far been released. The French economy according to this study has the best chances for the future next to the Japanese. In 1980 France will be among the four richest countries of Europe (together with Sweden, Switzerland and Denmark), and the French will be as wealthy as the citizens of the USA are today while Germany will reach this point only in 1990. France will surpass the Federal Republic not only in per-capita income — in absolute terms France will also overtake the West German economy in 1985.

It can hardly be denied that France has more growth potential for its GNP than the Federal Republic. The population of France will increase from 50.8 mn (in 1970) to 57.6 mn (in 1985) while that of the Federal Republic — 60.7 mn (in 1970) and 62.0 mn (in 1985) — will be more or less stagnant. French growth can also profit more than the German one can from structural changes. As opposed to these advantages however there exist real impediments. France has to cope with tangible arrears in various sectors of the infrastructure, such as housing and hospitals. Nevertheless growth will be faster in France than in the Federal Republic — at least until 1980. The OECD forecasts for France a growth rate of 5.7 p.c. up to 1975 and then 6.1 p.c. until 1980; it puts the German growth at 4.6 and 5 p.c., respectively.

It is however rather doubtful whether this difference will really give France by 1985 a higher income than the Federal Republic. In 1969 the French GNP of \$ 142 bn was already close to the West German figure of \$ 154 bn. After the currency adjustments the Federal Republic in 1971 had a GNP of \$ 208 bn (in constant dollars) and France of \$ 163 bn. If the forecast is based on the 1969 figures, France will certainly overtake the Federal Republic from 1980 onwards, but on the 1971 figures the Federal Republic will remain in the lead (with \$ 292 bn against \$ 286 bn). Seeing that the DM is more likely to be revalued than the franc, the GNP ratio may yet change further. That no mention was made of such crucial facts suggests that the French Government in its information policy selectively stressed the positive aspects which should be regarded primarily as an argument for election purposes. ste.