

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

Article — Digitized Version

OECD: Problems for the balance of payments

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1974) : OECD: Problems for the balance of payments, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 09, Iss. 3, pp. 68-69,
<https://doi.org/10.1007/BF02927347>

This Version is available at:

<https://hdl.handle.net/10419/138981>

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COMMENTS

Venezuela

Oil Revenues' Inflationary Pressure

Following the elections in December Venezuela will in March have a new government under President Pérez. It will have to cope straightaway with a grave problem — the repercussions of the raised mineral oil prices. The upward trend of prices had in 1973 already caused the originally estimated state revenues — 14 bn bolivar — to be surpassed by 2 bn. After the recent price rise the extra revenue in 1974 will, to go by cautious estimates, be over three times the 1973 figure.

Pérez has in a number of speeches already forecast various disbursements. Although it does not yet seem possible to discern a coherent concept, agriculture, oceanic research, merchant shipping, fishing and the armed forces in particular are to benefit from increased expenditure. The planned outlays together however will absorb only a relatively small part of the additional revenue. The important question remains what economic use is to be made of the rest of the extra revenue.

The expected increase in money availability confronts the new government with a difficult situation, which will have to be tackled if the value of money which has with a great effort been maintained relatively stable is not to be jeopardized by an excessive inflation of the money circulation. In 1973 the cost of living index showed the increase in Venezuela to have been distinctly lower than in many western industrialised nations (although some qualifications must certainly be made about the comparability of the various indices). Should it perhaps be suggested to the Venezuelan government that excess monies should for a limited or unlimited period be placed at the disposal of some of the developing countries for which the changes in the mineral oil market have been less beneficial? iwe.

Energy Policy

The Washington Conference

The energy conference in Washington ended with a kind of a compromise. The majority of the conferees agreed with the American recommendations for a broad cooperation in the energy sector. But notwithstanding the efforts of the EC-members to overcome the French opposition they did not succeed in finding a common position regarding the decisive energy problems and the resulting economic and monetary consequences.

According to the conference communiqué all countries are worried about the serious effects of the oil crisis for the developing countries and consent to promote multilateral and bilateral development aid vigorously. Furthermore they acknowledge the importance of environment protection and intend to investigate in detail the role of the multinational oil companies, to accelerate their energy production and research and welcome the initiatives of the UN concerning the mineral oil and other raw material problems on a worldwide basis. Finally all 13 governments identify themselves with the proposal to create co-operative, multinational relations with the oil producing countries in the long-term interest of the international community.

So far so good. However, with all operative points of the cooperation programme proposed by the USA, France as the only conferee does not agree. It rejects the comprehensive action programme, which would be based on OECD studies and into which other countries could also be incorporated. This programme includes saving measures, the allocation of oil in times of crises, an accelerated development of additional energy sources and speeded-up research on an international basis.

The French seem to ignore the fact that the oil crisis strengthened the USA and weakened Europe, that the keen competition of the Europeans for oil drives prices up and creates balance-of-payments burdens unmanageable for individual countries and that without America neither the welfare nor the security of Europe can be guaranteed. Since all the other countries are united, the aloofness of France will not necessarily disturb the international energy concert too much. But what it implies for the further progress of the EC is difficult to foresee and is a problem that Brussels simply must solve if the European Community is to be maintained. hg.

OECD

Problems for the Balance of Payments

For the first time since the outbreak of the oil crisis the OECD Committee which has to handle balance of payments problems met in mid-February in Paris. The head of this group, Otmar Emminger — Vice-President of the Deutsche Bundesbank — stated that the rise in oil prices would burden the German balance of current transactions in 1974 with DM 15 to 17 bn. As a result, the recent large surplus in current transactions will at least disappear, if not give way to a modest deficit. This development should bring no prob-

lems for the Federal Republic, considering its huge currency reserves.

Problems, however, could easily arise for other members of the OECD, especially those who had an adverse balance of current transactions before the oil crisis. According to an estimate of the OECD Secretariat, the total deficit of OECD members' balances of current transactions will reach an approximate US-\$ 40 bn in this year. As the greater part of the deficit certainly cannot be compensated — at least on a short term — by increased exports, several countries could be faced with serious payment problems. How these problems can best be solved is a matter upon which the Committee could not decide as opinions were quite diverse on this point. The possibilities ranged from only adjusting the foreign exchange rates to borrowing on the international capital market according to the French example.

However all these measures are realistic only if the oil producing countries invest their surpluses directly in or let them flow indirectly, e.g. through the Euro-dollar markets, into the industrial countries. In order to prevent distortions in the international monetary system, it would therefore be necessary to come to an understanding with the oil producing countries on their investment policy, as they too could not be interested in such disturbances. Such an agreement cannot be achieved either by bilateral arrangements or by group building: to a functioning international trade and monetary system all must be willing to contribute together. ogm.

Egypt

Clearing the Suez Canal

Provided the political détente in the Middle East continues, it may be assumed that the wreckage from the six-day war of 1967 will be cleared from the Suez Canal in six months' time at the latest and, the necessary repair work having been carried out, the Canal will be opened for shipping a few months later.

The news of the early reopening of the Suez Canal has given pleasure only to the Soviets who probably played a not insignificant part in bringing about this decision. For Soviet merchant ships of the Black Sea fleet the sea route to eastern Siberia will be about 40 p.c. shorter. Besides, there is the strategic importance of the Suez Canal: to the Soviets' Mediterranean fleet the Suez Canal will probably provide an easier outlet from the Mediterranean than the Straits of Gibraltar which could be easily blocked in a conflict.

The shipowners in western countries do not feel unqualified joy. They fear that the freight rates for liners and tramps of up to about 60,000 tdw, which can pass the Suez Canal, will fall substantially because with the Canal again in use they will be able to make more round voyages each year, so that there will be more tonnage available to satisfy an unchanged demand. If the freight rates for these vessels fall, those for the bigger ships, which are too large to pass through the Canal, will not remain unaffected because the markets are interdependent. As the orders for many of the larger vessels were placed on the assumption that the Suez Canal would remain closed for some time and the availability of tonnage would therefore remain constant, cuts in freight rates may cause financing difficulties. Besides, after the heavy pressure on freight rates in recent years western shipowners have no desire to see the rates so soon subjected to heavy pressure again. kw.

France

Farewell to the Snake

The currency snake has lost its head and tail. By relieving the French national bank of its duty of intervention for six months ahead France has opted out of the European currency club. The decision came as an utter surprise, for any departure from fixed exchange rates had been anathema to the men who make monetary policy in Paris. During the German solo floating two years ago Giscard d'Estaing had still said indignantly: "There is no fully effective international monetary system without fixed parities." The French Government is hopeful that its step, which is a disguised devaluation, will improve the defences of its currency reserves against speculative attacks, help exports and thus ensure a satisfactory employment position. The economy is to escape the damaging repercussions of the massive rise in crude oil prices.

This concern is perfectly understandable although all European states have to calculate with dearer oil. Not currency manipulations by individual states but common action would have been a sensible alternative. To the European Community the French side-step at this very moment must seem a dangerous blow, for France was one of the pillars of the central group on which the hopes for a common currency rested. The time-table set for European economic and monetary union will now have to be revised, at the very least; the efforts for integration have suffered a serious setback. In French eyes, it appears, national interests still take preference over an all-European policy even though such an attitude causes France more damage in the long run. zz.