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Germany: Another DM revaluation

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COMMENTS

Germany

Another DM Revaluation

The latest DM revaluation — by 5 p.c. on June 29 — was preceded by hectic movements in the foreign exchange markets. They began with the dollar steadily moving downwards and reached a climax with a speculative flight into the DM. Owners of dollars whose confidence has been shaken by Watergate and the US trade deficit chose the usual escape route into the DM which thus again became the strongest currency in the European joint float. To keep in the 2.25 p.c. margin for fluctuations against other joint float currencies, the Federal Bank had to purchase foreign currencies to the amount of DM 4 bn in the past few days before the revaluation. The consequential inflation of the internal money volume threatened to frustrate the efforts for stabilisation in the Federal Republic of Germany.

Faced with such a situation, the Federal Government had only a choice between two alternatives to counter the massive threat to domestic stability: one was to withdraw from the joint float, i.e. to let the DM find its own exchange rate level; the other one was yet another revaluation. Having regard to the foreign-political importance of forming a European economic and monetary union, the Federal Government really had no choice but to decide in favour of the second alternative.

The notion that joint floating offers guaranteed protection against dollar speculation has been exploded by the recent developments. The only difference from previous monetary crises was that the familiar train of events did not take place directly between the US \$ and the DM but took a detour via the currencies of the joint float partners. As long as even progress in the sphere of harmonisation of economic policies in the European Community remains a pipedream, it must be expected that further DM revaluations will follow each other at relatively short intervals.

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Australia

Restrictive Trade Policy

Australia's development from a colonial agricultural country to one with a highly developed economy and a diversified production structure is remarkable in that the metamorphosis took a relatively short time. Not so long ago the country was closely integrated with the finely tuned economic mechanism of the British Empire. The great changes in Australia's position within the world

economy did not come about without some friction. The last change of government is only an example. Unlike the Labour Party of New Zealand, the Australian Labour Party has been pursuing an aggressive economic policy.

Most important for Australia's changed standing in the world market has been the expansion of its manufacturing industry. The government in Canberra considered the dependence on foreign supplies of goods to be dangerous and provided an exceptional measure of support and encouragement for the building up of industrial production in the country. For the most part this was done behind an — economically highly questionable — barrier of massive and in part prohibitive protective tariffs.

It may be questioned whether Australia has to go on with this policy and indeed whether the country can do so. It is after all a fact that the enormous distance separating it from the leading industrial countries and the high transport costs resulting from it put Australia geographically and, one may say, naturally in a special position which need not be buttressed further by tariff walls against world market competitors to create a protected zone of relatively high cost production. It would therefore be welcome if the Australian in the interests of world trade would see fit to adopt a more liberal attitude.

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UNIDO

Technology for the Third World

The fourth world conference of UNIDO, the United Nations Industrial Development Organization, on July 4–11, was the first meeting of a UN organisation in West Berlin. This world conference, which was held in cooperation with the Deutsche Stiftung für internationale Entwicklung (German Foundation for International Development) and Kreditanstalt für Wiederaufbau (Reconstruction Loan Corporation), was attended by representatives of 125 institutions for the financing of industrial development in 59 countries, amongst them a delegation from the USSR.

In his address to the conference Dr Eppler, the Federal Minister for Economic Cooperation, announced new Federal Government initiatives for development aid concentrating on industrial production processes. The Federal Government will start by setting up an Institute for Technology in Developing Countries which is to act as a primer for technological research. It is to collaborate with international organisations which are working in the field of technology transfer.