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## USA: The take-over game

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# COMMENTS

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*Italy*

## **The New Economic Programme**

The economic programme of Mariano Rumor's new centre-left government may be said to have a common denominator of "stability and efficiency". It is the second of these criteria which distinguishes the aims of his government from those of former centre-left governments. They concentrated on structural reforms and paid less attention to overall productivity of the system. Signor Rumor's programme lays special stress on the return to a policy of rigorous curbs on state expenditure and the need for willing sacrifices by private industry.

The principal objective of the new government is to fight inflation and thereby reclaim the economic equilibrium which is the prerequisite to domestic reforms and a place in the EC currency phalanx. Budgetary and financial levers are to be set in motion to this end. An attempt is also to be made to check prices by administrative measures. Besides, the government intends to seek the support of producers and traders whose self-discipline is to be coordinated.

To the almost total freeze imposed on the prices of consumer and investment goods has been added a freeze on rents and ban on evictions. Whether these measures will be as successful as expected is questionable, for there are by now quite a few countries in which these kinds of anti-inflationary remedies have proved unsuitable. Signor Rumor's cabinet however has no choice but to get on with this programme, because it will also have psychological effects which must not be made light of. Italy's high inflation rates, especially for food, are a heavy economic and political burden, not only for the European Community, but for the country's own population. iwe.

*EC*

## **Environment Conference**

It was only under the threat of total failure of their negotiations that the Ministers responsible for the protection of the environment in the EC countries at their first Council meeting reached agreement on the EC's first action programme for the environment which the heads of state and government had instructed them to present by July, 31. The Community is thus the first large region in the world to set up common standards for the fight against pollution.

The controversy in the Council of Ministers went on for many hours. It was primarily concerned with a constitutional issue: in opposition to the other members the French held that the programme

ought to be underwritten not only by the EC Council of Ministers but by the Ministers as representatives of the national governments. Seeing that for technical reasons large sections of the environment policy will in any case remain a task for the individual member states, adoption of the French proposal would in fact have provided an opportunity for giving the resolution added importance. Instead, agreement was reached on a compromise in the form of a platitudinous preamble: the envisaged actions are to be carried out in part by the Community and in part by the members, with the Council of Ministers in charge of coordination throughout.

Italian objectives on development grounds against the principle that the polluter must pay, which is fundamental to the programme, were met by one exception: the application of minimum standards for the protection of the environment must not impair industrial development in backward regions. This proviso is not really apposite because even by strict criteria the under-developed regions can still cope with more environmental handicaps than the industrial conurbations. In their own interest the under-developed regions should be advised against emulating the bad example of the latter. ch.

*USA*

## **The Take-Over Game**

The raisins in the cake of US industry have never before looked so appetising. The falling dollar and shifts in the relative costs of production are bestowing ever greater locational advantages on investments in the USA. The previous situation has been completely reversed. For nearly a quarter of a century the dollar has been overvalued. But now other currencies, the DM in particular, seem to have the edge on the dollar. At no time have dollars been so cheap; never has investing in the USA been so worthwhile.

This is why German — as well as British and Japanese — firms have been committing themselves more heavily in the USA. Not only the leaders in the electrical and chemical industries — firms like Siemens and the Farben successors — but, with US wages almost looking attractive, a much larger manpower potential to draw on and, especially, the currency risks at the back of their minds, others are bracing themselves up for the leap across the Atlantic. A significant example is the much discussed Volkswagen project to transfer part of the production to the USA.

Although this trend is well marked, it must be asked why the number of German firms investing in the USA is not even larger. The reason is presumably that the investment climate is still not very favour-

able. This is particularly true of take-overs which are apt to cause bad blood in the USA unless brought about by amicable arrangement. The British are leading in this field thanks to their traditional connections with Wall Street, but also BASF has managed to pull off a deal of this kind with Wyandotte. More popular with Japanese and Germans, and also with Americans, are "greenland" investments — new plants on new sites. This method is also preferred by the US Department of Justice which has an important say in these matters and favours foreign investments which take the form of new firms and new plants and make for increased competition.

As time goes on and positive experience is gathered, the investment climate will, it may be hoped, improve. The Americans will also have to get used to the idea of sometimes being taken over instead of always doing the taking over. Considering the magnitude of US direct investment in Europe, there is certainly no question of excessive foreign influence. hg.

#### *Monetary Policy*

### **Central Bank Gold**

The gap between the free price of gold and the official one has been widening steadily since the gold market was split and the "yellow metal" was demonetised by the lifting of the dollar's convertibility into gold. In the end it paralyses the transfer of gold between the central banks. For unlike the free market price of gold — currently about \$ 100 an ounce — the official price of \$ 44.22, which applies only to transactions between central banks, bears no true relation to supply and demand. The rise of the free market price is leading to ever stronger demands for a redefinition of the role of gold in the IMF system.

The question which interests the private buyer and seller is whether the central banks may one day be able to offer their huge holdings of gold — half of all the gold stock in the world — in the free market and whether, being the biggest customers in the market, they will then determine the price. Rumours that releases of gold from central bank stocks were in the offing startled potential buyers in the middle of July and put a temporary stop to the sharp upsurge of the gold price. A remark from official circles in the German Bundesbank seemed to have a bearing on the subject: Vice President Emminger indicated that he sees no possibility of a return to the old style of convertibility into gold at the official price. He believes that the central banks will probably soon, even before a world monetary reform is achieved, be allowed to release monetary reserve gold in "especially hot situations" to the free market.

A distinction must be made between the possibility of gold sales by the central banks in the short term, to support the dollar and counter speculative overheating, and the longer-term aspect of the role of gold in the context of world monetary reform. The latter was discussed recently at the meeting of the IMF Committee of Twenty deputies, who have been instructed to outline the monetary reform in time for the annual meeting. Although no clear-cut conclusions have as yet been drawn, it was agreed that in a new monetary system the central banks will be at liberty to sell their gold in the free market, no matter whether the official gold price is abolished or retained. That would be the end of a gold market unaffected by the influence of monetary authorities. zz.

#### *Development Aid*

### **FAO Council Meeting in Rome**

Apart from preparing the ordinary budget for 1974 and 1975, which will for the first time pass the \$100 mn mark and be 24 p.c. higher than for 1972 and 1973, the FAO Council at its meeting in Rome dealt at length with the proposal of its Director-General, Dr A. H. Boerma, to launch an international operation so as to ensure adequate reserves of basic foodstuffs. It would be the purpose of such an operation to make sure that the world has food supplies at a minimum level for safety. Among the essential features of the plan is the provision of an improved information system as well as machinery for consultations.

The new activities of the FAO Council are due to the fact that times of chronic cereal surpluses have been succeeded in the world market by a shortage. The reserves which had accumulated without much planning have fallen to a level at which they fail to offer a safety margin in the event of sudden crises. Besides, such factors as weather and natural disasters, cyclical fluctuations in demand and the growth of population will in coming years tend to magnify demand fluctuations and make fool-proof planning much more difficult.

These new tasks facing the world food organisation highlight the fact that the FAO is today primarily a multilateral development aid agency. Its original function of international agricultural institute nowadays takes second place. This is a trend which the FAO's present role as coordinator of relief shipments by individual states for the drought-stricken countries of the West and Central African Sahel confirms. This relief operation has, on the other hand, laid bare all the weak points of an international organisation which can do no more than act as an intermediary between the countries which donate and those which receive relief. The job of rational and efficient planning and distribution of relief consignments for this disaster area has thus far defied all efforts. bw.